

Goldman Sachs Bank USA and Subsidiaries
Unaudited Quarterly Report
for the period ended September 30, 2020

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PART I. Financial Statements and Supplementary Data (Unaudited)

Consolidated Statements of Earnings (Unaudited)

<i>\$ in millions</i>	Three Months		Nine Months	
	Ended September		Ended September	
	2020	2019	2020	2019
Revenues				
Interest income	\$ 1,159	\$ 2,020	\$ 4,258	\$ 5,732
Interest expense	475	1,323	2,085	3,579
Net interest income	684	697	2,173	2,153
Gains and losses from financial assets and liabilities	591	483	2,188	1,424
Other revenues	57	27	140	112
Total non-interest revenues	648	510	2,328	1,536
Total net revenues	1,332	1,207	4,501	3,689
Provision for credit losses	76	157	1,791	487
Operating expenses				
Compensation and benefits	129	122	455	442
Service charges	125	136	369	355
Professional fees	62	77	186	156
Market development	22	54	122	155
Communications and technology	52	43	151	116
Brokerage, clearing, exchange and distribution fees	26	31	85	81
Other expenses	175	171	486	424
Total operating expenses	591	634	1,854	1,729
Pre-tax earnings	665	416	856	1,473
Provision for taxes	153	100	181	357
Net earnings	\$ 512	\$ 316	\$ 675	\$ 1,116

Consolidated Statements of Comprehensive Income (Unaudited)

<i>\$ in millions</i>	Three Months		Nine Months	
	Ended September		Ended September	
	2020	2019	2020	2019
Net earnings	\$ 512	\$ 316	\$ 675	\$ 1,116
Other comprehensive income/(loss) adjustments, net of tax:				
Debt valuation adjustment	(30)	(12)	(33)	(25)
Available-for-sale securities	7	23	280	71
Other comprehensive income/(loss)	(23)	11	247	46
Comprehensive income	\$ 489	\$ 327	\$ 922	\$ 1,162

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

Consolidated Balance Sheets (Unaudited)

	As of	
	September 2020	December 2019
<i>\$ in millions, except par value</i>		
Assets		
Cash	\$ 66,440	\$ 52,800
Collateralized agreements:		
Securities purchased under agreements to resell (at fair value)	25,335	4,430
Customer and other receivables	10,499	8,113
Trading assets (at fair value and includes \$8,345 and \$14,474 pledged as collateral)	61,211	75,272
Investments (includes \$27,255 and \$5,977 at fair value, and \$37 and \$39 pledged as collateral)	28,766	7,477
Loans (net of allowance of \$2,367 and \$777, and includes \$9,315 and \$8,732 at fair value)	83,019	78,883
Other assets (includes \$0 and \$26 at fair value)	2,672	1,860
Total assets	\$ 277,942	\$ 228,835
Liabilities and shareholder's equity		
Deposits (includes \$6,126 and \$6,304 at fair value)	\$ 218,988	\$ 168,398
Collateralized financings:		
Securities sold under agreements to repurchase (at fair value)	5,529	9,891
Other secured financings (includes \$519 and \$527 at fair value)	838	657
Customer and other payables	5,562	3,711
Trading liabilities (at fair value)	8,609	7,957
Unsecured borrowings (includes \$29 and \$32 at fair value)	6,264	7,258
Other liabilities	2,310	1,631
Total liabilities	248,100	199,503
Commitments, contingencies and guarantees		
Shareholder's equity		
Shareholder's equity (includes common stock, \$100 par value; 80,000,000 shares authorized, issued and outstanding)	29,842	29,332
Total liabilities and shareholder's equity	\$ 277,942	\$ 228,835

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

Consolidated Statements of Changes in Shareholder's Equity (Unaudited)

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2020	2019	2020	2019
Shareholder's equity				
Beginning balance, as previously reported	\$ 29,353	\$ 28,553	\$ 29,332	\$ 27,718
Cumulative effect of change in accounting principle for current expected credit losses, net of tax	–	–	(412)	–
Beginning balance, adjusted	29,353	28,553	28,920	27,718
Net earnings	512	316	675	1,116
Other comprehensive income/(loss)	(23)	11	247	46
Ending balance	\$ 29,842	\$ 28,880	\$ 29,842	\$ 28,880

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

Consolidated Statements of Cash Flows (Unaudited)

<i>\$ in millions</i>	Nine Months Ended September	
	2020	2019
Cash flows from operating activities		
Net earnings	\$ 675	\$ 1,116
Adjustments to reconcile net earnings to net cash used for operating activities:		
Depreciation and amortization	44	54
Deferred income taxes	(235)	(59)
Share-based compensation	26	24
Provision for credit losses	1,791	487
Changes in operating assets and liabilities:		
Customer and other receivables and payables, net	(535)	4,024
Collateralized transactions (excluding other secured financings), net	(25,267)	3,641
Trading assets	13,758	(17,821)
Trading liabilities	652	(1,019)
Loans held for sale, net	2,066	(386)
Other, net	357	1,463
Net cash used for operating activities	(6,668)	(8,476)
Cash flows from investing activities		
Purchase of investments	(23,188)	(4,141)
Proceeds from sales and paydowns of investments	2,317	264
Loans (excluding loans held for sale), net	(8,066)	(1,334)
Net cash used for investing activities	(28,937)	(5,211)
Cash flows from financing activities		
Deposits, net	50,011	11,405
Unsecured short-term borrowings, net	26	40
Other secured financings (short-term), net	475	(25)
Proceeds from issuance of other secured financings (long-term)	185	–
Repayment of other secured financings (long-term), including the current portion	(500)	–
Proceeds from issuance of unsecured borrowings	1,020	1,000
Repayment of unsecured long-term borrowings, including the current portion	(2,000)	(550)
Derivative contracts with a financing element, net	28	(4)
Net cash provided by financing activities	49,245	11,866
Net increase/(decrease) in cash	13,640	(1,821)
Cash, beginning balance	52,800	30,617
Cash, ending balance	\$ 66,440	\$ 28,796
Supplemental disclosures:		
Cash payments for interest	\$ 2,053	\$ 3,517
Cash payments for income taxes, net	\$ –	\$ –

See Note 16 for information about non-cash activities.

Notes to Consolidated Financial Statements (Unaudited)

Note 1.

Description of Business

Goldman Sachs Bank USA, together with its consolidated subsidiaries (collectively, the Bank), is a New York State-chartered bank and a member of the Federal Reserve System. The Bank is supervised and regulated by the Board of Governors of the Federal Reserve System (FRB), the New York State Department of Financial Services (NYDFS) and the Consumer Financial Protection Bureau (CFPB), and is a member of the Federal Deposit Insurance Corporation (FDIC). The Bank's deposits are insured by the FDIC up to the maximum amount provided by law. The Bank is registered as a swap dealer with the U.S. Commodity Futures Trading Commission (CFTC). The Bank is also a government securities dealer subject to the rules and regulations of the U.S. Department of the Treasury.

The Bank is a wholly-owned subsidiary of The Goldman Sachs Group, Inc. (Group Inc. and, collectively with its consolidated subsidiaries, GS Group). Group Inc. is a bank holding company under the U.S. Bank Holding Company Act of 1956 (BHC Act), a financial holding company under amendments to the BHC Act effected by the U.S. Gramm-Leach-Bliley Act of 1999, and is subject to supervision and examination by the FRB.

The Bank's principal office is located in New York, New York. The Bank operates two domestic branches, which are located in Salt Lake City, Utah and Draper, Utah. Both branches are regulated by the Utah Department of Financial Institutions. The Bank also has a foreign branch in London, United Kingdom, which is regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The Bank is a financial services provider that engages in banking activities. The Bank is GS Group's primary lending entity, serving corporate and private bank clients, as well as U.S. consumers through the Bank's digital platform, *Marcus by Goldman Sachs* (Marcus), and by issuing credit cards. The Bank is also GS Group's primary deposit-taking entity. The Bank's depositors include private bank clients, U.S. consumers, clients of third-party broker-dealers, institutions, corporations and its affiliates. The Bank's consumer deposit-taking activities are conducted through Marcus. The Bank also provides transaction banking services, which includes deposit taking and payment services. In addition, the Bank enters into interest rate, currency, credit and other derivatives, and transacts in certain related cash products, for the purpose of market making and risk management.

Note 2.

Basis of Presentation

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and include the accounts of Goldman Sachs Bank USA and all other entities in which the Bank has a controlling financial interest. Intercompany transactions and balances have been eliminated.

These consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements included in the Bank's Annual Report for the year ended December 31, 2019. References to the "2019 Annual Report" are to the Bank's Annual Report for the year ended December 31, 2019. Certain disclosures included in the annual financial statements have been condensed or omitted from these financial statements as they are not required for interim financial statements under U.S. GAAP.

These unaudited consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal, recurring nature. Interim period operating results may not be indicative of the operating results for a full year.

All references to September 2020 and September 2019 refer to the Bank's periods ended, or the dates, as the context requires, September 30, 2020 and September 30, 2019, respectively. All references to December 2019 refer to the date December 31, 2019. Any reference to a future year refers to a year ending on December 31 of that year.

Beginning in the fourth quarter of 2019, the Bank changed its balance sheet presentation to better reflect the nature of the Bank's activities. See Note 2 in Part III of the 2019 Annual Report for further information. Reclassifications have been made to previously reported amounts to conform to the current presentation.

Notes to Consolidated Financial Statements (Unaudited)

Note 3.

Significant Accounting Policies

The Bank's significant accounting policies include measuring the allowance for credit losses on loans and lending commitments accounted for at amortized cost, when and how to measure the fair value of assets and liabilities, and when to consolidate an entity. See Note 9 for policies on the allowance for credit losses, Note 4 for policies on fair value measurements, and below and Note 17 for policies on consolidation accounting. All other significant accounting policies are either described below or included in the following footnotes:

Fair Value Measurements	Note 4
Trading Assets and Liabilities	Note 5
Trading Cash Instruments	Note 6
Derivatives and Hedging Activities	Note 7
Investments	Note 8
Loans	Note 9
Fair Value Option	Note 10
Collateralized Agreements and Financings	Note 11
Other Assets	Note 12
Deposits	Note 13
Unsecured Borrowings	Note 14
Other Liabilities	Note 15
Securitization Activities	Note 16
Variable Interest Entities	Note 17
Commitments, Contingencies and Guarantees	Note 18
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Consolidation

The Bank consolidates entities in which the Bank has a controlling financial interest. The Bank determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (VIE).

Voting Interest Entities. Voting interest entities are entities in which (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (ii) the equity holders have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the losses of the entity and the right to receive the residual returns of the entity. The usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. If the Bank has a controlling majority voting interest in a voting interest entity, the entity is consolidated.

Variable Interest Entities. A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. The Bank has a controlling financial interest in a VIE when the Bank has a variable interest or interests that provide it with (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. See Note 17 for further information about VIEs.

Use of Estimates

Preparation of these consolidated financial statements requires management to make certain estimates and assumptions, the most important of which relate to the allowance for credit losses on loans and lending commitments accounted for at amortized cost, fair value measurements, discretionary compensation accruals, provisions for losses that may arise from litigation and regulatory proceedings (including governmental investigations), and provisions for losses that may arise from tax audits. These estimates and assumptions are based on the best available information but actual results could be materially different.

Notes to Consolidated Financial Statements (Unaudited)

Revenue Recognition

Financial Assets and Liabilities at Fair Value. Trading assets and liabilities and certain investments are recorded at fair value either under the fair value option or in accordance with other U.S. GAAP. In addition, the Bank has elected to account for certain of its loans and other financial assets and liabilities at fair value by electing the fair value option. 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. Fair value gains or losses are included in gains and losses from financial assets and liabilities. See Note 4 for further information about fair value measurements. In addition, the Bank recognizes income related to the syndication of loans and lending commitments and other fees from affiliates in gains and losses from financial assets and liabilities.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when the Bank has relinquished control over the assets transferred. For transfers of financial assets accounted for as sales, any gains or losses are recognized in gains and losses from financial assets and liabilities. Assets or liabilities that arise from the Bank's continuing involvement with transferred financial assets are initially recognized at fair value. For transfers of financial assets that are not accounted for as sales, the assets are generally included in trading assets or loans and the transfer is accounted for as a collateralized financing, with the related interest expense recognized over the life of the transaction. See Note 11 for further information about transfers of financial assets accounted for as collateralized financings and Note 16 for further information about transfers of financial assets accounted for as sales.

Cash

Cash included cash and due from banks of \$869 million as of September 2020 and \$636 million as of December 2019. Cash also included interest-bearing deposits of \$65.57 billion as of September 2020 and \$52.16 billion as of December 2019. See Note 20 for further information about cash deposited with an affiliate.

The Bank segregates cash for regulatory and other purposes related to client activity. Cash segregated for regulatory and other purposes was \$564 million as of September 2020 and \$606 million as of December 2019.

Customer and Other Receivables

Customer and other receivables included receivables from customers and counterparties of \$6.91 billion as of September 2020 and \$5.07 billion as of December 2019, and receivables from brokers, dealers and clearing organizations of \$3.59 billion as of September 2020 and \$3.04 billion as of December 2019. Such receivables primarily consist of receivables resulting from unsettled transactions and collateral posted in connection with certain derivative transactions.

Customer and other receivables are accounted for at amortized cost net of any allowance for credit losses, which generally approximates fair value. As these receivables are not accounted for at fair value, they are not included in the Bank's fair value hierarchy in Notes 4 through 10. Had these receivables been included in the Bank's fair value hierarchy, substantially all would have been classified in level 2 as of both September 2020 and December 2019. Interest on customer and other receivables is recognized over the life of the transaction and included in interest income.

Customer and Other Payables

Customer and other payables included payables to customers and counterparties of \$5.30 billion as of September 2020 and \$3.60 billion as of December 2019, and payables to brokers, dealers and clearing organizations of \$260 million as of September 2020 and \$109 million as of December 2019. Such payables primarily consist of payables resulting from unsettled transactions and collateral received in connection with certain derivative transactions. Customer and other payables are accounted for at cost plus accrued interest, which generally approximates fair value. As these payables are not accounted for at fair value, they are not included in the Bank's fair value hierarchy in Notes 4 through 10. Had these payables been included in the Bank's fair value hierarchy, substantially all would have been classified in level 2 as of both September 2020 and December 2019. Interest on customer and other payables is recognized over the life of the transaction and included in interest expense.

Notes to Consolidated Financial Statements (Unaudited)

Offsetting Assets and Liabilities

To reduce credit exposures on derivatives and securities financing transactions, the Bank may enter into master netting agreements or similar arrangements (collectively, netting agreements) with counterparties that permit it to offset receivables and payables with such counterparties. A netting agreement is a contract with a counterparty that permits net settlement of multiple transactions with that counterparty, including upon the exercise of termination rights by a non-defaulting party. Upon exercise of such termination rights, all transactions governed by the netting agreement are terminated and a net settlement amount is calculated. In addition, the Bank receives and posts cash and securities collateral with respect to its derivatives and securities financing transactions, subject to the terms of the related credit support agreements or similar arrangements (collectively, credit support agreements). An enforceable credit support agreement grants the non-defaulting party exercising termination rights the right to liquidate the collateral and apply the proceeds to any amounts owed. In order to assess enforceability of the Bank's right of setoff under netting and credit support agreements, the Bank evaluates various factors, including applicable bankruptcy laws, local statutes and regulatory provisions in the jurisdiction of the parties to the agreement.

Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) in the consolidated balance sheets when a legal right of setoff exists under an enforceable netting agreement. Securities purchased under agreements to resell (resale agreements) and securities sold under agreements to repurchase (repurchase agreements) with the same term and currency are presented on a net-by-counterparty basis in the consolidated balance sheets when such transactions meet certain settlement criteria and are subject to netting agreements.

In the consolidated balance sheets, derivatives are reported net of cash collateral received and posted under enforceable credit support agreements, when transacted under an enforceable netting agreement. In the consolidated balance sheets, resale and repurchase agreements are not reported net of the related cash and securities received or posted as collateral. Certain other receivables and payables with affiliates that meet the criteria of offsetting are reported on a net basis in the consolidated balance sheets. See Note 11 for further information about collateral received and pledged, including rights to deliver or repledge collateral. See Notes 7 and 11 for further information about offsetting assets and liabilities.

Foreign Currency Translation

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the date of the consolidated balance sheets and revenues and expenses are translated at average rates of exchange for the period. Foreign currency remeasurement gains or losses on transactions in nonfunctional currencies are recognized in earnings.

Recent Accounting Developments

Leases (ASC 842). In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." This ASU requires that, for leases longer than one year, a lessee recognize in 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 for finance leases, a lessee recognize interest expense on the lease liability, separately from the amortization of the right-of-use asset in the statements of earnings, while for operating leases, such amounts should be recognized as a combined expense. In addition, this ASU requires expanded disclosures about the nature and terms of lease agreements.

The Bank adopted this ASU in January 2019 under a modified retrospective approach. Upon adoption, in accordance with the ASU, the Bank elected to not reassess the lease classification or initial direct costs of existing leases, and to not reassess whether existing contracts contain a lease. In addition, the Bank has elected to account for each contract's lease and non-lease components as a single lease component. Adoption of this ASU had no impact on the Bank's consolidated balance sheet.

Notes to Consolidated Financial Statements (Unaudited)

Measurement of Credit Losses on Financial Instruments (ASC 326). In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments — Credit Losses (Topic 326) — Measurement of Credit Losses on Financial Instruments.” This ASU amends several aspects of the measurement of credit losses on certain financial instruments, including replacing the existing incurred credit loss model and other models with the Current Expected Credit Losses (CECL) model and amending certain aspects of accounting for purchased financial assets with deterioration in credit quality since origination.

The Bank adopted this ASU in January 2020 under a modified retrospective approach. As a result of adopting this ASU, the Bank’s allowance for credit losses on financial assets and commitments that are measured at amortized cost reflects management’s estimate of credit losses over the remaining expected life of such assets. Expected credit losses for newly recognized financial assets and commitments, as well as changes to expected credit losses during the period, are recognized in earnings. These expected credit losses are measured based on historical experience, current conditions and forecasts that affect the collectability of the reported amount.

The cumulative effect of measuring the allowance under CECL as a result of adopting this ASU as of January 1, 2020 was an increase in the allowance for credit losses of \$548 million. The increase in the allowance is driven by the fact that the allowance under CECL covers expected credit losses over the full expected life of the loan portfolios and also takes into account forecasts of expected future economic conditions. The cumulative effect of adopting this ASU was a decrease to retained earnings of \$412 million (net of tax).

Facilitation of the Effects of Reference Rate Reform on Financial Reporting (ASC 848). In March 2020, the FASB issued ASU No. 2020-04, “Reference Rate Reform – Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” This ASU provides optional exceptions for applying generally accepted accounting principles to contracts, hedging relationships and other transactions affected by reference rate reform. The Bank adopted this ASU in March 2020 and adoption of this ASU had no impact on the Bank’s consolidated financial statements.

Note 4.

Fair Value Measurements

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).

The best evidence of fair value is a quoted price in an active market. If quoted prices in active markets are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets, or internally developed models that primarily use market-based or independently sourced inputs, including, but not limited to, interest rates, volatilities, equity or debt prices, foreign exchange rates, commodity prices, credit spreads and funding spreads (i.e., the spread or difference between the interest rate at which a borrower could finance a given financial instrument relative to a benchmark interest rate).

U.S. GAAP has a three-level hierarchy for disclosure of fair value measurements. This hierarchy prioritizes inputs to the valuation techniques used to measure fair value, giving the highest priority to level 1 inputs and the lowest priority to level 3 inputs. A financial instrument’s level in this hierarchy is based on the lowest level of input that is significant to its fair value measurement. In evaluating the significance of a valuation input, the Bank considers, among other factors, a portfolio’s net risk exposure to that input. The fair value 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.

Notes to Consolidated Financial Statements (Unaudited)

The fair values for substantially all of the Bank's financial assets and the majority of the Bank's financial liabilities 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 valuation adjustments that a market participant would require to arrive at fair value for factors, such as counterparty and the Bank or its affiliates' credit quality, funding risk, transfer restrictions, liquidity and bid/offer spreads. Valuation adjustments are generally based on market evidence.

The valuation techniques and nature of significant inputs used to determine the fair value of the Bank's financial instruments are described below. See Notes 5 through 10 for further information about significant unobservable inputs used to value level 3 financial instruments.

Valuation Techniques and Significant Inputs for Trading Cash Instruments, Investments and Loans

Level 1. Level 1 instruments include U.S. government obligations. These 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. Level 2 instruments include agency obligations, substantially all loans and securities backed by real estate, most corporate debt instruments, money market instruments, other debt obligations and certain equity securities.

Valuations of level 2 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 instruments (i) if the 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. Level 3 instruments have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, level 3 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 realized on sales.

Valuation techniques of level 3 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 instrument are described below:

Loans and Securities Backed by Commercial Real Estate

Loans and securities backed by commercial real estate are directly or indirectly collateralized by a single property or a portfolio of properties, and may include tranches of varying levels of subordination. Significant inputs are generally determined based on relative value analyses and include:

- Market yields implied by transactions of similar or related assets and/or current levels and changes in market indices, such as the CMBX (an index that tracks the performance of commercial mortgage bonds);
- Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral; and
- Timing of expected future cash flows (duration) which, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds).

Loans and Securities Backed by Residential Real Estate

Loans and securities backed by residential real estate are directly or indirectly collateralized by portfolios of residential real estate and may include tranches of varying levels of subordination. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons to instruments with similar collateral and risk profiles. Significant inputs include:

- Market yields implied by transactions of similar or related assets;
- Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral; and
- Duration, driven by underlying loan prepayment speeds and residential property liquidation timelines.

Notes to Consolidated Financial Statements (Unaudited)

Corporate Debt Instruments

Corporate debt instruments includes corporate loans and debt securities. Significant inputs for corporate debt instruments are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same or similar issuer for which observable prices or broker quotations are available. Significant inputs include:

- Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices, such as the CDX (an index that tracks the performance of corporate credit);
- Current performance and recovery assumptions and, where the Bank uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation; and
- Duration.

Equity Securities

Equity investments made as part of the Bank's Community Reinvestment Act (CRA) activities are included in equity securities. Recent third-party completed or pending transactions (e.g., merger proposals, debt restructurings, tender offers) are considered the best evidence for any change in fair value. When these are not available, the following valuation methodologies are used, as appropriate:

- Industry multiples and public comparables;
- Transactions in similar instruments; and
- Discounted cash flow techniques.

The Bank also considers changes in the outlook for the relevant industry and financial performance of the issuer as compared to projected performance. Significant inputs include discount rates and capitalization rates.

Valuation Techniques and Significant Inputs for Derivatives

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 characterized 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 industrialized nations are characterized 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.
- **Currency.** Prices for currency derivatives based on the exchange rates of leading industrialized 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.
- **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.
- **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.

Notes to Consolidated Financial Statements (Unaudited)

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. 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. Level 2 derivatives include over-the-counter (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.

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 judgment because outputs of models can be calibrated to market-clearing levels.

Valuation models require a variety of inputs, such as contractual terms, market prices, yield curves, discount rates (including those derived from interest rates on collateral received and posted as specified in credit support agreements for collateralized derivatives), credit curves, measures of volatility, prepayment rates, loss severity rates 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. Level 3 derivatives are valued using models which utilize observable level 1 and/or level 2 inputs, as well as unobservable level 3 inputs. The significant unobservable inputs used to value the Bank's level 3 derivatives are described below.

- For level 3 interest rate and currency derivatives, significant unobservable inputs include correlations of certain currencies and interest rates (e.g., the correlation between Euro inflation and Euro interest rates) and specific interest rate and currency volatilities.
- For level 3 credit derivatives, significant unobservable inputs include illiquid credit spreads, which are unique to specific reference obligations and reference entities.
- For level 3 equity derivatives, significant unobservable inputs generally include correlation inputs, such as the correlation of the price performance of two or more individual stocks or the correlation of the price performance for a basket of stocks to another asset class.

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. See Note 7 for further information about significant unobservable inputs used in the valuation of level 3 derivatives.

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 uncollateralized portion of derivative portfolios. The Bank also makes funding valuation adjustments to collateralized 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.

Notes to Consolidated Financial Statements (Unaudited)

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.

Valuation Techniques and Significant Inputs for Other Financial Instruments at Fair Value

In addition to trading cash instruments, derivatives, and certain investments and loans, the Bank accounts for certain of its other financial assets and liabilities at fair value under the fair value option. Such instruments include repurchase agreements and resale agreements; certain other assets; certain time deposits, including structured certificates of deposit, which are hybrid financial instruments; most other secured financings, including advances from the Federal Home Loan Bank of New York (FHLB); and certain unsecured borrowings, substantially all of which are hybrid financial instruments. These instruments are generally valued based on discounted cash flow techniques, which incorporate inputs with reasonable levels of price transparency, and are generally classified in level 2 because the inputs are observable. Valuation adjustments may be made for liquidity and for counterparty and the Bank's credit quality. The significant inputs used to value the Bank's other financial instruments are described below.

Resale and Repurchase Agreements. The significant inputs to the valuation of resale and repurchase agreements are funding spreads, the amount and timing of expected future cash flows and interest rates.

Other Assets. The significant inputs to the valuation of other assets are interest rates, the amount and timing of expected future cash flows and funding spreads.

Deposits. The significant inputs to the valuation of time deposits are interest rates and the amount and timing of future cash flows. The inputs used to value the embedded derivative component of hybrid financial instruments are consistent with the inputs used to value the Bank's other derivative instruments described above. See Note 7 for further information about derivatives and Note 13 for further information about deposits.

Other Secured Financings. The significant inputs to the valuation of other secured financings are the amount and timing of expected future cash flows, interest rates, funding spreads, the fair value of the collateral delivered by the Bank (determined using the amount and timing of expected future cash flows, market prices, market yields and recovery assumptions) and the frequency of additional collateral calls. See Note 11 for further information about other secured financings.

Unsecured Borrowings. The significant inputs to the valuation of unsecured borrowings are the amount and timing of expected future cash flows and interest rates. The inputs used to value the embedded derivative component of hybrid financial instruments are consistent with the inputs used to value the Bank's other derivative instruments described above. See Note 7 for further information about derivatives and Note 14 for further information about borrowings.

Financial Assets and Liabilities at Fair Value

The table below presents financial assets and liabilities accounted for at fair value.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
Total level 1 financial assets	\$ 65,918	\$ 55,404
Total level 2 financial assets	85,593	61,595
Total level 3 financial assets	2,746	2,113
Investments in funds at NAV	15	18
Counterparty and cash collateral netting	(31,156)	(24,693)
Total financial assets at fair value	\$ 123,116	\$ 94,437
Total assets	\$ 277,942	\$ 228,835
Total level 3 financial assets divided by:		
Total assets	1.0%	0.9%
Total financial assets at fair value	2.2%	2.2%
Total level 1 financial liabilities	\$ 2,428	\$ 2,748
Total level 2 financial liabilities	41,721	36,543
Total level 3 financial liabilities	5,993	5,363
Counterparty and cash collateral netting	(29,330)	(19,943)
Total financial liabilities at fair value	\$ 20,812	\$ 24,711
Total liabilities	\$ 248,100	\$ 199,503
Total level 3 financial liabilities divided by:		
Total liabilities	2.4%	2.7%
Total financial liabilities at fair value	28.8%	21.7%

In the table above:

- Counterparty netting among positions classified in the same level is included in that level.
- Counterparty and cash collateral netting represents the impact on derivatives of netting across levels.

Notes to Consolidated Financial Statements (Unaudited)

The table below presents a summary of level 3 financial assets.

<i>\$ in millions</i>	As of		
	September 2020	June 2020	December 2019
Trading assets:			
Trading cash instruments	\$ 21	\$ 16	\$ 95
Derivatives	1,988	2,155	1,828
Investments	68	70	36
Loans	669	716	153
Other financial assets	–	–	1
Total	\$ 2,746	\$ 2,957	\$ 2,113

Level 3 financial assets as of September 2020 decreased compared with June 2020 reflecting a decrease in level 3 derivatives, and increased compared with December 2019, primarily reflecting an increase in level 3 loans and derivatives. See Notes 5 through 10 for further information about level 3 financial assets (including information about unrealized gains and losses related to level 3 financial assets and transfers in and out of level 3).

Note 5.

Trading Assets and Liabilities

Trading assets and liabilities include trading cash instruments and derivatives held in connection with the Bank's market-making or risk management activities. These assets and liabilities are accounted for at fair value either under the fair value option or in accordance with other U.S. GAAP, and the related fair value gains and losses are generally recognized in the consolidated statements of earnings.

The table below presents a summary of trading assets and liabilities.

<i>\$ in millions</i>	Trading Assets	Trading Liabilities
As of September 2020		
Trading cash instruments	\$ 47,750	\$ 3,024
Derivatives	13,461	5,585
Total	\$ 61,211	\$ 8,609
As of December 2019		
Trading cash instruments	\$ 66,766	\$ 3,440
Derivatives	8,506	4,517
Total	\$ 75,272	\$ 7,957

See Note 6 for further information about trading cash instruments and Note 7 for further information about derivatives.

Gains and Losses from Financial Assets and Liabilities

The table below presents gains and losses from financial assets and liabilities by major product type.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2020	2019	2020	2019
Interest rates	\$ 674	\$ (869)	\$ 1,211	\$ (689)
Currencies	(445)	1,171	(706)	1,472
Credit	355	240	1,835	855
Equities	7	(60)	(152)	(214)
Commodities	–	1	–	–
Total	\$ 591	\$ 483	\$ 2,188	\$ 1,424

In the table above:

- Gains/(losses) include both realized and unrealized gains and losses. Gains/(losses) exclude related interest income and interest expense. See Note 21 for further information about interest income and interest expense.
- Gains and losses are primarily related to the Bank's financial assets and liabilities, including both derivative and non-derivative financial instruments, and the syndication of loans and lending commitments. Gains/(losses) are not representative of the manner in which the Bank manages its business activities because many of the Bank's market-making, lending and other activities utilize financial instruments across various product types. Accordingly, gains or losses in one product type frequently offset gains or losses in other product types. For example, certain of the Bank's interest rate derivatives are sensitive to changes in foreign currency exchange rates and may be economically hedged with foreign currency contracts.

Notes to Consolidated Financial Statements (Unaudited)

Note 6.

Trading Cash Instruments

Trading cash instruments consists of instruments held in connection with the Bank's market-making or risk management activities. These instruments are accounted for at fair value and the related fair value gains and losses are recognized in the consolidated statements of earnings.

Fair Value of Trading Cash Instruments by Level

The table below presents trading cash instruments by level within the fair value hierarchy.

<i>\$ in millions</i>	Level 1	Level 2	Level 3	Total
As of September 2020				
Assets				
U.S. government and agency obligations	\$ 39,194	\$ 4,151	\$ -	\$ 43,345
Loans and securities backed by:				
Commercial real estate	-	670	-	670
Residential real estate	-	2,918	-	2,918
Corporate debt instruments	-	663	21	684
Other debt obligations	-	133	-	133
Total	\$ 39,194	\$ 8,535	\$ 21	\$ 47,750
Liabilities				
U.S. government and agency obligations	\$ (2,428)	\$ -	\$ -	\$ (2,428)
Loans and securities backed by:				
residential real estate	-	(1)	-	(1)
Corporate debt instruments	-	(539)	(56)	(595)
Total	\$ (2,428)	\$ (540)	\$ (56)	\$ (3,024)
As of December 2019				
Assets				
U.S. government and agency obligations	\$ 49,531	\$ 11,027	\$ -	\$ 60,558
Loans and securities backed by:				
Commercial real estate	-	1,365	-	1,365
Residential real estate	-	3,805	68	3,873
Corporate debt instruments	-	596	27	623
Other debt obligations	-	347	-	347
Total	\$ 49,531	\$ 17,140	\$ 95	\$ 66,766
Liabilities				
U.S. government and agency obligations	\$ (2,748)	\$ -	\$ -	\$ (2,748)
Loans and securities backed by:				
residential real estate	-	(2)	-	(2)
Corporate debt instruments	-	(682)	(8)	(690)
Total	\$ (2,748)	\$ (684)	\$ (8)	\$ (3,440)

In the table above:

- Trading cash instrument assets are shown as positive amounts and trading cash instrument liabilities are shown as negative amounts.
- Corporate debt instruments includes corporate loans and debt securities.
- Other debt obligations includes other asset-backed securities.

See Note 4 for an overview of the Bank's fair value measurement policies and the valuation techniques and significant inputs used to determine the fair value of trading cash instruments.

Significant Unobservable Inputs

Significant unobservable inputs used to value the Bank's level 3 trading cash instruments are not material.

Level 3 Rollforward

The table below presents a summary of the changes in fair value for level 3 trading cash instruments.

<i>\$ in millions</i>	Three Months		Nine Months	
	Ended September	2019	Ended September	2019
Total trading cash instrument assets				
Beginning balance	\$ 16	\$ 45	\$ 95	\$ 81
Net realized gains/(losses)	1	1	1	1
Net unrealized gains/(losses)	3	(1)	(5)	1
Purchases	1	3	10	85
Sales	(1)	(2)	(9)	(26)
Settlements	(2)	(4)	(16)	(7)
Transfers into level 3	5	78	-	2
Transfers out of level 3	(2)	(22)	(55)	(39)
Ending balance	\$ 21	\$ 98	\$ 21	\$ 98
Total trading cash instrument liabilities				
Beginning balance	\$ (45)	\$ (4)	\$ (8)	\$ (8)
Net realized gains/(losses)	8	-	-	-
Net unrealized gains/(losses)	(6)	-	(7)	(1)
Purchases	2	2	8	8
Sales	(6)	(5)	(54)	(7)
Settlements	6	-	4	-
Transfers into level 3	(15)	(2)	-	(2)
Transfers out of level 3	-	-	1	1
Ending balance	\$ (56)	\$ (9)	\$ (56)	\$ (9)

Notes to Consolidated Financial Statements (Unaudited)

In the table above:

- Changes in fair value are presented for all trading cash instruments that are classified in level 3 as of the end of the period.
- Net unrealized gains/(losses) relates to trading cash instruments that were still held at period-end.
- Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. If a trading cash instrument 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 trading cash instrument assets, increases are shown as positive amounts, while decreases are shown as negative amounts. For level 3 trading cash instrument liabilities, increases are shown as negative amounts, while decreases are shown as positive amounts.
- Level 3 trading cash instruments are frequently economically hedged with level 1 and level 2 trading cash instruments and/or level 1, level 2 or level 3 derivatives. Accordingly, gains or losses that are classified in level 3 can be partially offset by gains or losses attributable to level 1 or level 2 trading cash instruments and/or level 1, level 2 or level 3 derivatives. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the Bank's results of operations, liquidity or capital resources.

The table below presents information, by product type, for assets included in the summary table above.

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2020	2019	2020	2019
Loans and securities backed by residential real estate				
Beginning balance	\$ -	\$ 21	\$ 68	\$ 4
Net realized gains/(losses)	-	1	-	1
Purchases	-	3	-	79
Sales	-	-	-	(1)
Settlements	-	(4)	(16)	(5)
Transfers into level 3	-	75	-	1
Transfers out of level 3	-	(20)	(52)	(3)
Ending balance	\$ -	\$ 76	\$ -	\$ 76
Corporate debt instruments				
Beginning balance	\$ 16	\$ 24	\$ 27	\$ 77
Net realized gains/(losses)	1	-	1	-
Net unrealized gains/(losses)	3	(1)	(5)	1
Purchases	1	-	10	6
Sales	(1)	(2)	(9)	(25)
Settlements	(2)	-	-	(2)
Transfers into level 3	5	3	-	1
Transfers out of level 3	(2)	(2)	(3)	(36)
Ending balance	\$ 21	\$ 22	\$ 21	\$ 22

Level 3 Rollforward Commentary

Three Months Ended September 2020. The net realized and unrealized gains on level 3 trading cash instrument assets of \$4 million (reflecting \$1 million of net realized gains and \$3 million of net unrealized gains) for the three months ended September 2020 were reported in gains and losses from financial assets and liabilities.

The drivers of the net unrealized gains on level 3 trading cash instrument assets for the three months ended September 2020 were not material.

The drivers of both transfers into level 3 trading cash instrument assets and transfers out of level 3 trading cash instrument assets during the three months ended September 2020 were not material.

Nine Months Ended September 2020. The net realized and unrealized losses on level 3 trading cash instrument assets of \$4 million (reflecting \$1 million of net realized gains and \$5 million of net unrealized losses) for the nine months ended September 2020 were reported in gains and losses from financial assets and liabilities.

The drivers of the net unrealized losses on level 3 trading cash instrument assets for the nine months ended September 2020 were not material.

There were no transfers into level 3 trading cash instrument assets during the nine months ended September 2020.

Transfers out of level 3 trading cash instrument assets during the nine months ended September 2020 primarily reflected transfers of certain loans backed by residential real estate to level 2, principally due to increased price transparency as a result of market evidence, including market transactions in these instruments.

Three Months Ended September 2019. There were no net realized and unrealized gains/(losses) on level 3 trading cash instrument assets (reflecting \$1 million of net realized gains and \$1 million of net unrealized losses) for the three months ended September 2019.

The drivers of the net unrealized losses on level 3 trading cash instrument assets for the three months ended September 2019 were not material.

Transfers into level 3 trading cash instrument assets during the three months ended September 2019 primarily reflected transfers of certain loans backed by residential real estate, principally due to reduced price transparency as a result of a lack of market evidence, including fewer market transactions in these instruments.

Notes to Consolidated Financial Statements (Unaudited)

The drivers of the transfers out of level 3 trading cash instrument assets during the three months ended September 2019 were not material.

Nine Months Ended September 2019. The net realized and unrealized gains on level 3 trading cash instrument assets of \$2 million (reflecting \$1 million of net realized gains and \$1 million of net unrealized gains) for the nine months ended September 2019 were reported in gains and losses from financial assets and liabilities.

The drivers of the net unrealized gains on level 3 trading cash instrument assets for the nine months ended September 2019 were not material.

The drivers of the transfers into level 3 trading cash instrument assets during the nine months ended September 2019 were not material.

Transfers out of level 3 trading cash instrument assets during the nine months ended September 2019 primarily reflected transfers of certain corporate debt instruments to level 2, principally due to increased price transparency as a result of market evidence, including market transactions in these instruments.

Note 7.

Derivatives and Hedging Activities

Derivative Activities

Derivatives are instruments that derive their value from underlying asset prices, indices, reference rates and other inputs, or a combination of these factors. 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).

Market Making. As a market maker, the Bank enters into derivative transactions to provide liquidity to clients and to facilitate the transfer and hedging of their risks. In this role, the Bank typically acts as principal and is required to commit capital to provide execution, and maintains market-making positions in response to, or in anticipation of, client demand.

Risk Management. The Bank also enters into derivatives to actively manage risk exposures that arise from its market-making and financing activities. The Bank's holdings and exposures are hedged, in many cases, on either a portfolio or risk-specific basis, as opposed to an instrument-by-instrument basis. In addition, the Bank may enter into derivatives designated as hedges under U.S. GAAP. These derivatives are used to manage interest rate exposure of certain deposits and borrowings.

The Bank enters into various types of derivatives, including:

- **Futures and Forwards.** Contracts that commit counterparties to purchase or sell financial instruments or currencies in the future.
- **Swaps.** Contracts that require counterparties to exchange cash flows, such as currency or interest payment streams. The amounts exchanged are based on the specific terms of the contract with reference to specified rates, financial instruments, currencies or indices.
- **Options.** Contracts in which the option purchaser has the right, but not the obligation, to purchase from or sell to the option writer financial instruments or currencies within a defined time period for a specified price.

Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) when a legal right of setoff exists under an enforceable netting agreement (counterparty netting). Derivatives are accounted for at fair value, net of cash collateral received or posted under enforceable credit support agreements (cash collateral netting). Derivative assets are included in trading assets and derivative liabilities are included in trading liabilities. Realized and unrealized gains and losses on derivatives not designated as hedges are included in gains and losses from financial assets and liabilities in the consolidated statements of earnings.

Notes to Consolidated Financial Statements (Unaudited)

The tables below present the gross fair value and the notional amounts of derivative contracts by major product type, the amounts of counterparty and cash collateral netting in the consolidated balance sheets, as well as cash and securities collateral posted and received under enforceable credit support agreements that do not meet the criteria for netting under U.S. GAAP.

\$ in millions	As of September 2020		As of December 2019	
	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
Not accounted for as hedges				
Exchange-traded	\$ 351	\$ 643	\$ 311	\$ 680
OTC-cleared	22	–	–	–
Bilateral OTC	806,134	797,180	541,068	533,668
Total interest rates	806,507	797,823	541,379	534,348
OTC-cleared	–	23	14	–
Bilateral OTC	76,041	75,131	70,905	69,406
Total currencies	76,041	75,154	70,919	69,406
Credit – bilateral OTC	3,238	3,758	4,209	4,799
Equities – bilateral OTC	1,695	1,075	1,628	863
Commodities – bilateral OTC	187	185	128	126
Subtotal	887,668	877,995	618,263	609,542
Accounted for as hedges				
Bilateral OTC	29	–	18	–
Total interest rates	29	–	18	–
Total gross fair value	\$ 887,697	\$ 877,995	\$ 618,281	\$ 609,542
Offset in the consolidated balance sheets				
Counterparty netting	\$ (844,234)	\$ (844,234)	\$(586,115)	\$(586,115)
Cash collateral netting	(30,002)	(28,176)	(23,660)	(18,910)
Total amounts offset	\$ (874,236)	\$ (872,410)	\$(609,775)	\$(605,025)
Included in the consolidated balance sheets				
Exchange-traded	\$ 351	\$ 643	\$ 311	\$ 680
OTC-cleared	22	23	14	–
Bilateral OTC	13,088	4,919	8,181	3,837
Total	\$ 13,461	\$ 5,585	\$ 8,506	\$ 4,517
Not offset in the consolidated balance sheets				
Cash collateral	\$ (560)	\$ (166)	\$ (229)	\$ (239)
Securities collateral	(3,155)	(843)	(1,955)	(571)
Total	\$ 9,746	\$ 4,576	\$ 6,322	\$ 3,707

\$ in millions	Notional Amounts as of	
	September 2020	December 2019
Not accounted for as hedges		
Exchange-traded	\$ 3,469,496	\$ 4,314,923
OTC-cleared	7,910,174	6,404,660
Bilateral OTC	28,415,031	25,985,075
Total interest rates	39,794,701	36,704,658
Exchange-traded	67	37
OTC-cleared	122,270	88,956
Bilateral OTC	5,819,610	5,477,627
Total currencies	5,941,947	5,566,620
Credit – bilateral OTC	162,811	176,520
Exchange-traded	2	–
Bilateral OTC	41,962	52,402
Total equities	41,964	52,402
Commodities – bilateral OTC	3,560	4,987
Subtotal	45,944,983	42,505,187
Accounted for as hedges		
OTC-cleared	16,529	19,752
Bilateral OTC	684	704
Total interest rates	17,213	20,456
Total notional amounts	\$ 45,962,196	\$ 42,525,643

In the tables above:

- Gross fair values exclude the effects of both counterparty netting and collateral, and therefore are not representative of the Bank's exposure.
- Where the Bank has received or posted collateral under credit support agreements, but has not yet determined such agreements are enforceable, the related collateral has not been netted.
- Notional amounts, which represent the sum of gross long and short derivative contracts, provide an indication of the volume of the Bank's derivative activity and do not represent anticipated losses.
- Counterparty and cash collateral netting relate to bilateral OTC derivatives.
- Total gross fair value of derivatives included derivative assets of \$3.05 billion as of September 2020 and \$1.90 billion as of December 2019, and derivative liabilities of \$1.35 billion as of September 2020 and \$786 million as of December 2019, 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.

Notes to Consolidated Financial Statements (Unaudited)

Fair Value of Derivatives by Level

The table below presents derivatives on a gross basis by level and product type, as well as the impact of netting.

<i>\$ in millions</i>	Level 1	Level 2	Level 3	Total
As of September 2020				
Assets				
Interest rates	\$ -	\$ 806,051	\$ 485	\$ 806,536
Currencies	-	75,801	240	76,041
Credit	-	1,908	1,330	3,238
Equities	-	1,160	535	1,695
Commodities	-	179	8	187
Gross fair value	-	885,099	2,598	887,697
Counterparty netting in levels	-	(842,470)	(610)	(843,080)
Subtotal	\$ -	\$ 42,629	\$ 1,988	\$ 44,617
Cross-level counterparty netting				(1,154)
Cash collateral netting				(30,002)
Net fair value				\$ 13,461
Liabilities				
Interest rates	\$ -	\$ (797,182)	\$ (641)	\$ (797,823)
Currencies	-	(74,915)	(239)	(75,154)
Credit	-	(2,374)	(1,384)	(3,758)
Equities	-	(1,013)	(62)	(1,075)
Commodities	-	(179)	(6)	(185)
Gross fair value	-	(875,663)	(2,332)	(877,995)
Counterparty netting in levels	-	842,470	610	843,080
Subtotal	\$ -	\$ (33,193)	\$ (1,722)	\$ (34,915)
Cross-level counterparty netting				1,154
Cash collateral netting				28,176
Net fair value				\$ (5,585)
As of December 2019				
Assets				
Interest rates	\$ -	\$ 541,029	\$ 368	\$ 541,397
Currencies	-	70,505	414	70,919
Credit	-	3,232	977	4,209
Equities	-	1,050	578	1,628
Commodities	-	124	4	128
Gross fair value	-	615,940	2,341	618,281
Counterparty netting in levels	-	(584,569)	(513)	(585,082)
Subtotal	\$ -	\$ 31,371	\$ 1,828	\$ 33,199
Cross-level counterparty netting				(1,033)
Cash collateral netting				(23,660)
Net fair value				\$ 8,506
Liabilities				
Interest rates	\$ -	\$ (533,891)	\$ (457)	\$ (534,348)
Currencies	-	(69,226)	(180)	(69,406)
Credit	-	(3,784)	(1,015)	(4,799)
Equities	-	(834)	(29)	(863)
Commodities	-	(124)	(2)	(126)
Gross fair value	-	(607,859)	(1,683)	(609,542)
Counterparty netting in levels	-	584,569	513	585,082
Subtotal	\$ -	\$ (23,290)	\$ (1,170)	\$ (24,460)
Cross-level counterparty netting				1,033
Cash collateral netting				18,910
Net fair value				\$ (4,517)

In the table above:

- Gross fair values exclude the effects of both counterparty netting and collateral netting, and therefore are not representative of the Bank's exposure.
- Counterparty netting is reflected in each level to the extent that receivable and payable balances are netted within the same level and is included in counterparty netting in levels. Where the counterparty netting is across levels, the netting is included in cross-level counterparty netting.
- Derivative assets are shown as positive amounts and derivative liabilities are shown as negative amounts.

See Note 4 for an overview of the Bank's fair value measurement policies and the valuation techniques and significant inputs used to determine the fair value of derivatives.

Significant Unobservable Inputs

The table below presents the amount of level 3 derivative assets (liabilities), and ranges, averages and medians of significant unobservable inputs used to value level 3 derivatives.

<i>\$ in millions</i>	Level 3 Assets (Liabilities) and Range of Significant Unobservable Inputs (Average/Median) as of	
	September 2020	December 2019
Interest rates, net	\$(156)	\$(89)
Correlation	60% to 81% (67%/63%)	57% to 81% (65%/60%)
Volatility (bps)	31 to 150 (80/55)	31 to 150 (80/55)
Currencies, net	\$1	\$234
Correlation	28% to 70% (48%/46%)	28% to 70% (46%/46%)
Credit, net	\$(54)	\$(38)
Credit spreads (bps)	3 to 748 (160/105)	1 to 1,151 (140/98)
Equities, net	\$473	\$549
Correlation	10% to 99% (64%/82%)	10% to 98% (54%/51%)

Level 3 commodities, net were not material as of both September 2020 and December 2019, and therefore are not included in the table above.

Notes to Consolidated Financial Statements (Unaudited)

In the table above:

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

Range of Significant Unobservable Inputs

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

- **Correlation.** Ranges for correlation cover a variety of underliers both within one product type (e.g., foreign exchange rates) and across product types (e.g., correlation of an interest rate and a currency), as well as across regions. Generally, cross-product type correlation inputs are used to value more complex instruments and are lower than correlation inputs on assets within the same derivative product type.
- **Volatility.** Ranges for volatility cover numerous underliers across a variety of markets, maturities and strike prices.
- **Credit spreads.** The ranges for credit spreads cover a variety of underliers (index and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade). The broad range of this population gives rise to the width of the ranges of significant unobservable inputs.

Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

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

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

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

Notes to Consolidated Financial Statements (Unaudited)

Level 3 Rollforward

The table below presents a summary of the changes in fair value for level 3 derivatives.

\$ in millions	Three Months		Nine Months	
	Ended September		Ended September	
	2020	2019	2020	2019
Total level 3 derivatives, net				
Beginning balance	\$ 426	\$ 531	\$ 658	\$ 844
Net realized gains/(losses)	(2)	(17)	(39)	(75)
Net unrealized gains/(losses)	(3)	17	(266)	(388)
Purchases	1	42	24	75
Sales	–	(40)	(16)	(51)
Settlements	(89)	(64)	(140)	58
Transfers into level 3	(16)	9	44	13
Transfers out of level 3	(51)	(23)	1	(21)
Ending balance	\$ 266	\$ 455	\$ 266	\$ 455

In the table above:

- Changes in fair value are presented for all derivative assets and liabilities that are classified in level 3 as of the end of the period.
- Net unrealized gains/(losses) relates to instruments that were still held at period-end.
- Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. If a derivative was transferred into level 3 during a reporting period, its entire gain or loss for the period is classified in level 3.
- Positive amounts for transfers into level 3 and negative amounts for transfers out of level 3 represent net transfers of derivative assets. Negative amounts for transfers into level 3 and positive amounts for transfers out of level 3 represent net transfers of derivative liabilities.
- A derivative with level 1 and/or level 2 inputs is classified in level 3 in its entirety if it has at least one significant level 3 input.
- If there is one significant level 3 input, the entire gain or loss from adjusting only observable inputs (i.e., level 1 and level 2 inputs) is classified in level 3.
- Gains or losses that have been classified in level 3 resulting from changes in level 1 or level 2 inputs are frequently offset by gains or losses attributable to level 1 or level 2 derivatives and/or level 1, level 2 and level 3 trading cash instruments. As a result, gains/(losses) included in the level 3 rollforward below do not necessarily represent the overall impact on the Bank's results of operations, liquidity or capital resources.

The table below presents information, by product type, for derivatives included in the summary table above.

\$ in millions	Three Months		Nine Months	
	Ended September		Ended September	
	2020	2019	2020	2019
Interest rates, net				
Beginning balance	\$ (8)	\$ (150)	\$ (89)	\$ (221)
Net realized gains/(losses)	(21)	(25)	(26)	(43)
Net unrealized gains/(losses)	20	67	47	16
Purchases	–	–	–	1
Sales	–	–	(17)	(13)
Settlements	(74)	(45)	(35)	77
Transfers into level 3	(74)	–	(37)	6
Transfers out of level 3	1	–	1	24
Ending balance	\$ (156)	\$ (153)	\$ (156)	\$ (153)
Currencies, net				
Beginning balance	\$ (1)	\$ 248	\$ 234	\$ 621
Net realized gains/(losses)	(3)	(2)	(9)	(7)
Net unrealized gains/(losses)	(14)	(84)	(210)	(434)
Purchases	–	4	3	9
Sales	–	–	1	–
Settlements	18	3	(29)	(19)
Transfers into level 3	–	–	(1)	–
Transfers out of level 3	1	(1)	12	(2)
Ending balance	\$ 1	\$ 168	\$ 1	\$ 168
Credit, net				
Beginning balance	\$ 3	\$ 10	\$ (38)	\$ 163
Net realized gains/(losses)	(1)	(1)	(16)	(8)
Net unrealized gains/(losses)	(19)	(48)	(19)	(239)
Purchases	–	(1)	4	–
Sales	–	(11)	–	(9)
Settlements	(4)	5	3	25
Transfers into level 3	1	(7)	–	1
Transfers out of level 3	(34)	(5)	12	9
Ending balance	\$ (54)	\$ (58)	\$ (54)	\$ (58)
Equities, net				
Beginning balance	\$ 430	\$ 421	\$ 549	\$ 279
Net realized gains/(losses)	23	11	12	(17)
Net unrealized gains/(losses)	10	82	(84)	269
Purchases	1	39	17	65
Sales	–	(29)	–	(29)
Settlements	(29)	(27)	(79)	(25)
Transfers into level 3	57	16	82	6
Transfers out of level 3	(19)	(17)	(24)	(52)
Ending balance	\$ 473	\$ 496	\$ 473	\$ 496
Commodities, net				
Beginning balance	\$ 2	\$ 2	\$ 2	\$ 2
Net unrealized gains/(losses)	–	–	–	–
Settlements	–	–	–	–
Ending balance	\$ 2	\$ 2	\$ 2	\$ 2

Notes to Consolidated Financial Statements (Unaudited)

Level 3 Rollforward Commentary

Three Months Ended September 2020. The net realized and unrealized losses on level 3 derivatives of \$5 million (reflecting \$2 million of net realized losses and \$3 million of net unrealized losses) for the three months ended September 2020 were reported in gains and losses from financial assets and liabilities.

The drivers of net unrealized losses on level 3 derivatives for the three months ended September 2020 were not material.

The drivers of both transfers into level 3 derivatives and transfers out of level 3 derivatives during the three months ended September 2020 were not material.

Nine Months Ended September 2020. The net realized and unrealized losses on level 3 derivatives of \$305 million (reflecting \$39 million of net realized losses and \$266 million of net unrealized losses) for the nine months ended September 2020 were reported in gains and losses from financial assets and liabilities.

The net unrealized losses on level 3 derivatives during the nine months ended September 2020 were primarily attributable to losses on certain currency derivatives (primarily reflecting the impact of a decrease in interest rates) and losses on certain equity derivatives (primarily reflecting the impact of changes in equity prices).

The drivers of both transfers into level 3 derivatives and transfers out of level 3 derivatives during the nine months ended September 2020 were not material.

Three Months Ended September 2019. There were no realized and unrealized gains on level 3 derivatives (reflecting \$17 million of net realized losses and \$17 million of net unrealized gains) for the three months ended September 2019.

The net unrealized gains on level 3 derivatives for the three months ended September 2019 were primarily attributable to gains on certain equity derivatives (reflecting the impact of an increase in equity prices) and gains on certain interest rate derivatives (reflecting the impact of a decrease in interest rates), partially offset by losses on certain currency and credit derivatives (reflecting the impact of a decrease in interest rates).

The drivers of both transfers into level 3 derivatives and transfers out of level 3 derivatives during the three months ended September 2019 were not material.

Nine Months Ended September 2019. The net realized and unrealized losses on level 3 derivatives of \$463 million (reflecting \$75 million of net realized losses and \$388 million of net unrealized losses) for the nine months ended September 2019 were reported in gains and losses from financial assets and liabilities.

The net unrealized losses on level 3 derivatives for the nine months ended September 2019 were primarily attributable to losses on certain currency derivatives (reflecting the impact of a decrease in interest rates) and losses on certain credit derivatives (reflecting the impact of tighter credit spreads and a decrease in interest rates), partially offset by gains on certain equity derivatives (reflecting the impact of an increase in equity prices).

The drivers of both transfers into level 3 derivatives and transfers out of level 3 derivatives during the nine months ended September 2019 were not material.

Credit Derivatives

The Bank enters into a broad array of credit derivatives to facilitate client transactions and to manage the credit risk associated with market-making and financing activities. Credit derivatives are actively managed based on the Bank's net risk position. Credit derivatives are generally individually negotiated contracts and can have various settlement and payment conventions. Credit events include failure to pay, bankruptcy, acceleration of indebtedness, restructuring, repudiation and dissolution of the reference entity.

The Bank enters into the following types of credit derivatives:

- **Credit Default Swaps.** Single-name credit default swaps protect the buyer against the loss of principal on one or more bonds, loans or mortgages (reference obligations) in the event the issuer of the reference obligations suffers a credit event. The buyer of protection pays an initial or periodic premium to the seller and receives protection for the period of the contract. If there is no credit event, as defined in the contract, the seller of protection makes no payments to the buyer. If a credit event occurs, the seller of protection is required to make a payment to the buyer, calculated according to the terms of the contract.
- **Credit Options.** In a credit option, the option writer assumes the obligation to purchase or sell a reference obligation at a specified price or credit spread. The option purchaser buys the right, but does not assume the obligation, to sell the reference obligation to, or purchase it from, the option writer. The payments on credit options depend either on a particular credit spread or the price of the reference obligation.

Notes to Consolidated Financial Statements (Unaudited)

• **Credit Indices, Baskets and Tranches.** Credit derivatives may reference a basket of single-name credit default swaps or a broad-based index. If a credit event occurs in one of the underlying reference obligations, the protection seller pays the protection buyer. The payment is typically a pro-rata portion of the transaction's total notional amount based on the underlying defaulted reference obligation. In certain transactions, the credit risk of a basket or index is separated into various portions (tranches), each having different levels of subordination. The most junior tranches cover initial defaults and once losses exceed the notional amount of these junior tranches, any excess loss is covered by the next most senior tranche.

• **Total Return Swaps.** A total return swap transfers the risks relating to economic performance of a reference obligation from the protection buyer to the protection seller. Typically, the protection buyer receives a floating rate of interest and protection against any reduction in fair value of the reference obligation, and the protection seller receives the cash flows associated with the reference obligation, plus any increase in the fair value of the reference obligation.

The Bank economically hedges its exposure to written credit derivatives primarily by entering into offsetting purchased credit derivatives with identical underliers. Substantially all of the Bank's purchased credit derivative transactions are with financial institutions and are subject to stringent collateral thresholds. In addition, upon the occurrence of a specified trigger event, the Bank may take possession of the reference obligations underlying a particular written credit derivative, and consequently may, upon liquidation of the reference obligations, recover amounts on the underlying reference obligations in the event of default.

As of September 2020, written credit derivatives had a total gross notional amount of \$65.80 billion and purchased credit derivatives had a total gross notional amount of \$98.22 billion, for total net notional purchased protection of \$32.42 billion. As of December 2019, written credit derivatives had a total gross notional amount of \$76.98 billion and purchased credit derivatives had a total gross notional amount of \$99.54 billion, for total net notional purchased protection of \$22.56 billion. Substantially all of the Bank's written and purchased credit derivatives consist of credit default swaps.

The table below presents information about credit derivatives.

\$ in millions	Credit Spread on Underlier (basis points)				Total
	0 - 250	251 - 500	501 - 1,000	Greater than 1,000	
As of September 2020					
Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor					
Less than 1 year	\$ 10,739	\$ 721	\$ 185	\$ 267	\$ 11,912
1 - 5 years	38,036	4,195	2,124	2,381	46,736
Greater than 5 years	3,577	1,226	2,311	35	7,149
Total	\$ 52,352	\$ 6,142	\$ 4,620	\$ 2,683	\$ 65,797
Maximum Payout/Notional Amount of Purchased Credit Derivatives					
Offsetting	\$ 48,049	\$ 4,017	\$ 2,235	\$ 2,570	\$ 56,871
Other	\$ 33,043	\$ 4,173	\$ 3,273	\$ 860	\$ 41,349
Fair Value of Written Credit Derivatives					
Asset	\$ 811	\$ 218	\$ 91	\$ 35	\$ 1,155
Liability	405	31	728	502	1,666
Net asset/(liability)	\$ 406	\$ 187	\$ (637)	\$ (467)	\$ (511)
As of December 2019					
Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor					
Less than 1 year	\$ 10,686	\$ 92	\$ 128	\$ 417	\$ 11,323
1 - 5 years	51,261	1,736	1,033	2,413	56,443
Greater than 5 years	8,715	159	120	221	9,215
Total	\$ 70,662	\$ 1,987	\$ 1,281	\$ 3,051	\$ 76,981
Maximum Payout/Notional Amount of Purchased Credit Derivatives					
Offsetting	\$ 65,132	\$ 1,915	\$ 1,262	\$ 2,647	\$ 70,956
Other	\$ 27,176	\$ 661	\$ 206	\$ 540	\$ 28,583
Fair Value of Written Credit Derivatives					
Asset	\$ 2,641	\$ 120	\$ 74	\$ 131	\$ 2,966
Liability	680	14	21	349	1,064
Net asset/(liability)	\$ 1,961	\$ 106	\$ 53	\$ (218)	\$ 1,902

In the table above:

- Fair values exclude the effects of both netting of receivable balances with payable balances under enforceable netting agreements, and netting of cash received or posted under enforceable credit support agreements, and therefore are not representative of the Bank's credit exposure.
- Tenor is based on remaining contractual maturity.
- The credit spread on the underlier, together with the tenor of the contract, are indicators of payment/performance risk. The Bank is less likely to pay or otherwise be required to perform where the credit spread and the tenor are lower.
- Offsetting purchased credit derivatives represent the notional amount of purchased credit derivatives that economically hedge written credit derivatives with identical underliers.
- Other purchased credit derivatives represent the notional amount of all other purchased credit derivatives not included in offsetting.

Notes to Consolidated Financial Statements (Unaudited)

Impact of Credit and Funding Spreads on Derivatives

The Bank realizes gains or losses on its derivative contracts. These gains or losses include credit valuation adjustments (CVA) relating to uncollateralized derivative assets and liabilities, which represents the gains or losses (including hedges) attributable to the impact of changes in credit exposure, counterparty and GS Group's credit spreads, liability funding spreads (which includes GS Group's credit), probability of default and assumed recovery. These gains or losses also include funding valuation adjustments (FVA) relating to uncollateralized derivative assets, which represents the gains or losses (including hedges) attributable to the impact of changes in expected funding exposures and funding spreads.

The table below presents information about CVA and FVA.

<i>\$ in millions</i>	Three Months		Nine Months	
	Ended September	2019	Ended September	2019
CVA, net of hedges	\$ 51	\$ 19	\$ 129	\$ (82)
FVA, net of hedges	53	(7)	17	100
Total	\$ 104	\$ 12	\$ 146	\$ 18

Derivatives with Credit-Related Contingent Features

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

The table below presents information about net derivative liabilities under bilateral agreements (excluding collateral posted), the fair value of collateral posted and additional collateral or termination payments that could have been called by counterparties in the event of a one- or two-notch downgrade in the credit ratings of the Bank and/or Group Inc.

<i>\$ in millions</i>	As of	
	September	December
Net derivative liabilities under bilateral agreements	\$ 8,670	\$ 6,420
Collateral posted	\$ 7,880	\$ 5,982
Additional collateral or termination payments:		
One-notch downgrade	\$ 125	\$ 149
Two-notch downgrade	\$ 271	\$ 303

Hedge Accounting

The Bank applies hedge accounting for certain interest rate swaps used to manage the interest rate exposure of certain fixed-rate certificates of deposit and certain fixed-rate unsecured short- and long-term borrowings.

To qualify for hedge accounting, the hedging instrument 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 assess the hedging relationship at least on a quarterly basis to ensure the hedging instrument continues to be highly effective over the life of the hedging relationship.

Fair Value Hedges

The Bank designates certain interest rate swaps as fair value hedges of certain fixed-rate certificates of deposit and certain fixed-rate unsecured short- and long-term borrowings. These interest rate swaps hedge changes in fair value attributable to the designated benchmark interest rate (e.g., London Interbank Offered Rate (LIBOR) or Secured Overnight Financing Rate), effectively converting a substantial portion of fixed-rate obligations into floating-rate obligations.

The Bank applies a statistical method that utilizes regression analysis when assessing the effectiveness of these 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%.

For qualifying fair value hedges, gains or losses on derivatives are included in interest expense. The change in fair value of the hedged item attributable to the risk being hedged is reported as an adjustment to its carrying value (hedging adjustment) and is also included in interest expense. When a derivative is no longer designated as a hedge, any remaining difference between the carrying value and par value of the hedged item is amortized to interest expense over the remaining life of the hedged item using the effective interest method. See Note 21 for further information about interest income and interest expense.

Notes to Consolidated Financial Statements (Unaudited)

The table below presents the gains/(losses) from interest rate derivatives accounted for as hedges and the related hedged deposits and borrowings, and total interest expense.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2020	2019	2020	2019
Interest rate hedges	\$ (75)	\$ 112	\$ 528	\$ 420
Hedged deposits and borrowings	\$ 74	\$ (114)	\$ (528)	\$ (423)
Interest expense	\$ 475	\$ 1,323	\$ 2,085	\$ 3,579

The table below presents the carrying value of deposits and unsecured borrowings that are designated in a hedging relationship and the related cumulative hedging adjustment (increase/(decrease)) from current and prior hedging relationships included in such carrying values.

<i>\$ in millions</i>	Carrying Value	Cumulative Hedging Adjustment
As of September 2020		
Deposits	\$ 17,243	\$ 703
As of December 2019		
Deposits	\$ 18,956	\$ 172
Unsecured short-term borrowings	\$ 1,004	\$ 4

In the table above, the cumulative hedging adjustments from prior hedging relationships that were de-designated were not material as of both September 2020 and December 2019.

In addition, cumulative hedging adjustments for items no longer designated in a hedging relationship were \$(4) million as of September 2020 and not material as of December 2019.

Note 8.

Investments

Investments includes debt instruments and equity securities that are accounted for at fair value and are generally held by the Bank in connection with its long-term investing activities. In addition, investments includes debt securities classified as available-for-sale and held-to-maturity that are generally held in connection with the Bank's asset-liability management activities.

The table below presents information about investments.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
Equity securities, at fair value	\$ 54	\$ 64
Debt instruments, at fair value	477	40
Available-for-sale securities, at fair value	26,724	5,873
Investments, at fair value	27,255	5,977
Held-to-maturity securities	1,511	1,500
Total investments	\$ 28,766	\$ 7,477

Equity Securities and Debt Instruments, at Fair Value

Equity securities and debt instruments, at fair value are accounted for at fair value either under the fair value option or in accordance with other U.S. GAAP, and the related fair value gains and losses are recognized in earnings.

Equity Securities, at Fair Value. Equity securities, at fair value consists of the Bank's private equity-related investments in corporate and real estate entities. Equity securities, at fair value includes investments made as part of the Bank's CRA activities. Equity securities, at fair value includes \$15 million as of September 2020 and \$18 million as of December 2019 of investments in funds that are measured at NAV.

Debt Instruments, at Fair Value. Debt instruments, at fair value includes money market instruments and corporate debt securities.

Notes to Consolidated Financial Statements (Unaudited)

The table below presents information about debt instruments, at fair value.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
Money market instruments	\$ 439	\$ –
Corporate debt securities	38	40
Total	\$ 477	\$ 40

In the table above, money market instruments includes commercial paper and certificates of deposit. The increase in money market instruments from December 2019 to September 2020 was related to the Bank's purchase of commercial paper and certificates of deposit from two affiliated money market funds. See Note 20 for further information.

Available-for-Sale Securities

Available-for-sale securities are accounted for at fair value, and the related unrealized fair value gains and losses are included in accumulated other comprehensive income/(loss).

The table below presents information about available-for-sale securities by tenor.

<i>\$ in millions</i>	Amortized Cost	Fair Value	Weighted
			Average Yield
As of September 2020			
Less than 5 years	\$ 19,342	\$ 19,464	0.49%
Greater than 5 years	6,997	7,260	1.04%
Total	\$ 26,339	\$ 26,724	0.64%
As of December 2019			
Less than 5 years	\$ 2,996	\$ 3,013	1.80%
Greater than 5 years	2,869	2,860	1.77%
Total	\$ 5,865	\$ 5,873	1.79%

In the table above:

- Available-for-sale securities consists of U.S. government obligations that were classified in level 1 of the fair value hierarchy as of both September 2020 and December 2019.
- Substantially all available-for-sale securities with a tenor of less than 5 years mature within 1-5 years and all available-for-sale securities with a tenor of greater than 5 years mature within 5-10 years as of September 2020.

- The gross unrealized gains included in accumulated other comprehensive income/(loss) were \$385 million and there were no gross unrealized losses included in accumulated other comprehensive income/(loss) as of September 2020. The gross unrealized gains included in accumulated other comprehensive income/(loss) were \$24 million and the gross unrealized losses included in accumulated other comprehensive income/(loss) were \$16 million as of December 2019.

- Beginning in January 2020, available-for-sale securities are reviewed to determine if an allowance for credit losses should be recorded in the consolidated statements of earnings. The Bank considers various factors in such determination, including market conditions, changes in issuer credit ratings, severity of the unrealized losses, and the intent and ability to hold the security until recovery. See Note 3 for further information about the adoption of CECL. Prior to January 2020, such securities were reviewed for other-than-temporary impairment. The Bank did not record any provision for credit losses on such securities during the nine months ended September 2020 and there was no other-than-temporary impairment during the year ended December 2019.

Fair Value of Investments by Level

The table below presents investments accounted for at fair value by level within the fair value hierarchy.

<i>\$ in millions</i>	Level 1	Level 2	Level 3	Total
As of September 2020				
U.S. government obligations	\$ 26,724	\$ –	\$ –	\$ 26,724
Equity securities	–	8	31	39
Corporate debt securities	–	1	37	38
Money market instruments	–	439	–	439
Subtotal	\$ 26,724	\$ 448	\$ 68	\$ 27,240
Investments in funds at NAV				15
Total investments				\$ 27,255

As of December 2019				
U.S. government obligations	\$ 5,873	\$ –	\$ –	\$ 5,873
Equity securities	–	10	36	46
Corporate debt securities	–	40	–	40
Subtotal	\$ 5,873	\$ 50	\$ 36	\$ 5,959
Investments in funds at NAV				18
Total investments				\$ 5,977

Notes to Consolidated Financial Statements (Unaudited)

See Note 4 for an overview of the Bank's fair value measurement policies and the valuation techniques and significant inputs used to determine the fair value of investments.

Significant Unobservable Inputs

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

<i>\$ in millions</i>	Level 3 Assets and Range of Significant Unobservable Inputs (Weighted Average) as of	
	September 2020	December 2019
Equity securities		
Level 3 assets	\$31	\$36
Discount rate/yield	5.3% to 10.0% (7.7%)	5.2% to 10.0% (7.4%)

In the table above:

- Ranges represent the significant unobservable inputs that were used in the valuation of each type of investment.
- Weighted averages are calculated by weighting each input by the relative fair value of the investment.
- 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 investment. For example, the highest discount rate for private equity securities is appropriate for valuing a specific private equity security but may not be appropriate for valuing any other private equity security. Accordingly, the ranges of inputs do not represent uncertainty in, or possible ranges of, fair value measurements of level 3 investments.
- Equity securities are valued using market comparables and discounted cash flows.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, market comparables and discounted cash flows may be used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.
- Significant unobservable inputs used to value the Bank's level 3 corporate debt securities are not material and are therefore excluded from the table.

Level 3 Rollforward

The table below presents a summary of the changes in fair value for level 3 investments.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2020	2019	2020	2019
Beginning balance	\$ 70	\$ 39	\$ 36	\$ 273
Net realized gains/(losses)	-	-	1	-
Net unrealized gains/(losses)	1	(3)	(10)	(8)
Purchases	-	-	1	-
Sales	-	-	-	(228)
Settlements	-	-	-	(1)
Transfers into level 3	-	-	40	-
Transfers out of level 3	(3)	-	-	-
Ending balance	\$ 68	\$ 36	\$ 68	\$ 36

In the table above:

- Changes in fair value are presented for all investments that are classified in level 3 as of the end of the period.
- Net unrealized gains/(losses) relates to investments that were still held at period-end.
- Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. If an investment 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 investments, increases are shown as positive amounts, while decreases are shown as negative amounts.

The table below presents information, by product type, for investments included in the summary table above.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2020	2019	2020	2019
Equity securities				
Beginning balance	\$ 35	\$ 39	\$ 36	\$ 273
Net realized gains/(losses)	-	-	1	-
Net unrealized gains/(losses)	(1)	(3)	(6)	(8)
Sales	-	-	-	(228)
Settlements	-	-	-	(1)
Transfers out of level 3	(3)	-	-	-
Ending balance	\$ 31	\$ 36	\$ 31	\$ 36
Corporate debt securities				
Beginning balance	\$ 35	\$ -	\$ -	\$ -
Net unrealized gains/(losses)	2	-	(4)	-
Purchases	-	-	1	-
Transfers into level 3	-	-	40	-
Ending balance	\$ 37	\$ -	\$ 37	\$ -

Notes to Consolidated Financial Statements (Unaudited)

Level 3 Rollforward Commentary

Three Months Ended September 2020. The net unrealized gains on level 3 investments of \$1 million for the three months ended September 2020 were reported in gains and losses from financial assets and liabilities.

The drivers of net unrealized gains on level 3 investments for the three months ended September 2020 were not material.

There were no transfers into level 3 investments during the three months ended September 2020.

The drivers of transfers out of level 3 investments during the three months ended September 2020 were not material.

Nine Months Ended September 2020. The net realized and unrealized losses on level 3 investments of \$9 million (reflecting \$1 million of net realized gains and \$10 million of net unrealized losses) for the nine months ended September 2020 were reported in gains and losses from financial assets and liabilities.

The drivers of net unrealized losses on level 3 investments for the nine months ended September 2020 were not material.

Transfers into level 3 investments during the nine months ended September 2020 primarily reflected transfers of certain corporate debt securities from level 2, principally due to certain unobservable yield and duration inputs becoming significant to the valuation of these instruments.

There were no transfers out of level 3 investments during the nine months ended September 2020.

Three Months Ended September 2019. The net unrealized losses on level 3 investments of \$3 million for the three months ended September 2019 were reported in gains and losses from financial assets and liabilities.

The drivers of net unrealized losses on level 3 investments for the three months ended September 2019 were not material.

There were no transfers into level 3 investments or transfers out of level 3 investments during the three months ended September 2019.

Nine Months Ended September 2019. The net unrealized losses on level 3 investments of \$8 million for the nine months ended September 2019 were reported in gains and losses from financial assets and liabilities.

The drivers of net unrealized losses on level 3 investments for the nine months ended September 2019 were not material.

There were no transfers into level 3 investments or transfers out of level 3 investments during the nine months ended September 2019.

Held-to-Maturity Securities

Held-to-maturity securities are accounted for at amortized cost.

The table below presents information about held-to-maturity securities by tenor.

<i>\$ in millions</i>	Amortized Cost	Fair Value	Weighted Average Yield
As of September 2020			
Less than 5 years	\$ 1,511	\$ 1,573	2.73%
Total	\$ 1,511	\$ 1,573	2.73%
As of December 2019			
Less than 5 years	\$ 1,500	\$ 1,540	2.73%
Total	\$ 1,500	\$ 1,540	2.73%

In the table above:

- Held-to-maturity securities consists of U.S. government obligations.
- As these securities are not accounted for at fair value, they are not included in the Bank's fair value hierarchy in Notes 4 through 10. Had these securities been included in the Bank's fair value hierarchy, they would have been classified in level 1 of the fair value hierarchy as of both September 2020 and December 2019.
- The gross unrealized gains were \$62 million as of September 2020 and \$40 million as of December 2019.
- Beginning in January 2020, held-to-maturity securities are reviewed to determine if an allowance for credit loss should be recorded in the consolidated statements of earnings. The Bank considers various factors in such determination, including market conditions, changes in issuer credit ratings, historical credit losses and sovereign guarantees. See Note 3 for further information about the adoption of CECL. Prior to January 2020, such securities were reviewed for other-than-temporary impairment. The Bank did not record any provision for credit losses on such securities during the nine months ended September 2020 and there were no other-than-temporary impairments during the year ended December 2019.

Notes to Consolidated Financial Statements (Unaudited)

Note 9.

Loans

Loans includes (i) loans held for investment that are accounted for at amortized cost net of allowance for loan losses or at fair value under the fair value option and (ii) loans held for sale that are accounted for at the lower of cost or fair value. Interest on loans is recognized over the life of the loan and is recorded on an accrual basis.

The table below presents information about loans.

<i>\$ in millions</i>	Amortized Cost	Fair Value	Held for Sale	Total
As of September 2020				
Loan Type				
Corporate	\$ 31,597	\$ 981	\$ 491	\$ 33,069
Wealth management	18,807	8,037	-	26,844
Commercial real estate	11,202	297	339	11,838
Residential real estate	3,713	-	23	3,736
Consumer:				
Installment	4,112	-	-	4,112
Credit cards	2,908	-	-	2,908
Other	2,421	-	458	2,879
Total loans, gross	74,760	9,315	1,311	85,386
Allowance for loan losses	(2,367)	-	-	(2,367)
Total loans	\$ 72,393	\$ 9,315	\$ 1,311	\$ 83,019

As of December 2019

Loan Type				
Corporate	\$ 27,387	\$ 695	\$ 1,319	\$ 29,401
Wealth management	16,959	7,824	-	24,783
Commercial real estate	9,402	213	1,754	11,369
Residential real estate	4,009	-	34	4,043
Consumer:				
Installment	4,747	-	-	4,747
Credit cards	1,858	-	-	1,858
Other	2,780	-	679	3,459
Total loans, gross	67,142	8,732	3,786	79,660
Allowance for loan losses	(777)	-	-	(777)
Total loans	\$ 66,365	\$ 8,732	\$ 3,786	\$ 78,883

In the table above, as of September 2020, wealth management loans includes \$16.03 billion of loans, substantially all of which are secured by investments in financial or nonfinancial assets (other than real estate), \$8.01 billion of loans secured by residential real estate and \$2.80 billion of loans secured by commercial real estate. As of December 2019, wealth management loans includes \$14.35 billion of loans, substantially all of which are secured by investments in financial or nonfinancial assets (other than real estate), \$7.79 billion of loans secured by residential real estate and \$2.65 billion of loans secured by commercial real estate.

The following is a description of the loan types in the table above:

- Corporate.** Corporate loans includes term loans, revolving lines of credit, letter of credit facilities and bridge loans, and are principally used for operating and general corporate purposes, or in connection with acquisitions. Corporate loans also includes loans originated as part of the Bank's CRA activities. Corporate loans may be secured or unsecured, depending on the loan purpose, the risk profile of the borrower and other factors.
- Wealth Management.** Wealth management loans includes loans extended to private bank clients, including wealth management and other clients. Wealth management loans also include loans originated through *Goldman Sachs Private Bank Select*. Wealth management loans are used to finance investments in both financial and nonfinancial assets, bridge cash flow timing gaps or provide liquidity for other needs. Substantially all wealth management loans are secured by securities, residential real estate, commercial real estate, or other assets.

Notes to Consolidated Financial Statements (Unaudited)

- Commercial Real Estate.** Commercial real estate loans includes loans extended by the Bank (other than to private bank clients) that are directly or indirectly secured by hotels, retail stores, multifamily housing complexes and commercial and industrial properties. Commercial real estate loans also includes loans extended to clients who warehouse assets that are directly or indirectly backed by commercial real estate. In addition, commercial real estate includes loans purchased by the Bank and loans originated as part of the Bank's CRA activities.
- Residential Real Estate.** Residential real estate loans includes loans extended by the Bank to clients (other than private bank clients) who warehouse assets that are directly or indirectly secured by residential real estate. Residential real estate loans also includes loans purchased and originated by the Bank.
- Installment.** Installment loans are unsecured and are originated by the Bank.
- Credit Cards.** Credit card loans are loans made pursuant to revolving lines of credit issued to consumers by the Bank.
- Other.** Other loans primarily includes loans extended to clients who warehouse assets that are directly or indirectly secured by consumer loans, including auto loans and private student loans. Other loans also includes unsecured consumer loans purchased by the Bank.

Credit Quality

Risk Assessment. The Bank's risk assessment process includes evaluating the credit quality of its loans. For corporate loans and a majority of wealth management, residential real estate, and other loans, the Bank performs credit reviews which include initial and ongoing analyses of its borrowers, resulting in an internal credit rating. A credit review is an independent analysis of the capacity and willingness of a borrower to meet its financial obligations and is performed on an annual basis or more frequently if circumstances change that indicate that a review may be necessary. The determination of internal credit ratings also incorporates assumptions with respect to the nature of and outlook for the borrower's industry and the economic environment.

The table below presents gross loans by an internally determined public rating agency equivalent or other credit metrics and the concentration of secured and unsecured loans.

<i>\$ in millions</i>	Investment- Grade	Non-Investment- Grade	Other/ Unrated	Total
As of September 2020				
Accounting Method				
Amortized cost	\$ 26,712	\$ 38,675	\$ 9,373	\$ 74,760
Fair value	1,664	3,192	4,459	9,315
Held for sale	466	384	461	1,311
Total	\$ 28,842	\$ 42,251	\$ 14,293	\$ 85,386
Loan Type				
Corporate	\$ 9,289	\$ 23,642	\$ 138	\$ 33,069
Wealth management	16,397	4,876	5,571	26,844
Real estate:				
Commercial	1,190	10,605	43	11,838
Residential	680	2,444	612	3,736
Consumer:				
Installment	–	–	4,112	4,112
Credit cards	–	–	2,908	2,908
Other	1,286	684	909	2,879
Total	\$ 28,842	\$ 42,251	\$ 14,293	\$ 85,386
Secured	78%	93%	44%	80%
Unsecured	22%	7%	56%	20%
Total	100%	100%	100%	100%

As of December 2019

<i>\$ in millions</i>	Investment- Grade	Non-Investment- Grade	Other/ Unrated	Total
Accounting Method				
Amortized cost	\$ 25,940	\$ 34,352	\$ 6,850	\$ 67,142
Fair value	2,008	2,381	4,343	8,732
Held for sale	328	2,906	552	3,786
Total	\$ 28,276	\$ 39,639	\$ 11,745	\$ 79,660
Loan Type				
Corporate	\$ 8,710	\$ 20,672	\$ 19	\$ 29,401
Wealth management	16,961	3,461	4,361	24,783
Real estate:				
Commercial	343	10,955	71	11,369
Residential	235	3,738	70	4,043
Consumer:				
Installment	–	–	4,747	4,747
Credit cards	–	–	1,858	1,858
Other	2,027	813	619	3,459
Total	\$ 28,276	\$ 39,639	\$ 11,745	\$ 79,660
Secured	82%	94%	43%	83%
Unsecured	18%	6%	57%	17%
Total	100%	100%	100%	100%

Notes to Consolidated Financial Statements (Unaudited)

In the table above, other/unrated loans include installment and credit card loans of \$7.02 billion as of September 2020 and \$6.61 billion as of December 2019 for which an important credit-quality indicator is the Fair Isaac Corporation (FICO) credit score (which measures a borrower's creditworthiness by considering factors such as payment and credit history). FICO credit scores are periodically refreshed by the Bank to assess the updated creditworthiness of the borrower. See "Vintage" below for information about installment and credit card loans by FICO credit scores. Substantially all of the remaining loans of \$7.27 billion as of September 2020 and \$5.14 billion as of December 2019 included in the other/unrated category are secured. These loans primarily consist of wealth management loans backed by residential real estate or securities. The Bank's risk assessment process for such loans includes reviewing certain key metrics, such as loan-to-value ratio, delinquency status, collateral values, expected cash flows and other risk factors.

The Bank also assigns a regulatory risk rating to its loans based on the definitions provided by the U.S. federal bank regulatory agencies. Total loans included 93% of loans as of September 2020 and 98% of loans as of December 2019 that were rated pass/non-criticized.

Vintage. The table below presents gross loans accounted for at amortized cost (excluding installment and credit card loans) by an internally determined public rating agency equivalent or other credit metrics and origination year for term loans.

<i>\$ in millions</i>	As of September 2020			
	Investment- Grade	Non-Investment- Grade	Other/ Unrated	Total
2020	\$ 1,550	\$ 3,115	\$ 112	\$ 4,777
2019	616	3,031	–	3,647
2018	2,135	1,388	–	3,523
2017	891	1,748	–	2,639
2016	271	521	4	796
2015 or earlier	376	1,620	–	1,996
Revolving	3,262	10,943	14	14,219
Corporate	9,101	22,366	130	31,597
2020	334	224	–	558
2019	662	392	–	1,054
2018	413	63	–	476
2017	377	76	–	453
2016	22	21	–	43
2015 or earlier	247	265	–	512
Revolving	12,737	1,841	1,133	15,711
Wealth management	14,792	2,882	1,133	18,807
2020	485	1,811	26	2,322
2019	10	1,244	–	1,254
2018	213	1,372	–	1,585
2017	18	1,276	–	1,294
2016	–	88	–	88
2015 or earlier	–	279	–	279
Revolving	127	4,253	–	4,380
Commercial real estate	853	10,323	26	11,202
2020	530	1,047	90	1,667
2019	–	183	227	410
2018	–	33	265	298
2017	–	31	–	31
2016	–	–	–	–
Revolving	150	1,157	–	1,307
Residential real estate	680	2,451	582	3,713
2020	260	18	450	728
2019	–	76	32	108
2018	–	52	–	52
2017	–	5	–	5
Revolving	1,026	502	–	1,528
Other	1,286	653	482	2,421
Total	\$ 26,712	\$ 38,675	\$ 2,353	\$ 67,740
Percentage of total	39%	57%	4%	100%

In the table above, revolving loans which converted to term loans were not material as of September 2020.

Notes to Consolidated Financial Statements (Unaudited)

The table below presents gross installment loans by refreshed FICO credit scores and origination year and gross credit card loans by refreshed FICO credit scores.

\$ in millions	As of September 2020		
	Greater than or equal to 660	Less than 660	Total
2020	\$ 1,116	\$ 28	\$ 1,144
2019	1,434	145	1,579
2018	984	185	1,169
2017	170	40	210
2016	8	2	10
Installment	3,712	400	4,112
Credit cards	2,175	733	2,908
Total consumer	\$ 5,887	\$ 1,133	\$ 7,020
Percentage of total:			
Installment	90%	10%	100%
Credit cards	75%	25%	100%

In the table above, credit card loans consist of revolving lines of credit.

Credit Concentrations. The table below presents the concentration of gross loans by region.

\$ in millions	Carrying				
	Value	Americas	EMEA	Asia	Total
As of September 2020					
Corporate	\$ 33,069	75%	21%	4%	100%
Wealth management	26,844	99%	1%	–	100%
Commercial real estate	11,838	96%	4%	–	100%
Residential real estate	3,736	100%	–	–	100%
Consumer:					
Installment	4,112	100%	–	–	100%
Credit cards	2,908	100%	–	–	100%
Other	2,879	100%	–	–	100%
Total	\$ 85,386	90%	9%	1%	100%
As of December 2019					
Corporate	\$ 29,401	71%	23%	6%	100%
Wealth management	24,783	99%	1%	–	100%
Commercial real estate	11,369	94%	6%	–	100%
Residential real estate	4,043	100%	–	–	100%
Consumer:					
Installment	4,747	100%	–	–	100%
Credit cards	1,858	100%	–	–	100%
Other	3,459	100%	–	–	100%
Total	\$ 79,660	88%	10%	2%	100%

In the table above EMEA represents Europe, Middle East and Africa.

The table below presents the concentration of gross corporate loans by industry.

\$ in millions	As of	
	September 2020	December 2019
Corporate, gross	\$ 33,069	\$ 29,401
Industry		
Consumer & Retail	6%	7%
Diversified Industrials	20%	14%
Financial Institutions	14%	14%
Funds	12%	12%
Healthcare	6%	9%
Natural Resources & Utilities	13%	11%
Real Estate	6%	6%
Structured Finance	6%	9%
Technology, Media & Telecommunications	12%	11%
Other (including Special Purpose Vehicles)	5%	7%
Total	100%	100%

The table below presents the Bank's credit exposure from originated installment and credit card loans and the concentration by the five most concentrated U.S. states.

\$ in millions	As of	
	September 2020	December 2019
Installment	\$ 4,112	\$ 4,747
California	12%	12%
Texas	9%	9%
New York	7%	7%
Florida	7%	7%
Illinois	4%	4%
Other	61%	61%
Total	100%	100%
Credit Cards	\$ 2,908	\$ 1,858
California	19%	21%
Texas	9%	9%
New York	8%	8%
Florida	8%	8%
Illinois	4%	4%
Other	52%	50%
Total	100%	100%

Notes to Consolidated Financial Statements (Unaudited)

Nonaccrual and Past Due Loans. Loans accounted for at amortized cost (other than credit card loans) are placed on nonaccrual status when it is probable that the Bank will not collect all principal and interest due under the contractual terms regardless of the delinquency status or if a loan is past due for 90 days or more, unless the loan is both well collateralized and in the process of collection. At that time, all accrued but uncollected interest is reversed against interest income and interest subsequently collected is recognized on a cash basis to the extent the loan balance is deemed collectible. Otherwise, all cash received is used to reduce the outstanding loan balance. A loan is considered past due when a principal or interest payment has not been made according to its contractual terms. Credit card loans are not placed on nonaccrual status and accrue interest until the loan is paid in full or is charged-off.

In certain circumstances, the Bank may modify the original terms of a loan agreement by granting a concession to a borrower experiencing financial difficulty. These concessions are typically in the form of a modification of loan covenants, but may also be in the form of forbearance of interest or principal, payment extensions or interest rate reductions. These modifications, to the extent significant, are considered troubled debt restructurings (TDRs). Loan modifications that extend payment terms for a period of less than 90 days are generally considered insignificant and therefore not reported as TDRs.

In response to the global outbreak of the coronavirus (COVID-19) pandemic, the Bank adopted the relief issued under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and certain interpretive guidance issued by the U.S. banking agencies that provides for certain modified loans that would otherwise meet the definition of a TDR to not be classified as such. As of September 2020, the Bank had \$172 million of loans accounted for at amortized cost that were not classified as TDRs as a result of this relief and interpretive guidance.

The table below presents information about past due loans.

<i>\$ in millions</i>	90 days		Total
	30-89 days	or more	
As of September 2020			
Corporate	\$ –	\$ 140	\$ 140
Wealth management	1	34	35
Commercial real estate	10	80	90
Residential real estate	–	13	13
Consumer:			
Installment	44	14	58
Credit cards	27	24	51
Other	6	1	7
Total	\$ 88	\$ 306	\$ 394
Total divided by gross loans at amortized cost			0.5%

As of December 2019			
Corporate	\$ –	\$ 1	\$ 1
Wealth management	13	15	28
Commercial real estate	32	59	91
Residential real estate	17	16	33
Consumer:			
Installment	73	29	102
Credit cards	35	4	39
Other	–	–	–
Total	\$ 170	\$ 124	\$ 294
Total divided by gross loans at amortized cost			0.4%

The table below presents information about nonaccrual loans.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
Corporate	\$ 1,270	\$ 257
Wealth management	47	52
Commercial real estate	339	68
Residential real estate	27	48
Installment	32	38
Other	187	–
Total	\$ 1,902	\$ 463
Total divided by gross loans at amortized cost		2.5%
		0.7%

Notes to Consolidated Financial Statements (Unaudited)

In the table above:

- Nonaccrual loans included \$284 million as of September 2020 and \$130 million as of December 2019 of loans that were 30 days or more past due.
- Loans that were 90 days or more past due and still accruing were not material as of both September 2020 and December 2019.
- Nonaccrual loans included \$78 million as of September 2020 of corporate and commercial real estate that were modified in a TDR. Nonaccrual loans that were modified in a TDR were not material as of December 2019. The Bank's lending commitments related to these loans were not material as of September 2020 and the Bank did not have any lending commitments related to these loans as of December 2019. Installment loans that were modified in a TDR were not material as of both September 2020 and December 2019.

Allowance for Credit Losses

The Bank's allowance for credit losses consists of the allowance for losses on loans and lending commitments accounted for at amortized cost. Loans and lending commitments accounted for at fair value or accounted for at the lower of cost or fair value are not subject to an allowance for credit losses.

The Bank adopted ASU No. 2016-13 in January 2020, which replaced the incurred credit loss model for recognizing credit losses with the CECL model. As a result, the Bank's allowance for credit losses effective January 2020 reflects management's estimate of credit losses over the remaining expected life of such loans and also considers forecasts of future economic conditions. Prior to January 2020, the allowance for credit losses reflected probable incurred credit losses. See Note 3 for further information about the adoption of CECL.

To determine the allowance for credit losses, the Bank classifies its loans and lending commitments accounted for at amortized cost into wholesale and consumer portfolios. These portfolios represent the level at which the Bank has developed and documented its methodology to determine the allowance for credit losses. The allowance for credit losses is measured on a collective basis for loans that exhibit similar risk characteristics using a modeled approach and asset-specific basis for loans that do not share similar risk characteristics.

Under CECL, the allowance for credit losses takes into account the weighted average of a range of forecasts of future economic conditions over the expected life of the loan and lending commitments. The expected life of each loan or lending commitment is determined based on the contractual term adjusted for extension options or demand features. The forecasts include baseline, favorable and adverse economic scenarios over a three-year period. For loans with expected lives beyond three years, the model reverts to historical loss information based on a non-linear modeled approach. The forecasted economic scenarios consider a number of factors relevant to the wholesale and consumer portfolios described below. The Bank applies judgment in weighing individual scenarios each quarter based on a variety of factors, including the Bank's internally derived economic outlook, market consensus, recent macroeconomic conditions and industry trends.

The allowance for credit losses also includes qualitative components which allow management to reflect the uncertain nature of economic forecasting and account for model imprecision and concentration risk.

Management's estimate of credit losses entails judgment about loan collectability at the reporting dates, and there are uncertainties inherent in those judgments. The allowance for credit losses is subject to a governance process that involves review and approval by senior management within the Bank's independent risk oversight and control functions. Personnel within GS Group's independent risk oversight and control functions are responsible for forecasting the economic variables that underlie the economic scenarios that are used in the modeling of expected credit losses. While management uses the best information available to determine this estimate, future adjustments to the allowance may be necessary based on, among other things, changes in the economic environment or variances between actual results and the original assumptions used.

Notes to Consolidated Financial Statements (Unaudited)

The table below presents gross loans and lending commitments accounted for at amortized cost by portfolio.

<i>\$ in millions</i>	As of September 2020		As of December 2019	
	Loans	Lending Commitments	Loans	Lending Commitments
Wholesale				
Corporate	\$ 31,597	\$ 100,003	\$ 27,387	\$ 106,815
Wealth management	18,807	2,205	16,959	2,117
Commercial real estate	11,202	1,861	9,402	1,588
Residential real estate	3,713	1,359	4,009	707
Other	2,421	4,033	2,780	2,891
Consumer				
Installment	4,112	4	4,747	12
Credit cards	2,908	18,880	1,858	13,669
Total	\$ 74,760	\$ 128,345	\$ 67,142	\$ 127,799

In the table above, wholesale loans included \$1.87 billion as of September 2020 and \$425 million as of December 2019 of nonaccrual loans for which the allowance for credit losses was measured on an asset-specific basis. The allowance for credit losses on these loans was \$231 million as of September 2020 and \$48 million as of December 2019. These loans included \$599 million as of September 2020 and \$243 million as of December 2019 of loans which did not require a reserve as the loan was deemed to be recoverable.

See Note 18 for further information about lending commitments.

The following is a description of the methodology used to calculate the allowance for credit losses:

Wholesale. The allowance for credit losses for wholesale loans and lending commitments that exhibit similar risk characteristics is measured using a modeled approach. These models determine the probability of default and loss given default based on various risk factors, including internal credit ratings, industry default and loss data, expected life, macroeconomic indicators, the borrower's capacity to meet its financial obligations, the borrower's country of risk and industry, loan seniority and collateral type. For lending commitments, the methodology also considers probability of drawdowns or funding. In addition, for loans backed by real estate, risk factors include the loan-to-value ratio, debt service ratio and home price index. The most significant inputs to the forecast model for wholesale loans and lending commitments include unemployment rates, GDP, credit spreads, commercial and industrial delinquency rates, short- and long-term interest rates, and oil prices.

The allowance for loan losses for wholesale loans that do not share similar risk characteristics, such as nonaccrual loans or loans in a TDR, is calculated using the present value of expected future cash flows discounted at the loan's original effective rate, the observable market price of the loan or the fair value of the collateral.

Wholesale loans are charged-off against the allowance for loan losses when deemed to be uncollectible.

Consumer. The allowance for credit losses for consumer loans that exhibit similar risk characteristics is calculated using a modeled approach which classifies consumer loans into pools based on borrower-related and exposure-related characteristics that differentiate a pool's risk characteristics from other pools. The factors considered in determining a pool are generally consistent with the risk characteristics used for internal credit risk measurement and management and include key metrics, such as FICO credit scores, delinquency status, loan vintage and macroeconomic indicators. The most significant inputs to the forecast model for consumer loans include unemployment rates and delinquency rates. The expected life of revolving credit card loans is determined by modeling expected future draws and the timing and amount of repayments allocated to the funded balance. The Bank does not recognize an allowance for credit losses on credit card lending commitments as they are cancellable by the Bank.

The allowance for credit losses for consumer loans that do not share similar risk characteristics, such as loans in a TDR, is calculated using the present value of expected future cash flows discounted at the loan's original effective rate.

Installment loans are charged-off when they are 120 days past due. Credit card loans are charged-off when they are 180 days past due.

Notes to Consolidated Financial Statements (Unaudited)

Allowance for Credit Losses Rollforward

The table below presents information about the allowance for credit losses.

<i>\$ in millions</i>	Wholesale	Consumer	Total
Nine Months Ended September 2020			
Allowance for loan losses			
Beginning balance, reported	\$ 384	\$ 393	\$ 777
Impact of CECL adoption	147	444	591
Beginning balance, adjusted	531	837	1,368
Net charge-offs	(152)	(230)	(382)
Provision	1,007	525	1,532
Other	(151)	–	(151)
Ending balance	\$ 1,235	\$ 1,132	\$ 2,367
Allowance ratio	1.8%	16.1%	3.2%
Net charge-off ratio	0.3%	4.5%	0.7%
Allowance for losses on lending commitments			
Beginning balance, reported	\$ 266	\$ –	\$ 266
Impact of CECL adoption	(43)	–	(43)
Beginning balance, adjusted	223	–	223
Provision	259	–	259
Ending balance	\$ 482	\$ –	\$ 482
Year Ended December 2019			
Allowance for loan losses			
Beginning balance	\$ 325	\$ 292	\$ 617
Net charge-offs	(19)	(317)	(336)
Provision	173	418	591
Other	(95)	–	(95)
Ending balance	\$ 384	\$ 393	\$ 777
Allowance ratio	0.6%	6.0%	1.2%
Net charge-off ratio	0.0%	6.2%	0.5%
Allowance for losses on lending commitments			
Beginning balance	\$ 202	\$ –	\$ 202
Provision	64	–	64
Ending balance	\$ 266	\$ –	\$ 266

In the table above:

- Other represents the reduction to the allowance related to loans and lending commitments transferred to held for sale.
- The allowance ratio is calculated by dividing the allowance for loan losses by gross loans accounted for at amortized cost.
- The net charge-off ratio is calculated by dividing net charge-offs (annualized for interim periods) by average gross loans accounted for at amortized cost.

Allowance for Credit Losses Rollforward Commentary

Nine Months Ended September 2020. The allowance for credit losses increased by \$1.81 billion during the nine months ended September 2020.

The impact of CECL adoption for wholesale and consumer loans was driven by the fact that the allowance under CECL covers expected credit losses over the full expected life of the loan portfolios and also considers forecasts of expected future economic conditions.

The provision for credit losses for wholesale and consumer loans reflected the continued impact of the COVID-19 pandemic on economic conditions, which resulted in higher modeled expected losses and lower recoveries. The allowance for loan losses ratio for wholesale loans increased to 1.8% as of September 2020 compared with 0.6% as of December 2019, while the allowance for loan losses ratio for consumer loans increased to 16.1% as of September 2020 compared with 6.0% as of December 2019. The increase in the allowance for loan losses ratios reflected both the impact of adopting the CECL standard, as well as higher provision for credit losses.

When modeling expected credit losses, the Bank employs a weighted, multivariate forecast, which includes baseline, adverse and favorable economic scenarios. As of September 2020, the forecasted economic scenarios were most heavily weighted towards the baseline and adverse scenarios. The forecast model incorporated adjustments to reflect the impact of COVID-19-related concession programs on delinquency rates and also considered the impact of the CARES Act and other economic support programs provided by national governments.

Notes to Consolidated Financial Statements (Unaudited)

The table below presents the forecasted range (across the baseline, adverse and favorable scenarios) of the U.S. unemployment and U.S. GDP growth rates used in the forecast model as of September 2020.

	U.S. Unemployment Rate	Growth/(Decline) in U.S. GDP
Forecast for the quarter ended:		
December 2020	7.0% to 11.8%	(0.3)% to (8.2)%
June 2021	5.5% to 11.6%	3.5% to (8.0)%
December 2021	4.6% to 8.6%	6.3% to (2.6)%

In the table above:

- U.S. unemployment rate represents the rate forecasted as of the respective quarter-end.
- Growth/(decline) in U.S. GDP represents the change in quarterly U.S. GDP relative to the U.S. GDP for the fourth quarter of 2019 (pre-pandemic levels).
- Recovery of quarterly U.S. GDP to its pre-pandemic levels in the three scenarios ranges from the quarters ending March 2021 to September 2022.
- While the U.S. unemployment and U.S. GDP growth rates are significant inputs to the forecast model, the model contemplates a variety of other inputs across a range of scenarios to provide a forecast of future economic conditions. Given the complex nature of the forecasting process, no single economic variable can be viewed in isolation and independently of other inputs.

In addition, the provision for credit losses for wholesale loans was impacted by asset-specific provisions and ratings downgrades primarily related to borrowers in the technology, media & communication, diversified industrials, and natural resources industries. Besides the weaker economic outlook related to the COVID-19 pandemic, the provision for credit losses for consumer loans for the nine months ended September 2020 was also impacted by the continued seasoning of the credit card portfolio.

Net charge-offs for the nine months ended September 2020 for wholesale loans were substantially all related to corporate loans and net charge-offs for consumer loans were primarily related to installment loans.

Year Ended December 2019. The allowance for credit losses increased by \$224 million during the year ended December 2019.

The provision for credit losses for wholesale loans was primarily related to corporate loans for the year ended December 2019. The provision for credit losses related to consumer loans was primarily related to installment loans for the year ended December 2019.

Net charge-offs for wholesale loans were primarily related to corporate loans for the year ended December 2019. Net charge-offs for consumer loans were substantially all related to installment loans for the year ended December 2019.

Fair Value of Loans by Level

The table below presents loans held for investment accounted for at fair value under the fair value option by level within the fair value hierarchy.

<i>\$ in millions</i>	Level 1	Level 2	Level 3	Total
As of September 2020				
Loan Type				
Corporate	\$ -	\$ 525	\$ 456	\$ 981
Wealth management	-	7,977	60	8,037
Commercial real estate	-	144	153	297
Total	\$ -	\$ 8,646	\$ 669	\$ 9,315
As of December 2019				
Loan Type				
Corporate	\$ -	\$ 670	\$ 25	\$ 695
Wealth management	-	7,764	60	7,824
Commercial real estate	-	145	68	213
Total	\$ -	\$ 8,579	\$ 153	\$ 8,732

The gains as a result of changes in the fair value of loans held for investment for which the fair value option was elected were \$7 million for the three months ended September 2020, \$8 million for the three months ended September 2019, \$177 million for the nine months ended September 2020 and \$133 million for the nine months ended September 2019. These gains were included in gains and losses from financial assets and liabilities.

See Note 4 for an overview of the Bank's fair value measurement policies and the valuation techniques and significant inputs used to determine the fair value of loans.

Notes to Consolidated Financial Statements (Unaudited)

Significant Unobservable Inputs

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

\$ in millions	Level 3 Assets and Range of Significant Unobservable Inputs (Weighted Average) as of	
	September	December
	2020	2019
Corporate		
Level 3 assets	\$456	\$25
Yield	0.7% to 9.7% (5.9%)	8.0% to 12.5% (9.7%)
Duration (years)	2.8 to 5.5 (3.2)	N.M.
Commercial real estate		
Level 3 assets	\$153	\$68
Yield	6.6% to 11.0% (8.1%)	8.7% to 12.0% (9.5%)
Duration (years)	0.1 to 5.1 (3.9)	0.2 to 0.4 (0.4)

In the table above:

- Ranges represent the significant unobservable inputs that were used in the valuation of each type of loan.
- Weighted averages are calculated by weighting each input by the relative fair value of the loan.
- 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 loan. For example, the highest yield for commercial real estate loans is appropriate for valuing a specific commercial real estate loan but may not be appropriate for valuing any other commercial real estate loan. Accordingly, the ranges of inputs do not represent uncertainty in, or possible ranges of, fair value measurements of level 3 loans.
- Loans are valued using discounted cash flows.
- Significant unobservable inputs for wealth management loans have no range and are not meaningful and therefore have been excluded from the table.
- As of December 2019, duration for corporate loans is not meaningful and therefore has been excluded from the table.

Level 3 Rollforward

The table below presents a summary of the changes in fair value for level 3 loans.

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2020	2019	2020	2019
Total				
Beginning balance	\$ 716	\$ 153	\$ 153	\$ 148
Net realized gains/(losses)	11	6	23	13
Net unrealized gains/(losses)	–	(3)	15	4
Purchases	35	1	557	–
Sales	(57)	–	(1)	–
Settlements	(52)	(13)	(87)	(21)
Transfers into level 3	23	–	9	–
Transfers out of level 3	(7)	–	–	–
Ending balance	\$ 669	\$ 144	\$ 669	\$ 144

In the table above:

- Changes in fair value are presented for loans that are classified in level 3 as of the end of the period.
- Net unrealized gains/(losses) relates to instruments that were still held at period-end.
- Purchases includes originations and secondary purchases.

The table below presents information, by loan type, for loans included in the summary table above.

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2020	2019	2020	2019
Corporate				
Beginning balance	\$ 502	\$ 22	\$ 25	\$ 20
Net realized gains/(losses)	6	–	8	1
Net unrealized gains/(losses)	7	–	19	3
Purchases	12	–	457	–
Sales	(57)	–	–	–
Settlements	(33)	(4)	(53)	(6)
Transfers into level 3	19	–	–	–
Ending balance	\$ 456	\$ 18	\$ 456	\$ 18
Wealth management				
Beginning balance	\$ 61	\$ 59	\$ 60	\$ 58
Net realized gains/(losses)	–	1	1	2
Net unrealized gains/(losses)	–	–	1	–
Settlements	(1)	(3)	(2)	(3)
Ending balance	\$ 60	\$ 57	\$ 60	\$ 57
Commercial real estate				
Beginning balance	\$ 153	\$ 72	\$ 68	\$ 70
Net realized gains/(losses)	5	5	14	10
Net unrealized gains/(losses)	(7)	(3)	(5)	1
Purchases	23	1	100	–
Sales	–	–	(1)	–
Settlements	(18)	(6)	(32)	(12)
Transfers into level 3	4	–	9	–
Transfers out of level 3	(7)	–	–	–
Ending balance	\$ 153	\$ 69	\$ 153	\$ 69

Notes to Consolidated Financial Statements (Unaudited)

Level 3 Rollforward Commentary

Three Months Ended September 2020. The net realized gains on level 3 loans of \$11 million for the three months ended September 2020 were reported in gains and losses from financial assets and liabilities.

There were no net unrealized losses on level 3 loans for the three months ended September 2020.

The drivers of both transfers into level 3 loans and transfers out of level 3 loans during the three months ended September 2020 were not material.

Nine Months Ended September 2020. The net realized and unrealized gains on level 3 loans of \$38 million (reflecting \$23 million of net realized gains and \$15 million of net unrealized gains) for the nine months ended September 2020 were reported in gains and losses from financial assets and liabilities.

The drivers of the net unrealized gains on level 3 loans for the nine months ended September 2020 were not material.

The drivers of transfers into level 3 loans during the nine months ended September 2020 were not material.

There were no transfers out of level 3 loans during the nine months ended September 2020.

Three Months Ended September 2019. The net realized and unrealized gains on level 3 loans of \$3 million (reflecting \$6 million of net realized gains and \$3 million of net unrealized losses) for the three months ended September 2019 were reported in gains and losses from financial assets and liabilities.

The drivers of the net unrealized losses on level 3 loans for the three months ended September 2019 were not material.

There were no transfers into level 3 loans or transfers out of level 3 loans during the three months ended September 2019.

Nine Months Ended September 2019. The net realized and unrealized gains on level 3 loans of \$17 million (reflecting \$13 million of net realized gains and \$4 million of net unrealized gains) for the nine months ended September 2019 were reported in gains and losses from financial assets and liabilities.

The drivers of the net unrealized gains on level 3 loans for the nine months ended September 2019 were not material.

There were no transfers into level 3 loans or transfers out of level 3 loans during the nine months ended September 2019.

Estimated Fair Value

The table below presents the estimated fair value of loans that are not accounted for at fair value and in what level of the fair value hierarchy they would have been classified if they had been included in the Bank's fair value hierarchy.

<i>\$ in millions</i>	Carrying Value	Estimated Fair Value		
		Level 2	Level 3	Total
As of September 2020				
Amortized cost	\$ 72,393	\$ 35,669	\$ 37,305	\$ 72,974
Held for sale	\$ 1,311	\$ 888	\$ 427	\$ 1,315
As of December 2019				
Amortized cost	\$ 66,365	\$ 38,230	\$ 27,920	\$ 66,150
Held for sale	\$ 3,786	\$ 2,957	\$ 840	\$ 3,797

Note 10.

Fair Value Option

Other Financial Assets and Liabilities at Fair Value

In addition to trading assets and liabilities, and certain investments and loans, the Bank accounts for certain of its other financial assets and liabilities at fair value, substantially all under the fair value option. The primary reasons for electing the fair value option are to:

- Reflect economic events in earnings on a timely basis;
- Mitigate volatility in earnings from using different measurement attributes (e.g., transfers of financial assets accounted for as financings are recorded at fair value, whereas the related secured financing would be recorded on an accrual basis absent electing the fair value option); and
- Address simplification and cost-benefit considerations (e.g., accounting for hybrid financial instruments at fair value in their entirety versus bifurcation of embedded derivatives and hedge accounting for debt hosts).

Hybrid financial instruments are instruments that contain bifurcatable embedded derivatives and do not require settlement by physical delivery of nonfinancial assets. For the vast majority of hybrid financial instruments, the Bank has not elected to bifurcate hybrid financial instruments and accounts for the entire hybrid financial instrument at fair value under the fair value option.

Notes to Consolidated Financial Statements (Unaudited)

Other financial assets and liabilities accounted for at fair value under the fair value option include:

- Repurchase agreements and resale agreements;
- Most other secured financings, including advances from the FHLB;
- Certain unsecured borrowings;
- Certain other assets; and
- Certain time deposits (deposits with no stated maturity are not eligible for a fair value option election), including structured certificates of deposit, which are hybrid financial instruments.

Fair Value of Other Financial Assets and Liabilities by Level

The table below presents, by level within the fair value hierarchy, other financial assets and liabilities at fair value, substantially all of which are accounted for at fair value under the fair value option.

<i>\$ in millions</i>	Level 1	Level 2	Level 3	Total
As of September 2020				
Assets				
Resale agreements	\$ –	\$ 25,335	\$ –	\$ 25,335
Total	\$ –	\$ 25,335	\$ –	\$ 25,335
Liabilities				
Deposits	\$ –	\$ (1,911)	\$ (4,215)	\$ (6,126)
Repurchase agreements	–	(5,529)	–	(5,529)
Other secured financings	–	(519)	–	(519)
Unsecured borrowings	–	(29)	–	(29)
Total	\$ –	\$ (7,988)	\$ (4,215)	\$ (12,203)
As of December 2019				
Assets				
Resale agreements	\$ –	\$ 4,430	\$ –	\$ 4,430
Other assets	–	25	1	26
Total	\$ –	\$ 4,455	\$ 1	\$ 4,456
Liabilities				
Deposits	\$ –	\$ (2,119)	\$ (4,185)	\$ (6,304)
Repurchase agreements	–	(9,891)	–	(9,891)
Other secured financings	–	(527)	–	(527)
Unsecured borrowings	–	(32)	–	(32)
Total	\$ –	\$ (12,569)	\$ (4,185)	\$ (16,754)

In the table above, other financial assets are shown as positive amounts and other financial liabilities are shown as negative amounts.

See Note 4 for an overview of the Bank's fair value measurement policies and the valuation techniques and significant inputs used to determine the fair value of other financial assets and liabilities.

Significant Unobservable Inputs

See below for information about the significant unobservable inputs used to value level 3 other financial assets and liabilities at fair value as of both September 2020 and December 2019.

Other Assets. As of September 2020 the Bank had no level 3 other assets. As of December 2019 the Bank's level 3 other assets were not material.

Deposits. The Bank's deposits that are classified in level 3 are hybrid financial instruments. As the significant unobservable inputs used to value such instruments primarily relate to the embedded derivative component of these deposits, these unobservable inputs are incorporated in the Bank's derivative disclosures in Note 7.

Level 3 Rollforward

The table below presents the changes in fair value for level 3 other financial liabilities accounted for at fair value.

<i>\$ in millions</i>	Three Months		Nine Months	
	Ended September	2019	Ended September	2019
Deposits	2020	2019	2020	2019
Beginning balance	\$ (4,392)	\$ (3,748)	\$ (4,185)	\$ (3,168)
Net realized gains/(losses)	(8)	(17)	(9)	(20)
Net unrealized gains/(losses)	(66)	(127)	(139)	(413)
Issuances	(48)	(261)	(3,972)	(651)
Settlements	249	209	4,092	236
Transfers into level 3	(19)	(141)	(57)	(81)
Transfers out of level 3	69	59	55	71
Ending balance	\$ (4,215)	\$ (4,026)	\$ (4,215)	\$ (4,026)

In the table above:

- Changes in fair value are presented for all other financial liabilities that are classified in level 3 as of the end of the period.
- Net unrealized gains/(losses) relates to other financial assets that were still held at period-end.
- Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. If a financial liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is classified in level 3.

Notes to Consolidated Financial Statements (Unaudited)

- For level 3 other financial liabilities, increases are shown as negative amounts, while decreases are shown as positive amounts.
- Level 3 other financial liabilities are frequently economically hedged with trading assets and liabilities. Accordingly, gains or losses that are classified in level 3 can be partially offset by gains or losses attributable to level 1, 2 or 3 trading assets and liabilities. As a result, gains or losses included in the level 3 rollforward above do not necessarily represent the overall impact on the Bank's results of operations, liquidity or capital resources.

Level 3 Rollforward Commentary

Three Months Ended September 2020. The net realized and unrealized losses on level 3 other financial liabilities of \$74 million (reflecting \$8 million of net realized losses and \$66 million of net unrealized losses) for the three months ended September 2020 included losses of \$41 million reported in gains and losses from financial assets and liabilities in the consolidated statements of earnings, and losses of \$33 million reported in debt valuation adjustment in the consolidated statements of comprehensive income.

The net unrealized losses on level 3 other financial liabilities for the three months ended September 2020 primarily reflected losses on certain hybrid financial instruments included in deposits, principally due to the impact of an increase in the market value of the underlying assets.

The drivers of transfers into level 3 other financial liabilities during the three months ended September 2020 were not material.

Transfers out of level 3 other financial liabilities during the three months ended September 2020 primarily reflected transfers of certain hybrid financial instruments included in deposits to level 2, principally due to increased transparency of certain correlation and volatility inputs used to value these instruments.

Nine Months Ended September 2020. The net realized and unrealized losses on level 3 other financial liabilities of \$148 million (reflecting \$9 million of net realized losses and \$139 million of net unrealized losses) for the nine months ended September 2020 included losses of \$113 million reported in gains and losses from financial assets and liabilities in the consolidated statements of earnings, and losses of \$35 million reported in debt valuation adjustment in the consolidated statements of comprehensive income.

The net unrealized losses on level 3 other financial liabilities for the nine months ended September 2020 primarily reflected losses on certain hybrid financial instruments included in deposits, principally due to the impact of an increase in the market value of the underlying assets.

Transfers into level 3 other financial liabilities during the nine months ended September 2020 primarily reflected transfers of certain hybrid financial instruments included in deposits from level 2, principally due to reduced transparency of certain correlation and volatility inputs used to value these instruments.

Transfers out of level 3 other financial liabilities during the nine months ended September 2020 primarily reflected transfers of certain hybrid financial instruments included in deposits to level 2, principally due to increased transparency of certain correlation and volatility inputs used to value these instruments.

Three Months Ended September 2019. The net realized and unrealized losses on level 3 other financial liabilities of \$144 million (reflecting \$17 million of net realized losses and \$127 million of net unrealized losses) for the three months ended September 2019 included losses of \$132 million reported in gains and losses from financial assets and liabilities in the consolidated statements of earnings, and \$12 million reported in debt valuation adjustment in the consolidated statements of comprehensive income.

The net unrealized losses on level 3 other financial liabilities for the three months ended September 2019 primarily reflected losses on certain hybrid financial instruments included in deposits, principally due to the impact of an increase in the market value of the underlying assets.

Transfers into level 3 other financial liabilities during the three months ended September 2019 primarily reflected transfers of certain hybrid financial instruments included in deposits from level 2, principally due to reduced transparency of certain correlation and volatility inputs used to value these instruments.

Transfers out of level 3 other financial liabilities during the three months ended September 2019 primarily reflected transfers of certain hybrid financial instruments included in deposits to level 2, principally due to increased transparency of certain correlation and volatility inputs used to value these instruments.

Notes to Consolidated Financial Statements (Unaudited)

Nine Months Ended September 2019. The net realized and unrealized losses on level 3 other financial liabilities of \$433 million (reflecting \$20 million of net realized losses and \$413 million of net unrealized losses) for the nine months ended September 2019 included losses of \$408 million reported in gains and losses from financial assets and liabilities in the consolidated statements of earnings, and \$25 million reported in debt valuation adjustment in the consolidated statements of comprehensive income.

The net unrealized losses on level 3 other financial liabilities for the nine months ended September 2019 primarily reflected losses on certain hybrid financial instruments included in deposits, principally due to the impact of an increase in the market value of the underlying assets.

Transfers into level 3 other financial liabilities during the nine months ended September 2019 primarily reflected transfers of certain hybrid financial instruments included in deposits from level 2, principally due to reduced transparency of certain correlation and volatility inputs used to value these instruments.

Transfers out of level 3 other financial liabilities during the nine months ended September 2019 primarily reflected transfers of certain hybrid financial instruments included in deposits to level 2, principally due to increased transparency of certain correlation and volatility inputs used to value these instruments.

Gains and Losses on Other Financial Assets and Liabilities Accounted for at Fair Value Under the Fair Value Option

The table below presents the gains and losses recognized in earnings as a result of the election to apply the fair value option to certain financial assets and liabilities.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2020	2019	2020	2019
Deposits	\$ (58)	\$ (153)	\$ (157)	\$ (509)
Other	(8)	3	36	5
Total	\$ (66)	\$ (150)	\$ (121)	\$ (504)

In the table above:

- Gains/(losses) are included in gains and losses from financial assets and liabilities.
- Gains/(losses) exclude contractual interest, which is included in interest income and interest expense, for all instruments other than hybrid financial instruments. See Note 21 for further information about interest income and interest expense.
- Gains/(losses) included in deposits were related to the embedded derivative component of hybrid financial instruments for each of the three and nine months ended September 2020 and September 2019. These gains and losses would have been recognized under other U.S. GAAP even if the Bank had not elected to account for the entire hybrid financial instrument at fair value.
- Other primarily consists of gains/(losses) on certain unsecured borrowings, FHLB advances, and resale agreements.
- Other financial assets and liabilities at fair value are frequently economically hedged with trading assets and liabilities. Accordingly, gains or losses on such other financial assets and liabilities can be partially offset by gains or losses on trading assets and liabilities. As a result, gains or losses on other financial assets and liabilities do not necessarily represent the overall impact on the Bank's results of operations, liquidity or capital resources.

See Note 8 for information about gains/(losses) on equity securities and Note 9 for information about gains/(losses) on loans which are accounted for at fair value under the fair value option. Gains/(losses) on trading assets and liabilities accounted for at fair value under the fair value option are included in gains and losses from financial assets and liabilities. See Note 5 for further information about gains/(losses) from financial assets and liabilities.

Long-Term Deposits

The difference between the aggregate contractual principal amount and the related fair value of long-term deposits for which the fair value option was elected was \$454 million as of September 2020 and \$446 million as of December 2019.

Notes to Consolidated Financial Statements (Unaudited)

Debt Valuation Adjustment

The Bank calculates the fair value of financial liabilities for which the fair value option is elected by discounting future cash flows at a rate which incorporates the Bank's credit spreads.

The table below presents information about the net debt valuation adjustment (DVA) gains/(losses) on financial liabilities for which the fair value option was elected.

<i>\$ in millions</i>	Three Months		Nine Months	
	Ended September		Ended September	
	2020	2019	2020	2019
DVA (pre-tax)	\$ (40)	\$ (15)	\$ (44)	\$ (32)
DVA (net of tax)	\$ (30)	\$ (12)	\$ (33)	\$ (25)

In the table above:

- DVA (net of tax) is included in debt valuation adjustment in the consolidated statements of comprehensive income.
- The gains/(losses) reclassified to earnings from accumulated other comprehensive income/(loss) upon extinguishment of such financial liabilities were not material for each of the three and nine months ended September 2020 and September 2019.

Loans and Lending Commitments

The table below presents the difference between the aggregate fair value and the aggregate contractual principal amount for loans (included in trading assets and loans on the consolidated balance sheets) for which the fair value option was elected.

<i>\$ in millions</i>	As of	
	September	December
	2020	2019
Performing loans		
Aggregate contractual principal in excess of fair value	\$ 76	\$ 203
Loans on nonaccrual status and/or more than 90 days past due		
Aggregate contractual principal in excess of fair value	\$ 50	\$ 34
Aggregate fair value	\$ 166	\$ 58

The fair value of unfunded lending commitments for which the fair value option was elected was a liability of \$87 million as of September 2020 and \$2 million as of December 2019. See Note 18 for further information about lending commitments.

Impact of Credit Spreads on Loans and Lending Commitments

The estimated net loss attributable to changes in instrument-specific credit spreads on loans and lending commitments for which the fair value option was elected was \$5 million for the three months ended September 2020, \$8 million for the three months ended September 2019, \$60 million for the nine months ended September 2020 and \$28 million for the nine months ended September 2019. The Bank generally calculates the fair value of loans and lending commitments for which the fair value option is elected by discounting future cash flows at a rate which incorporates the instrument-specific credit spreads. For floating-rate loans and lending commitments, substantially all changes in fair value are attributable to changes in instrument-specific credit spreads, whereas for fixed-rate loans and lending commitments, changes in fair value are also attributable to changes in interest rates.

Note 11.

Collateralized Agreements and Financings

Collateralized agreements are resale agreements. Collateralized financings are repurchase agreements and other secured financings. The Bank enters into these transactions in order to, among other things, facilitate client activities, invest excess cash, acquire securities to cover short positions and finance certain Bank activities.

Collateralized agreements and financings are presented on a net-by-counterparty basis when a legal right of setoff exists. Interest on collateralized agreements, which is included in interest income, and collateralized financings, which is included in interest expense, is recognized over the life of the transaction. See Note 21 for further information about interest income and interest expense.

The table below presents the carrying value of resale and repurchase agreements.

<i>\$ in millions</i>	As of	
	September	December
	2020	2019
Resale agreements	\$ 25,335	\$ 4,430
Repurchase agreements	\$ 5,529	\$ 9,891

In the table above, all resale agreements and repurchase agreements are carried at fair value under the fair value option.

See Note 4 for further information about the valuation techniques and significant inputs used to determine fair value.

Notes to Consolidated Financial Statements (Unaudited)

Resale and Repurchase Agreements

A resale agreement is a transaction in which the Bank purchases financial instruments from a seller, typically in exchange for cash, and simultaneously enters into an agreement to resell the same or substantially the same financial instruments to the seller at a stated price plus accrued interest at a future date.

A repurchase agreement is a transaction in which the Bank sells financial instruments to a buyer, typically in exchange for cash, and simultaneously enters into an agreement to repurchase the same or substantially the same financial instruments from the buyer at a stated price plus accrued interest at a future date.

Even though repurchase and resale agreements involve the legal transfer of ownership of financial instruments, they are accounted for as financing arrangements because they require the financial instruments to be repurchased or resold before or at the maturity of the agreement. The financial instruments purchased or sold in resale and repurchase agreements typically include U.S. government and agency obligations.

The Bank receives financial instruments purchased under resale agreements and makes delivery of financial instruments sold under repurchase agreements. To mitigate credit exposure, the Bank monitors the market value of these financial instruments on a daily basis, and delivers or obtains additional collateral due to changes in the market value of the financial instruments, as appropriate. For resale agreements, the Bank typically requires collateral with a fair value approximately equal to the carrying value of the relevant assets in the consolidated balance sheets.

Offsetting Arrangements

The table below presents resale and repurchase agreements included in the consolidated balance sheets, as well as the amounts not offset in the consolidated balance sheets.

	Assets	Liabilities
	Resale	Repurchase
<i>\$ in millions</i>	agreements	agreements
As of September 2020		
Included in the consolidated balance sheets		
Gross carrying value	\$ 29,126	\$ 9,320
Counterparty netting	(3,791)	(3,791)
Total	25,335	5,529
Amounts not offset		
Collateral	(25,308)	(5,528)
Total	\$ 27	\$ 1
As of December 2019		
Included in the consolidated balance sheets		
Gross carrying value	\$ 8,593	\$ 14,054
Counterparty netting	(4,163)	(4,163)
Total	4,430	9,891
Amounts not offset		
Collateral	(4,264)	(9,870)
Total	\$ 166	\$ 21

In the table above:

- Substantially all of the gross carrying values of these arrangements are subject to enforceable netting agreements.
- Where the Bank has received or posted collateral under credit support agreements, but has not yet determined such agreements are enforceable, the related collateral has not been netted.
- Amounts not offset includes counterparty netting that does not meet the criteria for netting under U.S. GAAP and the fair value of collateral received or posted subject to enforceable credit support agreements.

Notes to Consolidated Financial Statements (Unaudited)

Gross Carrying Value of Repurchase Agreements

The table below presents the gross carrying value of repurchase agreements by class of collateral pledged.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
U.S. government and agency obligations	\$ 9,309	\$ 14,037
Corporate debt securities	–	11
Non-U.S. government and agency obligations	11	6
Total	\$ 9,320	\$ 14,054

As of both September 2020 and December 2019, substantially all of the Bank's repurchase agreements were either overnight or had no stated maturity.

Other Secured Financings

In addition to repurchase agreements, the Bank funds certain assets through the use of other secured financings and pledges financial instruments and other assets as collateral in these transactions. These other secured financings include:

- FHLB advances;
- Credit-linked notes; and
- Transfers of assets accounted for as financings rather than sales (e.g., collateralized by bank loans and mortgage whole loans).

The Bank has elected to apply the fair value option to most other secured financings because the use of fair value eliminates non-economic volatility in earnings that would arise from using different measurement attributes. See Note 10 for further information about other secured financings that are accounted for at fair value.

Other secured financings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, which generally approximates fair value. As these financings are not accounted for at fair value, they are not included in the Bank's fair value hierarchy in Notes 4 through 10. Had these financings been included in the Bank's fair value hierarchy, they would have been primarily classified in level 2 as of September 2020 and substantially all would have been classified in level 3 as of December 2019.

Other secured financings had a weighted average interest rate of 0.95% and 2.63% as of September 2020 and December 2019.

FHLB Advances. As a member of the FHLB, the Bank can draw under a funding arrangement secured by eligible collateral. Outstanding borrowings from the FHLB were \$501 million as of September 2020 and \$527 million as of December 2019, which were all short-term. These borrowings are carried at fair value under the fair value option in the Bank's fair value hierarchy. See Note 10 for further information about borrowings accounted for at fair value.

Collateral Received and Pledged

The Bank receives cash and securities (e.g., U.S. government and agency obligations, other sovereign and corporate obligations) as collateral, primarily in connection with resale agreements, derivative transactions and customer margin loans. The Bank obtains cash and securities as collateral on an upfront or contingent basis for derivative instruments and collateralized 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 when entering into repurchase agreements or collateralized derivative transactions.

The Bank also pledges certain trading assets and loans in connection with repurchase agreements and other secured financings. These assets are pledged to counterparties who may or may not have the right to deliver or repledge them.

The table below presents financial instruments at fair value received as collateral that were available to be delivered or repledged and were delivered or repledged.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
Collateral available to be delivered or repledged	\$ 32,524	\$ 10,116
Collateral that was delivered or repledged	\$ 20,594	\$ 5,252

The table below presents information about assets pledged.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
Pledged to counterparties that had the right to deliver or repledge		
Trading assets	\$ 8,345	\$ 14,474
Investments	\$ 37	\$ 39
Pledged to counterparties that did not have the right to deliver or repledge		
Trading assets	\$ 3,478	\$ 3,557
Loans	\$ 6,599	\$ 5,762

Notes to Consolidated Financial Statements (Unaudited)

Note 12.

Other Assets

The table below presents other assets by type.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
Receivables from affiliates	\$ 941	\$ 594
Income tax-related assets	603	318
FRB shares	414	414
Investments in qualified affordable housing projects	382	302
FHLB shares	59	52
Miscellaneous receivables and other	273	180
Total	\$ 2,672	\$ 1,860

In the table above, receivables from affiliates includes \$26 million as of December 2019 at fair value. See Note 10 for further information about other assets that are accounted for at fair value. There were no other assets accounted for at fair value as of September 2020.

Note 13.

Deposits

The table below presents the types and sources of deposits.

<i>\$ in millions</i>	Savings and		Total
	Demand	Time	
As of September 2020			
Consumer deposits	\$ 39,701	\$ 28,618	\$ 68,319
Private bank deposits	51,349	564	51,913
Brokered certificates of deposit	–	34,750	34,750
Deposit sweep programs	22,987	–	22,987
Transaction banking	31,245	181	31,426
Other deposits	2,505	7,088	9,593
Total	\$ 147,787	\$ 71,201	\$ 218,988

As of December 2019			
Consumer deposits	\$ 27,417	\$ 15,017	\$ 42,434
Private bank deposits	44,501	676	45,177
Brokered certificates of deposit	–	39,665	39,665
Deposit sweep programs	17,760	–	17,760
Transaction banking	4,867	235	5,102
Other deposits	9,802	8,458	18,260
Total	\$ 104,347	\$ 64,051	\$ 168,398

In the table above:

- Substantially all deposits are interest-bearing and all are held in the U.S.
- Savings and demand accounts consist of money market deposit accounts, negotiable order of withdrawal accounts and demand deposit accounts that have no stated maturity or expiration date. Savings account holders may be required by the Bank to give written notice of intended withdrawals not less than seven days before such withdrawals are made and may be limited on the number of withdrawals made within a month. Demand account holders are not subject to restrictions with respect to the timing and number of transactions that deposit holders may execute.
- Time deposits include brokered certificates of deposit which have stipulated maturity dates and rates of interest. Early withdrawals of brokered time deposits are generally prohibited.
- Time deposits included \$6.13 billion as of September 2020 and \$6.30 billion as of December 2019 of deposits accounted for at fair value under the fair value option. See below and Note 10 for further information about deposits accounted for at fair value.
- Time deposits had a weighted average maturity of approximately 1.4 years as of September 2020 and 1.7 years as of December 2019.
- Deposit sweep programs represent long-term contractual agreements with U.S. broker-dealers who sweep client cash to FDIC-insured deposits. Pursuant to the external deposit sweep program agreements, each third-party broker-dealer agrees, for a prescribed term, to place a certain minimum amount of deposits from their clients with the Bank. Each client's deposit may be withdrawn at any time. As of September 2020, the Bank had 12 such deposit sweep program agreements.
- Transaction banking deposits consists of deposits that the Bank has raised through its cash management services business for corporate and other institutional clients.
- Other deposits represent deposits from institutional clients. As of both September 2020 and December 2019, other deposits were primarily from Goldman Sachs Funding LLC (Funding IHC), a wholly-owned subsidiary of Group Inc., and Group Inc.
- Deposits insured by the FDIC were \$126.88 billion as of September 2020 and \$103.98 billion as of December 2019.

Notes to Consolidated Financial Statements (Unaudited)

The table below presents time deposits by contractual maturity.

<i>\$ in millions</i>	As of	
	September	December
Remainder of 2020	\$ 10,908	
2021	35,401	
2022	9,904	
2023	6,457	
2024	4,186	
2025 - thereafter	4,345	
Total	\$ 71,201	

As of September 2020, deposits included \$17.59 billion of time deposits that met or exceeded the applicable insurance limits.

The Bank's savings and demand deposits are recorded based on the amount of cash received plus accrued interest, which approximates fair value. In addition, the Bank designates certain derivatives as fair value hedges to convert a portion of its time deposits not accounted for at fair value from fixed-rate obligations into floating-rate obligations. The carrying value of time deposits not accounted for at fair value approximated fair value as of both September 2020 and December 2019. As these savings and demand deposits and substantially all time deposits are not accounted for at fair value, they are not included in the Bank's fair value hierarchy in Notes 4 through 10. Had these deposits been included in the Bank's fair value hierarchy, they would have been primarily classified in level 2 as of both September 2020 and December 2019.

Note 14.

Unsecured Borrowings

The table below presents information about unsecured borrowings.

<i>\$ in millions</i>	As of	
	September	December
Unsecured short-term borrowings	\$ 39	\$ 1,053
Unsecured long-term borrowings	6,225	6,205
Total	\$ 6,264	\$ 7,258

Unsecured Short-Term Borrowings

Unsecured short-term borrowings includes the portion of unsecured long-term borrowings maturing within one year of the financial statement date. See below for further information about the Bank's senior unsecured borrowings.

The table below presents information about unsecured short-term borrowings.

<i>\$ in millions</i>	As of	
	September	December
Current portion of senior unsecured borrowings	\$ –	\$ 1,004
Hybrid financial instruments	33	32
Borrowings from affiliates	6	12
Other unsecured short-term borrowings	–	5
Total	\$ 39	\$ 1,053

Hybrid Financial Instruments. The Bank accounts for the vast majority of hybrid financial instruments at fair value under the fair value option. See Note 10 for further information about hybrid financial instruments that are accounted for at fair value.

Borrowings from Affiliates. As of both September 2020 and December 2019, the Bank had a senior unsecured facility, committed on an intraday basis up to \$4.00 billion with Group Inc. This facility automatically renews each business day and can be terminated with six months' notice. As of both September 2020 and December 2019, there were no outstanding borrowings under this facility.

Accrued interest on long-term subordinated borrowings of \$6 million as of September 2020 and \$12 million as of December 2019 was included in unsecured short-term borrowings from affiliates.

Unsecured Long-Term Borrowings

The table below presents information about unsecured long-term borrowings.

<i>\$ in millions</i>	As of	
	September	December
Subordinated borrowings	\$ 4,250	\$ 4,250
Senior unsecured borrowings	1,975	1,955
Total	\$ 6,225	\$ 6,205

Subordinated Borrowings. As of both September 2020 and December 2019, the Bank had a revolving subordinated loan agreement with Funding IHC, which expires in 2039. As of both September 2020 and December 2019, outstanding subordinated borrowings under this agreement included \$2.00 billion maturing in 2024 and \$2.25 billion maturing in 2028. As of both September 2020 and December 2019, outstanding borrowings bear interest at the overnight bank funding rate plus 1.85% per annum. The carrying value of the subordinated borrowings generally approximates fair value. Any amounts payable under the agreement would be subordinate to the claims of certain other creditors of the Bank, including depositors and regulatory agencies.

Notes to Consolidated Financial Statements (Unaudited)

Senior Unsecured Borrowings. As of September 2020, the Bank had issued and outstanding senior unsecured borrowings of \$1.98 billion which includes \$1.02 billion of credit-linked notes. As of December 2019, the Bank had issued and outstanding senior unsecured borrowings of \$2.95 billion. The weighted average interest rate was 0.16% as of September 2020 and 2.46% as of December 2019, and primarily related to floating rate obligations which are generally based on either the Secured Overnight Financing Rate or LIBOR. The carrying value of the Bank's senior unsecured borrowings was \$1.98 billion as of September 2020 and \$2.96 billion as of December 2019, which approximated its fair value. As of September 2020, outstanding borrowings included \$955 million maturing in 2023 and \$1.02 billion maturing in 2025.

Note 15.

Other Liabilities

The table below presents other liabilities by type.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
Income tax-related liabilities	\$ 718	\$ 363
Payables to affiliates	535	446
Compensation and benefits	239	196
Accrued expenses and other	818	626
Total	\$ 2,310	\$ 1,631

Note 16.

Securitization Activities

The Bank securitizes residential and commercial mortgages and other types of financial assets by selling these assets to securitization vehicles (e.g., trusts, corporate entities and limited liability companies) or through a resecuritization. An affiliate acts as underwriter of the beneficial interests that are sold to investors.

The Bank accounts for a securitization as a sale when it has relinquished control over the transferred financial assets. Prior to securitization, the Bank generally accounts for assets pending transfer at fair value and therefore does not typically recognize significant gains or losses upon the transfer of assets.

The Bank generally receives cash in exchange for the transferred assets but may also have continuing involvement with the transferred financial assets, including ownership of beneficial interests in securitized financial assets, primarily in the form of loans receivable.

The primary risks from the Bank's continuing involvement with securitization vehicles are the performance of the underlying collateral and the position of the Bank's investment in the capital structure of the securitization vehicle. Substantially all of these retained interests are accounted for at amortized cost net of allowance for loan losses. Had these interests been included in the Bank's fair value hierarchy, they would have been primarily classified in level 3 as of September 2020 and December 2019.

The table below presents the amount of financial assets securitized and the cash flows received on retained interests in securitization entities in which the Bank had continuing involvement as of the end of the period.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2020	2019	2020	2019
Residential mortgages	\$ 997	\$ 1,957	\$ 2,701	\$ 4,379
Commercial mortgages	3,748	4,999	10,715	7,924
Other financial assets	66	218	1,189	564
Total financial assets securitized	\$ 4,811	\$ 7,174	\$ 14,605	\$ 12,867
Retained interests cash flows	\$ 20	\$ 16	\$ 65	\$ 55

In the table above, financial assets securitized included assets of \$85 million during the three months ended September 2020, \$185 million during the three months ended September 2019, \$303 million during the nine months ended September 2020 and \$391 million during the nine months ended September 2019, which were securitized in a non-cash exchange for loans.

The table below presents information about nonconsolidated securitization entities to which the Bank sold assets and had continuing involvement as of the end of the period.

<i>\$ in millions</i>	Outstanding	
	Principal Amount	Retained Interests
As of September 2020		
Residential mortgage-backed	\$ 12,866	\$ 583
Commercial mortgage-backed	34,716	739
Other asset-backed	2,990	155
Total	\$ 50,572	\$ 1,477
As of December 2019		
Residential mortgage-backed	\$ 11,730	\$ 532
Commercial mortgage-backed	25,470	587
Other asset-backed	2,411	126
Total	\$ 39,611	\$ 1,245

Notes to Consolidated Financial Statements (Unaudited)

In the table above:

- The outstanding principal amount is presented for the purpose of providing information about the size of the securitization entities and is not representative of the Bank's risk of loss.
- The Bank's risk of loss from retained interests is limited to the carrying value of these interests.
- Substantially all of the total outstanding principal amount and total retained interests relate to securitizations during 2017 and thereafter.
- The fair value of retained interests was \$1.48 billion as of September 2020 and \$1.25 billion as of December 2019.

In addition to the interests in the table above, the Bank had other continuing involvement in the form of derivative transactions and commitments with certain nonconsolidated VIEs. As of September 2020, the notional amount of these derivatives and commitments was \$87 million and the carrying value was not material. As of December 2019, the notional amount of these derivatives and commitments was \$96 million and the carrying value was not material. The notional amounts of these derivatives and commitments are included in maximum exposure to loss in the nonconsolidated VIE table in Note 17.

The table below presents information about the weighted average key economic assumptions used in measuring the fair value of mortgage-backed retained interests.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
Fair value of retained interests	\$ 1,322	\$ 1,119
Weighted average life (years)	5.8	5.9
Constant prepayment rate	9.0%	7.7%
Impact of 10% adverse change	\$ (2)	\$ (1)
Impact of 20% adverse change	\$ (3)	\$ (2)
Discount rate	8.1%	6.0%
Impact of 10% adverse change	\$ (33)	\$ (26)
Impact of 20% adverse change	\$ (65)	\$ (51)

In the table above:

- Amounts do not reflect the benefit of other financial instruments that are held to mitigate risks inherent in these retained interests.
- Changes in fair value based on an adverse variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value is not usually linear.
- The impact of a change in a particular assumption is calculated independently of changes in any other assumption. In practice, simultaneous changes in assumptions might magnify or counteract the sensitivities disclosed above.
- The constant prepayment rate is included only for positions for which it is a key assumption in the determination of fair value.
- Expected credit loss assumptions are reflected in the discount rate for the retained interests.

The Bank has other retained interests not reflected in the table above with a fair value of \$155 million and a weighted average life of 2.7 years as of September 2020, and a fair value of \$126 million and a weighted average life of 3.2 years as of December 2019. Due to the nature and fair value of certain of these retained interests, the weighted average assumptions for constant prepayment and discount rates and the related sensitivity to adverse changes are not meaningful as of both September 2020 and December 2019. The Bank's maximum exposure to adverse changes in the value of these interests is the carrying value of \$155 million as of September 2020 and \$126 million as of December 2019.

Notes to Consolidated Financial Statements (Unaudited)

Note 17.

Variable Interest Entities

A variable interest in a VIE is an investment (e.g., debt or equity) or other interest (e.g., derivatives or loans and lending commitments) that will absorb portions of the VIE's expected losses and/or receive portions of the VIE's expected residual returns.

The Bank's variable interests in VIEs include senior and subordinated debt; loans and lending commitments; limited and general partnership interests; preferred and common equity; derivatives that may include foreign currency, equity and/or credit risk; and guarantees. Certain interest rate, foreign currency and credit derivatives the Bank enters into with VIEs are not variable interests because they create, rather than absorb, risk.

VIEs generally finance the purchase of assets by issuing debt and equity securities that are either collateralized by or indexed to the assets held by the VIE. The debt and equity securities issued by a VIE may include tranches of varying levels of subordination. The Bank's involvement with VIEs includes securitization of financial assets, as described in Note 16, and investments in and loans to other types of VIEs, as described below. See Note 3 for the Bank's consolidation policies, including the definition of a VIE.

VIE Consolidation Analysis

The enterprise with a controlling financial interest in a VIE is known as the primary beneficiary and consolidates the VIE. The Bank determines whether it is the primary beneficiary of a VIE by performing an analysis that principally considers:

- Which variable interest holder has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance;
- Which variable interest holder has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE;
- The VIE's purpose and design, including the risks the VIE was designed to create and pass through to its variable interest holders;
- The VIE's capital structure;
- The terms between the VIE and its variable interest holders and other parties involved with the VIE; and
- Related-party relationships.

The Bank reassesses its evaluation of whether an entity is a VIE when certain reconsideration events occur. The Bank reassesses its determination of whether it is the primary beneficiary of a VIE on an ongoing basis based on current facts and circumstances.

VIE Activities

The Bank is principally involved with VIEs through the following business activities:

Mortgage-Backed VIEs. The Bank sells residential and commercial mortgage loans and securities to mortgage-backed VIEs and may retain beneficial interests in the assets sold to these VIEs. In addition, the Bank may enter into derivatives with certain of these VIEs, primarily interest rate swaps, which are typically not variable interests. The Bank generally enters into derivatives with other counterparties to mitigate its risk.

Corporate Debt and Other Asset-Backed VIEs. The Bank structures VIEs that issue notes to clients and makes loans to VIEs that warehouse corporate debt. Certain of these VIEs synthetically create the exposure for the beneficial interests they issue by entering into credit derivatives with the Bank, rather than purchasing the underlying assets. In addition, the Bank may enter into derivatives, such as total return swaps, with certain corporate debt and other asset-backed VIEs, under which the Bank pays the VIE a return due to the beneficial interest holders and receives the return on the collateral owned by the VIE. The collateral owned by these VIEs is primarily other asset-backed loans and securities. The Bank may be removed as the total return swap counterparty and may enter into derivatives with other counterparties to mitigate its risk related to these swaps. The Bank may sell assets to the corporate debt and other asset-backed VIEs it structures.

Real Estate, Credit-Related and Other Investing VIEs.

The Bank primarily purchases debt securities issued by and makes loans to VIEs that hold real estate and distressed loans. The Bank generally does not sell assets to, or enter into derivatives with, these VIEs.

Notes to Consolidated Financial Statements (Unaudited)

Nonconsolidated VIEs

The table below presents a summary of the nonconsolidated VIEs in which the Bank holds variable interests.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
Total nonconsolidated VIEs		
Assets in VIEs	\$ 58,821	\$ 49,398
Carrying value of variable interests – assets	\$ 2,471	\$ 2,973
Carrying value of variable interests – liabilities	\$ 944	\$ 577
Maximum exposure to loss:		
Retained interests	\$ 1,477	\$ 1,245
Commitments and guarantees	758	1,076
Derivatives	5,264	5,271
Loans and investments	858	1,579
Total	\$ 8,357	\$ 9,171

In the table above:

- The nature of the Bank's variable interests is described in the rows under maximum exposure to loss.
- The Bank's exposure to the obligations of VIEs is generally limited to its interests in these entities. In certain instances, the Bank provides guarantees, including derivative guarantees, to VIEs or holders of variable interests in VIEs.
- The maximum exposure to loss excludes the benefit of offsetting financial instruments that are held to mitigate the risks associated with these variable interests.
- The maximum exposure to loss from retained interests, and debt and equity is the carrying value of these interests.
- The maximum exposure to loss from commitments and guarantees, and derivatives is the notional amount, which does not represent anticipated losses and has not been reduced by unrealized losses. As a result, the maximum exposure to loss exceeds liabilities recorded for commitments and guarantees, and derivatives.

The table below presents information, by principal business activity, for nonconsolidated VIEs included in the summary table above.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
Mortgage-backed		
Assets in VIEs	\$ 47,607	\$ 37,266
Carrying value of variable interests – assets	\$ 1,322	\$ 1,120
Maximum exposure to loss:		
Retained interests	\$ 1,322	\$ 1,119
Commitments and guarantees	45	50
Derivatives	26	66
Total	\$ 1,393	\$ 1,235
Corporate debt and other asset-backed		
Assets in VIEs	\$ 8,752	\$ 9,576
Carrying value of variable interests – assets	\$ 552	\$ 1,343
Carrying value of variable interests – liabilities	\$ 944	\$ 573
Maximum exposure to loss:		
Retained interests	\$ 155	\$ 126
Commitments and guarantees	603	772
Derivatives	5,238	5,205
Loans and investments	261	1,074
Total	\$ 6,257	\$ 7,177
Real estate, credit-related and other investing		
Assets in VIEs	\$ 2,462	\$ 2,556
Carrying value of variable interests – assets	\$ 597	\$ 510
Carrying value of variable interests – liabilities	\$ –	\$ 4
Maximum exposure to loss:		
Commitments and guarantees	\$ 110	\$ 254
Loans and investments	597	505
Total	\$ 707	\$ 759

As of both September 2020 and December 2019, the carrying values of the Bank's variable interests in nonconsolidated VIEs are included in the consolidated balance sheets as follows:

- Mortgage-backed: Substantially all assets were included in loans.
- Corporate debt and other asset-backed: Assets were primarily included in loans and substantially all liabilities were included in trading liabilities.
- Real estate, credit-related and other investing: Assets were primarily included in other assets and investments. Liabilities were included in other liabilities.

Consolidated VIEs

As of both September 2020 and December 2019, the Bank had no consolidated VIEs.

Notes to Consolidated Financial Statements (Unaudited)

Note 18.

Commitments, Contingencies and Guarantees

Commitments

The table below presents commitments by type.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
Commitment Type		
Commercial lending:		
Investment-grade	\$ 73,004	\$ 77,944
Non-investment-grade	41,548	43,642
Warehouse financing	7,324	4,998
Credit cards	18,880	13,669
Total lending	140,756	140,253
Collateralized agreement	421	835
Collateralized financing	–	16
Investment	547	626
Other	2,153	1,504
Total commitments	\$ 143,877	\$ 143,234

The table below presents commitments by expiration.

<i>\$ in millions</i>	As of September 2020			
	Remainder of 2020	2021 - 2022	2023 - 2024	2025 - Thereafter
Commitment Type				
Commercial lending:				
Investment-grade	\$ 2,601	\$ 24,858	\$ 38,244	\$ 7,301
Non-investment-grade	1,230	9,800	21,889	8,629
Warehouse financing	176	4,659	2,176	313
Credit cards	18,880	–	–	–
Total lending	22,887	39,317	62,309	16,243
Collateralized agreement	362	59	–	–
Investment	–	–	–	547
Other	2,153	–	–	–
Total commitments	\$ 25,402	\$ 39,376	\$ 62,309	\$ 16,790

Lending Commitments

The Bank's commercial and warehouse financing lending commitments are agreements to lend with fixed termination dates and depend on the satisfaction of all contractual conditions to borrowing. These commitments are presented net of amounts syndicated to third parties. The total commitment amount does not necessarily reflect actual future cash flows because the Bank may syndicate all or substantial portions of these commitments. In addition, commitments can expire unused or be reduced or cancelled at the counterparty's request. The Bank also provides credit to consumers by issuing credit card lines.

The table below presents information about lending commitments.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
Held for investment	\$ 128,345	\$ 127,799
Held for sale	9,052	11,454
At fair value	3,359	1,000
Total	\$ 140,756	\$ 140,253

In the table above:

- Held for investment lending commitments are accounted for at amortized cost. The carrying value of lending commitments was a liability of \$604 million (including allowance for credit losses of \$482 million) as of September 2020 and \$384 million (including allowance for credit losses of \$266 million) as of December 2019. The estimated fair value of such lending commitments was a liability of \$3.65 billion as of September 2020 and \$2.43 billion as of December 2019. Had these lending commitments been carried at fair value and included in the fair value hierarchy, \$1.18 billion as of September 2020 and \$1.52 billion as of December 2019 would have been classified in level 2, and \$2.47 billion as of September 2020 and \$917 million as of December 2019 would have been classified in level 3.
- Held for sale lending commitments are accounted for at the lower of cost or fair value. The carrying value of lending commitments held for sale was a liability of \$29 million as of September 2020 and \$31 million as of December 2019. Had these lending commitments been included in the fair value hierarchy, they would have been primarily classified in level 3 as of both September 2020 and December 2019.
- Gains or losses related to lending commitments at fair value, if any, are generally recorded net of any fees in gains and losses from financial assets and liabilities.

Notes to Consolidated Financial Statements (Unaudited)

Commercial Lending. The Bank's commercial lending commitments were primarily extended to investment-grade corporate borrowers. Such commitments primarily included relationship lending activities (principally used for operating and general corporate purposes) and other activities (generally extended for contingent acquisition financing and are often intended to be short-term in nature, as borrowers often seek to replace them with other funding sources). The Bank also extends lending commitments in connection with other types of corporate lending, as well as commercial real estate financing. See Note 9 for further information about funded loans.

To mitigate the credit risk associated with the Bank's commercial lending activities, the Bank obtains credit protection on certain loans and lending commitments through credit default swaps, both single-name and index-based contracts, and through the issuance of credit-linked notes. In addition, Sumitomo Mitsui Financial Group, Inc. (SMFG) provides the Bank and its affiliates with credit loss protection on certain approved loan commitments (primarily investment-grade commercial lending commitments), for which the notional amount was \$3.21 billion as of September 2020 and \$5.74 billion as of December 2019, substantially all of which was in the Bank. The credit loss protection on loan commitments provided by SMFG is generally limited to 95% of the first loss the Bank and its affiliates realize on such commitments, up to a maximum of approximately \$950 million. In addition, subject to the satisfaction of certain conditions, upon the Bank's request, SMFG will provide protection for 70% of additional losses on such commitments, up to a maximum of \$750 million, of which no protection had been provided as of September 2020 and December 2019.

Warehouse Financing. The Bank provides financing to clients who warehouse financial assets. These arrangements are secured by the warehoused assets, primarily consisting of residential real estate, consumer and corporate loans.

Credit Cards. The Bank's credit card lending commitments represents credit card lines issued by the Bank to consumers. These credit card lines are cancellable by the Bank.

Collateralized Agreement Commitments/ Collateralized Financing Commitments

Collateralized agreement commitments includes forward starting resale agreements, and collateralized financing commitments includes forward starting repurchase and secured lending agreements that settle at a future date, generally within three business days. Collateralized agreement commitments also includes transactions where the Bank has entered into commitments to provide contingent financing to its clients and counterparties through resale agreements. 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.

Investment Commitments

Investment commitments includes commitments to invest in securities, real estate and other assets.

Contingencies

Legal Proceedings. See Note 24 for information about legal proceedings.

Certain Mortgage-Related Contingencies. During the period 2005 through 2008 in connection with both sales and securitizations of loans, the Bank provided loan-level representations and/or assigned the loan-level representations from the party from whom the Bank purchased the loans.

Based on the large number of defaults in residential mortgages, including those sold or securitized by the Bank, there is a potential for repurchase claims. However, the Bank is not in a position to make a meaningful estimate of that exposure at this time. The Bank's exposure to claims for repurchase of residential mortgage loans based on alleged breaches of representations will depend on a number of factors, such as the extent to which these claims are made within the statute of limitations, taking into consideration the agreements to toll the statute of limitations the Bank entered into with trustees representing certain trusts.

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Guarantees

The table below presents derivatives that meet the definition of a guarantee, securities lending indemnifications and certain other financial guarantees.

<i>\$ in millions</i>	Derivatives	Securities lending indemnifications	Other financial guarantees
As of September 2020			
Carrying Value of Net Liability	\$ 1,581	\$ –	\$ 6
Maximum Payout/Notional Amount by Period of Expiration			
Remainder of 2020	\$ 6,759	\$ 23,870	\$ 124
2021 - 2022	35,097	–	1,826
2023 - 2024	9,324	–	1,676
2025 - thereafter	9,547	–	212
Total	\$ 60,727	\$ 23,870	\$ 3,838
As of December 2019			
Carrying Value of Net Liability	\$ 1,160	\$ –	\$ 4
Maximum Payout/Notional Amount by Period of Expiration			
2020	\$ 40,819	\$ 21,490	\$ 1,133
2021 - 2022	37,588	–	1,427
2023 - 2024	5,681	–	1,146
2025 - thereafter	8,384	–	10
Total	\$ 92,472	\$ 21,490	\$ 3,716

In the table above:

- The maximum payout is based on the notional amount of the contract and does not represent anticipated losses.
- Amounts exclude certain commitments to issue standby letters of credit that are included in lending commitments. See the tables in “Commitments” above for a summary of the Bank’s commitments.
- The carrying value for derivatives included derivative assets of \$10 million as of September 2020 and \$132 million as of December 2019, and derivative liabilities of \$1.59 billion as of September 2020 and \$1.29 billion as of December 2019.

Derivative Guarantees. The Bank enters into various derivatives that meet the definition of a guarantee under U.S. GAAP, including written currency contracts and interest rate caps, floors and swaptions. These derivatives are risk managed together with derivatives that do not meet the definition of a guarantee, and therefore the amounts in the table above do not reflect the Bank’s overall risk related to derivative activities. Disclosures about derivatives are not required if they may be cash settled and the Bank has no basis to conclude it is probable that the counterparties held the underlying instruments at inception of the contract. The Bank has concluded that these conditions have been met for certain large, internationally active commercial and investment bank counterparties, central clearing counterparties, hedge funds and certain other counterparties. Accordingly, the Bank has not included such contracts in the table above. See Note 7 for information about credit derivatives that meet the definition of a guarantee, which are not included in the table above.

Derivatives are accounted for at fair value and therefore the carrying value is considered the best indication of payment/performance risk for individual contracts. However, the carrying values in the table above exclude the effect of counterparty and cash collateral netting.

Securities Lending Indemnifications. The Bank, in its capacity as an agency lender, indemnifies most of its securities lending customers against losses incurred in the event that borrowers do not return securities and the collateral held is insufficient to cover the market value of the securities borrowed. Collateral held by the lenders in connection with securities lending indemnifications was \$24.45 billion as of September 2020 and \$22.05 billion as of December 2019. Because the contractual nature of these arrangements requires the Bank to obtain collateral with a market value that exceeds the value of the securities lent to the borrower, there is minimal performance risk associated with these guarantees.

Notes to Consolidated Financial Statements (Unaudited)

Other Financial Guarantees. In the ordinary course of business, the Bank provides other financial guarantees of the obligations of third parties (e.g., standby letters of credit and other guarantees to enable clients to complete transactions). These guarantees represent obligations to make payments to beneficiaries if the guaranteed party fails to fulfill its obligation under a contractual arrangement with that beneficiary.

Indemnities and Guarantees of Service Providers. In the ordinary course of business, the Bank indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Bank.

The Bank may also be liable to some clients or other parties for losses arising from its custodial role or caused by acts or omissions of third-party service providers, including sub-custodians and third-party brokers. In certain cases, the Bank has the right to seek indemnification from these third-party service providers for certain relevant losses incurred by the Bank. In addition, the Bank is a member of a clearing and settlement network, as well as exchanges around the world that may require the Bank to meet the obligations of such networks and exchanges in the event of member defaults and other loss scenarios.

The Bank is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the Bank will have to make any material payments under these arrangements, and no material liabilities related to these guarantees and indemnifications have been recognized in the consolidated balance sheets as of both September 2020 and December 2019.

Other Representations, Warranties and Indemnifications. The Bank provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The Bank may also provide indemnifications protecting against changes in or adverse application of certain U.S. tax laws in connection with ordinary-course transactions, such as borrowings or derivatives.

In addition, the Bank may provide indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or an adverse application of certain non-U.S. tax laws.

These indemnifications generally are standard contractual terms and are entered into in the ordinary course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the contingencies triggering the obligation to indemnify are not expected to occur. The Bank is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the Bank will have to make any material payments under these arrangements, and no material liabilities related to these arrangements have been recognized in the consolidated balance sheets as of both September 2020 and December 2019.

Note 19.

Regulation and Capital Adequacy

The Bank is regulated as described in Note 1, and is subject to consolidated regulatory capital requirements as described below. To assess the adequacy of its capital, the Bank calculates its risk-based capital and leverage ratios in accordance with the regulatory capital requirements applicable to state member banks based on the FRB's regulations (Capital Framework).

The capital requirements are expressed as risk-based capital and leverage ratios that compare measures of regulatory capital to risk-weighted assets (RWAs), average assets and off-balance sheet exposures. Failure to comply with the capital requirements could result in restrictions being imposed by the regulators and could limit the Bank's ability to pay dividends and make certain discretionary compensation payments. The Bank's capital levels are also subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors.

Capital Framework

The regulations under the Capital Framework are largely based on the Basel Committee on Banking Supervision's (Basel Committee) capital framework for strengthening international capital standards (Basel III) and also implement certain provisions of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Under the Capital Framework, the Bank is an "Advanced approach" banking organization.

Notes to Consolidated Financial Statements (Unaudited)

The capital requirements calculated in accordance with the Capital Framework include the minimum risk-based capital and leverage ratios. In addition, the risk-based capital requirements include the capital conservation buffer and the countercyclical capital buffer, if any, both of which must consist entirely of capital that qualifies as Common Equity Tier 1 (CET1) capital.

The Bank calculates its CET1 capital, Tier 1 capital and Total capital ratios in accordance with (i) the Standardized approach and market risk rules set out in the Capital Framework (together, the Standardized Capital Rules) and (ii) the Advanced approach and market risk rules set out in the Capital Framework (together, the Advanced Capital Rules). The lower of each risk-based capital ratio calculated in (i) and (ii) is the ratio against which the Bank's compliance with its risk-based capital requirements is assessed. Under the Capital Framework, the Bank is also subject to leverage requirements which consist of a minimum Tier 1 leverage ratio and a minimum supplementary leverage ratio (SLR).

Consolidated Regulatory Risk-Based Capital and Leverage Ratios. The U.S. Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, requires the federal bank regulatory agencies to take "prompt corrective action" in respect of depository institutions that do not meet specified capital requirements. FDICIA establishes five capital categories for FDIC-insured banks: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

In addition, under the regulatory framework for prompt corrective action applicable to the Bank, in order to meet the quantitative requirements for a "well-capitalized" depository institution, the Bank must also meet the "well-capitalized" requirements in the table below.

The Bank's capital levels and prompt corrective action classification are also subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors. Failure to comply with the capital requirements, including a breach of the buffers described below, could result in restrictions being imposed by the regulators.

The table below presents the risk-based capital, leverage and "well-capitalized" requirements.

	Requirements	"Well-capitalized" Requirements
Risk-based capital requirements		
CET1 capital ratio	7.0%	6.5%
Tier 1 capital ratio	8.5%	8.0%
Total capital ratio	10.5%	10.0%
Leverage requirements		
Tier 1 leverage ratio	4.0%	5.0%
SLR	3.0%	6.0%

In the table above:

- The CET1 capital ratio requirement includes a minimum of 4.5%, the Tier 1 capital ratio requirement includes a minimum of 6.0% and the Total capital ratio requirement includes a minimum of 8.0%. The requirements also include the capital conservation buffer of 2.5% and the countercyclical capital buffer, which the FRB has set to zero percent.
- The "well-capitalized" requirements are the binding requirements for leverage ratios.

The table below presents information about risk-based capital ratios.

<i>\$ in millions</i>	Standardized	Advanced
As of September 2020		
CET1 capital	\$ 30,441	\$ 30,441
Tier 1 capital	\$ 30,441	\$ 30,441
Tier 2 capital	\$ 6,235	\$ 4,852
Total capital	\$ 36,676	\$ 35,293
RWAs	\$ 247,064	\$ 160,261
As of December 2019		
CET1 capital	\$ 29,176	\$ 29,176
Tier 1 capital	\$ 29,176	\$ 29,176
Tier 2 capital	\$ 5,293	\$ 4,486
Total capital	\$ 34,469	\$ 33,662
RWAs	\$ 258,541	\$ 135,596
CET1 capital ratio	11.3%	21.5%
Tier 1 capital ratio	11.3%	21.5%
Total capital ratio	13.3%	24.8%

Notes to Consolidated Financial Statements (Unaudited)

In the table above:

- The lower of the Standardized or Advanced ratio is the ratio against which the Bank's compliance with the capital requirements is assessed under the risk-based Capital Rules, and therefore, the Standardized ratios applied to the Bank as of both September 2020 and December 2019.
- As permitted by the FRB, the Bank has elected to temporarily delay the estimated effects of adopting CECL on regulatory capital until January 2022 and to subsequently phase-in the effects through January 2025. In addition, during 2020 and 2021, the Bank has elected to increase regulatory capital by 25% of the increase in the allowance for credit losses since January 1, 2020, as permitted by the rules issued by the FRB. The impact of this increase will also be phased in over the three-year transition period. Reflecting the full impact of CECL as of September 2020 would not have had a material impact on the Bank's Standardized risk-based capital ratios.

The table below presents information about leverage ratios.

	For the Three Months Ended or as of	
	September 2020	December 2019
<i>\$ in millions</i>		
Tier 1 capital	\$ 30,441	\$ 29,176
Average total assets	\$ 288,218	\$ 221,033
Deductions from Tier 1 capital	(59)	(59)
Average adjusted total assets	288,159	220,974
Impact of SLR temporary amendment	(124,183)	–
Average off-balance sheet exposures	178,254	192,878
Total leverage exposure	\$ 342,230	\$ 413,852
Tier 1 leverage ratio	10.6%	13.2%
SLR	8.9%	7.0%

In the table above:

- Average adjusted total assets represents the average daily assets for the quarter adjusted for deductions from Tier 1 capital, and for the three months ended September 2020, reflected the impact of CECL transition.
- Impact of SLR temporary amendment represents the exclusion of average holdings of U.S. Treasury securities and average deposits at the Federal Reserve as permitted by the FRB. The impact of this temporary amendment was an increase in the Bank's SLR by approximately 2.4 percentage points for the three months ended September 2020. This temporary amendment is effective through March 31, 2021.
- Average off-balance sheet exposures represents the monthly average and consists of derivatives, securities financing transactions, commitments and guarantees.
- Tier 1 leverage ratio is calculated as Tier 1 capital divided by average adjusted total assets.
- SLR is calculated as Tier 1 capital divided by total leverage exposure.

As a result of the Bank's election to apply the temporary amendment noted above, any dividend during the period July 1, 2020 through March 31, 2021 is subject to prior approval of the FRB.

Risk-Based Capital. The table below presents information about risk-based capital.

	As of	
	September 2020	December 2019
<i>\$ in millions</i>		
Shareholder's equity	\$ 29,842	\$ 29,332
Impact of CECL transition	726	–
Other adjustments	(127)	(156)
CET1 capital	30,441	29,176
Tier 1 capital	\$ 30,441	\$ 29,176
Standardized Tier 2 and Total capital		
Tier 1 capital	\$ 30,441	\$ 29,176
Qualifying subordinated debt	4,250	4,250
Allowance for credit losses	1,985	1,043
Standardized Tier 2 capital	6,235	5,293
Standardized Total capital	\$ 36,676	\$ 34,469
Advanced Tier 2 and Total capital		
Tier 1 capital	\$ 30,441	\$ 29,176
Standardized Tier 2 capital	6,235	5,293
Allowance for credit losses	(1,985)	(1,043)
Other adjustments	602	236
Advanced Tier 2 capital	4,852	4,486
Advanced Total capital	\$ 35,293	\$ 33,662

Notes to Consolidated Financial Statements (Unaudited)

In the table above:

- Impact of CECL transition represents the impact of adoption as of January 1, 2020 and the impact of increasing regulatory capital by 25% of the increase in the allowance for credit losses since January 1, 2020. The allowance for credit losses within Standardized and Advanced Tier 2 capital also reflects the impact of these adjustments.
- Other adjustments within CET1 capital primarily include credit valuation adjustments on derivative liabilities and debt valuation adjustments. Other adjustments within Advanced Tier 2 capital include eligible credit reserves.
- Qualifying subordinated debt is subordinated debt issued by the Bank with an original maturity of five years or greater. The outstanding amount of subordinated debt qualifying for Tier 2 capital is reduced upon reaching a remaining maturity of five years. See Note 14 for further information about the Bank's subordinated debt.

RWAs. RWAs are calculated in accordance with both the Standardized and Advanced Capital Rules.

Credit Risk

Credit RWAs are calculated based on measures of exposure, which are then risk weighted under the Standardized and Advanced Capital Rules:

- The Standardized Capital Rules apply prescribed risk-weights, which depend largely on the type of counterparty. The exposure measure for derivatives and securities financing transactions are based on specific formulas which take certain factors into consideration.
- Under the Advanced Capital Rules, the Bank computes risk-weights for wholesale and retail credit exposures in accordance with the Advanced Internal Ratings-Based approach. The exposure measures for derivatives and securities financing transactions are computed utilizing internal models.

Market Risk

RWAs for market risk in accordance with the Standardized and Advanced Capital Rules are generally consistent. Market RWAs are calculated based on measures of exposure which include the following:

- Value-at-Risk (VaR) is the potential loss in value of trading assets and liabilities, as well as certain investments, loans, and other financial assets and liabilities accounted for at fair value, due to adverse market movements over a defined time horizon with a specified confidence level.

For both risk management purposes and regulatory capital calculations, the Bank uses a single VaR model which captures risks, including those related to interest rates, equity prices and currency rates. However, VaR used for risk management purposes differs from VaR used for regulatory capital requirements (regulatory VaR) due to differences in time horizons, confidence levels and the scope of positions on which VaR is calculated. For risk management purposes, a 95% one-day VaR is used, whereas for regulatory capital requirements, a 99% 10-day VaR is used to determine Market RWAs and a 99% one-day VaR is used to determine regulatory VaR exceptions.

The Bank's positional losses observed on a single day exceeded its 99% one-day regulatory VaR on six occasions during the nine months ended September 2020 (all of which occurred during March 2020) and exceeded its 99% one-day regulatory VaR on one occasion during the year ended December 2019. As permitted by the FRB, the Bank has permanently excluded the six exceptions that occurred in March 2020 in determining the Bank's VaR multiplier used to calculate Market RWAs;

- Stressed VaR is the potential loss in value of trading assets and liabilities, as well as certain investments, loans, and other financial assets and liabilities accounted for at fair value, during a period of significant market stress;
- Incremental risk is the potential loss in value of non-securitized positions due to the default or credit migration of issuers of financial instruments over a one-year time horizon;
- Comprehensive risk is the potential loss in value, due to price risk and defaults, within the Bank's credit correlation positions; and
- Specific risk is the risk of loss on a position that could result from factors other than broad market movements, including event risk, default risk and idiosyncratic risk. The standardized measurement method is used to determine specific risk RWAs, by applying supervisory defined risk-weighting factors after applicable netting is performed.

Notes to Consolidated Financial Statements (Unaudited)

Operational Risk

Operational RWAs are only required to be included under the Advanced Capital Rules. The Bank utilizes an internal risk-based model to quantify Operational RWAs.

The table below presents information about RWAs.

<i>\$ in millions</i>	Standardized	Advanced
As of September 2020		
Credit RWAs		
Derivatives	\$ 84,675	\$ 30,542
Commitments, guarantees and loans	125,740	80,920
Securities financing transactions	3,843	1,036
Equity investments	519	550
Other	5,308	6,171
Total Credit RWAs	220,085	119,219
Market RWAs		
Regulatory VaR	7,153	7,153
Stressed VaR	18,089	18,089
Incremental risk	814	814
Comprehensive risk	796	796
Specific risk	127	127
Total Market RWAs	26,979	26,979
Total Operational RWAs	–	14,063
Total RWAs	\$ 247,064	\$ 160,261

As of December 2019

Credit RWAs		
Derivatives	\$ 90,493	\$ 15,211
Commitments, guarantees and loans	134,899	79,475
Securities financing transactions	4,209	915
Equity investments	505	535
Other	5,814	3,301
Total Credit RWAs	235,920	99,437
Market RWAs		
Regulatory VaR	4,797	4,797
Stressed VaR	14,893	14,893
Incremental risk	1,750	1,750
Comprehensive risk	404	404
Specific risk	777	777
Total Market RWAs	22,621	22,621
Total Operational RWAs	–	13,538
Total RWAs	\$ 258,541	\$ 135,596

In the table above:

- Securities financing transactions represents resale and repurchase agreements.
- Other includes receivables, certain debt securities, cash and other assets.

The table below presents changes in RWAs.

<i>\$ in millions</i>	Standardized	Advanced
Nine Months Ended September 2020		
RWAs		
Beginning balance	\$ 258,541	\$ 135,596
Credit RWAs		
Change in:		
Derivatives	(5,818)	15,331
Commitments, guarantees and loans	(9,159)	1,445
Securities financing transactions	(366)	121
Equity investments	14	15
Other	(506)	2,870
Change in Credit RWAs	(15,835)	19,782
Market RWAs		
Change in:		
Regulatory VaR	2,356	2,356
Stressed VaR	3,196	3,196
Incremental risk	(936)	(936)
Comprehensive risk	392	392
Specific risk	(650)	(650)
Change in Market RWAs	4,358	4,358
Change in Operational RWAs	–	525
Ending balance	\$ 247,064	\$ 160,261
Year Ended December 2019		
RWAs		
Beginning balance	\$ 248,356	\$ 149,019
Credit RWAs		
Change in:		
Derivatives	3,766	(2,563)
Commitments, guarantees and loans	14,243	(6,516)
Securities financing transactions	(2,024)	(1,379)
Equity investments	(271)	(288)
Other	(2,389)	700
Change in Credit RWAs	13,325	(10,046)
Market RWAs		
Change in:		
Regulatory VaR	1,354	1,354
Stressed VaR	(3,957)	(3,957)
Incremental risk	573	573
Comprehensive risk	(808)	(808)
Specific risk	(302)	(302)
Change in Market RWAs	(3,140)	(3,140)
Change in Operational RWAs	–	(237)
Ending balance	\$ 258,541	\$ 135,596

Notes to Consolidated Financial Statements (Unaudited)

RWAs Rollforward Commentary

Nine Months Ended September 2020. Standardized Credit RWAs as of September 2020 decreased by \$15.84 billion compared with December 2019, reflecting a decrease in commitments, guarantees, and loans, principally due to reduced lending exposures and a decrease in derivatives, principally due to reduced exposure. Standardized Market RWAs as of September 2020 increased by \$4.36 billion compared with December 2019, primarily reflecting increased market volatility.

Advanced Credit RWAs as of September 2020 increased by \$19.78 billion compared with December 2019, primarily reflecting an increase in derivatives, principally due to the impact of higher levels of volatility and counterparty credit risk, and an increase in other, primarily due to increased exposure. Advanced Market RWAs as of September 2020 increased by \$4.36 billion compared with December 2019, primarily reflecting increased market volatility.

Year Ended December 2019. Standardized Credit RWAs as of December 2019 increased by \$13.33 billion compared with December 2018, reflecting an increase in commitments, guarantees and loans, principally due to increased lending activity and an increase in derivatives, reflecting an increased exposure. These increases were partially offset by a decrease in other credit RWAs, principally due to reduced exposures. Standardized Market RWAs as of December 2019 decreased by \$3.14 billion compared with December 2018, reflecting a decrease in stressed VaR, as a result of changes in risk exposure.

Advanced Credit RWAs as of December 2019 decreased by \$10.05 billion compared with December 2018. Beginning in the fourth quarter of 2019, the Bank made changes to the calculation of the loss given default for certain wholesale exposures which resulted in a decrease in credit RWAs, primarily in commitments, guarantees and loans and derivatives. Advanced Market RWAs as of December 2019 decreased by \$3.14 billion compared with December 2018, reflecting a decrease in stressed VaR, as a result of changes in risk exposure.

Required Reserves

The deposits of the Bank are insured by the FDIC to the extent provided by law. The FRB requires that the Bank maintain cash reserves with the Federal Reserve. The amount deposited by the Bank at the Federal Reserve was \$63.69 billion as of September 2020. The FRB reduced reserve requirement ratios to zero percent in 2020. The amount deposited by the Bank at the Federal Reserve was \$50.55 billion as of December 2019, which exceeded the regulatory reserve requirements by \$50.29 billion.

Note 20.

Transactions with Related Parties

Transactions between the Bank and its affiliates are subject to regulations adopted by the FRB and the supervision of both the FRB and the NYDFS. These regulations generally limit the types and amounts of transactions (including credit extensions from the Bank) that may take place and generally require those transactions to be on terms that are at least as favorable to the Bank as prevailing terms for comparable transactions with non-affiliates. These regulations generally do not apply to transactions within the Bank.

The table below presents assets and liabilities with affiliates.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
Assets		
Cash	\$ 212	\$ 222
Resale agreements	16,006	944
Customer and other receivables	2,532	1,665
Trading assets	625	359
Other assets	941	594
Total	\$ 20,316	\$ 3,784
Liabilities		
Deposits	\$ 10,886	\$ 17,639
Repurchase agreements	5,529	9,891
Customer and other payables	467	371
Trading liabilities	572	311
Unsecured borrowings	4,289	4,295
Other liabilities	535	452
Total	\$ 22,278	\$ 32,959

In the table above, trading assets and trading liabilities consist of net outstanding derivative contracts with Group Inc. and affiliates. The Bank enters into derivative contracts with Group Inc. and its affiliates in the normal course of business.

Notes to Consolidated Financial Statements (Unaudited)

Group Inc. Guarantee

Group Inc. has guaranteed the payment obligations of Goldman Sachs Bank USA, subject to certain limitations.

In addition, Group Inc. has provided a guarantee to the Bank related to certain assets that the Bank acquired from certain subsidiaries and affiliated funds of Group Inc. during March 2020, as described below.

- The Bank and unaffiliated entities purchased certificates of deposit and commercial paper from two money market funds managed by GS Group. These funds are not covered funds under the Volcker Rule. The Bank's purchase price of these securities was \$1.84 billion, of which \$439 million was outstanding as of September 2020. These purchases were made to promote liquidity in the short-term credit markets and to increase the funds' weekly liquid assets. These securities are included within investments in the consolidated balance sheets.
- The Bank purchased \$797 million of loans from wholly-owned subsidiaries of Group Inc. for \$726 million, which represented the fair value of these loans. In addition, the Bank acquired unfunded lending commitments of \$5.40 billion from wholly-owned subsidiaries of Group Inc. and, in connection with assuming these commitments, was paid \$339 million, which represented the fair value of the commitments. As of September 2020, \$2.62 billion of loans and unfunded lending commitments from this transfer were outstanding, consisting of \$515 million of loans (the fair value for which was \$510 million) and \$2.10 billion of unfunded lending commitments (the fair value for which was a liability of \$87 million).

Interest Income and Interest Expense

The Bank recognizes interest income and interest expense in connection with various affiliated transactions. These transactions include resale agreements, other assets, repurchase agreements, deposits, collateral posted and received, other liabilities, and unsecured borrowings. The Bank recorded net interest income from affiliates of \$15 million for the three months ended September 2020, \$63 million for the three months ended September 2019, \$10 million for the nine months ended September 2020 and \$325 million for the nine months ended September 2019.

Other Transactions

The Bank has revenue sharing agreements with affiliated entities related to certain activities under which it transfers revenues to, and receives revenues from, such entities. Revenues related to market and credit risk exposures held by the Bank or by affiliated entities that arise from activities covered by these agreements are shared among the Bank and these entities. The Bank transferred net revenues to affiliates of \$112 million for the three months ended September 2020, \$79 million for the three months ended September 2019, \$246 million for the nine months ended September 2020 and \$242 million for the nine months ended September 2019. These amounts are included in gains and losses from financial assets and liabilities.

The Bank is subject to service charges from affiliates. The net charge to the Bank by affiliates was \$125 million for the three months ended September 2020, \$136 million for the three months ended September 2019, \$369 million for the nine months ended September 2020 and \$355 million for the nine months ended September 2019. This service charge from affiliates is for employment related costs of dual employees and employees of affiliates pursuant to a Master Services Agreement supplemented by Service Level Agreements (collectively, the Master Services Agreement). These amounts are included in service charges.

The Bank receives operational and administrative support and management services from affiliates and is charged for these services. In addition, the Bank provides similar support and services to affiliates and charges these affiliates for the services provided. These amounts are reflected net in the applicable expense captions in the consolidated statements of earnings.

In connection with its partnership interest in Goldman Sachs Mitsui Marine Derivative Products, L.P., the Bank has provided to Mitsui Sumitomo Insurance Co., Ltd. (Mitsui Sumitomo) additional protection in the form of assets held in a VIE which could be liquidated for the benefit of Mitsui Sumitomo under certain circumstances.

Notes to Consolidated Financial Statements (Unaudited)

Note 21.

Interest Income and Interest Expense

Interest is recorded over the life of the instrument on an accrual basis based on contractual interest rates.

The table below presents sources of interest income and interest expense.

<i>\$ in millions</i>	Three Months		Nine Months	
	Ended September		Ended September	
	2020	2019	2020	2019
Deposits with banks	\$ 14	\$ 170	\$ 157	\$ 635
Collateralized agreements	48	238	219	671
Trading assets	156	283	772	737
Investments	51	34	135	78
Loans	834	933	2,685	2,780
Other interest	56	362	290	831
Total interest income	1,159	2,020	4,258	5,732
Deposits	414	943	1,668	2,636
Collateralized financings	6	84	68	198
Trading liabilities	12	12	65	42
Borrowings	24	70	110	207
Other interest	19	214	174	496
Total interest expense	475	1,323	2,085	3,579
Net interest income	\$ 684	\$ 697	\$ 2,173	\$ 2,153

In the table above:

- Collateralized agreements consists of resale agreements.
- Loans excludes interest on loans held for sale that are accounted for at the lower of cost or fair value. Such interest is included within other interest.
- Other interest income primarily includes interest income on loans held for sale that are accounted for at the lower of cost or fair value, collateral balances posted to counterparties and foreign currency funding facilities.
- Collateralized financings consists of repurchase agreements.
- Borrowings includes interest expense from other secured financings and unsecured borrowings, which primarily relates to interest incurred on the Bank's affiliate borrowings from Group Inc. and Funding IHC, as well as FHLB advances.
- Other interest expense primarily includes interest expense on collateral balances received from counterparties and interest expense on foreign currency funding facilities.

Note 22.

Income Taxes

Provision for Income Taxes

Income taxes are provided for using the asset and liability method under which deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax bases of assets and liabilities. The Bank reports interest expense related to income tax matters in provision for taxes and income tax penalties in other expenses.

The Bank's results of operations are included in the consolidated federal and certain state tax returns of GS Group. The Bank computes its tax liability as if it was filing a tax return on a modified separate company basis and settles such liability with Group Inc. pursuant to a tax sharing agreement. To the extent the Bank generates tax benefits from losses, it will be reimbursed by Group Inc. pursuant to a tax sharing agreement at such time as GS Group would have been able to utilize such losses.

Deferred Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities. These temporary differences result in taxable or deductible amounts in future years and are measured using the tax rates and laws that will be in effect when such differences are expected to reverse. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized. Tax assets are included in other assets and tax liabilities are included in other liabilities.

Unrecognized Tax Benefits

The Bank recognizes tax positions in the consolidated financial statements only when it is more likely than not that the position will be sustained on examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized on settlement. A liability is established for differences between positions taken in a tax return and amounts recognized in the consolidated financial statements.

Regulatory Tax Examinations

The Bank is subject to examination by the U.S. Internal Revenue Service (IRS), as part of GS Group, and other taxing authorities in jurisdictions where the Bank has significant business operations, such as New York State and City. The tax years under examination vary by jurisdiction.

Notes to Consolidated Financial Statements (Unaudited)

GS Group has been accepted into the Compliance Assurance Process program by the IRS for each of the tax years from 2013 through 2020. This program allows GS Group to work with the IRS to identify and resolve potential U.S. Federal tax issues before the filing of tax returns. The fieldwork for tax years 2011 through 2017 has been completed. The final resolution of the audit for tax years 2011 through 2017 is not expected to have a material impact on the effective tax rate. The 2018 and 2019 tax years remain subject to post-filing review.

All years, including and subsequent to 2015 for New York State and City, remain open to examination by the taxing authorities. All years including and subsequent to 2009 for all other significant states, excluding New York State and City, remain open to examination by the taxing authorities.

All years including and subsequent to the years detailed above remain open to examination by the taxing authorities. The Bank believes that the liability for unrecognized tax benefits it has established is adequate in relation to the potential for additional assessments.

Note 23.

Credit Concentrations

The Bank's concentrations of credit risk arise from its lending, market-making, cash management and other activities, and may be impacted by changes in economic, industry or political factors. These activities expose the Bank to many different industries and counterparties, and may also subject the Bank to a concentration of credit risk to a particular central bank, counterparty, borrower or issuer, including sovereign issuers, or to a particular clearing house or exchange. The Bank seeks to mitigate credit risk by actively monitoring exposures and obtaining collateral from counterparties as deemed appropriate.

The Bank measures and monitors its credit exposure based on amounts owed to the Bank after taking into account risk mitigants that the Bank considers when determining credit risk. Such risk mitigants include netting and collateral arrangements and economic hedges, such as credit derivatives, futures and forward contracts. Netting and collateral agreements permit the Bank to offset receivables and payables with such counterparties and/or enable the Bank to obtain collateral on an upfront or contingent basis.

The table below presents the credit concentrations included in trading cash instruments and investments.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
U.S. government and agency obligations	\$ 71,580	\$ 67,931
Percentage of total assets	25.8%	29.7%

In addition, the Bank had \$63.69 billion as of September 2020 and \$50.55 billion as of December 2019 of cash deposits held at the Federal Reserve. These cash deposits are included in cash.

As of both September 2020 and December 2019, the Bank did not have credit exposure to any other external counterparty that exceeded 2% of total assets.

Collateral obtained by the Bank related to derivative assets is principally cash and is held by the Bank or a third-party custodian. Collateral obtained by the Bank related to resale agreements is primarily U.S. government and agency obligations. See Note 11 for further information about collateralized agreements and financings.

The Bank had resale agreements of \$21.07 billion as of September 2020 and \$1.71 billion as of December 2019 that are collateralized by U.S. government and agency obligations.

Given that the Bank's primary credit exposure on such transactions is to the counterparty to the transaction, the Bank would be exposed to the collateral issuer only in the event of counterparty default.

Note 24.

Legal Proceedings

The Bank is involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of the Bank's businesses. Many of these proceedings are in early stages, and many of these cases seek an indeterminate amount of damages.

**Notes to Consolidated Financial Statements
(Unaudited)**

Management is generally unable to estimate a range of reasonably possible loss for matters in which the Bank is involved due to various factors, including where (i) actual or potential plaintiffs have not claimed an amount of money damages, except in those instances where management can otherwise determine an appropriate amount, (ii) matters are in early stages, (iii) matters relate to regulatory investigations or reviews, except in those instances where management can otherwise determine an appropriate amount, (iv) there is uncertainty as to the likelihood of a class being certified or the ultimate size of the class, (v) there is uncertainty as to the outcome of pending appeals or motions, (vi) there are significant factual issues to be resolved, and/or (vii) there are novel legal issues presented.

Management does not believe, based on currently available information, that the outcomes of any such matters will have a material adverse effect on the Bank's financial condition, though the outcomes could be material to the Bank's operating results for any particular period, depending, in part, upon the operating results for such period.

Regulatory Investigations and Reviews and Related Litigation. The Bank and certain of its affiliates (including Group Inc.) are subject to a number of investigations and reviews by, and in some cases have received subpoenas and requests for documents and information from, various governmental and regulatory bodies and self-regulatory organizations and litigation relating to such matters in each case relating to the Bank's current and past businesses and operations, including, but not limited to, credit cards, unsecured installment and residential mortgage lending and servicing, and compliance with related consumer laws; the sales, trading, transaction reporting, execution and clearance of derivatives, currencies and other financial products and related communications and activities, including trading activities and communications in connection with the establishment of benchmark rates, such as currency rates, and activities in U.S. Treasury securities; and transactions involving government-related financings and other matters. The Bank is cooperating with all such regulatory investigations and reviews.

In addition, governmental and other investigations, reviews, actions and litigation involving the Bank's affiliates and such affiliates' businesses and operations, including without limitation various matters referred to above, may have an impact on the Bank's businesses and operations.

Note 25.**Subsequent Events**

The Bank evaluated subsequent events through November 5, 2020, the date the consolidated financial statements were issued, and determined that there were no material events or transactions that would require recognition or additional disclosure in these consolidated financial statements.



Report of Independent Auditors

To the Board of Directors and Shareholder of
Goldman Sachs Bank USA and Subsidiaries:

We have reviewed the accompanying consolidated interim financial information of Goldman Sachs Bank USA and its subsidiaries (the Bank), which comprise the consolidated balance sheet as of September 30, 2020, the related consolidated statements of earnings, comprehensive income and changes in shareholder's equity for the three and nine month periods ended September 30, 2020 and 2019, and the consolidated statements of cash flows for the nine month periods ended September 30, 2020 and 2019.

Management's Responsibility for the Consolidated Interim Financial Information

The Bank's management is responsible for the preparation and fair presentation of the consolidated interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of the consolidated interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditors' Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance

with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Bank as of December 31, 2019, and the related consolidated statements of earnings, comprehensive income, changes in shareholder's equity and cash flows for the year then ended (not presented herein), and in our report dated March 9, 2020, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2019, is consistent, in all material respects, with the audited consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP

November 5, 2020

Supplemental Financial Information

Distribution of Assets, Liabilities and Shareholder's Equity

The tables below present information about average balances, interest and average interest rates.

<i>\$ in millions</i>	Average Balance for the			
	Three Months		Nine Months	
	Ended September	2019	Ended September	2019
	2020		2020	2019
Assets				
Deposits with banks	\$ 55,614	\$ 31,243	\$ 55,430	\$ 36,339
Collateralized agreements	31,583	33,475	25,002	30,848
Trading assets	54,588	41,676	53,822	34,388
Investments	26,815	6,345	17,239	4,949
Loans	84,800	71,280	86,031	70,889
Other interest-earning assets	14,401	11,489	14,167	11,616
Total interest-earning assets	267,801	195,508	251,691	189,029
Cash and due from banks	495	376	576	383
Other non-interest-earning assets	19,196	13,539	17,841	11,655
Total assets	\$287,492	\$209,423	\$270,108	\$201,067
Liabilities				
Interest-bearing deposits	\$215,295	\$142,289	\$194,428	\$138,745
Collateralized financings	9,363	10,030	7,772	6,866
Trading liabilities	4,753	2,047	6,227	2,457
Borrowings	6,052	8,111	8,588	7,939
Other interest-bearing liabilities	6,899	3,736	7,361	3,633
Total interest-bearing liabilities	242,362	166,213	224,376	159,640
Non-interest-bearing deposits	5,778	5,140	5,632	4,730
Other non-interest-bearing liabilities	9,919	9,323	10,694	8,385
Total liabilities	258,059	180,676	240,702	172,755
Shareholder's equity	29,433	28,747	29,406	28,312
Total liabilities and shareholder's equity	\$287,492	\$209,423	\$270,108	\$201,067

<i>\$ in millions</i>	Interest for the			
	Three Months		Nine Months	
	Ended September	2019	Ended September	2019
	2020		2020	2019
Assets				
Deposits with banks	\$ 14	\$ 170	\$ 157	\$ 635
Collateralized agreements	48	238	219	671
Trading assets	156	283	772	737
Investments	51	34	135	78
Loans	834	933	2,685	2,780
Other interest-earning assets	56	362	290	831
Total interest-earning assets	\$ 1,159	\$ 2,020	\$ 4,258	\$ 5,732
Liabilities				
Interest-bearing deposits	\$ 414	\$ 943	\$ 1,668	\$ 2,636
Collateralized financings	6	84	68	198
Trading liabilities	12	12	65	42
Borrowings	24	70	110	207
Other interest-bearing liabilities	19	214	174	496
Total interest-bearing liabilities	\$ 475	\$ 1,323	\$ 2,085	\$ 3,579
Net interest income	\$ 684	\$ 697	\$ 2,173	\$ 2,153

	Average Rate for the			
	Three Months		Nine Months	
	Ended September	2019	Ended September	2019
	2020		2020	2019
Assets				
Deposits with banks	0.10%	2.11%	0.38%	2.34%
Collateralized agreements	0.61%	2.76%	1.17%	2.91%
Trading assets	1.15%	2.64%	1.92%	2.87%
Investments	0.76%	2.08%	1.05%	2.11%
Loans	3.94%	5.08%	4.17%	5.24%
Other interest-earning assets	1.56%	N.M.	2.74%	N.M.
Total interest-earning assets	1.74%	4.01%	2.26%	4.05%
Liabilities				
Interest-bearing deposits	0.77%	2.57%	1.15%	2.54%
Collateralized financings	0.26%	3.25%	1.17%	3.86%
Trading liabilities	1.01%	2.28%	1.40%	2.29%
Borrowings	1.59%	3.35%	1.71%	3.49%
Other interest-bearing liabilities	1.10%	N.M.	3.16%	N.M.
Total interest-bearing liabilities	0.79%	3.09%	1.24%	3.00%
Net interest margin	1.02%	1.38%	1.15%	1.52%

Supplemental Financial Information

In the tables above:

- Deposits with banks primarily consist of deposits held at the Federal Reserve.
- Collateralized agreements consists of resale agreements. Collateralized financings consists of repurchase agreements. The average balances for both collateralized agreements and collateralized financings reflect the impact of counterparty netting, while the related interest income and interest expense do not reflect the impact of such counterparty netting. See Note 11 to the consolidated financial statements and “Results of Operations” in Part II of this Quarterly Report for further information about collateralized agreements and collateralized financings and related interest.
- See Notes 4 through 10 to the consolidated financial statements and “Results of Operations” in Part II of this Quarterly Report for further information about financial assets and liabilities and related interest.
- Loans consists of loans held for investment that are accounted for at amortized cost net of allowance for loan losses or at fair value under the fair value option. Loans exclude loans held for sale that are accounted for at the lower of cost or fair value. Such loans are included within other interest-earning assets. Interest on loans is recognized over the life of the loan and is recorded on an accrual basis. See Note 9 to the consolidated financial statements and “Results of Operations” in Part II of this Quarterly Report for further information about loans and related interest.
- Other interest-earning assets consists of customer and other receivables and loans held for sale that are accounted for at the lower of cost or fair value. Other interest-bearing liabilities consists of customer and other payables. The average balances for both other interest-earning assets and other interest-bearing liabilities reflect the impact of counterparty netting, while the related interest income and interest expense do not reflect the impact of such counterparty netting. Accordingly, the average rate on other interest-earning assets and other interest-bearing liabilities for the three and nine months ended September 2019 was not meaningful.
- Derivative instruments are included in other non-interest-earning assets and other non-interest-bearing liabilities. See Note 7 to the consolidated financial statements and “Results of Operations” in Part II of this Quarterly Report for further information about derivatives.
- Interest-bearing deposits consists of deposits from private bank clients, U.S. consumers, clients of third-party broker-dealers, institutions, corporations and affiliates. See Note 13 to the consolidated financial statements and “Results of Operations” in Part II of this Quarterly Report for further information about deposits and related interest.
- Borrowings include senior unsecured debt, subordinated borrowings, hybrid financial instruments and borrowings from affiliates. See Notes 11 and 14 to the consolidated financial statements and “Balance Sheet Analysis” in Part II of this Quarterly Report for further information about short-term and long-term borrowings and related interest.
- See Note 21 to the consolidated financial statements for further information about interest income and interest expense.

PART II. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Goldman Sachs Bank USA, together with its consolidated subsidiaries (collectively, the Bank), is a New York State-chartered bank and a member of the Federal Reserve System. The Bank is supervised and regulated by the Board of Governors of the Federal Reserve System (FRB), the New York State Department of Financial Services (NYDFS) and the Consumer Financial Protection Bureau (CFPB), and is a member of the Federal Deposit Insurance Corporation (FDIC). The Bank's deposits are insured by the FDIC up to the maximum amount provided by law. The Bank is registered as a swap dealer with the U.S. Commodity Futures Trading Commission (CFTC). The Bank is also a government securities dealer subject to the rules and regulations of the U.S. Department of the Treasury.

The Bank is a wholly-owned subsidiary of The Goldman Sachs Group, Inc. (Group Inc.). Group Inc. is a bank holding company (BHC) under the U.S. Bank Holding Company Act of 1956 (BHC Act), a financial holding company under amendments to the BHC Act effected by the U.S. Gramm-Leach-Bliley Act of 1999, and is subject to supervision and examination by the FRB.

When we use the terms "we," "us" and "our," we mean Goldman Sachs Bank USA and its consolidated subsidiaries. When we use the term "GS Group," or "firmwide" we are referring to Group Inc. and its consolidated subsidiaries, including us. References to revenue-producing units and control and support functions include activities performed by our employees, by dual employees (who are employees who perform services for both us and another GS Group subsidiary) and by affiliate employees under Bank supervision pursuant to Master Services Agreements supplemented by Service Level Agreements (collectively, the Master Services Agreement) between us and our affiliates.

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report for the year ended December 31, 2019. References to "the 2019 Annual Report" are to our Annual Report for the year ended December 31, 2019. All references to "this Quarterly Report," of which this Management's Discussion and Analysis forms a part, refers to the report dated November 5, 2020. See the 2019 Annual Report for more information relating to our business, the supervision and regulation to which we are subject, risk factors affecting our business, our results of operations and financial condition, as well as our consolidated financial statements.

References to "the consolidated financial statements" or "Supplemental Financial Information" are to Part I of this Quarterly Report. The consolidated financial statements are unaudited. All references to September 2020, June 2020 and September 2019 refer to our periods ended, or the dates, as the context requires, September 30, 2020, June 30, 2020 and September 30, 2019, respectively. All references to December 2019 refer to the date December 31, 2019. Any reference to a future year refers to a year ending on December 31 of that year. Beginning in the fourth quarter of 2019, we changed our balance sheet presentation to better reflect the nature of our activities. See Note 2 in Part III of the 2019 Annual Report for further information. Reclassifications have been made to previously reported amounts to conform to the current presentation.

Our principal office is located in New York, New York. We operate two domestic branches, which are located in Salt Lake City, Utah and Draper, Utah. Both branches are regulated by the Utah Department of Financial Institutions. We also have a foreign branch in London, United Kingdom, which is regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

We are a financial services provider that engages in banking activities. We are GS Group's primary lending entity, serving corporate and private bank clients, as well as U.S. consumers through our digital platform, *Marcus by Goldman Sachs* (Marcus), and by issuing credit cards. We are also GS Group's primary deposit-taking entity. Our depositors include private bank clients, U.S. consumers, clients of third-party broker-dealers, institutions, corporations and our affiliates. Our consumer deposit-taking activities are conducted through Marcus. We also provide transaction banking services, which includes deposit taking and payment services. In addition, we enter into interest rate, currency, credit and other derivatives, and transact in certain related cash products, for the purpose of market making and risk management.

Management's Discussion and Analysis

Executive Overview

Three Months Ended September 2020 versus September 2019. We generated net earnings of \$512 million for the third quarter of 2020, an increase of 62% compared with \$316 million for the third quarter of 2019.

Net revenues were \$1.33 billion for the third quarter of 2020, an increase of 10% compared with \$1.21 billion for the third quarter of 2019, primarily reflecting higher gains from financial assets and liabilities.

Net interest income was \$684 million for the third quarter of 2020, essentially unchanged compared with \$697 million for the third quarter of 2019.

Non-interest revenues were \$648 million for the third quarter of 2020, an increase of 27% compared with \$510 million for the third quarter of 2019, primarily reflecting higher gains from financial assets and liabilities.

Provision for credit losses in the consolidated statements of earnings was \$76 million for the third quarter of 2020, a decrease of 52% compared with \$157 million for the third quarter of 2019. This decrease was primarily due to reserve reductions from paydowns on corporate lines of credit and consumer installment loans, partially offset by reserve increases from individual impairments related to wholesale loans and growth in credit card loans.

Operating expenses were \$591 million for the third quarter of 2020, a decrease of 7% compared with \$634 million for the third quarter of 2019, primarily reflecting lower market development costs and professional fees.

As of September 2020, our Common Equity Tier 1 (CET1) capital ratio as calculated in accordance with the Standardized Capital Rules was 12.3% and as calculated in accordance with the Advanced Capital Rules was 19.0%. See Note 19 to the consolidated financial statements for further information about our capital ratios.

Nine Months Ended September 2020 versus September 2019. We generated net earnings of \$675 million for the first nine months of 2020, a decrease of 40% compared with \$1.12 billion for the first nine months of 2019.

Net revenues were \$4.50 billion for the first nine months of 2020, an increase of 22% compared with \$3.69 billion for the first nine months of 2019, primarily reflecting higher gains from financial assets and liabilities.

Net interest income was \$2.17 billion for the first nine months of 2020, essentially unchanged compared with \$2.15 billion for the first nine months of 2019.

Non-interest revenues were \$2.33 billion for the first nine months of 2020, an increase of 52% compared with \$1.54 billion for the first nine months of 2019, primarily reflecting higher gains from financial assets and liabilities.

Provision for credit losses in the consolidated statements of earnings was \$1.79 billion for the first nine months of 2020, compared with \$487 million for the first nine months of 2019. This increase was primarily due to significantly higher provisions related to wholesale loans as a result of forecasts of expected deterioration in the broader economic environment (incorporating the accounting for credit losses under the Current Expected Credit Losses (CECL) standard) reflecting the impact of the global outbreak of the coronavirus (COVID-19) pandemic. In addition, the increase in provisions related to wholesale loans reflected the impact of individual impairments and ratings downgrades during the first nine months of 2020. The first nine months of 2020 also included provisions related to credit card loans. See Note 3 to the consolidated financial statements for further information about ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments."

Operating expenses were \$1.85 billion for the first nine months of 2020, an increase of 7% compared with \$1.73 billion for the first nine months of 2019, primarily reflecting higher communications and technology expenses and other expenses.

Management's Discussion and Analysis

Business Environment

Although uncertainty about the COVID-19 pandemic persisted into the third quarter of 2020, the operating environment continued to recover, as global economic activity rebounded significantly during the quarter following a sharp contraction in the second quarter of 2020 and market volatility declined modestly. The reopening of businesses and relaxation of earlier lockdowns contributed to improving economic indicators, including higher consumer spending and lower U.S. unemployment, and actions from central banks and governments globally remained accommodative. As a result, equity prices increased and credit spreads tightened. During the quarter, the U.S. Federal Reserve affirmed its intentions to keep short-term rates near zero for several years, and extra unemployment benefits were temporarily extended in the U.S. via an executive order. Additionally, the Bank of England signaled it could use negative rates as a potential policy tool, and the European Central Bank continued to intervene with monetary easing measures.

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

Critical Accounting Policies

Allowance for Credit Losses

We estimate and record an allowance for credit losses related to our loans held for investment and accounted for at amortized cost. We adopted ASU No. 2016-13, "Financial Instruments — Credit Losses (Topic 326) — Measurement of Credit Losses on Financial Instruments," in January 2020, which replaced the probable incurred credit loss model for recognizing credit losses with the CECL model. As a result, our allowance for credit losses effective January 2020, reflects our estimate of credit losses over the remaining expected life of such loans and also takes into account forecasts of future economic conditions. See Note 3 to the consolidated financial statements for further information about adoption of ASU No. 2016-13. To determine the allowance for credit losses, we classify our loans into wholesale and retail portfolios. These portfolios represent the level at which we have developed and documented our methodology to determine the allowance for credit losses. The allowance for credit losses is measured on a collective basis for loans that exhibit similar risk characteristics using a modeled approach and asset-specific basis for loans that do not share similar risk characteristics. The determination of the allowance for credit losses entails significant judgment on various risk factors. Risk factors for wholesale loans include internal credit ratings, industry default and loss data, expected life, macroeconomic indicators, the borrower's capacity to meet its financial obligations, the borrower's country of risk and industry, loan seniority and collateral type. In addition, for loans backed by real estate, risk factors include loan-to-value ratio, debt service ratio and home price index. Risk factors for installment and credit card loans include Fair Isaac Corporation (FICO) credit scores, delinquency status, loan vintage and macroeconomic indicators.

Our estimate of credit losses entails judgment about collectability at the reporting dates, and there are uncertainties inherent in those judgments. The allowance for credit losses is subject to a governance process that involves review and approval by senior management within our independent risk oversight and control functions. Personnel within GS Group's independent risk oversight and control functions are responsible for forecasting the economic variables that underlie the economic scenarios that are used in the modeling of expected credit losses. While we use the best information available to determine this estimate, future adjustments to the allowance may be necessary based on, among other things, changes in the economic environment or variances between actual results and the original assumptions used. Loans are charged off against the allowance for loan losses when deemed to be uncollectible.

Management's Discussion and Analysis

We also record an allowance for credit losses on lending commitments which are held for investment and accounted for at amortized cost. Such allowance is determined using the same methodology as the allowance for loan losses, while also taking into consideration the probability of drawdowns or funding, and is included in other liabilities. See Note 9 to the consolidated financial statements for further information about the allowance for credit losses.

Fair Value

Fair Value Hierarchy. Trading assets and liabilities, certain investments and loans and certain other financial assets and liabilities, are included in our consolidated balance sheets at fair value (i.e., marked-to-market), with related gains or losses generally recognized in our consolidated statements of earnings.

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. We measure certain financial assets and liabilities as a portfolio (i.e., based on its net exposure to market and/or credit risks). In determining fair value, the hierarchy under U.S. generally accepted accounting principles (U.S. GAAP) gives (i) the highest priority to unadjusted quoted prices in active markets for identical, unrestricted assets or liabilities (level 1 inputs), (ii) the next priority to inputs other than level 1 inputs that are observable, either directly or indirectly (level 2 inputs), and (iii) the lowest priority to inputs that cannot be observed in market activity (level 3 inputs). In evaluating the significance of a valuation input, we consider, among other factors, a portfolio's net risk exposure to that input. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

The fair values for substantially all of our financial assets and for the majority of our financial liabilities 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 our or our affiliates' credit quality, funding risk, transfer restrictions, liquidity and bid/offer spreads.

Instruments classified in level 3 of the fair value hierarchy are those which require one or more significant inputs that are not observable. Level 3 financial assets represented 1.0% as of September 2020, 1.0% as of June 2020 and 0.9% as of December 2019, of our total assets. See Notes 4 through 10 to the consolidated financial statements for further information about level 3 financial assets, including changes in level 3 financial assets and related fair value measurements. Absent evidence to the contrary, instruments classified in level 3 of the fair value hierarchy are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequent to the transaction date, we use other methodologies to determine fair value, which vary based on the type of instrument. Estimating the fair value of level 3 financial instruments requires judgments to be made. These judgments include:

- Determining the appropriate valuation methodology and/or model for each type of level 3 financial instrument;
- Determining model inputs based on an evaluation of all relevant empirical market data, including prices evidenced by market transactions, interest rates, credit spreads, volatilities and correlations; and
- Determining appropriate valuation adjustments, including those related to illiquidity or counterparty credit quality.

Regardless of the methodology, valuation inputs and assumptions are only changed when corroborated by substantive evidence.

Controls Over Valuation of Financial Instruments.

We leverage GS Group's control infrastructure over valuation of financial instruments, which is described below. Market makers and investment professionals in revenue-producing units are responsible for pricing our financial instruments. GS Group's control infrastructure is independent of the revenue-producing units and is fundamental to ensuring that all of our financial instruments are appropriately valued at market-clearing levels. In the event that there is a difference of opinion in situations where estimating the fair value of financial instruments requires judgment (e.g., calibration to market comparables or trade comparison, as described below), the final valuation decision is made by senior managers in independent risk oversight and control functions. This independent price verification is critical to ensuring that our financial instruments are properly valued.

Management's Discussion and Analysis

Price Verification. All financial instruments at fair value classified in levels 1, 2 and 3 of the fair value hierarchy are subject to an independent price verification process. The objective of price verification is to have an informed and independent opinion with regard to the valuation of financial instruments under review. Instruments that have one or more significant inputs which cannot be corroborated by external market data are classified in level 3 of the fair value hierarchy. Price verification strategies utilized by our independent risk oversight and control functions include:

- **Trade Comparison.** Analysis of trade data (both internal and external, where available) is used to determine the most relevant pricing inputs and valuations.
- **External Price Comparison.** Valuations and prices are compared to pricing data obtained from third parties (e.g., brokers or dealers, IHS Markit, Bloomberg, IDC, TRACE). Data obtained from various sources is compared to ensure consistency and validity. When broker or dealer quotations or third-party pricing vendors are used for valuation or price verification, greater priority is generally given to executable quotations.
- **Calibration to Market Comparables.** Market-based transactions are used to corroborate the valuation of positions with similar characteristics, risks and components.
- **Relative Value Analyses.** Market-based transactions are analyzed to determine the similarity, measured in terms of risk, liquidity and return, of one instrument relative to another or, for a given instrument, of one maturity relative to another.
- **Collateral Analyses.** Margin calls on derivatives are analyzed to determine implied values, which are used to corroborate our valuations.
- **Execution of Trades.** Where appropriate, market-making desks are instructed to execute trades in order to provide evidence of market-clearing levels.
- **Backtesting.** Valuations are corroborated by comparison to values realized upon sales.

See Note 4 to the consolidated financial statements for further information about fair value measurements.

Review of Net Revenues. Independent risk oversight and control functions ensure adherence to GS Group's pricing policy through a combination of daily procedures, including the explanation and attribution of net revenues based on the underlying factors. Through this process, we independently validate net revenues, identify and resolve potential fair value or trade booking issues on a timely basis and seek to ensure that risks are being properly categorized and quantified.

Review of Valuation Models. A model risk management group (Model Risk), consisting of quantitative professionals who are separate from model developers, performs an independent model review and validation process of valuation models. New or changed models are reviewed and approved prior to implementation. Models are reviewed annually to assess the impact of any changes in the product or market and any market developments in pricing theories. See "Risk Management — Model Risk Management" in Part II of the 2019 Annual Report for further information about the review and validation of valuation models.

Recent Accounting Developments

See Note 3 to the consolidated financial statements for information about Recent Accounting Developments.

Results of Operations

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed. The composition of net revenues can also vary over the shorter term due to fluctuations in economic and market conditions. In addition to transactions entered into with third parties, we also enter into transactions with affiliates in the normal course of business, primarily as part of our market-making activities. See "Risk Factors" in Part I of the 2019 Annual Report for further information about the impact of economic and market conditions on our results of operations.

If the COVID-19 pandemic persists, it may lead to a decline in market-making activity levels, a widening of credit spreads, a continued deterioration in the creditworthiness of borrowers, or a decline in consumer deposits. As a result, net revenues and the provision for credit losses would likely be negatively impacted.

Management's Discussion and Analysis

Financial Overview

The table below presents an overview of our financial results and selected financial ratios.

<i>\$ in millions</i>	Three Months		Nine Months	
	Ended September	2019	Ended September	2019
Net revenues	\$ 1,332	\$ 1,207	\$ 4,501	\$ 3,689
Pre-tax earnings	\$ 665	\$ 416	\$ 856	\$ 1,473
Net earnings	\$ 512	\$ 316	\$ 675	\$ 1,116
Net earnings to average total assets	0.7%	0.6%	0.3%	0.7%
Return on average shareholder's equity	7.0%	4.3%	3.1%	5.3%
Average shareholder's equity to average total assets	10.2%	13.7%	10.9%	14.1%

In the table above:

- Net earnings to average total assets and return on average shareholder's equity are annualized amounts.
- Return on average shareholder's equity is calculated by dividing annualized net earnings by average monthly shareholder's equity.

Net Revenues

The table below presents our net revenues by line item, as well as net interest margin.

<i>\$ in millions</i>	Three Months		Nine Months	
	Ended September	2019	Ended September	2019
Interest income	\$ 1,159	\$ 2,020	\$ 4,258	\$ 5,732
Interest expense	475	1,323	2,085	3,579
Net interest income	684	697	2,173	2,153
Non-interest revenues	648	510	2,328	1,536
Net revenues	\$ 1,332	\$ 1,207	\$ 4,501	\$ 3,689
Net interest margin	1.02%	1.38%	1.15%	1.52%

In the table above:

- Interest income includes interest earned from our lending portfolio, consisting of corporate lending, wealth management lending, commercial real estate lending, residential real estate lending, installment lending, credit card lending and other lending. Interest income is also earned from cash deposits held primarily at the Federal Reserve. In addition, interest is earned primarily from certain trading assets, investments, collateralized agreements, collateral balances posted to counterparties and foreign currency funding facilities.

- Interest expense includes interest related to deposit-taking activities. Interest expense also includes interest related to certain trading liabilities, collateralized financings, unsecured borrowings, collateral balances received from counterparties and foreign currency funding facilities. We apply hedge accounting to certain interest rate swaps used to manage the interest rate exposure of certain fixed-rate unsecured borrowings and certain fixed-rate term certificates of deposit (CDs). For qualifying fair value hedges, gains and losses on derivatives are included in interest expense. See Note 7 to the consolidated financial statements for further information about hedge accounting.
- Non-interest revenues includes gains and losses from financial assets and liabilities related to market-making and risk management activities in interest rate, currency, credit and other derivatives and certain related products which are primarily accounted for at fair value. Non-interest revenues also includes net gains and losses from loans and lending commitments primarily accounted for at fair value. In addition, non-interest revenues includes revenues earned from relationships with affiliates, loan syndication fees and other fees.
- During the third quarter of 2020, based on discussions with tax authorities, GS Group updated its methodology for allocating net revenues among affiliates for their participation in GS Group's global market making activities. This update, which is effective from January 1, 2020, resulted in an increase of \$210 million in our gains from financial assets and liabilities for the third quarter and the first nine months of 2020 compared to the third quarter and the first nine months of 2019 (approximately \$80 million of which relates to the first half of 2020).

Three Months Ended September 2020 versus September 2019. Net revenues in the consolidated statements of earnings were \$1.33 billion for the third quarter of 2020, an increase of 10% compared with \$1.21 billion for the third quarter of 2019, primarily reflecting higher gains from financial assets and liabilities.

Net Interest Income

Net interest income in the consolidated statements of earnings was \$684 million for the third quarter of 2020, essentially unchanged compared with the third quarter of 2019. Net interest income was 51% of net revenues in the third quarter of 2020, compared with 58% in the third quarter of 2019.

Management's Discussion and Analysis

Net Interest Margin

Net interest margin was 102 basis points for the third quarter of 2020, a decrease of 36 basis points compared with 138 basis points for the third quarter of 2019, primarily driven by a lower interest rate environment.

Non-Interest Revenues

Non-interest revenues were \$648 million for the third quarter of 2020, 27% higher than the third quarter of 2019, primarily reflecting higher gains from financial assets and liabilities.

Nine Months Ended September 2020 versus September 2019. Net revenues in the consolidated statements of earnings were \$4.50 billion for the first nine months of 2020, an increase of 22% compared with \$3.69 billion for the first nine months of 2019, primarily reflecting higher gains from financial assets and liabilities.

Net Interest Income

Net interest income in the consolidated statements of earnings was \$2.17 billion for the first nine months of 2020, essentially unchanged compared with the first nine months of 2019. Net interest income was 48% of net revenues in the first nine months of 2020, compared with 58% in the first nine months of 2019.

Net Interest Margin

Net interest margin was 115 basis points for the first nine months of 2020, a decrease of 37 basis points compared with 152 basis points for the first nine months of 2019, primarily driven by a lower interest rate environment.

Non-Interest Revenues

Non-interest revenues were \$2.33 billion for the first nine months of 2020, 52% higher than the first nine months of 2019, primarily reflecting higher gains from financial assets and liabilities.

Interest Income

The table below presents our sources of interest income.

\$ in millions	Three Months		Nine Months	
	Ended September		Ended September	
	2020	2019	2020	2019
Loans	\$ 834	\$ 933	\$ 2,685	\$ 2,780
Trading assets	156	283	772	737
Collateralized agreements	48	238	219	671
Deposits with banks	14	170	157	635
Investments	51	34	135	78
Other	56	362	290	831
Total interest income	\$ 1,159	\$ 2,020	\$ 4,258	\$ 5,732

Three Months Ended September 2020 versus September 2019. Interest income in the consolidated statements of earnings was \$1.16 billion for the third quarter of 2020, 43% lower than the third quarter of 2019. See below and “Supplemental Financial Information — Distribution of Assets, Liabilities and Shareholder’s Equity” for further information about our sources of interest income, including average balances and rates.

Interest income from loans was \$834 million for the third quarter of 2020, 11% lower than the third quarter of 2019, due to lower rates, partially offset by higher average balances. See Note 9 to the consolidated financial statements for further information about loans.

Interest income from trading assets was \$156 million for the third quarter of 2020, 45% lower than the third quarter of 2019, due to lower rates, partially offset by higher average balances. See Note 5 to the consolidated financial statements for further information about trading assets.

Interest income from collateralized agreements was \$48 million for the third quarter of 2020, 80% lower than the third quarter of 2019, primarily due to lower rates. See Note 11 to the consolidated financial statements for further information about collateralized agreements.

Interest income from deposits with banks was \$14 million for the third quarter of 2020, 92% lower than the third quarter of 2019, primarily due to lower rates. See Note 3 to the consolidated financial statements for further information about our cash.

Interest income from investments was \$51 million for the third quarter of 2020, 50% higher than the third quarter of 2019, due to higher average balances, partially offset by lower rates. See Note 8 to the consolidated financial statements for further information about investments.

Other interest income was \$56 million for the third quarter of 2020, 85% lower than the third quarter of 2019, primarily due to lower rates. Other interest income primarily includes interest income on loans held for sale that are accounted for at the lower of cost or fair value, collateral balances posted to counterparties and foreign currency funding facilities.

Management's Discussion and Analysis

Nine Months Ended September 2020 versus September 2019. Interest income in the consolidated statements of earnings was \$4.26 billion for the first nine months of 2020, 26% lower than the first nine months of 2019. See below and “Supplemental Financial Information — Distribution of Assets, Liabilities and Shareholder’s Equity” for further information about our sources of interest income, including average balances and rates.

Interest income from loans was \$2.69 billion for the first nine months of 2020, 3% lower than the first nine months of 2019, due to lower rates, partially offset by higher average balances. See Note 9 to the consolidated financial statements for further information about loans.

Interest income from trading assets was \$772 million for the first nine months of 2020, 5% higher than the first nine months of 2019, due to higher average balances, partially offset by lower rates. See Note 5 to the consolidated financial statements for further information about trading assets.

Interest income from collateralized agreements was \$219 million for the first nine months of 2020, 67% lower than the first nine months of 2019, primarily due to lower rates. See Note 11 to the consolidated financial statements for further information about collateralized agreements.

Interest income from deposits with banks was \$157 million for the first nine months of 2020, 75% lower than the first nine months of 2019, due to lower rates, partially offset by higher average balances. See Note 3 to the consolidated financial statements for further information about our cash.

Interest income from investments was \$135 million for the first nine months of 2020, 73% higher than the first nine months of 2019, due to higher average balances, partially offset by lower rates. See Note 8 to the consolidated financial statements for further information about investments.

Other interest income was \$290 million for the first nine months of 2020, 65% lower than the first nine months of 2019, primarily due to lower rates. Other interest income primarily includes interest income on loans held for sale that are accounted for at the lower of cost or fair value, collateral balances posted to counterparties and foreign currency funding facilities.

Interest Expense

The table below presents our sources of interest expense.

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2020	2019	2020	2019
Deposits	\$ 414	\$ 943	\$ 1,668	\$ 2,636
Borrowings	24	70	110	207
Collateralized financings	6	84	68	198
Trading liabilities	12	12	65	42
Other	19	214	174	496
Total interest expense	\$ 475	\$ 1,323	\$ 2,085	\$ 3,579

Three Months Ended September 2020 versus September 2019. Interest expense in the consolidated statements of earnings was \$475 million for the third quarter of 2020, 64% lower than the third quarter of 2019. See below and “Supplemental Financial Information — Distribution of Assets, Liabilities and Shareholder’s Equity” for further information about our sources of interest expense, including average balances and rates.

Interest expense from deposits was \$414 million for the third quarter of 2020, 56% lower than the third quarter of 2019, due to lower rates, partially offset by higher average balances.

Interest expense from borrowings was \$24 million for the third quarter of 2020, 66% lower than the third quarter of 2019, primarily due to lower rates.

Interest expense from collateralized financings was \$6 million for the third quarter of 2020, 93% lower than the third quarter of 2019, primarily due to lower rates.

Other interest expense was \$19 million for the third quarter of 2020, 91% lower than the third quarter of 2019, primarily due to lower rates. Other interest expense primarily includes interest expense on collateral balances received from counterparties and interest expense on foreign currency funding facilities.

Nine Months Ended September 2020 versus September 2019. Interest expense in the consolidated statements of earnings was \$2.09 billion for the first nine months of 2020, 42% lower than the first nine months of 2019. See below and “Supplemental Financial Information — Distribution of Assets, Liabilities and Shareholder’s Equity” for further information about our sources of interest expense, including average balances and rates.

Management's Discussion and Analysis

Interest expense from deposits was \$1.67 billion for the first nine months of 2020, 37% lower than the first nine months of 2019, due to lower rates, partially offset by higher average balances.

Interest expense from borrowings was \$110 million for the first nine months of 2020, 47% lower than the first nine months of 2019, primarily due to lower rates.

Interest expense from collateralized financings was \$68 million for the first nine months of 2020, 66% lower than the first nine months of 2019, primarily due to lower rates.

Interest expense from trading liabilities was \$65 million for the first nine months of 2020, 55% higher than the first nine months of 2019, due to higher average balances, partially offset by lower rates.

Other interest expense was \$174 million for the first nine months of 2020, 65% lower than the first nine months of 2019, due to lower rates, partially offset by higher average balances. Other interest expense primarily includes interest expense on collateral balances received from counterparties and interest expense on foreign currency funding facilities.

Provision for Credit Losses

Provision for credit losses consists of provision for credit losses on loans and lending commitments held for investment and accounted for at amortized cost. See Note 9 to the consolidated financial statements for further information about the provision for credit losses.

The table below presents our provision for credit losses.

	Three Months		Nine Months	
	Ended September		Ended September	
<i>\$ in millions</i>	2020	2019	2020	2019
Provision for credit losses	\$ 76	\$ 157	\$ 1,791	\$ 487

Three Months Ended September 2020 versus September 2019. Provision for credit losses in the consolidated statements of earnings was \$76 million for the third quarter of 2020, a decrease of 52% compared with \$157 million for the third quarter of 2019. This decrease was primarily due to reserve reductions from paydowns on corporate lines of credit and consumer installment loans, partially offset by reserve increases from individual impairments related to wholesale loans and growth in credit card loans.

Provision for credit losses for wholesale loans included approximately \$80 million related to the impact of individual impairments, primarily across the technology, media & telecommunications and natural resources industries, during the third quarter of 2020. Net charge-offs for consumer loans were approximately \$65 million during the third quarter of 2020.

Nine Months Ended September 2020 versus September 2019.

Provision for credit losses in the consolidated statements of earnings was \$1.79 billion for the first nine months of 2020, compared with \$487 million for the first nine months of 2019. This increase was primarily due to significantly higher provisions related to wholesale loans as a result of forecasts of expected deterioration in the broader economic environment (incorporating the accounting for credit losses under the CECL standard) reflecting the impact of the COVID-19 pandemic during the first nine months of 2020. In addition, the increase in provisions related to wholesale loans reflected the impact of individual impairments and ratings downgrades during the first nine months of 2020. The first nine months of 2020 also included provisions related to credit card loans. See Note 3 to the consolidated financial statements for further information about ASU No. 2016-13.

Provision for credit losses for wholesale loans included approximately \$460 million related to the impact of individual impairments, primarily across the diversified industrials, technology, media & telecommunications and natural resources industries, during the first nine months of 2020. Net charge-offs for consumer loans were approximately \$230 million during the first nine months of 2020.

Operating Expenses

Our operating expenses are primarily influenced by compensation, headcount and levels of business activity. Compensation and benefits includes salaries, estimated year-end discretionary compensation, amortization of equity awards and other items such as benefits. Compensation and benefits relate to direct Bank employees. Discretionary compensation is significantly impacted by, among other factors, GS Group's overall financial performance, prevailing labor markets, business mix, the structure of GS Group's share-based compensation programs and the external environment. Another component of our operating expenses is service charges, which are employment related costs of dual employees and employees of affiliates pursuant to the Master Services Agreement.

Management's Discussion and Analysis

The table below presents our operating expenses by line item and headcount.

<i>\$ in millions</i>	Three Months		Nine Months	
	Ended September	2019	Ended September	2019
Compensation and benefits	\$ 129	\$ 122	\$ 455	\$ 442
Service charges	125	136	369	355
Professional fees	62	77	186	156
Market development	22	54	122	155
Communications and technology	52	43	151	116
Brokerage, clearing, exchange and distribution fees	26	31	85	81
Other expenses	175	171	486	424
Total operating expenses	\$ 591	\$ 634	\$ 1,854	\$ 1,729
Headcount at period-end	2,392	2,127		

In the table above:

- Compensation and benefits and service charges include employee-related expenses. As described above, compensation and benefits are expenses of direct Bank employees. Service charges are expenses related to dual employees and employees of affiliates who provide services to us pursuant to the Master Services Agreement.
- Other expenses primarily includes expenses related to loan securitizations, regulatory and agency fees, lending related expenses and depreciation.

Three Months Ended September 2020 versus September 2019. Operating expenses in the consolidated statements of earnings were \$591 million for the third quarter of 2020, 7% lower than the third quarter of 2019.

Compensation and benefits expenses in the consolidated statements of earnings were \$129 million for the third quarter of 2020, 6% higher than the third quarter of 2019, reflecting higher net revenues.

Service charges in the consolidated statements of earnings were \$125 million for the third quarter of 2020, 8% lower than the third quarter of 2019, reflecting a decrease in compensation expenses charged by affiliates pursuant to the Master Services Agreement.

Professional fees in the consolidated statements of earnings were \$62 million for the third quarter of 2020, 19% lower than the third quarter of 2019, primarily due to lower consultant expenses related to our consumer business.

Market development expenses in the consolidated statements of earnings were \$22 million for the third quarter of 2020, 59% lower than the third quarter of 2019, primarily due to lower advertising expenses related to our consumer business.

Communications and technology expenses in the consolidated statements of earnings were \$52 million for the third quarter of 2020, 21% higher than the third quarter of 2019, primarily due to our consumer business.

Brokerage, clearing, exchange and distribution fees in the consolidated statements of earnings were \$26 million for the third quarter of 2020, 16% lower than the third quarter of 2019, primarily due to decreased client activity, primarily in interest rate and currency products.

Nine Months Ended September 2020 versus September 2019. Operating expenses in the consolidated statements of earnings were \$1.85 billion for the first nine months of 2020, 7% higher than the first nine months of 2019.

Compensation and benefits expenses in the consolidated statements of earnings were \$455 million for the first nine months of 2020, 3% higher than the first nine months of 2019, reflecting higher net revenues.

Service charges in the consolidated statements of earnings were \$369 million for the first nine months of 2020, 4% higher than the first nine months of 2019, reflecting an increase in compensation expenses charged by affiliates pursuant to the Master Services Agreement.

Professional fees in the consolidated statements of earnings were \$186 million for the first nine months of 2020, 19% higher than the first nine months of 2019, primarily due to higher consultant expenses related to our consumer business.

Market development expenses in the consolidated statements of earnings were \$122 million for the first nine months of 2020, 21% lower than the first nine months of 2019, primarily due to lower advertising expenses related to our consumer business.

Communications and technology expenses in the consolidated statements of earnings were \$151 million for the first nine months of 2020, 30% higher than the first nine months of 2019, primarily due to our consumer business.

Brokerage, clearing, exchange and distribution fees in the consolidated statements of earnings were \$85 million for the first nine months of 2020, 5% higher than the first nine months of 2019, primarily due to increased client activity.

Other expenses in the consolidated statements of earnings were \$486 million for the first nine months of 2020, 15% higher than the first nine months of 2019, primarily due to higher regulatory and agency fees, fraud losses and origination and servicing expenses related to our consumer business.

Management's Discussion and Analysis

Provision for Taxes

The effective income tax rate for the first nine months of 2020 was 21.1%, down from the full year tax rate of 22.3% for 2019, primarily due to an increase in tax benefit related to the state and local taxes, partially offset by provisions for uncertain tax positions. The 21.1% effective tax rate for the first nine months of 2020 was up from 14.7% for the first half of 2020, primarily due to an increase in tax expense related to the state and local taxes, partially offset by lower provisions for uncertain tax positions in the third quarter of 2020 compared to the first half of 2020.

The CARES Act was enacted on March 27, 2020. The CARES Act includes retroactive and prospective provisions enacted to provide income tax relief and liquidity to businesses affected by the COVID-19 pandemic. The legislation includes corporate income tax provisions that temporarily allow for the carryback of net operating losses and remove limitations on the use of loss carryforwards, increase interest expense deduction limitations and allow accelerated depreciation deductions on certain asset improvements. The CARES Act did not have a material impact on our effective tax rate for the first nine months of 2020.

In July 2020, the U.S. Internal Revenue Service (IRS) and the U.S. Department of the Treasury released final and proposed regulations related to Global Intangible Low Taxed Income (GILTI). In September 2020, Base Erosion and Anti-Abuse Tax (BEAT) regulations were released finalizing proposed regulations and supplementing final regulations that were released in 2019. During both the first nine months of 2020 and the year ended December 2019, we were not subject to BEAT and GILTI.

Balance Sheet and Funding Sources

See "Balance Sheet and Funding Sources" in Part II of the 2019 Annual Report for further information about our balance sheet management process and our funding sources.

Balance Sheet Analysis

As of September 2020, total assets in our consolidated balance sheets were \$277.94 billion, an increase of \$49.10 billion from December 2019, primarily reflecting increases in securities purchased under agreements to resell (resale agreements) of \$20.91 billion, investments of \$21.29 billion and loans of \$4.14 billion. The increase in resale agreements reflects a change in the composition of our global core liquid assets (GCLA). The increase in investments is primarily due to the purchase of available for sale securities. The increase in loans primarily reflects an increase in corporate loans.

As of September 2020, total liabilities in our consolidated balance sheets were \$248.10 billion, an increase of \$48.60 billion from December 2019, primarily reflecting increases in deposits of \$50.59 billion. The increase in deposits primarily reflected an increase in transaction banking, consumer and private bank deposits.

Funding Sources

Our primary sources of funding are deposits, collateralized financings, unsecured borrowings and shareholder's equity. We seek to maintain broad and diversified funding sources across products, programs, tenors and creditors to avoid funding concentrations.

The table below presents information about our funding sources.

<i>\$ in millions</i>	As of			
	September 2020		December 2019	
Deposits	\$ 218,988	84%	\$ 168,398	78%
Collateralized financings	6,367	3%	10,548	5%
Unsecured borrowings	6,264	2%	7,258	3%
Total shareholder's equity	29,842	11%	29,332	14%
Total	\$ 261,461	100%	\$ 215,536	100%

Substantially all of our funding is raised in U.S. dollars. We generally distribute our funding products through third-party distributors and private wealth advisors, to a depositor base in a variety of markets and directly to U.S. consumers, through our digital deposit platform. We believe that our relationships with our creditors are critical to our liquidity. Our creditors include individuals, financial institutions, nonfinancial institutions, corporations and asset managers. We have imposed various internal guidelines to monitor creditor concentration across our funding programs.

Deposits. Our deposits provide us with a diversified source of funding and reduce our reliance on wholesale funding. We accept deposits, including savings, demand and time deposits. Our depositors include private bank clients, U.S. consumers, clients of third-party broker-dealers, institutions, corporations and affiliates.

We also accept deposits from Funding IHC and Group Inc.

The average annualized interest rate on our interest-bearing deposits was 0.77% for the third quarter of 2020, 2.57% for the third quarter of 2019, 1.15% for the first nine months of 2020 and 2.54% for the first nine months of 2019.

Management's Discussion and Analysis

The table below presents our average annualized interest rate on each type of deposit.

	Three Months		Nine Months	
	Ended September		Ended September	
	2020	2019	2020	2019
Savings and demand	0.46%	2.21%	0.83%	2.32%
Time	1.42%	3.19%	1.70%	2.93%

See “Supplemental Financial Information — Distribution of Assets, Liabilities, and Shareholder’s Equity” and Note 13 to the consolidated financial statements for further information about deposits.

Collateralized Financings. We fund certain of our inventory and a portion of investments on a secured basis by entering into collateralized financing agreements, such as securities sold under agreements to repurchase (repurchase agreements). We are also a member of the FHLB. Outstanding borrowings from the FHLB were \$501 million as of September 2020 and \$527 million as of December 2019. See Note 11 to the consolidated financial statements for further information about collateralized financings.

Additionally, we have access to funding through the Federal Reserve discount window. However, we do not rely on this funding in our liquidity planning and stress testing.

Unsecured Borrowings. We may raise funding through unsecured borrowings, primarily from Funding IHC and Group Inc. Group Inc. raises non-deposit unsecured funding and lends to Funding IHC and other affiliates, including consolidated subsidiaries, such as us, to meet those entities’ funding needs. This approach enhances the flexibility with which Funding IHC and Group Inc. can meet our and other Group Inc. subsidiaries’ funding requirements. We may also raise funding through issuing senior unsecured debt. See Note 14 to the consolidated financial statements for further information about our unsecured borrowings.

Shareholder’s Equity. Shareholder’s equity is a stable and perpetual source of funding. See the consolidated statements of changes in shareholder’s equity in the consolidated financial statements for further information about our equity transactions.

Equity Capital Management and Regulatory Capital

Capital adequacy is of critical importance to us. We have in place a comprehensive capital management policy that provides a framework, defines objectives and establishes guidelines to assist us in maintaining the appropriate level and composition of capital in both business-as-usual and stressed conditions. See “Equity Capital Management and Regulatory Capital” in Part II of the 2019 Annual Report for further information about our equity capital management process and regulatory capital requirement.

Restrictions on Payments

Our payment of dividends to Group Inc. is subject to certain restrictions. In addition to limitations on the payment of dividends imposed by federal and state laws, the FRB and the FDIC have the authority to prohibit or limit the payment of dividends by the banking organizations they supervise if, in their opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization, pursuant to applicable FRB regulations.

As a result of our election to exclude holdings of U.S. Treasury securities and deposits at the Federal Reserve from our total leverage exposure, any dividend during the period from July 1, 2020 through March 31, 2021 is subject to the prior approval of the FRB. Furthermore, the amount of dividends that may be paid is limited to the lesser of the amounts calculated under a recent earnings test and an undivided profits test.

We did not pay a dividend to Group Inc. during both the nine months ended September 2020 and the year ended December 2019. Under the recent earnings test and undivided profits test, we could have declared dividends up to \$4.42 billion as of September 2020, and \$5.16 billion as of December 2019, to Group Inc. See Note 19 to the consolidated financial statements for information about restrictions on dividends, including in connection with temporary amendments to the supplementary leverage ratio.

Management's Discussion and Analysis

Stress Testing Process

Our stress tests incorporate our internally designed stress scenarios, including our internally developed severely adverse scenario, and are designed to capture our specific vulnerabilities and risks.

In 2020, we were not required by FRB regulations to conduct the annual stress test under U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act Stress Tests (DFAST). Based on growth in our average balance sheet, we will be subject to this requirement beginning in 2022.

Regulatory and Other Matters

Regulatory Matters

See "Regulation" in Part I of the 2019 Annual Report for further information about the laws, rules and regulations and proposed laws, rules and regulations that apply to us and our operations. In addition, see Note 19 to the consolidated financial statements for information about our risk-based capital ratios and leverage ratios.

Other Matters

U.K.'s Decision to leave the E.U. (Brexit). In March 2017, the U.K. government commenced the formal proceedings to withdraw from the E.U.

The E.U. and the U.K. agreed to a withdrawal agreement (the Withdrawal Agreement), which became effective on January 31, 2020. The transition period under the Withdrawal Agreement will last until the end of December 2020 to allow the two sides to negotiate a future trade agreement. During the transition period, the U.K. will be treated as if it were a member state of the E.U. and therefore the existing arrangements between the U.K. and the E.U. will not change. The Withdrawal Agreement provides for the possibility of an extension of the transition period for either one or two more years. However, the U.K. formally confirmed to the E.U. in June 2020 that it will not seek an extension period beyond December 31, 2020.

The E.U. and the U.K. have not yet completed their assessments of equivalence, based upon the existing non-E.U. country equivalence regimes and there is increasing uncertainty as to the likelihood of those assessments being in place by the end of the transition period. GS Group is monitoring the ongoing development related to Brexit and continues to prepare for a scenario where the U.K. financial services firms will lose access to E.U. markets on December 31, 2020 (a "hard" Brexit) while ensuring it remains flexible and well positioned to allow its clients to benefit from any more favorable scenarios. GS Group's planning also recognizes that after the end of the transition period, GS Group can rely on a degree of continuing access for its U.K. entities pursuant to national cross-border access regimes in certain jurisdictions (for example, based on specific licenses or exemptions).

Replacement of Interbank Offered Rates (IBORs), including LIBOR.

Central banks and regulators in a number of major jurisdictions (for example, U.S., U.K., E.U., Switzerland and Japan) have convened working groups to find, and implement the transition to, suitable replacements for IBORs. The Financial Conduct Authority (FCA), which regulates LIBOR, has announced that it will not compel panel banks to contribute to LIBOR after 2021. In the first quarter of 2020, the FCA, alongside the Bank of England and the members of the Working Group on Sterling Risk-Free Reference Rates, issued a statement reaffirming that firms cannot rely on LIBOR being published after 2021. In October 2020, the International Swaps and Derivatives Association (ISDA) launched the IBOR Fallbacks Protocol, which will become effective in January 2021, and will provide derivatives market participants with new fallbacks for legacy and new derivatives contracts. Both counterparties will have to adhere to the Fallbacks Protocol or engage in bilateral amendments for the terms to be effective for derivative contracts. We have adhered to the Fallbacks Protocol for our derivative contracts. GS Group continues to make progress on its LIBOR transition program in line with this deadline. GS Group has created a program that focuses on achieving an orderly transition from IBORs to alternative risk-free reference rates for us and our clients. As part of this transition, GS Group continues to actively engage with regulators and clients, as well as participate in central bank and sector working groups. See "Regulatory Matters and Other Developments — Other Developments" in Part II of the 2019 Annual Report for further information about the transition program.

Management's Discussion and Analysis

Consent Order with the NYDFS. Group Inc. has entered into a consent order with the NYDFS that resolves an investigation in connection with GS Group's involvement in bond transactions for 1Malaysia Development Berhad (1MDB). The consent order requires us, together with Group Inc., to create a written plan acceptable to the NYDFS detailing enhancements to the policies and procedures that control how our affiliates provide services to us.

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

GS Group has continued to successfully execute on its business continuity planning strategy since initially activating it in the first quarter of 2020 in response to the emergence of the COVID-19 pandemic.

Despite the ongoing pandemic, our liquidity position during the third quarter of 2020 remained strong as our GCLA averaged \$142 billion for the quarter. Our CET1 capital ratios under the Standardized approach improved to 12.3% as of the end of the third quarter of 2020, up 110 basis points compared with the second quarter of 2020, as we effectively managed our capital while deploying balance sheet. See "Balance Sheet and Funding Sources," "Equity Capital Management and Regulatory Capital" and "Liquidity Risk Management" for further information.

The ongoing uncertainty regarding future developments associated with the COVID-19 pandemic and the path of the global economy creates added challenges and complexities in determining the allowance for credit losses, as the process is inherently judgmental and requires estimation of expected credit losses based on economic forecasts and other considerations. See Note 9 to the consolidated financial statements for further information about our allowance for credit losses.

Volatility remains at elevated levels and continues to be a driver of client activity. We have remained committed to serving the needs of clients by deploying our balance sheet in a disciplined manner to intermediate risk. Our average daily Value-at-Risk (VaR) for the third quarter of 2020 was \$47 million, \$16 million higher than the third quarter of 2019. We have maintained our proactive approach to managing market risk levels, which entails ongoing review and monitoring of exposures and focusing on ways to mitigate risk. With respect to credit risk, the gradual reopening of global economies and ongoing actions taken by governments have aided borrowers that have faced significant disruptions due to the COVID-19 pandemic, such as companies in the oil and gas, gaming and lodging, and airlines industries, but these borrowers still face substantial pressure in trying to manage through the crisis. In relationship lending, drawdowns on credit facilities are returning to more normalized levels, with net paydowns of approximately \$5 billion occurring during the third quarter of 2020. However, credit risk, in general, remains elevated across the banking industry. Throughout this crisis, we have remained highly focused on monitoring of credit exposures and management of margin calls and disputes. Our risk positions remained balanced, controlled and adequately provisioned for, both in terms of counterparty risk and sector exposure. See "Market Risk Management" and "Credit Risk Management" for further information.

Management's Discussion and Analysis

Our actions in response to the COVID-19 pandemic have included granting forbearance to certain corporate and other borrowers who have made requests to defer payments. We had approximately \$410 million of corporate loans and approximately \$240 million of commercial real estate loans under forbearance as of September 2020. We have continued to provide relief to consumers through programs to help them manage the financial challenges that they face as a result of the COVID-19 pandemic. The accommodations under these programs include providing borrowers of installment and credit card loans the ability to modify or defer payments without incurring interest charges and permitting Marcus depositors to access certificates of deposit early without a penalty. As of September 2020, installment and credit card loans with a gross carrying value of approximately \$300 million were enrolled in such programs. In aggregate, loans under forbearance or relief programs represented approximately 1% of total loans.

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

Contractual Obligations

We have certain contractual obligations which require us to make future cash payments. These contractual obligations include our time deposits, secured long-term financings, unsecured long-term borrowings and interest payments.

Our obligations to make future cash payments also include our commitments and guarantees related to off-balance sheet arrangements, which are excluded from the table below. See Note 18 to the consolidated financial statements for further information about such commitments and guarantees.

Due to the uncertainty of the timing and amounts that will ultimately be paid, our liability for unrecognized tax benefits has been excluded from the table below. See Note 22 to the consolidated financial statements for further information about our unrecognized tax benefits.

The table below presents our contractual obligations by type.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
Time deposits	\$ 27,526	\$ 30,757
Financings and borrowings:		
Secured long-term	\$ 337	\$ –
Unsecured long-term	\$ 6,225	\$ 6,205
Interest payments	\$ 1,722	\$ 2,361

The table below presents our contractual obligations by expiration.

<i>\$ in millions</i>	As of September 2020			
	Remainder of 2020	2021 - 2022	2023 - 2024	2025 - Thereafter
Time deposits	\$ –	\$ 12,538	\$ 10,643	\$ 4,345
Financings and borrowings:				
Secured long-term	\$ –	\$ 134	\$ 18	\$ 185
Unsecured long-term	\$ –	\$ –	\$ 2,955	\$ 3,270
Interest payments	\$ 146	\$ 1,021	\$ 418	\$ 137

In the table above:

- Obligations maturing within one year of our financial statement date or redeemable within one year of our financial statement date at the option of the holders are excluded as they are treated as short-term obligations. See Notes 11 and 14 to the consolidated financial statements for further information about our short-term borrowings.
- Obligations that are repayable prior to maturity at our option are reflected at their contractual maturity dates and obligations that are redeemable prior to maturity at the option of the holders are reflected at the earliest dates such options become exercisable.
- Interest payments represents estimated future contractual interest payments related to unsecured long-term borrowings and time deposits based on applicable interest rates as of September 2020.

Management's Discussion and Analysis

Risk Management

Risks are inherent in our businesses and include liquidity, market, credit, operational, model, legal, compliance, conduct, regulatory and reputational risks. Our risks include the risks across our risk categories, regions or businesses, as well as those which have uncertain outcomes and have the potential to materially impact our financial results, our liquidity and our reputation. For further information about our risk management processes, see "Overview and Structure of Risk Management," "Liquidity Risk Management," "Market Risk Management," "Credit Risk Management," "Operational Risk Management," "Model Risk Management" and "Risk Factors," below and in Parts I and II of the 2019 Annual Report.

Liquidity Risk Management

Overview

Liquidity risk is the risk that we will be unable to fund ourselves or meet our liquidity needs in the event of Bank-specific, GS Group, broader industry or market liquidity stress events. We have in place a comprehensive and conservative set of liquidity and funding policies. Our principal objective is to be able to fund ourselves and to enable our core businesses to continue to serve clients and generate revenues, even under adverse circumstances. See "Liquidity Risk Management" in Part II of the 2019 Annual Report for further information about our liquidity risk management process.

GCLA Metrics

Based on the results of our internal liquidity risk models, as well as our consideration of other factors including, but not limited to, a qualitative assessment of GS Group's, inclusive of our, condition, as well as the financial markets, we believe our liquidity position as of both September 2020 and December 2019 was appropriate. We strictly limit our GCLA to a narrowly defined list of securities and cash because they are highly liquid, even in a difficult funding environment. We do not include other potential sources of excess liquidity in our GCLA, such as less liquid unencumbered securities or committed credit facilities.

The table below presents information about our GCLA by asset class.

<i>\$ in millions</i>	Average for the Three Months Ended	
	September 2020	June 2020
Overnight cash deposits	\$ 55,148	\$ 68,567
U.S. government obligations	81,424	41,720
U.S. agency obligations	5,698	14,485
Non-U.S. government obligations	138	141
Total	\$ 142,408	\$ 124,913

GCLA consists of (i) certain overnight U.S. dollar cash deposits, (ii) unencumbered U.S. government and agency obligations (including highly liquid U.S. agency mortgage-backed obligations), all of which are eligible as collateral in Federal Reserve open market operations and (iii) certain non-U.S. dollar-denominated government obligations.

Liquidity Regulatory Framework

We are subject to a minimum Liquidity Coverage Ratio (LCR) under the LCR rule approved by the U.S. federal bank regulatory agencies. The LCR rule requires organizations to maintain an adequate ratio of eligible high-quality liquid assets to expected net cash outflows under an acute short-term liquidity stress scenario. We are required to maintain a minimum LCR of 100%. As of September 2020, our LCR exceeded the minimum requirement.

In October 2020, the U.S. federal bank regulatory agencies issued a final rule that establishes a net stable funding ratio (NSFR) requirement for large U.S. banking organizations. This rule will become effective on July 1, 2021 and requires banking organizations to ensure they have access to stable funding over a one-year time horizon.

Credit Ratings

Credit ratings are important when we are competing in certain markets, such as over-the-counter (OTC) derivatives, and when we seek to engage in longer-term transactions.

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

	As of September 2020		
	Fitch	Moody's	S&P
Short-term debt	F1	P-1	A-1
Long-term debt	A+	A1	A+
Short-term bank deposits	F1+	P-1	N/A
Long-term bank deposits	AA-	A1	N/A
Ratings outlook	Negative	Stable	Stable

Management's Discussion and Analysis

We believe our credit ratings are primarily based on the credit rating agencies' assessment of:

- Our status within GS Group and likelihood of GS Group support;
- Our liquidity, market, credit and operational risk management practices;
- The level and variability of our earnings;
- Our capital base;
- Our primary businesses, reputation and management;
- Our corporate governance; and
- The external operating and economic environment, including, in some cases, the assumed level of government support or other systemic considerations, such as potential resolution.

Market Risk Management

Overview

Market risk is the risk of loss in the value of our positions, investments, loans and other financial assets and liabilities, due to changes in market conditions. We hold such positions primarily for market making for our clients and for our investing and financing activities, and therefore, these positions change based on client demands and our investment opportunities. We employ a variety of risk measures, each described in the respective sections below, to monitor market risk.

Categories of market risk include the following:

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

See "Market Risk Management" in Part II of the 2019 Annual Report for further information about our market risk management process.

Metrics

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

The table below presents our average daily VaR.

\$ in millions	Three Months Ended			Nine Months Ended September	
	September	June	September	2020	2019
	2020	2020	2019		
Categories					
Interest rates	\$ 44	\$ 71	\$ 31	\$ 51	\$ 26
Currency rates	13	14	6	11	4
Equity prices	5	6	–	4	–
Diversification effect	(15)	(19)	(6)	(14)	(4)
Total	\$ 47	\$ 72	\$ 31	\$ 52	\$ 26

Our average daily VaR decreased to \$47 million for the third quarter of 2020 from \$72 million for the second quarter of 2020, primarily due to a decrease in the interest rates category. The overall decrease was primarily due to lower levels of volatility.

Our average daily VaR increased to \$47 million for the third quarter of 2020 from \$31 million for the third quarter of 2019, primarily due to an increase in the interest rates category. The overall increase was primarily due to higher levels of volatility.

Our average daily VaR increased to \$52 million for the nine months ended September 2020 from \$26 million for the nine months ended September 2019, primarily due to an increase in the interest rates category. The overall increase was primarily due to higher levels of volatility.

The table below presents our period-end VaR.

\$ in millions	As of		
	September	June	September
	2020	2020	2019
Categories			
Interest rates	\$ 47	\$ 55	\$ 34
Currency rates	16	13	3
Equity prices	–	8	–
Diversification effect	(10)	(18)	(6)
Total	\$ 53	\$ 58	\$ 31

Management's Discussion and Analysis

Our period-end VaR decreased to \$53 million as of September 2020 from \$58 million as of June 2020, primarily due to a decrease in the interest rates category. The overall decrease was primarily due to lower levels of volatility.

Our period-end VaR increased to \$53 million as of September 2020 from \$31 million as of September 2019, primarily due to increases in the interest rates and currency rates categories. The overall increase was primarily due to higher levels of volatility.

During the nine months ended September 2020, our total VaR limit was exceeded five times. There were no permanent changes to the Bank-wide VaR risk limit during this period. However, there were temporary increases to the Bank-wide VaR risk limit as a result of the market environment.

The table below presents our high and low VaR.

\$ in millions	Three Months Ended					
	September 2020		June 2020		September 2019	
	High	Low	High	Low	High	Low
Categories						
Interest rates	\$ 55	\$ 36	\$ 92	\$ 51	\$ 46	\$ 25
Currency rates	\$ 16	\$ 10	\$ 18	\$ 11	\$ 25	\$ 2
Equity prices	\$ 11	\$ –	\$ 11	\$ 2	\$ 1	\$ –
Bank						
VaR	\$ 58	\$ 39	\$ 92	\$ 56	\$ 45	\$ 24

Sensitivity Measures

Certain portfolios and individual positions are not included in VaR because VaR is not the most appropriate risk measure. Other sensitivity measures we use to analyze market risk are described below.

10% Sensitivity Measures. The table below presents our market risk by asset category for positions accounted for at fair value that are not included in VaR.

\$ in millions	As of		
	September 2020	June 2020	September 2019
Debt	\$ 900	\$ 916	\$ 854
Equity	5	6	6
Total	\$ 905	\$ 922	\$ 860

In the table above:

- The market risk of these positions is determined by estimating the potential reduction in net revenues of a 10% decline in the value of these positions.
- Equity positions relate to investments in qualified affordable housing projects.
- Debt positions include loans backed by commercial and residential real estate, corporate bank loans and other corporate debt.
- Funded equity and debt positions are included in our consolidated balance sheets in investments and loans. See Note 8 to the consolidated financial statements for further information about investments and Note 9 to the consolidated financial statements for further information about loans.
- These measures do not reflect the diversification effect across asset categories or across other market risk measures.

Interest Rate Sensitivity. Loans accounted for at amortized cost were \$72.39 billion as of September 2020 and \$77.47 billion as of June 2020, substantially all of which had floating interest rates. The estimated sensitivity to a 100 basis point increase in interest rates on such loans was \$533 million as of September 2020 and \$582 million as of June 2020, of additional interest income over a twelve-month period, which does not take into account the potential impact of an increase in costs to fund such loans. In addition, we manage our exposure to structural interest rate risk generated by our net asset-liability position, which is primarily a function of our fixed rate term deposits and non-maturity deposits. See Note 9 to the consolidated financial statements for further information about loans that are held for investment and Note 13 for further information about deposits.

Other Market Risk Considerations

As of both September 2020 and June 2020, we had commitments and held loans for which we, and our affiliates, have obtained credit loss protection from Sumitomo Mitsui Financial Group, Inc. See Note 18 to the consolidated financial statements for further information about such lending commitments.

In addition, we make investments in securities that are accounted for as available-for-sale or held-to-maturity and included in investments in the consolidated balance sheets. See Note 8 to the consolidated financial statements for further information.

Management's Discussion and Analysis

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 we hold. Our exposure to credit risk comes mostly from client transactions in loans and lending commitments and OTC derivatives. Credit risk also comes from cash placed with banks, securities financing transactions (resale agreements and repurchase agreements) and customer and other receivables. See "Credit Risk Management" in Part II of the 2019 Annual Report for further information about our credit risk management process.

Credit Exposures

As of September 2020, our aggregate credit exposure increased as compared with December 2019, primarily reflecting increases in cash deposits with the Federal Reserve and OTC derivatives, partially offset by a decrease in loans and lending commitments. The percentage of our credit exposures arising from non-investment-grade counterparties (based on our internally determined public rating agency equivalents) decreased as compared with December 2019, primarily reflecting a decrease in non-investment-grade loans and lending commitments. Our credit exposure to counterparties that defaulted during the nine months ended September 2020 was higher as compared with our credit exposure to counterparties that defaulted during the same prior year period, and such exposure was primarily related to loans and lending commitments. Our credit exposure to counterparties that defaulted during the nine months ended September 2020 remained low, representing approximately 1% of our total credit exposure. Estimated losses associated with these defaults have been recognized in earnings. Our credit exposures are described further below.

Cash. Our credit exposure on cash arises from our unrestricted cash, and includes both interest-bearing and non-interest-bearing deposits. To mitigate the risk of credit loss, we deposit substantially all of our cash at the Federal Reserve.

OTC Derivatives. Our credit exposure on OTC derivatives arises primarily from our market-making activities. As a market maker, we enter into derivative transactions to provide liquidity to clients and to facilitate the transfer and hedging of their risks. We also enter into derivatives to manage market risk exposures. We manage our credit exposure on OTC derivatives using the credit risk process, measures, limits and risk mitigants described above.

We generally enter into OTC derivatives transactions under bilateral collateral arrangements that require the daily exchange of collateral. As credit risk is an essential component of fair value, we include a credit valuation adjustment (CVA) in the fair value of derivatives to reflect counterparty credit risk, as described in Note 7 to the consolidated financial statements. CVA is a function of the present value of expected exposure, the probability of counterparty default and the assumed recovery upon default.

The table below presents our net credit exposure from OTC derivatives and the concentration by industry and region.

	As of	
	September 2020	December 2019
<i>\$ in millions</i>		
OTC derivative assets	\$ 13,110	\$ 8,195
Collateral (not netted under U.S. GAAP)	(3,770)	(2,269)
Net credit exposure	\$ 9,340	\$ 5,926
Industry		
Consumer, Retail & Healthcare	7%	4%
Diversified Industrials	9%	7%
Financial Institutions	10%	17%
Funds	12%	8%
Municipalities & Nonprofit	25%	27%
Natural Resources & Utilities	17%	14%
Sovereign	6%	5%
Technology, Media & Telecommunications	9%	12%
Other (including Special Purpose Vehicles)	5%	6%
Total	100%	100%
Region		
Americas	81%	70%
EMEA	17%	28%
Asia	2%	2%
Total	100%	100%

Management's Discussion and Analysis

In the table above:

- OTC derivative assets, included in the consolidated balance sheets, are reported on a net-by-counterparty basis (i.e., the net receivable for a given counterparty) when a legal right of setoff exists under an enforceable netting agreement (counterparty netting) and are accounted for at fair value, net of cash collateral received under enforceable credit support agreements (cash collateral netting).
- Collateral represents cash collateral and the fair value of securities collateral, primarily U.S. and non-U.S. government and agency obligations, received under credit support agreements, that we consider when determining credit risk, but such collateral is not eligible for netting under U.S. GAAP.
- EMEA represents Europe, Middle East and Africa.

The table below presents the distribution of our net credit exposure from OTC derivatives by tenor.

<i>\$ in millions</i>	Investment-Grade	Non-Investment-Grade / Unrated	Total
As of September 2020			
Less than 1 year	\$ 7,410	\$ 711	\$ 8,121
1 - 5 years	11,581	1,600	13,181
Greater than 5 years	33,628	2,116	35,744
Total	52,619	4,427	57,046
Netting	(46,531)	(1,175)	(47,706)
Net credit exposure	\$ 6,088	\$ 3,252	\$ 9,340
As of December 2019			
Less than 1 year	\$ 5,184	\$ 224	\$ 5,408
1 - 5 years	8,487	819	9,306
Greater than 5 years	25,465	1,426	26,891
Total	39,136	2,469	41,605
Netting	(35,279)	(400)	(35,679)
Net credit exposure	\$ 3,857	\$ 2,069	\$ 5,926

In the table above:

- Tenor is based on remaining contractual maturity.
- Netting includes counterparty netting across tenor categories and cash and securities collateral that we consider when determining credit risk (including collateral that is not eligible for netting under U.S. GAAP). Counterparty netting within the same tenor category is included within such tenor category.

The tables below present the distribution of our net credit exposure from OTC derivatives by tenor and internally determined public rating agency equivalents.

<i>\$ in millions</i>	Investment-Grade				Total
	AAA	AA	A	BBB	
As of September 2020					
Less than 1 year	\$ 20	\$ 752	\$ 4,789	\$ 1,849	\$ 7,410
1 - 5 years	260	1,547	6,615	3,159	11,581
Greater than 5 years	494	3,969	20,538	8,627	33,628
Total	774	6,268	31,942	13,635	52,619
Netting	(282)	(4,642)	(29,314)	(12,293)	(46,531)
Net credit exposure	\$ 492	\$ 1,626	\$ 2,628	\$ 1,342	\$ 6,088
As of December 2019					
Less than 1 year	\$ 55	\$ 403	\$ 3,714	\$ 1,012	\$ 5,184
1 - 5 years	38	760	5,098	2,591	8,487
Greater than 5 years	554	2,674	15,726	6,511	25,465
Total	647	3,837	24,538	10,114	39,136
Netting	(220)	(2,851)	(22,849)	(9,359)	(35,279)
Net credit exposure	\$ 427	\$ 986	\$ 1,689	\$ 755	\$ 3,857

<i>\$ in millions</i>	Non-Investment-Grade / Unrated		
	BB or lower	Unrated	Total
As of September 2020			
Less than 1 year	\$ 687	\$ 24	\$ 711
1 - 5 years	1,572	28	1,600
Greater than 5 years	2,111	5	2,116
Total	4,370	57	4,427
Netting	(1,154)	(21)	(1,175)
Net credit exposure	\$ 3,216	\$ 36	\$ 3,252
As of December 2019			
Less than 1 year	\$ 216	\$ 8	\$ 224
1 - 5 years	812	7	819
Greater than 5 years	1,409	17	1,426
Total	2,437	32	2,469
Netting	(383)	(17)	(400)
Net credit exposure	\$ 2,054	\$ 15	\$ 2,069

Management's Discussion and Analysis

Lending Activities. We manage our lending activities using the credit risk process, measures, limits and risk mitigants described above. Other lending positions, including secondary trading positions, are risk-managed as a component of market risk.

- **Commercial Lending.** Our commercial lending activities include lending to investment-grade and non-investment-grade corporate borrowers. Loans and lending commitments associated with these activities are principally used for operating and general corporate purposes or in connection with contingent acquisitions. Corporate loans may be secured or unsecured, depending on the loan purpose, the risk profile of the borrower and other factors. Our commercial lending activities also include extending loans to borrowers that are secured by commercial and other real estate.

The table below presents our credit exposure from commercial loans and lending commitments, and the concentration by industry, region and credit quality.

\$ in millions	As of	
	September 2020	December 2019
Loans and Lending Commitments	\$ 164,246	\$ 167,320
Industry		
Consumer, Retail & Healthcare	19%	20%
Diversified Industrials	15%	14%
Financial Institutions	9%	8%
Funds	4%	3%
Natural Resources & Utilities	15%	17%
Real Estate	9%	9%
Technology, Media & Telecommunications	15%	15%
Other (including Special Purpose Vehicles)	14%	14%
Total	100%	100%
Region		
Americas	83%	84%
EMEA	15%	14%
Asia	2%	2%
Total	100%	100%
Credit Quality (Credit Rating Equivalent)		
AAA	1%	1%
AA	4%	5%
A	17%	15%
BBB	31%	31%
BB or lower	47%	48%
Total	100%	100%

- **Wealth Management, Residential Real Estate and Other Lending.** Wealth management loans and lending commitments are extended to private bank clients, substantially all of which are secured by securities, commercial and residential real estate or other assets. The fair value of the collateral received against such loans and lending commitments generally exceeds their carrying value.

We also have residential real estate and other lending exposures, which include purchased residential real estate and installment loans and commitments to purchase such loans and securities.

The table below presents our credit exposure from Wealth management, residential real estate and other lending, and the concentration by region. Loans extended to private bank clients and loans originated through *Goldman Sachs Private Bank Select* are included in wealth management loans.

\$ in millions	Wealth Management	Residential Real Estate and Other
As of September 2020		
Credit Exposure	\$ 29,805	\$ 4,222
Americas	99%	100%
EMEA	1%	—
Total	100%	100%
As of December 2019		
Credit Exposure	\$ 27,439	\$ 5,483
Americas	99%	100%
EMEA	1%	—
Total	100%	100%

- **Installment and Credit Card Lending.** We originate installment and credit card loans. Our credit exposure to installment loans was \$4.11 billion as of September 2020 and \$4.75 billion as of December 2019 and our credit exposure to credit card loans was \$2.91 billion as of September 2020 and \$1.86 billion as of December 2019.

See Note 9 to the consolidated financial statements for further information about U.S. state concentrations and the credit quality indicators of installment and credit card loans.

Securities Financing Transactions. We enter into securities financing transactions in order to, among other things, facilitate client activities, invest excess cash, acquire securities to cover short positions and finance certain activities. We bear credit risk related to resale agreements only to the extent that cash advanced or the value of securities pledged or delivered to the counterparty exceeds the value of the collateral received. We also have credit exposure on repurchase agreements to the extent that the value of securities pledged or delivered to the counterparty for these transactions exceeds the amount of cash or collateral received. Securities collateral obtained for securities financing transactions primarily includes U.S. government and agency obligations. We had credit exposure related to securities financing transactions of \$36 million as of September 2020 and \$175 million as of December 2019, reflecting both netting agreements and collateral that we consider when determining credit risk.

Management's Discussion and Analysis

Other Credit Exposures. We are exposed to credit risk from our customer and other receivables. These receivables primarily consist of initial cash margin placed with clearing organizations and receivables related to sales of loans which have traded, but not yet settled. These receivables generally have minimal credit risk due to the low probability of clearing organization default and the short-term nature of receivables related to loan settlements.

The table below presents our other credit exposures and the concentration by industry, region and credit quality.

<i>\$ in millions</i>	As of	
	September 2020	December 2019
Other Credit Exposures	\$ 3,671	\$ 4,351
Industry		
Consumer, Retail & Healthcare	1%	1%
Financial Institutions	93%	96%
Funds	2%	2%
Other (including Special Purpose Vehicles)	4%	1%
Total	100%	100%
Region		
Americas	7%	6%
EMEA	93%	94%
Total	100%	100%
Credit Quality (Credit Rating Equivalent)		
AAA	3%	1%
AA	92%	94%
A	2%	3%
BBB	1%	1%
BB or lower	2%	1%
Total	100%	100%

The table above reflects collateral that we consider when determining credit risk.

Selected Exposures

We have credit and market exposures, as described below, that have had heightened focus due to recent events and broad market concerns. Credit exposure represents the potential for loss due to the default or deterioration in credit quality of a counterparty or borrower. Market exposure represents the potential for loss in value of our long and short positions due to changes in market prices.

Industry Exposures. The decline in oil prices has led to market concerns regarding the creditworthiness of certain companies in the oil and gas industry. As of September 2020, our credit exposure to oil and gas companies related to loans and lending commitments was \$10.12 billion (\$2.39 billion of loans and \$7.73 billion of lending commitments). Such exposure included \$4.30 billion of exposure to non-investment-grade counterparties (\$1.71 billion related to loans and \$2.59 billion related to lending commitments), of which 75% was secured. In addition, we have exposure to our clients in the oil and gas industry arising from derivatives. As of September 2020, our credit exposure related to derivatives and receivables with oil and gas companies was \$332 million (\$13 million with investment-grade counterparties and \$319 million with non-investment-grade counterparties). After taking into consideration the benefit of \$728 million of hedges, our net credit exposure was \$9.73 billion. As of September 2020, our market exposure related to oil and gas companies was \$(1.02) billion, which was primarily to investment-grade issuers or underliers. Such exposure consisted of \$(1.01) billion related to credit derivatives and \$(6) million related to equities.

The sharp decline in economic activity as a result of the COVID-19 pandemic has resulted in a significant impact to the gaming and lodging industry. As of September 2020, our credit exposure to gaming and lodging companies (including hotel owners and operators) related to loans and lending commitments was \$1.61 billion (\$647 million of loans and \$967 million of lending commitments). Such exposure included \$1.26 billion of exposure to non-investment-grade counterparties (\$492 million related to loans and \$767 million related to lending commitments), of which 77% was secured. In addition, we extend loans that are secured by hotel properties. As of September 2020, our exposure related to such loans and lending commitments was \$1.46 billion and was to non-investment-grade counterparties. In addition, we have exposure to our clients in the gaming and lodging industry arising from derivatives. As of September 2020, our credit exposure related to derivatives and receivables with gaming and lodging companies was \$11 million, primarily with non-investment-grade counterparties. As of September 2020, our market exposure related to gaming and lodging companies was \$(206) million, which was primarily to investment-grade issuers or underliers. Such exposure related to credit derivatives.

Management's Discussion and Analysis

Concerns surrounding the COVID-19 pandemic have resulted in a sharp decline in travel which has significantly impacted the airline industry. As of September 2020, our credit exposure to airline companies related to loans and lending commitments was \$2.47 billion (\$1.63 billion of loans and \$839 million of lending commitments). Such exposure included \$2.15 billion of exposure to non-investment-grade counterparties (\$1.63 billion related to loans and \$516 million related to lending commitments), of which 79% was secured. In addition, we have exposure to our clients in the airline industry arising from derivatives. As of September 2020, our credit exposure related to derivatives and receivables with airline companies was not material. After taking into consideration the benefit of \$215 million of hedges, our net credit exposure was \$2.26 billion. As of September 2020, our market exposure related to airline companies was \$(186) million, which was primarily to non-investment-grade issuers or underliers. Such exposure related to credit derivatives.

Operational Risk Management

Overview

Operational risk is the risk of an adverse outcome resulting from inadequate or failed internal processes, people, systems or from external events. Our exposure to operational risk arises from routine processing errors, as well as extraordinary incidents, such as major systems failures or legal and regulatory matters. See "Operational Risk Management" in Part II of the 2019 Annual Report for further information about our operational risk management process.

Model Risk Management

Overview

Model risk is the potential for adverse consequences from decisions made based on model outputs that may be incorrect or used inappropriately. We rely on quantitative models across our business activities primarily to value certain financial assets and liabilities, to monitor and manage our risk, and to measure and monitor our regulatory capital. See "Model Risk Management" in Part II of the 2019 Annual Report for further information about our model risk management process.

Cautionary Statement

In the preceding discussion and analysis of our financial condition and results of operations, we have included statements that may constitute "forward-looking statements." Forward-looking statements are not historical facts or statements of current conditions, but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control.

These statements may relate to, among other things, (i) our future plans and objectives, (ii) legal proceedings, governmental investigations or other contingencies as set forth in Notes 18 and 24 to the consolidated financial statements in Part I of this Quarterly Report, (iii) the objectives and effectiveness of our risk management and liquidity policies, (iv) our resolution plan and resolution strategy, (v) the impact of regulatory changes applicable to us, and our future status, activities or reporting under banking and financial regulation, (vi) our expected provisions for credit losses, (vii) GS Group's preparations for Brexit, (viii) the replacement of LIBOR and other IBORs and our program for the transition to alternative risk-free reference rates, (ix) the adequacy of our allowance for credit losses, (x) the growth of our deposits, (xi) the projected growth of our installment loan and credit card businesses, (xii) our business initiatives, including transaction banking and new consumer financial products, (xiii) our expense savings and strategic locations initiative, (xiv) the impact of the COVID-19 pandemic on our business, results, financial position and liquidity, (xv) expenses we may incur, including expenses from investing in our installment loan, credit card and transaction banking businesses and (xvi) the GS Group settlement relating to 1MDB.

By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results, financial condition and liquidity may differ, possibly materially, from the anticipated results, financial condition and liquidity in these forward-looking statements. Important factors that could cause our results and financial condition to differ from those in these statements include, among others, those described below and in "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" in Part I of the 2019 Annual Report.

Statements about our expected provisions for credit losses are subject to the risk that actual credit losses may differ and our expectations may change, possibly materially, from that currently anticipated due to, among other things, changes to the composition of our loan portfolio and changes in the economic environment in future periods and our forecasts of future economic conditions, as well as changes in our models, policies and other management judgments.

Statements about the growth of our deposits and our installment loan and credit card businesses are subject to the risk that actual growth may differ, possibly materially, from that currently anticipated due to, among other things, changes in interest rates and competition from other similar products.

Management's Discussion and Analysis

Statements about satisfying the terms of the consent order relating to 1MDB are based on our ability to create a plan jointly with Group Inc. that is acceptable to the NYDFS, and therefore may be different from what we currently expect.

Statements about the timing, costs, profitability, benefits and other aspects of our business and expense savings initiatives and increases in market share are based on our current expectations regarding our ability to implement these initiatives and actual results may differ, possibly materially, from current expectations due to, among other things, a delay in the timing of these initiatives, increased competition and an inability to reduce expenses and grow businesses.

Risk Factors

Our businesses, financial condition, liquidity and results of operations have been, and may in the future be, adversely affected by the COVID-19 pandemic.

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

While financial markets have rebounded from the significant declines that occurred earlier in the pandemic and global economic conditions showed signs of improvement in the third quarter of 2020, many of the circumstances that arose or became more pronounced after the onset of the COVID-19 pandemic persisted at the end of the quarter, including (i) muted levels of business activity across many sectors of the economy, relatively weak consumer confidence and high unemployment; (ii) elevated levels of market volatility; (iii) the federal funds rate and yields on U.S. Treasury securities near zero; (iv) substantial uncertainty about whether previously announced merger and acquisition deals will be completed or restructured; (v) heightened credit risk with regard to industries that have been most severely impacted by the pandemic, including oil and gas, gaming and lodging, and airlines and (vi) higher cybersecurity, information security and operational risks as a result of work-from-home arrangements.

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

The effects of the COVID-19 pandemic on economic and market conditions have in the past and may in the future also increase demands on our liquidity as we meet client needs. Likewise, these adverse developments have in the past and may in the future affect our capital and leverage ratios. The COVID-19 pandemic has also resulted in higher allowances for credit losses for wholesale and consumer loans.

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

The length of the pandemic and the efficacy of the extraordinary measures that have been put in place to address it are unknown. Until the pandemic subsides, we may experience draws on lines of credit, reduced activity levels in investment banking, reduced revenues in our wealth management business and increased client defaults, including defaults in unsecured loans. Even after the pandemic subsides, the U.S. economy, as well as most other major economies, may continue to experience a recession, and we anticipate our businesses would be materially and adversely affected by a prolonged recession in the U.S. and other major markets.