

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Directors' Report and Financial Statements**

**For the year ended 31 December 2019**

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Directors' Report and Financial Statements  
For the year ended 31 December 2019**

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## **Goldman Sachs Asia Bank Limited, a restricted licence bank**

### **Directors' Report**

The directors submit their report together with the audited financial statements of Goldman Sachs Asia Bank Limited (the "Company"), a restricted licence bank, for the year ended 31 December 2019.

### **Principal activity**

The Company is a restricted licence bank under the Banking Ordinance in Hong Kong. It is also a registered institution under the Hong Kong Securities and Futures Ordinance.

The Company has been established to provide the clients of The Goldman Sachs Group, Inc. and / or its consolidated subsidiaries (together, the "Firm") in the Asia excluding Japan region with the opportunity to transact business with a bank counterparty located in Asia.

The Company's principal activities are to engage in deposit-taking and over-the-counter derivatives. These activities are conducted in cooperation with the affiliated companies within the Firm, which give rise to service fee income and expense.

### **Results and appropriations**

The results of the Company for the year ended 31 December 2019 are set out in the statement of comprehensive income on page 6.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2019.

### **Share capital**

Details of the Company's share capital are set out in Note 15 to the financial statements.

### **Directors**

The directors of the Company during the year and up to the date of this report were:

Chairman and non-executive director:  
Mr. Tim Freshwater

Executive director:  
Ms. Denise Wyllie

Non-executive director:  
Mr. James Houghton

Independent non-executive directors:  
Ms. Syaru Shirley Lin  
Mr. Patrick Paul

There being no provision in the Company's Articles of Association for retirement by rotation, all current directors continue in office.

Goldman Sachs Asia Bank Limited, a restricted licence bank

**Directors' Report (continued)**

**Directors' material interests in transactions, arrangements and contracts that are significant in relation to the Company's business**

No transactions, arrangements or contracts of significance in relation to the Company's business to which the Company, its affiliated companies, its parent companies or its ultimate parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

**Directors' interests in equity and debt securities of the Company or any specified undertaking of the Company**

Directors of the Company, except for the independent non-executive directors, have acquired interests in the shares of the Company's ultimate parent company, The Goldman Sachs Group, Inc., through equity-based compensation arrangements. Pursuant to awards made under these employee incentive plans, all of the directors of the Company during the year, except for the independent non-executive directors, received common shares in the Company's ultimate parent company.

Except for the above, at no time during the year was the Company, its affiliated companies, its parent companies or its ultimate parent company a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

**Management contracts**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

**Permitted indemnity provisions**

The Articles of Association of the Company provide that the Company may indemnify any director of the Company against any liability incurred by the director in relation to the Company in defending any proceedings, whether civil or criminal, in which judgment is given in the director's favor or in which the director is acquitted or in connection with any application under certain provisions of the Hong Kong Companies Ordinance in which relief is granted to the director by the court.

**Auditor**

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the coming Annual General Meeting of the Company.

On behalf of the Board

The image shows two handwritten signatures in blue ink. The signature on the left is more stylized and appears to be 'T. Freshet'. The signature on the right is simpler and appears to be 'D. L.'.

Director

22 April 2020



## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBER OF GOLDMAN SACHS ASIA BANK LIMITED, A RESTRICTED BANK (INCORPORATED IN HONG KONG WITH LIMITED LIABILITY)

#### Opinion

##### *What we have audited*

The financial statements of Goldman Sachs Asia Bank Limited (the "Company"), a restricted licence bank set out on pages 6 to 38, which comprise:

- the balance sheet as at 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

##### *Our opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

#### Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### *Independence*

We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

#### Other Information

The directors are responsible for the other information. The other information comprises the information included in the directors' report and unaudited supplementary financial information, but does not include the Company's financial statements and our auditor's report thereon.

Our opinion on the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE MEMBER OF GOLDMAN SACHS ASIA BANK LIMITED, A RESTRICTED BANK (INCORPORATED IN HONG KONG WITH LIMITED LIABILITY) (CONTINUED)**

#### **Other Information (Continued)**

In connection with our audit of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Responsibilities of Directors for the Financial Statements**

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

**INDEPENDENT AUDITOR'S REPORT**

**TO THE MEMBER OF GOLDMAN SACHS ASIA BANK LIMITED, A RESTRICTED BANK  
(INCORPORATED IN HONG KONG WITH LIMITED LIABILITY) (CONTINUED)**

**Auditor's Responsibilities for the Audit of the Financial Statements (Continued)**

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 22 April 2020

Goldman Sachs Asia Bank Limited, a restricted licence bank

Statement of Comprehensive Income  
For the year ended 31 December 2019

	Note	2019 US\$ '000	2018 US\$ '000
Interest income	4	2,306	1,761
Interest expense	4	(110)	(155)
<b>Net interest income</b>		<u>2,196</u>	<u>1,606</u>
Other income	5	4,573	6,842
<b>Total revenue</b>		<u>6,769</u>	<u>8,448</u>
Operating expenses	6	(4,727)	(7,051)
<b>Profit before income tax</b>		<u>2,042</u>	<u>1,397</u>
Income tax expense	8	(316)	(202)
<b>Profit and total comprehensive income for the year</b>		<u><u>1,726</u></u>	<u><u>1,195</u></u>

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



**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Statement of Changes in Equity  
For the year ended 31 December 2019**

	Share capital US\$ '000	Retained profit / (Accumulated loss) US\$ '000	Total US\$ '000
<b><u>2019</u></b>			
At the beginning of the year	114,010	748	114,758
Total comprehensive income for the year	-	1,726	1,726
At the end of the year	<u>114,010</u>	<u>2,474</u>	<u>116,484</u>
<b><u>2018</u></b>			
At the beginning of the year	114,010	(447)	113,563
Total comprehensive income for the year	-	1,195	1,195
At the end of the year	<u>114,010</u>	<u>748</u>	<u>114,758</u>

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

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Statement of Cash Flows**  
**For the year ended 31 December 2019**

	Note	2019 US\$ '000	2018 US\$ '000
<b>Operating activities</b>			
Cash generated from / (used in) operations	17	10,881	(22)
Interest received from operating activities		2,310	1,629
Interest paid on operating activities		(129)	(158)
Income tax refund / (paid)		97	(945)
Net cash inflow from operating activities		<u>13,159</u>	<u>504</u>
Increase in cash and cash equivalents		<u>13,159</u>	<u>504</u>
Cash and cash equivalents, at the beginning of the year		<u>112,722</u>	<u>112,218</u>
Cash and cash equivalents, at the end of the year	9	<u><u>125,881</u></u>	<u><u>112,722</u></u>

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

## **Goldman Sachs Asia Bank Limited, a restricted licence bank**

### **Notes to Financial Statements For the year ended 31 December 2019**

#### **1 General information**

Goldman Sachs Asia Bank Limited (the “Company”), a restricted licence bank, is a limited liability company incorporated in Hong Kong on 12 December 2012. The address of its registered office is 68<sup>th</sup> Floor, Cheung Kong Center, 2 Queen’s Road Central, Hong Kong.

The Company is wholly owned by Goldman Sachs Holdings (Hong Kong) Limited. The ultimate parent company is The Goldman Sachs Group, Inc. (“Group Inc.”), which is incorporated in the State of Delaware, U.S.A. and listed on the New York Stock Exchange.

The Company is a restricted licence bank under the Banking Ordinance in Hong Kong. It is also a registered institution under the Hong Kong Securities and Futures Ordinance.

The Company has been established to provide the clients of Group Inc. and / or its consolidated subsidiaries (collectively, the “Firm”) in the Asia excluding Japan region with the opportunity to transact business with a bank counterparty located in Asia.

The Company’s principal activities are to engage in deposit-taking and over-the-counter (“OTC”) derivatives. These activities are conducted in cooperation with the affiliated companies within the Firm, which give rise to service fee income and expense.

All references to 2019 and 2018 refer to the years ended, or the dates, as the context requires, 31 December 2019 and 31 December 2018, respectively.

#### **2 Summary of principal accounting policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### **2.1 Basis of preparation**

The financial statements are prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”, which term collectively includes Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance (Cap.622). They have been prepared on the historical cost basis, as modified by the revaluation of certain financial assets or liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

## **Goldman Sachs Asia Bank Limited, a restricted licence bank**

### **Notes to Financial Statements For the year ended 31 December 2019**

## **2 Summary of principal accounting policies (continued)**

### **2.1 Basis of preparation (continued)**

#### **2.1.1 Changes in accounting policy and disclosures**

##### **(a) New and amended standards adopted by the Company**

The amendments to HKFRSs and new Hong Kong International Financial Reporting Interpretations Committee (“HK(IFRIC)”) interpretations that are effective for the year ended 31 December 2019 have had no significant financial impact on these financial statements.

##### **(b) New standards and interpretations not early adopted**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing the financial statements. These standards are not expected to have a material impact on the Company.

### **2.2 Currency translation**

##### **(a) Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the “functional currency”). The financial statements are presented in US dollars, which is the Company’s functional and presentation currency.

##### **(b) Transactions and balances**

Transactions in currencies other than US dollars are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than US dollars, are recognised in the statement of comprehensive income.

### **2.3 Revenue recognition**

Interest income is recognised on a time apportioned basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Service fee income from affiliated companies is credited to income on an accrual basis in the period in which the related services are provided by the Company.

### **2.4 Taxation**

Taxation for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is then recognised in other comprehensive income or directly in equity.

## **Goldman Sachs Asia Bank Limited, a restricted licence bank**

### **Notes to Financial Statements For the year ended 31 December 2019**

## **2 Summary of principal accounting policies (continued)**

### **2.4 Taxation (continued)**

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred income tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### **2.5 Employee benefits**

#### **(a) Compensation**

The Company recognises a liability and an expense for bonuses payable to employees as part of their compensation. A provision is also made for the estimated liability for annual leave earned by employees but untaken at the balance sheet date.

#### **(b) Employee incentive plans**

Group Inc. issues awards in the form of restricted stock units ("RSUs") and stock options to the Company's employees for services rendered to the Company. The cost of employee services received in exchange for an equity-based award is measured based on the fair value of the equity instruments at the grant date. Non-market based vesting conditions are not taken into account in measuring the fair value of awards, but are reflected by adjusting over time the number of equity awards that are expected to vest. Equity-based awards that do not contain vesting conditions are expensed immediately, while awards that require future service are amortised over the relevant service period. The costs of equity-based awards are calculated with reference to the quoted market price of Group Inc.'s common stock, and are recorded as employee compensation in the Company's statement of comprehensive income.

Group Inc. settles equity awards by the delivery of its ordinary shares to the Company's employees. The Company has entered into a chargeback agreement under which it is committed to pay to Group Inc. the market value of those shares at the time of delivery. Further details of the equity-based award plans are set out in Note 13.

## **Goldman Sachs Asia Bank Limited, a restricted licence bank**

### **Notes to Financial Statements For the year ended 31 December 2019**

#### **2 Summary of principal accounting policies (continued)**

##### **2.5 Employee benefits (continued)**

###### **(c) Pension obligations**

The Company offers a mandatory provident fund scheme and defined contribution pension plans to employees. Under the pension plans, the Company pays contributions to public or privately administered funds and will have no further payment obligations once the contributions have been paid. The Company's contributions are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

##### **2.6 Cash and cash equivalents**

Cash and cash equivalents include deposits held at call with banks and other short-term deposits with original maturities of three months or less.

##### **2.7 Financial instruments**

###### **(a) Recognition and derecognition**

Non-derivative financial instruments owned and financial instruments sold, but not yet purchased (i.e., cash instruments) or sold in regular way transactions are recognised and derecognised using trade date accounting.

Other financial assets and financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or if the Company transfers the financial asset and either a) substantially all the risk and rewards of ownership, or b) neither transfers nor retains substantially all the risk and rewards of ownership and the Company does not retain control of that financial asset. Financial liabilities are derecognised only when they are extinguished (i.e., when the obligation specified in the contract is discharged or cancelled or expires).

###### **(b) Classification and measurement – Financial assets**

The Company classifies its financial assets into the below categories based on the Company's business model for managing the asset and, where required, subsequent analysis of cash flow characteristics on individual financial assets.

The business model reflects how the Company manages particular groups of assets in order to generate future cash flows. Where the business model is to hold the assets to collect contractual cash flows, the Company subsequently assesses whether the financial assets cash flows represent solely payments of principal and interest. The Company considers whether the cash flows represent basic lending arrangements. Where contractual terms introduce exposure to risk or volatility inconsistent with a basic lending arrangement, the financial asset is classified and measured at fair value through profit or loss. Financial assets with embedded derivative features are considered in their entirety in the above described assessment.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2019**

**2 Summary of principal accounting policies (continued)**

**2.7 Financial instruments (continued)**

**(b) Classification and measurement – Financial assets (continued)**

**(i) Financial assets classified at amortised cost**

Financial assets that are held for the collection of contractual cash flows and have cash flows that represent solely payments of principal and interest, and that are not designated at fair value, are measured at amortised cost. Such financial assets are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial asset but does not consider future credit losses. The calculation includes all fees and points paid or received that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

**(ii) Financial assets classified at fair value through profit or loss**

Financial assets that do not meet the criteria for amortised cost are measured at fair value through profit or loss. Such financial assets are measured in the balance sheet at fair value and subsequent gains or losses are recognised in the statement of comprehensive income.

**(iii) Financial assets – Expected Credit Loss (“ECL”) measurement**

HKFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition of financial assets. The key elements of this approach are outlined below:

Stage 1 Classification for financial instruments that are not credit-impaired on initial recognition and remain not credit-impaired as a result of on-going credit risk monitoring. ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months.

Stage 2 Classification for financial instruments where there has been a significant increase in credit risk since initiation, however not yet deemed to be credit-impaired. ECL measured based on expected credit losses on a lifetime basis.

Stage 3 Classification for financial instruments that are in default, or are defined as credit-impaired. ECL measured based on expected credit losses on a lifetime basis.

ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2019**

**2 Summary of principal accounting policies (continued)**

**2.7 Financial instruments (continued)**

**(b) Classification and measurement – Financial assets (continued)**

**(iii) Financial assets – Expected Credit Loss (“ECL”) measurement (continued)**

Determination of the relevant staging for each financial instrument is dependent on the definition of ‘significant increase in credit risk’ (stage 1 to stage 2) and the definition of ‘credit-impaired’ (stage 2 to stage 3).

The ECL is determined by projecting the probability of default, loss given default and exposure at default for each individual exposure. To calculate ECL, these three components are multiplied together and discounted back to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate.

The assessment of staging and the calculation of ECL both incorporate forward-looking information. Credit Risk have identified key economic variables impacting credit risk and expected credit losses to incorporate into the forward-looking information used.

**(c) Classification and measurement – Financial liabilities**

**(i) Financial liabilities classified at amortised cost**

Financial liabilities measured at amortised cost are initially recognised at fair value plus transactions costs and subsequently measured at amortised cost using the effective interest method.

**(ii) Financial liabilities classified as held for trading**

Financial liabilities classified as held for trading are initially recognised at fair value with transaction costs expensed in profit or loss. Such financial instruments are carried in the balance sheet at fair value and all subsequent gains or losses are recognised in the statement of comprehensive income.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2019**

**2 Summary of principal accounting policies (continued)**

**2.7 Financial instruments (continued)**

**(d) Determination of fair value**

Fair value is the price 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. Gains and losses arising from changes in fair value are recognised in the statement of comprehensive income.

The Company's financial instruments consist of over-the-counter ("OTC") derivatives.

OTC derivatives are valued using market transactions and other market evidence, including market-based inputs to models, calibration to market-clearing 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.

Where models are used, the selection of a particular model to value an OTC 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. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss severity rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, model selection does not involve significant management judgement because outputs of models can be calibrated to market clearing levels.

Certain OTC derivatives are valued using models which utilise inputs that can be observed in the market, as well as unobservable inputs. Unobservable inputs typically include certain correlations as well as credit spreads, equity volatilities, commodity prices and commodity volatilities that are long-dated or derived from trading activity in inactive or less liquid markets. Subsequent to the initial valuation of such derivatives, the Company updates the observable inputs to reflect observable market changes. Unobservable inputs are changed when corroborated by evidence such as similar market transactions, third-party pricing services and / or broker or dealer quotations or other empirical market data. In circumstances where the Company cannot verify the model value by reference to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2019**

**2 Summary of principal accounting policies (continued)**

**2.7 Financial instruments (continued)**

**(e) Offsetting financial assets and liabilities**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

**2.8 Other receivables**

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. If collection of other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

**2.9 Loans payable**

Loans payable are recognised initially at fair value, net of transaction costs incurred. Loans payable are subsequently stated at amortised cost. Any difference between the proceeds net of transaction costs and the redemption value is taken to the statement of comprehensive income over the period of the borrowings using the effective interest method.

Loans payable which are due to be settled within twelve months of the balance sheet date or where the Company does not have unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date are included in current liabilities even though the original term was for a period longer than twelve months. Other loans payable due to be settled more than twelve months after the balance sheet date or where the Company has unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date are included in non-current liabilities.

**2.10 Other payables**

Other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

## Goldman Sachs Asia Bank Limited, a restricted licence bank

### Notes to Financial Statements For the year ended 31 December 2019

#### 3 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Company and are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

##### 3.1 Income taxes

Judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

##### 3.2 Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, OTC derivatives) is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the balance sheet date.

##### 3.3 Allowance for impairment

The allowance for impairment is determined by an ECL model developed to meet the impairment requirements of HKFRS 9. The measurement of ECL for financial assets classified at amortised cost requires the use of a complex model and significant assumptions about future economic conditions and credit behaviour. Significant judgements are also required in applying the accounting requirements for measuring expected credit losses including determining criteria for significant increases in credit risk and establishing the number and weighting of forward looking scenarios. Further information about the judgements and estimates made by the Company is set out in Note 18.2.

#### 4 Interest income and interest expense

	2019 US\$ '000	2018 US\$ '000
Interest income from:		
- third party banks	2,118	1,608
- affiliated companies (Note 16(a))	188	153
	<u>2,306</u>	<u>1,761</u>

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2019**

**4 Interest income and interest expense (continued)**

	2019 US\$ '000	2018 US\$ '000
Interest expense to:		
- an affiliated customer (Note 16(b))	23	21
- ultimate parent company (Note 16(c))	38	38
- affiliated companies (Note 16(c))	40	55
- others	9	41
	<u>110</u>	<u>155</u>

**5 Other income**

	2019 US\$ '000	2018 US\$ '000
Service fee income (Note 16(d))	4,584	6,850
Net currency translation losses	(11)	(8)
	<u>4,573</u>	<u>6,842</u>

**6 Operating expenses**

Operating expenses include:

	2019 US\$ '000	2018 US\$ '000
Employee compensation and benefits (Note 16(f))	1,532	2,056
Service fee expense (Note 16(e))	2,488	4,284
Directors' emoluments (Note 7)	403	399
Auditor's remuneration	82	82

**7 Directors' emoluments**

The emoluments of the Directors of the Company disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap. 622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation are set out below:

	2019 US\$ '000	2018 US\$ '000
Aggregate emoluments		
- in respect of their services as directors of the Company	200	200
- in respect of their other services in connection with the management of the affairs of the Company	203	199
	<u>403</u>	<u>399</u>

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**8 Income tax expense**

Hong Kong profits tax has been provided at the rates of 8.25% for the first HKD 2 million and 16.5% thereafter (2018: 8.25% for the first HKD 2 million and 16.5% thereafter) of the estimated assessable profits arising in Hong Kong during the year.

The amount of tax charged to the statement of comprehensive income represents:

	2019 US\$ '000	2018 US\$ '000
Current income tax	719	246
Deferred income tax (Note 12)	(401)	(38)
Adjustment of current tax for prior periods	(2)	(6)
	<u>316</u>	<u>202</u>

The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the Hong Kong taxation rate due to the following:

	2019 US\$ '000	2018 US\$ '000
Profit before income tax	2,042	1,397
Tax calculated at Hong Kong tax rate	316	210
Overprovision in prior periods	(2)	(6)
Currency translation loss / (gain)	2	(2)
Income tax expense	<u>316</u>	<u>202</u>

**9 Cash and cash equivalents**

	2019 US\$ '000	2018 US\$ '000
Cash at banks	45,381	47,222
Bank deposits		
- with an affiliated bank (Note 16(g))	7,000	7,000
- with third party banks	73,500	58,500
	<u>125,881</u>	<u>112,722</u>

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**Notes to Financial Statements  
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**10 Financial instruments at fair value**

The Company engages in OTC derivatives market making and holds positions accordingly.

The following table sets out the Company's financial instruments owned and financial instruments sold, but not yet purchased, measured at fair value through profit and loss.

On-balance sheet derivative financial instruments classified as held for trading comprise:

	2019		2018	
	Assets US\$ '000	Liabilities US\$ '000	Assets US\$ '000	Liabilities US\$ '000
Contracts with affiliated companies				
- Forward settlement contracts (Note 16(h))	4	727	3	5
- Option contracts (Note 16(h))	534	111	-	20
- Swap agreements (Note 16(h))	-	452		
Contracts with others				
- Forward settlement contracts	724	-	-	-
- Option contracts	111	534	20	-
- Swap agreements	452	-	-	-
	<u>1,825</u>	<u>1,824</u>	<u>23</u>	<u>25</u>

**11 Other receivables**

	2019 US\$ '000	2018 US\$ '000
Amounts due from ultimate parent company (Note 16(i))	-	51
Amounts due from affiliated companies (Note 16(i))	7,898	17,261
Other receivables	161	163
Prepayments	-	84
	<u>8,059</u>	<u>17,559</u>

**12 Deferred income tax assets**

The movement of the deferred income tax assets account is as follows:

	2019 US\$ '000	2018 US\$ '000
At the beginning of the year	820	783
Deferred taxation credited to statement of comprehensive income (Note 8)	401	38
Currency translation	7	(1)
At the end of the year	<u>1,228</u>	<u>820</u>
Deferred tax to be settled after more than 12 months	<u>785</u>	<u>582</u>

## Goldman Sachs Asia Bank Limited, a restricted licence bank

### Notes to Financial Statements For the year ended 31 December 2019

#### 12 Deferred income tax assets (continued)

Deferred income tax asset is recognised for employee incentive plans, to the extent that the realisation of the related tax benefit through future taxable profit is probable.

#### 13 Employee incentive plans

The Company's ultimate parent company sponsors a stock incentive plan, The Goldman Sachs Amended and Restated Stock Incentive Plan (2018) ("2018 SIP"), which provides for grants of restricted stock units ("RSUs"), restricted stock, dividend equivalent rights, incentive stock options, nonqualified stock options, stock appreciation rights, and other share-based awards, each of which may be subject to performance conditions. On 2 May 2018, shareholders of the Company's ultimate parent company approved the 2018 SIP. The 2018 SIP replaced The Goldman Sachs Amended and Restated Stock Incentive Plan (2015) ("2015 SIP") previously in effect, and applies to awards granted on or after the date of approval. The 2015 SIP had previously replaced The Goldman Sachs Amended and Restated Stock Incentive Plan (2013).

##### 13.1 Restricted stock units

The ultimate parent company grants RSUs (including RSUs subject to performance conditions) to employees of the Company, which are generally valued based on the closing price of the underlying shares on the date of grant after taking into account a liquidity discount for any applicable post-vesting and delivery transfer restrictions. RSUs generally vest and underlying shares of common stock are delivered (net of required withholding tax) as outlined in the applicable award agreements. Award agreements generally provide that vesting is accelerated in certain circumstances, such as on retirement, death, disability and conflicted employment. Delivery of the underlying shares of common stock, which generally occurs over a three-year period, is conditioned on the grantees satisfying certain vesting and other requirements outlined in the award agreements. The cost of these RSUs is allocated to the Company by the ultimate parent company.

The activity related to these RSUs was:

	Restricted stock units outstanding			
	2019		2018	
	No future service required	Future service required	No future service required	Future service required
Outstanding at the beginning of the year	15,709	3,052	9,301	4,700
Granted	11,756	4,504	7,944	3,070
Forfeited	-	-	-	(89)
Delivered	(8,644)	-	(5,970)	-
Transferred in	-	82	-	172
Transferred out	-	(634)	-	(367)
Vested	3,523	(3,523)	4,434	(4,434)
Outstanding at the end of the year	<u>22,344</u>	<u>3,481</u>	<u>15,709</u>	<u>3,052</u>

The weighted average grant-date fair value of RSUs granted during 2019 was US\$175.54 (2018: US\$218.77). The fair value of the RSUs granted during the years ended 31 December 2019 and 2018 included a liquidity discount of 11.83% and 12.83%, respectively, to reflect post-vesting and delivery transfer restrictions, generally of up to 4 years.

The aggregate fair value of awards vested during 2019 was US\$2,778,133 (2018: US\$2,440,729).

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
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**14 Other payables**

	2019	2018
	US\$	US\$
	'000	'000
<b>Current liabilities</b>		
Amounts due to ultimate parent company (Note 16(j))	2,712	1,404
Amounts due to affiliated companies (Note 16(j))	590	189
Accruals and other liabilities	7,149	8,588
	<u>10,451</u>	<u>10,181</u>
<b>Non-current liabilities</b>		
Amounts due to ultimate parent company (Note 16(j))	2,912	1,437
Accruals and other liabilities	1,846	2,063
	<u>4,758</u>	<u>3,500</u>

**15 Share capital**

	2019	2018
	US\$ '000	US\$ '000
Issued and fully paid:		
114,010,000 ordinary shares	114,010	114,010
	<u>114,010</u>	<u>114,010</u>

**16 Related party transactions**

Details of the related party transactions are disclosed as follows:

- (a) Interest income from affiliated companies was earned, at prevailing market rates, primarily from cash deposits placed with an affiliated bank and cash collateral placed with affiliated companies.
- (b) The deposit from an affiliated customer is a time deposit, which is unsecured and interest-bearing at prevailing market rates.
- (c) The Company has unsecured term loans payable to the ultimate parent company and an affiliated company, which bear interest at prevailing market rates. Interest expenses were mainly incurred from term loans payable to and cash collateral received from affiliated companies.
- (d) Service fee income from an affiliated company represents charging of expenses, some of which with mark up, incurred by the Company for engaging in OTC derivative activities in cooperation with the affiliated companies.
- (e) Service fee expense represents the allocation of costs from an affiliated company in relation to the support services provided to the Company.
- (f) Employee compensation and benefits are presented net of recharges to and from affiliated companies for secondment arrangements between the Company and the affiliated companies.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
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**16 Related party transactions (continued)**

- (g) The Company deposits excess cash with an affiliated bank under normal commercial terms.
- (h) Derivative assets and liabilities with affiliated companies arise from transactions that the Company entered into with affiliated companies in the normal course of business.
- (i) Amounts due from affiliated companies primarily comprise service charges receivable and cash collateral receivable. Amounts due from the ultimate parent company represent other receivables.
- (j) Amounts due to the ultimate parent company primarily comprise chargeback of equity-based awards payable. Amounts due to affiliated companies include cash collateral payable.
- (k) Key management compensation includes salaries, bonuses and other emoluments (including benefits-in-kind) computed based on the cost incurred by the Company, together with the value of any awards of shares in the ultimate holding company delivered during the year. The Company regards its key management to be those persons who are responsible for oversight of the Company's strategy or activities and / or those of the Company's material business lines.

	2019 US\$ '000	2018 US\$ '000
<b>Key management compensation</b>		
Salaries and bonuses	321	448
Employee incentive plans	99	104
Others (non-cash benefits)	-	-

**17 Notes to the statement of cash flows**

**17.1 Reconciliation of profit before income tax to cash generated from / (used in) operations**

	2019 US\$ '000	2018 US\$ '000
Profit before income tax	2,042	1,397
Adjustments for:		
Interest income	(2,306)	(1,761)
Interest expense	110	155
	<hr/>	<hr/>
Operating loss before changes in working capital	(154)	(209)
Changes in operating assets and liabilities:		
Financial instruments at fair value, net	(3)	(5)
Other receivables	9,495	1,146
Other payables	1,547	(955)
Currency translation	(4)	1
	<hr/>	<hr/>
Cash generated from / (used in) operations	10,881	(22)

## **Goldman Sachs Asia Bank Limited, a restricted licence bank**

### **Notes to Financial Statements For the year ended 31 December 2019**

#### **18 Financial risk management**

Normal trading activities expose the Company to market, credit, liquidity and operational risk. These risks, described below, are managed in accordance with established risk management policies and procedures.

The Firm monitors market, credit, liquidity and operational risk on a consistent basis firmwide. Consequently, the Company, as part of the global group, adheres to global risk management policies and procedures.

The Company seeks to monitor and control its risk exposure through a risk and control framework encompassing a variety of separate, but complementary, financial, credit, operational, compliance, legal reporting systems and internal controls, management review processes and other mechanisms. In addition, a number of global, regional and entity committees are responsible for monitoring risk exposures and for general oversight of the Company's risk management process ("Risk Committees"). These committees meet regularly and consist of senior members of both the revenue-producing units and departments that are independent of the revenue-producing units. In addition to these committees, functions that are independent of the revenue-producing units, such as Compliance, Controllers, Finance, Risk, Legal, Internal Audit and Operations, perform risk management functions, which include monitoring, analysing and evaluating risk.

##### **18.1 Market risk**

###### **(a) Overview**

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

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

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

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

The Company's process for managing market risk includes:

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

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2019**

**18 Financial risk management (continued)**

**18.1 Market risk (continued)**

**(a) Overview (continued)**

Market Risk produces risk measures and monitors them against established market risk limits. These measures reflect an extensive range of scenarios and the results are aggregated at the product, business and entity levels.

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

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

**(b) Stress testing**

Stress testing is performed on a regular basis as part of the Company's routine risk management processes and to meet the local regulatory requirements. The Company also conducts tailored stress tests on an ad hoc basis in response to market developments, where necessary. Stress testing is conducted jointly with the Company's risk and finance functions.

**(c) Limits**

Risk limits are used at various levels to manage the size of the Company's market exposures. These limits are set for the Company based on a range of stress tests relevant to the Company's exposures. The qualitative disclosures related to the limit approval process are set forth in Note 3 to the Unaudited Disclosure Statement "Overview of Risk Management".

Market Risk is responsible for monitoring these limits, and identifying and escalating to senior management and / or the appropriate risk committee, on a timely basis, instances where limits have been exceeded (e.g. due to positional changes or changes in market conditions, such as increased volatilities or changes in correlations). Such instances are remediated by a reduction in the positions the Company holds and / or a temporary or permanent increase to the limit.

**(d) Currency risk**

The Company's main currency exposure is to Hong Kong dollar, which is managed by hedging with an affiliated company.

**(e) Interest rate risk**

The Company is exposed to cash flow interest rate risk primarily on its deposits and cash placements. Based on the values of these balances at 31 December 2019, a 50 basis point change in market interest rates would result in a US\$520,000 (2018: US\$515,000) change in annual net interest income.

## **Goldman Sachs Asia Bank Limited, a restricted licence bank**

### **Notes to Financial Statements For the year ended 31 December 2019**

#### **18 Financial risk management (continued)**

##### **18.2 Credit risk**

###### **(a) Overview**

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty (e.g. an OTC derivatives counterparty or a borrower) or an issuer of securities or other instruments the Company hold. The Company's exposure to credit risk comes mostly from client transactions in OTC derivatives. Credit risk also comes from cash placed with banks, and receivables from customers and counterparties.

Credit Risk, which is independent of the revenue-producing units and reports to the Firm's Chief Risk Officer, has primary responsibility for assessing, monitoring and managing credit risk. The Company's framework for managing company level credit risk is consistent with, and is part of the Firm's framework.

###### **(b) Credit risk management process**

The process for managing credit risk includes:

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

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

The Firm's risk assessment process may also include, where applicable, reviewing certain key metrics, including, but not limited to delinquency status, collateral values, Fair Isaac Corporation credit scores and other risk factors.

The Firm's global credit risk management systems capture credit exposure to individual counterparties and on an aggregate basis to counterparties and their subsidiaries. These systems also provide management with comprehensive information about aggregate credit risk by product, internal credit rating, industry, country and region.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
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**18 Financial risk management (continued)**

**18.2 Credit risk (continued)**

**(c) Credit risk measures**

Credit risk is measured based on the potential loss in the event of non-payment by a counterparty using current and potential exposure. For derivatives transactions, current exposure represents the amount presently owed after taking into account applicable netting and collateral arrangements while potential exposure represents the Company's estimate of the future exposure that could arise over the life of a transaction based on market movements within a specified confidence level. Potential exposure also takes into account netting and collateral arrangements.

**(d) Limits**

The Firm's Risk Committee of the Board and the Risk Governance Committee approve credit risk limits at the Firm's, business and product level, consistent with the risk appetite statement. Furthermore, the Firmwide Risk Committee approves the framework that governs the setting of credit risk sub-limits at the Firm's level, which is delegated to Credit Risk (through delegated authority from Firm's Risk Governance Committee). The Board-Level Risk Committee of the Company approves the risk appetite of the Company and credit risk limits at the company level. Credit Risk (through delegated authority from the Risk Committee of the Company) sets credit concentration limits at the company level for counterparty groups, industries and countries. Policies authorized by the Firm's Enterprise Risk Committee and the Risk Governance Committee prescribe the level of formal approval required to assume credit exposure to a counterparty across all product areas, taking into account any applicable netting provisions, collateral or other credit risk mitigants.

Credit limits are used at various levels to manage the size and nature of credit exposures. Limits for industries and countries are based on the Firm's risk appetite and are designed to allow for regular monitoring, review, escalation and management of credit risk concentrations. The qualitative disclosures related to the limit approval process are set forth in Note 3 to the Unaudited Disclosure Statement "Overview of Risk Management".

Credit Risk is responsible for monitoring these limits, and identifying and escalating to senior management and / or the appropriate risk committee, on a timely basis, instances where limits have been exceeded.

**(e) Stress tests**

Regular stress tests are used to calculate the credit exposures, including potential concentrations that would result from applying shocks to counterparty credit ratings or credit risk factors (e.g. currency rates, interest rates, equity prices). These shocks cover a wide range of moderate and more extreme market movements, including shocks to multiple risk factors, consistent with the occurrence of a severe market or economic event. Unlike potential exposure, which is calculated within a specified confidence level, stress testing does not generally assume a probability of these events occurring.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2019**

**18 Financial risk management (continued)**

**18.2 Credit risk (continued)**

**(e) Stress tests (continued)**

To supplement these regular stress tests, as described above, tailored stress tests are also conducted on an ad hoc basis in response to specific events that are deemed significant. The Company also utilize these stress tests to estimate the indirect impact of certain hypothetical events on the country exposures, such as the impact of credit market deterioration on corporate counterparties along with the shocks to the risk factors described above. The parameters of these shocks vary based on the scenario reflected in each stress test. Estimated losses produced by the stress tests are reviewed in order to understand the magnitude, highlight potential loss concentrations, and assess and mitigate the exposures where necessary.

The Firm's and the Company's potential credit exposure and stress testing models, and any changes to such models or assumptions, are independently reviewed, validated and approved by Model Risk.

**(f) Credit risk mitigation**

To reduce credit exposures on derivatives, the Company 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.

The Company may also reduce credit risk with counterparties by entering into agreements that enables it to receive and post cash and securities collateral with respect to its derivatives, 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 provisions the right to liquidate collateral and apply the proceeds to any amounts owed. In order to assess enforceability of our right to setoff under netting and credit support agreements, the Company evaluates various factors, including applicable bankruptcy laws, local statutes and regulatory provisions in the jurisdiction of the parties to the agreement. The collateral it holds consists primarily of cash.

The Company's collateral is managed by a function within the Operations Division which reviews exposure calculations, makes margin calls with relevant counterparties, and ensures subsequent settlement of collateral movements. The Company monitors the fair value of the collateral on a daily basis to ensure that our credit exposures are appropriately collateralised.

When the Company does not have sufficient visibility into a counterparty's financial strength or when it believes a counterparty requires support from its parent, the Company may obtain third-party guarantees of the counterparty's obligations.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2019**

**18 Financial risk management (continued)**

**18.2 Credit risk (continued)**

**(g) Credit exposure**

**Cash and cash equivalents.** Cash and cash equivalents 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.

**OTC derivatives.** Derivative instruments are reported at fair value on a gross-by-counterparty basis in the Company's financial statements, unless the Company has a current legal right of set-off and also intends to settle on a net basis. OTC derivatives are risk managed using the risk processes, measures and limits described above.

**Other credit exposures.** The Company is exposed to credit risk from its receivables from customers and counterparties. These primarily comprise receivables from related parties and receivables related to cash collateral paid to counterparties in respect of derivative financial instrument liabilities.

**(h) Exposure to credit risk by class**

**(i) Financial instruments subject to impairment**

The Company assesses on a forward-looking basis the expected credit losses (ECL) associated with financial assets measured at amortised cost. The Firm's impairment model is based on changes in credit quality since initial recognition of the relevant assets and incorporates three stages. See Note 2.7(b)(iii) for further information about the Firm's impairment methodology.

The following table discloses the carrying values of financial instruments subject to impairment recorded in the financial statements:

<b>Financial assets</b>	2019 US\$ '000	2018 US\$ '000
Cash and cash equivalents	125,881	112,722
Other receivables	8,059	17,475
	<hr/>	<hr/>
	133,940	130,197
	<hr/> <hr/>	<hr/> <hr/>

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
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**18 Financial risk management (continued)**

**18.2 Credit risk (continued)**

**(h) Exposure to credit risk by class (continued)**

**(i) Financial instruments subject to impairment (continued)**

The following table contains an analysis of the credit risk exposure of financial instruments subject to impairment and is grouped by credit rating equivalent (internally determined public rating agency equivalents). The gross carrying amount of financial assets below also represents the Company's maximum exposure to credit risk on these assets.

	2019 Stage 1 US\$'000	2018 Stage 1 US\$'000
<b>Credit rating equivalent</b>		
AA	22,817	40,352
A	67,555	58,130
BBB	43,566	31,491
B	-	-
Unrated	2	224
<b>Gross carrying amount</b>	<u>133,940</u>	<u>130,197</u>
Loss allowance	-	-
<b>Carrying amount</b>	<u>133,940</u>	<u>130,197</u>

**(ii) Financial instruments not subject to impairment**

The following table discloses the carrying values of financial assets recorded in the financial statements and represents the Company's maximum exposure to credit risk without taking into account any other credit enhancements:

	2019 US\$ '000	2018 US\$ '000
Financial instruments at fair value	1,825	23
	<u>1,825</u>	<u>23</u>

The following table shows the carrying values of financial assets grouped by credit rating equivalent (internally determined public rating agency equivalents).

<b>Credit rating equivalent</b>	2019 US\$ '000	2018 US\$ '000
A	538	4
B	1,287	19
	<u>1,825</u>	<u>23</u>

The Company had no financial assets that were either past due or impaired as at 31 December 2019 (2018: Nil).

## Goldman Sachs Asia Bank Limited, a restricted licence bank

### Notes to Financial Statements For the year ended 31 December 2019

#### 18 Financial risk management (continued)

##### 18.3 Liquidity risk

Liquidity risk is the risk that the Company will be unable to fund itself or meet its liquidity needs in the event of a Company-specific, broader industry, or market liquidity stress events. Accordingly, the Company follows the Firm's comprehensive and conservative set of liquidity and funding policies. The Firm's principal objective is to be able to fund its core businesses to continue to serve clients and generate revenues, even under adverse circumstances.

Treasury, which reports to the Firm's Chief Financial Officer, has primary responsibility for developing, managing and executing liquidity and funding strategy within the Firm's risk appetite. Liquidity Risk, which is independent of our revenue-producing units and Treasury, and reports to the Firm's Chief Risk Officer, has primary responsibility for assessing, monitoring and managing liquidity risk through firmwide oversight and the establishment of stress testing and limits frameworks. The Company's framework for managing liquidity risk is consistent with, and is part of the Firm's framework.

The Company manages liquidity risk according to three principles: (i) hold sufficient excess liquidity to cover outflows during a stressed period, (ii) maintain appropriate asset-liability management and (iii) maintain a viable contingency funding plan.

- **Excess liquidity.** The Company maintains excess liquidity to meet a broad range of potential cash outflows and collateral needs in a stressed environment. The Company uses liquidity thresholds, limits, and alerts across relevant liquidity risk types to monitor and manage the size of its liquidity exposure. The Company also monitors cash-flow projections to anticipate cash flows arising from assets, liabilities, off-balance sheet exposures, to the extent applicable, over short and long-term time horizons.
- **Asset-liability management.** The Company's liquidity risk management policies are designed to ensure it has a sufficient amount of financing, even when funding markets experience persistent stress. The Company manages maturities and diversity of funding across markets, products and counterparties, and seeks to maintain a diversified funding profile with an appropriate tenor, taking into consideration the characteristics and liquidity profile of its assets. The Company's primary sources of funding include equity capital, deposits and unsecured borrowings. The Company monitors relevant funding thresholds, to the extent applicable.
- **Contingency funding plan.** The Company maintains a contingency funding plan to provide a framework for analysing and responding to a liquidity crisis situation or periods of market stress. The contingency funding plan outlines a list of potential risk factors, key reports and metrics that are reviewed on an ongoing basis to assist in assessing the severity of, and managing through, a liquidity crisis and / or market dislocation. The contingency funding plan also describes the Company's potential responses if assessments indicate that the Company has entered a liquidity crisis, which includes pre-funding for what the Company estimates will be its potential cash and collateral needs as well as utilising secondary sources of liquidity. Mitigants and action items to address specific risks which may arise are also described and assigned to individuals responsible for execution.

Liquidity risk policies are communicated to relevant committees, departments and parties engaged in assessing, monitoring and managing liquidity risk through oversight and the establishment of stress-testing and limits frameworks. The Company regularly performs liquidity stress tests to analyse the potential impact of stress on its cash flows, liquidity position, profitability and solvency.

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**Notes to Financial Statements  
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**18 Financial risk management (continued)**

**18.3 Liquidity risk (continued)**

The Company's liquidity risk tolerance is set by the Board and is defined in the Company's Risk Appetite Statement ("RAS"). The Company's RAS describes the levels and types of risk the Company is willing to accept or to avoid, in order to achieve its strategic business objectives, while remaining in compliance with regulatory requirements. Measuring, monitoring and controlling liquidity risk is an essential part of liquidity risk management. The Company computes and reviews metrics related to a range of liquidity risk areas which are distributed to various stakeholders, including relevant committees on a regular basis.

The following table details the undiscounted cash flows of the Company's financial liabilities by remaining contractual maturity, including interest that will accrue, except for derivatives or where the Company is entitled to repay the liability before its maturity. Financial instruments are presented at their fair value.

	Less than three months US\$ '000	More than three months but less than one year US\$ '000	More than one year but less than five years US\$ '000	More than five years US\$ '000	Undated US\$ '000	Total US\$ '000
<b>2019</b>						
<b>Current liabilities</b>						
Deposit from an affiliated customer	1,000	-	-	-	-	1,000
Short-term loans payable	2,000	-	-	-	-	2,000
Financial instruments at fair value	1,362	10	452	-	-	1,824
Other payables	9,389	121	-	-	926	10,436
<b>Non-current liabilities</b>						
Other payables	-	-	4,758	-	-	4,758
	<u>13,751</u>	<u>131</u>	<u>5,210</u>	<u>-</u>	<u>926</u>	<u>20,018</u>
<b>2018</b>						
<b>Current liabilities</b>						
Deposit from an affiliated customer	1,000	-	-	-	-	1,000
Short-term loans payable	2,000	-	-	-	-	2,000
Financial instruments at fair value	25	-	-	-	-	25
Other payables	9,360	193	-	-	616	10,169
<b>Non-current liabilities</b>						
Other payables	-	-	3,500	-	-	3,500
	<u>12,385</u>	<u>193</u>	<u>3,500</u>	<u>-</u>	<u>616</u>	<u>16,694</u>

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2019**

**18 Financial risk management (continued)**

**18.4 Offsetting financial assets and financial liabilities**

**(a) Financial assets**

The following table shows the Company's financial assets that are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross credit exposure US\$ '000	Netting arrangements US\$ '000	Net amount presented in balance sheet US\$ '000	Amounts not offset in the balance sheet		Net amount US\$ '000
				Financial instruments US\$ '000	Cash collateral US\$ '000	
<b>2019</b>						
Cash and cash equivalents	125,881	-	125,881	-	-	125,881
Financial instruments at fair value	1,825	-	1,825	(649)	(423)	753
Other receivables	8,569	(510)	8,059	-	(1,175)	6,884
	<u>136,275</u>	<u>(510)</u>	<u>135,765</u>	<u>(649)</u>	<u>(1,598)</u>	<u>133,518</u>
<b>2018</b>						
Cash and cash equivalents	112,722	-	112,722	-	-	112,722
Financial instruments at fair value	23	-	23	(4)	-	19
Other receivables	23,099	(5,624)	17,475	-	-	17,475
	<u>135,844</u>	<u>(5,624)</u>	<u>130,220</u>	<u>(4)</u>	<u>-</u>	<u>130,216</u>

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

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**18 Financial risk management (continued)**

**18.4 Offsetting financial assets and financial liabilities (continued)**

**(b) Financial liabilities**

The following table shows the Company's financial liabilities that are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross credit exposure US\$ '000	Netting arrangements US\$ '000	Net amount presented in balance sheet US\$ '000	Amounts not offset in the balance sheet		Net amount US\$ '000
				Financial instruments US\$ '000	Cash collateral US\$ '000	
<b>2019</b>						
Deposit from an affiliated customer	1,000	-	1,000	-	-	1,000
Short-term loans payable	2,000	-	2,000	-	-	2,000
Financial instruments at fair value	1,824	-	1,824	(649)	(1,175)	-
Other payables	15,704	(510)	15,194	-	(423)	14,771
	<u>20,528</u>	<u>(510)</u>	<u>20,018</u>	<u>(649)</u>	<u>(1,598)</u>	<u>17,771</u>
<b>2018</b>						
Deposit from an affiliated customer	1,000	-	1,000	-	-	1,000
Short-term loans payable	2,000	-	2,000	-	-	2,000
Financial instruments at fair value	25	-	25	(4)	-	21
Other payables	19,293	(5,624)	13,669	-	-	13,669
	<u>22,318</u>	<u>(5,624)</u>	<u>16,694</u>	<u>(4)</u>	<u>-</u>	<u>16,690</u>

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Company and the counterparty allows for net settlement of the relevant financial assets and liabilities when both intend to settle on a net basis.

## Goldman Sachs Asia Bank Limited, a restricted licence bank

### Notes to Financial Statements For the year ended 31 December 2019

#### 18 Financial risk management (continued)

##### 18.5 Fair value estimation

The tables below show financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

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

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

The Company's assets and liabilities that are measured at fair value are:

##### 2019

	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total US\$ '000
Financial assets at fair value				
Derivative instruments	-	1,825	-	1,825
	=====	=====	=====	=====
Financial liabilities at fair value				
Derivative instruments	-	1,824	-	1,824
	=====	=====	=====	=====

##### 2018

	Level 1 US\$ '000	Level 2 US\$ '000	Level 3 US\$ '000	Total US\$ '000
Financial assets at fair value				
Derivative instruments	-	23	-	23
	=====	=====	=====	=====
Financial liabilities at fair value				
Derivative instruments	-	25	-	25
	=====	=====	=====	=====

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial instruments is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, OTC derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

## **Goldman Sachs Asia Bank Limited, a restricted licence bank**

### **Notes to Financial Statements For the year ended 31 December 2019**

#### **18 Financial risk management (continued)**

##### **18.5 Fair value estimation (continued)**

There were no significant transfers of financial assets and liabilities between level 1 and level 2 fair value hierarchy classifications.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. There were no level 3 financial instruments held as at 31 December 2019 and 31 December 2018.

The Company's level 2 financial instruments are valued using various derivative pricing models such as incorporating option pricing methodologies, Monte Carlo simulations and discounted cash flows. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, measures of volatility and correlations of such inputs. Inputs to the valuations of level 2 financial instruments can be verified to market transactions, broker or dealer quotations or other alternative pricing source with reasonable levels of price transparency. Consideration is given to the nature of the quotations and the relationship of recent market activity to the prices provided from alternative pricing sources.

The carrying value of other financial assets and liabilities are a reasonable approximation of their fair values.

##### **18.6 Operational risk management**

Operational risk is the risk of an adverse outcome resulting from inadequate or failed internal processes, people, systems or from external events.

The Company's exposure to operational risk arises from routine processing errors as well as extraordinary incidents, such as major systems failures or legal and regulatory matters. Potential types of loss events related to internal and external operational risk include: clients, products and business practices, execution, delivery and process management, business disruption and system failures, employment practices and workplace safety, damage to physical assets, internal fraud, and external fraud.

Operational Risk, which is independent of the revenue producing units, has primary responsibility for developing and implementing a formalized framework for assessing, monitoring and managing operational risk with the goal of maintaining exposure to operational risk at levels that are within the risk appetite.

##### **18.7 Capital management**

The Company's capital is considered to comprise total equity on the balance sheet. The primary objectives in managing capital are to safeguard the ability of the Company to continue as a going concern and to meet the capital requirements of the Company's regulators in Hong Kong.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Notes to Financial Statements  
For the year ended 31 December 2019**

**18 Financial risk management (continued)**

**18.7 Capital management (continued)**

The Company is regulated by the Hong Kong Monetary Authority (“HKMA”) and as such is subject to minimum capital requirements. The Company’s capital is monitored on an ongoing basis in accordance with the Company’s Capital Management Policy to ensure compliance with these requirements. The Company must ensure the capital is sufficient to meet the minimum capital adequacy ratio as required by the HKMA.

The Company met HKMA’s capital adequacy ratio requirements during the years ended 31 December 2019 and 31 December 2018.

The Company did not pay a dividend or return capital to its shareholders for the years ended 31 December 2019 and 31 December 2018.

**19 Events after the reporting period**

Since the balance sheet date there has been a global outbreak of a novel strain of coronavirus (COVID-19) which is causing widespread disruption to financial markets and normal patterns of business activity across the world. In view of its currently evolving nature, it is not currently possible to estimate the financial effect of COVID-19 on the Company.

**20 Approval of financial statements**

The financial statements were approved by the board of directors on 22 April 2020.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement**

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**Goldman Sachs Asia Bank Limited, a restricted licence bank**

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## **Goldman Sachs Asia Bank Limited, a restricted licence bank**

### **Unaudited Disclosure Statement For the year ended 31 December 2019**

The following information is disclosed for Goldman Sachs Asia Bank Limited (the “Company”), a restricted licence bank, as part of the accompanying information to the financial statements to comply with the Banking (Disclosure) Rules. The publication of the Company’s Unaudited Disclosure Statement is governed by the Company’s disclosure policy, which has been approved by the Board of Directors (the “Board”). The disclosure policy sets out the governance and internal controls over the publication of the information, to ensure that such information is relevant and adequate to convey an accurate impression of the Company’s state of affairs and risk profile. While the Unaudited Disclosure Statement is not required to be audited, the document has been subject to independent review to ensure that the information is not false or misleading in any material respect.

To comply with the Banking (Disclosure) Rules, the Company’s Unaudited Disclosure Statement is published on its parent company’s website as the Company does not maintain a website of its own:  
<https://www.goldmansachs.com/disclosures/gsab-disclosures/financial-disclosures.html>

All references to 2019 and 2018 refer to the years ended, or the dates, as the context requires, 31 December 2019 and 31 December 2018, respectively.

## **1 Corporate Governance**

The Board and the management of the Company recognise the importance of robust corporate governance to ensure an environment of effective oversight and strong accountability.

To the extent applicable, the Company has complied with the requirements set out in the guideline CG-1 “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority (the “HKMA”).

The Company’s ultimate parent company is The Goldman Sachs Group, Inc. (“Group Inc.”). The term the “Firm” refers to Group Inc. and its consolidated subsidiaries collectively.

The information in this Note 1 represents the corporate governance structure of the Company as of 22 April 2020.

### **1.1 Board of Directors**

The Board is responsible for overseeing the establishment of corporate governance policies and procedures in order to protect the interests of the Company’s stakeholders and to ensure the safety and soundness of the Company’s operations and its compliance with applicable laws and regulations. Directors exercise their independent judgment when managing the Company’s business. The Board oversees the implementation of controls and risk management processes and takes the steps it reasonably believes are necessary to ensure that a strong and cooperative relationship with regulators exist.

Currently, the Board comprises five members: one executive director, two non-executive directors and two independent non-executive directors.

The directors of the Board collectively possess a broad range of skills, expertise, industry and other knowledge, and business and other experience useful to the effective oversight of the Company’s business.

The Board meets at least once in each quarter. The Board met five times during the year ended 31 December 2019.

### **1.2 Board-level committees**

The Board has established a number of board-level committees, the roles, functions and composition of which are set out below.

## **Goldman Sachs Asia Bank Limited, a restricted licence bank**

### **Unaudited Disclosure Statement For the year ended 31 December 2019**

#### **1 Corporate Governance (continued)**

##### **1.2 Board-level committees (continued)**

###### **(a) Audit Committee**

The Audit Committee is a board-level committee which currently comprises three non-executive directors, of whom the chairperson and one member are independent.

The purposes of the Audit Committee are to:

- (i) assist the Board in its oversight of the Company's internal control systems including:
  - the integrity of the Company's financial statements;
  - the Company's compliance with the applicable legal and regulatory requirements;
  - the Company's external independent auditors' qualifications, independence, objectivity and performance;
  - the performance of the Company's Internal Audit function;
  - the scope and frequency of audit reviews; and
  - the Company's internal controls over financial reporting and related infrastructure controls in light of the Bank's business plan and growth expectations.
- (ii) reinforce the work of internal and external auditors, with the responsibilities as set out in the HKMA Supervisory Policy Manual module headed "IC-2 Internal Audit Function".
- (iii) where not otherwise done on a global basis, recommend for approval to the Board or shareholders (as applicable) the appointment, retention/re-appointment, compensation and termination of appointment of the Company's external auditors, and to pre-approve all audit, audit-related, tax and other services, if any, to be provided by the external auditors.

The Audit Committee shall hold regular meetings from time to time as required. The Audit Committee met four times during the year ended 31 December 2019.

###### **(b) Board-Level Risk Committee**

The Board-Level Risk Committee is a board-level committee which currently comprises three non-executive directors, of whom the chairperson and one member are independent.

The Board-Level Risk Committee is responsible, directly or through its subcommittees, for the on-going monitoring and management of the Company's (i) market risk, credit risk, operational risk, liquidity risk, interest rate risk, reputational risk, legal risk and strategic risk; and (ii) compliance with the minimum regulatory capital ratios required under the HKMA requirements.

The Board-Level Risk Committee shall meet on a quarterly basis, although meetings may occur more or less frequently. The Board-Level Risk Committee met three times during the year ended 31 December 2019.

###### **(c) Remuneration Committee**

The Remuneration Committee is a board-level committee which currently comprises three non-executive directors, of whom two members are independent.

The disclosures about the composition and mandate of the Remuneration Committee are set forth in Note 23.1(b) of the unaudited disclosure statement "Design and implementation of the remuneration system – Remuneration Governance".

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement  
For the year ended 31 December 2019**

**1 Corporate Governance (continued)**

**1.2 Board-level committees (continued)**

**(c) Remuneration Committee (continued)**

The Remuneration Committee shall hold regular meetings from time to time as required. The Remuneration Committee met three times during the year ended 31 December 2019.

**(d) Nomination Committee**

The Nomination Committee is a board-level committee which currently comprises three non-executive directors, of whom two members are independent.

The Nomination Committee is responsible for (i) reviewing candidates for the role of the Chief Executive, Alternate Chief Executive and/or directors of the Company proposed by the Company's management and making recommendations to the Board on the appointment and/or re-appointment of the nominated individuals for such positions; and (ii) succession planning for directors, in particular the chair and the Chief Executive.

The Nomination Committee shall meet on an annual basis, although meetings may occur more frequently as needed. The Nomination Committee met once during the year ended 31 December 2019.

**(e) Culture Committee**

The Culture Committee is a board-level committee which currently comprises three non-executive directors, of whom two members are independent.

The Culture Committee is responsible for advising and assisting the Board in discharging its responsibilities for the Company's culture-related matters.

The Culture Committee shall meet on an annual basis, although meetings may occur more frequently as needed. The Culture Committee met once during the year ended 31 December 2019.

**1.3 Management-level committees**

In addition to the Board and the board-level committees set out above, the Company has established management-level committees including the Management Committee, Risk Committee, Credit Sub-committee and Asset and Liability Sub-committee as part of its corporate governance framework. These committees meet regularly and serve as an important means to facilitate and foster ongoing discussions to identify, manage and mitigate risks.

The main duties and responsibilities of the management-level committees are described below. In addition to their duties and responsibilities, all committees are also accountable for business standards and practices, reputational risk management and, where applicable, client service, within the scope of their mission.

**(a) Management Committee**

The Management Committee oversees all activities of the Company. The committee provides this oversight directly and through authority delegated to the committees it has established, if any, and coordinating with other committees and sub-committees of the Company.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement  
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**1 Corporate Governance (continued)**

**1.3 Management-level committees (continued)**

**(a) Management Committee (continued)**

The Management Committee is co-chaired by the Chief Executive and an Alternate Chief Executive and its membership includes senior managers from the revenue-producing divisions and independent control and support functions. The Management Committee reports to the Board.

**(b) Risk Committee**

The Risk Committee is responsible, directly or through its sub-committees, for supporting the Chief Risk Officer, the Board-Level Risk Committee, and the Board in overseeing the on-going monitoring and management of the Company's (i) market risk, credit risk, operational risk, liquidity risk, interest rate risk, reputational risk, legal risk and strategic risk; and (ii) compliance with the minimum regulatory capital ratios required under the HKMA requirements.

The Risk Committee is co-chaired by the Chief Accountant and the Chief Risk Officer and its membership includes an Alternate Chief Executive as well as senior managers from the revenue-producing divisions and independent control and support functions.

The Risk Committee reports to the Board and the Board-Level Risk Committee.

**(c) Credit Sub-committee**

The Credit Sub-committee is responsible for (i) ensuring the Company has an appropriate and effective credit risk management process, and (ii) ongoing monitoring and review of the Company's counterparty credit risk exposure.

The Credit Sub-committee is chaired by a senior member from Credit Risk and its membership includes senior managers from independent control and support functions.

The Credit Sub-committee reports to the Risk Committee.

**(d) Asset and Liability Sub-committee ("ALCO")**

The ALCO considers and addresses matters related to the Company's liquidity, funding and asset liability management. The committee reviews and makes recommendations to the Risk Committee and Corporate Treasury with respect to the Company's liquidity position and funding activities, including related models, frameworks and limits. The committee may also recommend to the Risk Committee business unit specific asset-liability management frameworks. In addition, the committee discusses entity and industry-wide initiatives related to liquidity and funding.

The ALCO is co-chaired by the Chief Risk Officer and Treasurer and its membership includes senior managers from the revenue-producing divisions and independent control and support functions.

The ALCO reports to the Risk Committee, and may report to the Firm's Asia Pacific Asset Liability Committee, if needed.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement  
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**2 Key prudential ratios**

The Company is regulated by the Hong Kong Monetary Authority (the “HKMA”) and as such is subject to minimum capital and liquidity requirements. The Company computes capital ratios in accordance with the Banking (Capital) Rules (the “BCR”) of the Banking Ordinance. In addition, liquidity ratios are computed in accordance with the Banking (Liquidity) Rules (the “BLR”) of the Banking Ordinance.

The capital adequacy ratios are measures of regulatory capital to risk-weighted amounts (“RWAs”). Risk-weighted amounts represent the sum of the Company’s exposure to credit risk, market risk and operational risk calculated in accordance with the relevant provisions of the BCR.

The Common Equity Tier 1 (“CET1”) ratio is defined as CET1 divided by RWAs. The Tier 1 capital ratio is defined as Tier 1 capital divided by RWAs. The total capital ratio is defined as total capital divided by RWAs.

The leverage ratio (“LR”) is defined as Tier 1 capital to a measure of total exposures, defined as the sum of on-balance sheet exposures (after certain Tier 1 capital deductions), certain derivative exposures, securities financing transaction exposures and other off-balance sheet exposures.

The liquidity maintenance ratio (“LMR”) is calculated as the arithmetic mean of the average LMRs of the three calendar months within the quarter. The average LMR of each calendar month is the figure reported in MA(BS)1E Return of Liquidity Position submitted to the HKMA.

The Company is a category 2 institution (not designated as a category 2A institution) under the Banking (Liquidity) Rules. Hence, the liquidity coverage ratio, net stable funding ratio and core funding ratio are not applicable.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement  
For the year ended 31 December 2019**

**2 Key prudential ratios (continued)**

Using the standard template as specified by the HKMA, the details of the Company's key prudential ratios and an explanation of material changes in the ratios during the quarterly reporting periods are set out below.

**Template KM1: Key prudential ratios**

		31 December 2019	30 September 2019	30 June 2019	31 March 2019	31 December 2018	Note
<b>Regulatory capital (US\$ '000)</b>							
1	Common Equity Tier 1 (CET1)	115,256	114,967	114,706	114,445	113,938	
2	Tier 1	115,256	114,967	114,706	114,445	113,938	
3	Total capital	115,256	114,967	114,706	114,445	113,938	
<b>RWA (US\$ '000)</b>							
4	Total RWA	70,139	79,037	76,902	72,891	70,854	
<b>Risk-based regulatory capital ratios (as a percentage of RWA)</b>							
5	CET1 ratio (%)	164.32%	145.46%	149.16%	157.01%	160.80%	
6	Tier 1 ratio (%)	164.32%	145.46%	149.16%	157.01%	160.80%	
7	Total capital ratio (%)	164.32%	145.46%	149.16%	157.01%	160.80%	(i)
<b>Additional CET1 buffer requirements (as a percentage of RWA)</b>							
8	Capital conservation buffer requirement (%)	2.500%	2.500%	2.500%	2.500%	1.875%	
9	Countercyclical capital buffer requirement (%)	1.525%	2.348%	2.272%	2.239%	1.844%	(ii)
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	-	-	-	-	-	
11	Total AI-specific CET1 buffer requirements (%)	4.025%	4.848%	4.772%	4.739%	3.719%	
12	CET1 available after meeting the AI's minimum capital requirements (%)	156.32%	137.46%	141.16%	149.01%	152.80%	
<b>Basel III leverage ratio</b>							
13	Total leverage ratio (LR) exposure measure (US\$ '000)	138,446	134,161	132,373	127,665	131,757	
14	LR (%)	83.25%	85.69%	86.65%	89.65%	86.48%	
<b>Liquidity Coverage Ratio (LCR) / Liquidity Maintenance Ratio (LMR)</b>							
Applicable to category 1 institution only:							
15	Total high quality liquid assets (HQLA)	-	-	-	-	-	
16	Total net cash outflows	-	-	-	-	-	
17	LCR (%)	-	-	-	-	-	
Applicable to category 2 institution only:							
17a	LMR (%)	160.00%	160.00%	160.00%	160.01%	160.00%	
<b>Net Stable Funding Ratio (NSFR) / Core Funding Ratio (CFR)</b>							
Applicable to category 1 institution only:							
18	Total available stable funding	-	-	-	-	-	
19	Total required stable funding	-	-	-	-	-	
20	NSFR (%)	-	-	-	-	-	
Applicable to category 2A institution only:							
20a	CFR (%)	-	-	-	-	-	

(i) The increase in the risk-based regulatory capital ratios as of 31 December 2019 from the previous reporting period is mainly due to a decrease in RWAs for credit risk resulting from the decrease in amounts due from affiliated companies.

(ii) The decrease in countercyclical capital buffer requirement as of 31 December 2019 from the previous reporting period is mainly due to the decrease in the jurisdictional countercyclical capital buffer requirement ("JCCyB") for Hong Kong.

## **Goldman Sachs Asia Bank Limited, a restricted licence bank**

### **Unaudited Disclosure Statement For the year ended 31 December 2019**

#### **3 Overview of risk management**

The Firm believes that effective risk management is critical to our success. Accordingly, the Firm has established an Enterprise Risk Management (“ERM”) framework that employs a comprehensive, integrated approach to risk management, and is designed to enable comprehensive risk management processes through which the Firm identifies, assesses, monitors and manages the risks we assume in conducting our activities. The following section covers the risk management structure which is built around three core components: governance, processes and people.

##### **3.1 Governance**

Risk management governance starts with the Board of Group Inc. (the “Group Board”), which both directly and through its committees, including its Risk Committee, oversees the risk management policies and practices implemented through the ERM framework. The Group Board is also responsible for the annual review and approval of the Firm’s risk appetite statement. The risk appetite statement describes the levels and types of risk the Firm is willing to accept or to avoid, in order to achieve strategic business objectives, while remaining in compliance with regulatory requirements. The Group Board reviews the Firm’s strategic business plan and is ultimately responsible for overseeing and providing direction about the Firm’s strategy and risk appetite.

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

The Firm’s revenue-producing units, as well as Treasury, Engineering, Human Capital Management, Operations and Services, are considered the first line of defense and are accountable for the outcomes of the risk-generating activities, as well as for assessing and managing those risks within the Firm’s risk appetite.

The independent risk oversight and control functions are considered the second line of defense and provide independent assessment, oversight and challenge of the risks taken by the first line of defense, as well as lead and participate in risk committees. Independent risk oversight and control functions include Compliance, Conflicts Resolution, Controllers, Credit Risk, Enterprise Risk, Human Capital Management, Legal, Liquidity Risk, Market Risk, Model Risk, Operational Risk and Tax.

Internal Audit is considered the third line of defense and reports to the Audit Committee of the Group Board and administratively to the Firm’s Chief Executive Officer. Internal Audit includes professionals with a broad range of audit and industry experience, including risk management expertise. Internal Audit is responsible for independently assessing and validating the effectiveness of key controls, including those within the risk management framework, and providing timely reporting to the Audit Committee of the Group Board, senior management and regulators.

The three lines of defense structure promotes the accountability of first line risk takers, provides a framework for effective challenge by the second line and empowers independent review from the third line.

## **Goldman Sachs Asia Bank Limited, a restricted licence bank**

### **Unaudited Disclosure Statement For the year ended 31 December 2019**

## **3 Overview of risk management (continued)**

### **3.2 Processes**

The Firm maintains various processes that are critical components of its risk management framework, including (a) risk identification and assessment, (b) risk appetite, limit and threshold setting, (c) risk reporting and monitoring, and (d) risk decision-making.

#### **(a) Risk identification and assessment**

The Firm believes that the identification and assessment of our risks is a critical step in providing the Group Board and senior management transparency and insight into the range and materiality of the Firm's risks. The Firm has a comprehensive data collection process, including firmwide policies and procedures that require all employees to report and escalate risk events. The approach for risk identification and assessment is comprehensive across all risk types, is dynamic and forward-looking to reflect and adapt to our changing risk profile and business environment, leverages subject matter expertise, and allows for prioritization of the most critical risks.

To effectively assess and monitor risks, the Firm maintains a daily discipline of marking substantially all of its inventory to current market levels. The Firm does so because of its belief that this discipline is one of the most effective tools for assessing and managing risk and that it provides transparent and realistic insight into our inventory exposures.

#### **(b) Risk appetite, limit and threshold setting**

The Firm also applies a rigorous framework of limits and thresholds to control and monitor risk across transactions, products, businesses and markets.

The Group Board, directly or indirectly through its Risk Committee, approves limits and thresholds included in the Firm's risk appetite statement at firmwide, business and product levels. In addition, the Firmwide Enterprise Risk Committee is responsible for approving our risk limits framework, subject to the overall limits approved by the Risk Committee of the Group Board, and monitoring these limits.

#### **(c) Risk reporting and monitoring**

Effective risk reporting and risk decision-making depends on the Firm's ability to get the right information to the right people at the right time. As such, the Firm focuses on the rigor and effectiveness of our risk systems, with the objective of ensuring that our risk management technology systems provide us with complete, accurate and timely information. The Firm's risk reporting and monitoring processes are designed to take into account information about both existing and emerging risks, thereby enabling the Firm's risk committees and senior management to perform their responsibilities with the appropriate level of insight into risk exposures. Furthermore, the Firm's limit and threshold breach processes provide means for timely escalation. The Firm evaluates changes in the risk profile and businesses, including changes in business mix or jurisdictions in which the Firm operates, by monitoring risk factors at a firmwide level.

#### **(d) Risk decision-making**

The Firm's governance structure provides the protocol and responsibility for decision-making on risk management issues and ensures implementation of those decisions. The Firm makes extensive use of risk committees that meet regularly and serve as an important means to facilitate and foster ongoing discussions to manage and mitigate risks. The Firm maintains strong and proactive communication about risk and has a culture of collaboration in decision making among the first and second lines of defense, committees and senior management. While the first line of defense is responsible for management of their risk, the Firm dedicates extensive resources to the second line of defense in order to ensure a strong oversight structure and an appropriate segregation of duties. The Firm regularly reinforces its strong culture of escalation and accountability across all functions.

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### **Unaudited Disclosure Statement For the year ended 31 December 2019**

## **3 Overview of risk management (continued)**

### **3.3 People**

Even the best technology serves only as a tool for helping to make informed decisions in real time about the risks the Firm is taking. Ultimately, effective risk management requires people to interpret risk data on an ongoing and timely basis and adjust risk positions accordingly. The experience of the Firm's professionals, and their understanding of the nuances and limitations of each risk measure, guides the Firm in assessing exposures and maintaining them within prudent levels.

The Firm reinforces a culture of effective risk management, consistent with its risk appetite, in its training and development programmes, as well as in the way it evaluates performance, and recognises and rewards people. The Firm's training and development programmes, including certain sessions led by the most senior leaders, are focused on the importance of risk management, client relationships and reputational excellence. As part of the Firm's annual performance review process, the Firm assesses reputational excellence, including how an employee exercises good risk management and reputational judgement, and adheres to the Firm's code of conduct and compliance policies. The Firm's review and reward processes are designed to communicate and reinforce to its professionals the link between behaviour and how people are recognised, the need to focus on clients and reputation, and the need to always act in accordance with the highest standards.

### **3.4 Structure**

Oversight of risk in the Company is ultimately the responsibility of the Board, who oversees risk both directly and through delegation to various committees. A series of committees with specific risk management mandates covering important aspects of the Company's businesses also have oversight or decision-making responsibilities. The key committees with oversight of the Company's activities are described in Note 1 "Corporate governance".

### **3.5 Risk Profile and Strategy**

In the normal course of activities in serving clients, we commit capital, engage in derivative transactions, and otherwise incur risk as an inherent part of our business. However, we endeavour not to undertake risk in form or amount that could potentially and materially impair our capital and liquidity position or the ability to generate revenues, even in a stressed environment. Where possible, we employ mitigants and hedges, such as collateral, netting derivatives and other controls, in order to manage such risks within our risk appetite levels.

The Company has its own Board and its own Board-Level Risk Committee, with the responsibility of assisting the Board in overseeing the implementation of the Company's risk appetite and strategy.

The Company's overall risk appetite is established through an assessment of opportunities relative to potential loss, and is calibrated to the Company's respective capital, liquidity and earnings capability. The primary means of evaluating loss-taking capacity is through the Internal Capital Adequacy Assessment Process ("ICAAP"). The key aspects of risk management documented through the ICAAP process also form part of the Company's day-to-day decision making culture.

The Risk Appetite Statement ("RAS") of the Company complements the Firm's RAS, and articulates the risk philosophy, the identification of risks generated by its business activities, as well as the tolerance and limits set in order to manage effectively those risks. Consistent with this objective, we pay particular attention to evaluating risks that are concentrated, correlated, illiquid, or have other adverse characteristics. The intention is to mitigate or eliminate these risks, limiting them to such an extent that they could not, individually or collectively, materially and adversely affect the Company. The Company regularly reviews risk exposure and risk appetite, and takes into consideration the key external constituencies, in particular their clients and regulators. The long-term success of our business model is directly linked to the preservation of strong relationships with each of these key constituents.

## **Goldman Sachs Asia Bank Limited, a restricted licence bank**

### **Unaudited Disclosure Statement For the year ended 31 December 2019**

#### **3 Overview of risk management (continued)**

##### **3.5 Risk Profile and Strategy (continued)**

The Board and the Board-Level Risk Committee are actively engaged in reviewing and approving our overall risk appetite, as well as in reviewing the risk profile. The Company's RAS is reviewed in the first instance by the Board-Level Risk Committee and finally, is endorsed by the Board annually. The Board-Level Risk Committee also approves any amendment to the Company's RAS outside of the annual approval process. The Board receives quarterly updates on risk as well as ad-hoc updates, as appropriate.

The consideration of risk appetite and the underlying risk management framework ensures that the Company's businesses are congruent with our strategy under both normal and stressed environments. We believe that the risk management framework, and the associated risk policies, procedures and systems in place are comprehensive and effective with regard to our profile and strategy. The framework is evaluated on an ongoing basis and subject to independent internal audit assessments to ensure our risk management arrangements remain effective.

##### **3.6 Risk Measurement**

On a day-to-day basis risk measurement plays an important role in articulating the risk appetite of the Firm and the Company and in managing the risk profile as expressed in the risk appetite statements. Risk may be monitored against firmwide, product, divisional or business level thresholds or against a combination of such attributes. The Firm measures risk using a suite of metrics, as relevant to each type of risk, including stress metrics to calculate the potential loss from a wide range of scenarios and sensitivity analysis. These risks are tracked systematically, and they are monitored and reported to the relevant senior management, the committees and the Board on a regular basis.

At firmwide level, a number of specialist committees and governance bodies sit within the broader risk management framework with responsibilities for the monitoring of specific risks against limits or tolerances and the escalation of any breaches. Specific governance bodies are in place for the management of credit, market, liquidity, model and operational risk.

The Firm's risk management framework, which relies on oversight from the Group Board, operates independently of revenue producing divisions and other non-revenue producing units such as compliance, finance, legal, internal audit and operations.

For more information about the Company's areas of risk, see Note 18 to the financial statements "Financial risk management".

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**4 Overview of RWA**

The Company uses the Standardized (Credit Risk) Approach (“STC”), the Standardized (Market Risk) Approach (“STM”) and the Basic Indicator Approach (“BIA”), as set out in the BCR, to calculate its credit risk, market risk and operational risk respectively.

Using the standard template as specified by the HKMA, the detailed breakdown of the Company’s RWAs and an explanation of material changes in the RWAs during the quarterly reporting periods are set out below.

**Template OV1: Overview of RWA**

		RWA		Minimum capital requirements (Note (i))	Note
		31 December 2019	30 September 2019	31 December 2019	
		US\$ '000	US\$ '000	US\$ '000	
1	Credit risk for non-securitization exposures	45,303	52,929	3,624	
2	Of which STC approach	45,303	52,929	3,624	
2a	Of which BSC approach	-	-	-	
3	Of which foundation IRB approach	-	-	-	
4	Of which supervisory slotting criteria approach	-	-	-	
5	Of which advanced IRB approach	-	-	-	
6	Counterparty default risk and default fund contributions	3,917	2,994	313	
7	Of which SA-CCR	Not applicable	Not applicable	Not applicable	(ii)
7a	Of which CEM	3,917	2,994	313	
8	Of which IMM(CCR) approach	-	-	-	
9	Of which others	-	-	-	
10	CVA risk	890	751	71	
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-	
12	Collective investment scheme (“CIS”) exposures – LTA	Not applicable	Not applicable	Not applicable	(ii)
13	CIS exposures – MBA	Not applicable	Not applicable	Not applicable	(ii)
14	CIS exposures – FBA	Not applicable	Not applicable	Not applicable	(ii)
14a	CIS exposures – combination of approaches	Not applicable	Not applicable	Not applicable	(ii)
15	Settlement risk	-	-	-	
16	Securitization exposures in banking book	-	-	-	
17	Of which SEC-IRBA	-	-	-	
18	Of which SEC-ERBA (including IAA)	-	-	-	
19	Of which SEC-SA	-	-	-	
19a	Of which SEC-FBA	-	-	-	
20	Market risk	32	32	3	
21	Of which STM approach	32	32	3	
22	Of which IMM approach	-	-	-	
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)	Not applicable	Not applicable	Not applicable	(ii)
24	Operational risk	19,997	22,331	1,600	
24a	Sovereign concentration risk	-	-	-	
25	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-	
26	Capital floor adjustment	-	-	-	
26a	Deduction to RWA	-	-	-	
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-	
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	-	-	-	
27	Total	70,139	79,037	5,611	

- (i) The minimum capital requirements are determined by multiplying the Company’s RWAs derived from the relevant calculation approach by 8%, not the Company’s actual regulatory capital.
- (ii) These items will be applicable only after their respective policy frameworks take effect. Until then, “Not applicable” should be reported.

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**5 Composition of regulatory capital**

**5.1 Template CC1: Composition of regulatory capital**

The following table sets out the detailed composition of the Company's regulatory capital as at 31 December 2019 using the standard template as specified by the HKMA.

		Amount (US\$ '000)	Source based on reference letters of the balance sheet under the regulatory scope of consolidation
<b>CET1 capital: instruments and reserves</b>			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	114,010	(a)
2	Retained earnings	2,474	(b)
3	Disclosed reserves	-	
4	<i>Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)</i>	Not applicable	Not applicable
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	<b>CET1 capital before regulatory deductions</b>	116,484	
<b>CET1 capital: regulatory deductions</b>			
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	-	
10	Deferred tax assets (net of associated deferred tax liabilities)	1,228	(c)
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
22	Amount exceeding the 15% threshold	Not applicable	Not applicable
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable
24	of which: mortgage servicing rights	Not applicable	Not applicable
25	of which: deferred tax assets arising from temporary differences	Not applicable	Not applicable
26	National specific regulatory adjustments applied to CET1 capital	-	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-	
26b	Regulatory reserve for general banking risks	-	
26c	Securitization exposures specified in a notice given by the MA	-	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	

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5 Composition of regulatory capital (continued)

5.1 Template CC1: Composition of regulatory capital (continued)

		Amount (US\$ '000)	Source based on reference letters of the balance sheet under the regulatory scope of consolidation
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	<b>Total regulatory deductions to CET1 capital</b>	1,228	
29	<b>CET1 capital</b>	115,256	
	<b>AT1 capital: instruments</b>		
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	<i>Capital instruments subject to phase-out arrangements from AT1 capital</i>	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	
36	<b>AT1 capital before regulatory deductions</b>	-	
	<b>AT1 capital: regulatory deductions</b>		
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	<b>Total regulatory deductions to AT1 capital</b>	-	
44	<b>AT1 capital</b>	-	
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	115,256	
	<b>Tier 2 capital: instruments and provisions</b>		
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	<i>Capital instruments subject to phase-out arrangements from Tier 2 capital</i>	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	<i>of which: capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	-	
51	<b>Tier 2 capital before regulatory deductions</b>	-	

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5 Composition of regulatory capital (continued)

5.1 Template CC1: Composition of regulatory capital (continued)

		Amount (US\$ '000)	Source based on reference letters of the balance sheet under the regulatory scope of consolidation
	<b>Tier 2 capital: regulatory deductions</b>		
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	-	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as "section 2 institution" under §2(1) of Schedule 4F to BCR only)	-	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
55a	Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	-	
57	<b>Total regulatory adjustments to Tier 2 capital</b>	-	
58	<b>Tier 2 capital (T2)</b>	-	
59	<b>Total regulatory capital (TC = T1 + T2)</b>	115,256	
60	<b>Total RWA</b>	70,139	
	<b>Capital ratios (as a percentage of RWA)</b>		
61	<b>CET1 capital ratio</b>	164.32%	
62	<b>Tier 1 capital ratio</b>	164.32%	
63	<b>Total capital ratio</b>	164.32%	
64	<b>Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)</b>	4.025%	
65	of which: capital conservation buffer requirement	2.500%	
66	of which: bank specific countercyclical capital buffer requirement	1.525%	
67	of which: higher loss absorbency requirement	-	
68	<b>CET1 (as a percentage of RWA) available after meeting minimum capital requirements</b>	156.32%	
	<b>National minima (if different from Basel 3 minimum)</b>		
69	National CET1 minimum ratio	Not applicable	Not applicable
70	National Tier 1 minimum ratio	Not applicable	Not applicable
71	National Total capital minimum ratio	Not applicable	Not applicable

Goldman Sachs Asia Bank Limited, a restricted licence bank

Unaudited Disclosure Statement  
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5 Composition of regulatory capital (continued)

5.1 Template CC1: Composition of regulatory capital (continued)

		Amount (US\$ '000)	Source based on reference letters of the balance sheet under the regulatory scope of consolidation
	<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	-	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
	<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	-	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	-	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	
	<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>		
80	<i>Current cap on CET1 capital instruments subject to phase-out arrangements</i>	Not applicable	Not applicable
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	Not applicable	Not applicable
82	<i>Current cap on AT1 capital instruments subject to phase-out arrangements</i>	-	
83	<i>Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)</i>	-	
84	<i>Current cap on Tier 2 capital instruments subject to phase-out arrangements</i>	-	
85	<i>Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)</i>	-	

Notes to the Template:

	Description	Hong Kong basis (US\$ '000)	Basel III basis (US\$ '000)
10	<b>Deferred tax assets (net of associated deferred tax liabilities)</b>	1,228	1,105
	<p><u>Explanation</u></p> <p>As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.</p>		

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5 Composition of regulatory capital (continued)

5.2 Template CC2: Reconciliation of regulatory capital to balance sheet

The following table shows a reconciliation of amounts in the balance sheet of the Company to the capital components of regulatory capital.

31 December 2019

	Balance Sheet as in Published Financial Statements	Under regulatory scope of consolidation	Cross reference to composition of regulatory capital
	US\$ '000	US\$ '000	
<b>Assets</b>			
Cash and cash equivalents	125,881	125,881	
Financial instruments at fair value	1,825	1,825	
Other receivables	8,059	8,059	
Deferred income tax assets	1,228	1,228	(c)
<b>Total assets</b>	<b>136,993</b>	<b>136,993</b>	
<b>Liabilities</b>			
Deposit from an affiliated customer	1,000	1,000	
Short-term loans payable	2,000	2,000	
Financial instruments at fair value	1,824	1,824	
Other payables	15,209	15,209	
Current income tax liabilities	476	476	
<b>Total liabilities</b>	<b>20,509</b>	<b>20,509</b>	
<b>Equity</b>			
Share capital	114,010	114,010	(a)
Retained profit	2,474	2,474	(b)
<b>Total equity</b>	<b>116,484</b>	<b>116,484</b>	
<b>Total equity and liabilities</b>	<b>136,993</b>	<b>136,993</b>	

## Goldman Sachs Asia Bank Limited, a restricted licence bank

### Unaudited Disclosure Statement For the year ended 31 December 2019

#### 5 Composition of regulatory capital (continued)

##### 5.3 Table CCA: Main features of regulatory capital instruments

The following table shows the main features of regulatory capital instruments.

31 December 2019

1	Issuer	Goldman Sachs Asia Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable
3	Governing law(s) of the instrument	Hong Kong Law
	<i>Regulatory treatment</i>	
4	Transitional Basel III rules <sup>1</sup>	Not applicable
5	Post-transitional Basel III rules <sup>2</sup>	Common Equity Tier 1
6	Eligible at solo / group / solo and group	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares (with voting rights)
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	US\$ 114.01 million
9	Par value of instrument	Not applicable
10	Accounting classification	Shareholders' equity
11	Original date of issuance	10,000 shares issued on 12 December 2012 1,000,000 shares issued on 14 January 2015 13,000,000 shares issued on 26 June 2015 100,000,000 shares issued on 12 July 2016
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend / coupon	Floating
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

**Footnote:**

1 Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the BCR.

2 Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the BCR.

## Goldman Sachs Asia Bank Limited, a restricted licence bank

### Unaudited Disclosure Statement For the year ended 31 December 2019

#### 5 Composition of regulatory capital (continued)

##### 5.3 Table CCA: Main features of regulatory capital instruments (continued)

Information relating to the disclosure of the full terms and conditions of the Company's capital instruments can be viewed on its parent company's website as the Company does not maintain a website of its own: <http://www.goldmansachs.com/disclosures/gsab-disclosures/terms-and-conditions.html>

#### 6 Macroprudential supervisory measures

##### 6.1 Template CCyB1: Geographical distribution of credit exposures used in countercyclical capital buffer

The geographical allocation of private sector credit exposures to the various jurisdictions is based on "ultimate risk basis". "Ultimate risk basis" means the allocation of exposures to the jurisdictions where the risk ultimately lies, as defined as the location where the "ultimate obligor" resides.

The geographical distribution of private sector credit exposures that are relevant in the calculation of CCyB ratio is set out below.

31 December 2019

	Geographical breakdown by Jurisdiction (J)	Applicable JCCyB ratio in effect (%)	RWA used in computation of CCyB ratio (US\$ '000)	AI-specific CCyB ratio (%)	CCyB amount (US\$ '000)	Note
1	Hong Kong SAR	2.000%	5,653			(i)
2	United Kingdom	1.000%	689			
3	Sum		6,342			
4	Total		7,864	1.525%	120	(ii)

- (i) The decrease in RWA used in the computation of CCyB ratio from the previous semi-annual reporting period is mainly due to the decrease in amounts due from affiliated companies.
- (ii) The decrease in CCyB ratio from the previous semi-annual reporting period is mainly due to the decrease in the jurisdictional countercyclical capital buffer ("JCCyB") for Hong Kong.

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**7 Leverage ratio**

**7.1 Template LR1: Summary comparison of accounting assets against leverage ratio (“LR”) exposure measure**

The leverage ratio is calculated in accordance with the relevant provisions of the BCR.

31 December 2019

	Item	Value under the LR framework (US\$ '000 equivalent)
1	Total consolidated assets as per published financial statements	136,993
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-
4	Adjustments for derivative contracts	2,681
5	Adjustment for SFTs (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet (“OBS”) items (i.e. conversion to credit equivalent amounts of OBS exposures)	-
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	-
7	Other adjustments	(1,228)
<b>8</b>	<b>Leverage ratio exposure measure</b>	<b>138,446</b>

**7.2 Template LR2: Leverage ratio**

31 December 2019

		US\$ '000 equivalent	
		31 December 2019	30 September 2019
<b>On-balance sheet exposures</b>			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	135,168	132,227
2	Less: Asset amounts deducted in determining Tier 1 capital	(1,228)	(1,143)
3	<b>Total on-balance sheet exposures (excluding derivative contracts and SFTs)</b>	<b>133,940</b>	<b>131,084</b>
<b>Exposures arising from derivative contracts</b>			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	1,176	882
5	Add-on amounts for PFE associated with all derivative contracts	3,330	2,195
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	<b>Total exposures arising from derivative contracts</b>	<b>4,506</b>	<b>3,077</b>

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7 Leverage ratio (continued)

7.2 Template LR2: Leverage ratio (continued)

		US\$ '000 equivalent	
		31 December 2019	30 September 2019
<b>Exposures arising from SFTs</b>			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	<b>Total exposures arising from SFTs</b>	-	-
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposure at gross notional amount	-	-
18	Less: Adjustments for conversion to credit equivalent amounts	-	-
19	<b>Off-balance sheet items</b>	-	-
<b>Capital and total exposures</b>			
20	<b>Tier 1 capital</b>	115,256	114,967
20a	<b>Total exposures before adjustments for specific and collective provisions</b>	138,446	134,161
20b	<b>Adjustments for specific and collective provisions</b>	-	-
21	<b>Total exposures after adjustments for specific and collective provisions</b>	138,446	134,161
<b>Leverage ratio</b>			
22	<b>Leverage ratio</b>	83.25%	85.69%

8 Linkages between financial statements and regulatory exposures

8.1 Template LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

31 December 2019

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Assets</b>							
Cash and cash equivalents	125,881	125,881	125,881	-	-	-	-
Financial instruments at fair value	1,825	1,825	-	1,825	-	1,825	-
Other receivables	8,059	8,059	8,059	-	-	-	-
Deferred income tax assets	1,228	1,228	-	-	-	-	1,228
<b>Total assets</b>	<b>136,993</b>	<b>136,993</b>	<b>133,940</b>	<b>1,825</b>	<b>-</b>	<b>1,825</b>	<b>1,228</b>
<b>Liabilities</b>							
Deposit from an affiliated customer	1,000	1,000	-	-	-	-	1,000
Short-term loans payables	2,000	2,000	-	-	-	-	2,000
Financial instruments at fair value	1,824	1,824	-	1,824	-	1,824	-
Other payables	15,209	15,209	-	-	-	-	15,209
Current income tax liabilities	476	476	-	-	-	-	476
<b>Total liabilities</b>	<b>20,509</b>	<b>20,509</b>	<b>-</b>	<b>1,824</b>	<b>-</b>	<b>1,824</b>	<b>18,685</b>

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**8 Linkages between financial statements and regulatory exposures (continued)**

**8.1 Template LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (continued)**

Financial instruments at fair value held in the trading book are exposed to counterparty default risk before the final settlement of the contract as well as the risk of loss arising from fluctuations in the value of positions held. As a result, they are subject to both the counterparty credit risk and market risk framework.

**8.2 Template LI2: Main sources of differences between regulatory exposures amounts and carrying values in financial statements**

31 December 2019

	Total	Items subject to:				
		credit risk framework	securitization framework	counterparty credit risk framework	market risk framework	
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
<b>1</b>	<b>Asset carrying value amount under scope of regulatory consolidation (as per template LI1)</b>	135,765	133,940	-	1,825	1,825
<b>2</b>	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	1,824	-	-	1,824	1,824
<b>3</b>	Total net amount under regulatory scope of consolidation	133,941	133,940	-	1	1
<b>4</b>	Off-balance sheet amounts	-	-	-	-	-
<b>5</b>	Potential future exposures	3,330	-	-	3,330	-
<b>6</b>	<b>Exposure amounts considered for regulatory purposes</b>	<b>137,271</b>	<b>133,940</b>	<b>-</b>	<b>3,331</b>	<b>1</b>

The key difference between regulatory exposure amounts and accounting carrying values under the regulatory scope of consolidation are potential future exposures for derivatives, offset by netting where an enforceable master netting agreement is in place.

There were no valuation adjustments for all assets measures at fair value, including non-derivative and derivative instruments as at 31 December 2019.

**9 Liquidity risk management**

The following table shows the Company's on-balance sheet items by remaining maturity and the resultant liquidity gaps as at 31 December 2019 based on the reported numbers under MA(BS)23 Return of Liquidity Monitoring Tools.

There were no off-balance sheet items as at 31 December 2019.

The qualitative disclosures related to liquidity risk management are set forth in Note 18.3 to the financial statements "Financial risk management – Liquidity risk."

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**9 Liquidity risk management (continued)**

	On demand	Within one month	More than one month but less than three months	More than three months but less than one year	More than one year but less than five years	Over five years	Undated	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Amount receivable arising from derivative contracts	2	605	756	10	452	-	-	1,825
Due from banks	45,381	65,620	15,048	-	-	-	-	126,049
Other assets	-	7,235	-	-	785	-	1,196	9,216
<b>Total on-balance sheet assets</b>	<b>45,383</b>	<b>73,460</b>	<b>15,804</b>	<b>10</b>	<b>1,237</b>	<b>-</b>	<b>1,196</b>	<b>137,090</b>
Deposits from non-bank customers	-	1,001	-	-	-	-	-	1,001
Amount payable arising from derivative contracts	1	605	756	10	452	-	-	1,824
Other liabilities	16	11,459	25	597	4,758	-	926	17,781
<b>Total on-balance sheet liabilities</b>	<b>17</b>	<b>13,065</b>	<b>781</b>	<b>607</b>	<b>5,210</b>	<b>-</b>	<b>926</b>	<b>20,606</b>
<b>Contractual Maturity Mismatch</b>	<b>45,366</b>	<b>60,395</b>	<b>15,023</b>	<b>(597)</b>	<b>(3,973)</b>	<b>-</b>		
<b>Cumulative Contractual Maturity Mismatch</b>	<b>45,366</b>	<b>105,761</b>	<b>120,784</b>	<b>120,187</b>	<b>116,214</b>	<b>116,214</b>		

**10 Credit risk for non-securitization exposures**

Using the standard templates as specified by the HKMA, the following sub-sections and templates provide detailed information relating to credit risk for non-securitization exposures under the STC approach.

There were no loans or debt securities or related off-balance sheet exposures as at 31 December 2019.

**10.1 General information about credit risk**

The general information about credit risk is set forth in Note 18.2 to the financial statements “Financial risk management – Credit risk.”

**10.2 Qualitative disclosures related to credit risk mitigation (“CRM”)**

The qualitative disclosures related to credit risk mitigation are set forth in Note 18.2 to the financial statements “Financial risk management – Credit risk.”

**10.3 Qualitative disclosures on use of ECAI ratings under STC approach**

As at 31 December 2019 and 31 December 2018, the Company has nominated Standard & Poor’s Rating Services, Moody’s Investors Service and Fitch Ratings as the external credit assessment institutions (“ECAIs”) used to determine the risk-weights of exposures subject to the STC approach. The exposure classes for which the ECAIs are used include sovereign, public sector entity, bank, securities firm, corporate and collective investment scheme exposures. For risk-weighting purpose, the Company will use certain credit ratings among the three ECAIs which will result in the highest risk-weights according to the requirements of the BCR.

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10 Credit risk for non-securitization exposures (continued)

10.4 Template CR4: Credit risk exposures and effects of recognized credit risk mitigation – for STC approach

31 December 2019

	Exposure classes	Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	%
1	Sovereign exposures	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	126,049	-	126,049	-	41,356	33
5	Securities firm exposures	7,887	-	7,887	-	3,943	50
6	Corporate exposures	4	-	4	-	4	100
7	CIS exposures	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-
10	Regulatory retail exposures	-	-	-	-	-	-
11	Residential mortgage loans	-	-	-	-	-	-
12	Other exposures which are not past due exposures	-	-	-	-	-	-
13	Past due exposures	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	<b>Total</b>	133,940	-	133,940	-	45,303	34

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10 Credit risk for non-securitization exposures (continued)

10.5 Template CR5: Credit risk exposures by asset classes and by risk weights – for STC approach

31 December 2019

Exposure class	Risk weight	Risk weight										Total credit risk exposures amount (post CCF and post CRM)
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	
		US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	96,488	-	15,005	-	14,556	-	-	-	126,049
5	Securities firm exposures	-	-	-	-	7,887	-	-	-	-	-	7,887
6	Corporate exposures	-	-	-	-	-	-	4	-	-	-	4
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-	-	-	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-
10	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-
11	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
12	Other exposures which are not past due exposures	-	-	-	-	-	-	-	-	-	-	-
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	Total	-	-	96,488	-	22,892	-	14,560	-	-	-	133,940

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**11 Counterparty credit risk**

There were no credit-related derivative contracts or exposures to central counterparties as at 31 December 2019.

**11.1 Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs)**

The risk management objectives and policies, and method for setting operating limits related to counterparty credit risk are set forth in Note 18.2 to the financial statements “Financial risk management – Credit risk.”

**(a) Credit risk mitigation and assessments concerning counterparty credit risk**

To reduce our credit exposures on derivatives, the Company may enter into netting agreements with counterparties that permit it to offset receivables and payables with such counterparties. The Company may also reduce credit risk with counterparties by entering into agreements that enable it to obtain collateral from them on an upfront or contingent basis and/or to terminate transactions if the counterparty’s credit rating falls below a specified level. The Company monitors the fair value of the collateral on a daily basis to ensure that its credit exposures are appropriately collateralised. The Company seeks to minimise exposures where there is a significant positive correlation between the creditworthiness of our counterparties and the market value of collateral received.

When the Company does not have sufficient visibility into a counterparty’s financial strength or when it believes a counterparty requires support from its parent, the Company may obtain third-party guarantees of the counterparty’s obligations. The Company may also mitigate its credit risk using credit derivatives or participation agreements.

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

The Company’s risk assessment process may also include, where applicable, reviewing certain key metrics, such as delinquency status, collateral values, credit scores and other risk factors.

**(b) Wrong-way risk**

The Company seeks to minimise risk where there is a significant positive correlation between the probability of default of a counterparty and our exposure to that counterparty (net of the market value of any collateral we receive), which is known as “wrong-way risk”. Wrong-way risk is commonly categorised into two types: specific wrong-way risk and general wrong-way risk. The Company categorises exposure as specific wrong-way risk when our counterparty and the issuer of the reference asset of the transaction are the same entity or are affiliates, or if the collateral supporting a transaction is issued by the counterparty or its affiliates. General wrong-way risk arises when there is a significant positive correlation between the probability of default of a counterparty and general market risk factors affecting the exposure to that counterparty. The Company has procedures in place to actively identify, monitor and control specific and general wrong-way risk, beginning at the inception of a transaction and continuing through its life, including assessing the level of risk through stress tests. The Company ensures that material wrong-way risk is mitigated using collateral agreements or increases to initial margin, where appropriate.

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**11 Counterparty credit risk (continued)**

**11.1 Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs) (continued)**

**(c) Credit rating downgrade**

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

Using the standard templates as specified by the HKMA, the following tables provide detailed information relating to counterparty credit risk and credit valuation adjustment ("CVA") arising from derivative contracts.

**11.2 Template CCR1: Analysis of counterparty default risk exposures (other than those to CCPs) by approaches**

31 December 2019

		Replacement cost (RC)	PFE	Effective EPE	Alpha ( $\alpha$ ) used for computing default risk exposure	Default risk exposure after CRM	RWA
		US\$ '000	US\$ '000	US\$ '000		US\$ '000	US\$ '000
1	SA-CCR (for derivative contracts)	-	-		1.4	-	-
1a	CEM	1,176	3,330		-	3,989	3,917
2	IMM (CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					-	-
5	VaR (for SFTs)					-	-
6	<b>Total</b>						3,917

**11.3 Template CCR2: CVA capital charge**

31 December 2019

		EAD post CRM	RWA
		US\$ '000	US\$ '000
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	-	-
1	(i) VaR (after application of multiplication factor if applicable)		-
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		-
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	3,989	890
4	<b>Total</b>	3,989	890

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11 Counterparty credit risk (continued)

11.4 Template CCR3: Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

31 December 2019

Exposure class	Risk weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposures after CRM
		US\$ '000										
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	-	-	-	-	-	-	-	-	-
5	Securities firm exposures	-	-	-	-	145	-	-	-	-	-	145
6	Corporate exposures	-	-	-	-	-	-	3,844	-	-	-	3,844
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	-	-	-	-	-
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	Total	-	-	-	-	145	-	3,844	-	-	-	3,989

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**11 Counterparty credit risk (continued)**

**11.5 Template CCR5: Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)**

31 December 2019

	Derivative contracts				SFTs		Note
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral	
	Segregated	Unsegregated	Segregated	Unsegregated			
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
Cash - domestic currency	-	517	-	-	-	-	(i)
Cash - other currencies	-	-	-	-	-	-	
Domestic sovereign debt	-	-	-	-	-	-	
Other sovereign debt	-	-	-	-	-	-	
Government agency debt	-	-	-	-	-	-	
Corporate bonds	-	-	-	-	-	-	
Equity securities	-	-	-	-	-	-	
Other collateral	-	-	-	-	-	-	
<b>Total</b>	-	517	-	-	-	-	

(i) The increase in cash collateral from the previous semi-annual reporting period is mainly due to higher fair value of OTC derivatives.

**12 Securitization exposures**

There were no securitization exposures as at 31 December 2019.

**13 Market risk**

**13.1 Qualitative disclosures related to market risk**

The framework for market risk management of the Firm and the Company is set forth in Note 18.1 of the financial statements "Financial risk management – Market risk".

The below describes the risk management, process and governance structure specific to the Company.

**(a) Risk management**

Trading book positions are subject to market risk capital requirements which are designed to cover the risk of loss in value of these positions due to changes in market conditions. The Company's trading book contains OTC derivatives. The Company primarily manages market risk by establishing economic hedges in relation to derivatives with affiliated companies. Market risk exposures on OTC derivatives are monitored by the Company's risk and finance functions.

The Company's foreign currency exposures primarily arise from non-trading positions and are subject to market risk capital requirement under the STM approach.

**(b) Risk reporting, measurement and monitoring**

The Company has procedures in place to actively identify, monitor and control market risks arising from OTC derivatives and foreign exchange exposures. These exposures are monitored by the Company's risk and finance functions against limits on a regular basis.

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#### 13 Market risk (continued)

Using the standard template as specified by the HKMA, the following table provides detailed information relating to market risk under STM approach.

##### 13.2 Template MR1: Market risk under STM approach

31 December 2019

		RWA
		US\$ '000
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	-
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	32
4	Commodity exposures	-
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	-
7	Other approach	-
8	Securitization exposures	-
9	<b>Total</b>	<b>32</b>

#### 14 Interest rate exposures in banking book (“IRRBB”)

The Company’s exposure to interest rate risk in our banking book activities arises from differences in interest earned or paid as interest rates change, due to the reset characteristics of our assets and liabilities. The Company’s banking book is comprised of assets and liabilities that are intended to be held to maturity, including deposits and cash placements. Changes in market interest rates on banking book assets and liabilities can have an adverse effect on the Company’s earnings and economic value.

The Company’s ALCO is the primary oversight body responsible for reviewing and managing GSAB’s IRRBB and oversees the strategic implication of risk management activity, ensuring the company’s IRRBB exposure complies with established limits, while also prudently managing to the Company’s objectives of minimizing interest expenses. Any major hedging or risk management initiative would be approved in advance by ALCO.

The Company evaluate the sensitivity to changes in interest rates across a range of interest rate scenarios, including parallel rally and sell-off scenarios, as well as non-parallel scenarios using different methodologies such as Net Interest Income (NII) and Economic Value of Equity (EVE) sensitivity analysis. NII sensitivity measures the impacts of changes in rates on the accrued interest of all assets and liabilities over a defined time horizon. EVE sensitivity measures the change in the present value of banking book assets and liabilities as a function of different interest rate assumptions. The Company measures EVE and NII sensitivities periodically and assesses these against established limits. Limit breaches are escalated in accordance with the Company’s IRRBB policy.

Internal Audit is responsible for assessing the adequacy and effectiveness of GSAB’s overall control environment, including IRRBB management and mitigation strategies. Internal Audit employs a risk-based methodology to develop the audit plan.

Models used in the Company are validated and annually reviewed by the Model Risk Management group, in line with the Firmwide policies.

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**14 Interest rate exposures in banking book (continued)**

As at 31 December 2019, the Company's variation in earnings and economic value based on each of the prescribed interest rate shock scenarios in accordance with the method used in HKMA Return of Interest Rate Risk Exposures, are as follows:

**Template IRRBB1: Quantitative information on interest rate risk in banking book**

(in US\$ '000)		ΔEVE		ΔNII	
	Period	31 December 2019	31 December 2018	31 December 2019	31 December 2018
1	Parallel up	106	N/A <sup>1</sup>	(1,982)	N/A <sup>1</sup>
2	Parallel down	-	N/A <sup>1</sup>	1,982	N/A <sup>1</sup>
3	Steeper	-	N/A <sup>1</sup>		
4	Flattener	122	N/A <sup>1</sup>		
5	Short rate up	154	N/A <sup>1</sup>		
6	Short rate down	-	N/A <sup>1</sup>		
7	<b>Maximum</b> <sup>2</sup>	154	N/A <sup>1</sup>	1,982	N/A <sup>1</sup>
	<b>Period</b>	31 December 2019		31 December 2018	
8	<b>Tier 1 capital</b>	115,256		N/A	

Note:

1. This is the first annual disclosure made in accordance with Template IRRBB1, and provision of comparative figures are not available.
2. Positive values indicate losses under alternative scenarios, and the change in EVE is floored to zero based on the standardised framework described in the Return on Interest Rate Risk in the Banking Book (MA(BS)12A) ("IRRBB return").

**15 International claims**

International claims are on-balance sheet exposures of counterparties based on the location of the counterparties after taking into account any risk transfer. The risk transfers have been made if the claims are guaranteed by a party in a geographical area which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another geographical area.

International claims by major countries or geographical segments are disclosed as follows.

31 December 2019

	Banks US\$ '000	Official sector US\$ '000	Non-bank financial institutions US\$ '000	Non- financial private sector US\$ '000	Total US\$ '000
Major countries:					
United States	17,107	-	-	534	17,641
Australia	15,290	-	-	-	15,290
India	14,556	-	-	-	14,556
Japan	15,140	-	-	1	15,141
United Kingdom	21,004	-	1,244	-	22,248
<b>Total</b>	<b>83,097</b>	<b>-</b>	<b>1,244</b>	<b>535</b>	<b>84,876</b>
Major offshore centres:					
Hong Kong	31,889	-	6,718	1,287	39,894

## Goldman Sachs Asia Bank Limited, a restricted licence bank

### Unaudited Disclosure Statement For the year ended 31 December 2019

#### 16 Loans and advances – sector information

There were no loans and advances to customers as at 31 December 2019.

#### 17 Overdue and rescheduled assets

There were no impaired, rescheduled or overdue assets as at 31 December 2019.

#### 18 Mainland activities

The breakdown of the Company's Mainland exposures to material non-bank counterparties into the specified categories is as follows:

31 December 2019

Type of counterparties	On-balance sheet exposures US\$ '000	Off-balance sheet exposures US\$ '000	Total US\$ '000	Specific provisions US\$ '000
Central government-owned subsidiaries in Part 3 Table III of MA(BS)20	-	753	753	-
Total	-	753	753	-

#### 19 Currency risk

The currency risk arising from the Company's operations for those individual currencies which each constitute more than 10% of the total net positions in all foreign currencies are as follows:

	31 December 2019 US\$ '000
<b>USD currency</b>	
Spot assets	134,744
Spot liabilities	(133,095)
Forward purchases	44,127
Forward sales	(46,332)
Net short position	(556)

As at 31 December 2019, the Company had no net currency position calculated on the basis of the delta-weighted position of its options contracts.

As at 31 December 2019, the Company had no foreign currency exposure arising from structural positions.

#### 20 Off-balance sheet exposures (other than derivative transactions)

There are no off-balance sheet exposures (other than derivative transactions) as at 31 December 2019.

## Goldman Sachs Asia Bank Limited, a restricted licence bank

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#### 21 Segmental information

The profit and loss and operating assets of the Company are mainly contributed by Global Markets. Global Markets serves our clients who come to the Firm to buy and sell financial products, raise funding and manage risk. All of the profit and loss, assets and liabilities are managed and booked in Hong Kong for the year ended 31 December 2019.

	2019 Global Markets US\$ '000
Service fee income	4,584
Total operating income	6,769
Profit before income tax	2,042
Total operating assets	135,765
Total assets	136,993
Total liabilities	20,509

There were no impairment losses, specific provision and collective provision for impaired assets for the year ended 31 December 2019.

There were no contingent liabilities and commitments as at 31 December 2019.

#### 22 Assets used as security

There were no assets used as security as at 31 December 2019.

#### 23 Remuneration

The Company has complied with Part 3 (Disclosure on remuneration) of CG-5 "Guideline on a Sound Remuneration System" issued by the HKMA. Below are the applicable disclosures made pursuant to the requirements.

##### 23.1 Design and implementation of the remuneration system

###### (a) Remuneration Programme Philosophy

Retention of talented employees is critical to executing the Firm's business strategy successfully. Remuneration is, therefore, a key component of the costs the Firm incurs to generate revenues, similar to cost of goods sold or manufacturing costs in other industries.

The remuneration philosophy and the objectives of the remuneration programme for the Firm are reflected in the Compensation Principles for Group Inc., as posted on the Goldman Sachs public website:

<http://www.goldmansachs.com/investor-relations/corporate-governance/corporate-governance-documents/compensation-principles.pdf>

The Firm's Compensation Principles were approved by shareholders at the 2010 annual shareholders' meeting. In particular, effective remuneration practices should:

- (i) Encourage a real sense of teamwork and communication, binding individual short-term interests to the institution's long-term interests;
- (ii) Evaluate performance on a multi-year basis;
- (iii) Discourage excessive or concentrated risk-taking;

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**Unaudited Disclosure Statement  
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**23 Remuneration (continued)**

**23.1 Design and implementation of the remuneration system (continued)**

**(a) Remuneration Programme Philosophy (continued)**

- (iv) Allow an institution to attract and retain proven talent; and
- (v) Align aggregate remuneration for the Firm with performance over the cycle.

**(b) Remuneration Governance**

The Compensation Committee of the Board of Directors of Group Inc. (the “Compensation Committee”) oversees the remuneration policies and practices of the Firm generally. The Remuneration Committee of Goldman Sachs Asia Bank Limited (the “Remuneration Committee”) supplements the Compensation Committee’s responsibilities by overseeing the development and implementation of those remuneration policies and practices of the Company (the “GSAB Remuneration Policies”). The responsibilities of the committees are summarised below.

***The Compensation Committee***

The Board of Directors of Group Inc. (the “Group Board”) oversees the development, implementation and effectiveness of the Firm’s global remuneration practices, which it generally exercises directly or through delegation to the Compensation Committee. The responsibilities of the Compensation Committee include:

- Review and approval of (or recommendation to the Group Board to approve) the Firm’s variable remuneration structure, including the portion to be paid as equity-based awards, all year-end equity-based grants for eligible employees (including those employed by the Company), and the terms and conditions of such awards.
- Assisting the Group Board in its oversight of the development, implementation and effectiveness of policies and strategies relating to the Human Capital Management (“HCM”) function, including recruiting, retention, career development and progression, management succession (other than that within the purview of the Corporate Governance and Nominating Committee) and diversity.

The Compensation Committee held six meetings in 2019 to discuss and make determinations regarding remuneration.

None of the members of the Compensation Committee was an employee of the Firm. All members of the Compensation Committee were “independent” within the meaning of the New York Stock Exchange Rules and the Firm’s Director Independence Policy.

***The Remuneration Committee***

The responsibilities of the Remuneration Committee include:

- Assisting the Board in discharging its responsibility in relation to the Company’s remuneration systems
- Making recommendations in respect of remuneration policy and practices to the Board to ensure that the Board’s judgment and decisions relating to remuneration arrangements are taken independently of management and in the best interests of the Company

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For the year ended 31 December 2019**

**23 Remuneration (continued)**

**23.1 Design and implementation of the remuneration system (continued)**

**(b) Remuneration Governance (continued)**

***The Remuneration Committee (continued)***

The Remuneration Committee held three meetings in 2019 to discuss and make determinations regarding the remuneration policies of the Company.

The Remuneration Committee reviewed the Goldman Sachs Asia Bank Compensation Policy on 2 January 2020. No changes were made to the Compensation Policy for 2019.

***Other Stakeholders***

In carrying out the responsibilities of the Compensation Committee, the Chair of the Compensation Committee met multiple times with senior management during the year, including the Firm's Chief Operating Officer ("COO") and other members of senior management.

The Firm's Chief Risk Officer ("CRO") presented an annual compensation-related risk assessment to the Compensation Committee, meeting jointly with the Risk Committee of the Group Board, to assist the Compensation Committee in its assessment of the effectiveness of the Firm's remuneration programme in addressing risk, and particularly, whether the programme is consistent with regulatory guidance that financial services firms ensure variable remuneration does not encourage employees to expose the Firm to imprudent risk.

***External Consultants***

The Compensation Committee has for several years recognised the importance of using an independent remuneration consultant that is appropriately qualified and that provides services solely to the Compensation Committee and not to the Firm.

The independent remuneration consultant reviewed and participated in the CRO's annual compensation-related risk assessment that was presented to the Compensation Committee, meeting jointly with the Risk Committee of the Group Board, in December 2019.

***Global Remuneration Determination Process***

The Firm's global process for setting variable remuneration (including the requirement to consider risk and compliance issues) applies to employees of the Company in the same way as to employees in other regions and is subject to oversight by the senior management of the Firm in the region. The Firm uses a highly disciplined and robust process for setting variable remuneration across all divisions and regions, which occurs prior to the Compensation Committee's review and approval.

The process involves divisional compensation managers, divisional compensation committees, division heads, HCM and the Firmwide Management Committee (the Firm's most senior leaders), and /or the Compensation Committee, as appropriate.

In addition, as part of the remuneration determination process, members of the Firm's Compliance, Risk, Employment Law Group and Employee Relations functions make arrangements for divisional management to take into consideration any compliance, risk or control matters when determining remuneration of individuals. Before any individual remuneration decisions are finalised, Employee Relations and the Employment Law Group assess the recommended remuneration for relevant individuals in the context of overall performance and other factors, and recommendations are reviewed with respect to comparators.

## Goldman Sachs Asia Bank Limited, a restricted licence bank

### Unaudited Disclosure Statement For the year ended 31 December 2019

#### 23 Remuneration (continued)

##### 23.1 Design and implementation of the remuneration system (continued)

###### (c) Link Between Pay and Performance

In 2019, annual remuneration for employees generally comprised fixed remuneration (including base salary) and variable remuneration. The Firm's remuneration practices provide for variable remuneration determinations to be made on a discretionary basis. Variable remuneration is based on multiple factors and is not set as a fixed percentage of revenue or by reference to any other formula. Firmwide performance is a key factor in determining variable remuneration.

The Firm is committed to aligning variable remuneration with performance. In order to do so, the performance of the Firm, division and individual over the past year, as well as over prior years, are taken into account.

The Firm believes that multi-year guarantees should be avoided entirely to avoid misaligning remuneration and performance, and guaranteed variable remuneration in employment contracts should be used only in exceptional circumstances (for example, for certain new hires).

###### Performance Measurement

In connection with making remuneration decisions for 2019, the Compensation Committee reviewed certain firmwide financial metrics and year-on-year changes in those metrics, including the following:

- Return on average common shareholders' equity;
- Diluted earnings per common share;
- Book value per share; and
- Net revenues

During 2019 the Firm developed a new Performance Assessment Framework to help provide greater definition to, and transparency regarding, the key factors considered by the Compensation Committee to assess certain aspects of the Firm's annual performance in connection with compensation decisions for the Firmwide Management Committee. The framework, which guided our Compensation Committee's process for 2019, aligns performance metrics and goals across our most senior leaders, and helps to ensure that our compensation program for the Firmwide Management Committee continues to be appropriately aligned with our long-term strategy, stakeholder expectations and the safety and soundness of the Firm.

Additionally, each revenue-producing division has quantitative and /or qualitative metrics specific to the division, its business units and, where applicable, desks to be used to evaluate the performance of the division and its employees.

Employees are evaluated annually as part of the performance review feedback process. This process reflects input from a number of employees, including supervisors, peers and those who are junior to the employee, regarding an array of performance measures. The performance evaluations for 2019 included assessments of risk management and Firm reputation, culture and conduct, and compliance with Firm policies, sensitivity to risk and control (revenue-producing employees), and control side empowerment (control functions).

###### Risk Adjustment

Prudent risk management is a hallmark of the Firm's culture and sensitivity to risk and risk management are key elements in assessing employee performance, including as part of the performance review feedback process noted above.

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**Unaudited Disclosure Statement  
For the year ended 31 December 2019**

**23. Remuneration (continued)**

**23.1 Design and implementation of the remuneration system (continued)**

**(c) Link Between Pay and Performance (continued)**

The Firm takes risk into account both on an ex-ante and ex-post basis when setting the amount and form of variable remuneration for employees. Different lines of business have different risk profiles and these are taken into account when determining remuneration. These include credit, market, liquidity, operational, reputational, legal, compliance and conduct risks.

Guidelines are provided to assist compensation managers when applying discretion during the remuneration process to promote consistent consideration of the different risks presented by the Firm's businesses. Further, to ensure the independence of control function employees, remuneration for those employees is not determined by individuals in revenue-producing positions but rather by the management of the relevant control function.

Consistent with prior years, for 2019 certain employees receive a portion of their variable remuneration as an equity-based award that is subject to a number of terms and conditions that could result in forfeiture or recapture. For further details, see "Structure of Remuneration" below.

In the 2019 annual compensation-related risk assessment presented to the Compensation Committee, meeting jointly with the Risk Committee of the Group Board, the CRO confirmed that the various components of the Firm's remuneration programmes and policies (for example, process, structure and governance) worked together to balance risk and incentives in a manner that does not encourage imprudent risk-taking. In addition, the CRO stated that the Firm has a risk management process that, among other things, is consistent with the safety and soundness of the Firm and focuses on our:

- i. *Risk management culture*: the Firm's culture emphasises continuous and prudent risk management;
- ii. *Risk-taking authority*: there is a formal process for identifying employees who, individually or as part of a group, have the ability to expose the Firm to material amounts of risk;
- iii. *Upfront risk management*: the Firm has tight controls on the allocation, utilisation and overall management of risk-taking, as well as comprehensive profit and loss and other management information which provide ongoing performance feedback. In addition, in determining variable remuneration, the Firm reviews performance metrics that incorporate ex-ante risk adjustments; and
- iv. *Governance*: the oversight of the Group Board, management structure and the associated processes all contribute to a strong control environment and control functions have input into remuneration structure and design.

While the firm reviews its processes every year, material changes were not made in 2019.

**Goldman Sachs Asia Bank Limited, a restricted licence bank**

**Unaudited Disclosure Statement  
For the year ended 31 December 2019**

**23 Remuneration (continued)**

**23.1 Design and implementation of the remuneration system (continued)**

**(c) Link Between Pay and Performance (continued)**

Structure of Remuneration

***Fixed Remuneration***

The Firm has a global salary approach to ensure consistency in salary levels and to achieve an appropriate balance between fixed and variable remuneration.

***Variable Remuneration***

For employees with total remuneration and variable remuneration above specific thresholds, variable remuneration is generally paid in a combination of cash and equity-based remuneration. In general, the portion paid in the form of an equity-based award increases as variable remuneration increases.

The variable remuneration programme is flexible to allow the Firm to respond to changes in market conditions and to maintain its pay-for-performance approach. Variable remuneration is discretionary (even if paid consistently over a period of years).

***Equity-Based Remuneration***

The Firm believes that remuneration should encourage a long-term, firmwide approach to performance and discourage imprudent risk-taking. Paying a significant portion of variable remuneration in the form of equity-based remuneration that delivers over time, changes in value according to the price of shares of common stock (shares) of Group Inc., and is subject to forfeiture or recapture encourages a long-term, firmwide focus because its value is realised through long-term responsible behavior and the financial performance of the Firm.

The Firm imposes transfer restrictions and anti-hedging policies to further align the interests of the Firm's employees with those of the Firm's shareholders. The Firm's transfer restriction policies, coupled with the practice of paying senior employees a significant portion of variable remuneration in the form of equity-based awards, leads to a considerable investment in shares of Group Inc. over time.

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**23 Remuneration (continued)**

**23.1 Design and implementation of the remuneration system (continued)**

**(c) Link Between Pay and Performance (continued)**

In addition, from time to time, the Firm may make awards consisting of unfunded, unsecured promises to deliver other instruments on terms and conditions that are substantially similar to those applicable to Restricted Stock Units ("RSUs") described below.

**Deferral Policy:** The deferred portion of fiscal year 2019 annual variable remuneration was generally awarded in the form of RSUs. An RSU is an unfunded, unsecured promise to deliver a share on a predetermined date. RSUs awarded in respect of fiscal year 2019 generally deliver in three equal instalments on or about each of the first, second and third anniversaries of the grant date, assuming the employee has satisfied the terms and conditions of the award at each such date.

**Transfer Restrictions:** The Firm generally requires all individuals to hold, until the expiration of a period of up to five years from grant, a material portion of the shares they receive in respect of RSUs granted as part of their year-end remuneration according to the Firm's global deferral table. These transfer restrictions apply to the lower of 50% of the shares delivered before reduction for tax withholding, or the number of shares received after reduction for tax withholding.

An employee generally cannot sell, exchange, transfer, assign, pledge, hedge or otherwise dispose of any RSUs or shares that are subject to transfer restrictions.

**Forfeiture and Recapture Provisions:** The RSUs and shares delivered thereunder in relation to variable remuneration are subject to forfeiture or recapture if the Compensation Committee determines that during 2019 the employee participated (or otherwise oversaw or was responsible for, depending on the circumstances, another individual's participation) in the structuring or marketing of any product or service, or participated on behalf of the Firm or any of its clients in the purchase or sale of any security or other property, in any case without appropriate consideration of the risk to the Firm or the broader financial system as a whole (for example, if the employee were to improperly analyse risk or fail sufficiently to raise concerns about such risk) and, as a result of such action or omission, the Compensation Committee determines there has been, or reasonably could be expected to be, a material adverse impact on the Firm, the employee's business unit or the broader financial system.

This provision is not limited to financial risks and is designed to encourage the consideration of the full range of risks associated with the activities (for example, legal, compliance or reputational). The provision also does not require that a material adverse impact actually occur, but rather may be triggered if the Firm determines that there is a reasonable expectation of such an impact.

The Compensation Committee previously adopted guidelines that set forth a formal process regarding determinations to forfeit or recapture awards for improper risk analysis upon the occurrence of certain pre-determined events (for example, in the event of annual firmwide, divisional, business unit or individual losses). The review of whether forfeiture or recapture is appropriate includes input from the CRO, as well as representatives from Finance, Legal and Compliance. Determinations are made by the Compensation Committee or its delegates, with any determinations made by delegates reported to the Compensation Committee.

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**Unaudited Disclosure Statement  
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**23 Remuneration (continued)**

**23.1 Design and implementation of the remuneration system (continued)**

**(c) Link Between Pay and Performance (continued)**

An employee's RSUs may be forfeited, and shares delivered thereunder recaptured if the employee engages in conduct constituting "cause" at any time before the RSUs are delivered and any applicable transfer restrictions lapse. Cause includes, among other things, any material violation of any Firm policy, any act or statement that negatively reflects on the Firm's name, reputation or business interests and any conduct detrimental to the Firm.

With respect to all of the forfeiture conditions, if the Firm determines after delivery or release of transfer restrictions that an RSU or share delivered thereunder should have been forfeited or recaptured, the Firm can require return of any shares delivered or repayment to the Firm of the fair market value of the shares when delivered (including those withheld to pay taxes) or any other amounts paid or delivered in respect thereof.

**Hedging:** The Firm's anti-hedging policy ensures employees maintain the intended exposure to the Firm's stock performance. In particular, all employees are prohibited from hedging RSUs and shares that are subject to transfer restrictions and, in the case of the Firmwide Management Committee, retention shares. In addition, executive officers of Group Inc. (as defined under the Securities Exchange Act of 1934) are prohibited from hedging any shares that they can freely sell. Employees, other than executive officers, may hedge only shares that they can otherwise sell. However, no employee may enter into uncovered hedging transactions or sell short any shares. Employees may only enter into transactions or otherwise make investment decisions with respect to shares during applicable "window periods."

**23.2 Aggregate quantitative information on remuneration for senior management and key personnel**

Senior management are persons responsible for oversight of the Company's strategy or activities and / or those of the Company's material business lines. Key personnel are individual employees whose duties or activities in the course of their employment involve the assumption of material risk or taking on of material exposures on behalf of the Company.

Aggregate quantitative information on remuneration for the year ended 31 December 2019 represents the remuneration of 6 individuals (2018: 8) who are considered as senior management and 2 individuals (2018: 2) who are considered as key personnel during the year. Where the individuals have performed services to the Company as well as other affiliated companies during the relevant period, all quantitative information disclosed below has been apportioned to reflect the individuals' service to the Company.

Remuneration paid or awarded for the financial year ended 31 December 2019 comprised fixed remuneration (salaries) and variable remuneration.

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23 Remuneration (continued)

23.2 Aggregate quantitative information on remuneration for senior management and key personnel (continued)

(a) Remuneration awarded during financial year

Remuneration amount and quantitative information (US\$ '000)			Senior management	Key personnel
1	Fixed remuneration	Number of employees	6	2
2		Total fixed remuneration	154	33
3		Of which: cash-based	154	33
4		Of which: deferred	-	-
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred	-	-
7		Of which: other forms	-	-
8		Of which: deferred	-	-
9	Variable remuneration	Number of employees	6	2
10		Total variable remuneration	266	69
11		Of which: cash-based	167	47
12		Of which: deferred	-	-
13		Of which: shares or other share-linked instruments	99	22
14		Of which: deferred	99	22
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	<b>Total remuneration</b>		<b>420</b>	<b>102</b>

(b) Deferred remuneration

Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
1	Senior management				
2	Cash	-	-	-	-
3	Shares (number of RSUs)	782	782	-	191
4	Cash-linked instruments	-	-	-	-
5	Other	-	-	-	-
6	Key personnel				
7	Cash	-	-	-	-
8	Shares (number of RSUs)	163	163	-	36
9	Cash-linked instruments	-	-	-	-
10	Other	-	-	-	-
11	<b>Total</b>	<b>945</b>	<b>945</b>	<b>-</b>	<b>227</b>

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**Unaudited Disclosure Statement  
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**23 Remuneration (continued)**

**23.2 Aggregate quantitative information on remuneration for senior management and key personnel (continued)**

**(b) Deferred remuneration (continued)**

The closing stock price of Group Inc. stock as at 31 December 2019 was US\$229.93.

**(c) Special payments**

No guaranteed bonuses, sign-on awards or severance payments were made to senior management and key personnel during the financial year.