



Unaudited Quarterly Financial Report

September 30, 2017

Goldman Sachs International (unlimited company)

Company Number: 02263951

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Management Report

Introduction

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

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

The company's ultimate parent undertaking and controlling entity is The Goldman Sachs Group, Inc. (Group Inc.). Group Inc. is a bank holding company and a financial holding company regulated by the Board of Governors of the Federal Reserve System (Federal Reserve Board). Group Inc., together with its consolidated subsidiaries, form "GS Group" or "the group". GS Group is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and individuals. GS Group has a presence in EMEA through a number of subsidiaries, including GSI.

The company seeks to be the advisor of choice for its clients and a leading participant in global financial markets. As part of GS Group, the company also enters into transactions with affiliates in the normal course of business as part of its market-making activities and general operations. The company, consistent with GS Group, reports its activities in four business segments: Investment Banking; Institutional Client Services; Investing & Lending; and Investment Management.

References to "the financial statements" are to the unaudited financial statements as presented in Part II of this financial report. All references to September 2017, June 2017 and September 2016 refer to the periods ended, or the dates, as the context requires, September 30, 2017, June 30, 2017 and September 30, 2016, respectively. All references to December 2016 refer to the date December 31, 2016. All references to "the 2016 Annual Report" are to the company's Annual Report for the year ended December 31, 2016.

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

Executive Overview

Profit and Loss Account

Three Months Ended September 2017 versus September 2016. The profit and loss account is set out on page 24 of this financial report. For the third quarter of 2017, the company's profit for the financial period was \$501 million, an increase of 47% compared with the third quarter of 2016.

Net revenues were \$1.71 billion for the third quarter of 2017, 7% higher than the third quarter of 2016, primarily due to significantly higher net revenues in Investment Banking reflecting significantly higher net revenues in Underwriting, and, to a lesser extent, significantly higher net revenues in Investment Management. These increases were partially offset by slightly lower net revenues in Institutional Client Services reflecting lower net revenues in Fixed Income, Currency and Commodities Client Execution (FICC Client Execution). Net revenues in Investing & Lending were unchanged.

Administrative expenses were \$993 million for the third quarter of 2017, 5% lower than the third quarter of 2016, reflecting a decrease in direct costs of employment. Direct costs of employment includes the mark-to-market impact of share-based compensation. Excluding the mark-to-market impact of share-based compensation for both periods, administrative expenses were \$902 million for the third quarter of 2017, 4% lower than the third quarter of 2016.

Nine Months Ended September 2017 versus September 2016.

For the first nine months of 2017, the company's profit for the financial period was \$1.22 billion, a decrease of 10% compared with the first nine months of 2016.

Net revenues were \$4.99 billion for the first nine months of 2017, essentially unchanged compared with the first nine months of 2016, as significantly higher net revenues in Investment Management were largely offset by slightly lower net revenues in both Institutional Client Services, reflecting lower net revenues in FICC Client Execution, and Investment Banking. Net revenues in Investing & Lending were essentially unchanged.

Administrative expenses were \$3.12 billion for the first nine months of 2017, 9% higher than the first nine months of 2016, primarily reflecting an increase in direct costs of employment and other expenses. Direct costs of employment includes the mark-to-market impact of share-based compensation. Excluding the mark-to-market impact of share-based compensation for both periods, administrative expenses were \$3.08 billion for the first nine months of 2017, 4% higher than the first nine months of 2016.

See "Results of Operations" below for further information about the company's net revenues, segment reporting and administrative expenses.

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Capital Ratios

As of September 2017, the company's Common Equity Tier 1 ratio was 10.6% (under CRD IV as defined in "Equity Capital Management and Regulatory Capital — Regulatory Capital"). See "Equity Capital Management and Regulatory Capital — Regulatory Capital Ratios" for further information about the company's capital ratios.

Liquidity

The company maintained strong liquidity. As of September 2017, the company's Global Core Liquid Assets (GCLA) totalled \$62.25 billion. See "Risk Management — Liquidity Risk Management" for further information about the company's GCLA.

Balance Sheet

The balance sheet is set out on page 25 of this financial report. In the subsequent paragraphs, total assets are the sum of "Fixed assets", "Current assets" and "Pension surplus". Total liabilities are the sum of "Creditors: amounts falling due within one year" and "Creditors: amounts falling due after more than one year".

As of September 2017, total assets were \$956.07 billion, an increase of \$21.75 billion from December 2016, primarily reflecting increases in collateralised agreements of \$18.46 billion and cash at bank and in hand of \$16.26 billion, partially offset by a decrease in financial instruments owned of \$20.07 billion. Collateralised agreements increased primarily due to changes in client activity. Cash at bank and in hand increased primarily due to changes in the composition of the company's GCLA. Financial instruments owned decreased primarily due to a decrease in derivative instruments, primarily as a result of a decrease in interest rates and currencies derivatives, partially offset by an increase in cash instruments.

As of September 2017, total liabilities were \$924.69 billion, an increase of \$17.90 billion from December 2016, reflecting increases in collateralised financings of \$38.90 billion and others creditors of \$13.60 billion, partially offset by a decrease in financial instruments sold, but not yet purchased of \$34.61 billion. Collateralised financings increased primarily due to changes in client and firm activity. Other creditors increased primarily due to an increase in debt securities issued and intercompany unsecured borrowings. Financial instruments sold, but not yet purchased decreased primarily due to a decrease in derivative instruments, primarily as a result of a decrease in interest rates and currencies derivatives.

As of September 2017, total shareholder's funds were \$31.38 billion, an increase of \$3.85 billion from December 2016, primarily reflecting the issuance of \$5.80 billion of Additional Tier 1 notes (AT1 notes), partially offset by the payment of \$3.00 billion of dividends, both in the second quarter of 2017.

Under U.S. GAAP, as of September 2017, total assets were \$429.26 billion and total liabilities were \$403.62 billion. The company's total assets and total liabilities under U.S. GAAP differ from those reported under U.K. GAAP primarily due to the company presenting derivative balances gross under U.K. GAAP if they are not net settled in the normal course of business, even where it has a legally enforceable right to offset those balances.

Business Environment

Global

During the third quarter of 2017, global economic growth was mixed compared with the previous quarter. Real gross domestic product (GDP) growth remained stable in the U.S. and China, increased slightly in the U.K., decreased slightly in the Euro area and appeared to decrease in Japan. Similar to the first half of 2017, global macroeconomic data remained strong throughout the third quarter, and volatility in equity, fixed income, currency and commodity markets remained low. Germany held a federal election in September 2017, but it did not result in a significant increase in volatility across markets. In September, the U.S. Federal Reserve formally announced the process of balance sheet normalisation, beginning in October. The price of crude oil (WTI) ended the quarter at approximately \$52 per barrel, an increase of 12% from the end of the second quarter. In investment banking, industry-wide announced mergers and acquisitions volumes increased compared with the second quarter of 2017, while industry-wide completed mergers and acquisitions volumes decreased slightly, but remained solid. In addition, industry-wide debt and equity underwriting offerings decreased compared with the second quarter of 2017.

Europe

In the Euro area, real GDP growth decreased slightly compared with the second quarter of 2017, while measures of inflation were essentially unchanged. The European Central Bank maintained its main refinancing operations rate at 0.00% and its deposit rate at (0.40)%, and continued the pace of its monthly asset purchases at €60 billion. Measures of unemployment remained high, and the Euro appreciated by 3% against the U.S. dollar in the third quarter. In the U.K., real GDP growth increased slightly compared with the previous quarter. The Bank of England maintained its official bank rate at 0.25%, and the British pound appreciated by 3% against the U.S. dollar. Yields on 10-year government bonds generally declined in the region during the quarter. In equity markets, the DAX Index, CAC 40 Index and Euro Stoxx 50 Index all increased by 4% in the third quarter compared with the end of the second quarter, while the FTSE 100 Index increased by 1%.

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Critical Accounting Policy

For a description of the company's critical accounting policy, fair value, see "Critical Accounting Policy" in Part I of the 2016 Annual Report.

The fair values for substantially all of the company's financial assets and financial liabilities that are fair valued on a recurring basis, which includes financial instruments owned and financial instruments sold, but not yet purchased (i.e., inventory), are based on observable prices and inputs and are classified in levels 1 and 2 of the fair value hierarchy. Total level 3 financial assets were \$4.33 billion and \$5.15 billion as of September 2017 and December 2016, respectively. See Note 18 to the financial statements for further information about level 3 financial assets, including changes in level 3 financial assets and related fair value measurement.

Results of Operations

The composition of the company's net revenues has varied over time as financial markets and the scope of its operations have changed. The composition of net revenues can also vary over the shorter term due to fluctuations in economic and market conditions. See "Principal Risks and Uncertainties" in Part I of the 2016 Annual Report for further information about the impact of economic and market conditions on the company's results of operations. In addition to transactions entered into with third parties, the company also enters into transactions with affiliates in the normal course of business as part of its market-making activities and general operations.

Net Revenues

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

Segment Reporting

The table below presents the net revenues of the company's segments.

<i>\$ in millions</i>	Three Months		Nine Months	
	Ended September 2017	2016	Ended September 2017	2016
Investment Banking				
Financial Advisory	\$ 136	\$ 120	\$ 371	\$ 457
Underwriting	161	75	520	451
Total Investment Banking	\$ 297	\$ 195	\$ 891	\$ 908
Institutional Client Services				
FICC Client Execution	\$ 613	\$ 705	\$1,506	\$1,841
Equities	601	537	1,859	1,598
Total Institutional Client Services	\$1,214	\$1,242	\$3,365	\$3,439
Investing & Lending				
	\$ 95	\$ 95	\$ 355	\$ 356
Investment Management				
	\$ 108	\$ 67	\$ 382	\$ 218
Total net revenues	\$1,714	\$1,599	\$4,993	\$4,921

In the table above, the company has reclassified \$61 million of net revenues for the three months ended September 2016 and \$194 million of net revenues for the nine months ended September 2016 from FICC Client Execution to Equities within the Institutional Client Services segment to conform to the current period presentation.

Investment Banking

Investment Banking consists of:

Financial Advisory. Includes strategic advisory engagements with respect to mergers and acquisitions, divestitures, corporate defence activities, restructurings, spin-offs, risk management and derivative transactions directly related to these client advisory engagements.

Underwriting. Includes equity and debt underwriting of public offerings and private placements, including local and cross-border transactions and acquisition financing, of a wide range of securities and other financial instruments, including loans, and derivative transactions directly related to these client underwriting activities.

Operating Environment. During the third quarter of 2017, EMEA industry-wide completed mergers and acquisitions volumes increased compared with the second quarter of 2017. In underwriting, generally higher equity prices and tighter credit spreads during the third quarter of 2017 continued to contribute to a relatively favourable financing environment. However, EMEA industry-wide debt underwriting offerings decreased compared with the second quarter of 2017, as high-yield activity slowed. After a trend of generally improving activity levels since a challenging first quarter of 2016, the pace of EMEA industry-wide equity underwriting offerings slowed during the third quarter of 2017.

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Three Months Ended September 2017 versus September 2016. Net revenues in Investment Banking were \$297 million for the third quarter of 2017, 52% higher than the third quarter of 2016.

Net revenues in Financial Advisory were \$136 million, 13% higher than the third quarter of 2016, reflecting an increase in completed mergers and acquisitions transactions. Net revenues in Underwriting were \$161 million for the third quarter of 2017, compared with \$75 million for the third quarter of 2016. This increase was primarily due to significantly higher net revenues in debt underwriting, reflecting higher net revenues from high-yield activity. Net revenues in equity underwriting were higher compared with the third quarter of 2016, reflecting an increase in EMEA industry-wide offerings.

As of September 2017, the company's investment banking transaction backlog increased compared with June 2017. This increase was due to higher estimated net revenues from potential advisory transactions, principally related to mergers and acquisitions. Estimated net revenues from potential equity underwriting transactions were higher, primarily in initial public offerings, partially offset by lower estimated net revenues from potential debt underwriting transactions.

The company's investment banking transaction backlog represents an estimate of future net revenues from investment banking transactions where the company believes that future revenue realisation is more likely than not. The company believes changes in its investment banking transaction backlog may be a useful indicator of client activity levels which, over the long term, impact net revenues. However, the time frame for completion and corresponding revenue recognition of transactions in the backlog varies based on the nature of the engagement, as certain transactions may remain in the backlog for longer periods of time and others may enter and leave within the same reporting period. In addition, the company's transaction backlog is subject to certain limitations, such as assumptions about the likelihood that individual client transactions will occur in the future. Transactions may be cancelled or modified, and transactions not included in the estimate may also occur.

Nine Months Ended September 2017 versus September 2016. Net revenues in Investment Banking were \$891 million for the first nine months of 2017, 2% lower than the first nine months of 2016.

Net revenues in Financial Advisory were \$371 million, 19% lower than the first nine months of 2016, reflecting a decrease in completed mergers and acquisitions transactions. Net revenues in Underwriting were \$520 million, 15% higher than the first nine months of 2016, due to higher net revenues in debt underwriting, reflecting an increase in EMEA industry-wide high-yield activity, partially offset by significantly lower net revenues from asset-backed activity. In addition, net revenues in equity underwriting were higher compared with the first nine months of 2016.

As of September 2017, the company's investment banking transaction backlog decreased compared with December 2016. This decrease was due to lower estimated net revenues from potential debt underwriting transactions, partially offset by higher estimated net revenues from potential equity underwriting transactions. Estimated net revenues from potential advisory transactions were slightly lower.

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Institutional Client Services

Institutional Client Services consists of:

Fixed Income, Currency and Commodities Client Execution.

Includes client execution activities related to making markets in both cash and derivative instruments for interest rate products, credit products, mortgages, currencies and commodities.

- **Interest Rate Products.** Government bonds (including inflation-linked securities) across maturities, other government-backed securities, securities sold under agreements to repurchase (repurchase agreements), and interest rate swaps, options and other derivatives.
- **Credit Products.** Investment-grade corporate securities, high-yield securities, credit derivatives, exchange-traded funds, bank and bridge loans, municipal securities, emerging market and distressed debt, and trade claims.
- **Mortgages.** Commercial mortgage-related securities, loans and derivatives, residential mortgage-related securities, loans and derivatives, and other asset-backed securities, loans and derivatives.
- **Currencies.** Currency options, spot/forwards and other derivatives on G-10 currencies and emerging-market products.
- **Commodities.** Commodity derivatives and, to a lesser extent, physical commodities, involving crude oil and petroleum products, natural gas, base, precious and other metals, electricity, coal, agricultural and other commodity products.

Equities. Includes client execution activities related to making markets in equity products and commissions and fees from executing and clearing institutional client transactions on major stock, options and futures exchanges worldwide, as well as over-the-counter (OTC) transactions. Equities also includes the securities services business, which provides financing, securities lending and other prime brokerage services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and generates revenues primarily in the form of interest rate spreads or fees.

Operating Environment. Many of the themes that impacted the operating environment for Institutional Client Services in the first half of 2017 continued into the third quarter of 2017 as volatility levels in equity, fixed income, currency and commodity markets remained low. This, combined with low client conviction to transact, continued to negatively affect client activity across businesses, particularly in FICC Client Execution. Although market-making conditions remained challenging, they improved for most businesses during the quarter amid better U.S. economic data and expectations for central bank actions. In addition, European equity markets continued to generally increase during both the third quarter of 2017 (with the MSCI Europe Index up 6%) and in credit markets, spreads generally tightened. The price of both oil and European natural gas prices increased by 12% during the third quarter of 2017 to approximately \$46 per barrel (WTI) and €16.81 per MWh, respectively. See “Business Environment” above for further information about economic and market conditions in the global operating environment during the quarter.

Three Months Ended September 2017 versus September 2016. Net revenues in Institutional Client Services were \$1.21 billion for the third quarter of 2017, 2% lower than the third quarter of 2016.

Net revenues in FICC Client Execution were \$613 million for the third quarter of 2017, 13% lower than the third quarter of 2016.

The following provides details of the company’s FICC Client Execution net revenues by business, compared with results in the third quarter of 2016:

- Net revenues in interest rate products were lower, reflecting lower client activity.
- Net revenues in commodities were significantly lower, reflecting challenging market-making conditions, particularly in energy products.
- Net revenues in mortgages were higher, reflecting the impact of favourable market-making conditions, including generally tighter credit spreads.
- Net revenues in credit products were higher, reflecting improved market-making conditions.
- Net revenues in currencies were essentially unchanged.

Net revenues in Equities were \$601 million for the third quarter of 2017, 12% higher than the third quarter of 2016, primarily due to significantly higher net revenues in securities services.

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Nine Months Ended September 2017 versus September 2016. Net revenues in Institutional Client Services were \$3.37 billion for the first nine months of 2017, 2% lower than the first nine months of 2016.

Net revenues in FICC Client Execution were \$1.51 billion for the first nine months of 2017, 18% lower than the first nine months of 2016.

The following provides details of the company's FICC Client Execution net revenues by business, compared with results in the first nine months of 2016:

- Net revenues in commodities were significantly lower, reflecting challenging market-making conditions.
- Net revenues in interest rate products and currencies were lower, reflecting lower client activity.
- Net revenues in mortgages were significantly higher, reflecting favourable market-making conditions including generally tighter spreads.
- Net revenues in credit products were unchanged.

Net revenues in Equities were \$1.86 billion for the first nine months of 2017, 16% higher than the first nine months of 2016, primarily due to significantly higher net revenues in equities client execution, reflecting significantly higher results in derivatives. In addition, net revenues in securities services were significantly higher compared with the first nine months of 2016.

Investing & Lending

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

Three Months Ended September 2017 versus September 2016. Net revenues in Investing & Lending were \$95 million for the third quarter of 2017, unchanged compared with the third quarter of 2016.

Nine Months Ended September 2017 versus September 2016. Net revenues in Investing & Lending were \$355 million for the first nine months of 2017, essentially unchanged compared with the first nine months of 2016.

Investment Management

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

Three Months Ended September 2017 versus September 2016. Net revenues in Investment Management were \$108 million for the third quarter of 2017, 61% higher than the third quarter of 2016, reflecting significantly higher management and other fees, primarily due to an increase in net revenues from providing investing services.

Nine Months Ended September 2017 versus September 2016. Net revenues in Investment Management were \$382 million for the first nine months of 2017, 75% higher than the first nine months of 2016, reflecting significantly higher management and other fees, primarily due to an increase in net revenues from providing investing services.

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Administrative Expenses

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

The company undertook an initiative in the second quarter of 2017 to transfer approximately 1,700 employees, who were previously employed by or seconded to the company, to an affiliated GS Group undertaking in the U.K. This initiative was undertaken as part of GS Group's 2017 resolution plan. These employees continue to serve the company in the same manner as prior to the transfer. As a result of this change, the costs related to these employees are now charged to the company and reported in other expenses. Excluding the impact of this transfer, as of September 2017, total staff was slightly higher compared with December 2016.

The table below presents the company's administrative expenses and total staff (including employees, consultants and temporary staff).

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2017	2016	2017	2016
Direct costs of employment	\$ 588	\$ 741	\$1,980	\$1,874
Brokerage, clearing, exchange and distribution fees	156	133	459	428
Market development	18	10	55	47
Communications and technology	25	22	73	64
Depreciation and amortisation	11	1	27	3
Occupancy	39	40	115	122
Professional fees	35	29	87	95
Other expenses	121	73	326	223
Total non-compensation expenses	405	308	1,142	982
Total administrative expenses	\$ 993	\$1,049	\$3,122	\$2,856
Total staff at period-end	4,362	6,014		

In the table above, direct costs of employment included a charge of \$91 million and a charge of \$108 million for the three months ended September 2017 and September 2016, respectively, and a charge of \$40 million and a credit of \$113 million for the nine months ended September 2017 and September 2016, respectively, relating to the mark-to-market of share-based compensation.

Three Months Ended September 2017 versus September 2016. Administrative expenses were \$993 million for the third quarter of 2017, 5% lower than the third quarter of 2016, reflecting a decrease in direct costs of employment. Direct costs of employment includes the mark-to-market impact of share-based compensation. Excluding the mark-to-market impact of share-based compensation for both periods, administrative expenses were \$902 million for the third quarter of 2017, 4% lower than the third quarter of 2016.

Nine Months Ended September 2017 versus September 2016. Administrative expenses were \$3.12 billion for the first nine months of 2017, 9% higher than the first nine months of 2016, primarily reflecting an increase in direct costs of employment and other expenses. Direct costs of employment includes the mark-to-market impact of share-based compensation. Excluding the mark-to-market impact of share-based compensation for both periods, administrative expenses were \$3.08 billion for the first nine months of 2017, 4% higher than the first nine months of 2016.

Interest Payable and Similar Charges

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

Three Months Ended September 2017 versus September 2016. Interest payable and similar charges was \$58 million for the third quarter of 2017, 33% lower than the third quarter of 2016, primarily reflecting a decrease in the average long-term subordinated loans balance due to the company repaying \$3.58 billion of long-term subordinated loans in the second quarter of 2017.

Nine Months Ended September 2017 versus September 2016. Interest payable and similar charges was \$244 million for the first nine months of 2017, 5% lower than the first nine months of 2016, primarily due to a decrease in the average long-term subordinated loans balance as the company repaid \$3.58 billion of long-term subordinated loans in the second quarter of 2017.

Tax on Profit on Ordinary Activities

The effective tax rate for the first nine months of 2017 was 25.35%, which compares to the U.K. corporate tax rate applicable to the company of 27.25% for 2017. The effective tax rate represents the company's tax on profit on ordinary activities divided by its profit on ordinary activities before taxation.

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Balance Sheet and Funding Sources

Balance Sheet Management

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

In order to ensure appropriate risk management, the company seeks to maintain a sufficiently liquid balance sheet and leverages GS Group's processes to dynamically manage its assets and liabilities which include (i) balance sheet planning, (ii) balance sheet limits, (iii) monitoring of key metrics and (iv) scenario analyses. See "Balance Sheet and Funding Sources — Balance Sheet Management" in Part I of the 2016 Annual Report for further information about the company's balance sheet management process.

Liquidity and Cash

The company maintains liquidity to meet a broad range of potential cash outflows and collateral needs in a stressed environment, referred to as GCLA. See "Risk Management — Liquidity Risk Management — Liquidity Risk Management Principles — Global Core Liquid Assets" for details about the composition and sizing of the company's GCLA.

Funding Sources

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

- Collateralised financings, which are repurchase agreements and securities loaned;
- Intercompany unsecured loans from Group Inc., and other affiliates; and
- Debt securities issued to both external counterparties and affiliates, which includes securitised derivative products (including notes, certificates and warrants) and vanilla debt, as well as transfers of assets accounted for as financings rather than sales.

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

Secured Funding. The company funds a significant amount of inventory on a secured basis, with external counterparties as well as with affiliates, including repurchase agreements, securities loaned and other secured financings. The company may also pledge its inventory as collateral for securities borrowed under a securities lending agreement or as collateral for derivative transactions. The company also uses its own inventory to cover transactions in which the company or its clients have sold securities that have not yet been purchased. Secured funding is less sensitive to changes in Group Inc. and/or the company's credit quality than unsecured funding, due to the posting of collateral to lenders. Nonetheless, the company continually analyses the refinancing risk of its secured funding activities, taking into account trade tenors, maturity profiles, counterparty concentrations, collateral eligibility and counterparty rollover probabilities. The company seeks to mitigate its refinancing risk by executing term trades with staggered maturities, diversifying counterparties, raising excess secured funding, and pre-funding residual risk through the GCLA.

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The company seeks to raise secured funding with a term appropriate for the liquidity of the assets that are being financed, and seeks longer maturities for secured funding collateralised by asset classes that may be harder to fund on a secured basis, especially during times of market stress, such as: mortgage and other asset-backed loans and securities; non-investment-grade corporate debt securities; equity securities; and emerging market securities. The company's external secured funding, excluding funding collateralised by liquid government obligations, is primarily executed for tenors of one month or greater.

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

The table below presents the company's secured funding included in "Collateralised financings" and "Other creditors" on the balance sheet.

<i>\$ in millions</i>	As of	
	September 2017	December 2016
Repurchase agreements	\$111,520	\$ 84,581
Securities loaned	58,329	53,060
Amounts due to parent and group undertakings – secured borrowings	636	–
Debt securities issued	3,520	2,747
Short-term secured funding	174,005	140,388
Repurchase agreements	10,935	5,734
Securities loaned	1,991	499
Debt securities issued	4,000	1,567
Long-term secured funding	16,926	7,800
Total secured funding	\$190,931	\$148,188

In the table above, secured funding with external counterparties was \$58.59 billion and \$48.81 billion as of September 2017 and December 2016, respectively. Secured funding with affiliates was \$132.34 billion and \$99.38 billion as of September 2017 and December 2016, respectively.

The weighted average maturity of the company's external secured funding, included in "Collateralised financings" and "Other creditors" on the balance sheet, excluding funding that can only be collateralised by highly liquid securities eligible for inclusion in the GCLA, exceeded 120 days as of September 2017.

Intercompany Unsecured Borrowings. The company sources funding through intercompany unsecured borrowings from Goldman Sachs Funding LLC (Funding IHC), Group Inc. and other affiliates. Funding IHC is a wholly-owned, direct subsidiary of Group Inc. that has been formed to facilitate the execution of GS Group's preferred resolution strategy. The majority of GS Group's unsecured funding is raised by Group Inc., which lends the necessary funds to Funding IHC and other subsidiaries, including GSI, to meet asset financing, liquidity and capital requirements. The benefits of this approach to subsidiary funding are enhanced control and greater flexibility to meet the funding requirements of GSI and other subsidiaries. Intercompany unsecured borrowings also include debt securities issued.

The table below presents the company's intercompany unsecured borrowings included in "Other creditors" on the balance sheet.

<i>\$ in millions</i>	As of	
	September 2017	December 2016
Amounts due to parent and group undertakings – unsecured borrowings	\$22,244	\$18,922
Debt securities issued	897	2,080
Short-term intercompany unsecured borrowings	23,141	21,002
Long-term subordinated loans	5,377	8,958
Amounts due to parent and group undertakings – unsecured borrowings	21,759	16,882
Debt securities issued	1,196	886
Long-term intercompany unsecured borrowings	28,332	26,726
Total intercompany unsecured borrowings	\$51,473	\$47,728

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

The table below presents the company's external unsecured borrowings included in "Other creditors" on the balance sheet.

<i>\$ in millions</i>	As of	
	September 2017	December 2016
Bank loans	\$ –	\$ 164
Overdrafts	262	7
Debt securities issued	11,101	7,992
Short-term external unsecured borrowings	11,363	8,163
Bank loans	164	–
Debt securities issued	11,605	8,704
Long-term external unsecured borrowings	11,769	8,704
Total external unsecured borrowings	\$23,132	\$16,867

Total Shareholder's Funds

The company held \$31.38 billion and \$27.53 billion of total shareholder's funds as of September 2017 and December 2016, respectively. See "Equity Capital Management and Regulatory Capital — Regulatory Capital" for further information about the company's capital.

Management Report

Equity Capital Management and Regulatory Capital

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

Equity Capital Management

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

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

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

Regulatory Capital

The company is subject to the revised capital framework for E.U.-regulated financial institutions (the fourth E.U. Capital Requirements Directive and E.U. Capital Requirements Regulation, collectively known as "CRD IV"). These capital regulations are largely based on the Basel Committee on Banking Supervision's (Basel Committee) final capital framework for strengthening international capital standards (Basel III). The Basel Committee is the primary global standard setter for prudential bank regulation, and its member jurisdictions implement regulations based on its standards and guidelines.

The risk-based capital requirements are expressed as capital ratios that compare measures of regulatory capital to risk-weighted assets (RWAs). 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.

Under CRD IV, the minimum CET1, Tier 1 capital and Total capital ratios (collectively the Pillar 1 capital requirements) are supplemented by:

- A capital conservation buffer, consisting entirely of capital that qualifies as CET1, began to phase in on January 1, 2016, and will continue to do so in increments of 0.625% per year until it reaches 2.5% of RWAs on January 1, 2019.
- A countercyclical capital buffer of up to 2.5% (and also consisting entirely of CET1) in order to counteract excessive credit growth. The buffer only applies to the company's exposures to certain types of counterparties based in jurisdictions which have announced a countercyclical buffer. Since these exposures are not currently material, the buffer adds less than 0.01% to the CET1 ratio and has an immaterial impact on the capital requirements of the company. The countercyclical capital buffer applicable to the company could change in the future and, as a result, the company's minimum ratios could increase.
- Individual capital guidance under Pillar 2A (an additional amount to cover risks not adequately captured in Pillar 1). The PRA performs a periodic supervisory review of the company's ICAAP, which leads to a final determination by the PRA of individual capital guidance under Pillar 2A. This is a point in time assessment of the minimum amount of capital the PRA considers that a firm should hold.

Management Report

The table below presents the company's minimum required ratios.

	September 2017 Minimum Ratio	December 2016 Minimum Ratio
CET1 ratio	7.2%	6.5%
Tier 1 capital ratio	9.1%	8.5%
Total capital ratio	11.8%	11.2%

These minimum ratios incorporate the Pillar 2A capital guidance received from the PRA and could change in the future. In addition to the Pillar 2A capital guidance, the PRA also defines forward looking capital guidance which represents the PRA's view of the capital that the company would require to absorb losses in stressed market conditions. This is known as Pillar 2B or the "PRA buffer" and is not reflected in the minimum ratios shown above. As the capital conservation buffer phases in, as described above, it will fully or partially replace the PRA buffer.

During the nine months ended September 2017 and the year ended December 2016, the company was in compliance with the capital requirements set by the PRA.

Regulatory Capital Ratios

The table below presents the company's capital ratios under CRD IV.

	As of	
	September 2017	December 2016
CET1 ratio	10.6%	12.9%
Tier 1 capital ratio	13.1%	12.9%
Total capital ratio	15.4%	17.2%

In the table above, the CET1 ratio, Tier 1 capital ratio and Total capital ratio as of September 2017 included approximately 48 basis points attributable to the company's profit for the nine months ended September 2017. This represents the company's profit for the financial period divided by its RWAs. See "Capital Resources" and "Risk-Weighted Assets" below for information about the movements in the company's capital and RWAs.

Certain CRD IV rules are subject to final technical standards and clarifications, which will be issued by the European Banking Authority and adopted by the European Commission and PRA. All capital, RWAs and estimated ratios are based on current interpretation, expectations and understanding of CRD IV and may evolve as its interpretation and application is discussed with the company's regulators.

Capital Resources

The table below presents the company's capital components under CRD IV.

	As of	
	September 2017	December 2016
<i>\$ in millions</i>		
Called up share capital	\$ 582	\$ 582
Share premium account including capital reserves	4,881	4,881
Retained earnings	20,116	22,070
Deductions	(804)	(1,080)
Common Equity Tier 1	24,775	26,453
Additional Tier 1 notes	5,800	–
Tier 1 capital	\$30,575	\$26,453
Tier 2 and Total capital		
Long-term subordinated loans	\$ 5,377	\$ 8,958
Deductions	–	(48)
Tier 2 capital	5,377	8,910
Total capital	\$35,952	\$35,363

In the table above:

- CET1 as of September 2017 decreased by \$1.68 billion compared with December 2016, primarily due to the company paying dividends of \$3.00 billion in the second quarter of 2017.
- Tier 1 capital as of September 2017 increased by \$4.12 billion compared with December 2016, primarily due to the issuance of \$5.80 billion of AT1 notes in the second quarter of 2017, partially offset by the reduction in CET1.
- Tier 2 capital as of September 2017 decreased by \$3.53 billion compared with December 2016, primarily due to the company repaying \$3.58 billion of long-term subordinated loans in the second quarter of 2017.

See Notes 10, 12 and 13 to the financial statements for further information.

Risk-Weighted Assets

The table below presents the components of RWAs within the company's regulatory capital ratios under CRD IV. See "Equity Capital Management and Regulatory Capital" in Part I of the 2016 Annual Report for a description of each RWA component.

	As of	
	September 2017	December 2016
<i>\$ in millions</i>		
Credit RWAs	\$127,135	\$114,420
Market RWAs	91,658	77,367
Operational RWAs	14,335	13,305
Total	\$233,128	\$205,092

In the table above:

- Credit RWAs as of September 2017 increased by \$12.72 billion compared with December 2016, primarily reflecting an increase in exposures in derivative transactions and securities financing transactions, and also due to increased cash at bank and in hand due to changes in the composition of the company's GCLA.

Management Report

- Market RWAs as of September 2017 increased by \$14.29 billion compared with December 2016, primarily due to an increase in stressed Value-at-Risk.

Leverage Ratio

The company is required to monitor and disclose its leverage ratio using CRD IV's definition of exposure as amended by the European Commission Leverage Ratio Delegated Act. In November 2016, the European Commission proposed amendments to CRD IV to implement a 3% minimum leverage ratio requirement for certain E.U. financial institutions, including GSI. This leverage ratio compares CRD IV's definition of Tier 1 capital to a measure of leverage exposure, defined as the sum of certain assets plus certain off-balance-sheet exposures (which include a measure of derivatives, securities financing transactions, commitments and guarantees), less Tier 1 capital deductions. Any required minimum ratio is expected to become effective for the company no earlier than January 1, 2018.

The table below presents the company's leverage ratio under CRD IV.

<i>\$ in millions</i>	As of	
	September 2017	December 2016
Tier 1 capital	\$ 30,575	\$ 26,453
Leverage exposure	\$786,382	\$697,402
Leverage ratio	3.9%	3.8%

In the table above, the leverage ratio as of September 2017 included approximately 14 basis points attributable to the company's profit for the nine months ended September 2017. This represents the company's profit for the financial period divided by its leverage exposure. The leverage ratio as of September 2017 increased compared with December 2016, primarily due to the increase in the company's Tier 1 capital. See "Capital Resources" above for further information. This was partially offset by an increase in leverage exposure. This leverage ratio is based on the company's current interpretation and understanding of this rule and may evolve as the interpretation and application of this rule is discussed with the company's regulators.

Regulatory Matters and Developments

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

See "Regulatory Developments" in Part I of the 2016 Annual Report for further information about the laws, rules and regulations and proposed laws, rules and regulations that apply to the company and its operations.

Resolution Plan

GS Group is required by the Federal Reserve Board and the Federal Deposit Insurance Corporation (FDIC) to submit a periodic plan for its rapid and orderly resolution in the event of material financial distress or failure (resolution plan). GSI is considered to be a material operating entity for the purposes of the periodic resolution plan prepared by GS Group. GS Group submitted its 2017 resolution plan in June 2017. GSI submitted the 2017 GS Group resolution plan to the Bank of England in July 2017. In September 2017, the Federal Reserve Board and the FDIC extended the next resolution plan filing deadline by one year to July 1, 2019.

Minimum Requirement for Own Funds and Eligible Liabilities

In October 2017, the Bank of England published a consultation paper on internal minimum requirement for own funds and eligible liabilities (MREL). The proposal would require a material U.K. subsidiary of an overseas banking group, such as GSI, to meet a minimum internal MREL requirement to facilitate the transfer of losses to its resolution entity, which for GSI is Group Inc. The transitional minimum internal MREL requirement would phase in from January 1, 2019, becoming fully effective from January 1, 2022. The company expects that in addition to its current levels of regulatory capital, a portion of its intercompany borrowings amended as needed to meet the subordination and maturity terms, will serve to meet its internal MREL requirement.

Principal Risks and Uncertainties

The company faces a variety of risks that are substantial and inherent in its businesses including market, liquidity, credit, operational, model, legal, regulatory and reputational risks and uncertainties. Those risks and uncertainties are consistent with those described in the 2016 Annual Report.

Management Report

Risk Management

Risks are inherent in the company's business and include liquidity, market, credit, operational, model, legal, compliance, regulatory and reputational risks. For further information about the company's risk management processes, see "Risk Management — Overview and Structure of Risk Management" in Part I of the 2016 Annual Report. The company's risks include the risks across its risk categories, regions or global businesses, as well as those which have uncertain outcomes and have the potential to materially impact the company's financial results, its liquidity and its reputation. For further information about the company's areas of risk, see "Liquidity Risk Management", "Market Risk Management", "Credit Risk Management", "Operational Risk Management", "Model Risk Management" below and "Principal Risks and Uncertainties" in Part I of the 2016 Annual Report.

Overview and Structure of Risk Management

The company's overview and structure of risk management is consistent with the 2016 Annual Report. See "Risk Management — Overview and Structure of Risk Management" in Part I of the 2016 Annual Report for further details.

Liquidity Risk Management

Overview

Liquidity risk is the risk that the company will be unable to fund itself or meet its liquidity needs in the event of company-specific, broader industry, or market liquidity stress events. Liquidity is of critical importance to the company, as most of the failures of financial institutions have occurred in large part due to insufficient liquidity. Accordingly, the company has in place a comprehensive and conservative set of liquidity and funding policies. The principal objective is to be able to fund the company and to enable the core businesses to continue to serve clients and generate revenues, even under adverse circumstances.

Treasury has the primary responsibility for assessing, monitoring and managing liquidity and funding strategy. Treasury is independent of the revenue-producing units and reports to GS Group's chief financial officer.

GS Group's Liquidity Risk Management function is an independent risk management function responsible for control and oversight of GS Group's liquidity risk management framework, including stress testing and limit governance. Liquidity Risk Management is independent of the revenue-producing units and Treasury, and reports to GS Group's chief risk officer.

Liquidity Risk Management Principles

The company manages liquidity risk according to three principles (i) hold sufficient excess liquidity in the form of GCLA to cover outflows during a stressed period, (ii) maintain appropriate Asset-Liability Management and (iii) maintain a viable Contingency Funding Plan. See "Risk Management — Liquidity Risk Management" in Part I of the 2016 Annual Report for further details.

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

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 external funding profile with an appropriate tenor, taking into consideration the characteristics and liquidity profile of its assets.

Contingency Funding Plan. GS Group maintains a contingency funding plan, which has a GSI-specific addendum, to provide a framework for analysing and responding to a liquidity crisis situation or periods of market stress. The contingency funding plan outlines a list of potential risk factors, key reports and metrics that are reviewed on an ongoing basis to assist in assessing the severity of, and managing through, a liquidity crisis and/or market dislocation. The contingency funding plan also describes the 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.

Management Report

Liquidity Stress Tests

In order to determine the appropriate size of the company's GCLA, an internal liquidity model is used, referred to as the Modeled Liquidity Outflow, which captures and quantifies the company's liquidity risks. Other factors are considered including, but not limited to, an assessment of potential intraday liquidity needs through an additional internal liquidity model, referred to as the Intraday Liquidity Model, the results of the company's long-term stress testing models, resolution liquidity models and other applicable regulatory requirements and a qualitative assessment of the condition of the company, as well as the financial markets. The results of the Modeled Liquidity Outflow, the Intraday Liquidity Model, the long-term stress testing models and the resolution liquidity models are reported to senior management on a regular basis. See "Risk Management — Liquidity Risk Management" in Part I of the 2016 Annual Report for further details.

Resolution Liquidity Models. In connection with GS Group's resolution planning efforts, GS Group has established a Resolution Liquidity Adequacy and Positioning framework, which estimates liquidity needs of its major subsidiaries, including GSI, in a stressed environment. GS Group has also established a Resolution Liquidity Execution Need framework, which measures the liquidity needs of its major subsidiaries, including GSI, to stabilise and wind-down following a Group Inc. bankruptcy filing in accordance with GS Group's preferred resolution strategy.

GCLA and Unencumbered Metrics

GCLA. Based on the results of the company's internal liquidity risk models, described above, as well as consideration of other factors including, but not limited to, an assessment of the company's potential intraday liquidity needs and a qualitative assessment of the condition of the company, as well as the financial markets, the company believes its liquidity position as of both September 2017 and December 2016 was appropriate. As of September 2017 and December 2016, the fair value of the securities and certain overnight cash deposits included in the company's GCLA totalled \$62.25 billion and \$59.51 billion, respectively. The company strictly limits its GCLA to a narrowly defined list of securities and cash because they are highly liquid, even in a difficult funding environment. The company does not include other potential sources of excess liquidity, such as less liquid unencumbered securities or committed credit facilities, in the GCLA. The fair value of the company's GCLA averaged \$61.84 billion and \$56.06 billion for the three months ended September 2017 and June 2017, respectively.

The table below presents the average fair value of the company's GCLA by asset class.

<i>\$ in millions</i>	Average for the Three Months Ended	
	September 2017	June 2017
Overnight cash deposits	\$27,360	\$12,807
U.S. government obligations	13,149	20,922
French government obligations	4,520	4,783
U.K. government obligations	8,423	8,721
German government obligations	6,156	6,536
Japanese government obligations	2,236	2,290
Total	\$61,844	\$56,059

The company maintains its GCLA to enable it to meet current and potential liquidity requirements. The minimum GCLA required, as calculated by the Modeled Liquidity Outflow and the Intraday Liquidity Model, is held by the company directly and is intended for use only by the company to meet its liquidity requirements, and is assumed not to be available to Group Inc. or Funding IHC. In addition to GCLA held in GSI, GS Group holds a portion of global GCLA directly at Group Inc. or Funding IHC, which in some circumstances may be additionally provided to GSI or other major subsidiaries.

Other Unencumbered Assets. In addition to its GCLA, the company has a significant amount of other unencumbered cash and financial instruments, including other government obligations, high-grade money market securities, corporate obligations, marginable equities, loans and cash deposits not included in its GCLA. The fair value of the company's other unencumbered assets averaged \$28.60 billion and \$28.12 billion for the three months ended September 2017 and June 2017, respectively. The company does not consider these assets liquid enough to be eligible for inclusion in its GCLA.

Liquidity Regulatory Framework

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

The LCR rule requires organisations to maintain an adequate ratio of eligible high-quality liquid assets to expected net cash outflows under an acute short-term liquidity stress scenario. The LCR rule issued by the European Commission became effective on October 1, 2015. The PRA set out a phase-in period whereby certain financial institutions, including GSI, were required to have an 80% minimum ratio initially, which increased to 90% on January 1, 2017 and will increase to 100% on January 1, 2018.

Management Report

The NSFR is designed to promote medium- and long-term stable funding of the assets and off-balance-sheet activities of banking organisations over a one-year time horizon. In November 2016, the European Commission issued a proposed rule that would implement an NSFR for certain E.U. financial institutions, including GSI. The proposed rule would be effective two years after the entry into force of the fifth E.U. Capital Requirements Directive (CRD V).

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

Credit Ratings

The company relies on the debt capital markets to fund a portion of its day-to-day operations and the cost and availability of debt financing is influenced by its credit rating and that of Group Inc. Credit ratings are also important when the company is competing in certain markets, such as OTC derivatives, and when it seeks to engage in longer-term transactions. See "Principal Risks and Uncertainties — Liquidity" in Part I of the 2016 Annual Report for information about the risks associated with a reduction in the company's and/or Group Inc.'s credit rating.

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

	As of September 2017		
	Fitch	Moody's	S&P
GSI			
Short-term Debt	F1	P-1	A-1
Long-term Debt	A	A1	A+
Ratings Outlook	Stable	Stable	Stable
Group Inc.			
Short-term Debt	F1	P-2	A-2
Long-term Debt	A	A3	BBB+
Subordinated Debt	A-	Baa2	BBB-
Trust Preferred	BBB-	Baa3	BB
Preferred Stock	BB+	Ba1	BB
Ratings Outlook	Stable	Stable	Stable

Certain of the company's derivatives have been transacted under bilateral agreements with counterparties who may require the company to post collateral or terminate the transactions based on changes in the credit ratings of either the company and/or Group Inc. The company assesses the impact of these bilateral agreements by determining the collateral or termination payments that would occur assuming a downgrade by all rating agencies of both Group Inc. and the company simultaneously and of each entity individually. A downgrade by any one rating agency, depending on the agency's relative ratings of Group Inc. and the company at the time of the downgrade, may have an impact which is comparable to the impact of a downgrade by all rating agencies. The company manages its GCLA to ensure that it would, among other potential requirements, be able to make the additional collateral or termination payments that may be required in the event of a two-notch reduction in Group Inc. and/or the company's long-term credit ratings, as well as collateral that has not been called by counterparties, but is available to them.

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

\$ in millions	As of	
	September 2017	December 2016
Additional collateral or termination payments:		
One-notch downgrade	\$ 64	\$ 491
Two-notch downgrade	\$989	\$1,811

Cash Flows

As a financial institution, the company's cash flows are complex and bear little relation to the company's profitability and net assets. Consequently, the company believes that traditional cash flow analysis is less meaningful in evaluating its liquidity position than the liquidity and asset-liability management policies described above and in more detail in "Risk Management — Liquidity Risk Management" in Part I of the 2016 Annual Report. Cash flow analysis may, however, be helpful in highlighting certain macro trends and strategic initiatives in the company's businesses.

The statements of cash flows are set out on page 27 of this financial report.

Management Report

Nine Months Ended September 2017. The company's cash and cash equivalents increased by \$14.36 billion to \$32.88 billion at the end of the third quarter of 2017. The company generated \$15.71 billion in net cash from operating activities. The company used \$1.28 billion in net cash for financing activities, primarily due to the repayment of \$3.58 billion of long-term subordinated loans and the payment of \$3.00 billion of dividends, partially offset by the issuance of \$5.80 billion of AT1 notes.

Nine Months Ended September 2016. The company's cash and cash equivalents increased by \$5.37 billion to \$15.06 billion at the end of the third quarter of 2016. The company generated \$5.76 billion in net cash from operating activities.

Market Risk Management

Overview

Market risk is the risk of loss in the value of the company's inventory, as well as certain other financial assets and financial liabilities, 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. The company holds inventory primarily for market making for clients. The company's inventory therefore changes based on client demands. The company's inventory is accounted for at fair value and therefore fluctuates on a daily basis, with the related gains and losses included in net revenues. Categories of market risk include the following:

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

Market Risk Management, which is independent of the revenue-producing units and reports to the GS Group chief risk officer, has primary responsibility for assessing, monitoring and managing market risk. Risks are monitored and controlled through strong oversight and independent control and support functions across the global businesses.

Managers in revenue-producing units and Market Risk Management 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, both at the GS Group and GSI level. These managers have in-depth knowledge of their positions, markets and the instruments available to hedge their exposures.

Market Risk Management Process

The company manages market risk by diversifying exposures, controlling position sizes and establishing economic hedges in related securities or derivatives. This process includes:

- Accurate and timely exposure information incorporating multiple risk metrics;
- A dynamic limit setting framework; and
- Constant communication among revenue-producing units, risk managers and senior management.

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

Risk Measures

Market Risk Management 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 company-wide level.

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

Value-at-Risk. VaR is the potential loss in value due to adverse market movements over a defined time horizon with a specified confidence level. A one-day time horizon with a 95% confidence level is typically employed. The VaR model is a single model that captures risks including interest rates, equity prices, currency rates and commodity prices. As such, VaR facilitates comparison across portfolios of different risk characteristics. VaR also captures the diversification of aggregated risk across the company. See "Risk Management — Market Risk Management" in Part I of the 2016 Annual Report for further details.

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Limits. Risk limits are used at various levels (including entity, business and product) to govern risk appetite by controlling the size of its exposures to market risk. Limits for the company are set based on VaR and on a range of stress tests relevant to the company's exposures. Limits are reviewed frequently and amended on a permanent or temporary basis to reflect changing market conditions, business conditions or tolerance for risk.

The GSI Board Risk Committee and the GSI Risk Committee set market risk limits for the company at an overall, business and product level, consistent with the company's risk appetite. In addition, Market Risk Management (through delegated authority from the GSI Risk Committee) sets market risk sub-limits at certain business and product levels.

The purpose of the company-wide limits is to assist senior management in controlling the overall risk profile. Sub-limits are set below the approved level of risk limits. Sub-limits set the desired maximum amount of exposure that may be managed by any particular business on a day-to-day basis without additional levels of senior management approval, effectively leaving day-to-day decisions to individual desk managers and traders. Accordingly, sub-limits are a management tool designed to ensure appropriate escalation rather than to establish maximum risk tolerance. Sub-limits also distribute risk among various businesses in a manner that is consistent with their level of activity and client demand, taking into account the relative performance of each area.

Market risk limits are monitored daily by Market Risk Management, which is responsible for identifying and escalating, on a timely basis, instances where limits have been exceeded.

When a risk limit has been exceeded (e.g., due to positional changes or changes in market conditions, such as increased volatilities or changes in correlations), it is escalated to senior managers in Market Risk Management and the appropriate risk committee. Such instances are remediated by an inventory reduction and/or a temporary or permanent increase to the risk limit.

Metrics

The tables below present average daily VaR and period-end VaR, as well as the high and low VaR for the period. Diversification effect in the tables below represents the difference between total VaR and the sum of the VaRs for the four risk categories. This effect arises because the four market risk categories are not perfectly correlated.

The table below presents average daily VaR by risk category.

\$ in millions	Three Months Ended			Nine Months Ended September	
	September	June	September	2017	2016
	2017	2017	2016		
Interest rates	\$ 19	\$ 23	\$ 24	\$ 22	\$ 25
Equity prices	16	17	16	17	17
Currency rates	9	8	9	9	11
Commodity prices	1	2	1	3	1
Diversification effect	(19)	(22)	(19)	(23)	(22)
Total	\$ 26	\$ 28	\$ 31	\$ 28	\$ 32

The company's average daily VaR decreased to \$26 million for the third quarter of 2017 from \$28 million for the second quarter of 2017, primarily due to reductions in the interest rates, equity prices and commodity prices categories, partially offset by a decrease in the diversification effect. The overall decrease was due to lower levels of volatility.

The company's average daily VaR decreased to \$26 million for the third quarter of 2017 from \$31 million for the third quarter of 2016, primarily due to reductions in the interest rates category due to lower levels of volatility.

The company's average daily VaR decreased to \$28 million for the nine months ended September 2017 from \$32 million for the nine months ended September 2016, primarily due to reductions in the interest rates and currency rates categories, partially offset by an increase in commodity prices category. The overall decrease was due to lower levels of volatility.

The table below presents period-end VaR by risk category.

\$ in millions	As of		
	September	June	September
	2017	2017	2016
Interest rates	\$ 18	\$ 21	\$ 25
Equity prices	16	17	14
Currency rates	8	7	6
Commodity prices	—	1	1
Diversification effect	(16)	(20)	(15)
Total	\$ 26	\$ 26	\$ 31

The company's daily VaR remained unchanged as of September 2017 from \$26 million as of June 2017.

The company's daily VaR decreased to \$26 million as of September 2017 from \$31 million as of September 2016, primarily due to reductions in the interest rates and commodity prices categories, partially offset by an increase in the equity prices and currency rates categories. The overall decrease was due to lower levels of volatility.

Management Report

The table below presents high and low VaR by risk category.

<i>\$ in millions</i>	Three Months Ended September 2017	
	High	Low
Interest rates	\$24	\$17
Equity prices	\$20	\$13
Currency rates	\$15	\$ 6
Commodity prices	\$ 3	\$ -

The high and low total VaR was \$31 million and \$23 million, respectively, for the three months ended September 2017.

Sensitivity Measures

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

10% Sensitivity Measures. The market risk for positions, accounted for at fair value, that are not included in VaR is determined by estimating the potential reduction in net revenues of a 10% decline in the value of these positions. The market risk of these positions was \$11.3 million, \$10.7 million and \$16.6 million as of September 2017, June 2017 and September 2016, respectively.

Credit Risk Management

Overview

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty (e.g., an OTC derivatives counterparty or a borrower) or an issuer of securities or other instruments the company holds. The company's exposure to credit risk comes mostly from client transactions in OTC derivatives. Credit risk also comes from cash placed with banks, securities financing transactions (i.e., resale and repurchase agreements and securities borrowing and lending activities) and debtors.

Credit Risk Management, which is independent of the revenue-producing units and reports to GS Group's chief risk officer, has primary responsibility for assessing, monitoring and managing credit risk. The company's framework for managing credit risk is consistent with the framework of GS Group. GS Group's Firmwide Risk Committee and Risk Governance Committee establish and review credit policies and parameters for GS Group as a whole. In addition, the company holds other positions that give rise to credit risk (e.g., bonds held in inventory). These credit risks are captured as a component of market risk measures, which are monitored and managed by Market Risk Management, consistent with other inventory positions. The company also enters into derivatives to manage market risk exposures. Such derivatives also give rise to credit risk which is monitored and managed by Credit Risk Management.

Credit Risk Management Process

Effective management of credit risk requires accurate and timely information, a high level of communication and knowledge of customers, countries, industries and products. The process for managing credit risk includes:

- Approving transactions and setting and communicating credit exposure limits;
- Monitoring compliance with established credit exposure limits;
- Assessing the likelihood that a counterparty will default on its payment obligations;
- Measuring the company's current and potential credit exposure and losses resulting from counterparty default;
- Reporting of credit exposures to senior management, the GSI board of directors and regulators;
- Using credit risk mitigants, including collateral and hedging; and
- Communicating and collaborating with other independent control and support functions such as operations, legal and compliance.

As part of the risk assessment process, Credit Risk Management performs credit reviews, which include initial and ongoing analyses of the company's counterparties. For substantially all of the company's 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 within Credit Risk Management, with expertise in specific industries, inspect and approve credit reviews and internal credit ratings.

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

Management Report

Risk Measures and Limits

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 and securities financing transactions, current exposure represents the amount presently owed to the company 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.

Credit limits are used at various levels (e.g., counterparty, economic group, industry and country) to control the size and nature of the company's credit exposures. Limits for counterparties and economic groups are reviewed regularly and revised to reflect changing risk appetites for a given counterparty or group of counterparties. Limits for industries and countries are based on the company's risk tolerance and are designed to allow for regular monitoring, review, escalation and management of credit risk concentrations.

The GSI Board Risk Committee and the GSI Risk Committee approve credit risk limits for the company at the company-wide, business and product level, consistent with the company's risk appetite. Furthermore, the GSI Risk Committee approves the framework that governs the setting of credit risk sub-limits at the company level, which is delegated to the GSI Credit Committee. Credit Risk Management (through delegated authority from GS Group's Risk Governance Committee and the GSI Credit Committee) sets credit limits for individual counterparties, economic groups, industries and countries. Policies authorised by GS Group's Firmwide Risk Committee and Risk Governance Committee prescribe the level of formal approval required for GS Group 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 Exposures

The company's credit exposures are described further below.

Financial Instruments Owned. Financial instruments owned includes cash instruments and derivatives. The company's credit exposure on derivatives arises primarily from market-making activities. As a market maker, the company enters into derivative transactions to provide liquidity to clients and to facilitate the transfer and hedging of their risks. The company also enters into derivatives to manage market risk exposures. In the table below cash instruments are included in the gross exposure; however, to the extent that they have been captured by market risk they are removed to arrive at net credit exposure. Derivatives are reported at fair value on a gross by counterparty basis in the company's financial statements unless it has current legal right of set-off and also intends to settle on a net basis. OTC derivatives are risk managed using the risk processes, measures and limits described above, and in more detail in "Risk Management — Credit Risk Management" in Part I of the 2016 Annual Report.

Collateralised Agreements. The company bears credit risk related to collateralised agreements only to the extent that cash advanced to the counterparty exceeds the value of the collateral received. The company's credit exposure on these transactions is therefore significantly lower than the amounts recorded on the balance sheet, which represent fair values or contractual value before consideration of collateral received. The company also has credit exposure on collateralised financings, which are liabilities on its balance sheet, to the extent that the value of collateral pledged to the counterparty for these transactions exceeds the amount of cash or collateral received.

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

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

Management Report

The tables below present the company's gross credit exposure to financial assets and net credit exposure after taking account of assets captured by market risk in the company's risk management process, counterparty netting (i.e., the netting of financial assets and financial liabilities for a given counterparty when a legal right of setoff exists under an enforceable netting

agreement), and cash and security collateral received and cash collateral posted under credit support agreements, which management considers when determining credit risk. This is presented by financial asset class and by credit rating equivalent (internally determined public rating agency equivalents).

<i>\$ in millions</i>	Gross exposure	Assets captured by market risk	Counterparty netting	Cash collateral	Security collateral received	Net credit exposure
Financial Asset Class						
As of September 2017						
Financial instruments owned	\$642,875	\$(75,445)	\$(493,240)	\$(36,575)	\$ (14,079)	\$23,536
Collateralised agreements	203,064	–	(87,043)	–	(113,790)	2,231
Debtors	76,099	–	(5,176)	(36,135)	(5,987)	28,801
Cash at bank and in hand	33,146	–	–	–	–	33,146
Total	\$955,184	\$(75,445)	\$(585,459)	\$(72,710)	\$(133,856)	\$87,714
As of December 2016						
Financial instruments owned	\$662,945	\$(58,759)	\$(525,887)	\$(42,921)	\$ (16,136)	\$19,242
Collateralised agreements	184,600	–	(85,692)	–	(95,741)	3,167
Debtors	68,960	–	(3,531)	(37,476)	(4,864)	23,089
Cash at bank and in hand	16,888	–	–	–	–	16,888
Total	\$933,393	\$(58,759)	\$(615,110)	\$(80,397)	\$(116,741)	\$62,386

<i>\$ in millions</i>	Gross exposure	Assets captured by market risk	Counterparty netting	Cash collateral	Security collateral received	Net credit exposure
Credit Rating Equivalent						
As of September 2017						
AAA/Aaa	\$ 23,357	\$ –	\$ (1,978)	\$ (2,181)	\$ (2,474)	\$16,724
AA/Aa2	119,511	–	(48,020)	(16,901)	(23,653)	30,937
A/A2	589,951	–	(469,249)	(26,745)	(77,420)	16,537
BBB/Baa2	101,680	–	(53,580)	(19,338)	(16,304)	12,458
BB/Ba2 or lower	40,919	–	(12,560)	(7,483)	(13,843)	7,033
Unrated	79,766	(75,445)	(72)	(62)	(162)	4,025
Total	\$955,184	\$(75,445)	\$(585,459)	\$(72,710)	\$(133,856)	\$87,714
As of December 2016						
AAA/Aaa	\$ 14,117	\$ –	\$ (2,633)	\$ (2,172)	\$ (235)	\$ 9,077
AA/Aa2	124,593	–	(56,064)	(23,156)	(26,761)	18,612
A/A2	603,808	–	(488,712)	(30,600)	(66,657)	17,839
BBB/Baa2	91,020	–	(56,285)	(16,746)	(9,573)	8,416
BB/Ba2 or lower	37,809	–	(11,315)	(7,709)	(12,966)	5,819
Unrated	62,046	(58,759)	(101)	(14)	(549)	2,623
Total	\$933,393	\$(58,759)	\$(615,110)	\$(80,397)	\$(116,741)	\$62,386

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The unrated net credit exposure of \$4.03 billion and \$2.62 billion as of September 2017 and December 2016, respectively, relates to financial assets for which the company has not assigned an internally determined public rating agency equivalent.

In addition to credit risk on financial assets, the company also has credit exposure in respect of contingent and forward starting resale and securities borrowing agreements. The company's gross credit exposure related to these activities is \$58.18 billion and \$43.60 billion as of September 2017 and December 2016, respectively. However, this will be mitigated by collateral of approximately \$57.88 billion and \$43.26 billion as of September 2017 and December 2016, respectively, if these commitments are fulfilled. As a result, the company's net credit exposure to these commitments was \$296 million and \$340 million as of September 2017 and December 2016, respectively.

As of September 2017 and December 2016, financial assets past due or impaired were not material.

Operational Risk Management

Overview

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

The company's framework for managing operational risk is fully integrated in GS Group's comprehensive control framework designed to provide a well-controlled environment to minimise operational risks. In the company, the EMEA Operational Risk Committee provides oversight of the ongoing development and implementation of operational risk policies, framework and methodologies in EMEA, with oversight from the directors of the company and other GS Group entities domiciled in EMEA, and monitors the effectiveness of operational risk management. Operational Risk Management is a risk management function independent of revenue-producing units, reports to GS Group's chief risk officer, and is responsible for developing and implementing policies, methodologies and a formalised framework for operational risk management with the goal of maintaining the company's exposure to operational risk at levels that are within its risk appetite.

Operational Risk Management Process

Managing operational risk requires timely and accurate information, as well as a strong control culture. Operational risk is managed through:

- Training, supervision and development of people;
- Active participation of senior management in identifying and mitigating key operational risks;
- Independent control and support functions that monitor operational risk on a daily basis, and implementation of extensive policies and procedures, and controls designed to prevent the occurrence of operational risk events;
- Proactive communication between revenue-producing units and independent control and support functions; and
- A network of systems to facilitate the collection of data used to analyse and assess operational risk exposure.

Top-down and bottom-up approaches are combined to manage and measure operational risk. From a top-down perspective, senior management assesses company-wide and business-level operational risk profiles. From a bottom-up perspective, revenue-producing units and independent control and support functions are responsible for risk identification and risk management on a day-to-day basis, including escalating operational risks to senior management.

The operational risk management framework is in part designed to comply with the operational risk measurement rules under Basel III and has evolved based on the changing needs of the company's businesses and regulatory guidance.

Management Report

The operational risk management framework consists of the following practices:

- Risk identification and assessment;
- Risk measurement; and
- Risk monitoring and reporting.

Internal Audit performs an independent review of the operational risk management framework, including key controls, processes and applications, on an annual basis to assess the effectiveness of the framework.

Model Risk Management

Overview

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

The company's framework for managing model risk is consistent with and part of GS Group's framework. GS Group's model risk management framework is managed through a governance structure and risk management controls, which encompass standards designed to ensure it maintains a comprehensive model inventory, including risk assessment and classification, sound model development practices, independent review and model-specific usage controls. GS Group's Firmwide Model Risk Control Committee oversees the model risk management framework. Model Risk Management, which is independent of model developers, model owners and model users, reports to GS Group's chief risk officer, is responsible for identifying and reporting significant risks associated with models, and provides periodic updates to senior management, risk committees and GS Group's Risk Committee of the Board.

Model Review and Validation

Model Risk Management consists of quantitative professionals who perform an independent review, validation and approval of the models. This review includes an analysis of the model documentation, independent testing, an assessment of the appropriateness of the methodology used, and verification of compliance with model development and implementation standards. Model Risk Management reviews all existing models on an annual basis, as well as new models or significant changes to models.

The model validation process incorporates a review of models and trade and risk parameters across a broad range of scenarios (including extreme conditions) in order to critically evaluate and verify:

- The model's conceptual soundness, including the reasonableness of model assumptions, and suitability for intended use;
- The testing strategy utilised by the model developers to ensure that the models function as intended;
- The suitability of the calculation techniques incorporated in the model;
- The model's accuracy in reflecting the characteristics of the related product and its significant risks;
- The model's consistency with models for similar products; and
- The model's sensitivity to input parameters and assumptions.

Directors

There were no changes in the directorship of the company between the date of issue of this financial report and the 2016 Annual Report.

Date of Issue

This financial report was issued on November 13, 2017.

Unaudited Financial Statements

GOLDMAN SACHS INTERNATIONAL (UNLIMITED COMPANY)

Profit and Loss Account (Unaudited)

\$ in millions	Note	Three Months Ended September		Nine Months Ended September	
		2017	2016	2017	2016
Net revenues	4	\$1,714	\$ 1,599	\$ 4,993	\$ 4,921
Administrative expenses		(993)	(1,049)	(3,122)	(2,856)
Operating profit		721	550	1,871	2,065
Interest payable and similar charges		(58)	(87)	(244)	(257)
Net finance income		–	2	2	7
Profit on ordinary activities before taxation		663	465	1,629	1,815
Tax on profit on ordinary activities	5	(162)	(124)	(413)	(471)
Profit for the financial period		\$ 501	\$ 341	\$ 1,216	\$ 1,344

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

Statements of Comprehensive Income (Unaudited)

\$ in millions	Note	Three Months Ended September		Nine Months Ended September	
		2017	2016	2017	2016
Profit for the financial period		\$ 501	\$ 341	\$ 1,216	\$ 1,344
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Actuarial profit/(loss) relating to the pension scheme		74	(209)	(76)	(146)
Debt valuation adjustment	10	(32)	(50)	(152)	(32)
U.K. deferred tax attributable to the components of other comprehensive income		(10)	66	58	45
Other comprehensive income/(loss) for the financial period, net of tax		32	(193)	(170)	(133)
Total comprehensive income for the financial period		\$ 533	\$ 148	\$ 1,046	\$ 1,211

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

Balance Sheet

(Unaudited)

\$ in millions	Note	As of	
		September 2017	December 2016
Fixed assets		\$ 188	\$ 140
Current assets			
Financial instruments owned (includes \$21,992 and \$20,110 pledged as collateral)	6	642,875	662,945
Collateralised agreements	7	203,064	184,600
Debtors	8	76,761	69,696
Cash at bank and in hand		33,146	16,888
		955,846	934,129
Creditors: amounts falling due within one year			
Financial instruments sold, but not yet purchased	6	(579,306)	(613,911)
Collateralised financings	9	(169,849)	(137,641)
Other creditors	10	(118,038)	(110,931)
		(867,193)	(862,483)
Net current assets		88,653	71,646
Total assets less current liabilities		88,841	71,786
Creditors: amounts falling due after more than one year			
Collateralised financings	9	(12,926)	(6,233)
Other creditors	10	(44,570)	(38,073)
		(57,496)	(44,306)
Net assets excluding pension surplus		31,345	27,480
Pension surplus		34	53
Net assets including pension surplus		\$ 31,379	\$ 27,533
Capital and reserves			
Called up share capital	11	\$ 582	\$ 582
Share premium account		4,864	4,864
Capital reserve (non-distributable)		17	17
Profit and loss account		20,116	22,070
Other equity instruments	12	5,800	–
Total shareholder's funds		\$ 31,379	\$ 27,533

The accompanying notes are an integral part of these financial statements.
Company number: 02263951

Statements of Changes in Equity (Unaudited)

<i>\$ in millions</i>	Note	Nine Months Ended September	
		2017	2016
Called up share capital			
Beginning balance		\$ 582	\$ 582
Ending balance		582	582
Share premium account			
Beginning balance		4,864	4,864
Ending balance		4,864	4,864
Capital reserve (non-distributable)			
Beginning balance		17	17
Ending balance		17	17
Profit and loss account			
Beginning balance		22,070	20,890
Profit for the financial period		1,216	1,344
Other comprehensive loss		(170)	(133)
Interim dividends paid	13	(3,000)	—
Share-based payments		355	457
Management recharge related to share-based payments		(355)	(457)
Ending balance		20,116	22,101
Other equity instruments			
Beginning balance		—	—
Additional Tier 1 notes issued	12	5,800	—
Ending balance		5,800	—
Total shareholder's funds		\$31,379	\$27,564

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

Statements of Cash Flows (Unaudited)

<i>\$ in millions</i>	Note	Nine Months Ended September	
		2017	2016
Cash flows from operating activities			
Cash generated from operations	15	\$16,015	\$ 6,082
Taxation received		-	2
Taxation paid		(303)	(329)
Net cash from operating activities		15,712	5,755
Cash flows from investing activities			
Capital expenditure for fixed assets		(75)	(81)
Proceeds from disposal of fixed assets		-	1
Net cash used in investing activities		(75)	(80)
Cash flows from financing activities			
Receipts from issuing Additional Tier 1 notes	12	5,800	-
Interim dividends paid	13	(3,000)	-
Repayment of long-term subordinated loans		(3,581)	-
Interest paid on long-term subordinated loans		(496)	(305)
Net cash used in financing activities		(1,277)	(305)
Net increase in cash and cash equivalents		14,360	5,370
Cash and cash equivalents, beginning balance		16,881	9,970
Foreign exchange gains/(losses) on cash and cash equivalents		1,643	(285)
Cash and cash equivalents, ending balance	14	\$32,884	\$15,055

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

Notes to the Financial Statements (Unaudited)

Note 1.

General Information

The company is a private unlimited company and is incorporated and domiciled in England and Wales. The address of its registered office is Peterborough Court, 133 Fleet Street, London, EC4A 2BB, United Kingdom.

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

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

Note 2.

Summary of Significant Accounting Policies

Basis of Preparation

The company prepares financial statements under U.K. GAAP. These financial statements have been prepared in accordance with FRS 104 'Interim Financial Reporting'. The financial statements should be read in conjunction with the 2016 Annual Report, which has been prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

Accounting Policies

The accounting policies and applicable disclosure exemptions applied are consistent with those described in the 2016 Annual Report.

Following the endorsement of IFRS 9 'Financial Instruments' (IFRS 9) by the E.U. in November 2016, the company adopted the provisions of IFRS 9 that require changes in the fair value of financial liabilities attributable to own credit spreads (debt valuation adjustment or DVA) to be presented in other comprehensive income, if it does not create or enlarge an accounting mismatch, in its financial statements for the year ended December 2016, effective from January 2016. As a result, comparatives for the three months ended September 2016 and nine months ended September 2016, have been updated to reflect the adoption of these provisions of IFRS 9.

Note 3.

Critical Accounting Estimates and Judgements

The critical accounting estimates and judgements are consistent with those described in the 2016 Annual Report with the exception of the below.

Estimated Year-End Discretionary Compensation

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

Notes to the Financial Statements (Unaudited)

Note 4.

Segment Reporting

The company reports its activities in the following four business segments: Investment Banking; Institutional Client Services; Investing & Lending; and Investment Management. See “Results of Operations — Segment Reporting” in Part I of this financial report for a description of the company’s segments.

Basis of Preparation

The basis of preparation of the company’s segment reporting is consistent with that described in the 2016 Annual Report.

Segment Net Revenues

See “Results of Operations — Segment Reporting” in Part I of this financial report for the company’s segment net revenues.

Segment Operating Profit

The table below presents the operating profit of the company’s significant segments.

<i>\$ in millions</i>	Three Months		Nine Months	
	Ended September 2017	2016	Ended September 2017	2016
Investment Banking				
Net revenues	\$ 297	\$ 195	\$ 891	\$ 908
Administrative expenses	(167)	(154)	(582)	(583)
Operating profit	\$ 130	\$ 41	\$ 309	\$ 325
Institutional Client Services				
Net revenues	\$1,214	\$ 1,242	\$ 3,365	\$ 3,439
Administrative expenses	(584)	(626)	(2,049)	(1,940)
Operating profit	\$ 630	\$ 616	\$ 1,316	\$ 1,499
Total net revenues	\$1,714	\$ 1,599	\$ 4,993	\$ 4,921
Total administrative expenses	(993)	(1,049)	(3,122)	(2,856)
Total operating profit	\$ 721	\$ 550	\$ 1,871	\$ 2,065

In the table above:

- Total net revenues included net revenues of \$203 million and \$162 million for the three months ended September 2017 and September 2016, respectively, and net revenues of \$737 million and \$574 million for the nine months ended September 2017 and September 2016, respectively, related to Investing & Lending and Investment Management, respectively.
- Total administrative expenses included administrative expenses of \$151 million and \$161 million for the three months ended September 2017 and September 2016, respectively, and administrative expenses of \$451 million and \$446 million for the nine months ended September 2017 and September 2016, respectively, related to Investing & Lending and Investment Management, respectively.
- Total administrative expenses included a charge of \$91 million and a charge of \$108 million for the three months ended September 2017 and September 2016, respectively, and a charge of \$40 million and a credit of \$113 million for the nine months ended September 2017 and September 2016, respectively, relating to the mark-to-market of share-based compensation that has not been allocated to the company’s segments.

Segment Assets

Substantially all of the company’s assets are attributable to Institutional Client Services.

Note 5.

Tax on Profit on Ordinary Activities

The table below presents the company’s analysis of tax on profit on ordinary activities.

<i>\$ in millions</i>	Three Months		Nine Months	
	Ended September 2017	2016	Ended September 2017	2016
Current tax				
U.K. corporation tax	\$153	\$118	\$199	\$282
Adjustments in respect of prior periods	–	–	–	(1)
Overseas taxation	34	35	79	84
Total current tax	187	153	278	365
Deferred tax				
Origination and reversal of temporary differences	(25)	(31)	135	104
Effect of decreased U.K. corporate tax rates	–	2	–	2
Total deferred tax	(25)	(29)	135	106
Total tax on profit on ordinary activities	\$162	\$124	\$413	\$471

Notes to the Financial Statements (Unaudited)

Note 6.

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

Financial instruments owned and financial instruments sold, but not yet purchased consist of financial instruments and investments within the operating activities of the company. Financial instruments owned includes financial instruments owned pledged as collateral.

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

\$ in millions	As of	
	September 2017	December 2016
Cash instruments		
Money market instruments	\$ 849	\$ 211
Government and agency obligations	24,040	18,459
Mortgage and other asset-backed loans and securities	546	704
Corporate loans and debt securities and other debt obligations	16,774	12,356
Equity securities	38,493	31,513
Commodities	108	103
Total cash instruments	80,810	63,346
Derivative instruments		
Interest rates	343,453	371,881
Credit	31,236	34,059
Currencies	114,289	127,290
Commodities	9,844	9,813
Equities	63,243	56,556
Total derivative instruments	562,065	599,599
Total financial instruments owned	\$642,875	\$662,945

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

\$ in millions	As of	
	September 2017	December 2016
Cash instruments		
Government and agency obligations	\$ 12,863	\$ 10,099
Corporate loans and debt securities and other debt obligations	3,076	2,129
Equity securities	15,749	14,701
Commodities	–	7
Total cash instruments	31,688	26,936
Derivative instruments		
Interest rates	336,359	365,628
Credit	28,909	31,501
Currencies	113,583	126,877
Commodities	9,854	9,795
Equities	58,913	53,174
Total derivative instruments	547,618	586,975
Total financial instruments sold, but not yet purchased	\$579,306	\$613,911

In the tables above, equity securities includes public and private equities, exchange-traded funds and convertible debentures.

Note 7.

Collateralised Agreements

The table below presents the company's collateralised agreements.

\$ in millions	As of	
	September 2017	December 2016
Resale agreements	\$129,977	\$120,005
Securities borrowed	73,087	64,595
Total collateralised agreements	\$203,064	\$184,600

In the table above:

- Total collateralised agreements included amounts due from group undertakings of \$118.79 billion and \$121.45 billion as of September 2017 and December 2016, respectively.
- Total collateralised agreements included balances due in more than one year of \$518 million and \$433 million as of September 2017 and December 2016, respectively.

Note 8.

Debtors

The table below presents the company's debtors balances. All debtors are due within one year of the balance sheet date, unless noted below.

\$ in millions	As of	
	September 2017	December 2016
Amounts due from broker/dealers and customers	\$61,592	\$57,290
Amounts due from parent and group undertakings	14,459	11,574
Deferred tax	626	704
Other debtors	39	44
Prepayments and accrued income	45	84
Total debtors	\$76,761	\$69,696

In the table above:

- Amounts due from broker/dealers and customers included balances due in more than one year relating to prepaid commodity contracts of \$9 million and \$276 million as of September 2017 and December 2016, respectively.
- Total debtors included financial assets of \$76.10 billion and \$68.96 billion as of September 2017 and December 2016, respectively, and non-financial assets of \$662 million and \$736 million as of September 2017 and December 2016, respectively.

Notes to the Financial Statements (Unaudited)

Note 9.

Collateralised Financings

The table below presents the company's collateralised financings.

\$ in millions	As of	
	September 2017	December 2016
Amounts falling due within one year		
Repurchase agreements	\$111,520	\$ 84,581
Securities loaned	58,329	53,060
Total	\$169,849	\$137,641
Amounts falling due after more than one year		
Repurchase agreements	\$ 10,935	\$ 5,734
Securities loaned	1,991	499
Total	\$ 12,926	\$ 6,233
Total collateralised financings	\$182,775	\$143,874

In the table above, total collateralised financings included amounts due to group undertakings of \$128.33 billion and \$97.91 billion as of September 2017 and December 2016, respectively, of which \$126.66 billion and \$97.58 billion as of September 2017 and December 2016, respectively, are due within one year.

Note 10.

Other Creditors

The table below presents the company's other creditors.

\$ in millions	As of	
	September 2017	December 2016
Amounts falling due within one year		
Bank loans	\$ –	\$ 164
Overdrafts	262	7
Debt securities issued	15,518	12,819
Amounts due to broker/dealers and customers	60,002	54,071
Amounts due to parent and group undertakings – unsecured borrowings	22,244	18,922
Amounts due to parent and group undertakings – secured borrowings	636	–
Amounts due to parent and group undertakings – other unsecured creditors	17,006	22,517
Accrual for management charges payable to parent and group undertakings	638	918
Corporation tax payable	168	203
Other taxes and social security costs	206	231
Other creditors and accruals	1,358	1,079
Total	\$118,038	\$110,931
Amounts falling due after more than one year		
Bank loans	\$ 164	\$ –
Long-term subordinated loans	5,377	8,958
Debt securities issued	16,801	11,157
Amounts due to parent and group undertakings – unsecured borrowings	21,759	16,882
Amounts due to parent and group undertakings – other unsecured creditors	9	276
Accrual for management charges payable to parent and group undertakings	396	745
Other creditors	64	55
Total	\$ 44,570	\$ 38,073
Total other creditors	\$162,608	\$149,004

In the table above:

- The accrual for management charges payable to parent and group undertakings is in respect of share-based compensation.
- Total amounts falling due within one year included financial liabilities of \$117.66 billion and \$110.50 billion as of September 2017 and December 2016, respectively, and non-financial liabilities of \$374 million and \$434 million as of September 2017 and December 2016, respectively.
- All amounts falling due after more than one year are financial liabilities as of both September 2017 and December 2016.

Notes to the Financial Statements (Unaudited)

Debt Securities Issued

The table below presents the company's debt securities issued.

\$ in millions	As of	
	September 2017	December 2016
Amounts falling due within one year		
Unsecured debt securities issued with affiliates	\$ 897	\$ 2,080
Unsecured debt securities issued with external counterparties	11,101	7,992
Secured debt securities issued with affiliates	1,138	932
Secured debt securities issued with external counterparties	2,382	1,815
Total	\$15,518	\$12,819
Amounts falling due after more than one year		
Unsecured debt securities issued with affiliates	\$ 1,196	\$ 886
Unsecured debt securities issued with external counterparties	11,605	8,704
Secured debt securities issued with affiliates	2,241	537
Secured debt securities issued with external counterparties	1,759	1,030
Total	\$16,801	\$11,157
Total debt securities issued	\$32,319	\$23,976

In the table above, secured debt securities issued are secured by securities which have been pledged as collateral. This pledged collateral is either recognised within "Financial instruments owned" or sourced through collateralised agreements.

The table below presents the maturity of the company's long-term debt securities issued.

\$ in millions	As of	
	September 2017	December 2016
Over one year and up to two years	\$ 2,622	\$ 1,630
Over two years and up to five years	5,186	3,295
Over five years	8,993	6,232
Total	\$16,801	\$11,157

Amounts due in more than five years predominantly relate to structured debt securities issued with maturities falling due between 2022 and 2057. Payments on these instruments are typically referenced to underlying financial assets, which are predominately interest rates and equities-related.

Debt Valuation Adjustment

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

The table below presents details about the DVA losses on such financial liabilities.

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2017	2016	2017	2016
DVA	\$(32)	\$(50)	\$(152)	\$(32)

In the table above, DVA is included in "Debt valuation adjustment" in other comprehensive income.

Long-Term Subordinated Loans

Long-term subordinated loans consist of long-term subordinated loans from parent and group undertakings, which are unsecured and carry interest at a margin over the U.S. Federal Reserve's federal funds rate. The margin is reset on a periodic basis to reflect changes in GS Group's weighted average cost of debt. Long-term subordinated loans constitute regulatory capital as approved by the PRA, subject to any regulatory capital deductions, and are repayable subject to PRA approval.

As of September 2017, long-term subordinated loans of \$5.38 billion are repayable between December 25, 2024 and September 9, 2025. As of December 2016, long-term subordinated loans of \$8.70 billion were repayable between December 14, 2021 and April 29, 2025 and long-term subordinated loans of \$255 million were repayable upon giving or receiving at least 5 year's notice to or from the group undertaking. During the second quarter of 2017, the company repaid \$3.58 billion of long-term subordinated loans.

Intercompany Borrowings

Intercompany borrowings due within one year as of September 2017 increased compared with December 2016, reflecting an increase in unsecured borrowings of \$3.32 billion due to new proceeds of \$4.43 billion, partially offset by repayments of \$1.11 billion, and an increase in secured borrowings of \$636 million due to new proceeds of \$1.72 billion, partially offset by repayments of \$1.08 billion.

Intercompany borrowings due after more than one year as of September 2017 increased compared with December 2016, reflecting an increase in unsecured borrowings of \$4.88 billion due to new proceeds of \$17.32 billion, partially offset by repayments of \$12.44 billion.

Notes to the Financial Statements (Unaudited)

Amounts due to parent and group undertakings falling due after more than one year include loans that are repayable in more than five years. As of September 2017, the company had a variable rate loan of \$236 million with a maturity of June 13, 2026 and a variable rate loan of \$347 million with a maturity of February 7, 2032. As of December 2016, the company had a variable rate loan of \$211 million with a maturity of June 13, 2026.

Note 11.

Share Capital

The table below presents the company's share capital.

Allotted, called up and fully paid	Ordinary shares	
	of \$1 each	\$ in millions
As of January 1, 2017	581,964,161	\$582
As of September 30, 2017	581,964,161	\$582

Note 12.

Other Equity Instruments

In June 2017, the company issued 5,800 unsecured AT1 notes of \$1 million each to GSG UK for a total consideration of \$5.80 billion. The AT1 notes have no fixed maturity date, are not callable and carry a non-cumulative fixed interest rate of 8.55% per annum, which is payable at the company's discretion subject to certain solvency and regulatory conditions.

The AT1 notes will be irrevocably written-down in the event that the CET1 ratio of the company or the GSG UK Group falls below 7%. In addition, the company may, at any time after August 2037, elect at its discretion to convert all the AT1 notes into fully paid ordinary shares.

Note 13.

Dividends

The directors declared and paid interim dividends of \$500 million on June 27, 2017 and \$2.50 billion on June 28, 2017 to GSG UK, representing \$0.86 per share and \$4.30 per share, respectively. No dividends were paid for the nine months ended September 2016.

Note 14.

Cash and Cash Equivalents

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

\$ in millions	As of September	
	2017	2016
Cash at bank and in hand	\$33,146	\$15,142
Overdrafts (see Note 10)	(262)	(87)
Total cash and cash equivalents	\$32,884	\$15,055

Note 15.

Reconciliation of Cash Flows From Operating Activities

The table below presents the company's reconciliation of cash flows from operating activities.

\$ in millions	Nine Months Ended September	
	2017	2016
Profit on ordinary activities before taxation	\$ 1,629	\$ 1,815
Adjustments for		
Depreciation and amortisation	27	3
Charge/(credit) for defined benefit plan	(2)	2
Foreign exchange losses/(gains)	(1,643)	293
Share-based compensation expense/(credit)	174	(2)
Provisions for liabilities	–	25
Interest payable and similar charges	244	257
Cash generated before changes in operating assets and liabilities	429	2,393
Changes in operating assets		
Decrease/(increase) in financial instruments owned	20,070	(176,817)
Increase in collateralised agreements	(18,464)	(26,050)
Increase in debtors	(7,166)	(14,298)
Changes in operating assets	(5,560)	(217,165)
Changes in operating liabilities		
Increase/(decrease) in financial instruments sold, but not yet purchased	(34,605)	180,330
Increase in collateralised financings	38,901	26,022
Increase in other creditors	16,900	14,510
Changes in operating liabilities	21,196	220,862
Contributions paid to defined benefit plan	(50)	(8)
Cash generated from operations	\$ 16,015	\$ 6,082

Cash generated from operations included interest paid of \$1.52 billion and \$1.48 billion for the nine months ended September 2017 and September 2016, respectively, and interest received of \$2.08 billion and \$1.40 billion for the nine months ended September 2017 and September 2016, respectively.

Notes to the Financial Statements (Unaudited)

Note 16.

Financial Commitments and Contingencies

Commitments and Contingencies

The table below presents the company's commitments and contingencies.

<i>\$ in millions</i>	As of	
	September 2017	December 2016
Contingent and forward starting collateralised agreements	\$58,176	\$43,599
Forward starting collateralised financings	19,754	11,806
Other	3,403	3,993
Total	\$81,333	\$59,398

Contingent and forward starting collateralised agreements includes resale and securities borrowing agreements and forward starting collateralised financings includes repurchase and secured lending agreements that settle at a future date, generally within three business days. The company also enters into commitments to provide contingent financing to its clients and counterparties through resale agreements. The company's funding of these commitments depends on the satisfaction of all contractual conditions to the resale agreement and these commitments can expire unused.

Other commitments primarily relate to collateral commitments and commitments to extend credit.

In addition, there are registered charges on the company's assets which have arisen in the ordinary course of business.

Leases

The company leases certain buildings under non-cancellable long-term lease agreements. Under these lease agreements, which are subject to renegotiation at various intervals specified in the leases, the company pays all insurance, maintenance and repairs of these properties.

Legal Proceedings

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

Interest Rate Swap Antitrust Litigation. The company is among the defendants named in a putative antitrust class action relating to the trading of interest rate swaps, filed in November 2015 and consolidated in the U.S. District Court for the Southern District of New York. The company is also among the defendants named in an antitrust action relating to the trading of interest rate swaps filed in the U.S. District Court for the Southern District of New York in April 2016 by two operators of swap execution facilities and certain of their affiliates. These actions have been consolidated for pretrial proceedings. The second consolidated amended complaint in both actions, filed on December 9, 2016, generally asserts claims under federal antitrust law and state common law in connection with an alleged conspiracy among the defendants to preclude exchange trading of interest rate swaps. The complaint in the individual action also asserts claims under state antitrust law. The complaints seek declaratory and injunctive relief, as well as treble damages in an unspecified amount. Defendants moved to dismiss both actions on January 20, 2017. On July 28, 2017, the district court issued a decision dismissing the state common law claims asserted by the plaintiffs in the individual action and otherwise limiting the antitrust claims in both actions to the period from 2013 to 2016.

Credit Default Swap Antitrust Litigation. The company is among the defendants named in an antitrust action relating to the trading of credit default swaps filed in the U.S. District Court for the Southern District of New York on June 8, 2017 by the operator of a swap execution facility and certain of its affiliates. The complaint generally asserts claims under federal and state antitrust laws and state common law in connection with an alleged conspiracy among the defendants to preclude trading of credit default swaps on the plaintiffs' swap execution facility. The complaint seeks declaratory and injunctive relief, as well as treble damages in an unspecified amount. Defendants moved to dismiss on September 11, 2017.

Notes to the Financial Statements (Unaudited)

Commodities-Related Litigation. The company is among the defendants named in putative class actions relating to trading in platinum and palladium, filed beginning on November 25, 2014 and most recently amended on May 15, 2017, in the U.S. District Court for the Southern District of New York. The third consolidated amended complaint generally alleges that the defendants violated federal antitrust laws and the Commodity Exchange Act in connection with an alleged conspiracy to manipulate a benchmark for physical platinum and palladium prices and seek declaratory and injunctive relief, as well as treble damages in an unspecified amount. Defendants moved to dismiss the third consolidated amended complaint on July 21, 2017.

1Malaysia Development Berhad (1MDB)-Related Matters. GS Group has received subpoenas and requests for documents and information from various governmental and regulatory bodies and self-regulatory organisations as part of investigations and reviews relating to financing transactions and other matters involving 1MDB, a sovereign wealth fund in Malaysia. GS Group is cooperating with all such governmental and regulatory investigations and reviews.

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

- The 2008 financial crisis;
- The public offering process;
- Investment management and financial advisory services;
- Conflicts of interest;
- Transactions involving government-related financings and other matters;

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

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

Note 17.

Financial Risk Management and Capital Management

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

Notes to the Financial Statements (Unaudited)

Note 18.

Financial Assets and Financial Liabilities

Financial Assets and Financial Liabilities by Category

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

\$ in millions	Financial Assets			Total
	Held for trading	Designated at fair value	Loans and receivables	
As of September 2017				
Financial instruments owned	\$642,875	\$ -	\$ -	\$642,875
Collateralised agreements	-	152,134	50,930	203,064
Debtors	-	393	75,706	76,099
Cash at bank and in hand	-	-	33,146	33,146
Total financial assets	\$642,875	\$152,527	\$159,782	\$955,184

As of December 2016				
Financial instruments owned	\$662,945	\$ -	\$ -	\$662,945
Collateralised agreements	-	139,732	44,868	184,600
Debtors	-	1,432	67,528	68,960
Cash at bank and in hand	-	-	16,888	16,888
Total financial assets	\$662,945	\$141,164	\$129,284	\$933,393

\$ in millions	Financial Liabilities			Total
	Held for trading	Designated at fair value	Amortised cost	
As of September 2017				
Amounts falling due within one year				
Financial instruments sold, but not yet purchased	\$579,306	\$ -	\$ -	\$579,306
Collateralised financings	-	123,753	46,096	169,849
Other creditors	-	16,470	101,194	117,664
Total	579,306	140,223	147,290	866,819
Amounts falling due after more than one year				
Collateralised financings	-	12,926	-	12,926
Other creditors	-	27,700	16,870	44,570
Total	-	40,626	16,870	57,496
Total financial liabilities	\$579,306	\$180,849	\$164,160	\$924,315

As of December 2016				
Amounts falling due within one year				
Financial instruments sold, but not yet purchased	\$613,911	\$ -	\$ -	\$613,911
Collateralised financings	-	96,427	41,214	137,641
Other creditors	-	13,542	96,955	110,497
Total	613,911	109,969	138,169	862,049
Amounts falling due after more than one year				
Collateralised financings	-	6,233	-	6,233
Other creditors	-	19,407	18,666	38,073
Total	-	25,640	18,666	44,306
Total financial liabilities	\$613,911	\$135,609	\$156,835	\$906,355

In the table above, financial instruments owned held for trading included \$42 million and \$37 million as of September 2017 and December 2016, respectively, of derivative instruments designated as hedges.

Fair Value Hierarchy

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

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

The fair value hierarchy is as follows:

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

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

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

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

Notes to the Financial Statements (Unaudited)

Valuation Techniques and Significant Inputs

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

Level 1 Cash Instruments

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

Level 2 Cash Instruments

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

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

Level 3 Cash Instruments

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

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

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

Notes to the Financial Statements (Unaudited)

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

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

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

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

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

Level 1 Derivatives

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

Level 2 Derivatives

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

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

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

Notes to the Financial Statements (Unaudited)

Level 3 Derivatives

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

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

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

Valuation Adjustments

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

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

Other Financial Assets and Financial Liabilities.

Valuation techniques and significant inputs of other financial assets and financial liabilities include:

- **Collateralised Agreements and Collateralised Financings.** The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned are funding spreads, the amount and timing of expected future cash flows and interest rates.
- **Debtors.** Debtors measured at fair value primarily consist of secured lending and prepaid commodity contracts. The significant inputs to the valuation of such receivables are commodity prices, interest rates, the amount and timing of expected future cash flows and funding spreads.
- **Other Creditors.** Other creditors primarily consist of hybrid financial instruments and prepaid commodity contracts.

The significant inputs to the valuation of secured other creditors measured at fair value are the amount and timing of expected future cash flows, interest rates, funding spreads, the fair value of the collateral delivered by the company (which is determined using the amount and timing of expected future cash flows, market prices, market yields and recovery assumptions) and the frequency of additional collateral calls.

The significant inputs to the valuation of unsecured other creditors measured at fair value are the amount and timing of expected future cash flows, interest rates, the credit spreads of GS Group, as well as commodity prices in the case of prepaid commodity contracts. The inputs used to value the embedded derivative component of hybrid financial instruments are consistent with the inputs used to value the company's other derivative instruments.

Notes to the Financial Statements (Unaudited)

Fair Value of Financial Assets and Financial Liabilities by Level

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

\$ in millions	Financial Assets and Financial Liabilities at Fair Value as of September 2017			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash instruments	\$54,483	\$ 25,562	\$ 765	\$ 80,810
Derivative instruments	3	558,494	3,568	562,065
Financial instruments owned	54,486	584,056	4,333	642,875
Collateralised agreements	-	152,134	-	152,134
Debtors	-	393	-	393
Total financial assets	\$54,486	\$736,583	\$4,333	\$795,402
Financial Liabilities				
Amounts falling due within one year				
Cash instruments	\$27,013	\$ 4,664	\$ 11	\$ 31,688
Derivative instruments	3	545,614	2,001	547,618
Financial instruments sold, but not yet purchased	27,016	550,278	2,012	579,306
Collateralised financings	-	123,709	44	123,753
Other creditors	-	12,488	3,982	16,470
Total	27,016	686,475	6,038	719,529
Amounts falling due after more than one year				
Collateralised financings	-	12,926	-	12,926
Other creditors	-	23,788	3,912	27,700
Total	-	36,714	3,912	40,626
Total financial liabilities	\$27,016	\$723,189	\$9,950	\$760,155
Net derivative instruments	\$ -	\$ 12,880	\$1,567	\$ 14,447

\$ in millions	Financial Assets and Financial Liabilities at Fair Value as of December 2016			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash instruments	\$43,678	\$ 18,633	\$1,035	\$ 63,346
Derivative instruments	47	595,435	4,117	599,599
Financial instruments owned	43,725	614,068	5,152	662,945
Collateralised agreements	-	139,732	-	139,732
Debtors	-	1,432	-	1,432
Total financial assets	\$43,725	\$755,232	\$5,152	\$804,109
Financial Liabilities				
Amounts falling due within one year				
Cash instruments	\$23,837	\$ 3,095	\$ 4	\$ 26,936
Derivative instruments	34	584,717	2,224	586,975
Financial instruments sold, but not yet purchased	23,871	587,812	2,228	613,911
Collateralised financings	-	96,361	66	96,427
Other creditors	-	9,941	3,601	13,542
Total	23,871	694,114	5,895	723,880
Amounts falling due after more than one year				
Collateralised financings	-	6,233	-	6,233
Other creditors	-	15,674	3,733	19,407
Total	-	21,907	3,733	25,640
Total financial liabilities	\$23,871	\$716,021	\$9,628	\$749,520
Net derivative instruments	\$ 13	\$ 10,718	\$1,893	\$ 12,624

Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

Cash Instruments. As of September 2017 and December 2016, the company had level 3 cash instrument assets of \$765 million and \$1.04 billion, respectively. Level 3 cash instrument liabilities were not material. The table below presents the amount of level 3 cash instruments assets, and ranges and weighted averages of significant unobservable inputs used to value the company's level 3 cash instrument assets.

\$ in millions	Level 3 Cash Instruments Assets and Range of Significant Unobservable Inputs (Weighted Average) as of	
	September 2017	December 2016
Mortgages and other asset-backed loans and securities		
Level 3 assets	\$199	\$336
Yield	1.9% to 18.8% (6.3%)	0.8% to 20.0% (7.1%)
Recovery rate	69.0% to 69.0% (69.0%)	35.0% to 97.5% (76.5%)
Duration (years)	1.0 to 17.0 (6.6)	0.8 to 16.1 (4.7)
Corporate obligations and other cash instruments		
Level 3 assets	\$409	\$500
Yield	3.8% to 11.7% (6.8%)	2.6% to 14.1% (6.3%)
Recovery rate	0.0% to 70.0% (44.7%)	0.0% to 70.0% (45.1%)
Duration (years)	1.8 to 6.3 (3.5)	1.9 to 15.7 (3.4)
Equity securities		
Level 3 assets	\$157	\$199
Multiples	0.9x to 2.4x (1.5x)	0.9x to 5.5x (1.6x)

In the table above:

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

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- Equity securities include public and private equities, exchange-traded funds and convertible debentures.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, market comparables and discounted cash flows may be used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.

Derivative Instruments. As of September 2017 and December 2016, the company had net level 3 derivative instruments of \$1.57 billion and \$1.89 billion, respectively. The table below presents the amount of net level 3 derivative instruments, and ranges, averages and medians of significant unobservable inputs used to value the company's credit and equities derivative instruments. As of September 2017 and December 2016, the company had net level 3 financial instruments of \$(62) million and \$(184) million, respectively, relating to interest rate, currencies and commodities derivatives for which the range of significant unobservable inputs has not been disclosed as the amounts are not material.

\$ in millions	Net Level 3 Derivative Instruments and Range of Significant Unobservable Inputs (Average/Median) as of	
	September 2017	December 2016
Credit	\$1,961	\$2,313
Correlation	35% to 91% (59%/59%)	35% to 91% (65%/68%)
Credit spreads (bps)	1 to 598 (107/74)	2 to 993 (148/100)
Upfront credit points	1 to 40 (16/7)	0 to 96 (21/8)
Recovery rates	22% to 97% (64%/71%)	1% to 83% (54%/70%)
Equities	\$(332)	\$(236)
Correlation	(35)% to 94% (55%/69%)	(39)% to 87% (42%/45%)
Volatility	3% to 63% (22%/22%)	5% to 63% (23%/22%)

In the table above:

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

Range of Significant Unobservable Inputs

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

- **Correlation.** Ranges for correlation cover a variety of underliers both within one market (e.g., equity index and equity single stock names) and across markets (e.g., correlation of an equity index and a foreign exchange rate), as well as across regions.
- **Volatility.** Ranges for volatility cover numerous underliers across a variety of markets, maturities and strike prices. For example, volatility of equity indices is generally lower than volatility of single stocks.
- **Credit spreads, upfront credit points and recovery rates.** The ranges for credit spreads, upfront credit points and recovery rates cover a variety of underliers (index and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade). The broad range of this population gives rise to the width of the ranges of significant unobservable inputs.

Notes to the Financial Statements (Unaudited)

Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

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

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

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

Other Financial Assets and Financial Liabilities.

Significant unobservable inputs of other financial assets and financial liabilities include:

- **Collateralised Agreements and Collateralised Financings.** As of both September 2017 and December 2016, the company had no level 3 resale agreements, securities borrowed or securities loaned. As of both September 2017 and December 2016, the company's level 3 repurchase agreements were not material.
- **Debtors.** As of both September 2017 and December 2016, the company had no level 3 debtors.
- **Other Creditors.** As of September 2017 and December 2016, the significant unobservable inputs used to value the company's level 3 other creditors are incorporated into the company's derivative instruments and cash instruments disclosures related to unobservable inputs. See "Cash Instruments" and "Derivative Instruments" above.

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

During the nine months ended September 2017 and September 2016, respectively, there were no significant transfers between level 1 and level 2 financial assets and financial liabilities measured at fair value on a recurring basis.

Level 3 Rollforward

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

\$ in millions	Nine Months Ended September	
	2017	2016
Total financial assets		
Beginning balance	\$ 5,152	\$ 6,041
Gains/(losses)	547	1,367
Purchases	438	332
Sales	(419)	(337)
Settlements	(1,064)	(1,163)
Transfers into level 3	215	701
Transfers out of level 3	(536)	(878)
Ending balance	\$ 4,333	\$ 6,063
Total financial liabilities		
Beginning balance	\$(9,628)	\$(8,401)
Gains/(losses)	(1,053)	(477)
Purchases	4	14
Sales	(3,891)	(4,382)
Settlements	3,263	2,383
Transfers into level 3	(131)	(512)
Transfers out of level 3	1,486	1,022
Ending balance	\$(9,950)	\$(10,353)

In the table above:

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

Notes to the Financial Statements (Unaudited)

- The net gains on level 3 financial assets for the nine months ended September 2017 and the nine months ended September 2016 are reported in “Net revenues” in the profit and loss account.
- The net losses on level 3 financial liabilities of \$1.05 billion for the nine months ended September 2017 included losses of \$901 million reported in “Net revenues” in the profit and loss account and losses of \$152 million reported in “Debt valuation adjustment” in the statements of comprehensive income.

The table below disaggregates, by the balance sheet line items, the information for financial liabilities included in the summary table above. The information for financial assets included in the summary table above has not been disaggregated as it solely relates to “Financial instruments owned” on the balance sheet.

<i>\$ in millions</i>	Nine Months Ended September	
	2017	2016
Financial instruments sold, but not yet purchased		
Beginning balance	\$(2,228)	\$(2,727)
Gains/(losses)	(408)	(445)
Purchases	4	14
Sales	(119)	(160)
Settlements	414	731
Transfers into level 3	(86)	(172)
Transfers out of level 3	411	444
Ending balance	\$(2,012)	\$(2,315)
Collateralised financings		
Beginning balance	\$ (66)	\$ (71)
Gains/(losses)	(1)	(6)
Settlements	23	2
Ending balance	\$ (44)	\$ (75)
Other creditors		
Beginning balance	\$(7,334)	\$(5,603)
Gains/(losses)	(644)	(26)
Sales	(3,772)	(4,222)
Settlements	2,826	1,650
Transfers into level 3	(45)	(340)
Transfers out of level 3	1,075	578
Ending balance	\$(7,894)	\$(7,963)

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

Nine Months Ended September 2017. Transfers into level 3 primarily reflected transfers of certain credit products from level 2, principally due to unobservable credit spread and yield inputs becoming significant to the valuation of these instruments, and transfers of certain equity derivatives from level 2, principally due to unobservable volatility and correlation inputs becoming significant to the valuation of these derivatives.

Transfers out of level 3 primarily reflected transfers of certain credit products to level 2, principally due to unobservable credit spread and yield inputs no longer being significant to the valuation of these instruments, and transfers of certain equity derivatives to level 2, principally due to unobservable volatility and correlation inputs no longer being significant to the valuation of these derivatives.

Nine Months Ended September 2016. Transfers into level 3 primarily reflected transfers of certain credit products from level 2, principally due to unobservable credit spread and yield inputs becoming significant to the valuation of these instruments, and transfers of certain equity derivatives from level 2, principally due to unobservable volatility and correlation inputs becoming significant to the valuation of these derivatives.

Transfers out of level 3 primarily reflected transfers of certain credit derivatives to level 2, principally due to unobservable credit spread inputs no longer being significant to the net risk of certain portfolios, transfers of certain equity derivatives to level 2, principally due to unobservable volatility and correlation inputs no longer being significant to the net risk of certain portfolios, and transfers of certain interest rate derivatives to level 2, due to previously unobservable long-dated interest rate bases becoming observable.

Notes to the Financial Statements (Unaudited)

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

The fair value of financial assets and financial liabilities may be determined in whole or part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument or based on available observable market data and changing these assumptions will change the resultant estimate of fair value. The potential impact of using reasonable possible alternative assumptions for the valuations, including significant unobservable inputs, has been quantified as of September 2017 and September 2016, as approximately \$296 million and \$356 million, respectively, for favourable changes, and \$258 million and \$299 million, respectively, for unfavourable changes. In determining reasonably possible alternative unfavourable assumptions, a detailed business and position level review has been performed to identify and quantify instances where potential uncertainty exists. This has taken into account the positions' fair value as compared to the range of available market information.

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

<i>\$ in millions</i>	Nine Months Ended September	
	2017	2016
As of January 1	\$149	\$139
New transactions	85	60
Amounts recognised in the profit and loss account during the period	(60)	(47)
As of September 30	\$174	\$152

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

As of September 2017 and December 2016, the company had \$159.78 billion and \$129.28 billion, respectively, of current financial assets and \$147.29 billion and \$138.17 billion, respectively, of current financial liabilities that are not measured at fair value. Given the short-term nature of these instruments, their carrying amounts in the balance sheet are a reasonable approximation of fair value.

As of September 2017 and December 2016, the company had \$16.87 billion and \$18.67 billion, respectively, of financial liabilities that are due after more than one year that are not measured at fair value which predominantly relate to long-term intercompany borrowings. The interest rates of these borrowings are variable in nature and approximate prevailing market interest rates for instruments with similar terms and characteristics. As such, their carrying amounts in the balance sheet are a reasonable approximation of fair value.