Investing & Lending

Investing & Lending includes direct investments made by the company, which are typically longer-term in nature, and net revenues associated with providing investing services to other GS Group entities.

Three Months Ended August 2019 versus September 2018. Net revenues in Investing & Lending were $75 million for the three months ended August 2019, 19% higher than the three months ended September 2018.

Nine Months Ended August 2019 versus September 2018. Net revenues in Investing & Lending were $287 million for the nine months ended August 2019, 20% lower than the nine months ended September 2018, primarily due to significantly lower net gains from investments in debt instruments.

Investment Management

Investment Management provides investment management and wealth advisory services, including portfolio management and financial counselling, and brokerage and other transaction services to high-net-worth individuals and families. Investment Management also includes net revenues associated with providing investing services to funds managed by GS Group.

Three Months Ended August 2019 versus September 2018. Net revenues in Investment Management were $133 million for the three months ended August 2019, 29% lower than the three months ended September 2018, primarily due to significantly lower incentive fees from providing investing services to funds managed by GS Group.

Nine Months Ended August 2019 versus September 2018. Net revenues in Investment Management were $410 million for the nine months ended August 2019, 37% lower than the nine months ended September 2018, primarily due to significantly lower incentive fees from providing investing services to funds managed by GS Group.

Administrative Expenses

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

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

	Three Months Ended		Nine Months Ended	
$ in millions	**August 2019**	September 2018	**August 2019**	September 2018
Direct costs of employment	**$ 668**	$ 495	**$1,921**	$1,985
Management charges from/to group undertakings relating to staff costs	**58**	59	**150**	166
Brokerage, clearing, exchange and distribution fees	**240**	192	**670**	630
Market development	**19**	19	**68**	63
Communications and technology	**29**	30	**91**	89
Depreciation and amortisation	**32**	18	**85**	48
Occupancy	**43**	48	**159**	131
Professional fees	**36**	54	**134**	167
Management charges from/to group undertakings relating to other services	**93**	47	**234**	170
Other expenses	**178**	179	**618**	544
Total administrative expenses	**$1,396**	$1,141	**$4,130**	$3,993
Headcount at period-end	**4,225**	4,162		

In the table above:

- Direct costs of employment included a charge of $92 million for the three months ended August 2019, a charge of $20 million for the three months ended September 2018, a charge of $93 million for the nine months ended August 2019 and a credit of $43 million for the nine months ended September 2018 relating to the mark-to-market of share-based compensation.
- Headcount consists of the company's employees, and excludes consultants and temporary staff previously reported as part of total staff. As a result, the company has reclassified $15 million of consultant and temporary staff expenses from direct costs of employment to professional fees for the three months ended September 2018 and $53 million for the nine months ended September 2018 to conform to the current presentation.

The table below presents charges from and to group undertakings for both management charges relating to staff costs and management charges relating to other services.

	Three Months Ended		Nine Months Ended	
$ in millions	**August 2019**	September 2018	**August 2019**	September 2018
Charges from group undertakings	**$107**	$124	**$ 344**	$ 374
Charges to group undertakings	**(49)**	(65)	**(194)**	(208)
Management charges relating to staff costs	**58**	59	**150**	166
Charges from group undertakings	**109**	81	**299**	279
Charges to group undertakings	**(16)**	(34)	**(65)**	(109)
Management charges relating to other services	**93**	47	**234**	170
Total	**$151**	$106	**$ 384**	$ 336

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

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

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

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

$ in millions	Financial instruments owned	Collateralised agreements	Debtors	Cash at bank and in hand	Total
As of August 2019					
Gross credit exposure	**$ 908,665**	**$151,595**	**$ 78,988**	**$31,592**	**$1,170,840**
Assets captured by market risk	**(102,977)**	**–**	**–**	**–**	**(102,977)**
Counterparty netting	**(717,590)**	**(61,775)**	**(4,421)**	**–**	**(783,786)**
Cash collateral	**(49,689)**	**–**	**(46,492)**	**–**	**(96,181)**
Security collateral received	**(16,736)**	**(86,972)**	**(8,556)**	**–**	**(112,264)**
Net credit exposure	**$ 21,673**	**$ 2,848**	**$ 19,519**	**$31,592**	**$ 75,632**
As of November 2018					
Gross credit exposure	$ 594,129	$ 203,334	$ 64,487	$24,396	$ 886,346
Assets captured by market risk	(76,093)	–	–	–	(76,093)
Counterparty netting	(449,860)	(83,336)	(5,450)	–	(538,646)
Cash collateral	(35,148)	–	(32,439)	–	(67,587)
Security collateral received	(14,459)	(116,837)	(7,415)	–	(138,711)
Net credit exposure	$ 18,569	$ 3,161	$ 19,183	$24,396	$ 65,309

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

$ in millions	Investment-Grade	Non-Investment-Grade / Unrated	Total
As of August 2019			
Gross credit exposure	**$1,009,690**	**$ 161,150**	**$1,170,840**
Assets captured by market risk	**–**	**(102,977)**	**(102,977)**
Counterparty netting	**(764,149)**	**(19,637)**	**(783,786)**
Cash collateral	**(86,218)**	**(9,963)**	**(96,181)**
Security collateral received	**(92,611)**	**(19,653)**	**(112,264)**
Net credit exposure	**$ 66,712**	**$ 8,920**	**$ 75,632**
As of November 2018			
Gross credit exposure	$ 762,094	$ 124,252	$ 886,346
Assets captured by market risk	–	(76,093)	(76,093)
Counterparty netting	(522,194)	(16,452)	(538,646)
Cash collateral	(59,579)	(8,008)	(67,587)
Security collateral received	(122,421)	(16,290)	(138,711)
Net credit exposure	$ 57,900	$ 7,409	$ 65,309

	Investment-Grade				
$ in millions	AAA	AA	A	BBB	Total
As of August 2019					
Gross credit exposure	**$ 38,473**	**$ 95,921**	**$ 773,844**	**$101,452**	**$1,009,690**
Counterparty netting	**(3,822)**	**(48,022)**	**(659,115)**	**(53,190)**	**(764,149)**
Cash collateral	**(11,958)**	**(15,377)**	**(40,056)**	**(18,827)**	**(86,218)**
Security collateral received	**(890)**	**(17,576)**	**(56,741)**	**(17,404)**	**(92,611)**
Net credit exposure	**$ 21,803**	**$ 14,946**	**$ 17,932**	**$ 12,031**	**$ 66,712**
As of November 2018					
Gross credit exposure	$ 28,353	$ 78,956	$ 561,437	$ 93,348	$ 762,094
Counterparty netting	(2,630)	(33,438)	(439,612)	(46,514)	(522,194)
Cash collateral	(6,305)	(10,846)	(25,695)	(16,733)	(59,579)
Security collateral received	(746)	(22,588)	(78,793)	(20,294)	(122,421)
Net credit exposure	$ 18,672	$ 12,084	$ 17,337	$ 9,807	$ 57,900

	Non-Investment-Grade / Unrated		
$ in millions	BB or lower	Unrated	Total
As of August 2019			
Gross credit exposure	**$ 56,716**	**$ 104,434**	**$ 161,150**
Assets captured by market risk	**–**	**(102,977)**	**(102,977)**
Counterparty netting	**(19,614)**	**(23)**	**(19,637)**
Cash collateral	**(9,889)**	**(74)**	**(9,963)**
Security collateral received	**(19,541)**	**(112)**	**(19,653)**
Net credit exposure	**$ 7,672**	**$ 1,248**	**$ 8,920**
As of November 2018			
Gross credit exposure	$ 46,412	$ 77,840	$ 124,252
Assets captured by market risk	–	(76,093)	(76,093)
Counterparty netting	(16,423)	(29)	(16,452)
Cash collateral	(7,993)	(15)	(8,008)
Security collateral received	(16,158)	(132)	(16,290)
Net credit exposure	$ 5,838	$ 1,571	$ 7,409

In the table above, the unrated net credit exposure of $1.25 billion as of August 2019 and $1.57 billion as of November 2018 related to financial assets for which the company has not assigned an internally determined public rating agency equivalent.

Fair Value of Financial Assets and Financial Liabilities by Level

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

$ in millions	Level 1	Level 2	Level 3	Total
As of August 2019				
Financial Assets				
Cash instruments	**$79,307**	**$ 27,412**	**$ 984**	**$ 107,703**
Derivative instruments	**12**	**796,601**	**4,349**	**800,962**
Financial instruments owned	**79,319**	**824,013**	**5,333**	**908,665**
Collateralised agreements	**–**	**98,180**	**–**	**98,180**
Debtors	**–**	**148**	**–**	**148**
Total financial assets	**$79,319**	**$922,341**	**$ 5,333**	**$1,006,993**
Financial Liabilities				
Amounts falling due within one year				
Cash instruments	**$35,916**	**$ 5,040**	**$ 177**	**$ 41,133**
Derivative instruments	**20**	**787,758**	**2,490**	**790,268**
Financial instruments sold, but not yet purchased	**35,936**	**792,798**	**2,667**	**831,401**
Collateralised financings	**–**	**77,270**	**985**	**78,255**
Other creditors	**–**	**6,568**	**2,868**	**9,436**
Total	**35,936**	**876,636**	**6,520**	**919,092**
Amounts falling due after more than one year				
Collateralised financings	**–**	**7,673**	**–**	**7,673**
Other creditors	**–**	**31,644**	**5,867**	**37,511**
Total	**–**	**39,317**	**5,867**	**45,184**
Total financial liabilities	**$35,936**	**$915,953**	**$12,387**	**$ 964,276**
Net derivative instruments	**$ (8)**	**$ 8,843**	**$ 1,859**	**$ 10,694**
As of November 2018				
Financial Assets				
Cash instruments	$53,205	$ 27,278	$ 1,083	$ 81,566
Derivative instruments	17	508,315	4,231	512,563
Financial instruments owned	53,222	535,593	5,314	594,129
Collateralised agreements	–	146,767	–	146,767
Debtors	–	790	–	790
Total financial assets	$53,222	$683,150	$ 5,314	$ 741,686
Financial Liabilities				
Amounts falling due within one year				
Cash instruments	$42,951	$ 4,637	$ 12	$ 47,600
Derivative instruments	21	495,993	2,373	498,387
Financial instruments sold, but not yet purchased	42,972	500,630	2,385	545,987
Collateralised financings	–	96,948	917	97,865
Other creditors	–	6,272	2,422	8,694
Total	42,972	603,850	5,724	652,546
Amounts falling due after more than one year				
Collateralised financings	–	10,286	19	10,305
Other creditors	–	35,105	7,131	42,236
Total	–	45,391	7,150	52,541
Total financial liabilities	$42,972	$649,241	$12,874	$ 705,087
Net derivative instruments	$ (4)	$ 12,322	$ 1,858	$ 14,176

Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

Cash Instruments. The company had level 3 cash instrument assets of $984 million as of August 2019 and $1.08 billion as of November 2018. Level 3 cash instrument liabilities were not material.

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

	Level 3 Cash Instruments Assets and Range of Significant Unobservable Inputs (Weighted Average) as of	
$ in millions	**August 2019**	November 2018
Mortgages and other asset-backed loans and securities		
Level 3 assets	**$147**	$171
Yield	**1.3% to 18.7% (6.0%)**	2.4% to 16.5% (6.5%)
Recovery rate	**48.3% to 75.0% (61.7%)**	19.0% to 75.0% (50.0%)
Duration (years)	**0.5 to 10.8 (4.7)**	0.5 to 13.4 (5.1)
Corporate debt instruments and government and agency obligations		
Level 3 assets	**$765**	$841
Yield	**1.2% to 10.5% (4.1%)**	0.7% to 10.5% (5.2%)
Recovery rate	**0.0% to 65.0% (31.6%)**	0.0% to 78.0% (51.8%)
Duration (years)	**2.6 to 18.3 (5.7)**	0.5 to 13.2 (2.6)
Equity securities		
Level 3 assets	**$72**	$71
Multiples	**4.1x to 11.0x (5.4x)**	4.1x to 11.0x (5.4x)

In the table above:

- Ranges represent the significant unobservable inputs that were used in the valuation of each type of cash instrument.
- Weighted averages are calculated by weighting each input by the relative fair value of the cash instruments.
- The ranges and weighted averages of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one cash instrument. For example, the highest yield for mortgages and other asset-backed loans and securities is appropriate for valuing a specific mortgage but may not be appropriate for valuing any other mortgages. Accordingly, the ranges of inputs do not represent uncertainty in, or possible ranges of, fair value measurements of level 3 cash instruments.
- Increases in yield or duration used in the valuation of level 3 cash instruments would have resulted in a lower fair value measurement, while increases in recovery rate or multiples would have resulted in a higher fair value measurement as of both August 2019 and November 2018. Due to the distinctive nature of each level 3 cash instrument, the interrelationship of inputs is not necessarily uniform within each product type.

Notes to the Financial Statements (Unaudited)

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

	Nine Months Ended	
	August	September
$ in millions	**2019**	2018
Beginning balance	**$146**	$161
New transactions	**95**	76
Amounts recognised in the profit and loss account during the period	**(61)**	(83)
Ending balance	**$180**	$154

Level 3 Rollforward

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

	Nine Months Ended	
	August	September
$ in millions	**2019**	2018
Total financial assets		
Beginning balance	**$ 5,314**	$ 4,044
Gains/(losses)	**692**	507
Purchases	**484**	573
Sales	**(178)**	(149)
Settlements	**(812)**	(469)
Transfers into level 3	**429**	611
Transfers out of level 3	**(596)**	(203)
Ending balance	**$ 5,333**	$ 4,914
Total financial liabilities		
Beginning balance	**$(12,874)**	$(10,807)
Gains/(losses)	**(766)**	99
Purchases	**7**	4
Sales	**(377)**	(272)
Issuances	**(5,457)**	(6,877)
Settlements	**6,834**	4,955
Transfers into level 3	**(653)**	(412)
Transfers out of level 3	**899**	621
Ending balance	**$(12,387)**	$(12,689)

In the table above:

- Financial assets relate to financial instruments owned.
- If a financial asset or financial liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is classified in level 3. For level 3 financial assets, increases are shown as positive amounts, while decreases are shown as negative amounts. For level 3 financial liabilities, increases are shown as negative amounts, while decreases are shown as positive amounts.
- Transfers between levels of the fair value hierarchy are recognised at the beginning of the reporting period in which they occur. Accordingly, the tables do not include gains or losses for level 3 financial assets and financial liabilities that were transferred out of level 3 prior to the end of the period.
- Level 3 financial assets and financial liabilities are frequently economically hedged with level 1 and level 2 financial assets and financial liabilities. Accordingly, level 3 gains or losses that are reported for a particular class of financial asset or financial liability can be partially offset by gains or losses attributable to level 1 or level 2 in the same class of financial asset or financial liability or gains or losses attributable to level 1, level 2 or level 3 in a different class of financial asset or financial liability. As a result, gains or losses included in the level 3 rollforward do not necessarily represent the overall impact on the company's results of operations, liquidity or capital resources.
- The net gains on level 3 financial assets for the nine months ended August 2019 and the nine months ended September 2018 are reported in "Net revenues" in the profit and loss account.
- The net losses on level 3 financial liabilities of $766 million for the nine months ended August 2019 included losses of $736 million reported in "Net revenues" in the profit and loss account and losses of $30 million reported in "Debt valuation adjustment" in the statements of comprehensive income. The net gains on level 3 financial liabilities of $99 million for the nine months ended September 2018 included gains of $69 million reported in "Net revenues" in the profit and loss account and gains of $30 million reported in "Debt valuation adjustment" in the statements of comprehensive income.

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

	Nine Months Ended	
	August	September
$ in millions	**2019**	2018
Financial instruments sold, but not yet purchased		
Beginning balance	**$(2,385)**	$(2,281)
Gains/(losses)	**(300)**	(289)
Purchases	**7**	4
Sales	**(377)**	(272)
Settlements	**382**	605
Transfers into level 3	**(300)**	(224)
Transfers out of level 3	**306**	216
Ending balance	**$(2,667)**	$(2,241)
Collateralised financings		
Beginning balance	**$ (936)**	$ (642)
Gains/(losses)	**94**	67
Issuances	**(168)**	(419)
Settlements	**6**	15
Transfers out of level 3	**19**	–
Ending balance	**$ (985)**	$ (979)
Other creditors		
Beginning balance	**$(9,553)**	$(7,884)
Gains/(losses)	**(560)**	321
Issuances	**(5,289)**	(6,458)
Settlements	**6,446**	4,335
Transfers into level 3	**(353)**	(188)
Transfers out of level 3	**574**	405
Ending balance	**$(8,735)**	$(9,469)