

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2016

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from

to

Commission File Number: 001-14965

**The Goldman Sachs Group, Inc.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

200 West Street, New York, N.Y.  
(Address of principal executive offices)

13-4019460  
(I.R.S. Employer  
Identification No.)

10282  
(Zip Code)

(212) 902-1000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS**

As of October 21, 2016, there were 397,649,217 shares of the registrant's common stock outstanding.

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**PART I. FINANCIAL INFORMATION**  
**Item 1. Financial Statements (Unaudited)**

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

**Condensed Consolidated Statements of Earnings**  
**(Unaudited)**

	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
<i>in millions, except per share amounts</i>				
<b>Revenues</b>				
Investment banking	\$1,537	\$1,556	\$ 4,787	\$ 5,480
Investment management	1,386	1,331	3,908	4,400
Commissions and fees	753	859	2,447	2,517
Market making	2,715	1,730	7,067	7,964
Other principal transactions	1,163	543	1,978	3,822
Total non-interest revenues	7,554	6,019	20,187	24,183
Interest income	2,389	2,119	7,267	6,304
Interest expense	1,775	1,277	5,016	3,940
Net interest income	614	842	2,251	2,364
Net revenues, including net interest income	8,168	6,861	22,438	26,547
<b>Operating expenses</b>				
Compensation and benefits	3,207	2,351	9,200	10,619
Brokerage, clearing, exchange and distribution fees	613	665	1,929	1,950
Market development	92	123	326	409
Communications and technology	207	200	609	601
Depreciation and amortization	247	222	731	706
Occupancy	245	182	609	572
Professional fees	222	253	673	714
Other expenses	467	819	1,454	3,270
Total non-compensation expenses	2,093	2,464	6,331	8,222
Total operating expenses	5,300	4,815	15,531	18,841
Pre-tax earnings	2,868	2,046	6,907	7,706
Provision for taxes	774	620	1,856	2,388
Net earnings	2,094	1,426	5,051	5,318
Preferred stock dividends	(6)	96	117	324
<b>Net earnings applicable to common shareholders</b>	<b>\$2,100</b>	<b>\$1,330</b>	<b>\$ 4,934</b>	<b>\$ 4,994</b>
<b>Earnings per common share</b>				
Basic	\$ 4.96	\$ 2.95	\$ 11.40	\$ 11.03
Diluted	4.88	2.90	11.24	10.84
<b>Dividends declared per common share</b>	<b>\$ 0.65</b>	<b>\$ 0.65</b>	<b>\$ 1.95</b>	<b>\$ 1.90</b>
<b>Average common shares</b>				
Basic	422.4	449.0	431.5	451.2
Diluted	430.2	458.6	438.8	460.9

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

## Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
<i>\$ in millions</i>				
Net earnings	<b>\$2,094</b>	\$1,426	<b>\$5,051</b>	\$5,318
Other comprehensive income/(loss) adjustments, net of tax:				
Currency translation	<b>(19)</b>	(39)	<b>(58)</b>	(94)
Debt valuation adjustment	<b>(13)</b>	—	<b>(75)</b>	—
Pension and postretirement liabilities	<b>1</b>	36	<b>(36)</b>	(74)
Other comprehensive loss	<b>(31)</b>	(3)	<b>(169)</b>	(168)
<b>Comprehensive income</b>	<b>\$2,063</b>	\$1,423	<b>\$4,882</b>	\$5,150

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

## Condensed Consolidated Statements of Financial Condition (Unaudited)

	As of	
	September 2016	December 2015
<i>\$ in millions, except per share amounts</i>		
<b>Assets</b>		
Cash and cash equivalents	<b>\$ 99,535</b>	\$ 75,105
Cash and securities segregated for regulatory and other purposes (includes \$36,058 and \$38,504 at fair value as of September 2016 and December 2015, respectively)	<b>54,526</b>	56,838
Collateralized agreements:		
Securities purchased under agreements to resell and federal funds sold (includes \$93,352 and \$119,450 at fair value as of September 2016 and December 2015, respectively)	<b>94,220</b>	120,905
Securities borrowed (includes \$78,788 and \$69,801 at fair value as of September 2016 and December 2015, respectively)	<b>185,468</b>	172,099
Receivables:		
Brokers, dealers and clearing organizations	<b>25,681</b>	25,453
Customers and counterparties (includes \$3,297 and \$4,992 at fair value as of September 2016 and December 2015, respectively)	<b>53,855</b>	46,430
Loans receivable	<b>49,064</b>	45,407
Financial instruments owned, at fair value (includes \$55,800 and \$54,426 pledged as collateral as of September 2016 and December 2015, respectively)	<b>292,420</b>	293,940
Other assets	<b>25,218</b>	25,218
<b>Total assets</b>	<b>\$879,987</b>	\$861,395
<b>Liabilities and shareholders' equity</b>		
Deposits (includes \$14,096 and \$14,680 at fair value as of September 2016 and December 2015, respectively)	<b>\$124,550</b>	\$ 97,519
Collateralized financings:		
Securities sold under agreements to repurchase, at fair value	<b>73,905</b>	86,069
Securities loaned (includes \$1,969 and \$466 at fair value as of September 2016 and December 2015, respectively)	<b>5,256</b>	3,614
Other secured financings (includes \$22,006 and \$23,207 at fair value as of September 2016 and December 2015, respectively)	<b>22,478</b>	24,753
Payables:		
Brokers, dealers and clearing organizations	<b>8,862</b>	5,406
Customers and counterparties	<b>195,625</b>	204,956
Financial instruments sold, but not yet purchased, at fair value	<b>115,154</b>	115,248
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes \$16,741 and \$17,743 at fair value as of September 2016 and December 2015, respectively)	<b>42,825</b>	42,787
Unsecured long-term borrowings (includes \$30,266 and \$22,273 at fair value as of September 2016 and December 2015, respectively)	<b>190,586</b>	175,422
Other liabilities and accrued expenses (includes \$665 and \$1,253 at fair value as of September 2016 and December 2015, respectively)	<b>13,636</b>	18,893
Total liabilities	<b>792,877</b>	774,667
<b>Commitments, contingencies and guarantees</b>		
<b>Shareholders' equity</b>		
Preferred stock, par value \$0.01 per share; aggregate liquidation preference of \$11,203 and \$11,200 as of September 2016 and December 2015, respectively	<b>11,203</b>	11,200
Common stock, par value \$0.01 per share; 4,000,000,000 shares authorized, 872,612,590 and 863,976,731 shares issued as of September 2016 and December 2015, respectively, and 399,211,902 and 419,480,736 shares outstanding as of September 2016 and December 2015, respectively	<b>9</b>	9
Share-based awards	<b>3,974</b>	4,151
Nonvoting common stock, par value \$0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding	<b>—</b>	—
Additional paid-in capital	<b>52,541</b>	51,340
Retained earnings	<b>87,160</b>	83,386
Accumulated other comprehensive loss	<b>(582)</b>	(718)
Stock held in treasury, at cost, par value \$0.01 per share; 473,400,690 and 444,495,997 shares as of September 2016 and December 2015, respectively	<b>(67,195)</b>	(62,640)
Total shareholders' equity	<b>87,110</b>	86,728
<b>Total liabilities and shareholders' equity</b>	<b>\$879,987</b>	\$861,395

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

## Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

<i>\$ in millions</i>	Nine Months Ended September 2016	Year Ended December 2015
<b>Preferred stock</b>		
Balance, beginning of year	\$ 11,200	\$ 9,200
Issued	1,325	2,000
Redeemed	(1,322)	—
Balance, end of period	11,203	11,200
<b>Common stock</b>		
Balance, beginning of year	9	9
Issued	—	—
Balance, end of period	9	9
<b>Share-based awards</b>		
Balance, beginning of year	4,151	3,766
Issuance and amortization of share-based awards	1,981	2,308
Delivery of common stock underlying share-based awards	(2,065)	(1,742)
Forfeiture of share-based awards	(80)	(72)
Exercise of share-based awards	(13)	(109)
Balance, end of period	3,974	4,151
<b>Additional paid-in capital</b>		
Balance, beginning of year	51,340	50,049
Delivery of common stock underlying share-based awards	2,077	2,092
Cancellation of share-based awards in satisfaction of withholding tax requirements	(954)	(1,198)
Preferred stock issuance costs, net	(10)	(7)
Excess net tax benefit related to share-based awards	88	406
Cash settlement of share-based awards	—	(2)
Balance, end of period	52,541	51,340
<b>Retained earnings</b>		
Balance, beginning of year, as previously reported	83,386	78,984
Reclassification of cumulative debt valuation adjustment, net of tax, to accumulated other comprehensive loss	(305)	—
Balance, beginning of year, adjusted	83,081	78,984
Net earnings	5,051	6,083
Dividends and dividend equivalents declared on common stock and share-based awards	(855)	(1,166)
Dividends declared on preferred stock	(383)	(515)
Preferred stock redemption discount	266	—
Balance, end of period	87,160	83,386
<b>Accumulated other comprehensive loss</b>		
Balance, beginning of year, as previously reported	(718)	(743)
Reclassification of cumulative debt valuation adjustment, net of tax, from retained earnings	305	—
Balance, beginning of year, adjusted	(413)	(743)
Other comprehensive income/(loss)	(169)	25
Balance, end of period	(582)	(718)
<b>Stock held in treasury, at cost</b>		
Balance, beginning of year	(62,640)	(58,468)
Repurchased	(4,569)	(4,195)
Reissued	21	32
Other	(7)	(9)
Balance, end of period	(67,195)	(62,640)
<b>Total shareholders' equity</b>	<b>\$ 87,110</b>	<b>\$ 86,728</b>

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

## Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September	
	2016	2015
<i>\$ in millions</i>		
<b>Cash flows from operating activities</b>		
Net earnings	\$ 5,051	\$ 5,318
Adjustments to reconcile net earnings to net cash provided by/(used for) operating activities		
Depreciation and amortization	731	706
Share-based compensation	1,943	2,107
Gain related to extinguishment of junior subordinated debt	—	(34)
Changes in operating assets and liabilities		
Cash and securities segregated for regulatory and other purposes	2,312	(6,452)
Receivables and payables (excluding loans receivable), net	(13,524)	4,524
Collateralized transactions (excluding other secured financings), net	2,794	(12,902)
Financial instruments owned, at fair value	5,386	18,366
Financial instruments sold, but not yet purchased, at fair value	(29)	(6,753)
Other, net	(2,891)	(4,714)
Net cash provided by operating activities	1,773	166
<b>Cash flows from investing activities</b>		
Purchase of property, leasehold improvements and equipment	(2,063)	(1,205)
Proceeds from sales of property, leasehold improvements and equipment	332	120
Net cash acquired in/(used for) business acquisitions	15,754	(1,684)
Proceeds from sales of investments	1,209	714
Loans receivable, net	(3,930)	(12,692)
Net cash provided by/(used for) investing activities	11,302	(14,747)
<b>Cash flows from financing activities</b>		
Unsecured short-term borrowings, net	140	(1,228)
Other secured financings (short-term), net	395	(492)
Proceeds from issuance of other secured financings (long-term)	2,377	10,772
Repayment of other secured financings (long-term), including the current portion	(6,486)	(7,360)
Purchase of APEX, senior guaranteed securities and trust preferred securities	(1,171)	(1)
Proceeds from issuance of unsecured long-term borrowings	39,134	36,031
Repayment of unsecured long-term borrowings, including the current portion	(29,198)	(22,513)
Derivative contracts with a financing element, net	81	(89)
Deposits, net	10,510	8,578
Common stock repurchased	(4,590)	(2,545)
Dividends and dividend equivalents paid on common stock, preferred stock and share-based awards	(1,238)	(1,197)
Proceeds from issuance of preferred stock, net of issuance costs	1,303	1,993
Proceeds from issuance of common stock, including exercise of share-based awards	1	220
Excess tax benefit related to share-based awards	97	388
Cash settlement of share-based awards	—	(1)
Net cash provided by financing activities	11,355	22,556
Net increase in cash and cash equivalents	24,430	7,975
Cash and cash equivalents, beginning of year	75,105	57,600
<b>Cash and cash equivalents, end of period</b>	<b>\$ 99,535</b>	<b>\$ 65,575</b>

**SUPPLEMENTAL DISCLOSURES:**

Cash payments for interest, net of capitalized interest, were \$5.40 billion and \$4.09 billion, and cash payments for income taxes, net of refunds, were \$767 million and \$2.20 billion during the nine months ended September 2016 and September 2015, respectively.

*Non-cash activities during the nine months ended September 2016:*

- The impact of adoption of ASU No. 2015-02 was a net reduction to both total assets and liabilities of approximately \$200 million. See Note 3 for further information.
- The firm sold assets and liabilities of \$1.81 billion and \$697 million, respectively, that were previously classified as held for sale, in exchange for \$1.11 billion of financial instruments. See Notes 13 and 17 for further information.
- The firm exchanged \$1.04 billion of APEX for \$1.31 billion of Series E and Series F Preferred Stock. See Note 19 for further information.
- Cash flows related to common stock repurchased includes common stock repurchased in the prior period for which settlement occurred during the current period and excludes common stock repurchased during the current period for which settlement occurred in the following period.

*Non-cash activities during the nine months ended September 2015:*

- The firm exchanged \$262 million of Trust Preferred Securities and common beneficial interests for \$296 million of certain of the firm's junior subordinated debt.

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

**Notes to Condensed Consolidated Financial Statements  
(Unaudited)****Note 1.****Description of Business**

The Goldman Sachs Group, Inc. (Group Inc. or parent company), a Delaware corporation, together with its consolidated subsidiaries (collectively, the firm), 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. Founded in 1869, the firm is headquartered in New York and maintains offices in all major financial centers around the world.

The firm reports its activities in the following four business segments:

**Investment Banking**

The firm provides a broad range of investment banking services to a diverse group of corporations, financial institutions, investment funds and governments. Services include strategic advisory assignments with respect to mergers and acquisitions, divestitures, corporate defense activities, restructurings, spin-offs and risk management, and debt and equity underwriting of public offerings and private placements, including local and cross-border transactions and acquisition financing, as well as derivative transactions directly related to these activities.

**Institutional Client Services**

The firm facilitates client transactions and makes markets in fixed income, equity, currency and commodity products, primarily with institutional clients such as corporations, financial institutions, investment funds and governments. The firm also makes markets in and clears client transactions on major stock, options and futures exchanges worldwide and provides financing, securities lending and other prime brokerage services to institutional clients.

**Investing & Lending**

The firm invests in and originates loans to provide financing to clients. These investments and loans are typically longer-term in nature. The firm makes investments, some of which are consolidated, directly and indirectly through funds and separate accounts that the firm manages, in debt securities and loans, public and private equity securities, and real estate entities.

**Investment Management**

The firm provides investment management services and offers investment products (primarily through separately managed accounts and commingled vehicles, such as mutual funds and private investment funds) across all major asset classes to a diverse set of institutional and individual clients. The firm also offers wealth advisory services, including portfolio management and financial counseling, and brokerage and other transaction services to high-net-worth individuals and families.

**Note 2.****Basis of Presentation**

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

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements included in the firm's Annual Report on Form 10-K for the year ended December 31, 2015. References to "the 2015 Form 10-K" are to the firm's Annual Report on Form 10-K for the year ended December 31, 2015. The condensed consolidated financial information as of December 31, 2015 has been derived from audited consolidated financial statements not included in these financial statements.

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

All references to September 2016, June 2016 and September 2015 refer to the firm's periods ended, or the dates, as the context requires, September 30, 2016, June 30, 2016 and September 30, 2015, respectively. All references to December 2015 refer to the date December 31, 2015. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.



## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Note 3.

#### Significant Accounting Policies

The firm's significant accounting policies include when and how to measure the fair value of assets and liabilities, accounting for goodwill and identifiable intangible assets, and when to consolidate an entity. See Notes 5 through 8 for policies on fair value measurements, Note 13 for policies on goodwill and identifiable intangible assets, and below and Note 12 for policies on consolidation accounting. All other significant accounting policies are either described below or included in the following footnotes:

Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value	Note 4
Fair Value Measurements	Note 5
Cash Instruments	Note 6
Derivatives and Hedging Activities	Note 7
Fair Value Option	Note 8
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#### Consolidation

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

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

**Variable Interest Entities.** A VIE is an entity that lacks one or more of the characteristics of a voting interest entity. The firm has a controlling financial interest in a VIE when the firm has a variable interest or interests that provide it with (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. See Note 12 for further information about VIEs.

**Equity-Method Investments.** When the firm does not have a controlling financial interest in an entity but can exert significant influence over the entity's operating and financial policies, the investment is accounted for either (i) under the equity method of accounting or (ii) at fair value by electing the fair value option available under U.S. GAAP. Significant influence generally exists when the firm owns 20% to 50% of the entity's common stock or in-substance common stock.

In general, the firm accounts for investments acquired after the fair value option became available, at fair value. In certain cases, the firm applies the equity method of accounting to new investments that are strategic in nature or closely related to the firm's principal business activities, when the firm has a significant degree of involvement in the cash flows or operations of the investee or when cost-benefit considerations are less significant. See Note 13 for further information about equity-method investments.

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

**Investment Funds.** The firm has formed numerous investment funds with third-party investors. These funds are typically organized as limited partnerships or limited liability companies for which the firm acts as general partner or manager. Generally, the firm does not hold a majority of the economic interests in these funds. These funds are usually voting interest entities and generally are not consolidated because third-party investors typically have rights to terminate the funds or to remove the firm as general partner or manager. Investments in these funds are generally measured at net asset value (NAV) and are included in “Financial instruments owned, at fair value.” See Notes 6, 18 and 22 for further information about investments in funds.

**Use of Estimates**

Preparation of these condensed consolidated financial statements requires management to make certain estimates and assumptions, the most important of which relate to fair value measurements, accounting for goodwill and identifiable intangible assets, discretionary compensation accruals, the provisions for losses that may arise from litigation, regulatory proceedings and tax audits, and the allowance for losses on loans and lending commitments held for investment. These estimates and assumptions are based on the best available information but actual results could be materially different.

**Revenue Recognition****Financial Assets and Financial Liabilities at Fair Value.**

Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are recorded at fair value either under the fair value option or in accordance with other U.S. GAAP. In addition, the firm has elected to account for certain of its other financial assets and financial liabilities at fair value by electing the fair value option. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. Fair value gains or losses are generally included in “Market making” for positions in Institutional Client Services and “Other principal transactions” for positions in Investing & Lending. See Notes 5 through 8 for further information about fair value measurements.

**Investment Banking.** Fees from financial advisory assignments and underwriting revenues are recognized in earnings when the services related to the underlying transaction are completed under the terms of the assignment. Expenses associated with such transactions are deferred until the related revenue is recognized or the assignment is otherwise concluded. Expenses associated with financial advisory assignments are recorded as non-compensation expenses, net of client reimbursements. Underwriting revenues are presented net of related expenses.

**Investment Management.** The firm earns management fees and incentive fees for investment management services. Management fees for mutual funds are calculated as a percentage of daily net asset value and are received monthly. Management fees for hedge funds and separately managed accounts are calculated as a percentage of month-end net asset value and are generally received quarterly. Management fees for private equity funds are calculated as a percentage of monthly invested capital or commitments and are received quarterly, semi-annually or annually, depending on the fund. All management fees are recognized over the period that the related service is provided. Incentive fees are calculated as a percentage of a fund’s or separately managed account’s return, or excess return above a specified benchmark or other performance target. Incentive fees are generally based on investment performance over a 12-month period or over the life of a fund. Fees that are based on performance over a 12-month period are subject to adjustment prior to the end of the measurement period. For fees that are based on investment performance over the life of the fund, future investment underperformance may require fees previously distributed to the firm to be returned to the fund. Incentive fees are recognized only when all material contingencies have been resolved. Management and incentive fee revenues are included in “Investment management” revenues.

The firm makes payments to brokers and advisors related to the placement of the firm’s investment funds. These payments are calculated based on either a percentage of the management fee or the investment fund’s net asset value. Where the firm is principal to the arrangement, such costs are recorded on a gross basis and included in “Brokerage, clearing, exchange and distribution fees,” and where the firm is agent to the arrangement, such costs are recorded on a net basis in “Investment management” revenues.

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

**Commissions and Fees.** The firm earns “Commissions and fees” from executing and clearing client transactions on stock, options and futures markets, as well as over-the-counter (OTC) transactions. Commissions and fees are recognized on the day the trade is executed.

**Transfers of Assets**

Transfers of assets are accounted for as sales when the firm has relinquished control over the assets transferred. For transfers of assets accounted for as sales, any gains or losses are recognized in net revenues. Assets or liabilities that arise from the firm’s continuing involvement with transferred assets are initially recognized at fair value. For transfers of assets that are not accounted for as sales, the assets generally remain in “Financial instruments owned, at fair value” and the transfer is accounted for as a collateralized financing, with the related interest expense recognized over the life of the transaction. See Note 10 for further information about transfers of assets accounted for as collateralized financings and Note 11 for further information about transfers of assets accounted for as sales.

**Cash and Cash Equivalents**

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business. As of September 2016 and December 2015, “Cash and cash equivalents” included \$6.85 billion and \$6.47 billion, respectively, of cash and due from banks, and \$92.69 billion and \$68.64 billion, respectively, of interest-bearing deposits with banks.

**Receivables from and Payables to Brokers, Dealers and Clearing Organizations**

Receivables from and payables to brokers, dealers and clearing organizations are accounted for at cost plus accrued interest, which generally approximates fair value. While these receivables and payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm’s fair value hierarchy in Notes 6 through 8. Had these receivables and payables been included in the firm’s fair value hierarchy, substantially all would have been classified in level 2 as of September 2016 and December 2015.

**Receivables from Customers and Counterparties**

Receivables from customers and counterparties generally relate to collateralized transactions. Such receivables are primarily comprised of customer margin loans, certain transfers of assets accounted for as secured loans rather than purchases at fair value and collateral posted in connection with certain derivative transactions. Substantially all of these receivables are accounted for at amortized cost net of estimated uncollectible amounts. Certain of the firm’s receivables from customers and counterparties are accounted for at fair value under the fair value option, with changes in fair value generally included in “Market making” revenues. See Note 8 for further information about receivables from customers and counterparties accounted for at fair value under the fair value option. In addition, as of September 2016 and December 2015, the firm’s receivables from customers and counterparties included \$3.12 billion and \$2.35 billion, respectively, of loans held for sale, accounted for at the lower of cost or fair value. See Note 5 for an overview of the firm’s fair value measurement policies.

As of September 2016 and December 2015, the carrying value of receivables not accounted for at fair value generally approximated fair value. While these items are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm’s fair value hierarchy in Notes 6 through 8. Had these items been included in the firm’s fair value hierarchy, substantially all would have been classified in level 2 as of September 2016 and December 2015. Interest on receivables from customers and counterparties is recognized over the life of the transaction and included in “Interest income.”

**Payables to Customers and Counterparties**

Payables to customers and counterparties primarily consist of customer credit balances related to the firm’s prime brokerage activities. Payables to customers and counterparties are accounted for at cost plus accrued interest, which generally approximates fair value. While these payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm’s fair value hierarchy in Notes 6 through 8. Had these payables been included in the firm’s fair value hierarchy, substantially all would have been classified in level 2 as of September 2016 and December 2015. Interest on payables to customers and counterparties is recognized over the life of the transaction and included in “Interest expense.”

**Notes to Condensed Consolidated Financial Statements  
(Unaudited)****Offsetting Assets and Liabilities**

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

Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) in the condensed consolidated statements of financial condition when a legal right of setoff exists under an enforceable netting agreement. Resale and repurchase agreements and securities borrowed and loaned transactions with the same term and currency are presented on a net-by-counterparty basis in the condensed consolidated statements of financial condition when such transactions meet certain settlement criteria and are subject to netting agreements.

In the condensed consolidated statements of financial condition, derivatives are reported net of cash collateral received and posted under enforceable credit support agreements, when transacted under an enforceable netting agreement. In the condensed consolidated statements of financial condition, resale and repurchase agreements, and securities borrowed and loaned, are not reported net of the related cash and securities received or posted as collateral. See Note 10 for further information about collateral received and pledged, including rights to deliver or repledge collateral. See Notes 7 and 10 for further information about offsetting.

**Share-based Compensation**

The cost of employee services received in exchange for a share-based award is generally measured based on the grant-date fair value of the award. Share-based awards that do not require future service (i.e., vested awards, including awards granted to retirement-eligible employees) are expensed immediately. Share-based awards that require future service are amortized over the relevant service period. Expected forfeitures are included in determining share-based employee compensation expense.

The firm pays cash dividend equivalents on outstanding restricted stock units (RSUs). Dividend equivalents paid on RSUs are generally charged to retained earnings. Dividend equivalents paid on RSUs expected to be forfeited are included in compensation expense. The firm accounts for the tax benefit related to dividend equivalents paid on RSUs as an increase to additional paid-in capital.

The firm generally issues new shares of common stock upon delivery of share-based awards. In certain cases, primarily related to conflicted employment (as outlined in the applicable award agreements), the firm may cash settle share-based compensation awards accounted for as equity instruments. For these awards, whose terms allow for cash settlement, additional paid-in capital is adjusted to the extent of the difference between the value of the award at the time of cash settlement and the grant-date value of the award.

**Foreign Currency Translation**

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the date of the condensed consolidated statements of financial condition and revenues and expenses are translated at average rates of exchange for the period. Foreign currency remeasurement gains or losses on transactions in nonfunctional currencies are recognized in earnings. Gains or losses on translation of the financial statements of a non-U.S. operation, when the functional currency is other than the U.S. dollar, are included, net of hedges and taxes, in the condensed consolidated statements of comprehensive income.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Recent Accounting Developments

#### Revenue from Contracts with Customers (ASC 606).

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU No. 2014-09 provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services. The ASU also provides guidance on accounting for certain contract costs, and requires new disclosures. ASU No. 2014-09, as amended by ASU No. 2015-14, ASU No. 2016-08, ASU No. 2016-10 and ASU No. 2016-12, is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period under a modified retrospective approach or retrospectively to all periods presented. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. The firm is still evaluating the effect of the ASU on its financial condition, results of operations, and cash flows.

#### Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (ASC 810).

In August 2014, the FASB issued ASU No. 2014-13, "Consolidation (Topic 810) — Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (CFE)." ASU No. 2014-13 provides an alternative to reflect changes in the fair value of the financial assets and the financial liabilities of the CFE by measuring either the fair value of the assets or liabilities, whichever is more observable. ASU No. 2014-13 provides new disclosure requirements for those electing this approach, and was effective for interim and annual periods beginning after December 15, 2015. Adoption of ASU No. 2014-13 did not materially affect the firm's financial condition, results of operations, or cash flows.

#### Amendments to the Consolidation Analysis (ASC 810).

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810) — Amendments to the Consolidation Analysis." ASU No. 2015-02 eliminates the deferral of the requirements of ASU No. 2009-17, "Consolidations (Topic 810) — Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities" for certain interests in investment funds and provides a scope exception from Topic 810 for certain investments in money market funds. The ASU also makes several modifications to the consolidation guidance for VIEs and general partners' investments in limited partnerships, as well as modifications to the evaluation of whether limited partnerships are VIEs or voting interest entities. ASU No. 2015-02 was effective for interim and annual reporting periods beginning after December 15, 2015 and was required to be adopted under a modified retrospective approach or retrospectively to all periods presented.

The firm adopted ASU No. 2015-02 as of January 1, 2016, using a modified retrospective approach. The impact of adoption was a net reduction to both total assets and total liabilities of approximately \$200 million, substantially all included in "Financial instruments owned, at fair value" and in "Other liabilities and accrued expenses," respectively. Adoption of ASU No. 2015-02 did not have an impact on the firm's results of operations. See Note 12 for further information about the adoption of ASU No. 2015-02.

#### Simplifying the Presentation of Debt Issuance Costs (ASC 835).

In April 2015, the FASB issued ASU No. 2015-03, "Interest — Imputation of Interest (Subtopic 835-30) — Simplifying the Presentation of Debt Issuance Costs." ASU No. 2015-03 simplifies the presentation of debt issuance costs by requiring that these costs related to a recognized debt liability be presented in the statements of financial condition as a direct reduction from the carrying amount of that liability. ASU No. 2015-03 was effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. ASU No. 2015-03 was required to be applied retrospectively to all periods presented beginning in the year of adoption. Early adoption was permitted. The firm early adopted ASU No. 2015-03 in September 2015.

#### Improvements to Employee Share-Based Payment Accounting (ASC 718).

In March 2016, the FASB issued ASU No. 2016-09, "Compensation — Stock Compensation (Topic 718) — Improvements to Employee Share-Based Payment Accounting." ASU No. 2016-09 includes provisions to simplify certain aspects related to the accounting for share-based awards and the related financial statement presentation. This ASU includes a requirement that the tax effect related to the settlement of share-based awards be recorded in income tax benefit or expense in the statements of earnings. This change is required to be adopted prospectively in the period of adoption. In addition, the ASU modifies the classification of certain share-based payment activities within the statements of cash flows and these changes are generally required to be applied retrospectively to all periods presented beginning in the period of adoption. ASU No. 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted. The impact of ASU No. 2016-09 could be material to the firm's results of operations and cash flows in future periods depending upon, among other things, the level of earnings and stock price of the firm.

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

**Simplifying the Accounting for Measurement-Period Adjustments (ASC 805).** In September 2015, the FASB issued ASU No. 2015-16, “Business Combinations (Topic 805) — Simplifying the Accounting for Measurement-Period Adjustments.” ASU No. 2015-16 eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. ASU No. 2015-16 was effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Adoption of ASU No. 2015-16 did not materially affect the firm’s financial condition, results of operations, or cash flows.

**Recognition and Measurement of Financial Assets and Financial Liabilities (ASC 825).** In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments (Topic 825) — Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU No. 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance includes a requirement to present separately in other comprehensive income changes in fair value attributable to a firm’s own credit spreads (debt valuation adjustment or DVA), net of tax, on financial liabilities for which the fair value option was elected. ASU No. 2016-01 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted under a modified retrospective approach for the requirements related to DVA. In the first quarter of 2016, the firm early adopted ASU No. 2016-01 for the requirements related to DVA, and reclassified the cumulative DVA, a gain of \$305 million (net of tax), from retained earnings to accumulated other comprehensive loss.

**Leases (ASC 842).** In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” ASU No. 2016-02 requires that, at lease inception, a lessee recognize in the statements of financial condition a right-of-use asset, representing the right to use the underlying asset for the lease term, and a lease liability, representing the liability to make lease payments. The ASU also requires that for finance leases, a lessee recognize interest expense on the lease liability, separately from the amortization of the right-of-use asset in the statements of earnings, while for operating leases, such amounts should be recognized as a combined expense in the statements of earnings. In addition, ASU No. 2016-02 requires expanded disclosures about the nature and terms of lease agreements and is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period under a modified retrospective approach. Early adoption is permitted. The firm is still evaluating the effect of the ASU on its financial condition, results of operations, and cash flows.

**Measurement of Credit Losses on Financial Instruments (ASC 326).** In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments — Credit Losses (Topic 326) — Measurement of Credit Losses on Financial Instruments.” ASU No. 2016-13 requires financial assets that are measured at amortized cost to be presented, net of an allowance for credit losses, at the amount expected to be collected over their estimated life. Expected credit losses for newly recognized financial assets, as well as changes to credit losses during the period, are recognized in earnings. For certain purchased financial assets with deterioration in credit quality since origination, the initial allowance for expected credit losses will be recorded as an increase to the purchase price. Expected credit losses, including losses on off-balance-sheet exposures such as lending commitments, will be measured based on historical experience, current conditions and forecasts that affect the collectability of the reported amount. ASU No. 2016-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period under a modified retrospective approach. Early adoption is permitted for periods beginning after December 15, 2018. The firm is still evaluating the effect of the ASU on its financial condition, results of operations, and cash flows.

**Classification of Certain Cash Receipts and Cash Payments (ASC 230).** In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230) — Classification of Certain Cash Receipts and Cash Payments.” ASU No. 2016-15 provides guidance on the disclosure and classification of certain items within the statement of cash flows, including beneficial interests obtained in a securitization of financial assets, cash payments for settlements of zero-coupon debt instruments and debt prepayment or extinguishment costs, and distributions received from equity-method investees. ASU No. 2016-15 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and is required to be applied retrospectively to all periods presented beginning in the year of adoption. Early adoption is permitted. Since the ASU only impacts classification on the statements of cash flows, adoption will not affect the firm’s cash and cash equivalents.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Note 4.

#### Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value

Financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value are accounted for at fair value either under the fair value option or in accordance with other U.S. GAAP. See Note 8 for further information about other financial assets and financial liabilities accounted for at fair value primarily under the fair value option.

The table below presents the firm's financial instruments owned, at fair value, and financial instruments sold, but not yet purchased, at fair value.

<i>\$ in millions</i>	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
<b>As of September 2016</b>		
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 2,463	\$ —
U.S. government and federal agency obligations	45,306	14,751
Non-U.S. government and agency obligations	38,036	19,589
Loans and securities backed by:		
Commercial real estate	4,523	6
Residential real estate	9,411	—
Bank loans and bridge loans	9,859	468
Corporate debt securities	21,128	6,313
State and municipal obligations	1,705	—
Other debt obligations	1,163	2
Equities and convertible debentures	91,280	29,586
Commodities	5,943	—
Investments in funds at NAV	6,859	—
Subtotal	237,676	70,715
Derivatives	54,744	44,439
<b>Total</b>	<b>\$292,420</b>	<b>\$115,154</b>

#### As of December 2015

Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 2,583	\$ —
U.S. government and federal agency obligations	46,382	15,516
Non-U.S. government and agency obligations	31,772	14,973
Loans and securities backed by:		
Commercial real estate	4,975	4
Residential real estate	13,183	2
Bank loans and bridge loans	12,164	461
Corporate debt securities	16,640	6,123
State and municipal obligations	992	2
Other debt obligations	1,595	2
Equities and convertible debentures	98,072	31,394
Commodities	3,935	—
Investments in funds at NAV	7,757	—
Subtotal	240,050	68,477
Derivatives	53,890	46,771
<b>Total</b>	<b>\$293,940</b>	<b>\$115,248</b>

#### Gains and Losses from Market Making and Other Principal Transactions

The table below presents “Market making” revenues by major product type, as well as “Other principal transactions” revenues.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
<b>Product Type</b>				
Interest rates	\$ 821	\$ (132)	\$1,091	\$ 146
Credit	440	298	1,688	1,218
Currencies	544	(656)	1,254	1,135
Equities	663	1,968	2,215	4,671
Commodities	247	252	819	794
<b>Market making</b>	<b>2,715</b>	<b>1,730</b>	<b>7,067</b>	<b>7,964</b>
<b>Other principal transactions</b>	<b>1,163</b>	<b>543</b>	<b>1,978</b>	<b>3,822</b>
<b>Total</b>	<b>\$3,878</b>	<b>\$2,273</b>	<b>\$9,045</b>	<b>\$11,786</b>

In the table above:

- Gains/(losses) include both realized and unrealized gains and losses, and are primarily related to the firm's financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value, including both derivative and non-derivative financial instruments.
- Gains/(losses) exclude related interest income and interest expense. See Note 23 for further information about interest income and interest expense.
- Gains/(losses) on other principal transactions are included in the firm's Investing & Lending segment. See Note 25 for net revenues, including net interest income, by product type for Investing & Lending, as well as the amount of net interest income included in Investing & Lending.
- Gains/(losses) are not representative of the manner in which the firm manages its business activities because many of the firm's market-making and client facilitation strategies utilize financial instruments across various product types. Accordingly, gains or losses in one product type frequently offset gains or losses in other product types. For example, most of the firm's longer-term derivatives across product types are sensitive to changes in interest rates and may be economically hedged with interest rate swaps. Similarly, a significant portion of the firm's cash instruments and derivatives across product types has exposure to foreign currencies and may be economically hedged with foreign currency contracts.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Note 5.

#### Fair Value Measurements

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

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

U.S. GAAP has a three-level fair value hierarchy for disclosure of fair value measurements. The fair value hierarchy prioritizes inputs to the valuation techniques used to measure fair value, giving the highest priority to level 1 inputs and the lowest priority to level 3 inputs. A financial instrument's level in 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 firm 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 firm's financial assets and financial liabilities are based on observable prices and inputs and are classified in levels 1 and 2 of the fair value hierarchy. Certain level 2 and level 3 financial assets and financial liabilities may require appropriate valuation adjustments that a market participant would require to arrive at fair value for factors such as counterparty and the firm's credit quality, funding risk, transfer restrictions, liquidity and bid/offer spreads. Valuation adjustments are generally based on market evidence.

See Notes 6 through 8 for further information about fair value measurements of cash instruments, derivatives and other financial assets and financial liabilities accounted for at fair value primarily under the fair value option (including information about unrealized gains and losses related to level 3 financial assets and financial liabilities, and transfers in and out of level 3), respectively.

The table below presents financial assets and financial liabilities accounted for at fair value under the fair value option or in accordance with other U.S. GAAP. Counterparty and cash collateral netting represents the impact on derivatives of netting across levels of the fair value hierarchy. Netting among positions classified in the same level is included in that level.

<i>\$ in millions</i>	As of		
	September 2016	June 2016	December 2015
Total level 1 financial assets	\$ 146,775	\$ 129,627	\$ 153,051
Total level 2 financial assets	426,203	451,127	432,445
Total level 3 financial assets	24,289	24,732	24,046
Investments in funds at NAV	6,859	7,008	7,757
Counterparty and cash collateral netting	(100,211)	(102,715)	(90,612)
<b>Total financial assets at fair value</b>	<b>\$ 503,915</b>	<b>\$ 509,779</b>	<b>\$ 526,687</b>
Total assets	\$ 879,987	\$ 896,843	\$ 861,395
Total level 3 financial assets divided by:			
Total assets	2.8%	2.8%	2.8%
Total financial assets at fair value	4.8%	4.9%	4.6%
Total level 1 financial liabilities	\$ 62,631	\$ 62,841	\$ 59,798
Total level 2 financial liabilities	243,800	256,973	245,759
Total level 3 financial liabilities	19,021	19,335	16,812
Counterparty and cash collateral netting	(50,650)	(51,496)	(41,430)
<b>Total financial liabilities at fair value</b>	<b>\$ 274,802</b>	<b>\$ 287,653</b>	<b>\$ 280,939</b>
Total level 3 financial liabilities divided by:			
Total financial liabilities at fair value	6.9%	6.7%	6.0%

In the table above, Total assets includes \$855 billion, \$872 billion and \$836 billion as of September 2016, June 2016 and December 2015, respectively, that is carried at fair value or at amounts that generally approximate fair value.

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

<i>\$ in millions</i>	As of		
	September 2016	June 2016	December 2015
Cash instruments	\$ 18,141	\$ 18,131	\$ 18,131
Derivatives	6,093	6,553	5,870
Other financial assets	55	48	45
<b>Total</b>	<b>\$ 24,289</b>	<b>\$ 24,732</b>	<b>\$ 24,046</b>

Level 3 financial assets as of September 2016 were essentially unchanged compared with June 2016 and December 2015. See Notes 6 through 8 for further information about level 3 financial assets.



## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Note 6.

#### Cash Instruments

Cash instruments include U.S. government and federal agency obligations, non-U.S. government and agency obligations, mortgage-backed loans and securities, bank loans and bridge loans, corporate debt securities, equities and convertible debentures, investments in funds at NAV, and other non-derivative financial instruments owned and financial instruments sold, but not yet purchased. See below for the types of cash instruments included in each level of the fair value hierarchy and the valuation techniques and significant inputs used to determine their fair values. See Note 5 for an overview of the firm's fair value measurement policies.

##### Level 1 Cash Instruments

Level 1 cash instruments include U.S. government obligations and most non-U.S. government obligations, actively traded listed equities, certain government agency obligations and money market instruments. These instruments are valued using quoted prices for identical unrestricted instruments in active markets.

The firm defines active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalization for the instrument. The firm 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 include commercial paper, certificates of deposit, time deposits, most government agency obligations, certain non-U.S. government obligations, most corporate debt securities, commodities, certain mortgage-backed loans and securities, certain bank loans and bridge loans, restricted or less liquid listed equities, most state and municipal obligations and certain lending commitments.

Valuations of 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 firm uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realized on sales of financial assets.

##### Valuation Techniques and Significant Inputs of Level 3 Cash Instruments

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:

##### Loans and Securities Backed by Commercial Real Estate.

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

- Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral and the basis, or price difference, to such prices;
- Market yields implied by transactions of similar or related assets and/or current levels and changes in market indices such as the CMBX (an index that tracks the performance of commercial mortgage bonds);

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- A measure of expected future cash flows in a default scenario (recovery rates) implied by the value of the underlying collateral, which is mainly driven by current performance of the underlying collateral, capitalization rates and multiples. Recovery rates are expressed as a percentage of notional or face value of the instrument and reflect the benefit of credit enhancements on certain instruments; and
- Timing of expected future cash flows (duration) which, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds).

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

- Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral;
- Market yields implied by transactions of similar or related assets;
- Cumulative loss expectations, driven by default rates, home price projections, residential property liquidation timelines, related costs and subsequent recoveries; and
- Duration, driven by underlying loan prepayment speeds and residential property liquidation timelines.

**Bank Loans and Bridge Loans.** 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 and/or current levels and trends of market indices such as CDX and LCDX (indices that track the performance of corporate credit and loans, respectively);
- Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation; and
- Duration.

**Equities and Convertible Debentures (Including Private Equity Investments and Investments in Real Estate Entities).** 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 (primarily EBITDA multiples) and public comparables;
- Transactions in similar instruments;
- Discounted cash flow techniques; and
- Third-party appraisals.

The firm also considers changes in the outlook for the relevant industry and financial performance of the issuer as compared to projected performance. Significant inputs include:

- Market and transaction multiples;
- Discount rates, growth rates and capitalization rates; and
- For equity instruments with debt-like features, market yields implied by transactions of similar or related assets, current performance and recovery assumptions, and duration.

**Other Cash Instruments.** Other cash instruments consists of commercial paper, certificates of deposit, time deposits and other money market instruments; non-U.S. government and agency obligations; corporate debt securities; state and municipal obligations; and other debt 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 and/or current levels and trends of market indices such as CDX and LCDX;
- Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation; and
- Duration.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Fair Value of Cash Instruments by Level

The tables below present cash instrument assets and liabilities at fair value by level within the fair value hierarchy. In the tables below:

- Cash instrument assets and liabilities are included in “Financial instruments owned, at fair value” and “Financial instruments sold, but not yet purchased, at fair value,” respectively.
- Cash instrument assets are shown as positive amounts and cash instrument liabilities are shown as negative amounts.

As of September 2016				
<i>\$ in millions</i>	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 616	\$ 1,847	\$ —	\$ 2,463
U.S. government and federal agency obligations	21,999	23,307	—	45,306
Non-U.S. government and agency obligations	29,947	8,029	60	38,036
Loans and securities backed by:				
Commercial real estate	—	2,532	1,991	4,523
Residential real estate	—	8,416	995	9,411
Bank loans and bridge loans	—	7,154	2,705	9,859
Corporate debt securities	766	18,005	2,357	21,128
State and municipal obligations	—	1,613	92	1,705
Other debt obligations	—	599	564	1,163
Equities and convertible debentures	74,242	7,661	9,377	91,280
Commodities	—	5,943	—	5,943
Subtotal	\$127,570	\$85,106	\$18,141	\$230,817
Investments in funds at NAV				6,859
<b>Total cash instrument assets</b>				<b>\$237,676</b>
<b>Liabilities</b>				
U.S. government and federal agency obligations	\$ (14,388)	\$ (363)	\$ —	\$ (14,751)
Non-U.S. government and agency obligations	(18,462)	(1,127)	—	(19,589)
Loans and securities backed by:				
commercial real estate	—	(5)	(1)	(6)
Bank loans and bridge loans	—	(401)	(67)	(468)
Corporate debt securities	(19)	(6,280)	(14)	(6,313)
Other debt obligations	—	(1)	(1)	(2)
Equities and convertible debentures	(29,187)	(390)	(9)	(29,586)
<b>Total cash instrument liabilities</b>	<b>\$ (62,056)</b>	<b>\$ (8,567)</b>	<b>\$ (92)</b>	<b>\$ (70,715)</b>

<i>\$ in millions</i>	As of December 2015			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 625	\$ 1,958	\$ —	\$ 2,583
U.S. government and federal agency obligations	24,844	21,538	—	46,382
Non-U.S. government and agency obligations	26,500	5,260	12	31,772
Loans and securities backed by:				
Commercial real estate	—	3,051	1,924	4,975
Residential real estate	—	11,418	1,765	13,183
Bank loans and bridge loans	—	9,014	3,150	12,164
Corporate debt securities	218	14,330	2,092	16,640
State and municipal obligations	—	891	101	992
Other debt obligations	—	1,057	538	1,595
Equities and convertible debentures	81,252	8,271	8,549	98,072
Commodities	—	3,935	—	3,935
Subtotal	\$133,439	\$80,723	\$18,131	\$232,293
Investments in funds at NAV				7,757
<b>Total cash instrument assets</b>				<b>\$240,050</b>
<b>Liabilities</b>				
U.S. government and federal agency obligations	\$ (15,455)	\$ (61)	\$ —	\$ (15,516)
Non-U.S. government and agency obligations	(13,522)	(1,451)	—	(14,973)
Loans and securities backed by:				
Commercial real estate	—	(4)	—	(4)
Residential real estate	—	(2)	—	(2)
Bank loans and bridge loans	—	(337)	(124)	(461)
Corporate debt securities	(2)	(6,119)	(2)	(6,123)
State and municipal obligations	—	(2)	—	(2)
Other debt obligations	—	(1)	(1)	(2)
Equities and convertible debentures	(30,790)	(538)	(66)	(31,394)
<b>Total cash instrument liabilities</b>	<b>\$ (59,769)</b>	<b>\$ (8,515)</b>	<b>\$ (193)</b>	<b>\$ (68,477)</b>

In the tables above:

- Total cash instrument assets include collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs) backed by real estate and corporate obligations of \$374 million in level 2 and \$754 million in level 3 as of September 2016, and \$405 million in level 2 and \$774 million in level 3 as of December 2015, respectively.
- Level 3 equities and convertible debenture assets include \$8.55 billion of private equity investments, \$377 million of investments in real estate entities and \$449 million of convertible debentures as of September 2016, and \$7.69 billion of private equity investments, \$308 million of investments in real estate entities and \$552 million of convertible debentures as of December 2015.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Significant Unobservable Inputs

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

\$ in millions	Level 3 Assets and Range of Significant Unobservable Inputs (Weighted Average) as of	
	September 2016	December 2015
<b>Loans and securities backed by commercial real estate</b>	<b>\$1,991</b>	\$1,924
Yield	<b>2.8% to 23.0% (12.1%)</b>	3.5% to 22.0% (11.8%)
Recovery rate	<b>9.3% to 95.0% (55.9%)</b>	19.6% to 96.5% (59.4%)
Duration (years)	<b>0.8 to 6.3 (2.5)</b>	0.3 to 5.3 (2.3)
Basis (points)	<b>N/A</b>	(11) to 4 (12)
<b>Loans and securities backed by residential real estate</b>	<b>\$ 995</b>	\$1,765
Yield	<b>1.3% to 15.0% (8.3%)</b>	3.2% to 17.0% (7.9%)
Cumulative loss rate	<b>14.7% to 50.4% (28.8%)</b>	4.6% to 44.2% (27.3%)
Duration (years)	<b>1.3 to 16.6 (7.3)</b>	1.5 to 13.8 (7.0)
<b>Bank loans and bridge loans</b>	<b>\$2,705</b>	\$3,150
Yield	<b>2.1% to 20.6% (9.1%)</b>	1.9% to 36.6% (10.2%)
Recovery rate	<b>6.7% to 85.3% (44.4%)</b>	14.5% to 85.6% (51.2%)
Duration (years)	<b>0.8 to 5.3 (2.5)</b>	0.7 to 6.1 (2.2)
<b>Equities and convertible debentures</b>	<b>\$9,377</b>	\$8,549
Multiples	<b>0.6x to 18.0x (6.4x)</b>	0.7x to 21.4x (6.4x)
Discount rate/yield	<b>6.5% to 25.0% (14.9%)</b>	7.1% to 20.0% (14.8%)
Growth rate	<b>N/A</b>	3.0% to 5.2% (4.5%)
Capitalization rate	<b>5.0% to 12.0% (7.1%)</b>	5.5% to 12.5% (7.6%)
<b>Other cash instruments</b>	<b>\$3,073</b>	\$2,743
Yield	<b>1.5% to 18.0% (10.6%)</b>	0.9% to 25.6% (10.9%)
Recovery rate	<b>0.0% to 91.6% (63.1%)</b>	0.0% to 70.0% (59.7%)
Duration (years)	<b>0.3 to 13.4 (3.9)</b>	1.1 to 11.4 (4.5)

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 multiple for private equity investments is appropriate for valuing a specific private equity investment but may not be appropriate for valuing any other private equity investment. Accordingly, the ranges of inputs do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 cash instruments.

- Increases in yield, discount rate, capitalization rate, duration or cumulative loss rate used in the valuation of the firm's level 3 cash instruments would result in a lower fair value measurement, while increases in recovery rate, basis, multiples or growth rate would result in a higher fair value measurement. Due to the distinctive nature of each of the firm's level 3 cash instruments, the interrelationship of inputs is not necessarily uniform within each product type.
- Equities and convertible debentures include private equity investments and investments in real estate entities. Growth rate includes long-term growth rate and compound annual growth rate.
- Loans and securities backed by commercial and residential real estate, bank loans and bridge loans and other cash instruments are valued using discounted cash flows, and equities and convertible debentures are valued using market comparables and discounted cash flows.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, market comparables and discounted cash flows may be used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.

### Transfers Between Levels of the Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur.

During the three and nine months ended September 2016, transfers into level 2 from level 1 of cash instruments were \$143 million and \$88 million, respectively, reflecting transfers of public equity securities primarily due to decreased market activity in these instruments. Transfers into level 1 from level 2 of cash instruments during the three and nine months ended September 2016, were \$200 million and \$203 million, respectively, reflecting transfers of public equity securities, principally due to increased market activity in these instruments.

During the three and nine months ended September 2015, transfers into level 2 from level 1 of cash instruments were \$95 million and \$138 million, respectively, reflecting transfers of public equity securities primarily due to decreased market activity in these instruments. Transfers into level 1 from level 2 of cash instruments during the three and nine months ended September 2015, were \$113 million and \$264 million, respectively, reflecting transfers of public equity securities, principally due to increased market activity in these instruments.

See "Level 3 Rollforward" below for information about transfers between level 2 and level 3.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Level 3 Rollforward

The table below presents changes in fair value for all cash instrument assets and liabilities categorized as level 3 as of the end of the period. In the table below:

- If a cash instrument asset or 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 cash instrument assets, increases are shown as positive amounts, while decreases are shown as negative amounts. For level 3 cash instrument liabilities, increases are shown as negative amounts, while decreases are shown as positive amounts.
- Level 3 cash instruments are frequently economically hedged with level 1 and level 2 cash instruments and/or level 1, level 2 or level 3 derivatives. Accordingly, gains or losses that are reported in level 3 can be partially offset by gains or losses attributable to level 1 or level 2 cash instruments and/or level 1, level 2 or level 3 derivatives. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources.
- Purchases include both originations and secondary market purchases.
- Net unrealized gains/(losses) relate to instruments that were still held at period-end.
- For the three months ended September 2016, the net realized and unrealized gains on level 3 cash instrument assets of \$655 million (reflecting \$194 million of realized gains and \$461 million of unrealized gains) include gains/(losses) of approximately \$(65) million, \$487 million and \$233 million reported in "Market making," "Other principal transactions" and "Interest income," respectively.

- For the nine months ended September 2016, the net realized and unrealized gains on level 3 cash instrument assets of \$861 million (reflecting \$503 million of realized gains and \$358 million of unrealized gains) include gains/(losses) of approximately \$(394) million, \$557 million and \$698 million reported in "Market making," "Other principal transactions" and "Interest income," respectively.
- For the three months ended September 2015, the net realized and unrealized gains on level 3 cash instrument assets of \$179 million (reflecting \$231 million of realized gains and \$52 million of unrealized losses) include gains/(losses) of approximately \$(39) million, \$(18) million and \$236 million reported in "Market making," "Other principal transactions" and "Interest income," respectively.
- For the nine months ended September 2015, the net realized and unrealized gains on level 3 cash instrument assets of \$1.67 billion (reflecting \$821 million of realized gains and \$844 million of unrealized gains) include gains/(losses) of approximately \$(10) million, \$1.13 billion and \$547 million reported in "Market making," "Other principal transactions" and "Interest income," respectively.

See "Level 3 Rollforward Commentary" below for an explanation of the net unrealized gains/(losses) on level 3 cash instruments and the activity related to transfers into and out of level 3.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Level 3 Cash Instrument Assets and Liabilities at Fair Value

<i>\$ in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/ (losses)	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
<b>Three Months Ended September 2016</b>									
Non-U.S. government and agency obligations	\$ 61	\$ —	\$ 2	\$ —	\$ (5)	\$ 1	\$ 1	\$ —	\$ 60
Loans and securities backed by:									
Commercial real estate	2,112	12	59	46	(97)	(144)	119	(116)	1,991
Residential real estate	1,300	15	(5)	76	(123)	(85)	95	(278)	995
Bank loans and bridge loans	2,911	59	49	112	(37)	(432)	118	(75)	2,705
Corporate debt securities	2,422	48	58	166	(285)	(215)	225	(62)	2,357
State and municipal obligations	92	1	—	4	(12)	(2)	10	(1)	92
Other debt obligations	528	7	7	19	(7)	(39)	55	(6)	564
Equities and convertible debentures	8,705	52	291	96	(137)	(165)	704	(169)	9,377
<b>Total cash instrument assets</b>	<b>\$18,131</b>	<b>\$194</b>	<b>\$461</b>	<b>\$ 519</b>	<b>\$ (703)</b>	<b>\$(1,081)</b>	<b>\$1,327</b>	<b>\$ (707)</b>	<b>\$18,141</b>
<b>Total cash instrument liabilities</b>	<b>\$ (123)</b>	<b>\$ 25</b>	<b>\$ 18</b>	<b>\$ 51</b>	<b>\$ (38)</b>	<b>\$ 1</b>	<b>\$ (26)</b>	<b>\$ —</b>	<b>\$ (92)</b>
<b>Nine Months Ended September 2016</b>									
Non-U.S. government and agency obligations	\$ 12	\$ (4)	\$ 10	\$ 17	\$ (11)	\$ —	\$ 36	\$ —	\$ 60
Loans and securities backed by:									
Commercial real estate	1,924	58	14	491	(292)	(459)	516	(261)	1,991
Residential real estate	1,765	38	45	297	(780)	(233)	120	(257)	995
Bank loans and bridge loans	3,150	112	(18)	452	(148)	(1,090)	457	(210)	2,705
Corporate debt securities	2,092	132	82	501	(329)	(463)	492	(150)	2,357
State and municipal obligations	101	2	—	9	(31)	(2)	25	(12)	92
Other debt obligations	538	27	(27)	217	(110)	(120)	42	(3)	564
Equities and convertible debentures	8,549	138	252	957	(301)	(555)	1,008	(671)	9,377
<b>Total cash instrument assets</b>	<b>\$18,131</b>	<b>\$503</b>	<b>\$358</b>	<b>\$2,941</b>	<b>\$(2,002)</b>	<b>\$(2,922)</b>	<b>\$2,696</b>	<b>\$(1,564)</b>	<b>\$18,141</b>
<b>Total cash instrument liabilities</b>	<b>\$ (193)</b>	<b>\$ 27</b>	<b>\$ 32</b>	<b>\$ 88</b>	<b>\$ (61)</b>	<b>\$ (6)</b>	<b>\$ (9)</b>	<b>\$ 30</b>	<b>\$ (92)</b>
<b>Three Months Ended September 2015</b>									
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 11	\$ —	\$ —	\$ —	\$ (10)	\$ (1)	\$ —	\$ —	\$ —
Non-U.S. government and agency obligations	21	—	—	—	—	(9)	1	—	13
Loans and securities backed by:									
Commercial real estate	2,134	22	28	232	(100)	(131)	87	(167)	2,105
Residential real estate	2,717	24	29	91	(238)	(76)	69	(976)	1,640
Bank loans and bridge loans	5,377	55	(77)	243	(43)	(574)	152	(1,372)	3,761
Corporate debt securities	2,595	51	(34)	95	(153)	(19)	161	(378)	2,318
State and municipal obligations	143	—	—	7	(9)	—	12	(64)	89
Other debt obligations	740	2	4	16	(63)	(102)	—	(56)	541
Equities and convertible debentures	12,457	77	(2)	177	(93)	(514)	212	(2,476)	9,838
<b>Total cash instrument assets</b>	<b>\$26,195</b>	<b>\$231</b>	<b>\$ (52)</b>	<b>\$ 861</b>	<b>\$ (709)</b>	<b>\$(1,426)</b>	<b>\$ 694</b>	<b>\$(5,489)</b>	<b>\$20,305</b>
<b>Total cash instrument liabilities</b>	<b>\$ (178)</b>	<b>\$ 13</b>	<b>\$ (31)</b>	<b>\$ 102</b>	<b>\$ (35)</b>	<b>\$ 3</b>	<b>\$ (98)</b>	<b>\$ 5</b>	<b>\$(219)</b>
<b>Nine Months Ended September 2015</b>									
Non-U.S. government and agency obligations	\$ 136	\$ 9	\$ —	\$ 1	\$ (35)	\$ (24)	\$ —	\$ (74)	\$ 13
Loans and securities backed by:									
Commercial real estate	3,275	120	91	429	(605)	(1,332)	340	(213)	2,105
Residential real estate	2,545	115	19	387	(639)	(255)	158	(690)	1,640
Bank loans and bridge loans	6,973	228	(177)	760	(833)	(1,481)	389	(2,098)	3,761
Corporate debt securities	3,633	128	(58)	455	(448)	(399)	345	(1,338)	2,318
State and municipal obligations	110	3	2	11	(21)	(2)	12	(26)	89
Other debt obligations	870	21	5	91	(192)	(82)	2	(174)	541
Equities and convertible debentures	11,108	197	962	676	(489)	(1,313)	885	(2,188)	9,838
<b>Total cash instrument assets</b>	<b>\$28,650</b>	<b>\$821</b>	<b>\$844</b>	<b>\$2,810</b>	<b>\$(3,262)</b>	<b>\$(4,888)</b>	<b>\$2,131</b>	<b>\$(6,801)</b>	<b>\$20,305</b>
<b>Total cash instrument liabilities</b>	<b>\$ (244)</b>	<b>\$ 12</b>	<b>\$ (26)</b>	<b>\$ 170</b>	<b>\$ (45)</b>	<b>\$ (6)</b>	<b>\$ (121)</b>	<b>\$ 41</b>	<b>\$(219)</b>

**Notes to Condensed Consolidated Financial Statements  
(Unaudited)****Level 3 Rollforward Commentary**

**Three Months Ended September 2016.** The net unrealized gain on level 3 cash instruments of \$479 million (reflecting \$461 million on cash instrument assets and \$18 million on cash instrument liabilities) for the three months ended September 2016 primarily reflected gains on private equity investments, principally driven by strong corporate performance and company-specific events.

Transfers into level 3 during the three months ended September 2016 primarily reflected transfers of private equity investments and corporate debt securities from level 2, principally due to reduced price transparency as a result of a lack of market evidence, including fewer market transactions in these instruments.

Transfers out of level 3 during the three months ended September 2016 primarily reflected transfers of loans and securities backed by residential real estate and private equity investments to level 2, principally due to increased price transparency as a result of market evidence, including market transactions in these instruments.

**Nine Months Ended September 2016.** The net unrealized gain on level 3 cash instruments of \$390 million (reflecting \$358 million on cash instrument assets and \$32 million on cash instrument liabilities) for the nine months ended September 2016 primarily reflected gains on private equity investments, principally driven by strong corporate performance and company-specific events.

Transfers into level 3 during the nine months ended September 2016 primarily reflected transfers of private equity investments, loans and securities backed by commercial real estate, corporate debt securities and bank loans and bridge loans from level 2, principally due to reduced price transparency as a result of a lack of market evidence, including fewer transactions in these instruments.

Transfers out of level 3 during the nine months ended September 2016 primarily reflected transfers of private equity investments, loans and securities backed by commercial and residential real estate and bank loans and bridge loans to level 2, principally due to increased price transparency as a result of market evidence, including market transactions in these instruments.

**Three Months Ended September 2015.** The net unrealized loss on level 3 cash instruments of \$83 million (reflecting \$52 million on cash instrument assets and \$31 million on cash instrument liabilities) for the three months ended September 2015 primarily reflected losses on bank loans and bridge loans, principally reflecting the impact of wider credit spreads.

Transfers into level 3 during the three months ended September 2015 primarily reflected transfers of certain private equity investments, corporate debt securities and bank loans and bridge loans from level 2 principally due to reduced price transparency as a result of a lack of market evidence, including fewer market transactions in these instruments.

Transfers out of level 3 during the three months ended September 2015 primarily reflected transfers of certain private equity investments and loans and securities backed by residential real estate to level 2 principally due to increased price transparency as a result of market evidence, including market transactions in these instruments, and transfers of certain bank loans and bridge loans to level 2 principally due to certain unobservable yield and duration inputs not being significant to the valuation of these instruments.

**Nine Months Ended September 2015.** The net unrealized gain on level 3 cash instruments of \$818 million (reflecting \$844 million of gains on cash instrument assets and \$26 million of losses on cash instrument liabilities) for the nine months ended September 2015 primarily reflected gains on private equity investments principally driven by strong corporate performance and company-specific events.

Transfers into level 3 during the nine months ended September 2015 primarily reflected transfers of certain private equity investments, bank loans and bridge loans, corporate debt securities and loans and securities backed by commercial real estate from level 2 principally due to reduced price transparency as a result of a lack of market evidence, including fewer transactions in these instruments.

Transfers out of level 3 during the nine months ended September 2015 primarily reflected transfers of certain private equity investments, corporate debt securities and loans and securities backed by residential real estate to level 2 principally due to increased price transparency as a result of market evidence, including market transactions in these instruments, and transfers of certain bank loans and bridge loans to level 2 principally due to certain unobservable yield and duration inputs not being significant to the valuation of these instruments.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Investments in Funds at Net Asset Value Per Share

Cash instruments at fair value include investments in funds that are measured at NAV of the investment fund. The firm uses NAV to measure the fair value of its fund investments when (i) the fund investment does not have a readily determinable fair value and (ii) the NAV of the investment fund is calculated in a manner consistent with the measurement principles of investment company accounting, including measurement of the investments at fair value.

The firm's investments in funds at NAV primarily consist of investments in firm-sponsored private equity, credit, real estate and hedge funds where the firm co-invests with third-party investors.

Private equity funds primarily invest in a broad range of industries worldwide, including leveraged buyouts, recapitalizations, growth investments and distressed investments. Credit funds generally invest in loans and other fixed income instruments and are focused on providing private high-yield capital for leveraged and management buyout transactions, recapitalizations, financings, refinancings, acquisitions and restructurings for private equity firms, private family companies and corporate issuers. Real estate funds invest globally, primarily in real estate companies, loan portfolios, debt recapitalizations and property. The private equity, credit and real estate funds are primarily closed-end funds in which the firm's investments are generally not eligible for redemption. Distributions will be received from these funds as the underlying assets are liquidated or distributed.

The firm also invests in hedge funds, primarily multi-disciplinary hedge funds that employ a fundamental bottom-up investment approach across various asset classes and strategies. The firm's investments in hedge funds primarily include interests where the underlying assets are illiquid in nature, and proceeds from redemptions will not be received until the underlying assets are liquidated or distributed.

Many of the funds described above are "covered funds" as defined by the Volcker Rule of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The Board of Governors of the Federal Reserve System (Federal Reserve Board) extended the conformance period through July 2017 for investments in, and relationships with, covered funds that were in place prior to December 2013. To the extent that the underlying investments of particular funds are not sold within the conformance period, the firm may be required to sell its interests in such funds. If that occurs, the firm may receive a value for its interests that is less than the then carrying value as there could be a limited secondary market for these investments and the firm may be unable to sell them in orderly transactions. In order to be compliant with the Volcker Rule, the firm will be required to reduce most of its interests in the funds in the table below by the end of the conformance period.

The table below presents the fair value of the firm's investments in funds at NAV and related unfunded commitments.

<i>\$ in millions</i>	Fair Value of Investments	Unfunded Commitments
<b>As of September 2016</b>		
Private equity funds	<b>\$4,803</b>	<b>\$1,398</b>
Credit funds	<b>478</b>	<b>214</b>
Hedge funds	<b>471</b>	<b>—</b>
Real estate funds	<b>1,107</b>	<b>200</b>
<b>Total</b>	<b>\$6,859</b>	<b>\$1,812</b>
<b>As of December 2015</b>		
Private equity funds	\$5,414	\$2,057
Credit funds	611	344
Hedge funds	560	—
Real estate funds	1,172	296
<b>Total</b>	<b>\$7,757</b>	<b>\$2,697</b>



## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Note 7.

## Derivatives and Hedging Activities

### Derivative Activities

Derivatives are instruments that derive their value from underlying asset prices, indices, reference rates and other inputs, or a combination of these factors. Derivatives may be traded on an exchange (exchange-traded) or they may be privately negotiated contracts, which are usually referred to as OTC derivatives. Certain of the firm's OTC derivatives are cleared and settled through central clearing counterparties (OTC-cleared), while others are bilateral contracts between two counterparties (bilateral OTC).

**Market-Making.** As a market maker, the firm enters into derivative transactions to provide liquidity to clients and to facilitate the transfer and hedging of their risks. In this capacity, the firm typically acts as principal and is required to commit capital to provide execution. As a market maker, it is essential to maintain an inventory of financial instruments sufficient to meet expected client and market demands.

**Risk Management.** The firm also enters into derivatives to actively manage risk exposures that arise from its market-making and investing and lending activities in derivative and cash instruments. The firm's holdings and exposures are hedged, in many cases, on either a portfolio or risk-specific basis, as opposed to an instrument-by-instrument basis. The offsetting impact of this economic hedging is reflected in the same business segment as the related revenues. In addition, the firm may enter into derivatives designated as hedges under U.S. GAAP. These derivatives are used to manage interest rate exposure in certain fixed-rate unsecured long-term and short-term borrowings, and deposits, and to manage foreign currency exposure on the net investment in certain non-U.S. operations.

The firm enters into various types of derivatives, including:

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

Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) when a legal right of setoff exists under an enforceable netting agreement (counterparty netting). Derivatives are accounted for at fair value, net of cash collateral received or posted under enforceable credit support agreements (cash collateral netting). Derivative assets and liabilities are included in "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value," respectively. Realized and unrealized gains and losses on derivatives not designated as hedges under ASC 815 are included in "Market making" and "Other principal transactions" in Note 4.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

The table below presents the gross fair value and the notional amount of derivative contracts by major product type, the amounts of counterparty and cash collateral netting in the condensed consolidated statements of financial condition, as well as cash and securities collateral posted and received under enforceable credit support agreements that do not meet the criteria for netting under U.S. GAAP. In the table below:

- Gross fair values exclude the effects of both counterparty netting and collateral, and therefore are not representative of the firm's exposure.
- Where the firm has received or posted collateral under credit support agreements, but has not yet determined such agreements are enforceable, the related collateral has not been netted.

- Notional amounts, which represent the sum of gross long and short derivative contracts, provide an indication of the volume of the firm's derivative activity and do not represent anticipated losses.
- Total gross fair value of derivatives includes derivative assets and derivative liabilities of \$17.91 billion and \$16.78 billion, respectively, as of September 2016, and derivative assets and derivative liabilities of \$17.09 billion and \$18.16 billion, respectively, as of December 2015, which are not subject to an enforceable netting agreement or are subject to a netting agreement that the firm has not yet determined to be enforceable.

	As of September 2016			As of December 2015		
	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount
<i>\$ in millions</i>						
<b>Derivatives not accounted for as hedges</b>						
Exchange-traded	\$ 376	\$ 425	\$ 5,007,835	\$ 310	\$ 280	\$ 4,402,843
OTC-cleared	299,669	281,538	19,319,515	211,272	192,401	20,738,687
Bilateral OTC	441,056	415,105	11,870,373	345,516	321,458	12,953,830
<b>Total interest rates</b>	<b>741,101</b>	<b>697,068</b>	<b>36,197,723</b>	<b>557,098</b>	<b>514,139</b>	<b>38,095,360</b>
OTC-cleared	5,187	5,071	412,498	5,203	5,596	339,244
Bilateral OTC	25,464	22,235	1,225,769	35,679	31,179	1,552,806
<b>Total credit</b>	<b>30,651</b>	<b>27,306</b>	<b>1,638,267</b>	<b>40,882</b>	<b>36,775</b>	<b>1,892,050</b>
Exchange-traded	13	134	9,709	183	204	13,073
OTC-cleared	228	297	43,677	165	128	14,617
Bilateral OTC	82,437	79,377	5,674,447	96,660	99,235	5,461,940
<b>Total currencies</b>	<b>82,678</b>	<b>79,808</b>	<b>5,727,833</b>	<b>97,008</b>	<b>99,567</b>	<b>5,489,630</b>
Exchange-traded	4,674	4,190	283,543	2,997	3,623	203,465
OTC-cleared	176	214	2,846	232	233	2,839
Bilateral OTC	9,021	10,579	198,855	17,445	17,215	230,750
<b>Total commodities</b>	<b>13,871</b>	<b>14,983</b>	<b>485,244</b>	<b>20,674</b>	<b>21,071</b>	<b>437,054</b>
Exchange-traded	8,088	8,391	624,544	9,372	7,908	528,419
Bilateral OTC	39,169	39,984	970,472	37,788	38,290	927,078
<b>Total equities</b>	<b>47,257</b>	<b>48,375</b>	<b>1,595,016</b>	<b>47,160</b>	<b>46,198</b>	<b>1,455,497</b>
<b>Subtotal</b>	<b>915,558</b>	<b>867,540</b>	<b>45,644,083</b>	<b>762,822</b>	<b>717,750</b>	<b>47,369,591</b>
<b>Derivatives accounted for as hedges</b>						
OTC-cleared	6,462	30	57,947	4,567	85	51,446
Bilateral OTC	5,494	1	42,065	6,660	20	62,022
<b>Total interest rates</b>	<b>11,956</b>	<b>31</b>	<b>100,012</b>	<b>11,227</b>	<b>105</b>	<b>113,468</b>
OTC-cleared	2	46	1,538	24	6	1,333
Bilateral OTC	27	60	8,947	116	27	8,615
<b>Total currencies</b>	<b>29</b>	<b>106</b>	<b>10,485</b>	<b>140</b>	<b>33</b>	<b>9,948</b>
<b>Subtotal</b>	<b>11,985</b>	<b>137</b>	<b>110,497</b>	<b>11,367</b>	<b>138</b>	<b>123,416</b>
<b>Total gross fair value/notional amount of derivatives</b>	<b>\$ 927,543</b>	<b>\$ 867,677</b>	<b>\$45,754,580</b>	<b>\$ 774,189</b>	<b>\$ 717,888</b>	<b>\$47,493,007</b>
<b>Amounts offset in the condensed consolidated statements of financial condition</b>						
Exchange-traded	\$ (11,276)	\$ (11,276)		\$ (9,398)	\$ (9,398)	
OTC-cleared	(284,021)	(284,021)		(194,928)	(194,928)	
Bilateral OTC	(478,894)	(478,894)		(426,841)	(426,841)	
<b>Total counterparty netting</b>	<b>(774,191)</b>	<b>(774,191)</b>		<b>(631,167)</b>	<b>(631,167)</b>	
OTC-cleared	(27,059)	(2,542)		(26,151)	(3,305)	
Bilateral OTC	(71,549)	(46,505)		(62,981)	(36,645)	
<b>Total cash collateral netting</b>	<b>(98,608)</b>	<b>(49,047)</b>		<b>(89,132)</b>	<b>(39,950)</b>	
<b>Total counterparty and cash collateral netting</b>	<b>\$(872,799)</b>	<b>\$(823,238)</b>		<b>\$(720,299)</b>	<b>\$(671,117)</b>	
<b>Included in the condensed consolidated statements of financial condition</b>						
Exchange-traded	\$ 1,875	\$ 1,864		\$ 3,464	\$ 2,617	
OTC-cleared	644	633		384	216	
Bilateral OTC	52,225	41,942		50,042	43,938	
<b>Total included in the condensed consolidated statements of financial condition</b>	<b>\$ 54,744</b>	<b>\$ 44,439</b>		<b>\$ 53,890</b>	<b>\$ 46,771</b>	
<b>Amounts not offset in the condensed consolidated statements of financial condition</b>						
Cash collateral received/posted	\$ (522)	\$ (2,016)		\$ (498)	\$ (1,935)	
Securities collateral received/posted	(17,910)	(14,193)		(14,008)	(10,044)	
<b>Total</b>	<b>\$ 36,312</b>	<b>\$ 28,230</b>		<b>\$ 39,384</b>	<b>\$ 34,792</b>	

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Valuation Techniques for Derivatives

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

- **Interest Rate.** In general, the key inputs used to value interest rate derivatives are transparent, even for most long-dated contracts. Interest rate swaps and options denominated in the currencies of leading industrialized nations are characterized by high trading volumes and tight bid/offer spreads. Interest rate derivatives that reference indices, such as an inflation index, or the shape of the yield curve (e.g., 10-year swap rate vs. 2-year swap rate) are more complex, but the key inputs are generally observable.
- **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 industrialized nations, including those with longer tenors, are generally transparent. The primary difference between the price transparency of developed and emerging market currency derivatives is that emerging markets tend to be observable for contracts with shorter tenors.

- **Commodity.** Commodity derivatives include transactions referenced to energy (e.g., oil and natural gas), metals (e.g., precious and base) and soft commodities (e.g., agricultural). Price transparency varies based on the underlying commodity, delivery location, tenor and product quality (e.g., diesel fuel compared to unleaded gasoline). In general, price transparency for commodity derivatives is greater for contracts with shorter tenors and contracts that are more closely aligned with major and/or benchmark commodity indices.
- **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. See Note 5 for an overview of the firm's fair value measurement policies.

### 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 firm considers, among other factors, a portfolio's net risk exposure to that input.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

### Level 3 Derivatives

Level 3 derivatives are valued using models which utilize observable level 1 and/or level 2 inputs, as well as unobservable level 3 inputs. The significant unobservable inputs used to value the firm's level 3 derivatives are described below.

- For the majority of the firm's interest rate and currency derivatives classified within level 3, significant unobservable inputs include correlations of certain currencies and interest rates (e.g., the correlation between Euro inflation and Euro interest rates) and specific interest rate volatilities.
- For level 3 credit derivatives, significant unobservable inputs include illiquid credit spreads and upfront credit points, which are unique to specific reference obligations and reference entities, recovery rates and certain correlations required to value credit derivatives (e.g., the likelihood of default of the underlying reference obligation relative to one another).

- For level 3 commodity derivatives, significant unobservable inputs include volatilities for options with strike prices that differ significantly from current market prices and prices or spreads for certain products for which the product quality or physical location of the commodity is not aligned with benchmark indices.
- For level 3 equity derivatives, significant unobservable inputs generally include equity volatility inputs for options that are long-dated and/or have strike prices that differ significantly from current market prices. In addition, the valuation of certain structured trades requires the use of level 3 correlation inputs, such as the correlation of the price performance of two or more individual stocks or the correlation of the price performance for a basket of stocks to another asset class such as commodities.

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

### 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 uncollateralized portion of derivative portfolios. The firm also makes funding valuation adjustments to collateralized derivatives where the terms of the agreement do not permit the firm 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 firm makes model or exit price adjustments to account for the valuation uncertainty present in the transaction.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Fair Value of Derivatives by Level

The tables below present the fair value of derivatives on a gross basis by level and major product type as well as the impact of netting, included in the condensed consolidated statements of financial condition.

\$ in millions	As of September 2016			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Interest rates	\$ 9	\$ 752,087	\$ 961	\$ 753,057
Credit	—	24,863	5,788	30,651
Currencies	—	82,474	233	82,707
Commodities	—	13,469	402	13,871
Equities	11	46,612	634	47,257
Gross fair value	20	919,505	8,018	927,543
Counterparty netting within levels	(1)	(770,662)	(1,925)	(772,588)
Subtotal	\$ 19	\$ 148,843	\$ 6,093	\$ 154,955
Cross-level counterparty netting				(1,603)
Cash collateral netting				(98,608)
<b>Net fair value</b>				<b>\$ 54,744</b>
<b>Liabilities</b>				
Interest rates	\$ (22)	\$(696,170)	\$ (907)	\$(697,099)
Credit	—	(24,429)	(2,877)	(27,306)
Currencies	—	(79,713)	(201)	(79,914)
Commodities	—	(14,579)	(404)	(14,983)
Equities	(554)	(46,484)	(1,337)	(48,375)
Gross fair value	(576)	(861,375)	(5,726)	(867,677)
Counterparty netting within levels	1	770,662	1,925	772,588
Subtotal	\$(575)	\$(90,713)	\$(3,801)	\$(95,089)
Cross-level counterparty netting				1,603
Cash collateral netting				49,047
<b>Net fair value</b>				<b>\$ (44,439)</b>

\$ in millions	As of December 2015			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Interest rates	\$ 4	\$ 567,761	\$ 560	\$ 568,325
Credit	—	34,832	6,050	40,882
Currencies	—	96,959	189	97,148
Commodities	—	20,087	587	20,674
Equities	46	46,491	623	47,160
Gross fair value	50	766,130	8,009	774,189
Counterparty netting within levels	—	(627,548)	(2,139)	(629,687)
Subtotal	\$ 50	\$ 138,582	\$ 5,870	\$ 144,502
Cross-level counterparty netting				(1,480)
Cash collateral netting				(89,132)
<b>Net fair value</b>				<b>\$ 53,890</b>
<b>Liabilities</b>				
Interest rates	\$ (11)	\$(513,275)	\$ (958)	\$(514,244)
Credit	—	(33,518)	(3,257)	(36,775)
Currencies	—	(99,377)	(223)	(99,600)
Commodities	—	(20,222)	(849)	(21,071)
Equities	(18)	(43,953)	(2,227)	(46,198)
Gross fair value	(29)	(710,345)	(7,514)	(717,888)
Counterparty netting within levels	—	627,548	2,139	629,687
Subtotal	\$ (29)	\$ (82,797)	\$(5,375)	\$(88,201)
Cross-level counterparty netting				1,480
Cash collateral netting				39,950
<b>Net fair value</b>				<b>\$ (46,771)</b>

In the tables above:

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

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Significant Unobservable Inputs

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

	Level 3 Assets (Liabilities) and Range of Significant Unobservable Inputs (Average / Median) as of	
<i>\$ in millions</i>	September 2016	December 2015
<b>Interest rates — net</b>	<b>\$54</b>	<b>\$(398)</b>
Correlation	(10)% to 86% (56% / 60%)	(25)% to 92% (53% / 55%)
Volatility (bps per annum)	31 to 151 (84 / 57)	31 to 152 (84 / 57)
<b>Credit — net</b>	<b>\$2,911</b>	<b>\$2,793</b>
Correlation	29% to 92% (60% / 59%)	46% to 99% (68% / 66%)
Credit spreads (bps)	1 to 960 (113 / 68)	1 to 1,019 (129 / 86)
Upfront credit points	0 to 100 (42 / 37)	0 to 100 (41 / 40)
Recovery rates	1% to 97% (61% / 70%)	2% to 97% (58% / 70%)
<b>Currencies — net</b>	<b>\$32</b>	<b>\$(34)</b>
Correlation	25% to 70% (51% / 55%)	25% to 70% (50% / 51%)
<b>Commodities — net</b>	<b>\$(2)</b>	<b>\$(262)</b>
Volatility	10% to 67% (34% / 34%)	11% to 77% (35% / 34%)
Natural gas spread	\$(2.20) to \$4.01 (\$0.06 / \$(0.02))	\$(1.32) to \$4.15 (\$0.05 / \$(0.01))
Oil spread	\$(11.15) to \$64.66 (\$10.95 / \$6.92)	\$(10.64) to \$65.29 (\$3.34 / \$(3.31))
<b>Equities — net</b>	<b>\$(703)</b>	<b>\$(1,604)</b>
Correlation	(49)% to 87% (44% / 45%)	(65)% to 94% (42% / 48%)
Volatility	5% to 107% (25% / 24%)	5% to 76% (24% / 23%)

In the table above:

- Derivative assets are shown as positive amounts and derivative liabilities are shown as negative amounts.
- Ranges represent the significant unobservable inputs that were used in the valuation of each type of derivative.
- Averages represent the arithmetic average of the inputs and are not weighted by the relative fair value or notional of the respective financial instruments. An average greater than the median indicates that the majority of inputs are below the average. For example, the difference between the average and the median for credit spreads and oil spread inputs indicates that the majority of the inputs fall in the lower end of the range.

- The ranges, averages and medians of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one derivative. For example, the highest correlation for interest rate derivatives is appropriate for valuing a specific interest rate derivative but may not be appropriate for valuing any other interest rate derivative. Accordingly, the ranges of inputs do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 derivatives.
- Interest rates, currencies and equities derivatives are valued using option pricing models, credit derivatives are valued using option pricing, correlation and discounted cash flow models, and commodities derivatives are valued using option pricing and discounted cash flow models.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, option pricing models and discounted cash flows models are typically used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.
- Correlation within currencies and equities includes cross-product correlation. Natural gas spread represents the spread per million British thermal units of natural gas.
- Oil spread represents the spread per barrel of oil and refined products.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Range of Significant Unobservable Inputs

The following is information about the ranges of significant unobservable inputs used to value the firm'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 interest rate and a foreign exchange rate), as well as across regions. Generally, cross-product correlation inputs are used to value more complex instruments and are lower than correlation inputs on assets within the same derivative product type.
- **Volatility.** Ranges for volatility cover numerous underliers across a variety of markets, maturities and strike prices. 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.
- **Commodity prices and spreads.** The ranges for commodity prices and spreads cover variability in products, maturities and delivery locations.

### Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

The following is a description of the directional sensitivity of the firm'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 convergence 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.
- **Commodity prices and spreads.** In general, for contracts where the holder is receiving a commodity, an increase in the spread (price difference from a benchmark index due to differences in quality or delivery location) or price results in a higher fair value measurement.

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

### Level 3 Rollforward

The table below presents changes in fair value for all derivatives categorized as level 3 as of the end of the period. In the table below:

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

## Notes to Condensed Consolidated Financial Statements (Unaudited)

- Net unrealized gains/(losses) relate to instruments that were still held at period-end.
- For the three months ended September 2016, the net realized and unrealized losses on level 3 derivative assets and liabilities of \$154 million (reflecting \$17 million of realized gains and \$171 million of unrealized losses) include losses of \$16 million and \$138 million reported in “Market making” and “Other principal transactions,” respectively.
- For the nine months ended September 2016, the net realized and unrealized gains on level 3 derivative assets and liabilities of \$510 million (reflecting \$110 million of realized losses and \$620 million of unrealized gains) include gains/(losses) of \$686 million and \$(176) million reported in “Market making” and “Other principal transactions,” respectively.
- For the three months ended September 2015, the net realized and unrealized gains on level 3 derivative assets and liabilities of \$869 million (reflecting \$22 million of realized losses and \$891 million of unrealized gains) include gains of \$647 million and \$222 million reported in “Market making” and “Other principal transactions,” respectively.
- For the nine months ended September 2015, the net realized and unrealized gains on level 3 derivative assets and liabilities of \$1.13 billion (reflecting \$158 million of realized gains and \$967 million of unrealized gains) include gains of \$945 million and \$180 million reported in “Market making” and “Other principal transactions,” respectively.

See “Level 3 Rollforward Commentary” below for an explanation of the net unrealized gains/(losses) on level 3 derivative assets and liabilities and the activity related to transfers into and out of level 3.

Level 3 Derivative Assets and Liabilities at Fair Value

<i>\$ in millions</i>	Asset/ (liability) balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/ (losses)	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Asset/ (liability) balance, end of period
<b>Three Months Ended September 2016</b>									
Interest rates — net	\$ 56	\$ (23)	\$ (48)	\$ —	\$ (2)	\$ 61	\$ 9	\$ 1	\$ 54
Credit — net	2,942	7	(31)	12	(6)	(110)	101	(4)	2,911
Currencies — net	17	(12)	(14)	1	—	39	—	1	32
Commodities — net	(222)	(2)	(25)	1	(4)	34	6	210	(2)
Equities — net	(363)	47	(53)	29	(26)	(218)	3	(122)	(703)
<b>Total derivatives — net</b>	<b>\$ 2,430</b>	<b>\$ 17</b>	<b>\$(171)</b>	<b>\$ 43</b>	<b>\$ (38)</b>	<b>\$ (194)</b>	<b>\$ 119</b>	<b>\$ 86</b>	<b>\$2,292</b>
<b>Nine Months Ended September 2016</b>									
Interest rates — net	\$ (398)	\$ (43)	\$ 129	\$ 3	\$ (5)	\$ 95	\$ 304	\$ (31)	\$ 54
Credit — net	2,793	(50)	359	68	(38)	(393)	191	(19)	2,911
Currencies — net	(34)	(39)	2	15	(4)	84	1	7	32
Commodities — net	(262)	22	34	27	(118)	12	10	273	(2)
Equities — net	(1,604)	—	96	78	(114)	824	(6)	23	(703)
<b>Total derivatives — net</b>	<b>\$ 495</b>	<b>\$(110)</b>	<b>\$ 620</b>	<b>\$191</b>	<b>\$(279)</b>	<b>\$ 622</b>	<b>\$ 500</b>	<b>\$ 253</b>	<b>\$2,292</b>
<b>Three Months Ended September 2015</b>									
Interest rates — net	\$ (78)	\$ (27)	\$ 1	\$ 2	\$ (1)	\$ 10	\$(112)	\$ 5	\$ (200)
Credit — net	2,968	39	416	32	(46)	109	(5)	(219)	3,294
Currencies — net	(149)	(18)	183	4	—	37	(4)	107	160
Commodities — net	(54)	1	(27)	2	(56)	(4)	7	154	23
Equities — net	(2,349)	(17)	318	39	(407)	1,513	(88)	107	(884)
<b>Total derivatives — net</b>	<b>\$ 338</b>	<b>\$ (22)</b>	<b>\$ 891</b>	<b>\$ 79</b>	<b>\$(510)</b>	<b>\$1,665</b>	<b>\$(202)</b>	<b>\$ 154</b>	<b>\$2,393</b>
<b>Nine Months Ended September 2015</b>									
Interest rates — net	\$ (40)	\$ (10)	\$ (4)	\$ 5	\$ (32)	\$ 31	\$(105)	\$ (45)	\$ (200)
Credit — net	3,530	147	553	56	(151)	(700)	127	(268)	3,294
Currencies — net	(267)	(71)	301	31	(8)	108	(19)	85	160
Commodities — net	(1,142)	9	(68)	—	(87)	(95)	(20)	1,426	23
Equities — net	(1,375)	83	185	105	(694)	942	(148)	18	(884)
<b>Total derivatives — net</b>	<b>\$ 706</b>	<b>\$ 158</b>	<b>\$ 967</b>	<b>\$197</b>	<b>\$(972)</b>	<b>\$ 286</b>	<b>\$(165)</b>	<b>\$1,216</b>	<b>\$2,393</b>



**Notes to Condensed Consolidated Financial Statements  
(Unaudited)****Level 3 Rollforward Commentary**

**Three Months Ended September 2016.** The net unrealized loss on level 3 derivatives of \$171 million for the three months ended September 2016 was primarily attributable to losses on certain equity derivatives reflecting the impact of an increase in equity prices, and losses on certain interest rate derivatives reflecting the impact of a decrease in interest rates.

Transfers into level 3 derivatives during the three months ended September 2016 primarily reflected transfers of certain credit derivative assets from level 2, principally due to unobservable credit spread inputs becoming significant to the net risk of certain portfolios.

Transfers out of level 3 derivatives during the three months ended September 2016 primarily reflected transfers of certain commodity derivative liabilities to level 2, principally due to unobservable volatility inputs no longer being significant to the valuation of these derivatives and transfers of certain equity derivative assets to level 2, primarily due to increased transparency of unobservable correlation and volatility inputs used to value these derivatives.

**Nine Months Ended September 2016.** The net unrealized gain on level 3 derivatives of \$620 million for the nine months ended September 2016 was primarily attributable to gains on certain credit and interest rate derivatives, principally reflecting the impact of a decrease in interest rates.

Transfers into level 3 derivatives during the nine months ended September 2016 primarily reflected transfers of certain interest rate derivative assets from level 2, principally due to reduced transparency of certain unobservable inputs used to value these derivatives, and transfers of certain credit derivative assets from level 2 primarily due to unobservable credit spread inputs becoming significant to the net risk of certain portfolios.

Transfers out of level 3 derivatives during the nine months ended September 2016 primarily reflected transfers of certain commodity derivative liabilities to level 2, principally due to unobservable volatility inputs no longer being significant to the valuation of these derivatives.

**Three Months Ended September 2015.** The net unrealized gain on level 3 derivatives of \$891 million for the three months ended September 2015 was primarily attributable to gains on certain credit derivatives, reflecting the impact of a decrease in interest rates, wider credit spreads, and changes in foreign exchange rates, and gains on certain equity derivatives, reflecting the impact of decreases in global equity prices.

Transfers into level 3 derivatives during the three months ended September 2015 primarily reflected transfers of certain interest rate liabilities from level 2, principally due to certain unobservable inputs becoming significant to the valuation of these derivatives, and transfers of certain equity derivative liabilities from level 2, primarily due to unobservable volatility inputs becoming significant to the valuation of these derivatives.

Transfers out of level 3 derivatives during the three months ended September 2015 primarily reflected transfers of certain commodity derivative liabilities to level 2, principally due to increased transparency of volatility inputs used to value these derivatives, transfers of certain equity derivative liabilities and currency derivative liabilities to level 2, primarily due to certain unobservable inputs no longer being significant to the valuation of these derivatives, and transfers of certain credit derivative assets to level 2, principally due to unobservable credit spread inputs not being significant to the net risk of certain portfolios.

**Nine Months Ended September 2015.** The net unrealized gain on level 3 derivatives of \$967 million for the nine months ended September 2015 was primarily attributable to gains on certain credit derivatives, principally reflecting the impact of wider credit spreads and a decrease in interest rates, and gains on certain currency derivatives, reflecting the impact of changes in foreign exchange rates.

Transfers into level 3 derivatives during the nine months ended September 2015 primarily reflected transfers of certain equity derivative liabilities from level 2, primarily due to reduced transparency of volatility inputs used to value these derivatives, transfers of certain interest rate derivative liabilities from level 2, primarily due to unobservable inputs becoming significant to the valuations of these derivatives, and transfers of certain credit derivative assets from level 2, principally due to unobservable credit spread inputs becoming significant to the valuation of these derivatives.

Transfers out of level 3 derivatives during the nine months ended September 2015 primarily reflected transfers of certain commodity derivative liabilities to level 2, principally due to increased transparency of oil and refined product spread inputs used to value these derivatives, and transfers of certain credit derivative assets to level 2, principally due to unobservable credit spread inputs not being significant to the net risk of certain portfolios.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### OTC Derivatives

The table below presents the fair values of OTC derivative assets and liabilities by tenor and major product type.

<i>\$ in millions</i>	Less than 1 Year	1 - 5 Years	Greater than 5 Years	Total
<b>As of September 2016</b>				
<b>Assets</b>				
Interest rates	\$ 6,008	\$22,669	\$100,614	\$129,291
Credit	1,646	3,264	6,587	11,497
Currencies	11,981	6,832	9,093	27,906
Commodities	3,094	2,024	222	5,340
Equities	3,551	8,478	1,645	13,674
Counterparty netting within tenors	(3,787)	(5,350)	(5,114)	(14,251)
Subtotal	\$22,493	\$37,917	\$113,047	\$173,457
Cross-tenor counterparty netting				(21,980)
Cash collateral netting				(98,608)
<b>Total</b>				<b>\$52,869</b>

<b>Liabilities</b>				
Interest rates	\$ 7,662	\$12,921	\$ 52,702	\$ 73,285
Credit	2,513	3,548	2,091	8,152
Currencies	10,623	7,262	7,107	24,992
Commodities	2,922	1,351	2,663	6,936
Equities	4,707	7,070	2,711	14,488
Counterparty netting within tenors	(3,787)	(5,350)	(5,114)	(14,251)
Subtotal	\$24,640	\$26,802	\$ 62,160	\$113,602
Cross-tenor counterparty netting				(21,980)
Cash collateral netting				(49,047)
<b>Total</b>				<b>\$ 42,575</b>

<b>As of December 2015</b>				
<b>Assets</b>				
Interest rates	\$ 4,231	\$23,278	\$ 81,401	\$108,910
Credit	1,664	4,547	5,842	12,053
Currencies	14,646	8,936	6,353	29,935
Commodities	6,228	3,897	231	10,356
Equities	4,806	7,091	1,550	13,447
Counterparty netting within tenors	(3,660)	(5,751)	(5,270)	(14,681)
Subtotal	\$27,915	\$41,998	\$ 90,107	\$160,020
Cross-tenor counterparty netting				(20,462)
Cash collateral netting				(89,132)
<b>Total</b>				<b>\$ 50,426</b>

<b>Liabilities</b>				
Interest rates	\$ 5,323	\$13,945	\$ 35,592	\$ 54,860
Credit	1,804	4,704	1,437	7,945
Currencies	12,378	9,940	10,048	32,366
Commodities	4,464	3,136	2,526	10,126
Equities	5,154	5,802	2,994	13,950
Counterparty netting within tenors	(3,660)	(5,751)	(5,270)	(14,681)
Subtotal	\$25,463	\$31,776	\$ 47,327	\$104,566
Cross-tenor counterparty netting				(20,462)
Cash collateral netting				(39,950)
<b>Total</b>				<b>\$ 44,154</b>

In the table above:

- Tenor is based on expected duration for mortgage-related credit derivatives and generally on remaining contractual maturity for other derivatives.
- Counterparty netting within the same product type and tenor category is included within such product type and tenor category.
- Counterparty netting across product types within the same tenor category is included in Counterparty netting within tenors. Where the counterparty netting is across tenor categories, the netting is reflected in Cross-tenor counterparty netting.

### Credit Derivatives

The firm enters into a broad array of credit derivatives in locations around the world to facilitate client transactions and to manage the credit risk associated with market-making and investing and lending activities. Credit derivatives are actively managed based on the firm's net risk position.

Credit derivatives are individually negotiated contracts and can have various settlement and payment conventions. Credit events include failure to pay, bankruptcy, acceleration of indebtedness, restructuring, repudiation and dissolution of the reference entity.

The firm enters into the following types of credit derivatives:

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

## Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

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

As of September 2016, written and purchased credit derivatives had total gross notional amounts of \$798.19 billion and \$840.18 billion, respectively, for total net notional purchased protection of \$41.99 billion. As of December 2015, written and purchased credit derivatives had total gross notional amounts of \$923.48 billion and \$968.68 billion, respectively, for total net notional purchased protection of \$45.20 billion. Substantially all of the firm's written and purchased credit derivatives are credit default swaps.

The table below presents certain information about credit derivatives.

\$ in millions	Credit Spread on Underlier (basis points)				Total
	0 - 250	251 - 500	501 - 1,000	Greater than 1,000	
<b>As of September 2016</b>					
<b>Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor</b>					
Less than 1 year	\$228,332	\$ 6,064	\$ 2,188	\$ 8,167	\$244,751
1 - 5 years	407,671	19,029	10,016	12,324	449,040
Greater than 5 years	90,292	9,836	2,831	1,444	104,403
<b>Total</b>	<b>\$726,295</b>	<b>\$34,929</b>	<b>\$15,035</b>	<b>\$ 21,935</b>	<b>\$798,194</b>
<b>Maximum Payout/Notional Amount of Purchased Credit Derivatives</b>					
Offsetting	\$631,589	\$26,543	\$14,590	\$ 19,321	\$692,043
Other	134,755	9,281	1,635	2,468	148,139
<b>Fair Value of Written Credit Derivatives</b>					
Asset	\$ 15,280	\$ 947	\$ 269	\$ 197	\$ 16,693
Liability	2,978	1,037	1,048	6,597	11,660
<b>Net asset/(liability)</b>	<b>\$ 12,302</b>	<b>\$ (90)</b>	<b>\$ (779)</b>	<b>\$ (6,400)</b>	<b>\$ 5,033</b>
<b>As of December 2015</b>					
<b>Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor</b>					
Less than 1 year	\$240,468	\$ 2,859	\$ 2,881	\$ 10,533	\$256,741
1 - 5 years	514,986	42,399	16,327	26,271	599,983
Greater than 5 years	57,054	6,481	1,567	1,651	66,753
<b>Total</b>	<b>\$812,508</b>	<b>\$51,739</b>	<b>\$20,775</b>	<b>\$ 38,455</b>	<b>\$923,477</b>
<b>Maximum Payout/Notional Amount of Purchased Credit Derivatives</b>					
Offsetting	\$722,436	\$46,313	\$19,556	\$ 33,266	\$821,571
Other	132,757	6,383	3,372	4,598	147,110
<b>Fair Value of Written Credit Derivatives</b>					
Asset	\$ 17,110	\$ 924	\$ 108	\$ 190	\$ 18,332
Liability	2,756	2,596	1,942	12,485	19,779
<b>Net asset/(liability)</b>	<b>\$ 14,354</b>	<b>\$ (1,672)</b>	<b>\$ (1,834)</b>	<b>\$ (12,295)</b>	<b>\$ (1,447)</b>

In the table above:

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

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Impact of Credit Spreads on Derivatives

On an ongoing basis, the firm realizes gains or losses relating to changes in credit risk through the unwind of derivative contracts and changes in credit mitigants.

The net gain, including hedges, attributable to the impact of changes in credit exposure and credit spreads (counterparty and the firm's) on derivatives was \$44 million and \$89 million for the three months ended September 2016 and September 2015, respectively, and \$155 million and \$68 million for the nine months ended September 2016 and September 2015, respectively.

### Bifurcated Embedded Derivatives

The table below presents the fair value and the notional amount of derivatives that have been bifurcated from their related borrowings. These derivatives, which are recorded at fair value, primarily consist of interest rate, equity and commodity products and are included in "Unsecured short-term borrowings" and "Unsecured long-term borrowings" with the related borrowings. See Note 8 for further information.

<i>\$ in millions</i>	As of	
	September 2016	December 2015
Fair value of assets	\$ 697	\$ 466
Fair value of liabilities	702	794
<b>Net liability</b>	<b>\$ 5</b>	<b>\$ 328</b>
Notional amount	<b>\$8,849</b>	\$7,869

### Derivatives with Credit-Related Contingent Features

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

The table below presents the aggregate fair value of net derivative liabilities under such agreements (excluding application of collateral posted to reduce these liabilities), the related aggregate fair value of the assets posted as collateral and the additional collateral or termination payments that could have been called at the reporting date by counterparties in the event of a one-notch and two-notch downgrade in the firm's credit ratings.

<i>\$ in millions</i>	As of	
	September 2016	December 2015
Net derivative liabilities under bilateral agreements	\$35,906	\$29,836
Collateral posted	33,847	26,075
Additional collateral or termination payments:		
One-notch downgrade	774	1,061
Two-notch downgrade	2,076	2,689

### Hedge Accounting

The firm applies hedge accounting for (i) certain interest rate swaps used to manage the interest rate exposure of certain fixed-rate unsecured long-term and short-term borrowings and certain fixed-rate certificates of deposit and (ii) certain foreign currency forward contracts and foreign currency-denominated debt used to manage foreign currency exposures on the firm's net investment in certain non-U.S. operations.

To qualify for hedge accounting, the hedging instrument must be highly effective at reducing the risk from the exposure being hedged. Additionally, the firm must formally document the hedging relationship at inception and test the hedging relationship at least on a quarterly basis to ensure the hedging instrument continues to be highly effective over the life of the hedging relationship.

### Fair Value Hedges

The firm designates certain interest rate swaps as fair value hedges. These interest rate swaps hedge changes in fair value attributable to the designated benchmark interest rate (e.g., London Interbank Offered Rate (LIBOR) or Overnight Index Swap Rate (OIS)), effectively converting a substantial portion of fixed-rate obligations into floating-rate obligations.

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

## Notes to Condensed Consolidated Financial Statements (Unaudited)

For qualifying fair value hedges, gains or losses on derivatives are included in “Interest expense.” The change in fair value of the hedged item attributable to the risk being hedged is reported as an adjustment to its carrying value and is subsequently amortized into interest expense over its remaining life. Gains or losses resulting from hedge ineffectiveness are included in “Interest expense.” When a derivative is no longer designated as a hedge, any remaining difference between the carrying value and par value of the hedged item is amortized to interest expense over the remaining life of the hedged item using the effective interest method. See Note 23 for further information about interest income and interest expense.

The table below presents the gains/(losses) from interest rate derivatives accounted for as hedges, the related hedged borrowings and deposits, and the hedge ineffectiveness on these derivatives, which primarily consists of amortization of prepaid credit spreads resulting from the passage of time.

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Interest rate hedges	<b>\$(984)</b>	\$ 1,277	<b>\$ 1,865</b>	\$(246)
Hedged borrowings and deposits	<b>823</b>	(1,363)	<b>(2,169)</b>	(273)
<b>Hedge ineffectiveness</b>	<b>\$(161)</b>	\$ (86)	<b>\$ (304)</b>	\$(519)

### Net Investment Hedges

The firm seeks to reduce the impact of fluctuations in foreign exchange rates on its net investments in certain non-U.S. operations through the use of foreign currency forward contracts and foreign currency-denominated debt. For foreign currency forward contracts designated as hedges, the effectiveness of the hedge is assessed based on the overall changes in the fair value of the forward contracts (i.e., based on changes in forward rates). For foreign currency-denominated debt designated as a hedge, the effectiveness of the hedge is assessed based on changes in spot rates.

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

The table below presents the gains/(losses) from net investment hedging.

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Foreign currency forward contract hedges	<b>\$(74)</b>	\$380	<b>\$(382)</b>	\$627
Foreign currency-denominated debt hedges	<b>(47)</b>	(45)	<b>(408)</b>	(14)

The gain/(loss) related to ineffectiveness and the gain/(loss) reclassified to earnings from accumulated other comprehensive loss were not material for the three and nine months ended September 2016 or September 2015.

As of September 2016 and December 2015, the firm had designated \$2.61 billion and \$2.20 billion, respectively, of foreign currency-denominated debt, included in “Unsecured long-term borrowings” and “Unsecured short-term borrowings,” as hedges of net investments in non-U.S. subsidiaries.

### Note 8.

### Fair Value Option

#### Other Financial Assets and Financial Liabilities at Fair Value

In addition to all cash and derivative instruments included in “Financial instruments owned, at fair value” and “Financial instruments sold, but not yet purchased, at fair value,” the firm accounts for certain of its other financial assets and financial liabilities at fair value primarily under the fair value option. The primary reasons for electing the fair value option are to:

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

## Notes to Condensed Consolidated Financial Statements (Unaudited)

Hybrid financial instruments are instruments that contain bifurcated embedded derivatives and do not require settlement by physical delivery of non-financial assets (e.g., physical commodities). If the firm elects to bifurcate the embedded derivative from the associated debt, the derivative is accounted for at fair value and the host contract is accounted for at amortized cost, adjusted for the effective portion of any fair value hedges. If the firm does not elect to bifurcate, the entire hybrid financial instrument is accounted for at fair value under the fair value option.

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

- Repurchase agreements and substantially all resale agreements;
- Securities borrowed and loaned within Fixed Income, Currency and Commodities Client Execution;
- Substantially all other secured financings, including transfers of assets accounted for as financings rather than sales;
- Certain unsecured short-term borrowings, consisting of all commercial paper and certain hybrid financial instruments;
- Certain unsecured long-term borrowings, including certain prepaid commodity transactions and certain hybrid financial instruments;
- Certain receivables from customers and counterparties, including transfers of assets accounted for as secured loans rather than purchases and certain margin loans;
- Certain time deposits issued by the firm's bank subsidiaries (deposits with no stated maturity are not eligible for a fair value option election), including structured certificates of deposit, which are hybrid financial instruments; and
- Certain subordinated liabilities of consolidated VIEs.

### Fair Value of Other Financial Assets and Financial Liabilities by Level

The table below presents, by level within the fair value hierarchy, other financial assets and financial liabilities accounted for at fair value primarily under the fair value option.

<i>\$ in millions</i>	Level 1	Level 2	Level 3	Total
<b>As of September 2016</b>				
<b>Assets</b>				
Securities segregated for regulatory and other purposes	\$19,186	\$ 16,872	\$ —	\$ 36,058
Securities purchased under agreements to resell	—	93,352	—	93,352
Securities borrowed	—	78,788	—	78,788
Receivables from customers and counterparties	—	3,242	55	3,297
<b>Total</b>	<b>\$19,186</b>	<b>\$ 192,254</b>	<b>\$ 55</b>	<b>\$ 211,495</b>

<b>Liabilities</b>				
Deposits	\$ —	\$ (10,878)	\$ (3,218)	\$ (14,096)
Securities sold under agreements to repurchase	—	(73,830)	(75)	(73,905)
Securities loaned	—	(1,969)	—	(1,969)
Other secured financings	—	(21,390)	(616)	(22,006)
Unsecured borrowings:				
Short-term	—	(13,069)	(3,672)	(16,741)
Long-term	—	(22,828)	(7,438)	(30,266)
Other liabilities and accrued expenses	—	(556)	(109)	(665)
<b>Total</b>	<b>\$ —</b>	<b>\$ (144,520)</b>	<b>\$ (15,128)</b>	<b>\$ (159,648)</b>

#### As of December 2015

<b>Assets</b>				
Securities segregated for regulatory and other purposes	\$19,562	\$ 18,942	\$ —	\$ 38,504
Securities purchased under agreements to resell	—	119,450	—	119,450
Securities borrowed	—	69,801	—	69,801
Receivables from customers and counterparties	—	4,947	45	4,992
<b>Total</b>	<b>\$19,562</b>	<b>\$ 213,140</b>	<b>\$ 45</b>	<b>\$ 232,747</b>

<b>Liabilities</b>				
Deposits	\$ —	\$ (12,465)	\$ (2,215)	\$ (14,680)
Securities sold under agreements to repurchase	—	(85,998)	(71)	(86,069)
Securities loaned	—	(466)	—	(466)
Other secured financings	—	(22,658)	(549)	(23,207)
Unsecured borrowings:				
Short-term	—	(13,610)	(4,133)	(17,743)
Long-term	—	(18,049)	(4,224)	(22,273)
Other liabilities and accrued expenses	—	(1,201)	(52)	(1,253)
<b>Total</b>	<b>\$ —</b>	<b>\$ (154,447)</b>	<b>\$ (11,244)</b>	<b>\$ (165,691)</b>

## Notes to Condensed Consolidated Financial Statements (Unaudited)

In the table above:

- Securities segregated for regulatory and other purposes include segregated securities accounted for at fair value under the fair value option and includes securities borrowed and resale agreements.
- Level 1 other financial assets at fair value include U.S. Treasury securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP.
- Other financial assets are shown as positive amounts and other financial liabilities are shown as negative amounts.

### Valuation Techniques and Significant Inputs

Other financial assets and financial liabilities at fair value are generally valued based on discounted cash flow techniques, which incorporate inputs with reasonable levels of price transparency, and are generally classified as level 2 because the inputs are observable. Valuation adjustments may be made for liquidity and for counterparty and the firm's credit quality.

See below for information about the significant inputs used to value other financial assets and financial liabilities at fair value, including the ranges of significant unobservable inputs used to value the level 3 instruments within these categories. These ranges represent the significant unobservable inputs that were used in the valuation of each type of other financial assets and financial liabilities at fair value. 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 instrument. For example, the highest yield presented below for other secured financings is appropriate for valuing a specific agreement in that category but may not be appropriate for valuing any other agreements in that category. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 other financial assets and financial liabilities.

### Resale and Repurchase Agreements and Securities Borrowed and Loaned.

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. As of both September 2016 and December 2015, the firm had no level 3 resale agreements, securities borrowed or securities loaned. As of both September 2016 and December 2015, the firm's level 3 repurchase agreements were not material. See Note 10 for further information about collateralized agreements and financings.

**Other Secured Financings.** The significant inputs to the valuation of other secured financings 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 firm (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 ranges of significant unobservable inputs used to value level 3 other secured financings are as follows:

As of September 2016:

- Yield: 0.5% to 12.8% (weighted average: 3.1%)
- Duration: 1.3 to 8.1 years (weighted average: 3.0 years)

As of December 2015:

- Yield: 0.6% to 10.0% (weighted average: 2.7%)
- Duration: 1.6 to 8.8 years (weighted average: 2.8 years)

Generally, increases in funding spreads, yield or duration, in isolation, would result in a lower fair value measurement. Due to the distinctive nature of each of the firm's level 3 other secured financings, the interrelationship of inputs is not necessarily uniform across such financings. See Note 10 for further information about collateralized agreements and financings.

### Unsecured Short-term and Long-term Borrowings.

The significant inputs to the valuation of unsecured short-term and long-term borrowings at fair value are the amount and timing of expected future cash flows, interest rates, the credit spreads of the firm, as well as commodity prices in the case of prepaid commodity transactions. The inputs used to value the embedded derivative component of hybrid financial instruments are consistent with the inputs used to value the firm's other derivative instruments. See Note 7 for further information about derivatives. See Notes 15 and 16 for further information about unsecured short-term and long-term borrowings, respectively.

Certain of the firm's unsecured short-term and long-term borrowings are included in level 3, substantially all of which are hybrid financial instruments. As the significant unobservable inputs used to value hybrid financial instruments primarily relate to the embedded derivative component of these borrowings, these inputs are incorporated in the firm's derivative disclosures related to unobservable inputs in Note 7.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Receivables from Customers and Counterparties.

Receivables from customers and counterparties at fair value are primarily comprised of transfers of assets accounted for as secured loans rather than purchases. 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. As of both September 2016 and December 2015, the firm's level 3 receivables from customers and counterparties were not material.

**Deposits.** The significant inputs to the valuation of time deposits are interest rates and the amount and timing of future cash flows. The inputs used to value the embedded derivative component of hybrid financial instruments are consistent with the inputs used to value the firm's other derivative instruments. See Note 7 for further information about derivatives. See Note 14 for further information about deposits.

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

### Transfers Between Levels of the Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. There were no transfers of other financial assets and financial liabilities between level 1 and level 2 during the three and nine months ended September 2016 and September 2015. The table below presents information about transfers between level 2 and level 3.

#### Level 3 Rollforward

The table below presents changes in fair value for other financial assets and financial liabilities accounted for at fair value categorized as level 3 as of the end of the period. In the table below:

- 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 other financial assets, increases are shown as positive amounts, while decreases are shown as negative amounts. For level 3 other financial liabilities, increases are shown as negative amounts, while decreases are shown as positive amounts.

- Level 3 other financial assets and liabilities are frequently economically hedged with cash instruments and derivatives. Accordingly, gains or losses that are reported in level 3 can be partially offset by gains or losses attributable to level 1, 2 or 3 cash instruments or derivatives. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources.
- Net unrealized gains/(losses) relate to instruments that were still held at period-end.
- For the three months ended September 2016, the net realized and unrealized losses on level 3 other financial liabilities of \$329 million (reflecting \$23 million of realized losses and \$306 million of unrealized losses) include losses of approximately \$302 million, \$18 million and \$2 million reported in "Market making," "Other principal transactions" and "Interest expense," respectively, in the condensed consolidated statements of earnings and losses of \$7 million reported in "Debt valuation adjustment" in the condensed consolidated statements of comprehensive income.
- For the nine months ended September 2016, the net realized and unrealized losses on level 3 other financial liabilities of \$411 million (reflecting \$76 million of realized losses and \$335 million of unrealized losses) include losses of approximately \$332 million, \$32 million and \$7 million reported in "Market making," "Other principal transactions" and "Interest expense," respectively, in the condensed consolidated statements of earnings and losses of \$40 million reported in "Debt valuation adjustment" in the condensed consolidated statements of comprehensive income.
- For the three months ended September 2015, the net realized and unrealized gains on level 3 other financial liabilities of \$828 million (reflecting \$58 million of realized gains and \$770 million of unrealized gains) include gains/(losses) of approximately \$786 million, \$46 million and \$(4) million reported in "Market making," "Other principal transactions" and "Interest expense," respectively.
- For the nine months ended September 2015, the net realized and unrealized gains on level 3 other financial liabilities of \$823 million (reflecting \$36 million of realized gains and \$787 million of unrealized gains) include gains/(losses) of approximately \$977 million, \$(134) million and \$(20) million reported in "Market making," "Other principal transactions" and "Interest expense," respectively.

See "Level 3 Rollforward Commentary" below for an explanation of the net unrealized gains/(losses) on level 3 other financial assets and liabilities and the activity related to transfers into and out of level 3.



## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Level 3 Other Financial Assets and Liabilities at Fair Value

<i>\$ in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/ (losses)	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
<b>Three Months Ended September 2016</b>										
Receivables from customers and counterparties	\$ 48	\$ 1	\$ 1	\$ 6	\$—	\$ —	\$ (1)	\$ —	\$ —	\$ 55
<b>Total other financial assets</b>	<b>\$ 48</b>	<b>\$ 1</b>	<b>\$ 1</b>	<b>\$ 6</b>	<b>\$—</b>	<b>\$ —</b>	<b>\$ (1)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 55</b>
Deposits	\$ (2,936)	\$ (7)	\$ —	\$ —	\$—	\$ (284)	\$ 9	\$ —	\$ —	\$ (3,218)
Securities sold under agreements to repurchase	(76)	—	—	—	—	—	1	—	—	(75)
Other secured financings	(688)	(1)	(9)	(3)	—	(1)	191	(106)	1	(616)
Unsecured short-term borrowings	(4,654)	—	(218)	—	—	(692)	1,208	(76)	760	(3,672)
Unsecured long-term borrowings	(6,626)	(19)	(88)	—	—	(1,160)	378	(48)	125	(7,438)
Other liabilities and accrued expenses	(109)	4	9	—	—	(13)	—	—	—	(109)
<b>Total other financial liabilities</b>	<b>\$(15,089)</b>	<b>\$(23)</b>	<b>\$(306)</b>	<b>\$ (3)</b>	<b>\$—</b>	<b>\$(2,150)</b>	<b>\$1,787</b>	<b>\$ (230)</b>	<b>\$ 886</b>	<b>\$(15,128)</b>
<b>Nine Months Ended September 2016</b>										
Receivables from customers and counterparties	\$ 45	\$ 2	\$ 1	\$ 10	\$—	\$ —	\$ (3)	\$ —	\$ —	\$ 55
<b>Total other financial assets</b>	<b>\$ 45</b>	<b>\$ 2</b>	<b>\$ 1</b>	<b>\$ 10</b>	<b>\$—</b>	<b>\$ —</b>	<b>\$ (3)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 55</b>
Deposits	\$ (2,215)	\$(20)	\$(208)	\$ —	\$—	\$ (797)	\$ 22	\$ —	\$ —	\$ (3,218)
Securities sold under agreements to repurchase	(71)	—	(6)	—	—	—	2	—	—	(75)
Other secured financings	(549)	(4)	(33)	(8)	6	(141)	228	(116)	1	(616)
Unsecured short-term borrowings	(4,133)	(33)	(98)	—	—	(3,327)	3,522	(427)	824	(3,672)
Unsecured long-term borrowings	(4,224)	(27)	21	(2)	—	(4,676)	1,417	(260)	313	(7,438)
Other liabilities and accrued expenses	(52)	8	(11)	—	—	(55)	1	—	—	(109)
<b>Total other financial liabilities</b>	<b>\$(11,244)</b>	<b>\$(76)</b>	<b>\$(335)</b>	<b>\$(10)</b>	<b>\$ 6</b>	<b>\$(8,996)</b>	<b>\$5,192</b>	<b>\$ (803)</b>	<b>\$1,138</b>	<b>\$(15,128)</b>
<b>Three Months Ended September 2015</b>										
Receivables from customers and counterparties	\$ 42	\$ —	\$ —	\$ 2	\$ (3)	\$ —	\$ 1	\$ —	\$ —	\$ 42
<b>Total other financial assets</b>	<b>\$ 42</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2</b>	<b>\$ (3)</b>	<b>\$ —</b>	<b>\$ 1</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 42</b>
Deposits	\$ (1,680)	\$ (3)	\$ 11	\$ —	\$—	\$ (295)	\$ 8	\$ —	\$ —	\$ (1,959)
Securities sold under agreements to repurchase	(82)	—	—	—	—	—	16	—	—	(66)
Other secured financings	(1,479)	(4)	64	(10)	—	(125)	84	(312)	1	(1,781)
Unsecured short-term borrowings	(4,490)	66	548	—	—	(1,023)	552	(154)	62	(4,439)
Unsecured long-term borrowings	(3,462)	(2)	155	—	—	(586)	98	(227)	62	(3,962)
Other liabilities and accrued expenses	(1,145)	1	(8)	—	—	(1)	1	(23)	1,125	(50)
<b>Total other financial liabilities</b>	<b>\$(12,338)</b>	<b>\$ 58</b>	<b>\$ 770</b>	<b>\$(10)</b>	<b>\$—</b>	<b>\$(2,030)</b>	<b>\$ 759</b>	<b>\$ (716)</b>	<b>\$1,250</b>	<b>\$(12,257)</b>
<b>Nine Months Ended September 2015</b>										
Receivables from customers and counterparties	\$ 56	\$ 1	\$ (4)	\$ 6	\$ (3)	\$ —	\$ (21)	\$ 7	\$ —	\$ 42
<b>Total other financial assets</b>	<b>\$ 56</b>	<b>\$ 1</b>	<b>\$ (4)</b>	<b>\$ 6</b>	<b>\$ (3)</b>	<b>\$ —</b>	<b>\$ (21)</b>	<b>\$ 7</b>	<b>\$ —</b>	<b>\$ 42</b>
Deposits	\$ (1,065)	\$ (6)	\$ 64	\$ —	\$—	\$ (997)	\$ 45	\$ —	\$ —	\$ (1,959)
Securities sold under agreements to repurchase	(124)	—	(1)	—	—	—	59	—	—	(66)
Other secured financings	(1,091)	(20)	84	(10)	32	(630)	290	(481)	45	(1,781)
Unsecured short-term borrowings	(3,712)	62	356	—	—	(2,735)	1,882	(669)	377	(4,439)
Unsecured long-term borrowings	(2,585)	(4)	292	—	—	(2,364)	726	(421)	394	(3,962)
Other liabilities and accrued expenses	(715)	4	(8)	—	—	(1)	7	(23)	686	(50)
<b>Total other financial liabilities</b>	<b>\$( 9,292)</b>	<b>\$ 36</b>	<b>\$ 787</b>	<b>\$(10)</b>	<b>\$32</b>	<b>\$(6,727)</b>	<b>\$3,009</b>	<b>\$(1,594)</b>	<b>\$1,502</b>	<b>\$(12,257)</b>

**Notes to Condensed Consolidated Financial Statements  
(Unaudited)****Level 3 Rollforward Commentary**

**Three Months Ended September 2016.** The net unrealized loss on level 3 other financial assets and liabilities of \$305 million (reflecting \$1 million of gains on other financial assets and \$306 million of losses on other financial liabilities) for the three months ended September 2016 primarily consisted of losses on certain hybrid financial instruments included in unsecured short-term borrowings, principally due to changes in foreign exchange rates and an increase in global equity prices.

Transfers into level 3 of other financial liabilities during the three months ended September 2016 primarily reflected transfers of certain hybrid financial instruments included in other secured financings, principally due to reduced transparency of certain yield inputs used to value these instruments and transfers of certain hybrid financial instruments included in unsecured short-term borrowings, principally due to reduced transparency of certain correlation and volatility inputs used to value these instruments.

Transfers out of level 3 of other financial liabilities during the three months ended September 2016 primarily reflected transfers of certain hybrid financial instruments included in unsecured short-term borrowings, principally due to increased transparency of certain inputs, including correlation and volatility inputs used to value these instruments.

**Nine Months Ended September 2016.** The net unrealized loss on level 3 other financial assets and liabilities of \$334 million (reflecting \$1 million of gains on other financial assets and \$335 million of losses on other financial liabilities) for the nine months ended September 2016 primarily consisted of losses on certain hybrid financial instruments included in deposits, principally due to the impact of an increase in the market value of the underlying assets.

Transfers into level 3 of other financial liabilities during the nine months ended September 2016 primarily reflected transfers of certain hybrid financial instruments included in unsecured short-term and long-term borrowings, principally due to reduced transparency of certain correlation and volatility inputs used to value these instruments.

Transfers out of level 3 of other financial liabilities during the nine months ended September 2016 primarily reflected transfers of certain hybrid financial instruments included in unsecured short-term borrowings, principally due to increased transparency of certain inputs, including correlation and volatility inputs used to value these instruments.

**Three Months Ended September 2015.** The net unrealized gain on level 3 other financial liabilities of \$770 million for the three months ended September 2015 primarily reflected gains on certain hybrid financial instruments included in unsecured short-term borrowings and unsecured long-term borrowings, principally due to a decrease in global equity prices and the impact of wider credit spreads.

Transfers into level 3 of other financial liabilities during the three months ended September 2015 primarily reflected transfers of certain other secured financings from level 2, principally due to reduced transparency of certain yield and funding spread inputs used to value these instruments, and transfers of certain hybrid financial instruments included in unsecured long-term and short-term borrowings from level 2, principally due to reduced transparency of certain correlation and volatility inputs used to value these instruments.

Transfers out of level 3 of other financial liabilities during the three months ended September 2015 primarily reflected transfers of certain subordinated liabilities included in other liabilities and accrued expenses to level 2, principally due to increased price transparency as a result of market transactions in the related underlying investments.

**Nine Months Ended September 2015.** The net unrealized gain on level 3 other financial assets and liabilities of \$783 million (reflecting \$4 million of losses on other financial assets and \$787 million of gains on other financial liabilities) for the nine months ended September 2015 primarily reflected gains on certain hybrid financial instruments included in unsecured short-term borrowings and long-term borrowings, principally due to a decrease in global equity prices and the impact of wider credit spreads.

Transfers into level 3 of other financial liabilities during the nine months ended September 2015 primarily reflected transfers of certain hybrid financial instruments included in unsecured short-term and long-term borrowings from level 2, principally due to reduced transparency of certain correlation and volatility inputs used to value these instruments, transfers from level 3 unsecured long-term borrowings to level 3 unsecured short-term borrowings, as these borrowings neared maturity, and transfers of certain other secured financings from level 2, principally due to reduced transparency of certain yield and funding spread inputs used to value these instruments.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

Transfers out of level 3 of other financial liabilities during the nine months ended September 2015 primarily reflected transfers of certain subordinated liabilities included in other liabilities and accrued expenses to level 2, principally due to increased price transparency as a result of market transactions in the related underlying investments, transfers of certain hybrid financial instruments included in unsecured long-term and short-term borrowings to level 2, principally due to increased transparency of certain correlation and volatility inputs used to value these instruments, and transfers to level 3 unsecured short-term borrowings from level 3 unsecured long-term borrowings as these borrowings neared maturity.

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

The table below presents the gains and losses recognized in earnings as a result of the firm electing to apply the fair value option to certain financial assets and financial liabilities. These gains and losses are included in “Market making” and “Other principal transactions.” The table below also includes gains and losses on the embedded derivative component of hybrid financial instruments included in unsecured short-term borrowings, unsecured long-term borrowings and deposits. These gains and losses would have been recognized under other U.S. GAAP even if the firm had not elected to account for the entire hybrid financial instrument at fair value.

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Unsecured short-term borrowings	<b>\$(832)</b>	\$1,845	<b>\$(773)</b>	\$947
Unsecured long-term borrowings	<b>(19)</b>	273	<b>(608)</b>	746
Other liabilities and accrued expenses	<b>1</b>	(237)	<b>(86)</b>	(676)
Other	<b>(85)</b>	34	<b>(629)</b>	(28)
<b>Total</b>	<b>\$(935)</b>	\$1,915	<b>\$(2,096)</b>	\$989

In the table above:

- Gains/(losses) exclude contractual interest, which is included in “Interest income” and “Interest expense,” for all instruments other than hybrid financial instruments. See Note 23 for further information about interest income and interest expense.
- Unsecured short-term borrowings includes gains/(losses) on the embedded derivative component of hybrid financial instruments of \$(850) million and \$1.84 billion for the three months ended September 2016 and September 2015, respectively, and \$(782) million and \$925 million for the nine months ended September 2016 and September 2015, respectively.

- Unsecured long-term borrowings includes gains/(losses) on the embedded derivative component of hybrid financial instruments of \$28 million and \$112 million for the three months ended September 2016 and September 2015, respectively, and \$(420) million and \$645 million for the nine months ended September 2016 and September 2015, respectively.
- Other liabilities and accrued expenses includes gains/(losses) on certain subordinated liabilities of consolidated VIEs.
- Other primarily consists of gains/(losses) on receivables from customers and counterparties, deposits and other secured financings.

Excluding the gains and losses on the instruments accounted for under the fair value option described above, “Market making” and “Other principal transactions” primarily represent gains and losses on “Financial instruments owned, at fair value” and “Financial instruments sold, but not yet purchased, at fair value.”

### Loans and Lending Commitments

The table below presents the difference between the aggregate fair value and the aggregate contractual principal amount for loans and long-term receivables for which the fair value option was elected. In the table below, the aggregate contractual principal amount of loans on non-accrual status and/or more than 90 days past due (which excludes loans carried at zero fair value and considered uncollectible) exceeds the related fair value primarily because the firm regularly purchases loans, such as distressed loans, at values significantly below the contractual principal amounts.

\$ in millions	As of	
	September 2016	December 2015
<b>Performing loans and long-term receivables</b>		
Aggregate contractual principal in excess of fair value	<b>\$ 869</b>	\$1,330
<b>Loans on non-accrual status and/or more than 90 days past due</b>		
Aggregate contractual principal in excess of fair value	<b>9,132</b>	9,600
Aggregate fair value of loans on non-accrual status and/or more than 90 days past due	<b>2,454</b>	2,391

As of September 2016 and December 2015, the fair value of unfunded lending commitments for which the fair value option was elected was a liability of \$88 million and \$211 million, respectively, and the related total contractual amount of these lending commitments was \$7.55 billion and \$14.01 billion, respectively. See Note 18 for further information about lending commitments.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Long-Term Debt Instruments

The aggregate contractual principal amount of long-term other secured financings for which the fair value option was elected exceeded the related fair value by \$500 million and \$362 million as of September 2016 and December 2015, respectively. The aggregate contractual principal amount of unsecured long-term borrowings for which the fair value option was elected exceeded the related fair value by \$740 million and \$1.12 billion as of September 2016 and December 2015, respectively. The amounts above include both principal- and non-principal-protected long-term borrowings.

### Impact of Credit Spreads on Loans and Lending Commitments

The estimated net gain attributable to changes in instrument-specific credit spreads on loans and lending commitments for which the fair value option was elected was \$157 million and \$165 million for the three months ended September 2016 and September 2015, respectively, and \$270 million and \$835 million for the nine months ended September 2016 and September 2015, respectively. The firm generally calculates the fair value of loans and lending commitments for which the fair value option is elected by discounting future cash flows at a rate which incorporates the instrument-specific credit spreads. For floating-rate loans and lending commitments, substantially all changes in fair value are attributable to changes in instrument-specific credit spreads, whereas for fixed-rate loans and lending commitments, changes in fair value are also attributable to changes in interest rates.

### Debt Valuation Adjustment

The firm calculates the fair value of financial liabilities for which the fair value option is elected by discounting future cash flows at a rate which incorporates the firm's credit spreads. The net DVA on such financial liabilities was a loss of \$13 million (both gross and net of tax) for the three months ended September 2016 and \$116 million (\$75 million, net of tax) for the nine months ended September 2016, and was included in "Debt valuation adjustment" in the condensed consolidated statements of comprehensive income. The gains/(losses) reclassified to earnings from accumulated other comprehensive loss upon extinguishment of such financial liabilities were not material for both the three and nine months ended September 2016.

### Note 9.

### Loans Receivable

Loans receivable is comprised of loans held for investment that are accounted for at amortized cost net of allowance for loan losses. Interest on loans receivable is recognized over the life of the loan and is recorded on an accrual basis.

The table below presents details about loans receivable.

<i>\$ in millions</i>	As of	
	<b>September 2016</b>	December 2015
Corporate loans	<b>\$24,936</b>	\$20,740
Loans to private wealth management clients	<b>14,374</b>	13,961
Loans backed by commercial real estate	<b>4,550</b>	5,271
Loans backed by residential real estate	<b>3,248</b>	2,316
Other loans	<b>2,447</b>	3,533
Total loans receivable, gross	<b>49,555</b>	45,821
Allowance for loan losses	<b>(491)</b>	(414)
<b>Total loans receivable</b>	<b>\$49,064</b>	\$45,407

As of September 2016 and December 2015, the fair value of loans receivable was \$49.20 billion and \$45.19 billion, respectively. As of September 2016, had these loans been carried at fair value and included in the fair value hierarchy, \$24.23 billion and \$24.97 billion would have been classified in level 2 and level 3, respectively. As of December 2015, had these loans been carried at fair value and included in the fair value hierarchy, \$23.91 billion and \$21.28 billion would have been classified in level 2 and level 3, respectively.

The firm also extends lending commitments that are held for investment and accounted for on an accrual basis. As of September 2016 and December 2015, such lending commitments were \$91.15 billion and \$93.92 billion, respectively, substantially all of which were extended to corporate borrowers. The carrying value and the estimated fair value of such lending commitments were liabilities of \$306 million and \$2.69 billion, respectively, as of September 2016, and \$291 million and \$3.32 billion, respectively, as of December 2015. As of September 2016, had these lending commitments been carried at fair value and included in the fair value hierarchy, \$1.19 billion and \$1.50 billion would have been classified in level 2 and level 3, respectively. As of December 2015, had these lending commitments been carried at fair value and included in the fair value hierarchy, \$1.35 billion and \$1.97 billion would have been classified in level 2 and level 3, respectively.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

The following is a description of the captions in the table above:

- **Corporate Loans.** Corporate loans include term loans, revolving lines of credit, letter of credit facilities and bridge loans, and are principally used for operating liquidity and general corporate purposes, or in connection with acquisitions. Corporate loans may be secured or unsecured, depending on the loan purpose, the risk profile of the borrower and other factors.
- **Loans to Private Wealth Management Clients.** Loans to the firm's private wealth management clients include loans used by clients to finance private asset purchases, employ leverage for strategic investments in real or financial assets, bridge cash flow timing gaps or provide liquidity for other needs. Such loans are primarily secured by securities or other assets.
- **Loans Backed by Commercial Real Estate.** Loans backed by commercial real estate include loans extended by the firm that are directly or indirectly secured by hotels, retail stores, multifamily housing complexes and commercial and industrial properties. Loans backed by commercial real estate also include loans purchased by the firm.
- **Loans Backed by Residential Real Estate.** Loans backed by residential real estate include loans extended by the firm to clients who warehouse assets that are directly or indirectly secured by residential real estate. Loans backed by residential real estate also include loans purchased by the firm.
- **Other Loans.** Other loans primarily include loans extended to clients who warehouse assets that are directly or indirectly secured by consumer loans, including auto loans, and private student loans and other assets.

Loans receivable includes Purchased Credit Impaired (PCI) loans. PCI loans represent acquired loans or pools of loans with evidence of credit deterioration subsequent to their origination and where it is probable, at acquisition, that the firm will not be able to collect all contractually required payments. Loans acquired within the same reporting period, which have at least two common risk characteristics, one of which relates to their credit risk, are eligible to be pooled together and considered a single unit of account. PCI loans are initially recorded at acquisition price and the difference between the acquisition price and the expected cash flows (accretable yield) is recognized over the life of such loans or pools of loans on an effective yield method. Expected cash flows on PCI loans are determined using various inputs and assumptions, including default rates, loss severities, recoveries, amount and timing of prepayments and other macroeconomic indicators.

As of September 2016, the gross carrying value of PCI loans was \$3.09 billion (including \$1.14 billion, \$1.93 billion and \$21 million related to loans backed by commercial real estate, loans backed by residential real estate and other consumer loans, respectively). The outstanding principal balance and accretable yield related to such loans was \$7.47 billion and \$500 million, respectively, as of September 2016. At the time of acquisition, the fair value, related expected cash flows, and the contractually required cash flows of PCI loans acquired during the three months ended September 2016 were \$507 million, \$556 million and \$1.17 billion, and during the nine months ended September 2016 were \$1.36 billion, \$1.55 billion and \$3.41 billion, respectively. As of December 2015, the gross carrying value of PCI loans was \$2.12 billion (including \$1.16 billion, \$941 million and \$23 million related to loans backed by commercial real estate, loans backed by residential real estate and other consumer loans, respectively). The outstanding principal balance and accretable yield related to such loans was \$5.54 billion and \$234 million, respectively, as of December 2015.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Credit Quality

The firm's risk assessment process includes evaluating the credit quality of its loans receivable. For loans receivable (excluding PCI loans), the firm performs credit reviews which include initial and ongoing analyses of its borrowers. A credit review is an independent analysis of the capacity and willingness of a borrower 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 borrower's industry, and the economic environment. The firm also assigns a regulatory risk rating to such loans based on the definitions provided by the U.S. federal bank regulatory agencies. Such loans are determined to be impaired when it is probable that the firm will not be able to collect all principal and interest due under the contractual terms of the loan. At that time, loans are generally placed on non-accrual status and all accrued but uncollected interest is reversed against interest income, and interest subsequently collected is recognized on a cash basis to the extent the loan balance is deemed collectible. Otherwise, all cash received is used to reduce the outstanding loan balance.

In certain circumstances, the firm may also modify the original terms of a loan agreement by granting a concession to a borrower experiencing financial difficulty. Such modifications are considered troubled debt restructurings and typically include interest rate reductions, payment extensions, and modification of loan covenants. Loans modified in a troubled debt restructuring are considered impaired and are subject to specific loan-level reserves.

As of September 2016 and December 2015, impaired loans receivable (excluding PCI loans) on non-accrual status were \$455 million and \$223 million, respectively. As of September 2016, such loans included \$154 million of corporate loans that were modified in a troubled debt restructuring, and the firm had \$153 million in lending commitments related to these loans. There were no such loans as of December 2015.

For PCI loans, the firm's risk assessment process includes reviewing certain key metrics, such as delinquency status, collateral values, credit scores and other risk factors. When it is determined that the firm cannot reasonably estimate expected cash flows on the PCI loans or pools of loans, such loans are placed on non-accrual status.

The table below presents gross loans receivable (excluding PCI loans of \$3.09 billion and \$2.12 billion as of September 2016 and December 2015, respectively, which are not assigned a credit rating equivalent) and related lending commitments by the firm's internally determined public rating agency equivalent and by regulatory risk rating. Non-criticized/pass loans and lending commitments represent loans and lending commitments that are performing and/or do not demonstrate adverse characteristics that are likely to result in a credit loss.

<i>\$ in millions</i>	Loans	Lending Commitments	Total
<b>Credit Rating Equivalent</b>			
<b>As of September 2016</b>			
Investment-grade	\$19,155	\$65,819	\$ 84,974
Non-investment-grade	27,312	25,336	52,648
<b>Total</b>	<b>\$46,467</b>	<b>\$91,155</b>	<b>\$137,622</b>
<b>As of December 2015</b>			
Investment-grade	\$19,459	\$64,898	\$ 84,357
Non-investment-grade	24,241	29,021	53,262
<b>Total</b>	<b>\$43,700</b>	<b>\$93,919</b>	<b>\$137,619</b>
<b>Regulatory Risk Rating</b>			
<b>As of September 2016</b>			
Non-criticized/pass	\$43,419	\$87,830	\$131,249
Criticized	3,048	3,325	6,373
<b>Total</b>	<b>\$46,467</b>	<b>\$91,155</b>	<b>\$137,622</b>
<b>As of December 2015</b>			
Non-criticized/pass	\$40,967	\$92,021	\$132,988
Criticized	2,733	1,898	4,631
<b>Total</b>	<b>\$43,700</b>	<b>\$93,919</b>	<b>\$137,619</b>

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Allowance for Losses on Loans and Lending Commitments

The firm's allowance for loan losses is comprised of specific loan-level reserves, portfolio level reserves, and reserves on PCI loans as described below:

- Specific loan-level reserves are determined on loans (excluding PCI loans) that exhibit credit quality weakness and are therefore individually evaluated for impairment.
- Portfolio level reserves are determined on loans (excluding PCI loans) not deemed impaired by aggregating groups of loans with similar risk characteristics and estimating the probable loss inherent in the portfolio.
- Reserves on PCI loans are recorded when it is determined that the expected cash flows, which are reassessed on a quarterly basis, will be lower than those used to establish the current effective yield for such loans or pools of loans. If the expected cash flows are determined to be significantly higher than those used to establish the current effective yield, such increases are initially recognized as a reduction to any previously recorded allowances for loan losses and any remaining increases are recognized as interest income prospectively over the life of the loan or pools of loans as an increase to the effective yield.

The allowance for loan losses is determined using various inputs, including industry default and loss data, current macroeconomic indicators, borrower's capacity to meet its financial obligations, borrower's country of risk, loan seniority and collateral type. Management's estimate of loan losses entails judgment about loan collectability at the reporting dates, and there are uncertainties inherent in those judgments. While management uses the best information available to determine this estimate, future adjustments to the allowance may be necessary based on, among other things, changes in the economic environment or variances between actual results and the original assumptions used. Loans are charged off against the allowance for loan losses when deemed to be uncollectible. As of September 2016 and December 2015, substantially all of the firm's loans receivable were evaluated for impairment at the portfolio level.

The firm also records an allowance for losses on lending commitments that are held for investment and accounted for on an accrual basis. Such allowance is determined using the same methodology as the allowance for loan losses, while also taking into consideration the probability of drawdowns or funding, and is included in "Other liabilities and accrued expenses." As of September 2016 and December 2015, substantially all of such lending commitments were evaluated for impairment at the portfolio level.

The table below presents changes in the allowance for loan losses and the allowance for losses on lending commitments. In the table below, Other represents the reduction to the allowance related to loans and lending commitments transferred to held for sale.

<i>\$ in millions</i>	Nine Months Ended September 2016	Year Ended December 2015
<b>Allowance for loan losses</b>		
Balance, beginning of period	\$414	\$228
Charge-offs	(8)	(1)
Provision	113	187
Other	(28)	—
<b>Balance, end of period</b>	<b>\$491</b>	<b>\$414</b>
<b>Allowance for losses on lending commitments</b>		
Balance, beginning of period	\$188	\$ 86
Provision	35	102
Other	(16)	—
<b>Balance, end of period</b>	<b>\$207</b>	<b>\$188</b>

The provision for losses on loans and lending commitments is included in "Other principal transactions." As of September 2016 and December 2015, substantially all of the allowance for loan losses and allowance for losses on lending commitments were related to corporate loans and corporate lending commitments and were primarily determined at the portfolio level. The firm's allowance for losses on PCI loans as of September 2016 was not material. There was no allowance for losses on PCI loans as of December 2015.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Note 10.

#### Collateralized Agreements and Financings

Collateralized agreements are securities purchased under agreements to resell (resale agreements) and securities borrowed. Collateralized financings are securities sold under agreements to repurchase (repurchase agreements), securities loaned and other secured financings. The firm enters into these transactions in order to, among other things, facilitate client activities, invest excess cash, acquire securities to cover short positions and finance certain firm activities.

Collateralized agreements and financings are presented on a net-by-counterparty basis when a legal right of setoff exists. Interest on collateralized agreements and collateralized financings is recognized over the life of the transaction and included in “Interest income” and “Interest expense,” respectively. See Note 23 for further information about interest income and interest expense.

The table below presents the carrying value of resale and repurchase agreements and securities borrowed and loaned transactions.

<i>\$ in millions</i>	As of	
	September 2016	December 2015
Securities purchased under agreements to resell	\$ 94,220	\$120,905
Securities borrowed	185,468	172,099
Securities sold under agreements to repurchase	73,905	86,069
Securities loaned	5,256	3,614

In the table above:

- Substantially all resale agreements and all repurchase agreements are carried at fair value under the fair value option. See Note 8 for further information about the valuation techniques and significant inputs used to determine fair value.
- As of September 2016 and December 2015, \$78.79 billion and \$69.80 billion of securities borrowed, and \$1.97 billion and \$466 million of securities loaned were at fair value, respectively.

#### Resale and Repurchase Agreements

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

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

Even though repurchase and resale agreements (including “repos- and reverses-to-maturity”) involve the legal transfer of ownership of financial instruments, they are accounted for as financing arrangements because they require the financial instruments to be repurchased or resold before or at the maturity of the agreement. The financial instruments purchased or sold in resale and repurchase agreements typically include U.S. government and federal agency, and investment-grade sovereign obligations.

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



## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Securities Borrowed and Loaned Transactions

In a securities borrowed transaction, the firm borrows securities from a counterparty in exchange for cash or securities. When the firm returns the securities, the counterparty returns the cash or securities. Interest is generally paid periodically over the life of the transaction.

In a securities loaned transaction, the firm lends securities to a counterparty in exchange for cash or securities. When the counterparty returns the securities, the firm returns the cash or securities posted as collateral. Interest is generally paid periodically over the life of the transaction.

The firm receives securities borrowed and makes delivery of securities loaned. To mitigate credit exposure, the firm monitors the market value of these securities on a daily basis, and delivers or obtains additional collateral due to changes in the market value of the securities, as appropriate. For securities borrowed transactions, the firm typically requires collateral with a fair value approximately equal to the carrying value of the securities borrowed transaction.

Securities borrowed and loaned within Fixed Income, Currency and Commodities Client Execution are recorded at fair value under the fair value option. See Note 8 for further information about securities borrowed and loaned accounted for at fair value.

Securities borrowed and loaned within Securities Services are recorded based on the amount of cash collateral advanced or received plus accrued interest. As these arrangements generally can be terminated on demand, they exhibit little, if any, sensitivity to changes in interest rates. Therefore, the carrying value of such arrangements approximates fair value. While these arrangements are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6 through 8. Had these arrangements been included in the firm's fair value hierarchy, they would have been classified in level 2 as of September 2016 and December 2015.

### Offsetting Arrangements

The table below presents the gross and net resale and repurchase agreements and securities borrowed and loaned transactions, and the related amount of counterparty netting included in the condensed consolidated statements of financial condition. The table below also presents the amounts not offset in the condensed consolidated statements of financial condition, including counterparty netting that does not meet the criteria for netting under U.S. GAAP and the fair value of cash or securities collateral received or posted subject to enforceable credit support agreements.

	Assets		Liabilities	
	Resale agreements	Securities borrowed	Repurchase agreements	Securities loaned
<i>\$ in millions</i>				
<b>As of September 2016</b>				
<b>Included in the condensed consolidated statements of financial condition</b>				
Gross carrying value	\$ 149,386	\$ 190,897	\$ 114,013	\$ 8,871
Counterparty netting	(40,108)	(3,615)	(40,108)	(3,615)
<b>Total</b>	<b>109,278</b>	<b>187,282</b>	<b>73,905</b>	<b>5,256</b>
<b>Amounts not offset</b>				
Counterparty netting	(8,440)	(2,908)	(8,440)	(2,908)
Collateral	(98,884)	(173,473)	(63,714)	(2,089)
<b>Total</b>	<b>\$ 1,954</b>	<b>\$ 10,901</b>	<b>\$ 1,751</b>	<b>\$ 259</b>
<b>As of December 2015</b>				
<b>Included in the condensed consolidated statements of financial condition</b>				
Gross carrying value	\$ 163,199	\$ 180,203	\$ 114,960	\$ 6,179
Counterparty netting	(28,891)	(2,565)	(28,891)	(2,565)
<b>Total</b>	<b>134,308</b>	<b>177,638</b>	<b>86,069</b>	<b>3,614</b>
<b>Amounts not offset</b>				
Counterparty netting	(4,979)	(1,732)	(4,979)	(1,732)
Collateral	(125,561)	(167,061)	(78,958)	(1,721)
<b>Total</b>	<b>\$ 3,768</b>	<b>\$ 8,845</b>	<b>\$ 2,132</b>	<b>\$ 161</b>

In the table above:

- Substantially all of the gross carrying values of these arrangements are subject to enforceable netting agreements.
- Where the firm has received or posted collateral under credit support agreements, but has not yet determined such agreements are enforceable, the related collateral has not been netted.
- As of September 2016 and December 2015, the firm had \$15.06 billion and \$13.40 billion, respectively, of securities received under resale agreements, and \$1.81 billion and \$5.54 billion, respectively, of securities borrowed transactions that were segregated to satisfy certain regulatory requirements. These securities are included in "Cash and securities segregated for regulatory and other purposes."

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Gross Carrying Value of Repurchase Agreements and Securities Loaned

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

<i>\$ in millions</i>	Repurchase agreements	Securities loaned
<b>As of September 2016</b>		
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 671	\$ —
U.S. government and federal agency obligations	45,401	—
Non-U.S. government and agency obligations	39,929	1,070
Securities backed by commercial real estate	9	—
Securities backed by residential real estate	116	—
Corporate debt securities	9,859	14
State and municipal obligations	111	—
Other debt obligations	14	—
Equities and convertible debentures	17,903	7,787
<b>Total</b>	<b>\$ 114,013</b>	<b>\$ 8,871</b>

#### As of December 2015

Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 806	\$ —
U.S. government and federal agency obligations	54,856	101
Non-U.S. government and agency obligations	31,547	2,465
Securities backed by commercial real estate	269	—
Securities backed by residential real estate	2,059	—
Corporate debt securities	6,877	30
State and municipal obligations	609	—
Other debt obligations	101	—
Equities and convertible debentures	17,836	3,583
<b>Total</b>	<b>\$ 114,960</b>	<b>\$ 6,179</b>

The table below presents the gross carrying value of repurchase agreements and securities loaned by maturity date.

<i>\$ in millions</i>	<b>As of September 2016</b>	
	Repurchase agreements	Securities loaned
No stated maturity and overnight	\$ 33,885	\$ 4,350
2 - 30 days	37,689	2,546
31 - 90 days	10,647	725
91 days - 1 year	23,091	1,250
Greater than 1 year	8,701	—
<b>Total</b>	<b>\$114,013</b>	<b>\$ 8,871</b>

In the table above:

- Repurchase agreements and securities loaned that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates.
- Repurchase agreements and securities loaned that are redeemable prior to maturity at the option of the holders are reflected at the earliest dates such options become exercisable.

### Other Secured Financings

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

- Liabilities of consolidated VIEs;
- Transfers of assets accounted for as financings rather than sales (primarily collateralized central bank financings, pledged commodities, bank loans and mortgage whole loans); and
- Other structured financing arrangements.

Other secured financings include arrangements that are nonrecourse. As of September 2016 and December 2015, nonrecourse other secured financings were \$2.62 billion and \$2.20 billion, respectively.

The firm has elected to apply the fair value option to substantially all other secured financings because the use of fair value eliminates non-economic volatility in earnings that would arise from using different measurement attributes. See Note 8 for further information about other secured financings that are accounted for at fair value.

Other secured financings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, which generally approximates fair value. While these financings are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6 through 8. Had these financings been included in the firm's fair value hierarchy, they would have been primarily classified in level 2 as of September 2016 and December 2015.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

The table below presents information about other secured financings.

<i>\$ in millions</i>	U.S. Dollar	Non-U.S. Dollar	Total
<b>As of September 2016</b>			
Other secured financings (short-term):			
At fair value	<b>\$10,417</b>	<b>\$ 4,768</b>	<b>\$15,185</b>
At amortized cost	<b>3</b>	<b>—</b>	<b>3</b>
Weighted average interest rates	<b>4.33%</b>	<b>—%</b>	
Other secured financings (long-term):			
At fair value	<b>5,689</b>	<b>1,132</b>	<b>6,821</b>
At amortized cost	<b>145</b>	<b>324</b>	<b>469</b>
Weighted average interest rates	<b>3.98%</b>	<b>1.96%</b>	
<b>Total</b>	<b>\$16,254</b>	<b>\$ 6,224</b>	<b>\$22,478</b>
Other secured financings collateralized by:			
Financial instruments	<b>\$15,198</b>	<b>\$ 5,733</b>	<b>\$20,931</b>
Other assets	<b>1,056</b>	<b>491</b>	<b>1,547</b>
<b>As of December 2015</b>			
Other secured financings (short-term):			
At fair value	\$ 7,952	\$ 5,448	\$13,400
At amortized cost	514	319	833
Weighted average interest rates	2.93%	3.83%	
Other secured financings (long-term):			
At fair value	6,702	3,105	9,807
At amortized cost	370	343	713
Weighted average interest rates	2.87%	1.54%	
<b>Total</b>	<b>\$15,538</b>	<b>\$ 9,215</b>	<b>\$24,753</b>
Other secured financings collateralized by:			
Financial instruments	\$14,862	\$ 8,872	\$23,734
Other assets	676	343	1,019

In the table above:

- Short-term secured financings include financings maturing within one year of the financial statement date and financings that are redeemable within one year of the financial statement date at the option of the holder.
- Weighted average interest rates exclude secured financings at fair value and include the effect of hedging activities. See Note 7 for further information about hedging activities.
- Total other secured financings includes \$478 million and \$334 million related to transfers of financial assets accounted for as financings rather than sales as of September 2016 and December 2015, respectively. Such financings were collateralized by financial assets of \$478 million and \$336 million as of September 2016 and December 2015, respectively, primarily included in “Financial instruments owned, at fair value.”
- Other secured financings collateralized by financial instruments includes \$14.06 billion and \$14.98 billion of other secured financings collateralized by financial instruments owned, at fair value as of September 2016 and December 2015, respectively, and includes \$6.87 billion and \$8.76 billion of other secured financings collateralized by financial instruments received as collateral and repledged as of September 2016 and December 2015, respectively.

The table below presents other secured financings by maturity date.

<i>\$ in millions</i>	As of September 2016
Other secured financings (short-term)	<b>\$15,188</b>
Other secured financings (long-term):	
2017	<b>1,080</b>
2018	<b>3,394</b>
2019	<b>697</b>
2020	<b>1,185</b>
2021	<b>249</b>
2022 - thereafter	<b>685</b>
Total other secured financings (long-term)	<b>7,290</b>
<b>Total other secured financings</b>	<b>\$22,478</b>

In the table above:

- Long-term secured financings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates.
- Long-term secured financings that are redeemable prior to maturity at the option of the holders are reflected at the earliest dates such options become exercisable.

### Collateral Received and Pledged

The firm receives cash and securities (e.g., U.S. government and federal agency, other sovereign and corporate obligations, as well as equities and convertible debentures) as collateral, primarily in connection with resale agreements, securities borrowed, derivative transactions and customer margin loans. The firm obtains cash and securities as collateral on an upfront or contingent basis for derivative instruments and collateralized agreements to reduce its credit exposure to individual counterparties.

In many cases, the firm is permitted to deliver or repledge financial instruments received as collateral when entering into repurchase agreements and securities loaned transactions, primarily in connection with secured client financing activities. The firm is also permitted to deliver or repledge these financial instruments in connection with other secured financings, collateralized derivative transactions and firm or customer settlement requirements.

The firm also pledges certain financial instruments owned, at fair value in connection with repurchase agreements, securities loaned transactions and other secured financings, and other assets (substantially all real estate and cash) in connection with other secured financings to counterparties who may or may not have the right to deliver or repledge them.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

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

<i>\$ in millions</i>	As of	
	September 2016	December 2015
Collateral available to be delivered or repledged	<b>\$623,720</b>	\$636,684
Collateral that was delivered or repledged	<b>494,028</b>	496,240

In the table above, as of September 2016 and December 2015, collateral available to be delivered or repledged excludes \$15.06 billion and \$13.40 billion, respectively, of securities received under resale agreements, and \$1.81 billion and \$5.54 billion, respectively, of securities borrowed transactions that contractually had the right to be delivered or repledged, but were segregated to satisfy certain regulatory requirements.

The table below presents information about assets pledged.

<i>\$ in millions</i>	As of	
	September 2016	December 2015
Financial instruments owned, at fair value pledged to counterparties that:		
Had the right to deliver or repledge	<b>\$ 55,800</b>	\$ 54,426
Did not have the right to deliver or repledge	<b>66,390</b>	63,880
Other assets pledged to counterparties that did not have the right to deliver or repledge		
	<b>2,986</b>	1,841

### Note 11.

#### Securitization Activities

The firm securitizes residential and commercial mortgages, corporate bonds, loans and other types of financial assets by selling these assets to securitization vehicles (e.g., trusts, corporate entities and limited liability companies) or through a resecuritization. The firm acts as underwriter of the beneficial interests that are sold to investors. The firm's residential mortgage securitizations are primarily in connection with government agency securitizations.

Beneficial interests issued by securitization entities are debt or equity securities that give the investors rights to receive all or portions of specified cash inflows to a securitization vehicle and include senior and subordinated interests in principal, interest and/or other cash inflows. The proceeds from the sale of beneficial interests are used to pay the transferor for the financial assets sold to the securitization vehicle or to purchase securities which serve as collateral.

The firm accounts for a securitization as a sale when it has relinquished control over the transferred assets. Prior to securitization, the firm accounts for assets pending transfer at fair value and therefore does not typically recognize significant gains or losses upon the transfer of assets. Net revenues from underwriting activities are recognized in connection with the sales of the underlying beneficial interests to investors.

For transfers of assets that are not accounted for as sales, the assets remain in "Financial instruments owned, at fair value" and the transfer is accounted for as a collateralized financing, with the related interest expense recognized over the life of the transaction. See Notes 10 and 23 for further information about collateralized financings and interest expense, respectively.

The firm generally receives cash in exchange for the transferred assets but may also have continuing involvement with transferred assets, including ownership of beneficial interests in securitized financial assets, primarily in the form of senior or subordinated securities. The firm may also purchase senior or subordinated securities issued by securitization vehicles (which are typically VIEs) in connection with secondary market-making activities.

The primary risks included in beneficial interests and other interests from the firm's continuing involvement with securitization vehicles are the performance of the underlying collateral, the position of the firm's investment in the capital structure of the securitization vehicle and the market yield for the security. These interests are primarily accounted for at fair value and are classified in level 2 of the fair value hierarchy. Beneficial interests and other interests not accounted for at fair value are carried at amounts that approximate fair value. See Notes 5 through 8 for further information about fair value measurements.

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

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Residential mortgages	<b>\$4,254</b>	\$2,056	<b>\$ 9,152</b>	\$11,258
Commercial mortgages	<b>1,123</b>	3,506	<b>1,873</b>	8,255
Other financial assets	<b>175</b>	478	<b>175</b>	478
<b>Total</b>	<b>\$5,552</b>	\$6,040	<b>\$11,200</b>	\$19,991
Cash flows on retained interests				
	<b>\$ 115</b>	\$ 64	<b>\$ 168</b>	\$ 142

## Notes to Condensed Consolidated Financial Statements (Unaudited)

The table below presents the firm's continuing involvement in nonconsolidated securitization entities to which the firm sold assets, as well as the total outstanding principal amount of transferred assets in which the firm has continuing involvement.

<i>\$ in millions</i>	Outstanding Principal Amount	Retained Interests	Purchased Interests
<b>As of September 2016</b>			
U.S. government agency-issued collateralized mortgage obligations	<b>\$26,735</b>	<b>\$1,060</b>	<b>\$ 5</b>
Other residential mortgage-backed	<b>3,179</b>	<b>731</b>	—
Other commercial mortgage-backed	<b>3,255</b>	<b>26</b>	—
CDOs, CLOs and other	<b>2,664</b>	<b>63</b>	<b>11</b>
<b>Total</b>	<b>\$35,833</b>	<b>\$1,880</b>	<b>\$16</b>
<b>As of December 2015</b>			
U.S. government agency-issued collateralized mortgage obligations	\$39,088	\$ 846	\$20
Other residential mortgage-backed	2,195	154	17
Other commercial mortgage-backed	6,842	115	28
CDOs, CLOs and other	2,732	44	7
<b>Total</b>	<b>\$50,857</b>	<b>\$1,159</b>	<b>\$72</b>

In the table above:

- The outstanding principal amount is presented for the purpose of providing information about the size of the securitization entities in which the firm has continuing involvement and is not representative of the firm's risk of loss.
- For retained or purchased interests, the firm's risk of loss is limited to the carrying value of these interests.
- Purchased interests represent senior and subordinated interests, purchased in connection with secondary market-making activities, in securitization entities in which the firm also holds retained interests.
- Substantially all of the total outstanding principal amount and total retained interests as of September 2016 and December 2015 relate to securitizations during 2012 and thereafter.
- The fair value of retained interests was \$1.88 billion and \$1.16 billion as of September 2016 and December 2015, respectively.

In addition to the interests in the table above, the firm had other continuing involvement in the form of derivative transactions and commitments with certain nonconsolidated VIEs. The carrying value of these derivatives and commitments was a net asset of \$65 million and \$92 million as of September 2016 and December 2015, respectively. The notional amounts of these derivatives and commitments are included in maximum exposure to loss in the nonconsolidated VIE table in Note 12.

The table below presents the weighted average key economic assumptions used in measuring the fair value of mortgage-backed retained interests and the sensitivity of this fair value to immediate adverse changes of 10% and 20% in those assumptions.

<i>\$ in millions</i>	As of	
	September 2016	December 2015
Fair value of retained interests	<b>\$ 1,819</b>	\$ 1,115
Weighted average life (years)	<b>5.1</b>	7.5
Constant prepayment rate	<b>10.8%</b>	10.4%
Impact of 10% adverse change	<b>\$ (19)</b>	\$ (22)
Impact of 20% adverse change	<b>(37)</b>	(43)
Discount rate	<b>3.9%</b>	5.5%
Impact of 10% adverse change	<b>\$ (26)</b>	\$ (28)
Impact of 20% adverse change	<b>(50)</b>	(55)

In the table above:

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

The firm has other retained interests not reflected in the table above with a fair value of \$61 million and a weighted average life of 3.6 years as of September 2016, and a fair value of \$44 million and a weighted average life of 3.5 years as of December 2015. Due to the nature and current fair value of certain of these retained interests, the weighted average assumptions for constant prepayment and discount rates and the related sensitivity to adverse changes are not meaningful as of September 2016 and December 2015. The firm's maximum exposure to adverse changes in the value of these interests is the carrying value of \$61 million and \$44 million as of September 2016 and December 2015, respectively.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Note 12.

#### Variable Interest Entities

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

The firm's variable interests in VIEs include senior and subordinated debt in residential and commercial mortgage-backed and other asset-backed securitization entities, CDOs and CLOs; loans and lending commitments; limited and general partnership interests; preferred and common equity; derivatives that may include foreign currency, equity and/or credit risk; guarantees; and certain of the fees the firm receives from investment funds. Certain interest rate, foreign currency and credit derivatives the firm enters into with VIEs are not variable interests because they create rather than absorb risk.

VIEs generally finance the purchase of assets by issuing debt and equity securities that are either collateralized by or indexed to the assets held by the VIE. The debt and equity securities issued by a VIE may include tranches of varying levels of subordination. The firm's involvement with VIEs includes securitization of financial assets, as described in Note 11, and investments in and loans to other types of VIEs, as described below. See Note 11 for additional information about securitization activities, including the definition of beneficial interests. See Note 3 for the firm's consolidation policies, including the definition of a VIE.

#### VIE Consolidation Analysis

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

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

- The terms between the VIE and its variable interest holders and other parties involved with the VIE; and
- Related-party relationships.

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

#### VIE Activities

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

#### Mortgage-Backed VIEs and Corporate CDO and CLO

**VIEs.** The firm sells residential and commercial mortgage loans and securities to mortgage-backed VIEs and corporate bonds and loans to corporate CDO and CLO VIEs and may retain beneficial interests in the assets sold to these VIEs. The firm purchases and sells beneficial interests issued by mortgage-backed and corporate CDO and CLO VIEs in connection with market-making activities. In addition, the firm may enter into derivatives with certain of these VIEs, primarily interest rate swaps, which are typically not variable interests. The firm generally enters into derivatives with other counterparties to mitigate its risk from derivatives with these VIEs.

Certain mortgage-backed and corporate CDO and CLO VIEs, usually referred to as synthetic CDOs or credit-linked note VIEs, synthetically create the exposure for the beneficial interests they issue by entering into credit derivatives, rather than purchasing the underlying assets. These credit derivatives may reference a single asset, an index, or a portfolio/basket of assets or indices. See Note 7 for further information about credit derivatives. These VIEs use the funds from the sale of beneficial interests and the premiums received from credit derivative counterparties to purchase securities which serve to collateralize the beneficial interest holders and/or the credit derivative counterparty. These VIEs may enter into other derivatives, primarily interest rate swaps, which are typically not variable interests. The firm may be a counterparty to derivatives with these VIEs and generally enters into derivatives with other counterparties to mitigate its risk.

**Notes to Condensed Consolidated Financial Statements  
(Unaudited)****Real Estate, Credit-Related and Other Investing VIEs.**

The firm purchases equity and debt securities issued by and makes loans to VIEs that hold real estate, performing and nonperforming debt, distressed loans and equity securities. The firm typically does not sell assets to, or enter into derivatives with, these VIEs.

**Other Asset-Backed VIEs.** The firm structures VIEs that issue notes to clients, and purchases and sells beneficial interests issued by other asset-backed VIEs in connection with market-making activities. In addition, the firm may enter into derivatives with certain other asset-backed VIEs, primarily total return swaps on the collateral assets held by these VIEs under which the firm pays the VIE the return due to the note holders and receives the return on the collateral assets owned by the VIE. The firm generally can be removed as the total return swap counterparty. The firm generally enters into derivatives with other counterparties to mitigate its risk from derivatives with these VIEs. The firm typically does not sell assets to the other asset-backed VIEs it structures.

**Principal-Protected Note VIEs.** The firm structures VIEs that issue principal-protected notes to clients. These VIEs own portfolios of assets, principally with exposure to hedge funds. Substantially all of the principal protection on the notes issued by these VIEs is provided by the asset portfolio rebalancing that is required under the terms of the notes. The firm enters into total return swaps with these VIEs under which the firm pays the VIE the return due to the principal-protected note holders and receives the return on the assets owned by the VIE. The firm may enter into derivatives with other counterparties to mitigate the risk it has from the derivatives it enters into with these VIEs. The firm also obtains funding through these VIEs.

**Investments in Funds and Other VIEs.** The firm makes equity investments in certain of the investment fund VIEs it manages, and is entitled to receive fees from these VIEs. The firm typically does not sell assets to, or enter into derivatives with, these VIEs. Other VIEs primarily includes nonconsolidated power-related VIEs. The firm purchases debt and equity securities issued by VIEs that hold power-related assets, and may provide commitments to these VIEs.

**Adoption of ASU No. 2015-02**

The firm adopted ASU No. 2015-02 as of January 1, 2016. Upon adoption, certain of the firm's investments in entities that were previously classified as voting interest entities are now classified as VIEs. These include investments in certain limited partnership entities that have been deconsolidated upon adoption as certain fee interests are not considered significant interests under the guidance, and the firm is no longer deemed to have a controlling financial interest in such entities. See Note 3 for further information about the adoption of ASU No. 2015-02.

**Nonconsolidated VIEs.** As a result of adoption as of January 1, 2016, "Investments in funds and other" nonconsolidated VIEs included \$10.70 billion in "Assets in VIEs," \$543 million in "Carrying value of variable interests — assets" and \$559 million in "Maximum Exposure to Loss" related to investments in limited partnership entities that were previously classified as nonconsolidated voting interest entities.

**Consolidated VIEs.** As a result of adoption as of January 1, 2016, "Real estate, credit-related and other investing" consolidated VIEs included \$302 million of assets, substantially all included in "Financial instruments owned, at fair value," and \$122 million of liabilities, included in "Other liabilities and accrued expenses" primarily related to investments in limited partnership entities that were previously classified as consolidated voting interest entities.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Nonconsolidated VIEs

The table below presents information about nonconsolidated VIEs in which the firm holds variable interests.

<i>\$ in millions</i>	As of	
	September 2016	December 2015
<b>Mortgage-backed</b>		
Assets in VIEs	\$40,021	\$62,672
Carrying value of variable interests — assets	2,340	2,439
Maximum exposure to loss:		
Retained interests	1,817	1,115
Purchased interests	523	1,324
Commitments and guarantees	10	40
Derivatives	168	222
Total maximum exposure to loss	2,518	2,701
<b>Corporate CDOs and CLOs</b>		
Assets in VIEs	5,071	6,493
Carrying value of variable interests — assets	335	624
Carrying value of variable interests — liabilities	26	29
Maximum exposure to loss:		
Retained interests	2	3
Purchased interests	68	106
Commitments and guarantees	1,077	647
Derivatives	1,823	2,633
Loans and investments	38	265
Total maximum exposure to loss	3,008	3,654
<b>Real estate, credit-related and other investing</b>		
Assets in VIEs	8,922	9,793
Carrying value of variable interests — assets	2,689	3,557
Carrying value of variable interests — liabilities	3	3
Maximum exposure to loss:		
Commitments and guarantees	476	570
Loans and investments	2,689	3,557
Total maximum exposure to loss	3,165	4,127
<b>Other asset-backed</b>		
Assets in VIEs	6,522	7,026
Carrying value of variable interests — assets	301	265
Carrying value of variable interests — liabilities	222	145
Maximum exposure to loss:		
Retained interests	61	41
Purchased interests	43	98
Commitments and guarantees	500	500
Derivatives	4,056	4,075
Loans and investments	97	—
Total maximum exposure to loss	4,757	4,714
<b>Investments in funds and other</b>		
Assets in VIEs	15,474	4,161
Carrying value of variable interests — assets	897	286
Carrying value of variable interests — liabilities	1	—
Maximum exposure to loss:		
Commitments and guarantees	553	263
Derivatives	6	6
Loans and investments	898	286
Total maximum exposure to loss	1,457	555
<b>Total nonconsolidated VIEs</b>		
Assets in VIEs	76,010	90,145
Carrying value of variable interests — assets	6,562	7,171
Carrying value of variable interests — liabilities	252	177
Maximum exposure to loss:		
Retained interests	1,880	1,159
Purchased interests	634	1,528
Commitments and guarantees	2,616	2,020
Derivatives	6,053	6,936
Loans and investments	3,722	4,108
<b>Total maximum exposure to loss</b>	<b>\$14,905</b>	<b>\$15,751</b>

The firm's exposure to the obligations of VIEs is generally limited to its interests in these entities. In certain instances, the firm provides guarantees, including derivative guarantees, to VIEs or holders of variable interests in VIEs. In the table above, nonconsolidated VIEs are aggregated based on principal business activity. The nature of the firm's variable interests can take different forms, as described in the rows under maximum exposure to loss. In the table above:

- The maximum exposure to loss excludes the benefit of offsetting financial instruments that are held to mitigate the risks associated with these variable interests.
- For retained and purchased interests, and loans and investments, the maximum exposure to loss is the carrying value of these interests.
- For commitments and guarantees, and derivatives, the maximum exposure to loss is the notional amount, which does not represent anticipated losses and also has not been reduced by unrealized losses already recorded. As a result, the maximum exposure to loss exceeds liabilities recorded for commitments and guarantees, and derivatives provided to VIEs.
- Mortgage-backed includes Assets in VIEs of \$3.38 billion and \$4.08 billion, and Maximum exposure to loss of \$339 million and \$502 million, as of September 2016 and December 2015, respectively, related to CDOs backed by mortgage obligations.
- Total maximum exposure to loss for Commitments and guarantees, and Derivatives include \$1.50 billion and \$1.52 billion as of September 2016 and December 2015, respectively, related to transactions with VIEs to which the firm transferred assets.



## Notes to Condensed Consolidated Financial Statements (Unaudited)

The carrying values of the firm's variable interests in nonconsolidated VIEs are included in the condensed consolidated statements of financial condition as follows:

- **Mortgage-backed:** As of September 2016, substantially all assets were included in "Financial instruments owned, at fair value," "Loans receivable" and "Receivables from customers and counterparties." As of December 2015, all assets were included in "Financial instruments owned, at fair value;"
- **Corporate CDOs and CLOs:** As of both September 2016 and December 2015, substantially all assets were included in "Financial instruments owned, at fair value" and all liabilities were included in "Financial instruments sold, but not yet purchased, at fair value;"
- **Real estate, credit-related and other investing:** As of both September 2016 and December 2015, all assets were included in "Financial instruments owned, at fair value," "Loans receivable" and "Other assets," and all liabilities were included in "Financial instruments sold, but not yet purchased, at fair value" and "Other liabilities and accrued expenses;"
- **Other asset-backed:** As of both September 2016 and December 2015, all assets were included in "Financial instruments owned, at fair value" and "Loans receivable" and all liabilities were included in "Financial instruments sold, but not yet purchased, at fair value;" and
- **Investments in funds and other:** As of both September 2016 and December 2015, substantially all assets were included in "Financial instruments owned, at fair value" and all liabilities were included in "Financial instruments sold, but not yet purchased, at fair value."

### Consolidated VIEs

The table below presents the carrying amount and classification of assets and liabilities in consolidated VIEs.

\$ in millions	As of	
	September 2016	December 2015
<b>Real estate, credit-related and other investing</b>		
<i>Assets</i>		
Cash and cash equivalents	\$ 386	\$ 374
Cash and securities segregated for regulatory and other purposes	34	49
Receivables from brokers, dealers and clearing organizations	1	1
Loans receivable	740	1,534
Financial instruments owned, at fair value	1,893	1,585
Other assets	692	456
<b>Total</b>	<b>3,746</b>	<b>3,999</b>
<i>Liabilities</i>		
Other secured financings	318	332
Payables to customers and counterparties	1	2
Financial instruments sold, but not yet purchased, at fair value	10	16
Other liabilities and accrued expenses	796	556
<b>Total</b>	<b>1,125</b>	<b>906</b>
<b>CDOs, mortgage-backed and other asset-backed</b>		
<i>Assets</i>		
Financial instruments owned, at fair value	251	572
Other assets	6	15
<b>Total</b>	<b>257</b>	<b>587</b>
<i>Liabilities</i>		
Other secured financings	141	113
Payables to customers and counterparties	—	432
<b>Total</b>	<b>141</b>	<b>545</b>
<b>Principal-protected notes</b>		
<i>Assets</i>		
Financial instruments owned, at fair value	112	126
<b>Total</b>	<b>112</b>	<b>126</b>
<i>Liabilities</i>		
Other secured financings	474	413
Unsecured short-term borrowings	381	416
Unsecured long-term borrowings	353	312
<b>Total</b>	<b>1,208</b>	<b>1,141</b>
<b>Total consolidated VIEs</b>		
<i>Assets</i>		
Cash and cash equivalents	386	374
Cash and securities segregated for regulatory and other purposes	34	49
Receivables from brokers, dealers and clearing organizations	1	1
Loans receivable	740	1,534
Financial instruments owned, at fair value	2,256	2,283
Other assets	698	471
<b>Total</b>	<b>4,115</b>	<b>4,712</b>
<i>Liabilities</i>		
Other secured financings	933	858
Payables to customers and counterparties	1	434
Financial instruments sold, but not yet purchased, at fair value	10	16
Unsecured short-term borrowings	381	416
Unsecured long-term borrowings	353	312
Other liabilities and accrued expenses	796	556
<b>Total</b>	<b>\$2,474</b>	<b>\$2,592</b>

## Notes to Condensed Consolidated Financial Statements (Unaudited)

In the table above:

- Consolidated VIEs are aggregated based on principal business activity and their assets and liabilities are presented net of intercompany eliminations. The majority of the assets in principal-protected notes VIEs are intercompany and are eliminated in consolidation.
- VIEs in which the firm holds a majority voting interest are excluded if (i) the VIE meets the definition of a business and (ii) the VIE's assets can be used for purposes other than the settlement of its obligations.
- Substantially all the assets can only be used to settle obligations of the VIE. The liabilities of real estate, credit-related and other investing VIEs, and CDOs, mortgage-backed and other asset-backed VIEs do not have recourse to the general credit of the firm.
- Assets and liabilities exclude the benefit of offsetting financial instruments that are held to mitigate the risks associated with the firm's variable interests.

### Note 13.

#### Other Assets

Other assets are generally less liquid, non-financial assets. The table below presents other assets by type.

	As of	
<i>\$ in millions</i>	September 2016	December 2015
Property, leasehold improvements and equipment	\$11,347	\$ 9,956
Goodwill and identifiable intangible assets	4,104	4,148
Income tax-related assets	5,630	5,548
Equity-method investments	213	258
Miscellaneous receivables and other	3,924	5,308
<b>Total</b>	<b>\$25,218</b>	<b>\$25,218</b>

In the table above:

- Equity-method investments exclude investments accounted for at fair value under the fair value option where the firm would otherwise apply the equity method of accounting of \$7.78 billion and \$6.59 billion as of September 2016 and December 2015, respectively, all of which are included in "Financial instruments owned, at fair value." The firm has generally elected the fair value option for such investments acquired after the fair value option became available.
- The decrease in Miscellaneous receivables and other from December 2015 to September 2016 reflects the sale of assets previously classified as held for sale related to certain of the firm's consolidated investments. Miscellaneous receivables and other includes \$654 million and \$581 million of investments in qualified affordable housing projects as of September 2016 and December 2015, respectively.

#### Property, Leasehold Improvements and Equipment

Property, leasehold improvements and equipment in the table above is net of accumulated depreciation and amortization of \$8.16 billion and \$7.77 billion as of September 2016 and December 2015, respectively. Property, leasehold improvements and equipment included \$6.04 billion and \$5.93 billion as of September 2016 and December 2015, respectively, related to property, leasehold improvements and equipment that the firm uses in connection with its operations. The remainder is held by investment entities, including VIEs, consolidated by the firm. Substantially all property and equipment is depreciated on a straight-line basis over the useful life of the asset. Leasehold improvements are amortized on a straight-line basis over the useful life of the improvement or the term of the lease, whichever is shorter. Capitalized costs of software developed or obtained for internal use are amortized on a straight-line basis over three years.

#### Goodwill and Identifiable Intangible Assets

The tables below present the carrying values of goodwill and identifiable intangible assets.

	Goodwill as of	
<i>\$ in millions</i>	September 2016	December 2015
Investment Banking:		
Financial Advisory	\$ 98	\$ 98
Underwriting	183	183
Institutional Client Services:		
Fixed Income, Currency and Commodities		
Client Execution	269	269
Equities Client Execution	2,403	2,402
Securities Services	105	105
Investing & Lending	2	2
Investment Management	609	598
<b>Total</b>	<b>\$3,669</b>	<b>\$3,657</b>

	Identifiable Intangible Assets as of	
<i>\$ in millions</i>	September 2016	December 2015
Institutional Client Services:		
Fixed Income, Currency and Commodities		
Client Execution	\$ 70	\$ 92
Equities Client Execution	149	193
Investing & Lending	92	75
Investment Management	124	131
<b>Total</b>	<b>\$ 435</b>	<b>\$ 491</b>

## Notes to Condensed Consolidated Financial Statements (Unaudited)

**Goodwill.** Goodwill is the cost of acquired companies in excess of the fair value of net assets, including identifiable intangible assets, at the acquisition date.

Goodwill is assessed for impairment annually in the fourth quarter or more frequently if events occur or circumstances change that indicate an impairment may exist. When assessing goodwill for impairment, first, qualitative factors are assessed to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the results of the qualitative assessment are not conclusive, a quantitative goodwill test is performed. The quantitative goodwill test consists of two steps:

- The first step compares the estimated fair value of each reporting unit with its estimated net book value (including goodwill and identifiable intangible assets). If the reporting unit's estimated fair value exceeds its estimated net book value, goodwill is not impaired.
- If the estimated fair value of a reporting unit is less than its estimated net book value, the second step of the goodwill test is performed to measure the amount of impairment, if any. An impairment is equal to the excess of the carrying amount of goodwill over its fair value.

Goodwill was tested for impairment, using a quantitative test, during the fourth quarter of 2015. The estimated fair value of each of the reporting units exceeded its respective net book value. Accordingly, goodwill was not impaired and step two of the quantitative goodwill test was not performed.

To estimate the fair value of each reporting unit, a relative value technique was used because the firm believes market participants would use this technique to value the firm's reporting units. The relative value technique applies observable price-to-earnings multiples or price-to-book multiples and projected return on equity of comparable competitors to reporting units' net earnings or net book value. The net book value of each reporting unit reflects an allocation of total shareholders' equity and represents the estimated amount of total shareholders' equity required to support the activities of the reporting unit under currently applicable regulatory capital requirements.

There were no events or changes in circumstances during the nine months ended September 2016 that would indicate that it was more likely than not that the fair value of each of the reporting units did not exceed its respective carrying amount as of September 2016.

**Identifiable Intangible Assets.** The table below presents the gross carrying amount, accumulated amortization and net carrying amount of identifiable intangible assets and their weighted average remaining useful lives.

\$ in millions	As of		
	September 2016	Weighted Average Remaining Useful Lives (years)	December 2015
<b>Customer lists</b>			
Gross carrying amount	\$ 1,065		\$ 1,072
Accumulated amortization	(820)		(777)
Net carrying amount	245	5	295
<b>Commodities-related</b>			
Gross carrying amount	184		185
Accumulated amortization	(119)		(94)
Net carrying amount	65	7	91
<b>Other</b>			
Gross carrying amount	324		264
Accumulated amortization	(199)		(159)
Net carrying amount	125	5	105
<b>Total</b>			
<b>Gross carrying amount</b>	<b>1,573</b>		<b>1,521</b>
<b>Accumulated amortization</b>	<b>(1,138)</b>		<b>(1,030)</b>
<b>Net carrying amount</b>	<b>\$ 435</b>	<b>5</b>	<b>\$ 491</b>

In the table above:

- The net carrying amount of commodities-related intangibles primarily includes transportation rights.
- The net carrying amount of other intangibles primarily includes intangible assets related to acquired leases.

Substantially all of the firm's identifiable intangible assets are considered to have finite useful lives and are amortized over their estimated useful lives using the straight-line method or based on economic usage for certain customer lists and commodities-related intangibles.

The tables below present details about amortization of identifiable intangible assets.

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Amortization	\$37	\$28	\$116	\$98

\$ in millions	As of
	September 2016
<b>Estimated future amortization</b>	
Remainder of 2016	\$ 35
2017	126
2018	107
2019	76
2020	25
2021	18

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Impairments

The firm tests property, leasehold improvements and equipment, identifiable intangible assets and other assets for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable. To the extent the carrying value of an asset exceeds the projected undiscounted cash flows expected to result from the use and eventual disposal of the asset or asset group, the firm determines the asset is impaired and records an impairment equal to the difference between the estimated fair value and the carrying value of the asset or asset group. In addition, the firm will recognize an impairment prior to the sale of an asset if the carrying value of the asset exceeds its estimated fair value.

During both the nine months ended September 2016 and 2015, impairments were not material to the firm's results of operations or financial condition.

### Note 14.

### Deposits

The table below presents the types and sources of the firm's deposits.

<i>\$ in millions</i>	Savings and Demand	Time	Total
<b>As of September 2016</b>			
Private bank and online retail	\$57,700	\$ 3,755	\$ 61,455
Brokered certificates of deposit	—	38,812	38,812
Deposit sweep programs	15,900	—	15,900
Institutional	1	8,382	8,383
<b>Total</b>	<b>\$73,601</b>	<b>\$50,949</b>	<b>\$124,550</b>

<i>As of December 2015</i>			
Private bank	\$38,715	\$ 2,354	\$ 41,069
Brokered certificates of deposit	—	32,419	32,419
Deposit sweep programs	15,791	—	15,791
Institutional	1	8,239	8,240
<b>Total</b>	<b>\$54,507</b>	<b>\$43,012</b>	<b>\$ 97,519</b>

In April 2016, Goldman Sachs Bank USA (GS Bank USA) acquired GE Capital Bank's online deposit platform and assumed \$16.52 billion of deposits, consisting of \$8.76 billion in online deposit accounts and certificates of deposit, and \$7.76 billion in brokered certificates of deposit. In the table above:

- Substantially all deposits are interest-bearing.
- Savings and demand deposits have no stated maturity.
- Time deposits include \$14.10 billion and \$14.68 billion as of September 2016 and December 2015, respectively, of deposits accounted for at fair value under the fair value option. See Note 8 for further information about deposits accounted for at fair value.
- Time deposits have a weighted average maturity of approximately 2.5 years and 3 years as of September 2016 and December 2015, respectively.

- Deposit sweep programs represent long-term contractual agreements with several U.S. broker-dealers who sweep client cash to FDIC-insured deposits.
- Deposits insured by the FDIC as of September 2016 and December 2015 were approximately \$72.26 billion and \$55.48 billion, respectively.

The table below presents deposits held in U.S. and non-U.S. offices. Substantially all U.S. deposits were held at GS Bank USA and substantially all non-U.S. deposits were held at Goldman Sachs International Bank (GSIB).

<i>\$ in millions</i>	As of	
	September 2016	December 2015
U.S. offices	\$105,927	\$81,920
Non-U.S. offices	18,623	15,599
<b>Total</b>	<b>\$124,550</b>	<b>\$97,519</b>

The table below presents maturities of time deposits held in U.S. and non-U.S. offices.

<i>\$ in millions</i>	As of September 2016		
	U.S.	Non-U.S.	Total
Remainder of 2016	\$ 4,007	\$5,161	\$ 9,168
2017	10,148	4,268	14,416
2018	6,016	68	6,084
2019	5,409	—	5,409
2020	4,152	—	4,152
2021	3,551	41	3,592
2022 - thereafter	7,928	200	8,128
<b>Total</b>	<b>\$41,211</b>	<b>\$9,738</b>	<b>\$50,949</b>

As of September 2016, deposits in U.S. and non-U.S. offices include \$1.54 billion and \$8.35 billion, respectively, of deposits that were greater than \$250,000.

The firm's savings and demand deposits were recorded based on the amount of cash received plus accrued interest, which approximates fair value. In addition, the firm designates certain derivatives as fair value hedges to convert a majority of its time deposits not accounted for at fair value from fixed-rate obligations into floating-rate obligations. Accordingly, the carrying value of time deposits approximated fair value as of September 2016 and December 2015. While these savings and demand deposits and time deposits are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6 through 8. Had these deposits been included in the firm's fair value hierarchy, they would have been classified in level 2 as of September 2016 and December 2015.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Note 15.

#### Short-Term Borrowings

The table below presents details about the firm's short-term borrowings.

\$ in millions	As of	
	September 2016	December 2015
Other secured financings (short-term)	\$15,188	\$14,233
Unsecured short-term borrowings	42,825	42,787
<b>Total</b>	<b>\$58,013</b>	<b>\$57,020</b>

See Note 10 for information about other secured financings.

Unsecured short-term borrowings include the portion of unsecured long-term borrowings maturing within one year of the financial statement date and unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holder.

The firm accounts for commercial paper and certain hybrid financial instruments at fair value under the fair value option. See Note 8 for further information about unsecured short-term borrowings that are accounted for at fair value. The carrying value of unsecured short-term borrowings that are not recorded at fair value generally approximates fair value due to the short-term nature of the obligations. While these unsecured short-term borrowings are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6 through 8. Had these borrowings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of September 2016 and December 2015.

The table below presents details about the firm's unsecured short-term borrowings. The weighted average interest rates for these borrowings include the effect of hedging activities and exclude financial instruments accounted for at fair value under the fair value option. See Note 7 for further information about hedging activities.

\$ in millions	As of	
	September 2016	December 2015
Current portion of unsecured long-term borrowings	\$26,288	\$25,373
Hybrid financial instruments	12,737	12,956
Commercial paper	—	208
Other short-term borrowings	3,800	4,250
<b>Total</b>	<b>\$42,825</b>	<b>\$42,787</b>
Weighted average interest rate	1.83%	1.52%

### Note 16.

#### Long-Term Borrowings

The table below presents details about the firm's long-term borrowings.

\$ in millions	As of	
	September 2016	December 2015
Other secured financings (long-term)	\$ 7,290	\$ 10,520
Unsecured long-term borrowings	190,586	175,422
<b>Total</b>	<b>\$197,876</b>	<b>\$185,942</b>

See Note 10 for information about other secured financings.

The table below presents unsecured long-term borrowings extending through 2061 and consisting principally of senior borrowings.

\$ in millions	U.S.	Non-U.S.	Total
	Dollar	Dollar	
<b>As of September 2016</b>			
Fixed-rate obligations	\$ 93,681	\$33,198	\$126,879
Floating-rate obligations	36,386	27,321	63,707
<b>Total</b>	<b>\$130,067</b>	<b>\$60,519</b>	<b>\$190,586</b>
<b>As of December 2015</b>			
Fixed-rate obligations	\$ 92,190	\$30,703	\$122,893
Floating-rate obligations	33,543	18,986	52,529
<b>Total</b>	<b>\$125,733</b>	<b>\$49,689</b>	<b>\$175,422</b>

In the table above:

- Floating interest rates are generally based on LIBOR or OIS. Equity-linked and indexed instruments are included in floating-rate obligations.
- Interest rates on U.S. dollar-denominated debt ranged from 1.60% to 10.04% (with a weighted average rate of 4.67%) and 1.60% to 10.04% (with a weighted average rate of 4.89%) as of September 2016 and December 2015, respectively.
- Interest rates on non-U.S. dollar-denominated debt ranged from 0.02% to 13.00% (with a weighted average rate of 3.13%) and 0.40% to 13.00% (with a weighted average rate of 3.81%) as of September 2016 and December 2015, respectively.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

The table below presents unsecured long-term borrowings by maturity date.

<i>\$ in millions</i>	As of September 2016
2017	\$ 4,466
2018	25,721
2019	23,340
2020	19,181
2021	21,235
2022 - thereafter	96,643
<b>Total</b>	<b>\$190,586</b>

In the table above:

- Unsecured long-term borrowings maturing within one year of the financial statement date and unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holders are excluded as they are included as unsecured short-term borrowings.
- Unsecured long-term borrowings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates.
- Unsecured long-term borrowings that are redeemable prior to maturity at the option of the holders are reflected at the earliest dates such options become exercisable.
- Unsecured long-term borrowings includes \$10.00 billion of adjustments to the carrying value of certain unsecured long-term borrowings resulting from the application of hedge accounting by year of maturity as follows: \$7 million in 2017, \$462 million in 2018, \$446 million in 2019, \$492 million in 2020, \$801 million in 2021, and \$7.79 billion in 2022 and thereafter.

The firm designates certain derivatives as fair value hedges to convert a portion of the amount of its fixed-rate unsecured long-term borrowings not accounted for at fair value into floating-rate obligations. See Note 7 for further information about hedging activities. The table below presents unsecured long-term borrowings, after giving effect to such hedging activities.

<i>\$ in millions</i>	As of	
	September 2016	December 2015
Fixed-rate obligations		
At fair value	\$ 146	\$ 21
At amortized cost	69,701	55,017
Floating-rate obligations		
At fair value	30,120	22,252
At amortized cost	90,619	98,132
<b>Total</b>	<b>\$190,586</b>	<b>\$175,422</b>

In the table above, the weighted average interest rates on the aggregate amounts were 2.82% (4.06% related to fixed-rate obligations and 1.85% related to floating-rate obligations) as of September 2016 and December 2015, respectively. These rates exclude financial instruments accounted for at fair value under the fair value option.

As of September 2016 and December 2015, the carrying value of unsecured long-term borrowings for which the firm did not elect the fair value option approximated fair value. As these borrowings are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP, their fair value is not included in the firm's fair value hierarchy in Notes 6 through 8. Had these borrowings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of September 2016 and December 2015.

### Subordinated Borrowings

Unsecured long-term borrowings include subordinated debt and junior subordinated debt. Junior subordinated debt is junior in right of payment to other subordinated borrowings, which are junior to senior borrowings. As of both September 2016 and December 2015, subordinated debt had maturities ranging from 2017 to 2045. Subordinated debt that matures within one year of the financial statement date is included in "Unsecured short-term borrowings."

The table below presents subordinated borrowings. The weighted average interest rates for these borrowings include the effect of fair value hedges used to convert these fixed-rate obligations into floating-rate obligations. See Note 7 for further information about hedging activities.

<i>\$ in millions</i>	Par Amount	Carrying Amount	Rate
<b>As of September 2016</b>			
Subordinated debt	\$15,184	\$18,290	4.27%
Junior subordinated debt	1,360	1,811	5.79%
<b>Total subordinated borrowings</b>	<b>\$16,544</b>	<b>\$20,101</b>	<b>4.39%</b>
<b>As of December 2015</b>			
Subordinated debt	\$18,004	\$20,784	3.79%
Junior subordinated debt	1,359	1,817	5.77%
<b>Total subordinated borrowings</b>	<b>\$19,363</b>	<b>\$22,601</b>	<b>3.93%</b>

**Notes to Condensed Consolidated Financial Statements  
(Unaudited)****Junior Subordinated Debt**

**Junior Subordinated Debt Held by 2012 Trusts.** In 2012, the Vesey Street Investment Trust I and the Murray Street Investment Trust I (together, the 2012 Trusts) issued an aggregate of \$2.25 billion of senior guaranteed trust securities to third parties. The proceeds of that offering were used to purchase \$1.75 billion of junior subordinated debt issued by Group Inc. that pays interest semi-annually at a fixed annual rate of 4.647% and matures on March 9, 2017, and \$500 million of junior subordinated debt issued by Group Inc. that pays interest semi-annually at a fixed annual rate of 4.404%, which matured on September 1, 2016. During 2014, the firm exchanged \$175 million of the senior guaranteed trust securities held by the firm for \$175 million of junior subordinated debt held by the Murray Street Investment Trust I. Following the exchange, these senior guaranteed trust securities and junior subordinated debt were extinguished.

The 2012 Trusts purchased the junior subordinated debt from Goldman Sachs Capital II and Goldman Sachs Capital III (APEX Trusts). The APEX Trusts used the proceeds from such sales to purchase shares of Group Inc.'s Perpetual Non-Cumulative Preferred Stock, Series E (Series E Preferred Stock) and Perpetual Non-Cumulative Preferred Stock, Series F (Series F Preferred Stock).

The 2012 Trusts are required to pay distributions on their senior guaranteed trust securities in the same amounts and on the same dates that they are scheduled to receive interest on the junior subordinated debt they hold, and are required to redeem their respective senior guaranteed trust securities upon the maturity or earlier redemption of the junior subordinated debt they hold.

The firm has the right to defer payments on the junior subordinated debt, subject to limitations. During any such deferral period, the firm will not be permitted to, among other things, pay dividends on or make certain repurchases of its common or preferred stock. However, as Group Inc. fully and unconditionally guarantees the payment of the distribution and redemption amounts when due on a senior basis on the senior guaranteed trust securities issued by the 2012 Trusts, if the 2012 Trusts are unable to make scheduled distributions to the holders of the senior guaranteed trust securities, under the guarantee, Group Inc. would be obligated to make those payments. As such, junior subordinated debt held by the 2012 Trusts for the benefit of investors, included in "Unsecured short-term borrowings," is not classified as subordinated borrowings.

The APEX Trusts and the 2012 Trusts are Delaware statutory trusts sponsored by the firm and wholly-owned finance subsidiaries of the firm for regulatory and legal purposes but are not consolidated for accounting purposes.

The firm has covenanted in favor of the holders of Group Inc.'s 6.345% junior subordinated debt due February 15, 2034, that, subject to certain exceptions, the firm will not redeem or purchase the capital securities issued by the APEX Trusts, shares of Group Inc.'s Series E or Series F Preferred Stock or shares of Group Inc.'s Series O Perpetual Non-Cumulative Preferred Stock if the redemption or purchase results in less than \$253 million aggregate liquidation preference outstanding, prior to specified dates in 2022 for a price that exceeds a maximum amount determined by reference to the net cash proceeds that the firm has received from the sale of qualifying securities. During the three and nine months ended September 2016, the firm exchanged a par amount of \$650 million and \$1.32 billion, respectively, of APEX issued by the APEX Trusts for a corresponding redemption value of the Series E and Series F Preferred Stock, which was permitted under the covenants referenced above.

**Junior Subordinated Debt Issued in Connection with Trust Preferred Securities.** Group Inc. issued \$2.84 billion of junior subordinated debt in 2004 to Goldman Sachs Capital I (Trust), a Delaware statutory trust. The Trust issued \$2.75 billion of guaranteed preferred beneficial interests (Trust Preferred Securities) to third parties and \$85 million of common beneficial interests to Group Inc. and used the proceeds from the issuances to purchase the junior subordinated debt from Group Inc. During 2014 and the first quarter of 2015, the firm purchased \$1.43 billion (par amount) of Trust Preferred Securities and delivered these securities, along with \$44.2 million of common beneficial interests, to the Trust in exchange for a corresponding par amount of the junior subordinated debt. Following the exchanges, these Trust Preferred Securities, common beneficial interests and junior subordinated debt were extinguished. Subsequent to these extinguishments, the outstanding par amount of junior subordinated debt held by the Trust was \$1.36 billion and the outstanding par amount of Trust Preferred Securities and common beneficial interests issued by the Trust was \$1.32 billion and \$40.8 million, respectively. The Trust is a wholly-owned finance subsidiary of the firm for regulatory and legal purposes but is not consolidated for accounting purposes.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

The firm pays interest semi-annually on the junior subordinated debt at an annual rate of 6.345% and the debt matures on February 15, 2034. The coupon rate and the payment dates applicable to the beneficial interests are the same as the interest rate and payment dates for the junior subordinated debt. The firm has the right, from time to time, to defer payment of interest on the junior subordinated debt, and therefore cause payment on the Trust's preferred beneficial interests to be deferred, in each case up to ten consecutive semi-annual periods. During any such deferral period, the firm will not be permitted to, among other things, pay dividends on or make certain repurchases of its common stock. The Trust is not permitted to pay any distributions on the common beneficial interests held by Group Inc. unless all dividends payable on the preferred beneficial interests have been paid in full.

### Note 17.

#### Other Liabilities and Accrued Expenses

The table below presents other liabilities and accrued expenses by type.

<i>\$ in millions</i>	As of	
	September 2016	December 2015
Compensation and benefits	\$ 6,556	\$ 8,149
Noncontrolling interests	438	459
Income tax-related liabilities	1,527	1,280
Employee interests in consolidated funds	99	149
Subordinated liabilities of consolidated VIEs	584	501
Accrued expenses and other	4,432	8,355
<b>Total</b>	<b>\$13,636</b>	<b>\$18,893</b>

In the table above, the decrease in Accrued expenses and other from December 2015 to September 2016 reflects payments related to the settlement agreement with the Residential Mortgage-Backed Securities Working Group of the U.S. Financial Fraud Enforcement Task Force, as well as the sale of liabilities previously classified as held for sale related to certain of the firm's consolidated investments.

### Note 18.

#### Commitments, Contingencies and Guarantees

##### Commitments

The table below presents the firm's commitments by type.

<i>\$ in millions</i>	As of	
	September 2016	December 2015
Commitments to extend credit		
Commercial lending:		
Investment-grade	\$ 75,995	\$ 72,428
Non-investment-grade	35,938	41,277
Warehouse financing	4,159	3,453
Total commitments to extend credit	116,092	117,158
Contingent and forward starting resale and securities borrowing agreements	40,563	28,874
Forward starting repurchase and secured lending agreements	12,762	5,878
Letters of credit	341	249
Investment commitments	5,705	6,054
Other	5,461	6,944
<b>Total commitments</b>	<b>\$180,924</b>	<b>\$165,157</b>

The table below presents the firm's commitments by period of expiration.

<i>\$ in millions</i>	As of September 2016			
	Remainder of 2016	2017 - 2018	2019 - 2020	2021 - Thereafter
Commitments to extend credit				
Commercial lending:				
Investment-grade	\$ 3,560	\$13,576	\$36,502	\$22,357
Non-investment-grade	505	6,989	14,772	13,672
Warehouse financing	—	1,986	571	1,602
Total commitments to extend credit	4,065	22,551	51,845	37,631
Contingent and forward starting resale and securities borrowing agreements	40,505	58	—	—
Forward starting repurchase and secured lending agreements	12,762	—	—	—
Letters of credit	11	323	3	4
Investment commitments	2,307	2,232	42	1,124
Other	5,020	331	60	50
<b>Total commitments</b>	<b>\$64,670</b>	<b>\$25,495</b>	<b>\$51,950</b>	<b>\$38,809</b>



**Notes to Condensed Consolidated Financial Statements  
(Unaudited)****Commitments to Extend Credit**

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

As of September 2016 and December 2015, \$91.15 billion and \$93.92 billion, respectively, of the firm's lending commitments were held for investment and were accounted for on an accrual basis. See Note 9 for further information about such commitments. In addition, as of September 2016 and December 2015, \$17.46 billion and \$9.92 billion, respectively, of the firm's lending commitments were held for sale and were accounted for at the lower of cost or fair value.

The firm accounts for the remaining commitments to extend credit at fair value. Losses, if any, are generally recorded, net of any fees in "Other principal transactions."

**Commercial Lending.** The firm's commercial lending commitments are extended to investment-grade and non-investment-grade corporate borrowers. Commitments to investment-grade corporate borrowers are principally used for operating liquidity and general corporate purposes. The firm also extends lending commitments in connection with contingent acquisition financing and other types of corporate lending as well as commercial real estate financing. Commitments that are extended for contingent acquisition financing are often intended to be short-term in nature, as borrowers often seek to replace them with other funding sources.

Sumitomo Mitsui Financial Group, Inc. (SMFG) provides the firm with credit loss protection on certain approved loan commitments (primarily investment-grade commercial lending commitments). The notional amount of such loan commitments was \$27.44 billion and \$27.03 billion as of September 2016 and December 2015, respectively. The credit loss protection on loan commitments provided by SMFG is generally limited to 95% of the first loss the firm realizes on such commitments, up to a maximum of approximately \$950 million. In addition, subject to the satisfaction of certain conditions, upon the firm's request, SMFG will provide protection for 70% of additional losses on such commitments, up to a maximum of \$1.13 billion, of which \$768 million of protection had been provided as of both September 2016 and December 2015. The firm also uses other financial instruments to mitigate credit risks related to certain commitments not covered by SMFG. These instruments primarily include credit default swaps that reference the same or similar underlying instrument or entity, or credit default swaps that reference a market index.

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

**Contingent and Forward Starting Resale and Securities Borrowing Agreements/Forward Starting Repurchase and Secured Lending Agreements**

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

**Letters of Credit**

The firm has commitments under letters of credit issued by various banks which the firm provides to counterparties in lieu of securities or cash to satisfy various collateral and margin deposit requirements.

**Investment Commitments**

The firm's investment commitments include commitments to invest in private equity, real estate and other assets directly and through funds that the firm raises and manages. Investment commitments include \$2.02 billion and \$2.86 billion as of September 2016 and December 2015, respectively, related to commitments to invest in funds managed by the firm. If these commitments are called, they would be funded at market value on the date of investment.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Leases

The firm has contractual obligations under long-term noncancelable lease agreements for office space expiring on various dates through 2069. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges.

The table below presents future minimum rental payments, net of minimum sublease rentals.

<i>\$ in millions</i>	As of September 2016
Remainder of 2016	\$ 78
2017	318
2018	307
2019	264
2020	233
2021	185
2022 - thereafter	1,061
<b>Total</b>	<b>\$2,446</b>

Rent charged to operating expense was \$65 million and \$63 million for the three months ended September 2016 and September 2015, respectively, and \$187 million and \$190 million for the nine months ended September 2016 and September 2015, respectively.

Operating leases include office space held in excess of current requirements. Rent expense relating to space held for growth is included in "Occupancy." The firm records a liability, based on the fair value of the remaining lease rentals reduced by any potential or existing sublease rentals, for leases where the firm has ceased using the space and management has concluded that the firm will not derive any future economic benefits. Costs to terminate a lease before the end of its term are recognized and measured at fair value on termination. During the three and nine months ended September 2016, the firm incurred exit costs of approximately \$63 million related to excess office space.

### Contingencies

**Legal Proceedings.** See Note 27 for information about legal proceedings, including certain mortgage-related matters, and agreements the firm has entered into to toll the statute of limitations.

**Certain Mortgage-Related Contingencies.** There are multiple areas of focus by regulators, governmental agencies and others within the mortgage market that may impact originators, issuers, servicers and investors. There remains significant uncertainty surrounding the nature and extent of any potential exposure for participants in this market.

The firm has not been a significant originator of residential mortgage loans. The firm did purchase loans originated by others and generally received loan-level representations. During the period 2005 through 2008, the firm sold approximately \$10 billion of loans to government-sponsored enterprises and approximately \$11 billion of loans to other third parties. In addition, the firm transferred \$125 billion of loans to trusts and other mortgage securitization vehicles. In connection with both sales of loans and securitizations, the firm provided loan-level representations and/or assigned the loan-level representations from the party from whom the firm purchased the loans.

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

**Other Contingencies.** In connection with the sale of Metro International Trade Services (Metro), the firm agreed to provide indemnities to the buyer, which primarily relate to fundamental representations and warranties, and potential liabilities for legal or regulatory proceedings arising out of the conduct of Metro's business while the firm owned it.

In connection with the settlement agreement with the Residential Mortgage-Backed Securities Working Group of the U.S. Financial Fraud Enforcement Task Force, the firm will provide consumer relief in the form of principal forgiveness for underwater homeowners and distressed borrowers; financing for construction, rehabilitation and preservation of affordable housing; and support for debt restructuring, foreclosure prevention and housing quality improvement programs, as well as land banks. See Note 27 to the consolidated financial statements included in the 2015 Form 10-K for further information about this settlement agreement.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Guarantees

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

<i>\$ in millions</i>	Derivatives	Securities lending indemnifications	Other financial guarantees
<b>As of September 2016</b>			
<b>Carrying Value of Net Liability</b>	<b>\$ 9,524</b>	<b>\$ —</b>	<b>\$ 65</b>
<b>Maximum Payout/Notional Amount by Period of Expiration</b>			
Remainder of 2016	\$148,983	\$38,386	\$ 193
2017 - 2018	374,101	—	1,336
2019 - 2020	143,847	—	1,247
2021 - thereafter	74,868	—	469
<b>Total</b>	<b>\$741,799</b>	<b>\$38,386</b>	<b>\$3,245</b>
<b>As of December 2015</b>			
Carrying Value of Net Liability	\$ 8,351	\$ —	\$ 76
<b>Maximum Payout/Notional Amount by Period of Expiration</b>			
2016	\$640,288	\$31,902	\$ 611
2017 - 2018	168,784	—	1,402
2019 - 2020	67,643	—	1,772
2021 - thereafter	49,728	—	676
<b>Total</b>	<b>\$926,443</b>	<b>\$31,902</b>	<b>\$4,461</b>

In the table above:

- The maximum payout is based on the notional amount of the contract and does not represent anticipated losses.
- Amounts exclude certain commitments to issue standby letters of credit that are included in “Commitments to extend credit.” See the tables in “Commitments” above for a summary of the firm’s commitments.

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

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

**Securities Lending Indemnifications.** The firm, in its capacity as an agency lender, indemnifies most of its securities lending customers against losses incurred in the event that borrowers do not return securities and the collateral held is insufficient to cover the market value of the securities borrowed. Collateral held by the lenders in connection with securities lending indemnifications was \$39.53 billion and \$32.85 billion as of September 2016 and December 2015, respectively. Because the contractual nature of these arrangements requires the firm to obtain collateral with a market value that exceeds the value of the securities lent to the borrower, there is minimal performance risk associated with these guarantees.

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

**Guarantees of Securities Issued by Trusts.** The firm has established trusts, including Goldman Sachs Capital I, the APEX Trusts, the 2012 Trusts, and other entities for the limited purpose of issuing securities to third parties, lending the proceeds to the firm and entering into contractual arrangements with the firm and third parties related to this purpose. The firm does not consolidate these entities. See Note 16 for further information about the transactions involving Goldman Sachs Capital I, the APEX Trusts, and the 2012 Trusts.

The firm effectively provides for the full and unconditional guarantee of the securities issued by these entities. Timely payment by the firm of amounts due to these entities under the guarantee, borrowing, preferred stock and related contractual arrangements will be sufficient to cover payments due on the securities issued by these entities.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

Management believes that it is unlikely that any circumstances will occur, such as nonperformance on the part of paying agents or other service providers, that would make it necessary for the firm to make payments related to these entities other than those required under the terms of the guarantee, borrowing, preferred stock and related contractual arrangements and in connection with certain expenses incurred by these entities.

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

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

In connection with its prime brokerage and clearing businesses, the firm agrees to clear and settle on behalf of its clients the transactions entered into by them with other brokerage firms. The firm's obligations in respect of such transactions are secured by the assets in the client's account as well as any proceeds received from the transactions cleared and settled by the firm on behalf of the client. In connection with joint venture investments, the firm may issue loan guarantees under which it may be liable in the event of fraud, misappropriation, environmental liabilities and certain other matters involving the borrower.

The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these guarantees and indemnifications have been recognized in the condensed consolidated statements of financial condition as of September 2016 and December 2015.

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

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

These indemnifications generally are standard contractual terms and are entered into in the ordinary course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the contingencies triggering the obligation to indemnify are not expected to occur. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these arrangements have been recognized in the condensed consolidated statements of financial condition as of September 2016 and December 2015.

**Guarantees of Subsidiaries.** Group Inc. fully and unconditionally guarantees the securities issued by GS Finance Corp., a wholly-owned finance subsidiary of the firm.

Group Inc. has guaranteed the payment obligations of Goldman, Sachs & Co. (GS&Co.), GS Bank USA and Goldman Sachs Execution & Clearing, L.P. (GSEC), subject to certain exceptions.

In November 2008, the firm contributed subsidiaries into GS Bank USA, and Group Inc. agreed to guarantee the reimbursement of certain losses, including credit-related losses, relating to assets held by the contributed entities.

In addition, Group Inc. guarantees many of the obligations of its other consolidated subsidiaries on a transaction-by-transaction basis, as negotiated with counterparties. Group Inc. is unable to develop an estimate of the maximum payout under its subsidiary guarantees; however, because these guaranteed obligations are also obligations of consolidated subsidiaries, Group Inc.'s liabilities as guarantor are not separately disclosed.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Note 19.

### Shareholders' Equity

#### Common Equity

On October 17, 2016, the Board of Directors of Group Inc. (Board) declared a dividend of \$0.65 per common share to be paid on December 29, 2016 to common shareholders of record on December 1, 2016.

The firm's share repurchase program is intended to help maintain the appropriate level of common equity. The share repurchase program is effected primarily through regular open-market purchases (which may include repurchase plans designed to comply with Rule 10b5-1), the amounts and timing of which are determined primarily by the firm's current and projected capital position, but which may also be influenced by general market conditions and the prevailing price and trading volumes of the firm's common stock. Prior to repurchasing common stock, the firm must receive confirmation that the Federal Reserve Board does not object to such capital actions.

The table below presents the amount of common stock repurchased by the firm under the share repurchase program.

	September 2016	
	Three Months Ended	Nine Months Ended
<i>in millions, except per share amounts</i>		
Common share repurchases	7.8	29.0
Average cost per share	\$162.83	\$157.54
Total cost of common share repurchases	\$ 1,275	\$ 4,569

Pursuant to the terms of certain share-based compensation plans, employees may remit shares to the firm or the firm may cancel restricted stock units (RSUs) or stock options to satisfy minimum statutory employee tax withholding requirements and the exercise price of stock options. Under these plans, during the nine months ended September 2016, 49,374 shares were remitted with a total value of \$7 million, and the firm cancelled 6.1 million of RSUs with a total value of \$920 million and 660,271 stock options with a total value of \$106 million.

#### Preferred Equity

The tables below present details about the perpetual preferred stock issued and outstanding as of September 2016.

Series	Shares Authorized	Shares Issued	Shares Outstanding	Depository Shares Per Share
A	50,000	30,000	29,999	1,000
B	50,000	32,000	32,000	1,000
C	25,000	8,000	8,000	1,000
D	60,000	54,000	53,999	1,000
E	17,500	7,667	7,667	N/A
F	5,000	1,615	1,615	N/A
I	34,500	34,000	34,000	1,000
J	46,000	40,000	40,000	1,000
K	32,200	28,000	28,000	1,000
L	52,000	52,000	52,000	25
M	80,000	80,000	80,000	25
N	31,050	27,000	27,000	1,000
O	26,000	26,000	26,000	25
<b>Total</b>	<b>509,250</b>	<b>420,282</b>	<b>420,280</b>	

Series	Liquidation Preference	Redemption Value (\$ in millions)
A	\$ 25,000	\$ 750
B	25,000	800
C	25,000	200
D	25,000	1,350
E	100,000	767
F	100,000	161
I	25,000	850
J	25,000	1,000
K	25,000	700
L	25,000	1,300
M	25,000	2,000
N	25,000	675
O	25,000	650
<b>Total</b>		<b>\$11,203</b>

In the tables above:

- Each share of non-cumulative Series A, Series B, Series C and Series D Preferred Stock issued and outstanding is redeemable at the firm's option.
- Each share of non-cumulative Series E and Series F Preferred Stock issued and outstanding is redeemable at the firm's option, subject to certain covenant restrictions governing the firm's ability to redeem the preferred stock without issuing common stock or other instruments with equity-like characteristics. See Note 16 for information about the replacement capital covenants applicable to the Series E and Series F Preferred Stock.
- Each share of non-cumulative Series I Preferred Stock issued and outstanding is redeemable at the firm's option beginning November 10, 2017.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

- Each share of non-cumulative Series J Preferred Stock issued and outstanding is redeemable at the firm's option beginning May 10, 2023.
- Each share of non-cumulative Series K Preferred Stock issued and outstanding is redeemable at the firm's option beginning May 10, 2024.
- Each share of non-cumulative Series L Preferred Stock issued and outstanding is redeemable at the firm's option beginning May 10, 2019.
- Each share of non-cumulative Series M Preferred Stock issued and outstanding is redeemable at the firm's option beginning May 10, 2020.
- In February 2016, Group Inc. issued 27,000 shares of Series N perpetual 6.30% Non-Cumulative Preferred Stock (Series N Preferred Stock). Each share of non-cumulative Series N Preferred Stock issued and outstanding is redeemable at the firm's option beginning May 10, 2021.
- In July 2016, Group Inc. issued 26,000 shares of Series O perpetual 5.30% Fixed-to-Floating Rate Non-Cumulative Preferred Stock (Series O Preferred Stock). Each share of non-cumulative Series O Preferred Stock issued and outstanding is redeemable at the firm's option beginning November 10, 2026.
- All shares have a par value of \$0.01 per share and, where applicable, each share is represented by the specified number of depositary shares.
- The redemption price per share for Series A through F Preferred Stock is the liquidation preference plus declared and unpaid dividends. The redemption price per share for Series I through O Preferred Stock is the liquidation preference plus accrued and unpaid dividends.

Prior to redeeming preferred stock, the firm must receive confirmation that the Federal Reserve Board does not object to such capital actions. All series of preferred stock are pari passu and have a preference over the firm's common stock on liquidation. Dividends on each series of preferred stock, excluding Series L, Series M and Series O Preferred Stock, if declared, are payable quarterly in arrears. Dividends on Series L, Series M and Series O Preferred Stock, if declared, are payable semi-annually in arrears from the issuance date to, but excluding, May 10, 2019, May 10, 2020 and November 10, 2026, respectively, and quarterly thereafter. The firm's ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, its common stock is subject to certain restrictions in the event that the firm fails to pay or set aside full dividends on the preferred stock for the latest completed dividend period.

During the nine months ended September 2016, the firm delivered a par amount of \$1.32 billion (fair value of \$1.04 billion) of APEX to the APEX Trusts in exchange for 9,833 shares of Series E Preferred Stock and 3,385 shares of Series F Preferred Stock for a total redemption value of \$1.32 billion (net carrying value of \$1.31 billion). Following the exchange, shares of Series E and Series F Preferred Stock were cancelled. The difference between the fair value of the APEX and the net carrying value of the preferred stock at the time of cancellation was \$105 million and \$266 million for the three and nine months ended September 2016, respectively, and was recorded in "Preferred stock dividends," along with preferred dividends declared on the firm's preferred stock. See Note 16 for further information about APEX.

The table below presents the dividend rates of the firm's perpetual preferred stock as of September 2016.

Series	Dividend Rate
A	3 month LIBOR + 0.75%, with floor of 3.75% per annum
B	6.20% per annum
C	3 month LIBOR + 0.75%, with floor of 4.00% per annum
D	3 month LIBOR + 0.67%, with floor of 4.00% per annum
E	3 month LIBOR + 0.77%, with floor of 4.00% per annum
F	3 month LIBOR + 0.77%, with floor of 4.00% per annum
I	5.95% per annum
J	5.50% per annum to, but excluding, May 10, 2023; 3 month LIBOR + 3.64% per annum thereafter
K	6.375% per annum to, but excluding, May 10, 2024; 3 month LIBOR + 3.55% per annum thereafter
L	5.70% per annum to, but excluding, May 10, 2019; 3 month LIBOR + 3.884% per annum thereafter
M	5.375% per annum to, but excluding, May 10, 2020; 3 month LIBOR + 3.922% per annum thereafter
N	6.30% per annum
O	5.30% per annum to, but excluding, November 10, 2026; 3 month LIBOR + 3.834% per annum thereafter

## Notes to Condensed Consolidated Financial Statements (Unaudited)

The tables below present preferred dividends declared on the firm's preferred stock.

Series	Three Months Ended September			
	2016		2015	
	per share	\$ in millions	per share	\$ in millions
A	\$ 239.58	\$ 7	\$ 236.98	\$ 7
B	387.50	12	387.50	12
C	255.56	2	252.78	2
D	255.56	14	252.78	14
E	1,022.22	12	1,022.22	19
F	1,022.22	3	1,022.22	5
I	371.88	13	371.88	12
J	343.75	14	343.75	14
K	398.44	11	398.44	11
L	—	—	—	—
M	—	—	—	—
N	393.75	11	—	—
<b>Total</b>		<b>\$ 99</b>		<b>\$ 96</b>

Series	Nine Months Ended September			
	2016		2015	
	per share	\$ in millions	per share	\$ in millions
A	\$ 713.54	\$ 21	\$ 710.94	\$ 21
B	1,162.50	37	1,162.50	37
C	761.12	6	758.34	6
D	761.12	41	758.34	41
E	3,055.55	43	3,044.44	54
F	3,055.55	11	3,044.44	15
I	1,115.64	38	1,115.64	38
J	1,031.25	42	1,031.25	42
K	1,195.32	33	1,195.32	33
L	712.50	37	712.50	37
M	671.88	54	—	—
N	730.63	20	—	—
<b>Total</b>		<b>\$383</b>		<b>\$324</b>

In the tables above, the total preferred dividend amounts for Series E and Series F Preferred Stock for the three and nine months ended September 2016 include prorated dividends of \$866.67 per share related to 4,861 shares of Series E Preferred Stock and 1,639 shares of Series F Preferred Stock, which were cancelled during the three months ended September 2016.

### Accumulated Other Comprehensive Loss

The table below presents accumulated other comprehensive loss, net of tax, by type. In the table below, the beginning balance of accumulated other comprehensive loss for the current period has been adjusted to reflect the impact of reclassifying the cumulative debt valuation adjustment, net of tax, from retained earnings to accumulated other comprehensive loss. See Note 3 for further information about the adoption of ASU No. 2016-01.

\$ in millions	Balance, beginning of year	Other comprehensive income/(loss) adjustments, net of tax	Balance, end of period
<b>As of September 2016</b>			
Currency translation	\$(587)	\$ (58)	\$(645)
Debt valuation adjustment	305	(75)	230
Pension and postretirement liabilities	(131)	(36)	(167)
<b>Accumulated other comprehensive loss, net of tax</b>	<b>\$(413)</b>	<b>\$(169)</b>	<b>\$(582)</b>
<b>As of December 2015</b>			
Currency translation	\$(473)	\$(114)	\$(587)
Pension and postretirement liabilities	(270)	139	(131)
Accumulated other comprehensive income/(loss), net of tax	\$(743)	\$ 25	\$(718)

### Note 20.

## Regulation and Capital Adequacy

The Federal Reserve Board is the primary regulator of Group Inc., a bank holding company under the Bank Holding Company Act of 1956 (BHC Act) and a financial holding company under amendments to the BHC Act. As a bank holding company, the firm is subject to consolidated regulatory capital requirements which are calculated in accordance with the revised risk-based capital and leverage regulations of the Federal Reserve Board, subject to certain transitional provisions (Revised Capital Framework).

The risk-based capital requirements are expressed as capital ratios that compare measures of regulatory capital to risk-weighted assets (RWAs). Failure to comply with these capital requirements could result in restrictions being imposed by the firm's regulators. The firm's capital levels are also subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors. Furthermore, certain of the firm's subsidiaries are subject to separate regulations and capital requirements as described below.

### Capital Framework

The regulations under the Revised Capital Framework are largely based on the Basel Committee's capital framework for strengthening international capital standards (Basel III) and also implement certain provisions of the Dodd-Frank Act. Under the Revised Capital Framework, the firm is an "Advanced approach" banking organization.

The firm calculates its Common Equity Tier 1 (CET1), Tier 1 capital and Total capital ratios in accordance with (i) the Standardized approach and market risk rules set out in the Revised Capital Framework (together, the Standardized Capital Rules) and (ii) the Advanced approach and market risk rules set out in the Revised Capital Framework (together, the Basel III Advanced Rules). The lower of each ratio calculated in (i) and (ii) is the ratio against which the firm's compliance with its minimum ratio requirements is assessed. Each of the ratios calculated in accordance with the Basel III Advanced Rules was lower than that calculated in accordance with the Standardized Capital Rules and therefore the Basel III Advanced ratios were the ratios that applied to the firm as of September 2016 and December 2015. The capital ratios that apply to the firm can change in future reporting periods as a result of these regulatory requirements.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

**Regulatory Capital and Capital Ratios.** The table below presents the minimum ratios required for the firm.

	As of	
	September 2016	December 2015
CET1 ratio	5.875%	4.5%
Tier 1 capital ratio	7.375%	6.0%
Total capital ratio	9.375%	8.0%
Tier 1 leverage ratio	4.000%	4.0%

In the table above:

- The minimum ratios as of September 2016 reflect (i) the 25% phase-in of the capital conservation buffer (0.625%), (ii) the 25% phase-in of the Global Systemically Important Bank (G-SIB) buffer (0.75%), and (iii) the counter-cyclical capital buffer of zero percent, each described below.
- In order to meet the quantitative requirements for being “well-capitalized” under the Federal Reserve Board’s regulations, the firm must meet a higher required minimum Total capital ratio of 10.0%.
- Tier 1 leverage ratio is defined as Tier 1 capital divided by quarterly average adjusted total assets (which includes adjustments for goodwill and identifiable intangible assets, and certain investments in nonconsolidated financial institutions).

Certain aspects of the Revised Capital Framework’s requirements phase in over time (transitional provisions). These include capital buffers and certain deductions from regulatory capital (such as investments in nonconsolidated financial institutions). These deductions from regulatory capital are required to be phased in ratably per year from 2014 to 2018, with residual amounts not deducted during the transitional period subject to risk weighting. In addition, junior subordinated debt issued to trusts is being phased out of regulatory capital. The minimum CET1, Tier 1 and Total capital ratios that apply to the firm will increase as the capital buffers are phased in.

The capital conservation buffer, which consists 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.

The G-SIB buffer, which is an extension of the capital conservation buffer, phases in ratably, beginning on January 1, 2016, becoming fully effective on January 1, 2019, and must consist entirely of capital that qualifies as CET1. The buffer must be calculated using two methodologies, the higher of which is reflected in the firm’s minimum risk-based capital ratios. The first calculation is based upon the Basel Committee’s methodology which, among other factors, relies upon measures of the size, activity and complexity of each G-SIB (Method One). The second calculation uses similar inputs, but it includes a measure of reliance on short-term wholesale funding (Method Two). The firm’s G-SIB buffer is 3.0%, using financial data primarily as of December 2014. The buffer will be updated annually based on financial data as of the end of the prior year, and will be applicable for the following year.

The Revised Capital Framework also provides for a counter-cyclical capital buffer, which is an extension of the capital conservation buffer, of up to 2.5% (consisting entirely of CET1) intended to counteract systemic vulnerabilities. As of September 2016 the Federal Reserve Board has set the counter-cyclical capital buffer at 0%.

Failure to meet the capital levels inclusive of the buffers could result in limitations on the firm’s ability to distribute capital, including share repurchases and dividend payments, and to make certain discretionary compensation payments.

**Definition of Risk-Weighted Assets.** RWAs are calculated in accordance with both the Standardized Capital Rules and the Basel III Advanced Rules. The following is a comparison of RWA calculations under these rules:

- RWAs for credit risk in accordance with the Standardized Capital Rules are calculated in a different manner than the Basel III Advanced Rules. The primary difference is that the Standardized Capital Rules do not contemplate the use of internal models to compute exposure for credit risk on derivatives and securities financing transactions, whereas the Basel III Advanced Rules permit the use of such models, subject to supervisory approval. In addition, credit RWAs calculated in accordance with the Standardized Capital Rules utilize prescribed risk-weights which depend largely on the type of counterparty, rather than on internal assessments of the creditworthiness of such counterparties;
- RWAs for market risk in accordance with the Standardized Capital Rules and the Basel III Advanced Rules are generally consistent; and
- RWAs for operational risk are not required by the Standardized Capital Rules, whereas the Basel III Advanced Rules do include such a requirement.



## Notes to Condensed Consolidated Financial Statements (Unaudited)

### **Credit Risk**

Credit RWAs are calculated based upon measures of exposure, which are then risk weighted. The following is a description of the calculation of credit RWAs in accordance with the Standardized Capital Rules and the Basel III Advanced Rules:

- For credit RWAs calculated in accordance with the Standardized Capital Rules, the firm utilizes prescribed risk-weights which depend largely on the type of counterparty (e.g., whether the counterparty is a sovereign, bank, broker-dealer or other entity). The exposure measure for derivatives is based on a combination of positive net current exposure and a percentage of the notional amount of each derivative. The exposure measure for securities financing transactions is calculated to reflect adjustments for potential price volatility, the size of which depends on factors such as the type and maturity of the security, and whether it is denominated in the same currency as the other side of the financing transaction. The firm utilizes specific required formulaic approaches to measure exposure for securitizations and equities; and
- For credit RWAs calculated in accordance with the Basel III Advanced Rules, the firm has been given permission by its regulators to compute risk-weights for wholesale and retail credit exposures in accordance with the Advanced Internal Ratings-Based approach. This approach is based on internal assessments of the creditworthiness of counterparties, with key inputs being the probability of default, loss given default and the effective maturity. The firm utilizes internal models to measure exposure for derivatives, securities financing transactions and eligible margin loans. The Revised Capital Framework requires that a bank holding company obtain prior written agreement from its regulators before using internal models for such purposes. The firm utilizes specific required formulaic approaches to measure exposure for securitizations and equities.

### **Market Risk**

Market RWAs are calculated based on measures of exposure which include Value-at-Risk (VaR), stressed VaR, incremental risk and comprehensive risk based on internal models, and a standardized measurement method for specific risk. The market risk regulatory capital rules require that a bank holding company obtain prior written agreement from its regulators before using any internal model to calculate its risk-based capital requirement. The following is further information regarding the measures of exposure for market RWAs calculated in accordance with the Standardized Capital Rules and Basel III Advanced Rules:

- VaR is the potential loss in value of inventory positions, as well as certain other financial assets and financial liabilities, due to adverse market movements over a defined time horizon with a specified confidence level. For both risk management purposes and regulatory capital calculations the firm uses a single VaR model which captures risks including those related to interest rates, equity prices, currency rates and commodity prices. However, VaR used for regulatory capital requirements (regulatory VaR) differs from risk management VaR due to different time horizons and confidence levels (10-day and 99% for regulatory VaR vs. one-day and 95% for risk management VaR), as well as differences in the scope of positions on which VaR is calculated. In addition, the daily trading net revenues used to determine risk management VaR exceptions (i.e., comparing the daily trading net revenues to the VaR measure calculated as of the end of the prior business day) include intraday activity, whereas the Federal Reserve Board's regulatory capital rules require that intraday activity be excluded from daily trading net revenues when calculating regulatory VaR exceptions. Intraday activity includes bid/offer net revenues, which are more likely than not to be positive by their nature. As a result, there may be differences in the number of VaR exceptions and the amount of daily trading net revenues calculated for regulatory VaR compared to the amounts calculated for risk management VaR. The firm's positional losses observed on a single day exceeded its 99% one-day regulatory VaR on two occasions during the nine months ended September 2016, but did not exceed its 99% one-day regulatory VaR during the year ended December 2015. There was no change in the VaR multiplier used to calculate Market RWAs;

## Notes to Condensed Consolidated Financial Statements (Unaudited)

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

### Operational Risk

Operational RWAs are only required to be included under the Basel III Advanced Rules. The firm has been given permission by its regulators to calculate operational RWAs in accordance with the "Advanced Measurement Approach," and therefore utilizes an internal risk-based model to quantify Operational RWAs.

### Consolidated Regulatory Capital Ratios

**Capital Ratios and RWAs.** Each of the ratios calculated in accordance with the Basel III Advanced Rules was lower than that calculated in accordance with the Standardized Rules as of September 2016 and December 2015, and therefore such lower ratios applied to the firm as of these dates.

The table below presents the ratios calculated in accordance with both the Standardized and Basel III Advanced Rules.

	As of	
	September 2016	December 2015
<i>\$ in millions</i>		
Common shareholders' equity	\$ 75,907	\$ 75,528
Deductions for goodwill and identifiable intangible assets, net of deferred tax liabilities	(2,879)	(2,814)
Deductions for investments in nonconsolidated financial institutions	(650)	(864)
Other adjustments	(681)	(487)
<b>Common Equity Tier 1</b>	<b>71,697</b>	<b>71,363</b>
Preferred stock	11,203	11,200
Junior subordinated debt issued to trusts	—	330
Deduction for investments in covered funds	(587)	(413)
Other adjustments	(569)	(969)
<b>Tier 1 capital</b>	<b>\$ 81,744</b>	<b>\$ 81,511</b>
<b>Standardized Tier 2 and Total capital</b>		
Tier 1 capital	\$ 81,744	\$ 81,511
Qualifying subordinated debt	14,808	15,132
Junior subordinated debt issued to trusts	792	990
Allowance for losses on loans and lending commitments	699	602
Other adjustments	(4)	(19)
Standardized Tier 2 capital	16,295	16,705
<b>Standardized Total capital</b>	<b>\$ 98,039</b>	<b>\$ 98,216</b>
<b>Basel III Advanced Tier 2 and Total capital</b>		
Tier 1 capital	\$ 81,744	\$ 81,511
Standardized Tier 2 capital	16,295	16,705
Allowance for losses on loans and lending commitments	(699)	(602)
Basel III Advanced Tier 2 capital	15,596	16,103
<b>Basel III Advanced Total capital</b>	<b>\$ 97,340</b>	<b>\$ 97,614</b>
<b>RWAs</b>		
Standardized	\$513,020	\$524,107
Basel III Advanced	579,996	577,651
<b>CET1 ratio</b>		
Standardized	14.0%	13.6%
Basel III Advanced	12.4%	12.4%
<b>Tier 1 capital ratio</b>		
Standardized	15.9%	15.6%
Basel III Advanced	14.1%	14.1%
<b>Total capital ratio</b>		
Standardized	19.1%	18.7%
Basel III Advanced	16.8%	16.9%
<b>Tier 1 leverage ratio</b>		
	9.3%	9.3%

## Notes to Condensed Consolidated Financial Statements (Unaudited)

In the table above:

- The deductions for goodwill and identifiable intangible assets, net of deferred tax liabilities, include goodwill of \$3.67 billion and \$3.66 billion as of September 2016 and December 2015, respectively, and identifiable intangible assets of \$261 million (60% of \$435 million) and \$196 million (40% of \$491 million) as of September 2016 and December 2015, respectively, net of associated deferred tax liabilities of \$1.05 billion and \$1.04 billion as of September 2016 and December 2015, respectively. Goodwill is fully deducted from CET1, while the deduction for identifiable intangible assets is required to be phased into CET1 ratably over five years from 2014 to 2018. The balance that is not deducted during the transitional period is risk weighted.
- The deductions for investments in nonconsolidated financial institutions represent the amount by which the firm's investments in the capital of nonconsolidated financial institutions exceed certain prescribed thresholds. The deduction for such investments is required to be phased into CET1 ratably over five years from 2014 to 2018. As of September 2016 and December 2015, CET1 reflects 60% and 40% of the deduction, respectively. The balance that is not deducted during the transitional period is risk weighted.
- The deduction for investments in covered funds represents the firm's aggregate investments in applicable covered funds, as permitted by the Volcker Rule, that were purchased after December 2013. Substantially all of these investments in covered funds were purchased in connection with the firm's market-making activities. This deduction was not subject to a transition period. See Note 6 for further information about the Volcker Rule.
- Other adjustments within CET1 and Tier 1 capital primarily include accumulated other comprehensive loss, credit valuation adjustments on derivative liabilities, the overfunded portion of the firm's defined benefit pension plan obligation net of associated deferred tax liabilities, disallowed deferred tax assets and other required credit risk-based deductions. The deductions for such items are generally required to be phased into CET1 ratably over five years from 2014 to 2018. As of September 2016 and December 2015, CET1 reflects 60% and 40% of such deductions, respectively. The balance that is not deducted from CET1 during the transitional period is generally deducted from Tier 1 capital within other adjustments.
- As of September 2016, junior subordinated debt issued to trusts is fully phased out of Tier 1 capital, with 60% included in Tier 2 capital and 40% fully phased out of regulatory capital. As of December 2015, junior subordinated debt issued to trusts is reflected in both Tier 1 capital (25%) and Tier 2 capital (75%). Junior subordinated debt issued to trusts is reduced by the amount of trust preferred securities purchased by the firm and will be fully phased out of Tier 2 capital by 2022 at a rate of 10% per year. See Note 16 for additional information about the firm's junior subordinated debt issued to trusts and trust preferred securities purchased by the firm.
- Qualifying subordinated debt is subordinated debt issued by Group Inc. with an original maturity of five years or greater. The outstanding amount of subordinated debt qualifying for Tier 2 capital is reduced upon reaching a remaining maturity of five years. See Note 16 for additional information about the firm's subordinated debt.

The tables below present changes in CET1, Tier 1 capital and Tier 2 capital for the nine months ended September 2016 and year ended December 2015.

\$ in millions	Nine Months Ended September 2016	
	Standardized	Basel III Advanced
<b>Common Equity Tier 1</b>		
Beginning balance	\$71,363	\$71,363
Change in common shareholders' equity	379	379
Change in deductions for:		
Transitional provisions	(839)	(839)
Goodwill and identifiable intangible assets, net of deferred tax liabilities	11	11
Investments in nonconsolidated financial institutions	669	669
Change in other adjustments	114	114
<b>Ending balance</b>	<b>\$71,697</b>	<b>\$71,697</b>
<b>Tier 1 capital</b>		
Beginning balance	\$81,511	\$81,511
Change in deductions for:		
Transitional provisions	(558)	(558)
Investments in covered funds	(174)	(174)
Other net increase in CET1	1,173	1,173
Redesignation of junior subordinated debt issued to trusts	(330)	(330)
Change in preferred stock	3	3
Change in other adjustments	119	119
Ending balance	81,744	81,744
<b>Tier 2 capital</b>		
Beginning balance	16,705	16,103
Change in qualifying subordinated debt	(324)	(324)
Redesignation of junior subordinated debt issued to trusts	(198)	(198)
Change in the allowance for losses on loans and lending commitments	97	—
Change in other adjustments	15	15
Ending balance	16,295	15,596
<b>Total capital</b>	<b>\$98,039</b>	<b>\$97,340</b>

## Notes to Condensed Consolidated Financial Statements (Unaudited)

\$ in millions	Year Ended December 2015	
	Standardized	Basel III Advanced
<b>Common Equity Tier 1</b>		
Beginning balance	\$69,830	\$69,830
Change in common shareholders' equity	1,931	1,931
Change in deductions for:		
Transitional provisions	(1,368)	(1,368)
Goodwill and identifiable intangible assets, net of deferred tax liabilities	75	75
Investments in nonconsolidated financial institutions	1,059	1,059
Change in other adjustments	(164)	(164)
Ending balance	\$71,363	\$71,363
<b>Tier 1 capital</b>		
Beginning balance	\$78,433	\$78,433
Change in deductions for:		
Transitional provisions	(1,073)	(1,073)
Investments in covered funds	(413)	(413)
Other net increase in CET1	2,901	2,901
Redesignation of junior subordinated debt issued to trusts	(330)	(330)
Change in preferred stock	2,000	2,000
Change in other adjustments	(7)	(7)
Ending balance	81,511	81,511
<b>Tier 2 capital</b>		
Beginning balance	12,861	12,545
Increased deductions for transitional provisions	(53)	(53)
Change in qualifying subordinated debt	3,238	3,238
Redesignation of junior subordinated debt issued to trusts	330	330
Change in the allowance for losses on loans and lending commitments	286	—
Change in other adjustments	43	43
Ending balance	16,705	16,103
Total capital	\$98,216	\$97,614

The increased deductions for transitional provisions in the tables above represent the increased phase-in of deductions from 40% to 60% (effective January 1, 2016) for the nine months ended September 2016 and from 20% to 40% (effective January 1, 2015) for the year ended December 2015.

The tables below present the components of RWAs calculated in accordance with the Standardized and Basel III Advanced Rules.

\$ in millions	Standardized Capital Rules as of	
	September 2016	December 2015
<b>Credit RWAs</b>		
Derivatives	\$126,732	\$136,841
Commitments, guarantees and loans	116,966	111,391
Securities financing transactions	78,050	71,392
Equity investments	40,423	37,687
Other	58,762	62,807
<b>Total Credit RWAs</b>	<b>420,933</b>	420,118
<b>Market RWAs</b>		
Regulatory VaR	9,525	12,000
Stressed VaR	24,925	21,738
Incremental risk	9,188	9,513
Comprehensive risk	5,638	5,725
Specific risk	42,811	55,013
<b>Total Market RWAs</b>	<b>92,087</b>	103,989
<b>Total RWAs</b>	<b>\$513,020</b>	\$524,107

\$ in millions	Basel III Advanced Rules as of	
	September 2016	December 2015
<b>Credit RWAs</b>		
Derivatives	\$123,920	\$113,671
Commitments, guarantees and loans	116,582	114,523
Securities financing transactions	16,863	14,901
Equity investments	42,961	40,110
Other	62,283	60,877
<b>Total Credit RWAs</b>	<b>362,609</b>	344,082
<b>Market RWAs</b>		
Regulatory VaR	9,525	12,000
Stressed VaR	24,925	21,738
Incremental risk	9,188	9,513
Comprehensive risk	4,813	4,717
Specific risk	42,811	55,013
<b>Total Market RWAs</b>	<b>91,262</b>	102,981
<b>Total Operational RWAs</b>	<b>126,125</b>	130,588
<b>Total RWAs</b>	<b>\$579,996</b>	\$577,651

In the tables above:

- Securities financing transactions represent resale and repurchase agreements and securities borrowed and loaned transactions.
- Other primarily includes receivables, other assets, and cash and cash equivalents.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

The table below presents changes in RWAs calculated in accordance with the Standardized and Basel III Advanced Rules for the nine months ended September 2016. The increased deductions for transitional provisions represent the increased phase-in of deductions from 40% to 60%, effective January 1, 2016.

\$ in millions	Nine Months Ended September 2016	
	Standardized	Basel III Advanced
<b>Risk-Weighted Assets</b>		
Beginning balance	\$524,107	\$577,651
<b>Credit RWAs</b>		
Increased deductions for transitional provisions	(531)	(531)
Change in:		
Derivatives	(10,109)	10,249
Commitments, guarantees and loans	5,575	2,059
Securities financing transactions	6,658	1,962
Equity investments	3,267	3,382
Other	(4,045)	1,406
<b>Change in Credit RWAs</b>	<b>815</b>	<b>18,527</b>
<b>Market RWAs</b>		
Change in:		
Regulatory VaR	(2,475)	(2,475)
Stressed VaR	3,187	3,187
Incremental risk	(325)	(325)
Comprehensive risk	(87)	96
Specific risk	(12,202)	(12,202)
<b>Change in Market RWAs</b>	<b>(11,902)</b>	<b>(11,719)</b>
<b>Operational RWAs</b>		
Change in operational risk	—	(4,463)
<b>Change in Operational RWAs</b>	<b>—</b>	<b>(4,463)</b>
<b>Ending balance</b>	<b>\$513,020</b>	<b>\$579,996</b>

Standardized Credit RWAs as of September 2016 increased by \$815 million compared with December 2015, primarily reflecting increases in securities financing transactions due to increased exposures, and an increase in lending exposures. These increases were partially offset by a decrease in derivatives, principally due to reduced exposures. Standardized Market RWAs decreased by \$11.90 billion compared with December 2015, reflecting a decrease in specific risk as a result of reduced risk exposures.

Basel III Advanced Credit RWAs as of September 2016 increased by \$18.53 billion compared with December 2015, primarily reflecting an increase in derivatives, principally due to higher counterparty credit risk, and an increase in equity investments, principally due to increased exposures and the impact of market movements. Basel III Advanced Market RWAs as of September 2016 decreased by \$11.72 billion compared with December 2015, reflecting a decrease in specific risk as a result of reduced risk exposures. Basel III Advanced Operational RWAs as of September 2016 decreased by \$4.46 billion compared with December 2015, reflecting a decrease in the frequency of certain events incorporated within the firm's risk-based model.

The table below presents changes in RWAs calculated in accordance with the Standardized and Basel III Advanced Rules for the year ended December 2015. The increased deductions for transitional provisions represent the increased phase-in of deductions from 20% to 40%, effective January 1, 2015.

\$ in millions	Year Ended December 2015	
	Standardized	Basel III Advanced
<b>Risk-Weighted Assets</b>		
Beginning balance	\$619,216	\$570,313
<b>Credit RWAs</b>		
Increased deductions for transitional provisions	(1,073)	(1,073)
Change in:		
Derivatives	(43,930)	(8,830)
Commitments, guarantees and loans	21,608	19,314
Securities financing transactions	(20,724)	(717)
Equity investments	131	934
Other	(8,589)	6,510
<b>Change in Credit RWAs</b>	<b>(52,577)</b>	<b>16,138</b>
<b>Market RWAs</b>		
Change in:		
Regulatory VaR	1,762	1,762
Stressed VaR	(7,887)	(7,887)
Incremental risk	(7,437)	(7,437)
Comprehensive risk	(4,130)	(3,433)
Specific risk	(24,840)	(24,905)
<b>Change in Market RWAs</b>	<b>(42,532)</b>	<b>(41,900)</b>
<b>Operational RWAs</b>		
Change in operational risk	—	33,100
<b>Change in Operational RWAs</b>	<b>—</b>	<b>33,100</b>
<b>Ending balance</b>	<b>\$524,107</b>	<b>\$577,651</b>

Standardized Credit RWAs as of December 2015 decreased by \$52.58 billion compared with December 2014, reflecting decreases in derivatives and securities financing transactions, primarily due to lower exposures. These decreases were partially offset by an increase in lending activity. Standardized Market RWAs as of December 2015 decreased by \$42.53 billion compared with December 2014, primarily due to decreased specific risk, as a result of reduced risk exposures.

Basel III Advanced Credit RWAs as of December 2015 increased by \$16.14 billion compared with December 2014, primarily reflecting an increase in lending activity. This increase was partially offset by a decrease in RWAs related to derivatives, due to lower counterparty credit risk. Basel III Advanced Market RWAs as of December 2015 decreased by \$41.90 billion compared with December 2014, primarily due to decreased specific risk, as a result of reduced risk exposures. Basel III Advanced Operational RWAs as of December 2015 increased by \$33.10 billion compared with December 2014, substantially all of which is associated with mortgage-related legal matters and regulatory proceedings.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

See “Definition of Risk-Weighted Assets” above for a description of the calculations of Credit RWAs, Market RWAs and Operational RWAs, including the differences in the calculation of Credit RWAs under each of the Standardized Capital Rules and the Basel III Advanced Rules.

### Bank Subsidiaries

**Regulatory Capital Ratios.** GS Bank USA, an FDIC-insured, New York State-chartered bank and a member of the Federal Reserve System, is supervised and regulated by the Federal Reserve Board, the FDIC, the New York State Department of Financial Services and the Consumer Financial Protection Bureau, and is subject to regulatory capital requirements that are calculated in substantially the same manner as those applicable to bank holding companies. For purposes of assessing the adequacy of its capital, GS Bank USA calculates its capital ratios in accordance with the risk-based capital and leverage requirements applicable to state member banks. Those requirements are based on the Revised Capital Framework described above. GS Bank USA is an Advanced approach banking organization under the Revised Capital Framework.

Under the regulatory framework for prompt corrective action applicable to GS Bank USA, in order to meet the quantitative requirements for being a “well-capitalized” depository institution, GS Bank USA must meet higher minimum requirements than the minimum ratios in the table below. The table below presents the minimum ratios and the “well-capitalized” minimum ratios required for GS Bank USA.

	Minimum Ratio as of		“Well-capitalized” Minimum Ratio
	September 2016	December 2015	
CET1 ratio	5.125%	4.5%	6.5%
Tier 1 capital ratio	6.625%	6.0%	8.0%
Total capital ratio	8.625%	8.0%	10.0%
Tier 1 leverage ratio	4.000%	4.0%	5.0%

GS Bank USA was in compliance with its minimum capital requirements and the “well-capitalized” minimum ratios as of September 2016 and December 2015. In the table above, the minimum ratios as of September 2016 reflect the 25% phase-in of the capital conservation buffer (0.625%) and the counter-cyclical capital buffer described above (0%). GS Bank USA’s capital levels and prompt corrective action classification are also subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors. Failure to comply with these capital requirements, including a breach of the buffers discussed above, could result in restrictions being imposed by GS Bank USA’s regulators.

Similar to the firm, GS Bank USA is required to calculate each of the CET1, Tier 1 capital and Total capital ratios in accordance with both the Standardized Capital Rules and Basel III Advanced Rules. The lower of each ratio calculated in accordance with the Standardized Capital Rules and Basel III Advanced Rules is the ratio against which GS Bank USA’s compliance with its minimum ratio requirements is assessed. Each of the ratios calculated in accordance with the Standardized Capital Rules was lower than that calculated in accordance with the Basel III Advanced Rules and therefore the Standardized Capital ratios were the ratios that applied to GS Bank USA as of September 2016 and December 2015. The capital ratios that apply to GS Bank USA can change in future reporting periods as a result of these regulatory requirements.

The table below presents the ratios for GS Bank USA calculated in accordance with both the Standardized and Basel III Advanced Rules.

\$ in millions	As of	
	September 2016	December 2015
<b>Standardized</b>		
Common Equity Tier 1	\$ 24,121	\$ 23,017
Tier 1 capital	24,121	23,017
Tier 2 capital	2,381	2,311
<b>Total capital</b>	<b>\$ 26,502</b>	<b>\$ 25,328</b>
<b>Basel III Advanced</b>		
Common Equity Tier 1	\$ 24,121	\$ 23,017
Tier 1 capital	24,121	23,017
Standardized Tier 2 capital	2,381	2,311
Allowance for losses on loans and lending commitments	(381)	(311)
Other adjustments	—	—
Tier 2 capital	2,000	2,000
<b>Total capital</b>	<b>\$ 26,121</b>	<b>\$ 25,017</b>
<b>RWAs</b>		
Standardized	\$194,629	\$202,197
Basel III Advanced	137,135	131,059
<b>CET1 ratio</b>		
Standardized	12.4%	11.4%
Basel III Advanced	17.6%	17.6%
<b>Tier 1 capital ratio</b>		
Standardized	12.4%	11.4%
Basel III Advanced	17.6%	17.6%
<b>Total capital ratio</b>		
Standardized	13.6%	12.5%
Basel III Advanced	19.0%	19.1%
<b>Tier 1 leverage ratio</b>		
	15.0%	16.4%

The increase in GS Bank USA’s Standardized capital ratios from December 2015 to September 2016 is primarily due to a decrease in credit RWAs, reflecting a decrease in derivatives exposures, as well as an increase in Common Equity Tier 1 capital. GS Bank USA’s Basel III Advanced capital ratios as of September 2016 were essentially unchanged compared with December 2015.

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

The firm's principal non-U.S. bank subsidiary, GSIB, is a wholly-owned credit institution, regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and is subject to minimum capital requirements. As of September 2016 and December 2015, GSIB was in compliance with all regulatory capital requirements.

**Broker-Dealer Subsidiaries**

**U.S. Regulated Broker-Dealer Subsidiaries.** The firm's U.S. regulated broker-dealer subsidiaries include GS&Co. and GSEC. As registered U.S. broker-dealers, GS&Co. and GSEC are subject to regulatory capital requirements including those imposed by the SEC and the Financial Industry Regulatory Authority, Inc. (FINRA). In addition, GS&Co. is a registered futures commission merchant and is subject to regulatory capital requirements imposed by the U.S. Commodity Futures Trading Commission (CFTC), the Chicago Mercantile Exchange and the National Futures Association. In August 2016, GSEC withdrew its registration as a futures commission merchant in connection with the transfer of substantially all of its clearing business to GS&Co. Rule 15c3-1 of the SEC and Rule 1.17 of the CFTC specify uniform minimum net capital requirements, as defined, for their registrants, and also effectively require that a significant part of the registrants' assets be kept in relatively liquid form. GS&Co. and GSEC have elected to calculate their minimum capital requirements in accordance with the "Alternative Net Capital Requirement" as permitted by Rule 15c3-1.

As of September 2016 and December 2015, GS&Co. had regulatory net capital, as defined by Rule 15c3-1, of \$17.65 billion and \$14.75 billion, respectively, which exceeded the amount required by \$15.24 billion and \$12.37 billion, respectively. As of September 2016 and December 2015, GSEC had regulatory net capital, as defined by Rule 15c3-1, of \$139 million and \$1.71 billion, respectively, which exceeded the amount required by \$138 million and \$1.59 billion, respectively. The decrease in GSEC's regulatory net capital from December 2015 to September 2016 was related to the firm substantially completing the transfer of GSEC's clearing business to GS&Co.

In addition to its alternative minimum net capital requirements, GS&Co. is also required to hold tentative net capital in excess of \$1 billion and net capital in excess of \$500 million in accordance with the market and credit risk standards of Appendix E of Rule 15c3-1. GS&Co. is also required to notify the SEC in the event that its tentative net capital is less than \$5 billion. As of September 2016 and December 2015, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements.

**Non-U.S. Regulated Broker-Dealer Subsidiaries.** The firm's principal non-U.S. regulated broker-dealer subsidiaries include Goldman Sachs International (GSI) and Goldman Sachs Japan Co., Ltd. (GSJCL). GSI, the firm's U.K. broker-dealer, is regulated by the PRA and the FCA. GSJCL, the firm's Japanese broker-dealer, is regulated by Japan's Financial Services Agency. These and certain other non-U.S. subsidiaries of the firm are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of September 2016 and December 2015, these subsidiaries were in compliance with their local capital adequacy requirements.

**Restrictions on Payments**

Group Inc.'s ability to withdraw capital from its regulated subsidiaries is limited by minimum equity capital requirements applicable to those subsidiaries, provisions of applicable law and regulations and other regulatory restrictions that limit the ability of those subsidiaries to declare and pay dividends without prior regulatory approval even if the relevant subsidiary would satisfy the equity capital requirements applicable to it after giving effect to the dividend. For example, the Federal Reserve Board, the FDIC and the New York State Department of Financial Services have authority to prohibit or to limit the payment of dividends by the banking organizations they supervise (including GS Bank USA) if, in the relevant regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in the light of the financial condition of the banking organization.

As of September 2016 and December 2015, Group Inc. was required to maintain \$47.47 billion and \$48.09 billion, respectively, of minimum equity capital in its regulated subsidiaries in order to satisfy the regulatory requirements of such subsidiaries.

**Other**

The deposits of GS Bank USA are insured by the FDIC to the extent provided by law. The Federal Reserve Board requires that GS Bank USA maintain cash reserves with the Federal Reserve Bank of New York. The amount deposited by GS Bank USA held at the Federal Reserve Bank of New York was \$66.66 billion and \$49.36 billion as of September 2016 and December 2015, respectively, which exceeded required reserve amounts by \$66.59 billion and \$49.25 billion as of September 2016 and December 2015, respectively. The increase in the amount deposited by GS Bank USA held at the Federal Reserve Bank of New York from December 2015 to September 2016 is primarily a result of the acquisition of GE Capital Bank's online deposit platform in April 2016. See Note 14 for further information about this acquisition.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Note 21.

#### Earnings Per Common Share

Basic earnings per common share (EPS) is calculated by dividing net earnings applicable to common shareholders by the weighted average number of common shares outstanding and RSUs for which no future service is required as a condition to the delivery of the underlying common stock (collectively, basic shares). Diluted EPS includes the determinants of basic EPS and, in addition, reflects the dilutive effect of the common stock deliverable for stock options and for RSUs for which future service is required as a condition to the delivery of the underlying common stock.

The table below presents the computations of basic and diluted EPS.

<i>in millions, except per share amounts</i>	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
<b>Net earnings applicable to common shareholders</b>	<b>\$2,100</b>	\$1,330	<b>\$4,934</b>	\$4,994
Weighted average number of basic shares	<b>422.4</b>	449.0	<b>431.5</b>	451.2
Effect of dilutive securities:				
RSUs	<b>4.8</b>	5.6	<b>4.3</b>	5.0
Stock options	<b>3.0</b>	4.0	<b>3.0</b>	4.7
Dilutive securities	<b>7.8</b>	9.6	<b>7.3</b>	9.7
<b>Weighted average number of basic shares and dilutive securities</b>	<b>430.2</b>	458.6	<b>438.8</b>	460.9
Basic EPS	<b>\$ 4.96</b>	\$ 2.95	<b>\$11.40</b>	\$11.03
Diluted EPS	<b>4.88</b>	2.90	<b>11.24</b>	10.84

In the table above, unvested share-based awards that have non-forfeitable rights to dividends or dividend equivalents are treated as a separate class of securities in calculating EPS. The impact of applying this methodology was a reduction in basic EPS of \$0.01 for both the three months ended September 2016 and September 2015, and \$0.03 and \$0.04 for the nine months ended September 2016 and September 2015, respectively.

The diluted EPS computations in the table above do not include antidilutive RSUs and common shares underlying antidilutive stock options of 6.0 million for both the three months ended September 2016 and September 2015, and 6.1 million and 6.0 million for the nine months ended September 2016 and September 2015, respectively.

### Note 22.

#### Transactions with Affiliated Funds

The firm has formed numerous nonconsolidated investment funds with third-party investors. As the firm generally acts as the investment manager for these funds, it is entitled to receive management fees and, in certain cases, advisory fees or incentive fees from these funds. Additionally, the firm invests alongside the third-party investors in certain funds.

The tables below present fees earned from affiliated funds, fees receivable from affiliated funds and the aggregate carrying value of the firm's interests in affiliated funds.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Fees earned from funds	<b>\$704</b>	\$687	<b>\$1,949</b>	\$2,489

<i>\$ in millions</i>	As of	
	September 2016	December 2015
Fees receivable from funds	<b>\$ 569</b>	\$ 599
Aggregate carrying value of interests in funds	<b>7,452</b>	7,768

The firm may periodically determine to waive certain management fees on selected money market funds. Management fees of \$26 million and \$79 million were waived for the three and nine months ended September 2016, respectively.



## Notes to Condensed Consolidated Financial Statements (Unaudited)

The Volcker Rule restricts the firm from providing financial support to covered funds (as defined in the rule) after the expiration of any applicable conformance period. As a general matter, in the ordinary course of business, the firm does not expect to provide additional voluntary financial support to any covered funds but may choose to do so with respect to funds that are not subject to the Volcker Rule; however, in the event that such support is provided, the amount is not expected to be material.

As of both September 2016 and December 2015, the firm had an outstanding guarantee, as permitted under the Volcker Rule, on behalf of its funds of \$300 million. The firm has voluntarily provided this guarantee in connection with a financing agreement with a third-party lender executed by one of the firm's real estate funds that is not covered by the Volcker Rule. As of September 2016 and December 2015, except as noted above, the firm has not provided any additional financial support to its affiliated funds.

In addition, in the ordinary course of business, the firm may also engage in other activities with its affiliated funds including, among others, securities lending, trade execution, market making, custody, and acquisition and bridge financing. See Note 18 for the firm's investment commitments related to these funds.

### Note 23.

## Interest Income and Interest Expense

Interest is recorded over the life of the instrument on an accrual basis based on contractual interest rates. The table below presents the firm's sources of interest income and interest expense.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
<b>Interest income</b>				
Deposits with banks	\$ 102	\$ 35	\$ 277	\$ 114
Securities borrowed, securities purchased under agreements to resell and federal funds sold	169	15	456	14
Financial instruments owned, at fair value	1,276	1,458	4,098	4,406
Loans receivable	483	314	1,327	840
Other interest	359	297	1,109	930
<b>Total interest income</b>	<b>2,389</b>	<b>2,119</b>	<b>7,267</b>	<b>6,304</b>
<b>Interest expense</b>				
Deposits	233	106	627	289
Securities loaned and securities sold under agreements to repurchase	112	88	354	236
Financial instruments sold, but not yet purchased, at fair value	312	344	943	1,001
Short-term secured and unsecured borrowings	105	67	341	318
Long-term secured and unsecured borrowings	1,064	935	2,949	2,843
Other interest	(51)	(263)	(198)	(747)
<b>Total interest expense</b>	<b>1,775</b>	<b>1,277</b>	<b>5,016</b>	<b>3,940</b>
<b>Net interest income</b>	<b>\$ 614</b>	<b>\$ 842</b>	<b>\$2,251</b>	<b>\$2,364</b>

In the table above:

- Securities borrowed, securities purchased under agreements to resell and federal funds sold includes rebates paid and interest income on securities borrowed.
- Other interest income includes interest income on customer debit balances and other interest-earning assets.
- Other interest expense includes rebates received on other interest-bearing liabilities and interest expense on customer credit balances.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Note 24.

#### Income Taxes

##### Provision for Income Taxes

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

##### Deferred Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities. These temporary differences result in taxable or deductible amounts in future years and are measured using the tax rates and laws that will be in effect when such differences are expected to reverse. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized and primarily relate to the ability to utilize losses in various tax jurisdictions. Tax assets and liabilities are presented as a component of “Other assets” and “Other liabilities and accrued expenses,” respectively.

##### Unrecognized Tax Benefits

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

##### Regulatory Tax Examinations

The firm is subject to examination by the U.S. Internal Revenue Service (IRS) and other taxing authorities in jurisdictions where the firm has significant business operations, such as the United Kingdom, Japan, Hong Kong and various states, such as New York. The tax years under examination vary by jurisdiction. The firm does not expect completion of these audits to have a material impact on the firm’s financial condition but it may be material to operating results for a particular period, depending, in part, on the operating results for that period.

The table below presents the earliest tax years that remain subject to examination by major jurisdiction.

Jurisdiction	As of September 2016
U.S. Federal	2011
New York State and City	2007
United Kingdom	2014
Japan	2014
Hong Kong	2007

During the second quarter of 2016, the Joint Committee on Taxation finalized its review of the U.S. Federal examinations of fiscal 2008 through calendar 2010. The completion of the review did not have a material impact on the firm’s effective income tax rate. The examinations of 2011 and 2012 began in 2013.

The firm has been accepted into the Compliance Assurance Process program by the IRS for each of the tax years from 2013 through 2016. This program allows the firm to work with the IRS to identify and resolve potential U.S. federal tax issues before the filing of tax returns. The 2013 tax year is the first year that was examined under the program, and 2013 through 2015 remain subject to post-filing review.

New York State and City examinations of fiscal 2007 through calendar 2010 began in 2013. New York State and City examinations of 2011 through 2014 began in 2015.

During the first quarter of 2016, the firm concluded examinations with the Japan tax authorities related to 2010 through 2013. The completion of the examinations did not have a material impact on the firm’s effective income tax rate.

During the third quarter of 2016, the firm concluded the examination with the Hong Kong tax authorities related to 2006. The completion of the examination did not have a material impact on the firm’s effective income tax rate.

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

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Note 25.

#### Business Segments

The firm reports its activities in the following four business segments: Investment Banking, Institutional Client Services, Investing & Lending and Investment Management.

#### Basis of Presentation

In reporting segments, certain of the firm's business lines have been aggregated where they have similar economic characteristics and are similar in each of the following areas: (i) the nature of the services they provide, (ii) their methods of distribution, (iii) the types of clients they serve and (iv) the regulatory environments in which they operate.

The cost drivers of the firm taken as a whole, compensation, headcount and levels of business activity, are broadly similar in each of the firm's business segments. Compensation and benefits expenses in the firm's segments reflect, among other factors, the overall performance of the firm as well as the performance of individual businesses. Consequently, pre-tax margins in one segment of the firm's business may be significantly affected by the performance of the firm's other business segments.

The firm allocates assets (including allocations of global core liquid assets and cash, secured client financing and other assets), revenues and expenses among the four business segments. Due to the integrated nature of these segments, estimates and judgments are made in allocating certain assets, revenues and expenses. The allocation process is based on the manner in which management currently views the performance of the segments. Transactions between segments are based on specific criteria or approximate third-party rates.

The table below presents the firm's pre-tax earnings and total assets by segment. Management believes that this information provides a reasonable representation of each segment's contribution to consolidated pre-tax earnings and total assets.

\$ in millions	Three Months Ended or as of September		Nine Months Ended September	
	2016	2015	2016	2015
<b>Investment Banking</b>				
Financial Advisory	\$ 658	\$ 809	\$ 2,223	\$ 2,591
Equity underwriting	227	190	679	1,318
Debt underwriting	652	557	1,885	1,571
Total Underwriting	879	747	2,564	2,889
Total net revenues	1,537	1,556	4,787	5,480
Operating expenses	863	788	2,720	3,049
<b>Pre-tax earnings</b>	<b>\$ 674</b>	<b>\$ 768</b>	<b>\$ 2,067</b>	<b>\$ 2,431</b>
<b>Segment assets</b>	<b>\$ 2,245</b>	<b>\$ 2,515</b>		
<b>Institutional Client Services</b>				
Fixed Income, Currency and Commodities Client Execution	\$ 1,964	\$ 1,461	\$ 5,554	\$ 6,199
Equities client execution	678	555	1,735	2,466
Commissions and fees	719	818	2,342	2,393
Securities services	387	379	1,241	1,215
Total Equities	1,784	1,752	5,318	6,074
Total net revenues	3,748	3,213	10,872	12,273
Operating expenses	2,526	2,522	7,649	10,101
<b>Pre-tax earnings</b>	<b>\$ 1,222</b>	<b>\$ 691</b>	<b>\$ 3,223</b>	<b>\$ 2,172</b>
<b>Segment assets</b>	<b>\$667,105</b>	<b>\$700,548</b>		
<b>Investing &amp; Lending</b>				
Equity securities	\$ 920	\$ 370	\$ 1,546	\$ 2,784
Debt securities and loans	478	300	1,050	1,356
Total net revenues	1,398	670	2,596	4,140
Operating expenses	690	358	1,714	1,948
<b>Pre-tax earnings</b>	<b>\$ 708</b>	<b>\$ 312</b>	<b>\$ 882</b>	<b>\$ 2,192</b>
<b>Segment assets</b>	<b>\$195,774</b>	<b>\$162,444</b>		
<b>Investment Management</b>				
Management and other fees	\$ 1,225	\$ 1,212	\$ 3,571	\$ 3,651
Incentive fees	114	73	197	590
Transaction revenues	146	137	415	413
Total net revenues	1,485	1,422	4,183	4,654
Operating expenses	1,221	1,122	3,448	3,718
<b>Pre-tax earnings</b>	<b>\$ 264</b>	<b>\$ 300</b>	<b>\$ 735</b>	<b>\$ 936</b>
<b>Segment assets</b>	<b>\$ 14,863</b>	<b>\$ 15,052</b>		
<b>Total net revenues</b>	<b>\$ 8,168</b>	<b>\$ 6,861</b>	<b>\$22,438</b>	<b>\$26,547</b>
<b>Total operating expenses</b>	<b>5,300</b>	<b>4,815</b>	<b>15,531</b>	<b>18,841</b>
<b>Total pre-tax earnings</b>	<b>\$ 2,868</b>	<b>\$ 2,046</b>	<b>\$ 6,907</b>	<b>\$ 7,706</b>
<b>Total assets</b>	<b>\$879,987</b>	<b>\$880,559</b>		

## Notes to Condensed Consolidated Financial Statements (Unaudited)

In the table above:

- Revenues and expenses directly associated with each segment are included in determining pre-tax earnings.
- Net revenues in the firm's segments include allocations of interest income and interest expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, such underlying positions. Net interest is included in segment net revenues as it is consistent with the way in which management assesses segment performance.
- Overhead expenses not directly allocable to specific segments are allocated ratably based on direct segment expenses.
- Total operating expenses include \$25 million of charitable contributions that have not been allocated to the firm's segments for the three and nine months ended September 2015.

The table below presents the amounts of net interest income by segment included in net revenues.

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Investment Banking	\$ —	\$ —	\$ —	\$ —
Institutional Client Services	312	665	1,459	1,916
Investing & Lending	235	127	618	318
Investment Management	67	50	174	130
<b>Total net interest income</b>	<b>\$614</b>	<b>\$842</b>	<b>\$2,251</b>	<b>\$2,364</b>

The table below presents the amounts of depreciation and amortization expense by segment included in pre-tax earnings.

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Investment Banking	\$ 32	\$ 32	\$ 95	\$ 90
Institutional Client Services	118	104	346	326
Investing & Lending	52	50	165	182
Investment Management	45	36	125	108
<b>Total depreciation and amortization</b>	<b>\$247</b>	<b>\$222</b>	<b>\$ 731</b>	<b>\$ 706</b>

### Geographic Information

Due to the highly integrated nature of international financial markets, the firm manages its businesses based on the profitability of the enterprise as a whole. The methodology for allocating profitability to geographic regions is dependent on estimates and management judgment because a significant portion of the firm's activities require cross-border coordination in order to facilitate the needs of the firm's clients.

Geographic results are generally allocated as follows:

- Investment Banking: location of the client and investment banking team.
- Institutional Client Services: Fixed Income, Currency and Commodities Client Execution, and Equities (excluding Securities Services): location of the market-making desk; Securities Services: location of the primary market for the underlying security.
- Investing & Lending: Investing: location of the investment; Lending: location of the client.
- Investment Management: location of the sales team.

The tables below present the total net revenues and pre-tax earnings of the firm by geographic region allocated based on the methodology referred to above, as well as the percentage of total net revenues and pre-tax earnings for each geographic region. In the tables below, Asia includes Australia and New Zealand.

\$ in millions	Three Months Ended September			
	2016		2015	
<b>Net revenues</b>				
Americas	\$ 4,695	58%	\$ 3,838	56%
Europe, Middle East and Africa	2,079	25%	2,042	30%
Asia	1,394	17%	981	14%
<b>Total net revenues</b>	<b>\$ 8,168</b>	<b>100%</b>	<b>\$ 6,861</b>	<b>100%</b>
<b>Pre-tax earnings</b>				
Americas	\$ 1,609	56%	\$ 1,022	50%
Europe, Middle East and Africa	716	25%	712	34%
Asia	543	19%	337	16%
<b>Total pre-tax earnings</b>	<b>\$ 2,868</b>	<b>100%</b>	<b>\$ 2,046</b>	<b>100%</b>

\$ in millions	Nine Months Ended September			
	2016		2015	
<b>Net revenues</b>				
Americas	\$13,395	60%	\$14,851	56%
Europe, Middle East and Africa	5,937	26%	7,157	27%
Asia	3,106	14%	4,539	17%
<b>Total net revenues</b>	<b>\$22,438</b>	<b>100%</b>	<b>\$26,547</b>	<b>100%</b>
<b>Pre-tax earnings</b>				
Americas	\$ 4,099	59%	\$ 3,458	44%
Europe, Middle East and Africa	1,861	27%	2,525	33%
Asia	947	14%	1,748	23%
<b>Total pre-tax earnings</b>	<b>\$ 6,907</b>	<b>100%</b>	<b>\$ 7,706</b>	<b>100%</b>

In the tables above, Total pre-tax earnings include \$25 million of charitable contributions that have not been allocated to the firm's geographic regions for the three and nine months ended September 2015.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Note 26.

#### Credit Concentrations

Credit concentrations may arise from market making, client facilitation, investing, underwriting, lending and collateralized transactions and may be impacted by changes in economic, industry or political factors. The firm seeks to mitigate credit risk by actively monitoring exposures and obtaining collateral from counterparties as deemed appropriate.

While the firm's activities expose it to many different industries and counterparties, the firm routinely executes a high volume of transactions with asset managers, investment funds, commercial banks, brokers and dealers, clearing houses and exchanges, which results in significant credit concentrations.

In the ordinary course of business, the firm may also be subject to a concentration of credit risk to a particular counterparty, borrower or issuer, including sovereign issuers, or to a particular clearing house or exchange.

The table below presents the credit concentrations in cash instruments held by the firm. Amounts in the table below are included in "Financial instruments owned, at fair value" and "Cash and securities segregated for regulatory and other purposes."

<i>\$ in millions</i>	As of	
	September 2016	December 2015
U.S. government and federal agency obligations	<b>\$64,492</b>	\$63,844
% of total assets	<b>7.3%</b>	7.4%
Non-U.S. government and agency obligations	<b>\$38,036</b>	\$31,772
% of total assets	<b>4.3%</b>	3.7%

As of September 2016 and December 2015, the firm did not have credit exposure to any other counterparty that exceeded 2% of total assets.

To reduce credit exposures, the firm may enter into agreements with counterparties that permit the firm to offset receivables and payables with such counterparties and/or enable the firm to obtain collateral on an upfront or contingent basis. Collateral obtained by the firm related to derivative assets is principally cash and is held by the firm or a third-party custodian. Collateral obtained by the firm related to resale agreements and securities borrowed transactions is primarily U.S. government and federal agency obligations and non-U.S. government and agency obligations. See Note 10 for further information about collateralized agreements and financings.

The table below presents U.S. government and federal agency obligations and non-U.S. government and agency obligations that collateralize resale agreements and securities borrowed transactions (including those in "Cash and securities segregated for regulatory and other purposes"). Because the firm's primary credit exposure on such transactions is to the counterparty to the transaction, the firm would be exposed to the collateral issuer only in the event of counterparty default. In the table below, non-U.S. government and agency obligations primarily consists of securities issued by the governments of France, the United Kingdom, Japan and Germany.

<i>\$ in millions</i>	As of	
	September 2016	December 2015
U.S. government and federal agency obligations	<b>\$78,995</b>	\$107,198
Non-U.S. government and agency obligations	<b>83,695</b>	74,326

**Notes to Condensed Consolidated Financial Statements  
(Unaudited)****Note 27.****Legal Proceedings**

The firm 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 firm's businesses. Many of these proceedings are in early stages, and many of these cases seek an indeterminate amount of damages.

Under ASC 450, an event is "reasonably possible" if "the chance of the future event or events occurring is more than remote but less than likely" and an event is "remote" if "the chance of the future event or events occurring is slight." Thus, references to the upper end of the range of reasonably possible loss for cases in which the firm is able to estimate a range of reasonably possible loss mean the upper end of the range of loss for cases for which the firm believes the risk of loss is more than slight.

With respect to matters described below for which management has been able to estimate a range of reasonably possible loss where (i) actual or potential plaintiffs have claimed an amount of money damages, (ii) the firm is being, or threatened to be, sued by purchasers in a securities offering and is not being indemnified by a party that the firm believes will pay any judgment, or (iii) the purchasers are demanding that the firm repurchase securities, management has estimated the upper end of the range of reasonably possible loss as being equal to (a) in the case of (i), the amount of money damages claimed, (b) in the case of (ii), the difference between the initial sales price of the securities that the firm sold in such offering and the estimated lowest subsequent price of such securities prior to the action being commenced and (c) in the case of (iii), the price that purchasers paid for the securities less the estimated value, if any, as of September 2016 of the relevant securities, in each of cases (i), (ii) and (iii), taking into account any factors believed to be relevant to the particular matter or matters of that type. As of the date hereof, the firm has estimated the upper end of the range of reasonably possible aggregate loss for such matters and for any other matters described below where management has been able to estimate a range of reasonably possible aggregate loss to be approximately \$1.7 billion in excess of the aggregate reserves for such matters.

Management is generally unable to estimate a range of reasonably possible loss for matters other than those included in the estimate above, including where (i) actual or potential plaintiffs have not claimed an amount of money damages, except in those instances where management can otherwise determine an appropriate amount, (ii) matters are in early stages, (iii) matters relate to regulatory investigations or reviews, except in those instances where management can otherwise determine an appropriate amount, (iv) there is uncertainty as to the likelihood of a class being certified or the ultimate size of the class, (v) there is uncertainty as to the outcome of pending appeals or motions, (vi) there are significant factual issues to be resolved, and/or (vii) there are novel legal issues presented. For example, the firm's potential liabilities with respect to future mortgage-related "put-back" claims described below may ultimately result in an increase in the firm's liabilities, but are not included in management's estimate of reasonably possible loss. As another example, the firm's potential liabilities with respect to the investigations and reviews described below in "Regulatory Investigations and Reviews and Related Litigation" also generally are not included in management's estimate of reasonably possible loss. However, management does not believe, based on currently available information, that the outcomes of such other matters will have a material adverse effect on the firm's financial condition, though the outcomes could be material to the firm's operating results for any particular period, depending, in part, upon the operating results for such period. See Note 18 for further information about mortgage-related contingencies.

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

**Mortgage-Related Matters.** Beginning in April 2010, a number of purported securities law class actions were filed in the U.S. District Court for the Southern District of New York challenging the adequacy of Group Inc.'s public disclosure of, among other things, the firm's activities in the CDO market, the firm's conflict of interest management, and the SEC investigation that led to GS&Co. entering into a consent agreement with the SEC, settling all claims made against GS&Co. by the SEC in connection with the ABACUS 2007-AC1 CDO offering (ABACUS 2007-AC1 transaction), pursuant to which GS&Co. paid \$550 million of disgorgement and civil penalties. The consolidated amended complaint filed on July 25, 2011, which names as defendants Group Inc. and certain officers and employees of Group Inc. and its affiliates, generally alleges violations of Sections 10(b) and 20(a) of the Exchange Act and seeks unspecified damages. On June 21, 2012, the district court dismissed the claims based on Group Inc.'s not disclosing that it had received a "Wells" notice from the staff of the SEC related to the ABACUS 2007-AC1 transaction, but permitted the plaintiffs' other claims to proceed. The district court granted class certification on September 24, 2015, but the appellate court granted defendants' petition for review on January 26, 2016. On February 1, 2016, the district court stayed proceedings in the district court pending the appellate court's decision.

In June 2012, the Board received a demand from a shareholder that the Board investigate and take action relating to the firm's mortgage-related activities and to stock sales by certain directors and executives of the firm. On February 15, 2013, this shareholder filed a putative shareholder derivative action in New York Supreme Court, New York County, against Group Inc. and certain current or former directors and employees, based on these activities and stock sales. The derivative complaint includes allegations of breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement and corporate waste, and seeks, among other things, unspecified monetary damages, disgorgement of profits and certain corporate governance and disclosure reforms. On May 28, 2013, Group Inc. informed the shareholder that the Board completed its investigation and determined to refuse the demand. On June 20, 2013, the shareholder made a books and records demand requesting materials relating to the Board's determination. The parties have agreed to stay proceedings in the putative derivative action pending resolution of the books and records demand.

In addition, the Board has received books and records demands from several shareholders for materials relating to, among other subjects, the firm's mortgage servicing and foreclosure activities, participation in federal programs providing assistance to financial institutions and homeowners, loan sales to Fannie Mae and Freddie Mac, mortgage-related activities and conflicts management.

Various alleged purchasers of, and counterparties and providers of credit enhancement involved in transactions relating to, mortgage pass-through certificates, CDOs and other mortgage-related products (including IKB Deutsche Industriebank AG, Massachusetts Mutual Life Insurance Company and the Tennessee Consolidated Retirement System) have filed complaints in state and federal court against firm affiliates, generally alleging that the offering documents for the securities that they purchased contained untrue statements of material fact and material omissions and generally seeking rescission and/or damages. Certain of these complaints allege fraud and seek punitive damages. Certain of these complaints also name other firms as defendants.

As of the date hereof, the aggregate amount of mortgage-related securities sold to plaintiffs in active cases described in the preceding paragraph where those plaintiffs are seeking rescission of such securities was approximately \$1.5 billion (which does not reflect adjustment for any subsequent paydowns or distributions or any residual value of such securities, statutory interest or any other adjustments that may be claimed). This amount does not include the potential claims by these or other purchasers in the same or other mortgage-related offerings that have not been described above, or claims that have been dismissed.

The firm has entered into agreements with Deutsche Bank National Trust Company and U.S. Bank National Association to toll the relevant statute of limitations with respect to claims for repurchase of residential mortgage loans based on alleged breaches of representations related to \$11.1 billion original notional face amount of securitizations issued by trusts for which they act as trustees.

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

On April 11, 2016, the firm reached a definitive agreement that resolved actual and potential civil claims by the U.S. Department of Justice, the Attorney General's Offices for the States of California, Illinois and New York, the National Credit Union Administration (as conservator for several failed credit unions) and the Federal Home Loan Banks of Chicago and Des Moines (as a successor to the Federal Home Loan Bank of Seattle), relating to the firm's securitization, underwriting and sale of residential mortgage-backed securities from 2005 to 2007. The firm has received subpoenas or requests for information, and is engaged in discussions with, other federal, state and local regulators or law enforcement authorities as part of inquiries or investigations relating to mortgage-related matters, and may become the subject of additional litigation, investor and shareholder demands, and regulatory and other investigations and actions with respect to mortgage-related matters. See Note 18 for information regarding mortgage-related contingencies not described in this Note 27.

**Solazyme, Inc. Securities Litigation.** GS&Co. is among the underwriters named as defendants in a putative securities class action filed on June 24, 2015 in the U.S. District Court for the Northern District of California. In addition to the underwriters, the defendants include Solazyme, Inc. and certain of its directors and officers. As to the underwriters, the complaints generally allege misstatements and omissions in connection with March 2014 offerings by Solazyme, Inc. of approximately \$63 million of common stock and \$150 million principal amount of convertible senior subordinated notes, assert claims under the federal securities laws, and seek compensatory damages in an unspecified amount and rescission. Plaintiffs filed an amended complaint on December 15, 2015, and defendants moved to dismiss on February 12, 2016. GS&Co. underwrote 3,450,000 shares of common stock and \$150 million principal amount of notes for an aggregate offering price of approximately \$187 million.

**GT Advanced Technologies Securities Litigation.** GS&Co. is among the underwriters named as defendants in several putative securities class actions filed in October 2014 in the U.S. District Court for the District of New Hampshire. In addition to the underwriters, the defendants include certain directors and officers of GT Advanced Technologies Inc. (GT). As to the underwriters, the complaints generally allege misstatements and omissions in connection with the December 2013 offerings by GT of approximately \$86 million of common stock and \$214 million principal amount of convertible senior notes, assert claims under the federal securities laws, and seek compensatory damages in an unspecified amount and rescission. On July 20, 2015, the plaintiffs filed a consolidated amended complaint. On October 7, 2015, the defendants moved to dismiss. GS&Co. underwrote 3,479,769 shares of common stock and \$75 million principal amount of notes for an aggregate offering price of approximately \$105 million. On October 6, 2014, GT filed for Chapter 11 bankruptcy.

**FireEye Securities Litigation.** GS&Co. is among the underwriters named as defendants in several putative securities class actions, filed beginning in June 2014 in the California Superior Court, County of Santa Clara. In addition to the underwriters, the defendants include FireEye, Inc. (FireEye) and certain of its directors and officers. The complaints generally allege misstatements and omissions in connection with the offering materials for the March 2014 offering of approximately \$1.15 billion of FireEye common stock, assert claims under the federal securities laws, and seek compensatory damages in an unspecified amount and rescission. On July 11, 2016, the court certified a class of purchasers of FireEye stock in the March 2014 offering. On September 8, 2016, the California Court of Appeal denied FireEye's and the director and officer defendants' petition for a writ of mandate appealing the Superior Court's denial of their motion for judgment on the pleadings for lack of subject matter jurisdiction. On September 16, 2016, FireEye and the director and officer defendants appealed to the California Supreme Court. GS&Co. underwrote 2,100,000 shares for a total offering price of approximately \$172 million.



**Notes to Condensed Consolidated Financial Statements  
(Unaudited)****TerraForm Global and SunEdison Securities Litigation.**

GS&Co. is among the underwriters, placement agents and initial purchasers named as defendants in several putative class actions and individual actions filed beginning in October 2015 relating to the \$675 million July 2015 initial public offering of the common stock of TerraForm Global, Inc. (TerraForm Global), the August 2015 public offering of \$650 million of SunEdison, Inc. (SunEdison) convertible preferred stock, the June 2015 private placement of \$335 million of TerraForm Global Class D units, and the August 2015 Rule 144A offering of \$810 million principal amount of TerraForm Global senior notes. SunEdison is TerraForm Global's controlling shareholder and sponsor. On October 4, 2016, the cases then pending in federal court were transferred to the U.S. District Court for the Southern District of New York. An additional case is currently pending in the Superior Court of California, San Mateo County. The defendants also include TerraForm Global, SunEdison and certain of their directors and officers. Defendants have moved to dismiss certain of the actions. The complaints generally allege misstatements and omissions in connection with the offerings, assert claims under federal securities laws and, in certain actions, state laws, and seek compensatory damages in an unspecified amount, as well as rescission or rescissory damages. TerraForm Global sold 154,800 Class D units, representing an aggregate offering price of approximately \$155 million, to the individual plaintiffs. GS&Co., as underwriter, sold 138,890 shares of SunEdison convertible preferred stock in the offering, representing an aggregate offering price of approximately \$139 million and sold 2,340,000 shares of TerraForm Global common stock in the initial public offering representing an aggregate offering price of approximately \$35 million. GS&Co., as initial purchaser, sold approximately \$49 million principal amount of TerraForm Global senior notes in the Rule 144A offering. On April 21, 2016, SunEdison filed for Chapter 11 bankruptcy.

**Cobalt International Energy Securities Litigation.**

Cobalt International Energy, Inc. (Cobalt), certain of its officers and directors (including employees of affiliates of Group Inc. who served as directors of Cobalt), affiliates of shareholders of Cobalt (including Group Inc.) and underwriters (including GS&Co.) for certain offerings of Cobalt's securities are defendants in a putative securities class action filed on November 30, 2014 in the U.S. District Court for the Southern District of Texas. The consolidated amended complaint, filed on May 1, 2015, asserts claims under the federal securities laws, seeks compensatory and rescissory damages in unspecified amounts and alleges material misstatements and omissions concerning Cobalt in connection with a \$1.67 billion February 2012 offering of Cobalt common stock, a \$1.38 billion December 2012 offering of Cobalt's convertible notes, a \$1.00 billion January 2013 offering of Cobalt's common stock, a \$1.33 billion May 2013 offering of Cobalt's common stock, and a \$1.30 billion May 2014 offering of Cobalt's convertible notes. The consolidated amended complaint alleges that, among others, Group Inc. and GS&Co. are liable as controlling persons with respect to all five offerings. The consolidated amended complaint also seeks damages from GS&Co. in connection with its acting as an underwriter of 14,430,000 shares of common stock representing an aggregate offering price of approximately \$465 million, \$690 million principal amount of convertible notes, and approximately \$508 million principal amount of convertible notes in the February 2012, December 2012 and May 2014 offerings, respectively, for an aggregate offering price of approximately \$1.66 billion. On January 19, 2016, the court granted, with leave to replead, the underwriter defendants' motions to dismiss as to claims by plaintiffs who purchased Cobalt securities after April 30, 2013, but denied the motions to dismiss in all other respects. Defendants' ensuing motions to certify that order for an interlocutory appeal were denied on March 14, 2016.

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

Cobalt, certain of its officers and directors (including employees of affiliates of Group Inc. who served as directors of Cobalt), certain shareholders of Cobalt (including funds affiliated with Group Inc.), and affiliates of these shareholders (including Group Inc.) are defendants in a putative shareholder derivative action filed on May 6, 2016 in Texas District Court, Harris County. As to the director and officer defendants (including employees of affiliates of Group Inc. who served as directors of Cobalt), the petition alleges that they breached their fiduciary duties under state law by making materially false and misleading statements concerning Cobalt in disclosures filed in connection with a May 2013 common stock offering. As to the shareholder defendants and their affiliates (including Group Inc. and several affiliated funds), the petition also alleges that they breached their fiduciary duties by selling Cobalt securities in the May 2013 offering on the basis of inside information. The petition seeks, among other things, unspecified monetary damages and disgorgement of proceeds from the sale of Cobalt common stock. Defendants moved to dismiss on July 8, 2016.

**Investment Management Services.** Group Inc. and certain of its affiliates are parties to various civil litigation and arbitration proceedings and other disputes with clients relating to losses allegedly sustained as a result of the firm's investment management services. These claims generally seek, among other things, restitution or other compensatory damages and, in some cases, punitive damages.

**Libya-Related Litigation.** GSI is the defendant in an action filed on January 21, 2014 with the High Court of Justice in London by the Libyan Investment Authority (LIA), relating to nine derivative transactions between the plaintiff and GSI and seeking, among other things, rescission of the transactions and unspecified equitable compensation and damages exceeding \$1 billion. On October 14, 2016, the court ruled in favor of GSI on all counts. In doing so, the court dismissed the LIA's claims that the transactions were (i) the result of undue influence by GSI over an unsophisticated LIA, in part noting (a) that the LIA had 'greatly exaggerated' the extent to which its personnel were 'naïve and unworldly' and (b) the dozens of transactions and billions of dollars of investments that the LIA had entered into with other financial institutions, hedge funds and private equity firms, and (ii) unconscionable bargains, finding no grounds for concluding that the level of profits earned by GSI on the transactions was excessive.

**Financial Advisory Services.** Group Inc. and certain of its affiliates are from time to time parties to various civil litigation and arbitration proceedings and other disputes with clients and third parties relating to the firm's financial advisory activities. These claims generally seek, among other things, compensatory damages and, in some cases, punitive damages, and in certain cases allege that the firm did not appropriately disclose or deal with conflicts of interest.

**Employment-Related Matters.** On September 15, 2010, a putative class action was filed in the U.S. District Court for the Southern District of New York by three female former employees alleging that Group Inc. and GS&Co. have systematically discriminated against female employees in respect of compensation, promotion, assignments, mentoring and performance evaluations. The complaint alleges a class consisting of all female employees employed at specified levels in specified areas by Group Inc. and GS&Co. since July 2002, and asserts claims under federal and New York City discrimination laws. The complaint seeks class action status, injunctive relief and unspecified amounts of compensatory, punitive and other damages. On July 17, 2012, the district court issued a decision granting in part Group Inc.'s and GS&Co.'s motion to strike certain of plaintiffs' class allegations on the ground that plaintiffs lacked standing to pursue certain equitable remedies and denying Group Inc.'s and GS&Co.'s motion to strike plaintiffs' class allegations in their entirety as premature. On March 21, 2013, the U.S. Court of Appeals for the Second Circuit held that arbitration should be compelled with one of the named plaintiffs, who as a managing director was a party to an arbitration agreement with the firm. On March 10, 2015, the magistrate judge to whom the district judge assigned the remaining plaintiffs' May 2014 motion for class certification recommended that the motion be denied in all respects. On August 3, 2015, the magistrate judge denied plaintiffs' motion for reconsideration of that recommendation and granted the plaintiffs' motion to intervene two female individuals, one of whom was employed by the firm as of September 2010 and the other of whom ceased to be an employee of the firm subsequent to the magistrate judge's decision. On June 6, 2016, the district court affirmed the magistrate judge's decision on intervention. On September 28, 2015, and by a supplemental motion filed July 11, 2016 (after the second intervenor ceased to be an employee), the defendants moved to dismiss the claims of the intervenors for lack of standing and mootness.

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

**Currencies-Related Litigation.** GS&Co. and Group Inc. are among the defendants named in a putative class action filed in the U.S. District Court for the Southern District of New York on June 3, 2015 and most recently amended on July 15, 2016 on behalf of certain ERISA employee benefit plans. The claims brought against GS&Co. and Group Inc. generally allege that the defendants violated ERISA in connection with an alleged conspiracy to manipulate the foreign currency exchange markets, which caused losses to ERISA plans for which the defendants provided foreign exchange services or otherwise authorized the execution of foreign exchange services. Plaintiffs seek declaratory and injunctive relief as well as restitution and disgorgement in an unspecified amount. By an order dated September 20, 2016, plaintiffs' claims against GS&Co., Group Inc. and other defendants who have settled in another action relating to an alleged conspiracy to manipulate foreign currency exchange markets were dismissed with prejudice, and plaintiffs appealed on October 20, 2016.

GS&Co. and Group Inc. are among the defendants named in a putative class action filed in the U.S. District Court for the Southern District of New York on September 26, 2016 on behalf of putative indirect purchasers of foreign exchange instruments. The complaint generally alleges that defendants violated federal antitrust laws in connection with an alleged conspiracy to manipulate the foreign currency exchange markets and asserts claims under federal and state antitrust laws and seeks injunctive relief as well as treble damages in an unspecified amount.

Group Inc., GS&Co. and Goldman Sachs Canada Inc. are among the defendants named in putative class actions related to trading in foreign exchange markets, filed beginning in September 2015 in the Superior Court of Justice in Ontario, Canada and the Superior Court of Quebec, Canada, on behalf of direct and indirect purchasers of foreign exchange instruments traded in Canada. The complaints generally allege a conspiracy to manipulate the foreign currency exchange markets and assert claims under Canada's Competition Act and common law. The Ontario and Quebec complaints seek, among other things, compensatory damages in the amounts of 1 billion Canadian dollars and 100 million Canadian dollars, respectively, as well as restitution and 50 million Canadian dollars in punitive, exemplary and aggravated damages.

**Municipal Securities Matters.** GS&Co. (along with, in some cases, other financial services firms) is named by municipalities, municipal-owned entities, state-owned agencies or instrumentalities and non-profit entities in a number of FINRA arbitrations and federal court cases based on GS&Co.'s role as underwriter of the claimants' issuances of an aggregate of approximately \$1.11 billion of auction rate securities from 2001 through 2007 and as a broker-dealer with respect to auctions for these securities. The claimants generally allege that GS&Co. failed to disclose that it had a practice of placing cover bids in auctions, and/or failed to inform the claimant of the deterioration of the auction rate market beginning in the fall of 2007, and that, as a result, the claimant was forced to engage in a series of expensive refinancing and conversion transactions after the failure of the auction market in February 2008. Certain claimants also allege that GS&Co. advised them to enter into or continue with interest rate swaps in connection with their auction rate securities issuances, causing them to incur additional losses. The claims include breach of fiduciary duty, fraudulent concealment, negligent misrepresentation, breach of contract, violations of the Exchange Act and state securities laws, and breach of duties under the rules of the Municipal Securities Rulemaking Board and the NASD. Certain of the arbitrations have been enjoined in accordance with the exclusive forum selection clauses in the transaction documents. In addition, GS&Co. has filed motions with the FINRA Panels to dismiss the arbitrations, one of which has been granted, and has filed motions to dismiss three of the proceedings pending in federal court, one of which was granted but has been appealed and one of which was denied. GS&Co. has also reached settlements or settlements in principle in nine other actions and one other action was voluntarily dismissed.

**U.S. Treasury Securities-Related Litigation.** GS&Co. is among the primary dealers named as defendants in several putative class actions relating to the market for U.S. Treasury securities, filed beginning in July 2015 and consolidated in the U.S. District Court for the Southern District of New York. The complaints generally allege that the defendants violated the federal antitrust laws and the Commodity Exchange Act in connection with an alleged conspiracy to manipulate the when-issued market and auctions for U.S. Treasury securities, as well as related futures and options, and seek declaratory and injunctive relief, treble damages in an unspecified amount and restitution.

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

**Commodities-Related Litigation.** GS&Co., GSI, J. Aron & Company and Metro, a previously consolidated subsidiary of Group Inc. that was sold in the fourth quarter of 2014, are among the defendants in a number of putative class actions filed beginning on August 1, 2013 and consolidated in the U.S. District Court for the Southern District of New York. The complaints generally allege violations of federal antitrust laws and state laws in connection with the storage of aluminum and aluminum trading. The complaints seek declaratory, injunctive and other equitable relief as well as unspecified monetary damages, including treble damages. On August 29, 2014, the court granted the Goldman Sachs defendants' motion to dismiss. Certain plaintiffs appealed on September 24, 2014, and the Second Circuit affirmed the district court's decision on August 9, 2016. The remaining plaintiffs filed amended complaints on April 9, 2015, and on October 5, 2016, the district court dismissed their claims based on the Second Circuit's decision.

GSI 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 July 27, 2015, in the U.S. District Court for the Southern District of New York. The complaints generally allege 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. On September 21, 2015, the defendants moved to dismiss.

**Interest Rate Swap Antitrust Litigation.** Group Inc., GS&Co., GSI, GS Bank USA and Goldman Sachs Financial Markets, L.P. (GSFM) are among the defendants named in putative antitrust class actions relating to the trading of interest rate swaps, filed beginning in November 2015 and consolidated in the U.S. District Court for the Southern District of New York. The consolidated amended complaint filed on September 9, 2016 generally alleges a conspiracy among the defendants since at least January 1, 2007 to preclude exchange trading of interest rate swaps. The complaints seek declaratory and injunctive relief as well as treble damages in an unspecified amount.

Group Inc., GS&Co., GSI, GS Bank USA and GSFM are among the defendants named in antitrust actions relating to the trading of interest rate swaps filed in the U.S. District Court for the Southern District of New York beginning in April 2016 by two operators of swap execution facilities and certain of their affiliates. These actions have been consolidated with the class action described above for pretrial proceedings. The consolidated amended complaint filed on September 9, 2016 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 interest rate swaps on the plaintiffs' respective swap execution facilities and seek declaratory and injunctive relief as well as treble damages in an unspecified amount.

**ISDAFIX-Related Litigation.** Group Inc. is among the defendants named in several putative class actions relating to trading in interest rate derivatives, filed beginning in September 2014 and most recently amended on February 12, 2015 in the U.S. District Court for the Southern District of New York. The plaintiffs assert claims under the federal antitrust laws and state common law in connection with an alleged conspiracy to manipulate the ISDAFIX benchmark and seek declaratory and injunctive relief as well as treble damages in an unspecified amount. On March 28, 2016, the district court denied defendants' motion to dismiss as to the antitrust, breach of contract, and unjust enrichment claims, but dismissed the tortious interference and implied covenant of good faith claims with prejudice.

**Compensation-Related Litigation.** On June 9, 2015, Group Inc. and certain of its current and former directors were named as defendants in a purported shareholder derivative action in the Court of Chancery of the State of Delaware. The derivative complaint alleges that excessive compensation has been paid to such directors since 2012. The derivative complaint includes allegations of breach of fiduciary duty and unjust enrichment and seeks, among other things, unspecified monetary damages, disgorgement of director compensation and reform of the firm's stock incentive plan. On September 30, 2015, the defendants moved to dismiss.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Regulatory Investigations and Reviews and Related Litigation.

Group Inc. and certain of its affiliates 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 organizations and litigation and shareholder requests relating to various matters relating to the firm's businesses and operations, including:

- The 2008 financial crisis;
- The public offering process;
- The firm's investment management and financial advisory services;
- Conflicts of interest;
- Research practices, including research independence and interactions between research analysts and other firm personnel, including investment banking personnel, as well as third parties;
- Transactions involving government-related financings and other matters, including those related to 1Malaysia Development Berhad (1MDB), a sovereign wealth fund in Malaysia, municipal securities, including wall-cross procedures and conflict of interest disclosure with respect to state and municipal clients, the trading and structuring of municipal derivative instruments in connection with municipal offerings, political contribution rules, municipal advisory services and the possible impact of credit default swap transactions on municipal issuers;
- 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, including compliance with the SEC's short sale rule, algorithmic, high-frequency and quantitative trading, the firm's U.S. alternative trading system (dark pool), 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 and the ISDAFIX benchmark rates;
- Compliance with the U.S. Foreign Corrupt Practices Act;
- The firm's hiring and compensation practices;
- The firm's system of risk management and controls; and
- Insider trading, the potential misuse and dissemination of material nonpublic information regarding corporate and governmental developments and the effectiveness of the firm's insider trading controls and information barriers.

Goldman Sachs is cooperating with all such governmental and regulatory investigations and reviews.

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and the Shareholders of  
The Goldman Sachs Group, Inc.:

We have reviewed the accompanying condensed consolidated statement of financial condition of The Goldman Sachs Group, Inc. and its subsidiaries (the Company) as of September 30, 2016, the related condensed consolidated statements of earnings for the three and nine months ended September 30, 2016 and 2015, the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2016 and 2015, the condensed consolidated statement of changes in shareholders' equity for the nine months ended September 30, 2016, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2016 and 2015. These condensed consolidated interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition as of December 31, 2015, and the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the year then ended (not presented herein), and in our report dated February 19, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of December 31, 2015, and the condensed consolidated statement of changes in shareholders' equity for the year ended December 31, 2015, is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

/s/ PRICEWATERHOUSECOOPERS LLP

New York, New York  
November 2, 2016

## Statistical Disclosures

## Distribution of Assets, Liabilities and Shareholders' Equity

The tables below present a summary of consolidated average balances and interest rates. In the tables below:

- Assets, liabilities and interest are classified as U.S. and non-U.S. based on the location of the legal entity in which the assets and liabilities are held.
- Derivative instruments and commodities are included in other non-interest-earning assets and other non-interest-bearing liabilities.

- Total other interest-earning assets primarily consists of certain receivables from customers and counterparties and cash and securities segregated for regulatory and other purposes.
- Interest rates for Total short-term borrowings and Total long-term borrowings include the effects of interest rate swaps accounted for as hedges.
- Substantially all of the Total other interest-bearing liabilities consists of certain payables to customers and counterparties.

	Three Months Ended September					
	2016			2015		
	Average balance	Interest	Average rate (annualized)	Average balance	Interest	Average rate (annualized)
<i>\$ in millions</i>						
<b>Assets</b>						
U.S.	\$ 90,663	\$ 97	0.43%	\$ 55,733	\$ 29	0.21%
Non-U.S.	7,454	5	0.27%	5,190	6	0.46%
<b>Total deposits with banks</b>	<b>98,117</b>	<b>102</b>	<b>0.41%</b>	<b>60,923</b>	<b>35</b>	<b>0.23%</b>
U.S.	148,532	92	0.25%	176,744	(57)	(0.13)%
Non-U.S.	134,617	77	0.23%	114,570	72	0.25%
<b>Total securities borrowed, securities purchased under agreements to resell and federal funds sold</b>	<b>283,149</b>	<b>169</b>	<b>0.24%</b>	<b>291,314</b>	<b>15</b>	<b>0.02%</b>
U.S.	127,271	840	2.63%	146,873	1,024	2.77%
Non-U.S.	106,532	436	1.63%	94,298	434	1.83%
<b>Total financial instruments owned, at fair value</b>	<b>233,803</b>	<b>1,276</b>	<b>2.17%</b>	<b>241,171</b>	<b>1,458</b>	<b>2.40%</b>
U.S.	43,763	425	3.86%	37,743	289	3.04%
Non-U.S.	4,294	58	5.37%	2,740	25	3.62%
<b>Total loans receivable</b>	<b>48,057</b>	<b>483</b>	<b>4.00%</b>	<b>40,483</b>	<b>314</b>	<b>3.08%</b>
U.S.	80,275	266	1.32%	85,229	200	0.93%
Non-U.S.	38,950	93	0.95%	48,948	97	0.79%
<b>Total other interest-earning assets</b>	<b>119,225</b>	<b>359</b>	<b>1.20%</b>	<b>134,177</b>	<b>297</b>	<b>0.88%</b>
<b>Total interest-earning assets</b>	<b>782,351</b>	<b>2,389</b>	<b>1.21%</b>	<b>768,068</b>	<b>2,119</b>	<b>1.09%</b>
Cash and due from banks	5,636			6,759		
Other non-interest-earning assets	99,606			99,298		
<b>Total assets</b>	<b>\$887,593</b>			<b>\$874,125</b>		
<b>Liabilities</b>						
U.S.	\$104,189	\$ 207	0.79%	\$ 73,952	\$ 92	0.49%
Non-U.S.	18,398	26	0.56%	14,552	14	0.38%
<b>Total interest-bearing deposits</b>	<b>122,587</b>	<b>233</b>	<b>0.76%</b>	<b>88,504</b>	<b>106</b>	<b>0.48%</b>
U.S.	51,888	78	0.60%	59,012	55	0.37%
Non-U.S.	30,590	34	0.44%	29,574	33	0.44%
<b>Total securities loaned and securities sold under agreements to repurchase</b>	<b>82,478</b>	<b>112</b>	<b>0.54%</b>	<b>88,586</b>	<b>88</b>	<b>0.39%</b>
U.S.	33,257	164	1.96%	39,242	172	1.74%
Non-U.S.	35,576	148	1.65%	35,020	172	1.95%
<b>Total financial instruments sold, but not yet purchased, at fair value</b>	<b>68,833</b>	<b>312</b>	<b>1.80%</b>	<b>74,262</b>	<b>344</b>	<b>1.84%</b>
U.S.	44,488	96	0.86%	41,970	63	0.60%
Non-U.S.	13,721	9	0.26%	13,636	4	0.12%
<b>Total short-term borrowings</b>	<b>58,209</b>	<b>105</b>	<b>0.72%</b>	<b>55,606</b>	<b>67</b>	<b>0.48%</b>
U.S.	183,846	1,055	2.28%	175,265	915	2.07%
Non-U.S.	10,864	9	0.33%	9,458	20	0.84%
<b>Total long-term borrowings</b>	<b>194,710</b>	<b>1,064</b>	<b>2.17%</b>	<b>184,723</b>	<b>935</b>	<b>2.01%</b>
U.S.	146,726	(132)	(0.36)%	153,192	(339)	(0.88)%
Non-U.S.	58,196	81	0.55%	62,458	76	0.48%
<b>Total other interest-bearing liabilities</b>	<b>204,922</b>	<b>(51)</b>	<b>(0.10)%</b>	<b>215,650</b>	<b>(263)</b>	<b>(0.48)%</b>
<b>Total interest-bearing liabilities</b>	<b>731,739</b>	<b>1,775</b>	<b>0.97%</b>	<b>707,331</b>	<b>1,277</b>	<b>0.72%</b>
Non-interest-bearing deposits	3,305			2,237		
Other non-interest-bearing liabilities	65,900			77,048		
<b>Total liabilities</b>	<b>800,944</b>			<b>786,616</b>		
<b>Shareholders' equity</b>						
Preferred stock	11,366			11,200		
Common stock	75,283			76,309		
<b>Total shareholders' equity</b>	<b>86,649</b>			<b>87,509</b>		
<b>Total liabilities and shareholders' equity</b>	<b>\$887,593</b>			<b>\$874,125</b>		
<b>Interest rate spread</b>			<b>0.24%</b>			<b>0.37%</b>
U.S.		\$ 252	0.20%		\$ 527	0.42%
Non-U.S.		362	0.49%		315	0.47%
<b>Net interest income and net yield on interest-earning assets</b>		<b>614</b>	<b>0.31%</b>		<b>842</b>	<b>0.43%</b>
<b>Percentage of interest-earning assets and interest-bearing liabilities attributable to non-U.S. operations</b>						
Assets			<b>37.30%</b>			<b>34.60%</b>
Liabilities			<b>22.87%</b>			<b>23.28%</b>

## Statistical Disclosures

Nine Months Ended September

	2016			2015		
	Average balance	Interest	Average rate (annualized)	Average balance	Interest	Average rate (annualized)
<i>\$ in millions</i>						
<b>Assets</b>						
U.S.	\$ 82,639	\$ 262	0.42%	\$ 56,169	\$ 99	0.24%
Non-U.S.	8,143	15	0.25%	4,462	15	0.45%
<b>Total deposits with banks</b>	<b>90,782</b>	<b>277</b>	<b>0.41%</b>	60,631	114	0.25%
U.S.	160,064	179	0.15%	176,838	(298)	(0.23)%
Non-U.S.	131,847	277	0.28%	111,380	312	0.37%
<b>Total securities borrowed, securities purchased under agreements to resell and federal funds sold</b>	<b>291,911</b>	<b>456</b>	<b>0.21%</b>	288,218	14	0.01%
U.S.	128,428	2,773	2.88%	152,329	3,026	2.66%
Non-U.S.	102,336	1,325	1.73%	97,631	1,380	1.89%
<b>Total financial instruments owned, at fair value</b>	<b>230,764</b>	<b>4,098</b>	<b>2.37%</b>	249,960	4,406	2.36%
U.S.	42,960	1,164	3.62%	32,754	779	3.18%
Non-U.S.	4,703	163	4.63%	2,071	61	3.94%
<b>Total loans receivable</b>	<b>47,663</b>	<b>1,327</b>	<b>3.72%</b>	34,825	840	3.22%
U.S.	80,908	802	1.32%	73,639	566	1.03%
Non-U.S.	39,562	307	1.04%	58,186	364	0.84%
<b>Total other interest-earning assets</b>	<b>120,470</b>	<b>1,109</b>	<b>1.23%</b>	131,825	930	0.94%
<b>Total interest-earning assets</b>	<b>781,590</b>	<b>7,267</b>	<b>1.24%</b>	765,459	6,304	1.10%
Cash and due from banks	6,062			6,240		
Other non-interest-earning assets	100,371			101,027		
<b>Total assets</b>	<b>\$888,023</b>			\$872,726		
<b>Liabilities</b>						
U.S.	\$ 95,280	\$ 556	0.78%	\$ 72,013	\$ 253	0.47%
Non-U.S.	17,484	71	0.54%	13,635	36	0.35%
<b>Total interest-bearing deposits</b>	<b>112,764</b>	<b>627</b>	<b>0.74%</b>	85,648	289	0.45%
U.S.	53,672	250	0.62%	59,339	156	0.35%
Non-U.S.	31,555	104	0.44%	31,197	80	0.34%
<b>Total securities loaned and securities sold under agreements to repurchase</b>	<b>85,227</b>	<b>354</b>	<b>0.55%</b>	90,536	236	0.35%
U.S.	36,182	473	1.75%	35,729	475	1.78%
Non-U.S.	35,866	470	1.75%	37,220	526	1.89%
<b>Total financial instruments sold, but not yet purchased, at fair value</b>	<b>72,048</b>	<b>943</b>	<b>1.75%</b>	72,949	1,001	1.83%
U.S.	44,589	306	0.92%	42,525	301	0.95%
Non-U.S.	14,168	35	0.33%	14,526	17	0.16%
<b>Total short-term borrowings</b>	<b>58,757</b>	<b>341</b>	<b>0.78%</b>	57,051	318	0.75%
U.S.	181,818	2,906	2.13%	169,902	2,737	2.15%
Non-U.S.	10,065	43	0.57%	8,786	106	1.61%
<b>Total long-term borrowings</b>	<b>191,883</b>	<b>2,949</b>	<b>2.05%</b>	178,688	2,843	2.13%
U.S.	148,792	(569)	(0.51)%	155,721	(1,053)	(0.90)%
Non-U.S.	60,599	371	0.82%	62,993	306	0.65%
<b>Total other interest-bearing liabilities</b>	<b>209,391</b>	<b>(198)</b>	<b>(0.13)%</b>	218,714	(747)	(0.46)%
<b>Total interest-bearing liabilities</b>	<b>730,070</b>	<b>5,016</b>	<b>0.92%</b>	703,586	3,940	0.75%
Non-interest-bearing deposits	2,877			1,821		
Other non-interest-bearing liabilities	68,414			81,214		
<b>Total liabilities</b>	<b>801,361</b>			786,621		
<b>Shareholders' equity</b>						
Preferred stock	11,335			10,400		
Common stock	75,327			75,705		
<b>Total shareholders' equity</b>	<b>86,662</b>			86,105		
<b>Total liabilities and shareholders' equity</b>	<b>\$888,023</b>			\$872,726		
<b>Interest rate spread</b>			<b>0.32%</b>			<b>0.35%</b>
U.S.		\$1,258	0.34%		\$ 1,303	0.35%
Non-U.S.		993	0.46%		1,061	0.52%
<b>Net interest income and net yield on interest-earning assets</b>		<b>2,251</b>	<b>0.38%</b>		<b>2,364</b>	<b>0.41%</b>
<b>Percentage of interest-earning assets and interest-bearing liabilities attributable to non-U.S. operations</b>						
Assets			<b>36.67%</b>			35.76%
Liabilities			<b>23.25%</b>			23.93%



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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## Introduction

The Goldman Sachs Group, Inc. (Group Inc. or parent company), a Delaware corporation, together with its consolidated subsidiaries (collectively, the firm), 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. Founded in 1869, the firm is headquartered in New York and maintains offices in all major financial centers around the world.

We report our activities in four business segments: Investment Banking, Institutional Client Services, Investing & Lending and Investment Management. See “Results of Operations” below for further information about our business segments.

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2015. References to “the 2015 Form 10-K” are to our Annual Report on Form 10-K for the year ended December 31, 2015.

When we use the terms “Goldman Sachs,” “the firm,” “we,” “us” and “our,” we mean Group Inc. and its consolidated subsidiaries.

References to “the September 2016 Form 10-Q” are to our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016. All references to “the condensed consolidated financial statements” or “Statistical Disclosures” are to Part I, Item 1 of the September 2016 Form 10-Q. All references to September 2016, June 2016 and September 2015 refer to our periods ended, or the dates, as the context requires, September 30, 2016, June 30, 2016 and September 30, 2015, respectively. All references to December 2015 refer to the date December 31, 2015. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

## Executive Overview

**Three Months Ended September 2016 versus September 2015.** The firm generated net earnings of \$2.09 billion and diluted earnings per common share of \$4.88 for the third quarter of 2016, an increase of 47% and 68%, respectively, compared with \$1.43 billion and \$2.90 per share for the third quarter of 2015. Annualized return on average common shareholders' equity (ROE) was 11.2% for the third quarter of 2016, compared with 7.0% for the third quarter of 2015. Book value per common share was \$181.25 as of September 2016, 2.6% higher compared with the end of the second quarter of 2016.

Net revenues were \$8.17 billion for the third quarter of 2016, 19% higher than the third quarter of 2015, primarily due to significantly higher net revenues in Investing & Lending and higher net revenues in Institutional Client Services. Net revenues in Investment Management were slightly higher, while net revenues in Investment Banking were essentially unchanged.

Operating expenses were \$5.30 billion for the third quarter of 2016, 10% higher than the third quarter of 2015, due to significantly higher compensation and benefits expenses, reflecting an increase in net revenues and a higher year-to-date ratio of compensation and benefits to net revenues, partially offset by lower non-compensation expenses, primarily due to lower net provisions for litigation and regulatory proceedings.

We maintained strong capital ratios and liquidity. Our Common Equity Tier 1 ratio as calculated in accordance with the Standardized approach and the Basel III Advanced approach, in each case reflecting the applicable transitional provisions, was 14.0% and 12.4%, respectively, and our global core liquid assets were \$214 billion as of September 2016. See Note 20 to the condensed consolidated financial statements for further information about our capital ratios. See “Risk Management — Liquidity Risk Management” below for further information about our global core liquid assets.

**Management's Discussion and Analysis**

**Nine Months Ended September 2016 versus September 2015.** The firm generated net earnings of \$5.05 billion and diluted earnings per common share of \$11.24 for the first nine months of 2016, a decrease of 5% and an increase of 4%, respectively, compared with \$5.32 billion and \$10.84 per share for the first nine months of 2015. Annualized ROE was 8.7% for the first nine months of 2016, compared with 8.8% for the first nine months of 2015.

Net revenues were \$22.44 billion for the first nine months of 2016, 15% lower than the first nine months of 2015, due to significantly lower net revenues in Investing & Lending, as well as lower net revenues in Institutional Client Services, Investment Banking and Investment Management. These results reflected the impact of a challenging operating environment during the first half of the year, particularly during the first quarter.

Operating expenses were \$15.53 billion for the first nine months of 2016, 18% lower than the first nine months of 2015, due to significantly lower non-compensation expenses, primarily reflecting significantly lower net provisions for mortgage-related litigation and regulatory matters, and lower compensation and benefits expenses, reflecting a decrease in net revenues.

**Business Environment****Global**

During the third quarter of 2016, global economic conditions appeared to be mixed compared with the previous quarter, as real gross domestic product (GDP) growth increased in the United States, while growth declined slightly in the United Kingdom and China. Real GDP growth appeared to remain stable in the Euro area and Japan. Macroeconomic conditions were fairly benign for most of the quarter and aside from a small spike in mid-September, volatility in equity markets remained low. A key market focus was the monetary policy of the major central banks. The Bank of England (BOE) announced a monetary easing package comprised of a 25 basis points cut to the official bank rate, £70 billion of asset purchases, and a Term Funding Scheme. The Bank of Japan (BOJ) altered the framework for its Qualitative and Quantitative Easing program (QQE), shifting from purchasing set quantities of assets to targeting a 0% yield on the 10-year Japanese government bond. The European Central Bank (ECB) has yet to announce any extension of its asset purchase program, currently set to end in March 2017, raising concerns that the ECB may begin to taper its purchases. The U.S. Federal Reserve, after stating last December that it expected to increase rates four times in 2016, has yet to raise rates through the first three quarters of the year. The price of crude oil declined in early August, briefly reaching below \$40 per barrel (WTI) before increasing to approximately \$48 per barrel by the end of September, just below where it began the quarter. In investment banking, industry-wide equity underwriting activity improved slightly, but industry-wide announced mergers and acquisitions activity declined compared with the second quarter of 2016.

**United States**

In the United States, real GDP growth increased compared with the previous quarter, due in part to an increase in the growth rate of inventory levels and industrial production. Measures of consumer confidence were mixed compared with the second quarter of 2016, while new home sales increased and the pace of housing starts decreased. The unemployment rate was 5.0% as of September 2016, up slightly from 4.9% as of June 2016, and measures of inflation were essentially unchanged. The U.S. Federal Reserve kept its federal funds rate at a target range of 0.25% to 0.50% and stated that the case for a rate increase strengthened in the third quarter. The yield on the 10-year U.S. Treasury note ended the quarter at 1.61%, 12 basis points higher compared with the end of the second quarter of 2016. In equity markets, the NASDAQ Composite Index, S&P 500 Index and Dow Jones Industrial Average increased by 10%, 3% and 2%, respectively, compared with the end of the second quarter of 2016.

## Management's Discussion and Analysis

### Europe

In the Euro area, real GDP growth remained stable compared with the second quarter of 2016, while measures of inflation remained low. Measures of unemployment in the Euro area remained high, and the ECB maintained its main refinancing operations rate at 0.00% and its deposit rate at (0.40)%. The Euro appreciated by 1% against the U.S. dollar during the quarter. In the United Kingdom, real GDP growth decreased slightly compared with the previous quarter. The BOE cut its official bank rate from 0.50% to 0.25%, and the British pound depreciated by 3% against the U.S. dollar. Yields on 10-year government bonds generally declined in the region, with the yield on 10-year German bunds ending the quarter further into negative territory. In equity markets, the DAX Index, FTSE 100 Index, CAC 40 Index and Euro Stoxx 50 Index increased by 9%, 6%, 5% and 5%, respectively, compared with the end of the second quarter of 2016.

### Asia

In Japan, real GDP growth appeared to remain stable compared with the second quarter of 2016. The yield on 10-year Japanese government bonds increased to (0.08)% from (0.24)% during the quarter after the BOJ reformed its QQE program to target a 10-year yield of 0% instead of purchasing fixed quantities of assets. The U.S. dollar depreciated by 2% against the Japanese yen and the Nikkei 225 Index increased by 6% during the quarter. In China, real GDP growth declined slightly compared with the previous quarter, and measures of inflation decreased. The U.S. dollar remained essentially unchanged against the Chinese yuan during the third quarter. In equity markets, the Shanghai Composite Index increased by 3% and the Hang Seng Index increased by 12% compared with the end of the previous quarter. In India, economic growth appeared to increase compared with the previous quarter. The U.S. dollar depreciated by 1% against the Indian rupee and the BSE Sensex Index increased by 3% compared with the end of the second quarter of 2016.

## Critical Accounting Policies

### Fair Value

**Fair Value Hierarchy.** Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value (i.e., inventory), as well as certain other financial assets and financial liabilities, are reflected in our condensed consolidated statements of financial condition at fair value (i.e., marked-to-market), with related gains or losses generally recognized in our condensed consolidated statements of earnings. The use of fair value to measure financial instruments is fundamental to our risk management practices and is our most critical accounting policy.

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We measure certain financial assets and financial liabilities as a portfolio (i.e., based on its net exposure to market and/or credit risks). In determining fair value, the hierarchy under U.S. generally accepted accounting principles (U.S. GAAP) gives (i) the highest priority to unadjusted quoted prices in active markets for identical, unrestricted assets or liabilities (level 1 inputs), (ii) the next priority to inputs other than level 1 inputs that are observable, either directly or indirectly (level 2 inputs), and (iii) the lowest priority to inputs that cannot be observed in market activity (level 3 inputs). Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

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

## Management's Discussion and Analysis

Instruments categorized within level 3 of the fair value hierarchy are those which require one or more significant inputs that are not observable. As of September 2016, June 2016 and December 2015, level 3 financial assets represented 2.8% of our total assets. See Notes 5 through 8 to the condensed consolidated financial statements for further information about level 3 financial assets, including changes in level 3 financial assets and related fair value measurements. Absent evidence to the contrary, instruments classified within level 3 of the fair value hierarchy are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequent to the transaction date, we use other methodologies to determine fair value, which vary based on the type of instrument. Estimating the fair value of level 3 financial instruments requires judgments to be made. These judgments include:

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

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

### Controls Over Valuation of Financial Instruments.

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

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

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

See Notes 5 through 8 to the condensed consolidated financial statements for further information about fair value measurements.

## Management's Discussion and Analysis

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

**Review of Valuation Models.** Our independent model risk management group (Model Risk Management), consisting of quantitative professionals who are separate from model developers, performs an independent model review and validation process of our valuation models. New or changed models are reviewed and approved prior to being put into use. Models are evaluated and re-approved annually to assess the impact of any changes in the product or market and any market developments in pricing theories. See "Risk Management — Model Risk Management" for further information about the review and validation of our valuation models.

### **Goodwill and Identifiable Intangible Assets**

**Goodwill.** Goodwill is the cost of acquired companies in excess of the fair value of net assets, including identifiable intangible assets, at the acquisition date. Goodwill is assessed for impairment annually in the fourth quarter or more frequently if events occur or circumstances change that indicate an impairment may exist, by first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the results of the qualitative assessment are not conclusive, a quantitative goodwill test is performed by comparing the estimated fair value of each reporting unit with its estimated net book value.

Estimating the fair value of our reporting units requires management to make judgments. Critical inputs to the fair value estimates include projected earnings and attributed equity. There is inherent uncertainty in the projected earnings. The net book value of each reporting unit reflects an allocation of total shareholders' equity and represents the estimated amount of total shareholders' equity required to support the activities of the reporting unit under currently applicable regulatory capital requirements. See "Equity Capital Management and Regulatory Capital" for further information about our capital requirements.

We last performed a quantitative goodwill test during the fourth quarter of 2015. We determined that goodwill was not impaired. In that quantitative goodwill test, the estimated fair value of our reporting units in which we hold substantially all of our goodwill significantly exceeded their estimated carrying values. However, the estimated fair value of the Fixed Income, Currency and Commodities Client Execution reporting unit, which represents approximately 7% of our goodwill, was not substantially in excess of its carrying value. This reporting unit and the industry more broadly have been, and continue to be, adversely impacted by the currently challenging operating environment and increased capital requirements. We will continue to closely monitor the reporting unit to determine whether an impairment is required in the future. As of both September 2016 and December 2015, the goodwill related to the Fixed Income, Currency and Commodities Client Execution reporting unit was \$269 million, substantially all of which originated from the acquisition of Goldman Sachs Australia Pty Ltd in 2011.

If we experience a prolonged or severe period of weakness in the business environment or financial markets, or additional increases in capital requirements, our goodwill could be impaired in the future. In addition, significant changes to other inputs of the quantitative goodwill test could cause the estimated fair value of our reporting units to decline, which could result in an impairment of goodwill in the future.

See Note 13 to the condensed consolidated financial statements for further information about our goodwill and our quantitative goodwill test.

**Identifiable Intangible Assets.** We amortize our identifiable intangible assets over their estimated useful lives using the straight-line method or based on economic usage for certain customer lists and commodities-related intangibles. Identifiable intangible assets are tested for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable. See Note 13 to the condensed consolidated financial statements for the carrying value and estimated remaining useful lives of our identifiable intangible assets by major asset class.

## Management's Discussion and Analysis

A prolonged or severe period of market weakness, or significant changes in regulation, could adversely impact our businesses and impair the value of our identifiable intangible assets. In addition, certain events could indicate a potential impairment of our identifiable intangible assets, including weaker business performance resulting in a decrease in our customer base and decreases in revenues from commodities-related transportation rights, customer contracts and relationships. Management judgment is required to evaluate whether indications of potential impairment have occurred, and to test intangible assets for impairment if required.

An impairment, generally calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the total of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

See Note 13 to the condensed consolidated financial statements for further information about our identifiable intangible assets.

### Recent Accounting Developments

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

### Use of Estimates

The use of generally accepted accounting principles requires management to make certain estimates and assumptions. In addition to the estimates we make in connection with fair value measurements, the accounting for goodwill and identifiable intangible assets, and discretionary compensation accruals, the use of estimates and assumptions is also important in determining provisions for losses that may arise from litigation, regulatory proceedings and tax audits, and the allowance for losses on loans and lending commitments held for investment.

A substantial portion of our compensation and benefits represents discretionary compensation, which is finalized at year-end. We believe the most appropriate way to allocate estimated annual discretionary compensation among interim periods is in proportion to the net revenues earned in such periods. In addition to the level of net revenues, our overall compensation expense in any given year is also influenced by, among other factors, overall financial performance, prevailing labor markets, business mix, the structure of our share-based compensation programs and the external environment. See "Results of Operations — Financial Overview — Operating Expenses" below for information about our ratio of compensation and benefits to net revenues.

We estimate and provide for potential losses that may arise out of litigation and regulatory proceedings to the extent that such losses are probable and can be reasonably estimated. In addition, we estimate the upper end of the range of reasonably possible aggregate loss in excess of the related reserves for litigation proceedings where the firm believes the risk of loss is more than slight. See Notes 18 and 27 to the condensed consolidated financial statements for information about certain judicial, regulatory and legal proceedings.

Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total estimated liability in respect of litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses after considering, among other factors, the progress of each case or proceeding, our experience and the experience of others in similar cases or proceedings, and the opinions and views of legal counsel.

In accounting for income taxes, we recognize tax positions in the financial statements only when it is more likely than not that the position will be sustained on examination by the relevant taxing authority based on the technical merits of the position. See Note 24 to the condensed consolidated financial statements for further information about accounting for income taxes.

We also estimate and record an allowance for credit losses related to our loans receivable and lending commitments held for investment. Management's estimate of loan losses entails judgment about loan collectability at the reporting dates, and there are uncertainties inherent in those judgments. See Note 9 to the condensed consolidated financial statements for further information about the allowance for losses on loans and lending commitments held for investment.

### Results of Operations

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed. The composition of net revenues can also vary over the shorter term due to fluctuations in U.S. and global economic and market conditions. See "Risk Factors" in Part I, Item 1A of the 2015 Form 10-K for further information about the impact of economic and market conditions on our results of operations.

### Financial Overview

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

\$ in millions, except per share amounts	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Net revenues	\$ 8,168	\$ 6,861	\$ 22,438	\$ 26,547
Pre-tax earnings	2,868	2,046	6,907	7,706
Net earnings	2,094	1,426	5,051	5,318
Net earnings applicable to common shareholders	2,100	1,330	4,934	4,994
Diluted earnings per common share	4.88	2.90	11.24	10.84
Annualized return on average common shareholders' equity	11.2%	7.0%	8.7%	8.8%
Annualized net earnings to average assets	0.9%	0.7%	0.8%	0.8%
Annualized return on average total shareholders' equity	9.7%	6.5%	7.8%	8.2%
Total average equity to average assets	9.8%	10.0%	9.8%	9.9%
Dividend payout ratio	13.3%	22.4%	17.3%	17.5%

In the table above:

- Net earnings applicable to common shareholders for the three and nine months ended September 2016 includes a benefit of \$105 million and \$266 million, respectively, reflected in preferred stock dividends, related to the exchange of APEX for shares of Series E and Series F Preferred Stock during 2016. See Note 19 to the condensed consolidated financial statements for further information.
- Annualized ROE is calculated by dividing annualized net earnings applicable to common shareholders by average monthly common shareholders' equity. The table below presents our average common shareholders' equity.

\$ in millions	Average for the			
	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Total shareholders' equity	\$ 86,649	\$ 87,509	\$ 86,662	\$ 86,105
Preferred stock	(11,366)	(11,200)	(11,335)	(10,400)
<b>Common shareholders' equity</b>	<b>\$ 75,283</b>	<b>\$ 76,309</b>	<b>\$ 75,327</b>	<b>\$ 75,705</b>

- Annualized return on average total shareholders' equity is calculated by dividing annualized net earnings by average monthly total shareholders' equity.
- Dividend payout ratio is calculated by dividing dividends declared per common share by diluted earnings per common share.

### Net Revenues

The table below presents our net revenues by line item in the condensed consolidated statements of earnings.

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Investment banking	\$1,537	\$1,556	\$ 4,787	\$ 5,480
Investment management	1,386	1,331	3,908	4,400
Commissions and fees	753	859	2,447	2,517
Market making	2,715	1,730	7,067	7,964
Other principal transactions	1,163	543	1,978	3,822
Total non-interest revenues	7,554	6,019	20,187	24,183
Interest income	2,389	2,119	7,267	6,304
Interest expense	1,775	1,277	5,016	3,940
Net interest income	614	842	2,251	2,364
<b>Total net revenues</b>	<b>\$8,168</b>	<b>\$6,861</b>	<b>\$22,438</b>	<b>\$26,547</b>

In the table above:

- Investment banking is comprised of revenues (excluding net interest) from financial advisory and underwriting assignments, as well as derivative transactions directly related to these assignments. These activities are included in our Investment Banking segment.
- Investment management is comprised of revenues (excluding net interest) from providing investment management services to a diverse set of clients, as well as wealth advisory services and certain transaction services to high-net-worth individuals and families. These activities are included in our Investment Management segment.
- Commissions and fees is comprised of revenues from executing and clearing client transactions on major stock, options and futures exchanges worldwide, as well as over-the-counter (OTC) transactions. These activities are included in our Institutional Client Services and Investment Management segments.
- Market making is comprised of revenues (excluding net interest) from client execution activities related to making markets in interest rate products, credit products, mortgages, currencies, commodities and equity products. These activities are included in our Institutional Client Services segment.
- Other principal transactions is comprised of revenues (excluding net interest) from our investing activities and the origination of loans to provide financing to clients. In addition, Other principal transactions includes revenues related to our consolidated investments. These activities are included in our Investing & Lending segment.



**Management's Discussion and Analysis**

**Operating Environment.** During the first quarter of 2016, our business activities were negatively impacted by challenging trends in the operating environment, including concerns and uncertainties about global growth and central bank activity as well as higher levels of volatility, which contributed to significant price pressure at the beginning of the year across both equity and fixed income markets. These factors impacted investor conviction and risk appetite for market-making activities, and industry-wide equity underwriting and mergers and acquisitions activity for investment banking activities. Results in other principal transactions also reflected the impact of these difficult market and economic conditions. At the start of the second quarter of 2016, these concerns moderated and conditions improved in many businesses, including a rebound in investment banking activities and improved results in other principal transactions. However, the market became increasingly focused on the political uncertainty and economic implications surrounding the potential exit of the United Kingdom from the European Union, impacting market-making activities. The operating environment improved during the third quarter of 2016, as global equity markets steadily increased and credit spreads tightened, providing a more favorable backdrop for our business activities. For investment management activities, our assets under supervision continued to increase during the first nine months of 2016. The mix of our average assets under supervision during the third quarter of 2016 shifted slightly from long-term assets under supervision to liquidity products compared with a year ago. If the trend of macroeconomic concerns continues over the long term, and market-making activity levels, investment banking activity levels, or assets under supervision decline or if investors continue the trend of favoring assets under supervision that typically generate lower fees, net revenues would likely be negatively impacted. See "Segment Operating Results" below for further information about the operating environment and material trends and uncertainties that may impact our results of operations.

**Three Months Ended September 2016 versus September 2015**

Net revenues in the condensed consolidated statements of earnings were \$8.17 billion for the third quarter of 2016, 19% higher than the third quarter of 2015, due to significantly higher market-making revenues and other principal transactions revenues, as well as slightly higher investment management revenues. These results were partially offset by significantly lower net interest income and lower commissions and fees. Investment banking revenues were essentially unchanged.

**Non-Interest Revenues.** Investment banking revenues in the condensed consolidated statements of earnings were \$1.54 billion for the third quarter of 2016, essentially unchanged compared with the third quarter of 2015. Revenues in financial advisory were lower compared with a strong third quarter of 2015, reflecting a decrease in industry-wide completed mergers and acquisitions. Revenues in underwriting were higher compared with the third quarter of 2015, primarily due to higher revenues in debt underwriting, reflecting an increase in industry-wide activity. Revenues in equity underwriting were also higher, although industry-wide activity remained low.

Investment management revenues in the condensed consolidated statements of earnings were \$1.39 billion for the third quarter of 2016, 4% higher than the third quarter of 2015, primarily due to higher incentive fees. Management and other fees were essentially unchanged compared with the third quarter of 2015, reflecting the impact of higher average assets under supervision, offset by shifts in the mix of client assets and strategies.

Commissions and fees in the condensed consolidated statements of earnings were \$753 million for the third quarter of 2016, 12% lower than the third quarter of 2015, reflecting lower listed cash equity volumes across the major regions, consistent with market volumes in these regions.

Market-making revenues in the condensed consolidated statements of earnings were \$2.72 billion for the third quarter of 2016, 57% higher than the third quarter of 2015, due to significantly higher revenues in interest rate products, equity derivative products and credit products, as well as improved results in mortgages. These results were partially offset by lower revenues in currencies and equity cash products, as well as slightly lower revenues in commodities.

Other principal transactions revenues in the condensed consolidated statements of earnings were \$1.16 billion for the third quarter of 2016, more than double the amount in the third quarter of 2015, primarily due to significantly higher revenues from investments in equities, reflecting improved results in public equities as global equity prices increased during the quarter compared with a significant decrease in the prior year period. In addition, revenues in debt securities and loans were higher compared with the third quarter of 2015.

## Management's Discussion and Analysis

**Net Interest Income.** Net interest income in the condensed consolidated statements of earnings was \$614 million for the third quarter of 2016, 27% lower than the third quarter of 2015, reflecting an increase in interest expense primarily due to the impact of higher interest rates on other interest-bearing liabilities, long-term borrowings and interest-bearing deposits, and increases in total average interest-bearing deposits and total average long-term borrowings. The increase in interest expense was partially offset by higher interest income related to loans receivable, reflecting the impact of higher interest rates and an increase in total average balances, and collateralized agreements, reflecting the impact of higher interest rates. See “Statistical Disclosures — Distribution of Assets, Liabilities and Shareholders’ Equity” for further information about our sources of net interest income.

### ***Nine Months Ended September 2016 versus September 2015***

Net revenues in the condensed consolidated statements of earnings were \$22.44 billion for the first nine months of 2016, 15% lower than the first nine months of 2015, reflecting the impact of a challenging operating environment during the first half of the year, particularly during the first quarter. The decrease in net revenues was primarily due to significantly lower other principal transactions revenues and lower market-making revenues, investment banking revenues and investment management revenues. In addition, net interest income and commissions and fees were slightly lower compared with the first nine months of 2015.

**Non-Interest Revenues.** Investment banking revenues in the condensed consolidated statements of earnings were \$4.79 billion for the first nine months of 2016, 13% lower than the first nine months of 2015. Revenues in financial advisory were lower compared with a strong first nine months of 2015, reflecting a decrease in industry-wide completed mergers and acquisitions. Revenues in underwriting were lower compared with a strong first nine months of 2015, due to significantly lower revenues in equity underwriting, reflecting low levels of industry-wide activity during the year. Revenues in debt underwriting were significantly higher compared with the first nine months of 2015, primarily reflecting significantly higher revenues from asset-backed activity.

Investment management revenues in the condensed consolidated statements of earnings were \$3.91 billion for the first nine months of 2016, 11% lower than the first nine months of 2015. This decrease primarily reflected significantly lower incentive fees compared with a strong first nine months of 2015. In addition, management and other fees were slightly lower, reflecting shifts in the mix of client assets and strategies, partially offset by the impact of higher average assets under supervision.

Commissions and fees in the condensed consolidated statements of earnings were \$2.45 billion for the first nine months of 2016, 3% lower than the first nine months of 2015, reflecting lower listed cash equity volumes in Asia and Europe, consistent with market volumes in these regions.

Market-making revenues in the condensed consolidated statements of earnings were \$7.07 billion for the first nine months of 2016, 11% lower than the first nine months of 2015, due to significantly lower revenues in currencies, mortgages, equity cash products and commodities, as well as lower revenues in equity derivative products. These results were partially offset by significantly higher revenues in credit products and higher revenues in interest rate products.

Other principal transactions revenues in the condensed consolidated statements of earnings were \$1.98 billion for the first nine months of 2016, 48% lower than the first nine months of 2015, primarily due to a significant decrease in revenues from investments in private equities, which were negatively impacted by corporate performance, particularly during the first quarter of 2016. Revenues in debt securities and loans were also significantly lower compared with the first nine months of 2015, due to significantly lower revenues related to loans and lending commitments to institutional clients.

**Net Interest Income.** Net interest income in the condensed consolidated statements of earnings was \$2.25 billion for the first nine months of 2016, 5% lower than the first nine months of 2015, reflecting an increase in interest expense primarily due to the impact of higher interest rates on other interest-bearing liabilities, interest-bearing deposits and collateralized financings, and an increase in total average interest-bearing deposits. The increase in interest expense was partially offset by higher interest income related to loans receivable, reflecting an increase in total average balances and the impact of higher interest rates, and collateralized agreements, reflecting the impact of higher interest rates. See “Statistical Disclosures — Distribution of Assets, Liabilities and Shareholders’ Equity” for further information about our sources of net interest income.

**Management's Discussion and Analysis****Operating Expenses**

Our operating expenses are primarily influenced by compensation, headcount and levels of business activity. Compensation and benefits includes salaries, estimated year-end discretionary compensation, amortization of equity awards and other items such as benefits. Discretionary compensation is significantly impacted by, among other factors, the level of net revenues, overall financial performance, prevailing labor markets, business mix, the structure of our share-based compensation programs and the external environment. In addition, see "Use of Estimates" for additional information about expenses that may arise from compensation and benefits, and litigation and regulatory proceedings.

The table below presents our operating expenses and total staff (which includes employees, consultants and temporary staff).

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Compensation and benefits	\$ 3,207	\$ 2,351	\$ 9,200	\$10,619
Brokerage, clearing, exchange and distribution fees	613	665	1,929	1,950
Market development	92	123	326	409
Communications and technology	207	200	609	601
Depreciation and amortization	247	222	731	706
Occupancy	245	182	609	572
Professional fees	222	253	673	714
Other expenses	467	819	1,454	3,270
Total non-compensation expenses	2,093	2,464	6,331	8,222
<b>Total operating expenses</b>	<b>\$ 5,300</b>	<b>\$ 4,815</b>	<b>\$15,531</b>	<b>\$18,841</b>
Total staff at period-end	34,900	36,900		

**Three Months Ended September 2016 versus September 2015.** Operating expenses in the condensed consolidated statements of earnings were \$5.30 billion for the third quarter of 2016, 10% higher than the third quarter of 2015. The accrual for compensation and benefits expenses in the condensed consolidated statements of earnings was \$3.21 billion for the third quarter of 2016, 36% higher than the third quarter of 2015, reflecting an increase in net revenues and a higher year-to-date ratio of compensation and benefits to net revenues. Total staff was essentially unchanged during the third quarter of 2016.

Non-compensation expenses in the condensed consolidated statements of earnings were \$2.09 billion for the third quarter of 2016, 15% lower than the third quarter of 2015, primarily due to lower other expenses, reflecting lower net provisions for litigation and regulatory proceedings. Brokerage, clearing, exchange and distribution fees, professional fees and market development expenses were also lower compared with the third quarter of 2015. These decreases were partially offset by higher occupancy expenses, reflecting \$63 million of exit costs on excess office space. Net provisions for litigation and regulatory proceedings for the third quarter of 2016 were \$46 million compared with \$416 million for the third quarter of 2015.

**Nine Months Ended September 2016 versus September 2015.**

Operating expenses in the condensed consolidated statements of earnings were \$15.53 billion for the first nine months of 2016, 18% lower than the first nine months of 2015. The accrual for compensation and benefits expenses in the condensed consolidated statements of earnings was \$9.20 billion for the first nine months of 2016, 13% lower than the first nine months of 2015, reflecting a decrease in net revenues. The ratio of compensation and benefits to net revenues for the first nine months of 2016 was 41.0%, compared with 40.0% for the first nine months of 2015 and 42.0% for the first half of 2016. Total staff decreased by 1,900 or 5% during the first nine months of 2016.

Non-compensation expenses in the condensed consolidated statements of earnings were \$6.33 billion for the first nine months of 2016, 23% lower than the first nine months of 2015, primarily reflecting significantly lower net provisions for mortgage-related litigation and regulatory matters, which are included in other expenses. In addition, market development expenses were lower compared with the first nine months of 2015. Net provisions for litigation and regulatory proceedings for the first nine months of 2016 were \$249 million compared with \$2.06 billion for the first nine months of 2015.

**Provision for Taxes**

The effective income tax rate for the first nine months of 2016 was 26.9%, essentially unchanged from 26.8% for the first half of 2016 and down from the full year tax rate of 30.7% for 2015. The decrease compared with the full year tax rate for 2015 was primarily due to a decrease related to the impact of non-deductible provisions for mortgage-related litigation and regulatory matters in 2015, partially offset by the impact of changes in tax law on deferred tax assets and the geographic mix of earnings in 2015 and an increase related to higher enacted tax rates impacting Goldman Sachs International (GSI) and Goldman Sachs International Bank (GSIB) beginning in 2016.

**Management's Discussion and Analysis**

In September 2016, the United Kingdom government enacted a budget that will reduce the corporate income tax base rate by 1 percentage point effective April 1, 2020. During the third quarter of 2016, we remeasured deferred income tax assets accordingly. This change did not have a material impact on our effective tax rate for the nine months ended September 2016, and we do not expect it to have a material impact on our future effective tax rate.

In October 2016, the U.S. Department of the Treasury issued rules under Section 385 of the Internal Revenue Code that could, in some circumstances, re-characterize debt as equity for U.S. federal income tax purposes. The rules contain exclusions applicable to, among other things, debt instruments issued by regulated financial companies, non-U.S. subsidiaries, certain U.S. subsidiaries where the holder of the debt instrument is included in a consolidated U.S. tax return, and ordinary business transactions. The rules also contain exclusions applicable to members of a regulated financial group other than subsidiaries held under the merchant banking authority, grandfathered commodities, or complementary activities under the Bank Holding Company Act of 1956. These exceptions would exclude from re-characterization substantially all debt instruments issued by the firm. The firm does not expect these rules to have a material impact on our financial condition, results of operations, effective income tax rate or cash flows.

**Segment Operating Results**

The table below presents the net revenues, operating expenses and pre-tax earnings of our segments.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
<b>Investment Banking</b>				
Net revenues	\$1,537	\$1,556	\$ 4,787	\$ 5,480
Operating expenses	863	788	2,720	3,049
<b>Pre-tax earnings</b>	<b>\$ 674</b>	\$ 768	<b>\$ 2,067</b>	\$ 2,431
<b>Institutional Client Services</b>				
Net revenues	\$3,748	\$3,213	\$10,872	\$12,273
Operating expenses	2,526	2,522	7,649	10,101
<b>Pre-tax earnings</b>	<b>\$1,222</b>	\$ 691	<b>\$ 3,223</b>	\$ 2,172
<b>Investing &amp; Lending</b>				
Net revenues	\$1,398	\$ 670	\$ 2,596	\$ 4,140
Operating expenses	690	358	1,714	1,948
<b>Pre-tax earnings</b>	<b>\$ 708</b>	\$ 312	<b>\$ 882</b>	\$ 2,192
<b>Investment Management</b>				
Net revenues	\$1,485	\$1,422	\$ 4,183	\$ 4,654
Operating expenses	1,221	1,122	3,448	3,718
<b>Pre-tax earnings</b>	<b>\$ 264</b>	\$ 300	<b>\$ 735</b>	\$ 936
<b>Total net revenues</b>	<b>\$8,168</b>	\$6,861	<b>\$22,438</b>	\$26,547
<b>Total operating expenses</b>	<b>5,300</b>	4,815	<b>15,531</b>	18,841
<b>Total pre-tax earnings</b>	<b>\$2,868</b>	\$2,046	<b>\$ 6,907</b>	\$ 7,706

In the table above, Total operating expenses include \$25 million of charitable contributions that have not been allocated to our segments for the three and nine months ended September 2015.

Net revenues in our segments include allocations of interest income and interest expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, such underlying positions. See Note 25 to the condensed consolidated financial statements for further information about our business segments.

The cost drivers of Goldman Sachs taken as a whole, compensation, headcount and levels of business activity, are broadly similar in each of our business segments. Compensation and benefits expenses within our segments reflect, among other factors, the overall performance of Goldman Sachs as well as the performance of individual businesses. Consequently, pre-tax margins in one segment of our business may be significantly affected by the performance of our other business segments. A description of segment operating results follows.

**Investment Banking**

Our Investment Banking segment is comprised of:

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

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

The table below presents the operating results of our Investment Banking segment.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Financial Advisory	\$ 658	\$ 809	\$2,223	\$2,591
Equity underwriting	227	190	679	1,318
Debt underwriting	652	557	1,885	1,571
Total Underwriting	879	747	2,564	2,889
Total net revenues	1,537	1,556	4,787	5,480
Operating expenses	863	788	2,720	3,049
<b>Pre-tax earnings</b>	<b>\$ 674</b>	\$ 768	<b>\$2,067</b>	\$2,431

**Management's Discussion and Analysis**

The table below presents our financial advisory and underwriting transaction volumes (Source: Thomson Reuters).

<i>\$ in billions</i>	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Mergers and acquisitions:				
Announced	<b>\$184</b>	\$280	<b>\$624</b>	\$895
Completed	<b>291</b>	334	<b>888</b>	906
Equity and equity-related offerings	<b>14</b>	11	<b>34</b>	59
Debt offerings	<b>78</b>	59	<b>224</b>	201

In the table above:

- Announced and completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction. Equity and equity-related offerings and debt offerings are based on full credit for single book managers and equal credit for joint book managers. Transaction volumes may not be indicative of net revenues in a given period. In addition, transaction volumes for prior periods may vary from amounts previously reported due to the subsequent withdrawal or a change in the value of a transaction.
- Equity and equity-related offerings includes Rule 144A and public common stock offerings, convertible offerings and rights offerings.
- Debt offerings includes non-convertible preferred stock, mortgage-backed securities, asset-backed securities and taxable municipal debt. Includes publicly registered and Rule 144A issues. Excludes leveraged loans.

**Operating Environment.** In mergers and acquisitions, industry-wide completed activity remained strong for the first nine months of 2016 and industry-wide announced activity continued to be robust for most of the year-to-date, but both declined, with announced transactions down significantly, compared with the level of activity during the first nine months of 2015. In underwriting, industry-wide equity underwriting activity increased slightly compared with the second quarter of 2016, although industry-wide activity levels for the year-to-date remained relatively low due to a continued weak backdrop for new issuances. This compares with strong activity levels in the first nine months of 2015, which benefited from favorable equity market conditions during the first half of the year. Industry-wide debt underwriting activity during the third quarter of 2016 decreased compared with the robust level of activity in the second quarter of 2016, but was higher during the first nine months of 2016 compared with the first nine months of 2015. In the future, if client activity levels in mergers and acquisitions or equity underwriting continue the downward trend as compared to the level of activity in 2015, or if client activity levels in debt underwriting decline, net revenues in Investment Banking would likely continue to be negatively impacted.

**Three Months Ended September 2016 versus September 2015.** Net revenues in Investment Banking were \$1.54 billion for the third quarter of 2016, essentially unchanged compared with the third quarter of 2015.

Net revenues in Financial Advisory were \$658 million, 19% lower compared with a strong third quarter of 2015, reflecting a decrease in industry-wide completed mergers and acquisitions. Net revenues in Underwriting were \$879 million, 18% higher than the third quarter of 2015, primarily due to higher net revenues in debt underwriting, reflecting an increase in industry-wide activity. Net revenues in equity underwriting were also higher, although industry-wide activity remained low.

Operating expenses were \$863 million for the third quarter of 2016, 10% higher than the third quarter of 2015, primarily due to increased compensation and benefits expenses. Pre-tax earnings were \$674 million in the third quarter of 2016, 12% lower than the third quarter of 2015.

As of September 2016, our investment banking transaction backlog increased compared with the end of the second quarter of 2016, but was lower compared with the end of the third quarter of 2015. The increase compared with the end of the second quarter of 2016 was due to higher estimated net revenues from potential advisory transactions.

Our investment banking transaction backlog represents an estimate of our future net revenues from investment banking transactions where we believe that future revenue realization is more likely than not. We believe changes in our investment banking transaction backlog may be a useful indicator of client activity levels which, over the long term, impact our net revenues. However, the time frame for completion and corresponding revenue recognition of transactions in our backlog varies based on the nature of the assignment, as certain transactions may remain in our backlog for longer periods of time and others may enter and leave within the same reporting period. In addition, our 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.

## Management's Discussion and Analysis

**Nine Months Ended September 2016 versus September 2015.** Net revenues in Investment Banking were \$4.79 billion for the first nine months of 2016, 13% lower than the first nine months of 2015.

Net revenues in Financial Advisory were \$2.22 billion, 14% lower compared with a strong first nine months of 2015, reflecting a decrease in industry-wide completed mergers and acquisitions. Net revenues in Underwriting were \$2.56 billion, 11% lower compared with a strong first nine months of 2015, due to significantly lower net revenues in equity underwriting, reflecting low levels of industry-wide activity during the year. Net revenues in debt underwriting were significantly higher compared with the first nine months of 2015, primarily reflecting significantly higher net revenues from asset-backed activity.

Operating expenses were \$2.72 billion for the first nine months of 2016, 11% lower than the first nine months of 2015, primarily due to decreased compensation and benefits expenses, reflecting lower net revenues. Pre-tax earnings were \$2.07 billion in the first nine months of 2016, 15% lower than the first nine months of 2015.

During the first nine months of 2016, our investment banking transaction backlog significantly decreased due to significantly lower estimated net revenues from both potential advisory transactions and potential debt underwriting transactions compared with strong levels at the end of 2015. These declines were partially offset by higher estimated net revenues from potential equity underwriting transactions, reflecting increases across most products.

### Institutional Client Services

Our Institutional Client Services segment is comprised 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, repurchase agreements, and interest rate swaps, options and other interest rate 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 (including U.S. government agency-issued collateralized mortgage obligations and other securities and loans), 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 OTC transactions. Equities also includes our 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.

As a market maker, we facilitate transactions in both liquid and less liquid markets, primarily for institutional clients, such as corporations, financial institutions, investment funds and governments, to assist clients in meeting their investment objectives and in managing their risks. In this role, we seek to earn the difference between the price at which a market participant is willing to sell an instrument to us and the price at which another market participant is willing to buy it from us, and vice versa (i.e., bid/offer spread). In addition, we maintain inventory, typically for a short period of time, in response to, or in anticipation of, client demand. We also hold inventory in order to actively manage our risk exposures that arise from these market-making activities. Our market-making inventory is recorded in financial instruments owned, at fair value (long positions) or financial instruments sold, but not yet purchased, at fair value (short positions) in our condensed consolidated statements of financial condition.

**Management's Discussion and Analysis**

Our results are influenced by a combination of interconnected drivers, including client activity levels, bid/offer spreads, changes in the fair value of our inventory, and interest income and interest expense related to the holding and funding of our inventory. The amount and composition of our net revenues vary over time as these drivers are impacted by multiple interrelated factors affecting economic and market conditions, including volatility and liquidity in the market, changes in interest rates, currency exchange rates, credit spreads, equity prices and commodity prices, investor confidence, and other macroeconomic concerns and uncertainties.

In general, assuming all other market-making conditions remain constant, increases in client activity levels or bid/offer spreads tend to result in increases in net revenues, and decreases tend to have the opposite effect. However, changes in market-making conditions can materially impact client activity levels and bid/offer spreads, as well as the fair value of our inventory. For example, a decrease in liquidity in the market could have the impact of (i) increasing our bid/offer spread, (ii) decreasing investor confidence and thereby decreasing client activity levels, and (iii) wider credit spreads on our inventory positions.

The table below presents the operating results of our Institutional Client Services segment.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Fixed Income, Currency and Commodities Client Execution	<b>\$1,964</b>	\$1,461	<b>\$ 5,554</b>	\$ 6,199
Equities client execution	<b>678</b>	555	<b>1,735</b>	2,466
Commissions and fees	<b>719</b>	818	<b>2,342</b>	2,393
Securities services	<b>387</b>	379	<b>1,241</b>	1,215
Total Equities	<b>1,784</b>	1,752	<b>5,318</b>	6,074
Total net revenues	<b>3,748</b>	3,213	<b>10,872</b>	12,273
Operating expenses	<b>2,526</b>	2,522	<b>7,649</b>	10,101
<b>Pre-tax earnings</b>	<b>\$1,222</b>	\$ 691	<b>\$ 3,223</b>	\$ 2,172

**Operating Environment.** Challenging trends in the operating environment for Institutional Client Services that existed throughout the second half of 2015 continued during the first quarter of 2016, including concerns and uncertainties about global growth and central bank activity. These concerns contributed to significant price pressure at the beginning of the year across both equity and fixed income markets.

At the start of the second quarter of 2016, market-making conditions improved in many businesses as these concerns moderated. However, later in the quarter, the market became increasingly focused on the political uncertainty and economic implications surrounding the potential exit of the United Kingdom from the European Union. In response to the “leave vote,” equity markets declined (e.g., the MSCI World Index declined 7% in two days) and volumes generally spiked, both of which largely reversed shortly thereafter.

The operating environment continued to improve during the third quarter of 2016, as global equity markets steadily increased, with the MSCI World Index up 5% and the S&P 500 Index up 3%. In addition, equity markets in Asia rebounded during the third quarter, with the Nikkei 225 Index up 6% and the Shanghai Composite Index up 3%, after each declined during the first half of 2016. In addition, credit spreads tightened during the quarter with U.S. investment grade and high-yield cash spreads tightening by 12 basis points and 87 basis points, respectively. However, NYSE and NASDAQ average share volumes continued to decline, decreasing 13% and 5%, respectively, compared with the second quarter of 2016. Volatility also continued its downward trend during the third quarter after reaching high levels in February, with the VIX declining to 11 at its lowest point. Oil and natural gas prices remained at low levels, with prices of approximately \$48 per barrel (WTI) and \$2.91 per million British thermal units, respectively. Low interest rates and slow global economic growth continued to impact client sentiment, risk appetite and activity levels throughout the first nine months of 2016.

If the trend of macroeconomic concerns continues over the long term and activity levels continue to decline, net revenues in Institutional Client Services would likely continue to be negatively impacted. See “Business Environment” above for further information about economic and market conditions in the global operating environment during the quarter.

**Management's Discussion and Analysis**

**Three Months Ended September 2016 versus September 2015.** Net revenues in Institutional Client Services were \$3.75 billion for the third quarter of 2016, 17% higher than the third quarter of 2015.

Net revenues in Fixed Income, Currency and Commodities Client Execution were \$1.96 billion for the third quarter of 2016, 34% higher than the third quarter of 2015 (the 34% would have been 15 percentage points higher had the debt valuation adjustment gain of \$147 million in the third quarter of 2015 been included in other comprehensive income, consistent with how such gains and losses are reflected in 2016 — see below for further information about the debt valuation adjustment). This increase was due to significantly higher net revenues in interest rate products and credit products, as well as higher net revenues in mortgages, partially offset by lower net revenues in currencies and commodities. Improved market-making conditions, including tighter credit spreads, during the third quarter of 2016 were in contrast with difficult market-making conditions, including widening credit spreads and declining commodity prices, during the third quarter of 2015. The decline in currencies reflected the positive impact of the devaluation in the Chinese yuan on client activity during the third quarter of 2015, while net revenues in commodities continued to reflect low client activity.

Net revenues in Equities were \$1.78 billion for the third quarter of 2016, 2% higher than the third quarter of 2015, reflecting significantly higher net revenues in equities client execution, due to significantly higher net revenues in derivatives, partially offset by significantly lower net revenues in cash products. Net revenues in securities services were slightly higher. Commissions and fees were lower compared with the third quarter of 2015, reflecting lower listed cash equity volumes across the major regions, consistent with market volumes in these regions.

The firm elects the fair value option for certain unsecured borrowings. For the third quarter of 2015, the fair value net gain attributable to the impact of changes in our credit spreads on these borrowings (debt valuation adjustment) was \$182 million (\$147 million and \$35 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively). In the first quarter of 2016, the firm early adopted the requirement in ASU No. 2016-01 to present separately such gains and losses in other comprehensive income. The amount included in accumulated other comprehensive loss for the third quarter of 2016 was a loss of \$13 million (both gross and net of tax). See Note 3 to the condensed consolidated financial statements for further information about ASU No. 2016-01.

Operating expenses were \$2.53 billion for the third quarter of 2016, essentially unchanged compared with the third quarter of 2015, including increased compensation and benefits expenses, reflecting higher net revenues, partially offset by decreased net provisions for litigation and regulatory proceedings. Pre-tax earnings were \$1.22 billion in the third quarter of 2016, 77% higher than the third quarter of 2015.

**Nine Months Ended September 2016 versus September 2015.** Net revenues in Institutional Client Services were \$10.87 billion for the first nine months of 2016, 11% lower than the first nine months of 2015.

Net revenues in Fixed Income, Currency and Commodities Client Execution were \$5.55 billion for the first nine months of 2016, 10% lower than the first nine months of 2015, reflecting the impact of difficult market-making conditions during the first half of the year, particularly during the first quarter of 2016. Net revenues in mortgages were significantly lower compared with the first nine months of 2015, reflecting less favorable market-making conditions, including generally wider spreads. Net revenues were also significantly lower in currencies, reflecting less favorable market-making conditions compared with the first nine months of 2015, which included a strong first quarter of 2015. In addition, net revenues in commodities significantly decreased, reflecting low client activity. These results were partially offset by significantly higher net revenues in credit products and higher net revenues in interest rate products. The increase in credit products reflected improved client activity levels compared with low activity in the first nine months of 2015.

Net revenues in Equities were \$5.32 billion for the first nine months of 2016, 12% lower than the first nine months of 2015, primarily due to significantly lower net revenues in equities client execution, reflecting significantly lower net revenues in both cash products and derivatives. Commissions and fees were slightly lower compared with the first nine months of 2015, reflecting lower listed cash equity volumes in Asia and Europe, consistent with market volumes in these regions. These results were partially offset by slightly higher net revenues in securities services compared with the first nine months of 2015.



**Management's Discussion and Analysis**

The firm elects the fair value option for certain unsecured borrowings. For the first nine months of 2015, the fair value net gain attributable to the impact of changes in our credit spreads on these borrowings was \$323 million (\$268 million and \$55 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively). In the first quarter of 2016, the firm early adopted the requirement in ASU No. 2016-01 to present separately such gains and losses in other comprehensive income. The amount included in accumulated other comprehensive loss for the first nine months of 2016 was a loss of \$116 million (\$75 million, net of tax). See Note 3 to the condensed consolidated financial statements for further information about ASU No. 2016-01.

Operating expenses were \$7.65 billion for the first nine months of 2016, 24% lower than the first nine months of 2015, due to significantly lower net provisions for mortgage-related litigation and regulatory matters, and decreased compensation and benefits expenses, reflecting lower net revenues. Pre-tax earnings were \$3.22 billion in the first nine months of 2016, 48% higher than the first nine months of 2015.

**Investing & Lending**

Investing & Lending includes our investing activities and the origination of loans to provide financing to clients. These investments and loans are typically longer-term in nature. We make investments, some of which are consolidated, directly and indirectly through funds and separate accounts that we manage, in debt securities and loans, public and private equity securities, and real estate entities.

The table below presents the operating results of our Investing & Lending segment.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Equity securities	\$ 920	\$370	\$1,546	\$2,784
Debt securities and loans	478	300	1,050	1,356
Total net revenues	1,398	670	2,596	4,140
Operating expenses	690	358	1,714	1,948
<b>Pre-tax earnings</b>	<b>\$ 708</b>	\$312	<b>\$ 882</b>	\$2,192

**Operating Environment.** Following difficult market conditions and the impact of a challenging macroeconomic environment on corporate performance, particularly in the energy sector, in the first quarter of 2016, market conditions improved during the second and third quarters as macroeconomic concerns moderated. Global equity markets increased during the third quarter of 2016, contributing to net gains from investments in public equities, and corporate performance rebounded from the difficult start to the year. If macroeconomic concerns negatively affect corporate performance or global equity markets decline, net revenues in Investing & Lending would likely be negatively impacted.

**Three Months Ended September 2016 versus September 2015.**

Net revenues in Investing & Lending were \$1.40 billion for the third quarter of 2016, more than double the amount in the third quarter of 2015, primarily due to significantly higher net revenues from investments in equities, reflecting improved results in public equities as global equity prices increased during the quarter compared with a significant decrease in the prior year period. In addition, net revenues in debt securities and loans were significantly higher compared with the third quarter of 2015, reflecting higher net interest income.

Operating expenses were \$690 million for the third quarter of 2016, 93% higher than the third quarter of 2015, primarily due to increased compensation and benefits expenses, reflecting higher net revenues. Pre-tax earnings were \$708 million in the third quarter of 2016, compared with pre-tax earnings of \$312 million in the third quarter of 2015.

**Nine Months Ended September 2016 versus September 2015.**

Net revenues in Investing & Lending were \$2.60 billion for the first nine months of 2016, 37% lower than the first nine months of 2015, primarily due to a significant decrease in net revenues from investments in private equities, which were negatively impacted by corporate performance, particularly during the first quarter of 2016. Net revenues in debt securities and loans were also significantly lower compared with the first nine months of 2015, due to significantly lower net revenues related to loans and lending commitments to institutional clients, partially offset by higher net interest income.

Operating expenses were \$1.71 billion for the first nine months of 2016, 12% lower than the first nine months of 2015, due to lower compensation and benefits expenses, reflecting lower net revenues, and lower expenses related to consolidated investments. Pre-tax earnings were \$882 million in the first nine months of 2016, 60% lower than the first nine months of 2015.

### Investment Management

Investment Management provides investment management services and offers investment products (primarily through separately managed accounts and commingled vehicles, such as mutual funds and private investment funds) across all major asset classes to a diverse set of institutional and individual clients. Investment Management also offers wealth advisory services, including portfolio management and financial counseling, and brokerage and other transaction services to high-net-worth individuals and families.

Assets under supervision include assets under management and other client assets. Assets under management include client assets where we earn a fee for managing assets on a discretionary basis. This includes net assets in our mutual funds, hedge funds, credit funds and private equity funds (including real estate funds), and separately managed accounts for institutional and individual investors. Other client assets include client assets invested with third-party managers, bank deposits and advisory relationships where we earn a fee for advisory and other services, but do not have investment discretion. Assets under supervision do not include the self-directed brokerage assets of our clients. Long-term assets under supervision represent assets under supervision excluding liquidity products. Liquidity products represent money market and bank deposit assets.

Assets under supervision typically generate fees as a percentage of net asset value, which vary by asset class and distribution channel and are affected by investment performance as well as asset inflows and redemptions. Asset classes such as alternative investment and equity assets typically generate higher fees relative to fixed income and liquidity product assets. The average effective management fee (which excludes non-asset-based fees) we earned on our assets under supervision was 35 basis points and 39 basis points for the three months ended September 2016 and September 2015, respectively, and 35 basis points and 39 basis points for the nine months ended September 2016 and September 2015, respectively.

In certain circumstances, we are also entitled to receive incentive fees based on a percentage of a fund's or a separately managed account's return, or when the return exceeds a specified benchmark or other performance target. Incentive fees are recognized only when all material contingencies are resolved.

The table below presents the operating results of our Investment Management segment.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Management and other fees	<b>\$1,225</b>	\$1,212	<b>\$3,571</b>	\$3,651
Incentive fees	<b>114</b>	73	<b>197</b>	590
Transaction revenues	<b>146</b>	137	<b>415</b>	413
Total net revenues	<b>1,485</b>	1,422	<b>4,183</b>	4,654
Operating expenses	<b>1,221</b>	1,122	<b>3,448</b>	3,718
<b>Pre-tax earnings</b>	<b>\$ 264</b>	\$ 300	<b>\$ 735</b>	\$ 936

The tables below present our period-end assets under supervision (AUS) by asset class and by distribution channel.

<i>\$ in billions</i>	As of September	
	2016	2015
Assets under management	<b>\$1,147</b>	\$1,019
Other client assets	<b>200</b>	169
<b>Total AUS</b>	<b>\$1,347</b>	\$1,188

<b>Asset Class</b>	2016	2015
Alternative investments	<b>\$ 152</b>	\$ 146
Equity	<b>268</b>	237
Fixed income	<b>600</b>	547
Long-term AUS	<b>1,020</b>	930
Liquidity products	<b>327</b>	258
<b>Total AUS</b>	<b>\$1,347</b>	\$1,188

<b>Distribution Channel</b>	2016	2015
Institutional	<b>\$ 509</b>	\$ 462
High-net-worth individuals	<b>403</b>	360
Third-party distributed	<b>435</b>	366
<b>Total AUS</b>	<b>\$1,347</b>	\$1,188

In the table above, alternative investments primarily includes hedge funds, credit funds, private equity, real estate, currencies, commodities and asset allocation strategies.

The table below presents a summary of the changes in our assets under supervision.

<i>\$ in billions</i>	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Balance, beginning of period	<b>\$1,310</b>	\$1,182	<b>\$1,252</b>	\$1,178
Net inflows/(outflows)				
Alternative investments	<b>1</b>	4	<b>4</b>	4
Equity	<b>2</b>	13	<b>2</b>	20
Fixed income	<b>11</b>	24	<b>19</b>	38
Long-term AUS net inflows/(outflows)	<b>14</b>	41	<b>25</b>	62
Liquidity products	<b>2</b>	(5)	<b>21</b>	(25)
Total AUS net inflows/(outflows)	<b>16</b>	36	<b>46</b>	37
Net market appreciation/(depreciation)	<b>21</b>	(30)	<b>49</b>	(27)
<b>Balance, end of period</b>	<b>\$1,347</b>	\$1,188	<b>\$1,347</b>	\$1,188

In the table above, Long-term AUS net inflows/(outflows) includes \$18 billion of fixed income, equity and alternative investments asset inflows in connection with our acquisition of Pacific Global Advisors' solutions business for the three and nine months ended September 2015.

**Management's Discussion and Analysis**

The table below presents our average monthly assets under supervision by asset class.

<i>\$ in billions</i>	Average for the			
	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Alternative investments	\$ 151	\$ 146	\$ 148	\$ 144
Equity	262	244	254	244
Fixed income	592	530	573	524
Long-term AUS	1,005	920	975	912
Liquidity products	327	267	320	268
<b>Total AUS</b>	<b>\$1,332</b>	<b>\$1,187</b>	<b>\$1,295</b>	<b>\$1,180</b>

**Operating Environment.** Market conditions continued to improve after a challenging first quarter of 2016, with higher asset prices resulting in appreciation in our client assets during the second and third quarters of 2016 in both fixed income and equity assets. Also, our assets under supervision increased during the first nine months of 2016 from net inflows, primarily in fixed income assets, and liquidity products. The mix of our average assets under supervision during the third quarter of 2016 shifted slightly from long-term assets under supervision to liquidity products compared with a year ago. In addition, assets under supervision have been impacted by inflows to advisory services and outflows from actively-managed mutual funds. In the future, if asset prices decline, or investors continue the trend of favoring assets that typically generate lower fees or investors withdraw their assets, net revenues in Investment Management would likely be negatively impacted.

**Three Months Ended September 2016 versus September 2015.** Net revenues in Investment Management were \$1.49 billion for the third quarter of 2016, 4% higher than the third quarter of 2015, primarily due to higher incentive fees. Management and other fees were essentially unchanged compared with the third quarter of 2015, reflecting the impact of higher average assets under supervision, offset by shifts in the mix of client assets and strategies. During the quarter, total assets under supervision increased \$37 billion to \$1.35 trillion. Long-term assets under supervision increased \$35 billion, including net market appreciation of \$21 billion, primarily in equity and fixed income assets, and net inflows of \$14 billion, primarily in fixed income assets. Liquidity products increased \$2 billion.

Operating expenses were \$1.22 billion for the third quarter of 2016, 9% higher than the third quarter of 2015, primarily due to increased compensation and benefits expenses, reflecting higher net revenues. Pre-tax earnings were \$264 million in the third quarter of 2016, 12% lower than the third quarter of 2015.

**Nine Months Ended September 2016 versus September 2015.** Net revenues in Investment Management were \$4.18 billion for the first nine months of 2016, 10% lower than the first nine months of 2015. This decrease primarily reflected significantly lower incentive fees compared with a strong first nine months of 2015. In addition, management and other fees were slightly lower, reflecting shifts in the mix of client assets and strategies, partially offset by the impact of higher average assets under supervision. During the first nine months of 2016, total assets under supervision increased \$95 billion to \$1.35 trillion. Long-term assets under supervision increased \$74 billion, due to net inflows of \$25 billion and net market appreciation of \$49 billion, both primarily in fixed income assets. In addition, liquidity products increased \$21 billion.

Operating expenses were \$3.45 billion for the first nine months of 2016, 7% lower than the first nine months of 2015, due to decreased compensation and benefits expenses, reflecting lower net revenues. Pre-tax earnings were \$735 million in the first nine months of 2016, 21% lower than the first nine months of 2015.

**Geographic Data**

See Note 25 to the condensed consolidated financial statements for a summary of our total net revenues and pre-tax earnings by geographic region.

## Management's Discussion and Analysis

### Balance Sheet and Funding Sources

#### Balance Sheet Management

One of our risk management disciplines is our ability to manage the size and composition of our balance sheet. While our asset base changes due to client activity, market fluctuations and business opportunities, the size and composition of our balance sheet also reflects factors including (i) our overall risk tolerance, (ii) the amount of equity capital we hold and (iii) our funding profile, among other factors. See “Equity Capital Management and Regulatory Capital — Equity Capital Management” for information about our equity capital management process.

Although our balance sheet fluctuates on a day-to-day basis, our total assets at quarter-end and year-end dates are generally not materially different from those occurring within our reporting periods.

In order to ensure appropriate risk management, we seek to maintain a sufficiently liquid balance sheet and have processes in place to dynamically manage our assets and liabilities which include (i) quarterly planning, (ii) business-specific limits, (iii) monitoring of key metrics and (iv) scenario analyses.

**Quarterly Planning.** We prepare a quarterly balance sheet plan that combines our projected total assets and composition of assets with our expected funding sources for the upcoming quarter. The objectives of this quarterly planning process are:

- To develop our near-term balance sheet projections, taking into account the general state of the financial markets and expected business activity levels, as well as regulatory requirements;
- To allow business risk managers and managers from our independent control and support functions to objectively evaluate balance sheet limit requests from business managers in the context of the firm's overall balance sheet constraints, including the firm's liability profile and equity capital levels, and key metrics; and
- To inform the target amount, tenor and type of funding to raise, based on our projected assets and forecasted maturities.

Business risk managers and managers from our independent control and support functions meet with business managers to review current and prior period information and discuss expectations for the upcoming quarter to prepare our quarterly balance sheet plan. The specific information reviewed includes asset and liability size and composition, limit utilization, risk and performance measures, and capital usage.

Our consolidated quarterly plan, including our balance sheet plans by business, funding projections, and projected key metrics, is reviewed and approved by the Firmwide Finance Committee. See “Overview and Structure of Risk Management” for an overview of our risk management structure.

**Business-Specific Limits.** The Firmwide Finance Committee sets asset and liability limits for each business and the Risk Governance Committee sets aged inventory limits for certain financial instruments as a disincentive to hold inventory over longer periods of time. These limits are set at levels which are close to actual operating levels, rather than at levels which reflect our maximum risk appetite, in order to ensure prompt escalation and discussion among business managers and managers in our independent control and support functions on a routine basis. The Firmwide Finance Committee reviews and approves balance sheet limits on a quarterly basis and may also approve changes in limits on an ad hoc basis in response to changing business needs or market conditions. Requests for changes in limits are evaluated after giving consideration to their impact on key firm metrics. Compliance with limits is monitored on a daily basis by business risk managers, as well as managers in our independent control and support functions.

**Monitoring of Key Metrics.** We monitor key balance sheet metrics daily both by business and on a consolidated basis, including asset and liability size and composition, limit utilization and risk measures. We allocate assets to businesses and review and analyze movements resulting from new business activity as well as market fluctuations.

**Management's Discussion and Analysis**

**Scenario Analyses.** We conduct various scenario analyses including as part of the Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act Stress Tests (DFAST), as well as our resolution and recovery planning. See “Equity Capital Management and Regulatory Capital — Equity Capital Management” below for further information about these scenario analyses. These scenarios cover short-term and long-term time horizons using various macroeconomic and firm-specific assumptions, based on a range of economic scenarios. We use these analyses to assist us in developing our longer-term balance sheet management strategy, including the level and composition of assets, funding and equity capital. Additionally, these analyses help us develop approaches for maintaining appropriate funding, liquidity and capital across a variety of situations, including a severely stressed environment.

**Balance Sheet Allocation**

In addition to preparing our condensed consolidated statements of financial condition in accordance with U.S. GAAP, we prepare a balance sheet that generally allocates assets to our businesses, which is a non-GAAP presentation and may not be comparable to similar non-GAAP presentations used by other companies. We believe that presenting our assets on this basis is meaningful because it is consistent with the way management views and manages risks associated with the firm's assets and better enables investors to assess the liquidity of the firm's assets.

The table below presents our balance sheet allocation.

<i>\$ in millions</i>	As of	
	September 2016	December 2015
Global Core Liquid Assets (GCLA)	<b>\$214,265</b>	\$199,120
Other cash	<b>9,907</b>	9,180
<b>GCLA and cash</b>	<b>224,172</b>	208,300
<b>Secured client financing</b>	<b>208,526</b>	221,325
Inventory	<b>215,196</b>	208,836
Secured financing agreements	<b>67,427</b>	63,495
Receivables	<b>40,604</b>	39,976
<b>Institutional Client Services</b>	<b>323,227</b>	312,307
Public equity	<b>3,386</b>	3,991
Private equity	<b>18,101</b>	16,985
Debt	<b>22,241</b>	23,216
Loans receivable	<b>49,064</b>	45,407
Other	<b>6,052</b>	4,646
<b>Investing &amp; Lending</b>	<b>98,844</b>	94,245
<b>Total inventory and related assets</b>	<b>422,071</b>	406,552
<b>Other assets</b>	<b>25,218</b>	25,218
<b>Total assets</b>	<b>\$879,987</b>	\$861,395

The following is a description of the captions in the table above:

- **Global Core Liquid Assets and Cash.** We maintain liquidity to meet a broad range of potential cash outflows and collateral needs in a stressed environment. See “Liquidity Risk Management” below for details on the composition and sizing of our “Global Core Liquid Assets” (GCLA). In addition to our GCLA, we maintain other operating cash balances, primarily for use in specific currencies, entities, or jurisdictions where we do not have immediate access to parent company liquidity.
- **Secured Client Financing.** We provide collateralized financing for client positions, including margin loans secured by client collateral, securities borrowed, and resale agreements primarily collateralized by government obligations. As a result of client activities, we are required to segregate cash and securities to satisfy regulatory requirements. Our secured client financing arrangements, which are generally short-term, are accounted for at fair value or at amounts that approximate fair value, and include daily margin requirements to mitigate counterparty credit risk.
- **Institutional Client Services.** In Institutional Client Services, we maintain inventory positions to facilitate market making in fixed income, equity, currency and commodity products. Additionally, as part of market-making activities, we enter into resale or securities borrowing arrangements to obtain securities or use our own inventory to cover transactions in which we or our clients have sold securities that have not yet been purchased. The receivables in Institutional Client Services primarily relate to securities transactions.
- **Investing & Lending.** In Investing & Lending, we make investments and originate loans to provide financing to clients. These investments and loans are typically longer-term in nature. We make investments, directly and indirectly through funds and separate accounts that we manage, in debt securities, loans, public and private equity securities, real estate entities and other investments. Debt includes \$14.91 billion and \$17.29 billion as of September 2016 and December 2015, respectively, of direct loans primarily extended to corporate and private wealth management clients that are accounted for at fair value. Loans receivable is comprised of loans held for investment that are accounted for at amortized cost net of allowance for loan losses. See Note 9 to the condensed consolidated financial statements for further information about loans receivable.

**Management's Discussion and Analysis**

- **Other Assets.** Other assets are generally less liquid, non-financial assets, including property, leasehold improvements and equipment, goodwill and identifiable intangible assets, income tax-related receivables, equity-method investments, assets classified as held for sale and miscellaneous receivables.

The table below presents the reconciliation of this balance sheet allocation to our U.S. GAAP balance sheet.

<i>\$ in millions</i>	GCLA and Cash	Secured Client Financing	Institutional Client Services	Investing & Lending	Total
<b>As of September 2016</b>					
Cash and cash equivalents	\$ 99,535	\$ —	\$ —	\$ —	\$ 99,535
Cash and securities segregated for regulatory and other purposes	—	54,526	—	—	54,526
Securities purchased under agreements to resell and federal funds sold	52,499	23,041	17,588	1,092	94,220
Securities borrowed	39,352	96,277	49,839	—	185,468
Receivables from brokers, dealers and clearing organizations	—	5,760	19,921	—	25,681
Receivables from customers and counterparties	—	28,922	20,683	4,250	53,855
Loans receivable	—	—	—	49,064	49,064
Financial instruments owned, at fair value	32,786	—	215,196	44,438	292,420
<b>Subtotal</b>	<b>\$224,172</b>	<b>\$208,526</b>	<b>\$323,227</b>	<b>\$98,844</b>	<b>\$854,769</b>
Other assets					25,218
<b>Total assets</b>					<b>\$879,987</b>
<b>As of December 2015</b>					
Cash and cash equivalents	\$ 75,105	\$ —	\$ —	\$ —	\$ 75,105
Cash and securities segregated for regulatory and other purposes	—	56,838	—	—	56,838
Securities purchased under agreements to resell and federal funds sold	60,092	42,786	16,368	1,659	120,905
Securities borrowed	33,260	91,712	47,127	—	172,099
Receivables from brokers, dealers and clearing organizations	—	5,912	19,541	—	25,453
Receivables from customers and counterparties	—	24,077	20,435	1,918	46,430
Loans receivable	—	—	—	45,407	45,407
Financial instruments owned, at fair value	39,843	—	208,836	45,261	293,940
<b>Subtotal</b>	<b>\$208,300</b>	<b>\$221,325</b>	<b>\$312,307</b>	<b>\$94,245</b>	<b>\$836,177</b>
Other assets					25,218
<b>Total assets</b>					<b>\$861,395</b>

In the table above:

- Total assets for Institutional Client Services and Investing & Lending represent inventory and related assets. These amounts differ from total assets by business segment disclosed in Note 25 to the condensed consolidated financial statements because total assets disclosed in Note 25 include allocations of our GCLA and cash, secured client financing and other assets.
- See “Balance Sheet Analysis and Metrics” for explanations on the changes in our balance sheet from December 2015 to September 2016.

**Balance Sheet Analysis and Metrics**

As of September 2016, total assets in our condensed consolidated statements of financial condition were \$879.99 billion, an increase of \$18.59 billion from December 2015, primarily reflecting increases in cash and cash equivalents of \$24.43 billion and receivables from customers and counterparties of \$7.43 billion, partially offset by a net decrease in collateralized agreements of \$13.32 billion. The increase in cash and cash equivalents was primarily due to an increase in deposits, reflecting the acquisition of GE Capital Bank's online deposit platform, and the increase in receivables from customers and counterparties reflected changes in client activity. The net decrease in collateralized agreements reflected the impact of firm and client activity.

As of September 2016, total liabilities in our condensed consolidated statements of financial condition were \$792.88 billion, an increase of \$18.21 billion from December 2015, primarily reflecting increases in deposits of \$27.03 billion and unsecured long-term borrowings of \$15.16 billion, partially offset by decreases in securities sold under agreements to repurchase, at fair value of \$12.16 billion and payables to customers and counterparties of \$9.33 billion. The increase in deposits reflected the acquisition of GE Capital Bank's online deposit platform, and the increase in unsecured long-term borrowings was primarily due to net new issuances. The decrease in securities sold under agreements to repurchase, at fair value reflected the impact of firm and client activity, and the decrease in payables to customers and counterparties reflected changes in client activity.

**Management's Discussion and Analysis**

As of September 2016 and December 2015, our total securities sold under agreements to repurchase, accounted for as collateralized financings, were \$73.91 billion and \$86.07 billion, respectively, which were 4% lower and 3% higher, respectively, compared with the daily average amounts of repurchase agreements over the respective quarters. As of September 2016, the decrease in our repurchase agreements relative to the daily average during the quarter resulted from the impact of firm and client activity at the end of the period.

The level of our repurchase agreements fluctuates between and within periods, primarily due to providing clients with access to highly liquid collateral, such as U.S. government and federal agency, and investment-grade sovereign obligations through collateralized financing activities.

The table below presents information about our assets, unsecured long-term borrowings, shareholders' equity and leverage ratios.

<i>\$ in millions</i>	As of	
	September 2016	December 2015
Total assets	<b>\$879,987</b>	\$861,395
Unsecured long-term borrowings	<b>\$190,586</b>	\$175,422
Total shareholders' equity	<b>\$ 87,110</b>	\$ 86,728
Leverage ratio	<b>10.1x</b>	9.9x
Debt to equity ratio	<b>2.2x</b>	2.0x

In the table above:

- The leverage ratio equals total assets divided by total shareholders' equity and measures the proportion of equity and debt the firm is using to finance assets. This ratio is different from the Tier 1 leverage ratio included in Note 20 to the condensed consolidated financial statements.
- The debt to equity ratio equals unsecured long-term borrowings divided by total shareholders' equity.

The table below presents information about our shareholders' equity and book value per common share, including the reconciliation of total shareholders' equity to tangible common shareholders' equity.

<i>\$ in millions, except per share amounts</i>	As of	
	September 2016	December 2015
Total shareholders' equity	<b>\$ 87,110</b>	\$ 86,728
Less: Preferred stock	<b>(11,203)</b>	(11,200)
Common shareholders' equity	<b>75,907</b>	75,528
Less: Goodwill and identifiable intangible assets	<b>(4,104)</b>	(4,148)
<b>Tangible common shareholders' equity</b>	<b>\$ 71,803</b>	\$ 71,380
Book value per common share	<b>\$ 181.25</b>	\$ 171.03
Tangible book value per common share	<b>171.45</b>	161.64

In the table above:

- Tangible common shareholders' equity equals total shareholders' equity less preferred stock, goodwill and identifiable intangible assets. We believe that tangible common shareholders' equity is meaningful because it is a measure that we and investors use to assess capital adequacy. Tangible common shareholders' equity is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.
- Book value per common share and tangible book value per common share are based on common shares outstanding and restricted stock units granted to employees with no future service requirements (collectively, basic shares) of 418.8 million and 441.6 million as of September 2016 and December 2015, respectively. We believe that tangible book value per common share (tangible common shareholders' equity divided by basic shares) is meaningful because it is a measure that we and investors use to assess capital adequacy. Tangible book value per common share is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

**Funding Sources**

Our primary sources of funding are secured financings, unsecured long-term and short-term borrowings, and deposits. We seek to maintain broad and diversified funding sources globally across products, programs, markets, currencies and creditors to avoid funding concentrations.

We raise funding through a number of different products, including:

- Collateralized financings, such as repurchase agreements, securities loaned and other secured financings;
- Long-term unsecured debt (including structured notes) through syndicated U.S. registered offerings, U.S. registered and Rule 144A medium-term note programs, offshore medium-term note offerings and other debt offerings;
- Savings, demand and time deposits through internal and third-party broker-dealers, as well as from retail and institutional customers; and
- Short-term unsecured debt at the subsidiary level through U.S. and non-U.S. hybrid financial instruments and other methods.

**Management's Discussion and Analysis**

Our funding is primarily raised in U.S. dollar, Euro, British pound and Japanese yen. We generally distribute our funding products through our own sales force and third-party distributors to a large, diverse creditor base in a variety of markets in the Americas, Europe and Asia. We believe that our relationships with our creditors are critical to our liquidity. Our creditors include banks, governments, securities lenders, pension funds, insurance companies, mutual funds and individuals. We have imposed various internal guidelines to monitor creditor concentration across our funding programs.

**Secured Funding.** We fund a significant amount of inventory on a secured basis, including repurchase agreements, securities loaned and other secured financings. As of September 2016 and December 2015, secured funding included in “Collateralized financings” in the condensed consolidated statements of financial condition was \$101.64 billion and \$114.44 billion, respectively. We may also pledge our inventory as collateral for securities borrowed under a securities lending agreement or as collateral for derivative transactions. Secured funding is less sensitive to changes in our credit quality than unsecured funding, due to our posting of collateral to our lenders. Nonetheless, we continually analyze the refinancing risk of our secured funding activities, taking into account trade tenors, maturity profiles, counterparty concentrations, collateral eligibility and counterparty rollover probabilities. We seek to mitigate our refinancing risk by executing term trades with staggered maturities, diversifying counterparties, raising excess secured funding, and pre-funding residual risk through our GCLA.

We seek to raise secured funding with a term appropriate for the liquidity of the assets that are being financed, and we seek longer maturities for secured funding collateralized by asset classes that may be harder to fund on a secured basis, especially during times of market stress. Substantially all of our secured funding, excluding funding collateralized by liquid government obligations, is executed for tenors of one month or greater. Assets that may be harder to fund on a secured basis during times of market stress include certain financial instruments in the following categories: mortgage and other asset-backed loans and securities, non-investment-grade corporate debt securities, equities and convertible debentures and emerging market securities. Assets that are classified as level 3 in the fair value hierarchy are generally funded on an unsecured basis. See Notes 5 and 6 to the condensed consolidated financial statements for further information about the classification of financial instruments in the fair value hierarchy and “Unsecured Long-Term Borrowings” below for further information about the use of unsecured long-term borrowings as a source of funding.

The weighted average maturity of our secured funding, excluding funding that can only be collateralized by highly liquid securities eligible for inclusion in our GCLA, exceeded 120 days as of September 2016.

A majority of our secured funding for securities not eligible for inclusion in the GCLA is executed through term repurchase agreements and securities loaned contracts. We also raise financing through other types of collateralized financings, such as secured loans and notes. Goldman Sachs Bank USA (GS Bank USA) has access to funding from the Federal Home Loan Bank (FHLB). As of September 2016, our outstanding borrowings against the FHLB were \$2.43 billion.

GS Bank USA also has access to funding through the Federal Reserve Bank discount window. While we do not rely on this funding in our liquidity planning and stress testing, we maintain policies and procedures necessary to access this funding and test discount window borrowing procedures.

**Unsecured Long-Term Borrowings.** We issue unsecured long-term borrowings as a source of funding for inventory and other assets and to finance a portion of our GCLA. We issue in different tenors, currencies and products to maximize the diversification of our investor base.

The table below presents our quarterly unsecured long-term borrowings maturity profile as of September 2016.

<i>\$ in millions</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2017	\$ —	\$ —	\$ —	\$4,466	\$ 4,466
2018	8,538	8,585	4,900	3,698	25,721
2019	6,855	6,319	2,871	7,295	23,340
2020	4,687	7,790	5,692	1,012	19,181
2021	2,734	3,684	7,576	7,241	21,235
2022 - thereafter					96,643
<b>Total</b>					<b>\$190,586</b>

The weighted average maturity of our unsecured long-term borrowings as of September 2016 was approximately nine years. To mitigate refinancing risk, we seek to limit the principal amount of debt maturing on any one day or during any week or year. We enter into interest rate swaps to convert a portion of the amount of our unsecured long-term borrowings into floating-rate obligations in order to manage our exposure to interest rates. See Note 16 to the condensed consolidated financial statements for further information about our unsecured long-term borrowings.



## Management's Discussion and Analysis

**Deposits.** We raise deposits mainly through GS Bank USA and GSIB. As of September 2016 and December 2015, our deposits were \$124.55 billion and \$97.52 billion, respectively. See Note 14 to the condensed consolidated financial statements for further information about our deposits.

**Unsecured Short-Term Borrowings.** A significant portion of our unsecured short-term borrowings was originally long-term debt that is scheduled to mature within one year of the reporting date. We use unsecured short-term borrowings, including hybrid financial instruments, to finance liquid assets and for other cash management purposes. In light of regulatory developments, since the third quarter of 2015, Group Inc. has not issued debt with an original maturity of less than one year and currently does not expect to issue short-term debt in the future.

As of September 2016 and December 2015, our unsecured short-term borrowings, including the current portion of unsecured long-term borrowings, were \$42.83 billion and \$42.79 billion, respectively. See Note 15 to the condensed consolidated financial statements for further information about our unsecured short-term borrowings.

## Equity Capital Management and Regulatory Capital

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

### Equity Capital Management

We determine the appropriate level and composition of our equity capital by considering multiple factors including our current and future consolidated regulatory capital requirements, the results of our capital planning and stress testing process and other factors such as rating agency guidelines, subsidiary capital requirements, the business environment and conditions in the financial markets. We manage our capital requirements and the levels of our capital usage principally by setting limits on balance sheet assets and/or limits on risk, in each case at both the consolidated and business levels.

We principally manage the level and composition of our equity capital through issuances and repurchases of our common stock. We may also, from time to time, issue or repurchase our preferred stock, junior subordinated debt issued to trusts, and other subordinated debt or other forms of capital as business conditions warrant. Prior to any repurchases, we must receive confirmation that the Board of Governors of the Federal Reserve System (Federal Reserve Board) does not object to such capital actions. See Notes 16 and 19 to the condensed consolidated financial statements for further information about our preferred stock, junior subordinated debt issued to trusts and other subordinated debt.

**Capital Planning and Stress Testing Process.** As part of capital planning, we project sources and uses of capital given a range of business environments, including stressed conditions. Our stress testing process is designed to identify and measure material risks associated with our business activities including market risk, credit risk and operational risk, as well as our ability to generate revenues.

## Management's Discussion and Analysis

The following is a description of our capital planning and stress testing process:

- **Capital Planning.** Our capital planning process incorporates an internal capital adequacy assessment with the objective of ensuring that we are appropriately capitalized relative to the risks in our business. We incorporate stress scenarios into our capital planning process with a goal of holding sufficient capital to ensure we remain adequately capitalized after experiencing a severe stress event. Our assessment of capital adequacy is viewed in tandem with our assessment of liquidity adequacy and is integrated into our overall risk management structure, governance and policy framework.

Our capital planning process also includes an internal risk-based capital assessment. This assessment incorporates market risk, credit risk and operational risk. Market risk is calculated by using Value-at-Risk (VaR) calculations supplemented by risk-based add-ons which include risks related to rare events (tail risks). Credit risk utilizes assumptions about our counterparties' probability of default and the size of our losses in the event of a default. Operational risk is calculated based on scenarios incorporating multiple types of operational failures as well as considering internal and external actual loss experience. Backtesting for market risk and credit risk is used to gauge the effectiveness of models at capturing and measuring relevant risks.

- **Stress Testing.** Our stress tests incorporate our internally designed stress scenarios, including our internally developed severely adverse scenario, and those required under CCAR and DFAST, and are designed to capture our specific vulnerabilities and risks. We provide additional information about our stress test processes and a summary of the results on our web site as described in "Available Information" below.

As required by the Federal Reserve Board's annual CCAR rules, we submit a capital plan for review by the Federal Reserve Board. The purpose of the Federal Reserve Board's review is to ensure that we have a robust, forward-looking capital planning process that accounts for our unique risks and that permits continued operation during times of economic and financial stress.

The Federal Reserve Board evaluates us based, in part, on whether we have the capital necessary to continue operating under the baseline and stress scenarios provided by the Federal Reserve Board and those developed internally. This evaluation also takes into account our process for identifying risk, our controls and governance for capital planning, and our guidelines for making capital planning decisions. In addition, the Federal Reserve Board evaluates our plan to make capital distributions (i.e., dividend payments and repurchases or redemptions of stock, subordinated debt or other capital securities) and issue capital, across a range of macroeconomic scenarios and firm-specific assumptions.

In addition, the DFAST rules require us to conduct stress tests on a semi-annual basis and publish a summary of certain results. The Federal Reserve Board also conducts its own annual stress tests and publishes a summary of certain results.

We submitted our 2016 CCAR results in April 2016 and the Federal Reserve Board informed us that it did not object to our capital actions, including the potential repurchase of outstanding common stock, a potential increase in our quarterly common stock dividend and the possible issuance, redemption and modification of other capital securities from the third quarter of 2016 through the second quarter of 2017. We published a summary of our annual DFAST results in June 2016. See "Available Information" below.

In September 2016, we submitted our semi-annual DFAST results to the Federal Reserve Board and subsequently published a summary of our internally developed severely adverse scenario results in October 2016. See "Available Information" below.

In addition, the rules adopted by the Federal Reserve Board under the Dodd-Frank Act require GS Bank USA to conduct stress tests on an annual basis and publish a summary of certain results. GS Bank USA submitted its 2016 annual DFAST stress results to the Federal Reserve Board in April 2016 and published a summary of its results in June 2016. See "Available Information" below.

## Management's Discussion and Analysis

GSI also has its own capital planning and stress testing process, which incorporates internally designed stress tests and those required under the Prudential Regulation Authority's (PRA) Internal Capital Adequacy Assessment Process.

**Contingency Capital Plan.** As part of our comprehensive capital management policy, we maintain a contingency capital plan. Our contingency capital plan provides a framework for analyzing 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.

**Capital Attribution.** We assess each of our businesses' capital usage based upon our internal assessment of risks, which incorporates an attribution of all of our relevant regulatory capital requirements. These regulatory capital requirements are allocated using our attributed equity framework, which takes into consideration our binding capital constraints. We also attribute risk-weighted assets (RWAs) to our business segments. As of September 2016, approximately two-thirds of RWAs calculated in accordance with the Standardized Capital Rules and the Basel III Advanced Rules, subject to transitional provisions, were attributed to our Institutional Client Services segment and substantially all of the remaining RWAs were attributed to our Investing & Lending segment. We manage the levels of our capital usage based upon balance sheet and risk limits, as well as capital return analyses of our businesses based on our capital attribution.

**Share Repurchase Program.** We use our share repurchase program to help maintain the appropriate level of common equity. The repurchase program is effected primarily through regular open-market purchases (which may include repurchase plans designed to comply with Rule 10b5-1), the amounts and timing of which are determined primarily by our current and projected capital position and our capital plan submitted to the Federal Reserve Board as part of CCAR. The amounts and timing of the repurchases may also be influenced by general market conditions and the prevailing price and trading volumes of our common stock.

As of September 2016, the remaining share authorization under our existing repurchase program was 34.2 million shares; however, we are only permitted to make repurchases to the extent that such repurchases have not been objected to by the Federal Reserve Board. See "Unregistered Sales of Equity Securities and Use of Proceeds" in Part II, Item 2 of the September 2016 Form 10-Q and Note 19 to the condensed consolidated financial statements for additional information about our share repurchase program and see above for information about our capital planning and stress testing process.

### Resolution and Recovery Plans

We are required by the Federal Reserve Board and the FDIC to submit a periodic plan that describes our strategy for a rapid and orderly resolution in the event of material financial distress or failure (resolution plan). We are also required by the Federal Reserve Board to submit and have submitted, on a periodic basis, a global recovery plan that outlines the steps that management could take to reduce risk, maintain sufficient liquidity, and conserve capital in times of prolonged stress.

In April 2016, the Federal Reserve Board and the FDIC provided feedback on the 2015 resolution plans of eight systemically important domestic banking institutions and provided guidance related to the 2017 resolution plan submissions. While our plan was not jointly found to be deficient (i.e., non-credible or to not facilitate an orderly resolution under the U.S. bankruptcy code), the FDIC identified deficiencies and both the FDIC and Federal Reserve Board also identified certain shortcomings. In response to the feedback received, in September 2016, we submitted a status report on our actions to address these shortcomings and a separate public section that explains these actions, at a high level. Our 2017 resolution plan, which is due by July 1, 2017, is also required to address the shortcomings and take into account the additional guidance.

In addition, GS Bank USA is required to submit a resolution plan to the FDIC and, accordingly, submitted its 2015 resolution plan on September 1, 2015. GS Bank USA has not yet received supervisory feedback on its 2015 resolution plan. In July 2016, GS Bank USA received notification from the FDIC that its resolution plan submission date was extended to October 1, 2017 and the 2016 resolution plan requirement will be satisfied by the submission of the 2017 resolution plan.

**Management's Discussion and Analysis****Rating Agency Guidelines**

The credit rating agencies assign credit ratings to the obligations of Group Inc., which directly issues or guarantees substantially all of the firm's senior unsecured obligations. Goldman, Sachs & Co. (GS&Co.) and GSI have been assigned long- and short-term issuer ratings by certain credit rating agencies. GS Bank USA and GSIB have also been assigned long- and short-term issuer ratings, as well as ratings on their long-term and short-term bank deposits. In addition, credit rating agencies have assigned ratings to debt obligations of certain other subsidiaries of Group Inc.

The level and composition of our equity capital are among the many factors considered in determining our credit ratings. Each agency has its own definition of eligible capital and methodology for evaluating capital adequacy, and assessments are generally based on a combination of factors rather than a single calculation. See "Liquidity Risk Management — Credit Ratings" for further information about credit ratings of Group Inc., GS Bank USA, GSIB, GS&Co. and GSI.

**Consolidated Regulatory Capital**

We are subject to the Federal Reserve Board's revised risk-based capital and leverage regulations, subject to certain transitional provisions (Revised Capital Framework). These regulations are largely based on the Basel Committee on Banking Supervision's (Basel Committee) capital framework for strengthening international capital standards (Basel III) and also implement certain provisions of the Dodd-Frank Act. Under the Revised Capital Framework, we are an "Advanced approach" banking organization.

We calculate our Common Equity Tier 1 (CET1), Tier 1 capital and Total capital ratios in accordance with (i) the Standardized approach and market risk rules set out in the Revised Capital Framework (together, the Standardized Capital Rules) and (ii) the Advanced approach and market risk rules set out in the Revised Capital Framework (together, the Basel III Advanced Rules) as described in Note 20 to the condensed consolidated financial statements. The lower of each ratio calculated in (i) and (ii) is the ratio against which our compliance with minimum ratio requirements is assessed. Each of the ratios calculated in accordance with the Basel III Advanced Rules was lower than that calculated in accordance with the Standardized Capital Rules and therefore the Basel III Advanced ratios were the ratios that applied to us as of September 2016 and December 2015.

See Note 20 to the condensed consolidated financial statements for further information about our capital ratios as of September 2016 and December 2015, and for additional information about the Revised Capital Framework.

**Minimum Capital Ratios and Capital Buffers**

The table below presents our minimum required ratios as of September 2016, as well as the estimated minimum ratios that we expect will apply at the end of the transitional provisions beginning January 2019.

	September 2016 Minimum Ratio	January 2019 Estimated Minimum Ratio
CET1 ratio	5.875%	9.5%
Tier 1 capital ratio	7.375%	11.0%
Total capital ratio	9.375%	13.0%
Tier 1 leverage ratio	4.000%	4.0%

In the table above:

- The minimum ratios as of September 2016 reflect (i) the 25% phase-in of the capital conservation buffer (0.625%), (ii) the 25% phase-in of the Global Systemically Important Bank (G-SIB) buffer (0.75%), and (iii) the counter-cyclical capital buffer of zero percent.
- The estimated minimum ratios as of January 2019 reflect (i) the fully phased-in capital conservation buffer (2.5%), (ii) the fully phased-in G-SIB buffer (2.5%), and (iii) the counter-cyclical capital buffer of zero percent. The G-SIB buffer of 2.5% is estimated based on 2015 financial data, a reduction from the 3.0% buffer effective January 1, 2016. The G-SIB and counter-cyclical buffers in the future may differ from these estimates due to additional guidance from our regulators and/or positional changes. As a result, the minimum ratios we are subject to as of January 1, 2019 could be higher than the amounts presented in the table above.
- As of September 2016, in order to meet the quantitative requirements for being "well-capitalized" under the Federal Reserve Board's regulations, we must meet a higher required minimum Total capital ratio of 10.0%.
- Tier 1 leverage ratio is defined as Tier 1 capital divided by quarterly average adjusted total assets (which includes adjustments for goodwill and identifiable intangible assets, and certain investments in nonconsolidated financial institutions).

See Note 20 to the condensed consolidated financial statements for information about the capital conservation buffer, the current G-SIB buffer and the counter-cyclical capital buffer.

Our minimum required supplementary leverage ratio will be 5.0% on January 1, 2018. See "Supplementary Leverage Ratio" below for further information.

**Management's Discussion and Analysis****Fully Phased-in Capital Ratios**

The table below presents our capital ratios calculated in accordance with the Standardized Capital Rules and the Basel III Advanced Rules on a fully phased-in basis.

<i>\$ in millions</i>	As of	
	<b>September 2016</b>	December 2015
Common shareholders' equity	<b>\$ 75,907</b>	\$ 75,528
Deductions for goodwill and identifiable intangible assets, net of deferred tax liabilities	<b>(3,015)</b>	(3,044)
Deductions for investments in nonconsolidated financial institutions	<b>(1,153)</b>	(2,274)
Other adjustments	<b>(1,248)</b>	(1,409)
<b>Total Common Equity Tier 1</b>	<b>70,491</b>	68,801
Preferred stock	<b>11,203</b>	11,200
Deduction for investments in covered funds	<b>(587)</b>	(413)
Other adjustments	<b>(70)</b>	(128)
<b>Tier 1 capital</b>	<b>\$ 81,037</b>	\$ 79,460
<b>Standardized Tier 2 and Total capital</b>		
Tier 1 capital	<b>\$ 81,037</b>	\$ 79,460
Qualifying subordinated debt	<b>14,808</b>	15,132
Allowance for losses on loans and lending commitments	<b>699</b>	602
Other adjustments	<b>(2)</b>	(19)
Standardized Tier 2 capital	<b>15,505</b>	15,715
<b>Standardized Total capital</b>	<b>\$ 96,542</b>	\$ 95,175
<b>Basel III Advanced Tier 2 and Total capital</b>		
Tier 1 capital	<b>\$ 81,037</b>	\$ 79,460
Standardized Tier 2 capital	<b>15,505</b>	15,715
Allowance for losses on loans and lending commitments	<b>(699)</b>	(602)
Basel III Advanced Tier 2 capital	<b>14,806</b>	15,113
<b>Basel III Advanced Total capital</b>	<b>\$ 95,843</b>	\$ 94,573
<b>RWAs</b>		
Standardized	<b>\$524,116</b>	\$534,135
Basel III Advanced	<b>591,102</b>	587,319
<b>CET1 ratio</b>		
Standardized	<b>13.4%</b>	12.9%
Basel III Advanced	<b>11.9%</b>	11.7%
<b>Tier 1 capital ratio</b>		
Standardized	<b>15.5%</b>	14.9%
Basel III Advanced	<b>13.7%</b>	13.5%
<b>Total capital ratio</b>		
Standardized	<b>18.4%</b>	17.8%
Basel III Advanced	<b>16.2%</b>	16.1%

Although the fully phased-in capital ratios are not applicable until 2019, we believe that the ratios in the table above are meaningful because they are measures that we, our regulators and investors use to assess our ability to meet future regulatory capital requirements. The fully phased-in Basel III Advanced and Standardized capital ratios are non-GAAP measures and may not be comparable to similar non-GAAP measures used by other companies. These ratios are based on our current interpretation, expectations and understanding of the Revised Capital Framework and may evolve as we discuss its interpretation and application with our regulators.

In the table above:

- The deductions for goodwill and identifiable intangible assets, net of deferred tax liabilities, include goodwill of \$3.67 billion and \$3.66 billion as of September 2016 and December 2015, respectively, and identifiable intangible assets of \$435 million and \$491 million as of September 2016 and December 2015, respectively, net of associated deferred tax liabilities of \$1.09 billion as of September 2016 and \$1.10 billion as of December 2015.
- The deductions for investments in nonconsolidated financial institutions represent the amount by which our investments in the capital of nonconsolidated financial institutions exceed certain prescribed thresholds. The decrease from December 2015 to September 2016 primarily reflects reductions in our fund investments.
- The deduction for investments in covered funds represents our aggregate investments in applicable covered funds, as permitted by the Volcker Rule, that were purchased after December 2013. Substantially all of these investments in covered funds were purchased in connection with our market-making activities. This deduction was not subject to a transition period. See "Regulatory and Other Developments" below for further information about the Volcker Rule.
- Other adjustments within CET1 primarily include the overfunded portion of our defined benefit pension plan obligation net of associated deferred tax liabilities, disallowed deferred tax assets, credit valuation adjustments on derivative liabilities, debt valuation adjustments and other required credit risk-based deductions.
- Qualifying subordinated debt is subordinated debt issued by Group Inc. with an original maturity of five years or greater. The outstanding amount of subordinated debt qualifying for Tier 2 capital is reduced upon reaching a remaining maturity of five years. See Note 16 to the condensed consolidated financial statements for additional information about our subordinated debt.

See Note 20 to the condensed consolidated financial statements for information about our transitional capital ratios, which represent the ratios that are applicable to us as of September 2016 and December 2015.

## Management's Discussion and Analysis

### Supplementary Leverage Ratio

The Revised Capital Framework includes a supplementary leverage ratio requirement for Advanced approach banking organizations. Under amendments to the Revised Capital Framework, the U.S. federal bank regulatory agencies approved a final rule that implements the supplementary leverage ratio aligned with the definition of leverage established by the Basel Committee. The supplementary leverage ratio compares Tier 1 capital to a measure of leverage exposure, which consists of total daily average assets for the quarter and certain off-balance-sheet exposures, including a measure of derivatives exposures and commitments, less certain balance sheet deductions. The Revised Capital Framework requires a minimum supplementary leverage ratio of 5.0% (comprised of the minimum requirement of 3.0% and a 2.0% buffer) for U.S. bank holding companies deemed to be G-SIBs, effective on January 1, 2018.

As of September 2016 and December 2015, our supplementary leverage ratio was 6.3% and 5.9%, respectively, based on Tier 1 capital on a fully phased-in basis of \$81.04 billion and \$79.46 billion, respectively, divided by total leverage exposure of \$1.29 trillion (consists of total daily average assets for the quarter of \$888 billion and certain off-balance-sheet exposures of \$404 billion, less certain balance sheet deductions of \$5 billion) and \$1.34 trillion (consists of total daily average assets for the quarter of \$878 billion and certain off-balance-sheet exposures of \$471 billion, less certain balance sheet deductions of \$6 billion), respectively. Within total leverage exposure, the adjustments to quarterly average assets in both periods were primarily comprised of off-balance-sheet exposures related to derivatives, secured financing transactions, commitments and guarantees.

This supplementary leverage ratio is based on our current interpretation and understanding of the U.S. federal bank regulatory agencies' final rule and may evolve as we discuss its interpretation and application with our regulators. See "Regulatory and Other Developments" below for information about the Basel Committee's proposal on the supplementary leverage ratio.

### Subsidiary Capital Requirements

Many of our subsidiaries, including GS Bank USA and our broker-dealer subsidiaries, are subject to separate regulation and capital requirements of the jurisdictions in which they operate.

**GS Bank USA.** GS Bank USA is subject to regulatory capital requirements that are calculated in substantially the same manner as those applicable to bank holding companies and calculates its capital ratios in accordance with the risk-based capital and leverage requirements applicable to state member banks, which are based on the Revised Capital Framework. See Note 20 to the condensed consolidated financial statements for further information about the Revised Capital Framework as it relates to GS Bank USA, including GS Bank USA's capital ratios and required minimum ratios.

In addition, under Federal Reserve Board rules, commencing on January 1, 2018, in order to be considered a "well-capitalized" depository institution, GS Bank USA must have a supplementary leverage ratio of 6.0% or greater. The supplementary leverage ratio compares Tier 1 capital to a measure of leverage exposure, defined as total daily average assets for the quarter less certain deductions plus certain off-balance-sheet exposures, including a measure of derivatives exposures and commitments. As of September 2016, GS Bank USA's supplementary leverage ratio was 7.5%, based on Tier 1 capital on a fully phased-in basis of \$24.11 billion, divided by total leverage exposure of \$323 billion (consists of total daily average assets for the quarter of \$161 billion and certain off-balance-sheet exposures of \$162 billion, less certain balance sheet deductions of \$22 million). As of December 2015, GS Bank USA's supplementary leverage ratio was 7.1%, based on Tier 1 capital on a fully phased-in basis of \$23.02 billion, divided by total leverage exposure of \$324 billion (total daily average assets for the quarter of \$134 billion and certain off-balance-sheet exposures of \$190 billion, less certain balance sheet deductions of \$5 million). This supplementary leverage ratio is based on our current interpretation and understanding of this rule and may evolve as we discuss their interpretation and application with our regulators.

**GSI.** Our regulated U.K. broker-dealer, GSI, is one of our principal non-U.S. regulated subsidiaries and is regulated by the PRA and the Financial Conduct Authority. GSI is subject to the revised capital framework for European Union (EU)-regulated financial institutions (the fourth EU Capital Requirements Directive and EU Capital Requirements Regulation, collectively known as "CRD IV"). These capital regulations are largely based on Basel III.

**Management's Discussion and Analysis**

The table below presents GSI's minimum required ratios.

	<b>September 2016 Minimum Ratio</b>	December 2015 Minimum Ratio
CET1 ratio	<b>6.539%</b>	6.1%
Tier 1 capital ratio	<b>8.517%</b>	8.2%
Total capital ratio	<b>11.145%</b>	10.9%

The minimum ratios in the table above incorporate capital guidance received from the PRA and could change in the future. GSI's future capital requirements may also be impacted by developments such as the introduction of capital buffers as described above in "Minimum Capital Ratios and Capital Buffers."

As of September 2016, GSI had a CET1 ratio of 11.8%, a Tier 1 capital ratio of 11.8% and a Total capital ratio of 15.9%. Each of these ratios includes approximately 59 basis points attributable to profit for the nine months ended September 2016. These ratios will be finalized upon the completion of GSI's September 2016 financial statements. As of December 2015, GSI had a CET1 ratio of 12.9%, a Tier 1 capital ratio of 12.9% and a Total capital ratio of 17.6%. The decrease in GSI's capital ratios from December 2015 to September 2016 is primarily due to an increase in credit RWAs principally reflecting an increase in derivatives due to higher counterparty credit risk and increased exposures.

CRD IV, as amended by the European Commission Delegated Act (the Delegated Act), introduced a new leverage ratio, which compares CRD IV's definition of Tier 1 capital to a measure of leverage exposure, defined as the sum of assets less Tier 1 capital deductions plus certain off-balance-sheet exposures, including a measure of derivatives exposures, securities financing transactions and commitments. The Delegated Act does not currently include a minimum leverage ratio requirement; however, the Basel Committee has proposed a minimum requirement of 3%. Any required minimum ratio is expected to become effective for GSI on January 1, 2018. As of both September 2016 and December 2015, GSI had a leverage ratio of 3.6%. The ratio as of September 2016 includes approximately 18 basis points attributable to profit for the nine months ended September 2016. This leverage ratio is based on our current interpretation and understanding of this rule and may evolve as we discuss its interpretation and application with GSI's regulators.

**Other Subsidiaries.** We expect that the capital requirements of several of our subsidiaries are likely to increase in the future due to the various developments arising from the Basel Committee, the Dodd-Frank Act, and other governmental entities and regulators. See Note 20 to the condensed consolidated financial statements for information about the capital requirements of our other regulated subsidiaries.

Subsidiaries not subject to separate regulatory capital requirements may hold capital to satisfy local tax and legal guidelines, rating agency requirements (for entities with assigned credit ratings) or internal policies, including policies concerning the minimum amount of capital a subsidiary should hold based on its underlying level of risk. In certain instances, Group Inc. may be limited in its ability to access capital held at certain subsidiaries as a result of regulatory, tax or other constraints. As of September 2016 and December 2015, Group Inc.'s equity investment in subsidiaries was \$90.16 billion and \$85.52 billion, respectively, compared with its total shareholders' equity of \$87.11 billion and \$86.73 billion, respectively.

Our capital invested in non-U.S. subsidiaries is generally exposed to foreign exchange risk, substantially all of which is managed through a combination of derivatives and non-U.S. denominated debt. See Note 7 to the condensed consolidated financial statements for information about our net investment hedges, which are used to hedge this risk.

**Guarantees of Subsidiaries.** Group Inc. has guaranteed the payment obligations of GS&Co., GS Bank USA, and Goldman Sachs Execution & Clearing, L.P. (GSEC), in each case subject to certain exceptions. In November 2008, Group Inc. contributed subsidiaries into GS Bank USA and agreed to guarantee certain losses, including credit-related losses, relating to assets held by the contributed entities.

## Regulatory and Other Developments

### Regulatory Developments

Our businesses are subject to significant and evolving regulation. The Dodd-Frank Act, enacted in July 2010, significantly altered the financial regulatory regime within which we operate. In addition, other reforms have been adopted or are being considered by regulators and policy makers worldwide. We expect that the principal areas of impact from regulatory reform for us 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 regulations.

There has been increased regulation of, and limitations on, our activities, including the Dodd-Frank Act prohibition on "proprietary trading" and the limitation on the sponsorship of, and investment in, "covered funds" (as defined in the Volcker Rule). In addition, there is increased regulation of, and restrictions on, OTC derivatives markets and transactions, particularly related to swaps and security-based swaps.

## Management's Discussion and Analysis

See “Business — Regulation” in Part I, Item 1 of the 2015 Form 10-K for more information about the laws, rules and regulations and proposed laws, rules and regulations that apply to us and our operations. In addition, see Note 20 to the condensed consolidated financial statements for information about regulatory developments as they relate to our regulatory capital and leverage ratios.

**Volcker Rule.** The provisions of the Dodd-Frank Act referred to as the “Volcker Rule” became effective in July 2015 (subject to a conformance period, as applicable). The Volcker Rule prohibits “proprietary trading,” but permits activities such as underwriting, market making and risk-mitigation hedging, requires an extensive compliance program and includes additional reporting and record keeping requirements. The initial implementation of these rules did not have a material impact on our financial condition, results of operations or cash flows. However, the rule is highly complex, and its impact may change as market practices further develop.

In addition to the prohibition on proprietary trading, the Volcker Rule limits the sponsorship of, and investment in, covered funds by banking entities, including Group Inc. and its subsidiaries. It also limits certain types of transactions between us and our sponsored funds, similar to the limitations on transactions between depository institutions and their affiliates as described in “Business — Regulation” in Part I, Item 1 of the 2015 Form 10-K. Covered funds include our private equity funds, certain of our credit and real estate funds, our hedge funds and certain other investment structures. The limitation on investments in covered funds requires us to reduce our investment in each such fund to 3% or less of the fund's net asset value, and to reduce our aggregate investment in all such funds to 3% or less of our Tier 1 capital.

Our investments in applicable covered funds purchased after December 2013 are required to be deducted from Tier 1 capital. See “Equity Capital Management and Regulatory Capital — Fully Phased-in Capital Ratios” for further information about our Tier 1 capital and the deduction for investments in covered funds.

We continue to manage our existing interests in such funds, taking into account the conformance period under the Volcker Rule. We plan to continue to conduct our investing and lending activities in ways that are permissible under the Volcker Rule.

Our current investment in funds at NAV is \$6.86 billion. In order to be compliant with the Volcker Rule, we will be required to reduce most of our interests in these funds by the end of the conformance period. See Note 6 to the condensed consolidated financial statements for further information about our investment in funds at NAV and the conformance period for covered funds.

Although our net revenues from our interests in private equity, credit, real estate and hedge funds may vary from period to period, our aggregate net revenues from these investments were approximately 3% and 6% of our aggregate total net revenues over the last 10 years and 5 years, respectively.

**Total Loss-Absorbing Capacity.** In October 2015, the Federal Reserve Board issued a proposed rule which would establish a new total loss-absorbing capacity (TLAC) requirement for U.S. bank holding companies designated as G-SIBs. The TLAC proposal has been designed so that, in the event of a G-SIB's failure, there will be sufficient external loss-absorbing capacity available in order for authorities to implement an orderly resolution of the G-SIB. The proposal would require G-SIBs to maintain an amount of regulatory capital and eligible long-term debt (i.e., debt that is unsecured, has a maturity greater than one year from issuance and satisfies certain additional criteria) to cover a percentage of RWAs and/or leverage exposure (the denominator in the supplementary leverage ratio).

Under the proposed rule, eligible long-term debt would exclude, among other instruments, debt securities that permit acceleration for reasons other than insolvency or payment default, as well as structured notes, as defined in the TLAC proposal, and debt securities not governed by U.S. law. The senior long-term debt of U.S. G-SIBs, including Group Inc., typically permits acceleration for reasons other than insolvency or payment default, and therefore would not qualify as eligible long-term debt under the proposed rule.

The proposed rule would prohibit Group Inc., as a U.S. G-SIB, from (i) guaranteeing liabilities of subsidiaries that are subject to early termination provisions under certain conditions, (ii) incurring liabilities guaranteed by subsidiaries, (iii) issuing short-term debt, or (iv) entering into derivatives and certain other financial contracts with external counterparties. Additionally, the proposed rule would cap the amount of certain liabilities of a U.S. G-SIB that are not eligible long-term debt. Finally, the proposed rule would require U.S. G-SIBs and other banking entities to deduct certain holdings in unsecured debt of other U.S. G-SIBs from their Tier 2 capital.



## Management's Discussion and Analysis

Under the proposal, the TLAC requirements would phase in between 2019 and 2022. We are currently evaluating the impact of the proposed TLAC requirements. See “Business — Regulation” in Part I, Item 1 of the 2015 Form 10-K for further information about the Federal Reserve Board's proposed TLAC rule.

In October 2016, the Basel Committee issued a final standard to implement capital deductions for banking organizations relating to TLAC holdings of other G-SIBs. This standard will inform how the deductions are implemented by national regulators. The impact of this standard on our regulatory capital requirements will depend on how it is implemented by the Federal Reserve Board.

**Other Regulatory Developments.** In January 2016, the Basel Committee finalized a revised framework for calculating minimum capital requirements for market risk. The revisions constitute a fundamental change to the calculation of both model-based and non-model-based components of market risk capital. The Basel Committee has set an effective date for first reporting under the revised framework of December 31, 2019. The U.S. federal bank regulatory agencies have not yet proposed rules implementing these revisions for U.S. banking organizations. We are currently evaluating the potential impact of the Basel Committee's revised framework.

The Basel Committee continues to consult on several potential changes to regulatory capital requirements that could impact our capital ratios in the future. In particular, the Basel Committee has issued consultation papers on, among other matters, revisions to the operational risk capital framework and several changes to the calculation of credit RWAs under both model-based and standardized approaches.

In April 2016, the Basel Committee issued a consultation paper proposing certain changes to the calculation of the leverage ratio and raising the possibility of additional leverage ratio requirements for G-SIBs. U.S. G-SIBs are currently subject to a buffer on the minimum leverage ratio.

In May 2016, the Federal Reserve Board released a proposal that would impose restrictions on qualified financial contracts (QFCs) of G-SIBs. This proposal is intended to facilitate the orderly resolution of a failed G-SIB by limiting the ability of the G-SIB to transact with QFC counterparties unless such counterparties waive rights to terminate such contracts immediately upon the entry of the G-SIB or one of its affiliates into resolution. The effective date is approximately one year after the proposal is finalized.

In September 2016, the Federal Reserve Board issued a proposed rule which, if adopted, would impose new requirements on the physical commodity activities and certain merchant banking activities of financial holding companies. The proposed rule would, among other things, (i) require companies to hold additional capital in connection with covered physical commodity activities, including merchant banking investments in companies engaged in physical commodity activities, (ii) tighten the quantitative limits on permissible physical trading activity and (iii) establish new public reporting requirements on the nature and extent of firms' physical commodity holdings and activities. The full impact of the rule will not be known until it is finalized.

In September 2016, the final margin rules issued by the U.S. federal bank regulatory agencies and the CFTC for uncleared swaps became effective. These rules will phase in through March 2017 for variation margin requirements and through September 2020 for initial margin requirements depending on the level of swaps, security-based swaps and/or exempt foreign exchange derivative transaction activity of the swap dealer and the relevant counterparty. The final rules of the U.S. federal bank regulatory agencies generally apply to inter-affiliate transactions, with limited relief available from initial margin requirements for affiliates. Under the CFTC final rules, inter-affiliate transactions are exempt from initial margin requirements with certain exceptions but variation margin requirements still apply. We are continuing to assess the impact of these rule changes; however, we expect that our margin requirements will increase as the rules phase in. Japanese regulators have implemented broadly similar rules and regulators in other major jurisdictions are expected to do so over the next several quarters.

See “Business — Regulation” in Part I, Item 1 of the 2015 Form 10-K for further information about regulations that may impact us in the future.

### Other Developments

In June 2016, a referendum was passed for the United Kingdom to exit the European Union (Brexit). The exit of the United Kingdom from the European Union will likely change the arrangements by which U.K. firms are able to provide services in the European Union, which may adversely affect the manner in which we operate certain of our businesses in the European Union and could require us to restructure certain of our operations. The outcome of the negotiations between the United Kingdom and the European Union in connection with Brexit is highly uncertain. Such uncertainty has resulted in, and may continue to result in, market volatility and may negatively impact the confidence of investors and clients.

## Off-Balance-Sheet Arrangements and Contractual Obligations

### Off-Balance-Sheet Arrangements

We have various types of off-balance-sheet arrangements that we enter into in the ordinary course of business. Our involvement in these arrangements can take many different forms, including:

- Purchasing or retaining residual and other interests in special purpose entities such as mortgage-backed and other asset-backed securitization vehicles;
- Holding senior and subordinated debt, interests in limited and general partnerships, and preferred and common stock in other nonconsolidated vehicles;
- Entering into interest rate, foreign currency, equity, commodity and credit derivatives, including total return swaps;
- Entering into operating leases; and
- Providing guarantees, indemnifications, commitments, letters of credit and representations and warranties.

We enter into these arrangements for a variety of business purposes, including securitizations. The securitization vehicles that purchase mortgages, corporate bonds, and other types of financial assets are critical to the functioning of several significant investor markets, including the mortgage-backed and other asset-backed securities markets, since they offer investors access to specific cash flows and risks created through the securitization process.

We also enter into these arrangements to underwrite client securitization transactions; provide secondary market liquidity; make investments in performing and nonperforming debt, equity, real estate and other assets; provide investors with credit-linked and asset-repackaged notes; and receive or provide letters of credit to satisfy margin requirements and to facilitate the clearance and settlement process.

Our financial interests in, and derivative transactions with, such nonconsolidated entities are generally accounted for at fair value, in the same manner as our other financial instruments, except in cases where we apply the equity method of accounting.

The table below presents where information about our various off-balance-sheet arrangements may be found in the September 2016 Form 10-Q. In addition, see Note 3 to the condensed consolidated financial statements for information about our consolidation policies.

Type of Off-Balance-Sheet Arrangement	Disclosure in Form 10-Q
Variable interests and other obligations, including contingent obligations, arising from variable interests in nonconsolidated VIEs	See Note 12 to the condensed consolidated financial statements.
Leases, letters of credit, and lending and other commitments	See "Contractual Obligations" below and Note 18 to the condensed consolidated financial statements.
Guarantees	See "Contractual Obligations" below and Note 18 to the condensed consolidated financial statements.
Derivatives	See "Credit Risk Management — Credit Exposures — OTC Derivatives" below and Notes 4, 5, 7 and 18 to the condensed consolidated financial statements.

### Contractual Obligations

We have certain contractual obligations which require us to make future cash payments. These contractual obligations include our unsecured long-term borrowings, secured long-term financings, time deposits and contractual interest payments, all of which are included in our condensed consolidated statements of financial condition.

Our obligations to make future cash payments also include certain off-balance-sheet contractual obligations such as purchase obligations, minimum rental payments under noncancelable leases and commitments and guarantees.

**Management's Discussion and Analysis**

The table below presents our contractual obligations, commitments and guarantees by type.

\$ in millions	As of	
	September 2016	December 2015
<b>Amounts related to on-balance-sheet obligations</b>		
Time deposits	\$ 29,460	\$ 25,748
Secured long-term financings	7,290	10,520
Unsecured long-term borrowings	190,586	175,422
Contractual interest payments	56,144	59,327
Subordinated liabilities of consolidated VIEs	584	501
<b>Amounts related to off-balance-sheet arrangements</b>		
Commitments to extend credit	116,092	117,158
Contingent and forward starting resale and securities borrowing agreements	40,563	28,874
Forward starting repurchase and secured lending agreements	12,762	5,878
Letters of credit	341	249
Investment commitments	5,705	6,054
Other commitments	5,461	6,944
Minimum rental payments	2,446	2,575
Derivative guarantees	741,799	926,443
Securities lending indemnifications	38,386	31,902
Other financial guarantees	3,245	4,461

The table below presents our contractual obligations, commitments and guarantees by period of expiration.

\$ in millions	As of September 2016			
	Remainder of 2016	2017 - 2018	2019 - 2020	2021 - Thereafter
<b>Amounts related to on-balance-sheet obligations</b>				
Time deposits	\$ —	\$ 8,179	\$ 9,561	\$ 11,720
Secured long-term financings	—	4,474	1,882	934
Unsecured long-term borrowings	—	30,187	42,521	117,878
Contractual interest payments	1,331	12,247	9,197	33,369
Subordinated liabilities of consolidated VIEs	—	—	—	584
<b>Amounts related to off-balance-sheet arrangements</b>				
Commitments to extend credit	4,065	22,551	51,845	37,631
Contingent and forward starting resale and securities borrowing agreements	40,505	58	—	—
Forward starting repurchase and secured lending agreements	12,762	—	—	—
Letters of credit	11	323	3	4
Investment commitments	2,307	2,232	42	1,124
Other commitments	5,020	331	60	50
Minimum rental payments	78	625	497	1,246
Derivative guarantees	148,983	374,101	143,847	74,868
Securities lending indemnifications	38,386	—	—	—
Other financial guarantees	193	1,336	1,247	469

In the table above:

- The Remainder of 2016 and 2017 – 2018 columns include a total of \$1.54 billion of investment commitments to covered funds (as defined by the Volcker Rule) subject to the Volcker Rule conformance period. We expect that substantially all of these commitments will not be called. See Note 6 to the condensed consolidated financial statements for information about the Volcker Rule conformance period.
- Obligations maturing within one year of our financial statement date or redeemable within one year of our financial statement date at the option of the holders are excluded as they are treated as short-term obligations.
- Obligations that are repayable prior to maturity at our option are reflected at their contractual maturity dates and obligations that are redeemable prior to maturity at the option of the holders are reflected at the earliest dates such options become exercisable.
- Amounts included in the table do not necessarily reflect the actual future cash flow requirements for these arrangements because commitments and guarantees represent notional amounts and may expire unused or be reduced or cancelled at the counterparty's request.
- Due to the uncertainty of the timing and amounts that will ultimately be paid, our liability for unrecognized tax benefits has been excluded. See Note 24 to the condensed consolidated financial statements for further information about our unrecognized tax benefits.
- As of September 2016, Unsecured long-term borrowings includes \$10.00 billion of adjustments to the carrying value of certain unsecured long-term borrowings resulting from the application of hedge accounting.
- As of September 2016, the aggregate contractual principal amount of Secured long-term financings and Unsecured long-term borrowings for which the fair value option was elected exceeded the related fair value by \$500 million and \$740 million, respectively.
- Contractual interest payments represents estimated future interest payments related to unsecured long-term borrowings, secured long-term financings and time deposits based on applicable interest rates as of September 2016, and includes stated coupons, if any, on structured notes.

See Notes 15 and 18 to the condensed consolidated financial statements for further information about our short-term borrowings, and commitments and guarantees, respectively.

## Management's Discussion and Analysis

As of September 2016, our unsecured long-term borrowings were \$190.59 billion, with maturities extending to 2061, and consisted principally of senior borrowings. See Note 16 to the condensed consolidated financial statements for further information about our unsecured long-term borrowings.

As of September 2016, our future minimum rental payments, net of minimum sublease rentals under noncancelable leases, were \$2.45 billion. These lease commitments for office space expire on various dates through 2069. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. See Note 18 to the condensed consolidated financial statements for further information about our leases.

Our occupancy expenses include costs associated with office space held in excess of our current requirements. This excess space, the cost of which is charged to earnings as incurred, is being held for potential growth or to replace currently occupied space that we may exit in the future. We regularly evaluate our current and future space capacity in relation to current and projected staffing levels. During the three and nine months ended September 2016, we incurred exit costs of approximately \$63 million related to office space held in excess of our current requirements. Additional occupancy expenses for excess office space were not material for the three and nine months ended September 2016. We may incur exit costs in the future to the extent we (i) reduce our space capacity or (ii) commit to, or occupy, new properties in the locations in which we operate and, consequently, dispose of existing space that had been held for potential growth. These exit costs may be material to our results of operations in a given period.

## Risk Management

Risks are inherent in our business and include liquidity, market, credit, operational, model, legal, regulatory and reputational risks. For further information about our risk management processes, see “— Overview and Structure of Risk Management” below. Our risks include the risks across our risk categories, regions or global businesses, as well as those which have uncertain outcomes and have the potential to materially impact our financial results, our liquidity and our reputation. For further information about our areas of risk, see “— Liquidity Risk Management,” “— Market Risk Management,” “— Credit Risk Management,” “— Operational Risk Management” and “— Model Risk Management” below and “Risk Factors” in Part I, Item 1A of the 2015 Form 10-K.

## Management's Discussion and Analysis

### Overview and Structure of Risk Management

#### Overview

We believe that effective risk management is of primary importance to the success of the firm. Accordingly, we have comprehensive risk management processes through which we monitor, evaluate and manage the risks we assume in conducting our activities. These include liquidity, market, credit, operational, model, legal, compliance, regulatory and reputational risk exposures. Our risk management framework is built around three core components: governance, processes and people.

**Governance.** Risk management governance starts with our Board, which plays an important role in reviewing and approving risk management policies and practices, both directly and through its committees, including its Risk Committee. The Board also receives regular briefings on firmwide risks, including market risk, liquidity risk, credit risk, operational risk and model risk from our independent control and support functions, including the chief risk officer, and on compliance risk from the head of Compliance, on legal and regulatory matters from the general counsel, and on other matters impacting our reputation from the chair of our Firmwide Client and Business Standards Committee. The chief risk officer, as part of the review of the firmwide risk portfolio, regularly advises the Risk Committee of the Board of relevant risk metrics and material exposures. Next, at the most senior levels of the firm, our leaders are experienced risk managers, with a sophisticated and detailed understanding of the risks we take. Our senior management, and senior managers in our revenue-producing units and independent control and support functions, lead and participate in risk-oriented committees. Independent control and support functions include Compliance, the Conflicts Resolution Group (Conflicts), Controllers, Credit Risk Management and Advisory (Credit Risk Management), Human Capital Management, Legal, Liquidity Risk Management and Analysis (Liquidity Risk Management), Market Risk Management and Analysis (Market Risk Management), Model Risk Management, Operations, Operational Risk Management and Analysis (Operational Risk Management), Tax, Technology and Treasury.

Our governance structure provides the protocol and responsibility for decision-making on risk management issues and ensures implementation of those decisions. We make extensive use of risk-related committees that meet regularly and serve as an important means to facilitate and foster ongoing discussions to identify, manage and mitigate risks.

We maintain strong communication about risk and we have a culture of collaboration in decision-making among the revenue-producing units, independent control and support functions, committees and senior management. While we believe that the first line of defense in managing risk rests with the managers in our revenue-producing units, we dedicate extensive resources to independent control and support functions in order to ensure a strong oversight structure and an appropriate segregation of duties. We regularly reinforce our strong culture of escalation and accountability across all divisions and functions.

**Processes.** We maintain various processes and procedures that are critical components of our risk management. First and foremost is our daily discipline of marking substantially all of our inventory to current market levels. Goldman Sachs carries its inventory at fair value, with changes in valuation reflected immediately in our risk management systems and in net revenues. We do so because we believe this discipline is one of the most effective tools for assessing and managing risk and that it provides transparent and realistic insight into our financial exposures.

We also apply a rigorous framework of limits to control risk across transactions, products, businesses and markets. This includes approval of limits at firmwide, business and product levels by the Risk Committee of the Board. In addition, the Firmwide Risk Committee is responsible for approving our risk limits framework, subject to the overall limits approved by the Risk Committee of the Board, at a variety of levels and monitoring these limits on a daily basis. The Risk Governance Committee (through delegated authority from the Firmwide Risk Committee) is responsible for approving limits at firmwide, business and product levels. Certain limits may be set at levels that will require periodic adjustment, rather than at levels which reflect our maximum risk appetite. This fosters an ongoing dialogue on risk among revenue-producing units, independent control and support functions, committees and senior management, as well as rapid escalation of risk-related matters. See "Liquidity Risk Management," "Market Risk Management" and "Credit Risk Management" for further information about our risk limits.

## Management's Discussion and Analysis

Active management of our positions is another important process. Proactive mitigation of our market and credit exposures minimizes the risk that we will be required to take outsized actions during periods of stress.

We also focus on the rigor and effectiveness of our risk systems. The goal of our risk management technology is to get the right information to the right people at the right time, which requires systems that are comprehensive, reliable and timely. We devote significant time and resources to our risk management technology to ensure that it consistently provides us with complete, accurate and timely information.

**People.** Even the best technology serves only as a tool for helping to make informed decisions in real time about the risks we are taking. Ultimately, effective risk management requires our people to interpret our risk data on an ongoing and timely basis and adjust risk positions accordingly. In both our revenue-producing units and our independent control and support functions, the experience of our professionals, and their understanding of the nuances and limitations of each risk measure, guide us in assessing exposures and maintaining them within prudent levels.

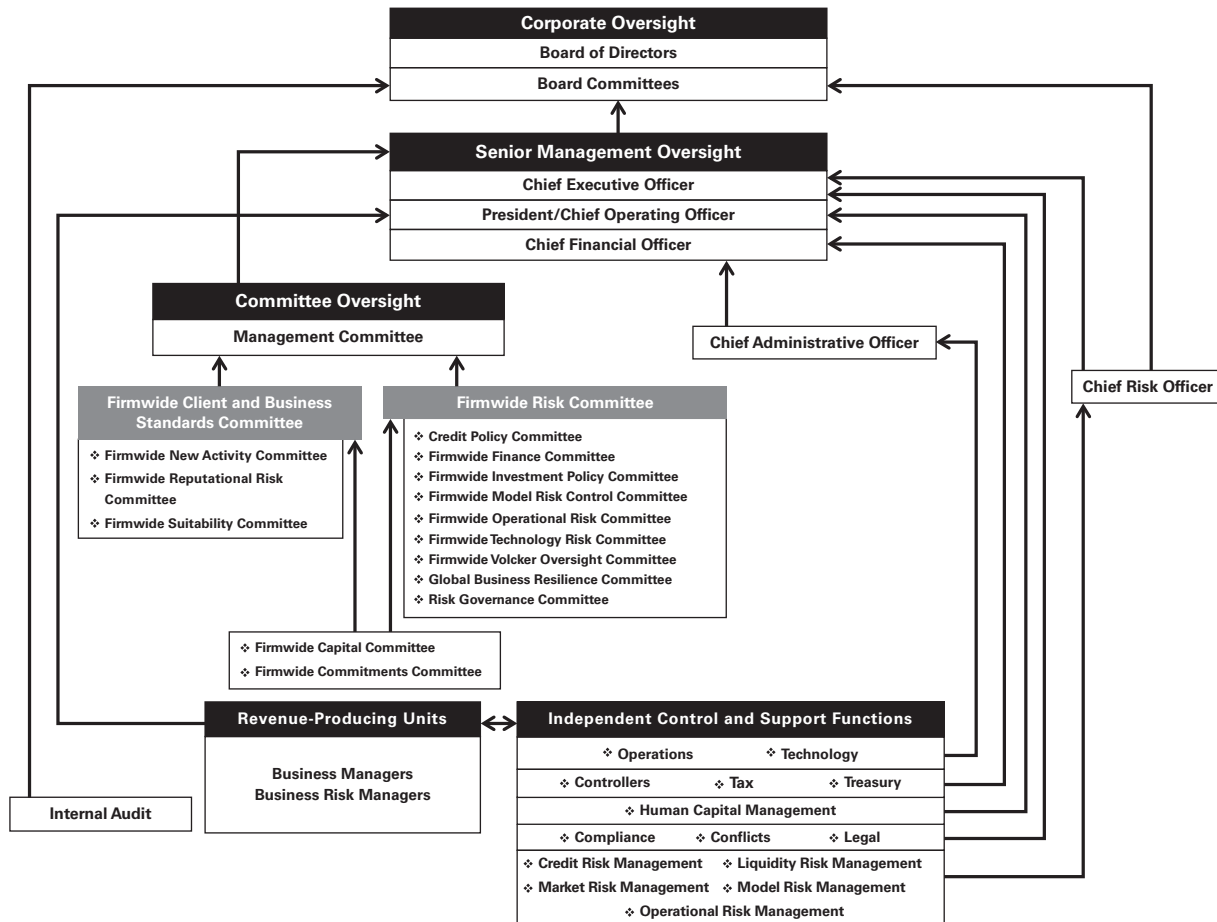
We reinforce a culture of effective risk management in our training and development programs as well as the way we evaluate performance, and recognize and reward our people. Our training and development programs, including certain sessions led by our most senior leaders, are focused on the importance of risk management, client relationships and reputational excellence. As part of our annual performance review process, we assess reputational excellence including how an employee exercises good risk management and reputational judgment, and adheres to our code of conduct and compliance policies. Our review and reward processes are designed to communicate and reinforce to our professionals the link between behavior and how people are recognized, the need to focus on our clients and our reputation, and the need to always act in accordance with the highest standards of the firm.

### Structure

Ultimate oversight of risk is the responsibility of our Board. The Board oversees risk both directly and through its committees, including its Risk Committee. Within the firm, a series of committees with specific risk management mandates have oversight or decision-making responsibilities for risk management activities. Committee membership generally consists of senior managers from both our revenue-producing units and our independent control and support functions. We have established procedures for these committees to ensure that appropriate information barriers are in place. Our primary risk committees, most of which also have additional sub-committees or working groups, are described below. In addition to these committees, we have other risk-oriented committees which provide oversight for different businesses, activities, products, regions and legal entities. All of our firmwide, regional and divisional committees have responsibility for considering the impact of transactions and activities which they oversee on our reputation.

Membership of our risk committees is reviewed regularly and updated to reflect changes in the responsibilities of the committee members. Accordingly, the length of time that members serve on the respective committees varies as determined by the committee chairs and based on the responsibilities of the members within the firm.

In addition, independent control and support functions, which report to the chief executive officer, the president and chief operating officer, the chief financial officer, the chief risk officer or the chief administrative officer, are responsible for day-to-day oversight or monitoring of risk, as illustrated in the chart below and as described in greater detail in the following sections. Internal Audit, which reports to the Audit Committee of the Board and includes professionals with a broad range of audit and industry experience, including risk management expertise, is responsible for independently assessing and validating key controls within the risk management framework.



The chart above presents an overview of our risk management governance structure, highlighting the oversight of our Board, our key risk-related committees and the independence of our key control and support functions.

**Management Committee.** The Management Committee oversees our global activities, including all of our independent control and support functions. It provides this oversight directly and through authority delegated to committees it has established. This committee is comprised of our most senior leaders, and is chaired by our chief executive officer. The Management Committee has established various committees with delegated authority and the chair of the Management Committee appoints the chairs of these committees. Most members of the Management Committee are also members of other firmwide, divisional and regional committees. The following are the committees that are principally involved in firmwide risk management.

**Firmwide Client and Business Standards Committee.** The Firmwide Client and Business Standards Committee assesses and makes determinations regarding business standards and practices, reputational risk management, client relationships and client service, is chaired by our president and chief operating officer, and reports to the Management Committee. This committee also has responsibility for overseeing recommendations of the Business Standards Committee. This committee periodically updates and receives guidance from the Public Responsibilities Committee of the Board. This committee has also established certain committees that report to it, including divisional Client and Business Standards Committees and risk-related committees. The following are the risk-related committees that report to the Firmwide Client and Business Standards Committee:

## Management's Discussion and Analysis

- **Firmwide New Activity Committee.** The Firmwide New Activity Committee is responsible for reviewing new activities and for establishing a process to identify and review previously approved activities that are significant and that have changed in complexity and/or structure or present different reputational and suitability concerns over time to consider whether these activities remain appropriate. This committee is co-chaired by our global treasurer and the chief administrative officer of our Investment Management Division, who are appointed as co-chairs by the chair of the Firmwide Client and Business Standards Committee.
  - **Firmwide Reputational Risk Committee.** The Firmwide Reputational Risk Committee is responsible for assessing reputational risks arising from transactions that have been identified as presenting or likely to present heightened reputational risk, and other situations where the facts and circumstances warrant escalation. This committee is co-chaired by the head of Compliance and the head of the Conflicts Resolution Group, who are appointed as co-chairs by the chair of the Firmwide Client and Business Standards Committee.
  - **Firmwide Suitability Committee.** The Firmwide Suitability Committee is responsible for setting standards and policies for product, transaction and client suitability and providing a forum for consistency across divisions, regions and products on suitability assessments. This committee also reviews suitability matters escalated from other committees. This committee is co-chaired by the deputy head of Compliance, and the chief strategy officer of the Securities Division and co-head of Fixed Income, Currency and Commodities Sales, who are appointed as co-chairs by the chair of the Firmwide Client and Business Standards Committee.
- Firmwide Risk Committee.** The Firmwide Risk Committee is globally responsible for the ongoing monitoring and management of our financial risks. The Firmwide Risk Committee approves our risk limits framework, metrics and methodologies, reviews results of stress tests and scenario analyses, and provides oversight over model risk. This committee is co-chaired by our chief financial officer and our chief risk officer, and reports to the Management Committee. The following are the primary committees that report to the Firmwide Risk Committee:
- **Credit Policy Committee.** The Credit Policy Committee establishes and reviews broad firmwide credit policies and parameters that are implemented by Credit Risk Management. This committee is co-chaired by a deputy chief risk officer and the head of Credit Risk Management for our Securities Division, who are appointed as co-chairs by our chief risk officer.
  - **Firmwide Finance Committee.** The Firmwide Finance Committee has oversight responsibility for liquidity risk, the size and composition of our balance sheet and capital base, and credit ratings. This committee regularly reviews our liquidity, balance sheet, funding position and capitalization, approves related policies, and makes recommendations as to any adjustments to be made in light of current events, risks, exposures and regulatory requirements. As a part of such oversight, among other things, this committee reviews and approves balance sheet limits and the size of our GCLA. This committee is co-chaired by our chief financial officer and our global treasurer, who are appointed as co-chairs by the Firmwide Risk Committee.
  - **Firmwide Investment Policy Committee.** The Firmwide Investment Policy Committee reviews, approves, sets policies, and provides oversight for certain illiquid principal investments, including review of risk management and controls for these types of investments. This committee is co-chaired by the head of our Merchant Banking Division, a co-head of our Securities Division and a deputy general counsel, who are appointed as co-chairs by our president and chief operating officer and our chief financial officer.
  - **Firmwide Model Risk Control Committee.** The Firmwide Model Risk Control Committee is responsible for oversight of the development and implementation of model risk controls, which includes governance, policies and procedures related to our reliance on financial models. This committee is chaired by a deputy chief risk officer, who is appointed as chair by the Firmwide Risk Committee.
  - **Firmwide Operational Risk Committee.** The Firmwide Operational Risk Committee provides oversight of the ongoing development and implementation of our operational risk policies, framework and methodologies, and monitors the effectiveness of operational risk management. This committee is co-chaired by a managing director in Credit Risk Management and the head of Operational Risk Management, who are appointed as co-chairs by our chief risk officer.
  - **Firmwide Technology Risk Committee.** The Firmwide Technology Risk Committee reviews matters related to the design, development, deployment and use of technology. This committee oversees cyber security matters, as well as technology risk management frameworks and methodologies, and monitors their effectiveness. This committee is co-chaired by our chief information officer and the head of Global Investment Research, who are appointed as co-chairs by the Firmwide Risk Committee.



**Management's Discussion and Analysis**

- **Firmwide Volcker Oversight Committee.** The Firmwide Volcker Oversight Committee is responsible for the oversight and periodic review of the implementation of our Volcker Rule compliance program, as approved by the Board, and other Volcker Rule-related matters. This committee is co-chaired by a deputy chief risk officer and the deputy head of Compliance, who are appointed as co-chairs by the co-chairs of the Firmwide Risk Committee.
- **Global Business Resilience Committee.** The Global Business Resilience Committee is responsible for oversight of business resilience initiatives, promoting increased levels of security and resilience, and reviewing certain operating risks related to business resilience. This committee is chaired by our chief administrative officer, who is appointed as chair by the Firmwide Risk Committee.
- **Risk Governance Committee.** The Risk Governance Committee (through delegated authority from the Firmwide Risk Committee) is globally responsible for the ongoing approval and monitoring of risk frameworks, policies, parameters and limits, at firmwide, business and product levels. This committee is chaired by our chief risk officer, who is appointed as chair by the co-chairs of the Firmwide Risk Committee.

The following committees report jointly to the Firmwide Risk Committee and the Firmwide Client and Business Standards Committee:

- **Firmwide Capital Committee.** The Firmwide Capital Committee provides approval and oversight of debt-related transactions, including principal commitments of our capital. This committee aims to ensure that business and reputational standards for underwritings and capital commitments are maintained on a global basis. This committee is co-chaired by the head of Credit Risk Management for our Investment Banking Division, Investment Management Division and Merchant Banking Division, and the head of the Europe, Middle East and Africa (EMEA) Financing Group. The co-chairs of the Firmwide Capital Committee are appointed by the co-chairs of the Firmwide Risk Committee.

- **Firmwide Commitments Committee.** The Firmwide Commitments Committee reviews our underwriting and distribution activities with respect to equity and equity-related product offerings, and sets and maintains policies and procedures designed to ensure that legal, reputational, regulatory and business standards are maintained on a global basis. In addition to reviewing specific transactions, this committee periodically conducts general strategic reviews of sectors and products and establishes policies in connection with transaction practices. This committee is co-chaired by the co-head of the Financial Institutions Group in our Investment Banking Division, an advisory director to the firm, our chief underwriting officer, and a managing director in Risk Management, who are appointed as co-chairs by the chair of the Firmwide Client and Business Standards Committee.

**Conflicts Management**

Conflicts of interest and our approach to dealing with them are fundamental to our client relationships, our reputation and our long-term success. The term “conflict of interest” does not have a universally accepted meaning, and conflicts can arise in many forms within a business or between businesses. The responsibility for identifying potential conflicts, as well as complying with our policies and procedures, is shared by the entire firm.

We have a multilayered approach to resolving conflicts and addressing reputational risk. Our senior management oversees policies related to conflicts resolution, and, in conjunction with Conflicts, Legal and Compliance, the Firmwide Client and Business Standards Committee, and other internal committees, formulates policies, standards and principles, and assists in making judgments regarding the appropriate resolution of particular conflicts. Resolving potential conflicts necessarily depends on the facts and circumstances of a particular situation and the application of experienced and informed judgment.

As a general matter, Conflicts reviews all financing and advisory assignments in Investment Banking and certain investing, lending and other activities of the firm. In addition, we have various transaction oversight committees, such as the Firmwide Capital, Commitments and Suitability Committees and other committees across the firm that also review new underwritings, loans, investments and structured products. These groups and committees work with internal and external counsel and Compliance to evaluate and address any actual or potential conflicts.

We regularly assess our policies and procedures that address conflicts of interest in an effort to conduct our business in accordance with the highest ethical standards and in compliance with all applicable laws, rules, and regulations.

## Liquidity Risk Management

### Overview

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

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

Liquidity Risk Management is an independent risk management function responsible for control and oversight of the firm'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 our chief risk officer.

### Liquidity Risk Management Principles

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

**Global Core Liquid Assets.** GCLA is liquidity that we maintain to meet a broad range of potential cash outflows and collateral needs in a stressed environment. Our most important liquidity policy is to pre-fund our estimated potential cash and collateral needs during a liquidity crisis and hold this liquidity in the form of unencumbered, highly liquid securities and cash. We believe that the securities held in our GCLA would be readily convertible to cash in a matter of days, through liquidation, by entering into repurchase agreements or from maturities of resale agreements, and that this cash would allow us to meet immediate obligations without needing to sell other assets or depend on additional funding from credit-sensitive markets.

Our GCLA reflects the following principles:

- The first days or weeks of a liquidity crisis are the most critical to a company's survival;
- Focus must be maintained on all potential cash and collateral outflows, not just disruptions to financing flows. Our businesses are diverse, and our liquidity needs are determined by many factors, including market movements, collateral requirements and client commitments, all of which can change dramatically in a difficult funding environment;
- During a liquidity crisis, credit-sensitive funding, including unsecured debt and some types of secured financing agreements, may be unavailable, and the terms (e.g., interest rates, collateral provisions and tenor) or availability of other types of secured financing may change; and
- As a result of our policy to pre-fund liquidity that we estimate may be needed in a crisis, we hold more unencumbered securities and have larger debt balances than our businesses would otherwise require. We believe that our liquidity is stronger with greater balances of highly liquid unencumbered securities, even though it increases our total assets and our funding costs.

We maintain our GCLA across major broker-dealer and bank subsidiaries, asset types, and clearing agents to provide us with sufficient operating liquidity to ensure timely settlement in all major markets, even in a difficult funding environment. In addition to the GCLA, we maintain cash balances in several of our other entities, primarily for use in specific currencies, entities, or jurisdictions where we do not have immediate access to parent company liquidity.

We believe that our GCLA provides us with a resilient source of funds that would be available in advance of potential cash and collateral outflows and gives us significant flexibility in managing through a difficult funding environment.

**Asset-Liability Management.** Our liquidity risk management policies are designed to ensure we have a sufficient amount of financing, even when funding markets experience persistent stress. We manage the maturities and diversity of our funding across markets, products and counterparties, and seek to maintain a long-dated and diversified funding profile, taking into consideration the characteristics and liquidity profile of our assets.

**Management's Discussion and Analysis**

Our approach to asset-liability management includes:

- Conservatively managing the overall characteristics of our funding book, with a focus on maintaining long-term, diversified sources of funding in excess of our current requirements. See “Balance Sheet and Funding Sources — Funding Sources” for additional details;
- Actively managing and monitoring our asset base, with particular focus on the liquidity, holding period and our ability to fund assets on a secured basis. We assess our funding requirements and our ability to liquidate assets in a stressed environment while appropriately managing risk. This enables us to determine the most appropriate funding products and tenors. See “Balance Sheet and Funding Sources — Balance Sheet Management” for more detail on our balance sheet management process and “— Funding Sources — Secured Funding” for more detail on asset classes that may be harder to fund on a secured basis; and
- Raising secured and unsecured financing that has a long tenor relative to the liquidity profile of our assets. This reduces the risk that our liabilities will come due in advance of our ability to generate liquidity from the sale of our assets. Because we maintain a highly liquid balance sheet, the holding period of certain of our assets may be materially shorter than their contractual maturity dates.

Our goal is to ensure that we maintain sufficient liquidity to fund our assets and meet our contractual and contingent obligations in normal times as well as during periods of market stress. Through our dynamic balance sheet management process, we use actual and projected asset balances to determine secured and unsecured funding requirements. Funding plans are reviewed and approved by the Firmwide Finance Committee on a quarterly basis. In addition, senior managers in our independent control and support functions regularly analyze, and the Firmwide Finance Committee reviews, our consolidated total capital position (unsecured long-term borrowings plus total shareholders' equity) so that we maintain a level of long-term funding that is sufficient to meet our long-term financing requirements. In a liquidity crisis, we would first use our GCLA in order to avoid reliance on asset sales (other than our GCLA). However, we recognize that orderly asset sales may be prudent or necessary in a severe or persistent liquidity crisis.

**Subsidiary Funding Policies**

The majority of our unsecured funding is raised by Group Inc. which lends the necessary funds to its subsidiaries, some of which are regulated, to meet their asset financing, liquidity and capital requirements. In addition, Group Inc. provides its regulated subsidiaries with the necessary capital to meet their regulatory requirements. The benefits of this approach to subsidiary funding are enhanced control and greater flexibility to meet the funding requirements of our subsidiaries. Funding is also raised at the subsidiary level through a variety of products, including secured funding, unsecured borrowings and deposits.

Our intercompany funding policies assume that, unless legally provided for, a subsidiary's funds or securities are not freely available to its parent or other subsidiaries. In particular, many of our subsidiaries are subject to laws that authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to Group Inc. Regulatory action of that kind could impede access to funds that Group Inc. needs to make payments on its obligations. Accordingly, we assume that the capital provided to our regulated subsidiaries is not available to Group Inc. or other subsidiaries and any other financing provided to our regulated subsidiaries is not available until the maturity of such financing.

Group Inc. has provided substantial amounts of equity and subordinated indebtedness, directly or indirectly, to its regulated subsidiaries. For example, as of September 2016, Group Inc. had \$29.39 billion of equity and subordinated indebtedness invested in GS&Co., its principal U.S. registered broker-dealer; \$36.96 billion invested in GSI, a regulated U.K. broker-dealer; \$2.97 billion invested in Goldman Sachs Japan Co., Ltd. (GSJCL), a regulated Japanese broker-dealer; \$26.26 billion invested in GS Bank USA, a regulated New York State-chartered bank; and \$3.70 billion invested in GSIB, a regulated U.K. bank. Group Inc. also provided, directly or indirectly, \$103.69 billion of unsubordinated loans (including secured loans of \$45.43 billion), and \$18.04 billion of collateral and cash deposits to these entities, substantially all of which was to GS&Co., GSI, GSJCL and GS Bank USA, as of September 2016. In addition, as of September 2016, Group Inc. had significant amounts of capital invested in and loans to its other regulated subsidiaries.

## Management's Discussion and Analysis

**Contingency Funding Plan.** We maintain a contingency funding plan to provide a framework for analyzing and responding to a liquidity crisis situation or periods of market stress. Our 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 in detail our potential responses if our assessments indicate that we have entered a liquidity crisis, which include pre-funding for what we estimate will be our potential cash and collateral needs as well as utilizing 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.

The contingency funding plan identifies key groups of individuals to foster effective coordination, control and distribution of information, all of which are critical in the management of a crisis or period of market stress. The contingency funding plan also details the responsibilities of these groups and individuals, which include making and disseminating key decisions, coordinating all contingency activities throughout the duration of the crisis or period of market stress, implementing liquidity maintenance activities and managing internal and external communication.

### Liquidity Stress Tests

In order to determine the appropriate size of our GCLA, we use an internal liquidity model, referred to as the Modeled Liquidity Outflow, which captures and quantifies our liquidity risks. We also consider other factors including, but not limited to, an assessment of our potential intraday liquidity needs through an additional internal liquidity model, referred to as the Intraday Liquidity Model, the results of our long-term stress testing models, applicable regulatory requirements and a qualitative assessment of the condition of the financial markets and the firm. The results of the Modeled Liquidity Outflow, the Intraday Liquidity Model and the long-term stress testing models are reported to senior management on a regular basis.

**Modeled Liquidity Outflow.** Our Modeled Liquidity Outflow is based on conducting multiple scenarios that include combinations of market-wide and firm-specific stress. These scenarios are characterized by the following qualitative elements:

- Severely challenged market environments, including low consumer and corporate confidence, financial and political instability, adverse changes in market values, including potential declines in equity markets and widening of credit spreads; and
- A firm-specific crisis potentially triggered by material losses, reputational damage, litigation, executive departure, and/or a ratings downgrade.

The following are the critical modeling parameters of the Modeled Liquidity Outflow:

- Liquidity needs over a 30-day scenario;
- A two-notch downgrade of our long-term senior unsecured credit ratings;
- A combination of contractual outflows, such as upcoming maturities of unsecured debt, and contingent outflows (e.g., actions though not contractually required, we may deem necessary in a crisis). We assume that most contingent outflows will occur within the initial days and weeks of a crisis;
- No issuance of equity or unsecured debt;
- No support from additional government funding facilities. Although we have access to various central bank funding programs, we do not assume reliance on additional sources of funding in a liquidity crisis; and
- No asset liquidation, other than the GCLA.

The potential contractual and contingent cash and collateral outflows covered in our Modeled Liquidity Outflow include:

### Unsecured Funding

- Contractual: All upcoming maturities of unsecured long-term debt, commercial paper, and other unsecured funding products. We assume that we will be unable to issue new unsecured debt or rollover any maturing debt.
- Contingent: Repurchases of our outstanding long-term debt, commercial paper and hybrid financial instruments in the ordinary course of business as a market maker.

### Deposits

- Contractual: All upcoming maturities of term deposits. We assume that we will be unable to raise new term deposits or rollover any maturing term deposits.
- Contingent: Partial withdrawals of deposits that have no contractual maturity. The withdrawal assumptions reflect, among other factors, the type of deposit, whether the deposit is insured or uninsured, and our relationship with the depositor.

**Management's Discussion and Analysis****Secured Funding**

- **Contractual:** A portion of upcoming contractual maturities of secured funding due to either the inability to refinance or the ability to refinance only at wider haircuts (i.e., on terms which require us to post additional collateral). Our assumptions reflect, among other factors, the quality of the underlying collateral, counterparty roll probabilities (our assessment of the counterparty's likelihood of continuing to provide funding on a secured basis at the maturity of the trade) and counterparty concentration.
- **Contingent:** Adverse changes in value of financial assets pledged as collateral for financing transactions, which would necessitate additional collateral postings under those transactions.

**OTC Derivatives**

- **Contingent:** Collateral postings to counterparties due to adverse changes in the value of our OTC derivatives, excluding those that are cleared and settled through central counterparties (OTC-cleared).
- **Contingent:** Other outflows of cash or collateral related to OTC derivatives, excluding OTC-cleared, including the impact of trade terminations, collateral substitutions, collateral disputes, loss of rehypothecation rights, collateral calls or termination payments required by a two-notch downgrade in our credit ratings, and collateral that has not been called by counterparties, but is available to them.

**Exchange-Traded and OTC-cleared Derivatives**

- **Contingent:** Variation margin postings required due to adverse changes in the value of our outstanding exchange-traded and OTC-cleared derivatives.
- **Contingent:** An increase in initial margin and guaranty fund requirements by derivative clearing houses.

**Customer Cash and Securities**

- **Contingent:** Liquidity outflows associated with our prime brokerage business, including withdrawals of customer credit balances, and a reduction in customer short positions, which may serve as a funding source for long positions.

**Firm Securities**

- **Contingent:** Liquidity outflows associated with a reduction or composition change in firm short positions, which may serve as a funding source for long positions.

**Unfunded Commitments**

- **Contingent:** Draws on our unfunded commitments. Draw assumptions reflect, among other things, the type of commitment and counterparty.

**Other**

- Other upcoming large cash outflows, such as tax payments.

**Intraday Liquidity Model.** Our Intraday Liquidity Model measures our intraday liquidity needs using a scenario analysis characterized by the same qualitative elements as our Modeled Liquidity Outflow. The model assesses the risk of increased intraday liquidity requirements during a scenario where access to sources of intraday liquidity may become constrained.

The following are key modeling elements of the Intraday Liquidity Model:

- Liquidity needs over a one-day settlement period;
- Delays in receipt of counterparty cash payments;
- A reduction in the availability of intraday credit lines at our third-party clearing agents; and
- Higher settlement volumes due to an increase in activity.

**Long-Term Stress Testing.** We utilize a longer-term stress test to take a forward view on our liquidity position through a prolonged stress period in which the firm experiences a severe liquidity stress and recovers in an environment that continues to be challenging. We are focused on ensuring conservative asset-liability management to prepare for a prolonged period of potential stress, seeking to maintain a long-dated and diversified funding profile, taking into consideration the characteristics and liquidity profile of our assets.

We also perform stress tests on a regular basis as part of our routine risk management processes and conduct tailored stress tests on an ad hoc or product-specific basis in response to market developments.

**Model Review and Validation**

Treasury regularly refines our Modeled Liquidity Outflow, Intraday Liquidity Model and our other stress testing models to reflect changes in market or economic conditions and our business mix. Any changes, including model assumptions, are assessed and approved by Liquidity Risk Management.

Model Risk Management is responsible for the independent review and validation of our liquidity models. See "Model Risk Management" for further information about the review and validation of these models.

**Management's Discussion and Analysis****Limits**

We use liquidity limits at various levels and across liquidity risk types to manage the size of our liquidity exposures. Limits are measured relative to acceptable levels of risk given the liquidity risk tolerance of the firm. The purpose of the firmwide limits is to assist senior management in monitoring and controlling our overall liquidity profile.

The Risk Committee of the Board and the Firmwide Finance Committee approve liquidity risk limits at the firmwide level. Limits are reviewed frequently and amended, with required approvals, on a permanent and temporary basis, as appropriate, to reflect changing market or business conditions.

Our liquidity risk limits are monitored by Treasury and Liquidity Risk Management. Treasury is responsible for identifying and escalating, on a timely basis, instances where limits have been exceeded.

**GCLA and Unencumbered Metrics**

**GCLA.** Based on the results of our internal liquidity risk models, described above, as well as our consideration of other factors including, but not limited to, an assessment of our potential intraday liquidity needs and a qualitative assessment of the condition of the financial markets and the firm, we believe our liquidity position as of both September 2016 and December 2015 was appropriate. As of September 2016 and December 2015, the fair value of the securities and certain overnight cash deposits included in our GCLA totaled \$214.27 billion and \$199.12 billion, respectively. The increase in our GCLA from December 2015 to September 2016 is primarily a result of the acquisition of GE Capital Bank's online deposit platform in April 2016. See Note 14 to the condensed consolidated financial statements for further information about this acquisition. The fair value of our GCLA averaged \$217.56 billion and \$209.65 billion for the three months ended September 2016 and June 2016, respectively.

The table below presents the average fair value of the securities and certain overnight cash deposits that are included in our GCLA.

<i>\$ in millions</i>	Average for the Three Months Ended	
	September 2016	June 2016
U.S. dollar-denominated	<b>\$161,572</b>	\$154,494
Non-U.S. dollar-denominated	<b>55,986</b>	55,158
<b>Total</b>	<b>\$217,558</b>	\$209,652

The U.S. dollar-denominated GCLA is composed of (i) unencumbered U.S. government and federal agency obligations (including highly liquid U.S. federal agency mortgage-backed obligations), all of which are eligible as collateral in Federal Reserve open market operations and (ii) certain overnight U.S. dollar cash deposits. The non-U.S. dollar-denominated GCLA is composed of only unencumbered German, French, Japanese and United Kingdom government obligations and certain overnight cash deposits in highly liquid currencies. We strictly limit our GCLA to this narrowly defined list of securities and cash because they are highly liquid, even in a difficult funding environment. We do not include other potential sources of excess liquidity in our GCLA, such as less liquid unencumbered securities or committed credit facilities.

The table below presents the average fair value of our GCLA by asset class.

<i>\$ in millions</i>	Average for the Three Months Ended	
	September 2016	June 2016
Overnight cash deposits	<b>\$ 95,636</b>	\$ 95,926
U.S. government obligations	<b>69,477</b>	66,281
U.S. federal agency obligations, including highly liquid U.S. federal agency mortgage-backed obligations	<b>17,480</b>	12,829
German, French, Japanese and United Kingdom government obligations	<b>34,965</b>	34,616
<b>Total</b>	<b>\$217,558</b>	\$209,652

We maintain our GCLA to enable us to meet current and potential liquidity requirements of our parent company, Group Inc., and its subsidiaries. Our Modeled Liquidity Outflow and Intraday Liquidity Model incorporate a consolidated requirement for Group Inc. as well as a standalone requirement for each of our major broker-dealer and bank subsidiaries. Liquidity held directly in each of these major subsidiaries is intended for use only by that subsidiary to meet its liquidity requirements and is assumed not to be available to Group Inc. unless (i) legally provided for and (ii) there are no additional regulatory, tax or other restrictions. In addition, the Modeled Liquidity Outflow and Intraday Liquidity Model also incorporate a broader assessment of standalone liquidity requirements for other subsidiaries and we hold a portion of our GCLA directly at Group Inc. to support such requirements.

The table below presents the average GCLA of Group Inc. and our major broker-dealer and bank subsidiaries.

<i>\$ in millions</i>	Average for the Three Months Ended	
	September 2016	June 2016
Group Inc.	<b>\$ 43,416</b>	\$ 44,620
Major broker-dealer subsidiaries	<b>85,581</b>	84,054
Major bank subsidiaries	<b>88,561</b>	80,978
<b>Total</b>	<b>\$217,558</b>	\$209,652

## Management's Discussion and Analysis

**Other Unencumbered Assets.** In addition to our GCLA, we have 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 our GCLA. The fair value of our unencumbered assets averaged \$144.54 billion and \$143.17 billion for the three months ended September 2016 and June 2016, respectively. We do not consider these assets liquid enough to be eligible for our GCLA.

### Liquidity Regulatory Framework

The Basel Committee's international framework for liquidity risk measurement, standards and monitoring calls for a liquidity coverage ratio (LCR) designed to ensure that banking organizations maintain an adequate level of unencumbered high-quality liquid assets (HQLA) based on expected net cash outflows under an acute short-term liquidity stress scenario.

The final rules on minimum liquidity standards approved by the U.S. federal bank regulatory agencies are generally consistent with the Basel Committee's framework as described above, but include accelerated transition provisions and more stringent requirements related to both the range of assets that qualify as HQLA and cash outflow assumptions for certain types of funding and other liquidity risks. Our GCLA is substantially the same in composition as the assets that qualify as HQLA under these rules. Under the accelerated transition timeline, the LCR became effective in the United States on January 1, 2015, with a phase-in period whereby firms had an 80% minimum in 2015, which increases by 10% per year until 2017. In November 2015, the Federal Reserve Board proposed a rule that would require bank holding companies to disclose their LCR on a quarterly basis when such rule is finalized. These requirements include LCR averages over the quarter, detailed information on certain components of the LCR calculation and projected net cash outflows. The Federal Reserve Board has not yet released a final rule on LCR disclosures. For the three months ended September 2016, our average LCR exceeded the fully phased-in minimum requirement, based on our interpretation and understanding of the finalized framework, which may evolve as we review our interpretation and application with our regulators.

The Basel Committee's international framework for liquidity risk measurement, standards and monitoring also calls for a net stable funding ratio (NSFR) designed to promote more medium- and long-term stable funding of the assets and off-balance-sheet activities of banking organizations over a one-year time horizon. The Basel Committee's NSFR framework requires banking organizations to maintain a minimum NSFR of 100%, and will be effective on January 1, 2018. In addition, in the second quarter of 2016, the U.S. federal bank regulatory agencies issued a proposed rule that would implement an NSFR for large U.S. banking organizations. The proposal would require banking organizations to ensure they have access to stable funding over a one-year time horizon. The proposed NSFR requirement has an effective date of January 1, 2018, including quarterly disclosure of the ratio, as well as a description of the banking organization's stable funding sources. Based on our interpretation of the current proposal, we estimate that as of September 2016, our NSFR was slightly lower than the requirement; however, we estimate that we will be compliant with the requirement by the effective date.

The following is information on our subsidiary liquidity regulatory requirements:

- **GS Bank USA.** GS Bank USA is subject to minimum liquidity standards under the LCR rule approved by the U.S. federal bank regulatory agencies that became effective on January 1, 2015, with the same phase-in through 2017 described above. The U.S. federal bank regulatory agencies' proposed rule on the NSFR described above would also apply to GS Bank USA.
- **GSI.** The LCR rule issued by the U.K. regulatory authorities became effective in the United Kingdom on October 1, 2015, with a phase-in period whereby certain financial institutions, including GSI, were required to have an 80% minimum ratio initially, increasing to 90% on January 1, 2017 and 100% on January 1, 2018.
- **Other Subsidiaries.** We monitor the local regulatory liquidity requirements of our subsidiaries to ensure compliance. For many of our subsidiaries, these requirements either have changed or are likely to change in the future due to the implementation of the Basel Committee's framework for liquidity risk measurement, standards and monitoring, as well as other regulatory developments.

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

**Management's Discussion and Analysis****Credit Ratings**

We rely on the short-term and long-term debt capital markets to fund a significant portion of our day-to-day operations and the cost and availability of debt financing is influenced by our credit ratings. Credit ratings are also important when we are competing in certain markets, such as OTC derivatives, and when we seek to engage in longer-term transactions. See "Risk Factors" in Part I, Item 1A of the 2015 Form 10-K for information about the risks associated with a reduction in our credit ratings.

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

	As of September 2016				
	DBRS	Fitch	Moody's	S&P	R&I
Short-term Debt	<b>R-1 (middle)</b>	<b>F1</b>	<b>P-2</b>	<b>A-2</b>	<b>a-1</b>
Long-term Debt	<b>A (high)</b>	<b>A</b>	<b>A3</b>	<b>BBB+</b>	<b>A</b>
Subordinated Debt	<b>A</b>	<b>A-</b>	<b>Baa2</b>	<b>BBB-</b>	<b>A-</b>
Trust Preferred	<b>A</b>	<b>BBB-</b>	<b>Baa3</b>	<b>BB</b>	<b>N/A</b>
Preferred Stock	<b>BBB (high)</b>	<b>BB+</b>	<b>Ba1</b>	<b>BB</b>	<b>N/A</b>
Ratings Outlook	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>

In the table above:

- The ratings for Trust Preferred relate to the guaranteed preferred beneficial interests issued by Goldman Sachs Capital I.
- The DBRS, Fitch, Moody's and S&P ratings for Preferred Stock include the APEX issued by Goldman Sachs Capital II and Goldman Sachs Capital III.

The table below presents the unsecured credit ratings and outlook of GS Bank USA, GSIB, GS&Co. and GSI, by Fitch, Moody's and S&P.

	As of September 2016		
	Fitch	Moody's	S&P
<b>GS Bank USA</b>			
Short-term Debt	<b>F1</b>	<b>P-1</b>	<b>A-1</b>
Long-term Debt	<b>A+</b>	<b>A1</b>	<b>A</b>
Short-term Bank Deposits	<b>F1+</b>	<b>P-1</b>	<b>N/A</b>
Long-term Bank Deposits	<b>AA-</b>	<b>A1</b>	<b>N/A</b>
Ratings Outlook	<b>Stable</b>	<b>Stable</b>	<b>Watch Positive</b>
<b>GSIB</b>			
Short-term Debt	<b>F1</b>	<b>P-1</b>	<b>A-1</b>
Long-term Debt	<b>A</b>	<b>A1</b>	<b>A</b>
Short-term Bank Deposits	<b>F1</b>	<b>P-1</b>	<b>N/A</b>
Long-term Bank Deposits	<b>A</b>	<b>A1</b>	<b>N/A</b>
Ratings Outlook	<b>Positive</b>	<b>Stable</b>	<b>Watch Positive</b>
<b>GS&amp;Co.</b>			
Short-term Debt	<b>F1</b>	<b>N/A</b>	<b>A-1</b>
Long-term Debt	<b>A+</b>	<b>N/A</b>	<b>A</b>
Ratings Outlook	<b>Stable</b>	<b>N/A</b>	<b>Watch Positive</b>
<b>GSI</b>			
Short-term Debt	<b>F1</b>	<b>P-1</b>	<b>A-1</b>
Long-term Debt	<b>A</b>	<b>A1</b>	<b>A</b>
Ratings Outlook	<b>Positive</b>	<b>Stable</b>	<b>Watch Positive</b>

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

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

Certain of our derivatives have been transacted under bilateral agreements with counterparties who may require us to post collateral or terminate the transactions based on changes in our credit ratings. We assess the impact of these bilateral agreements by determining the collateral or termination payments that would occur assuming a downgrade by all rating agencies. A downgrade by any one rating agency, depending on the agency's relative ratings of us at the time of the downgrade, may have an impact which is comparable to the impact of a downgrade by all rating agencies. We allocate a portion of our GCLA to ensure we would be able to make the additional collateral or termination payments that may be required in the event of a two-notch reduction in our 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 our net derivative liabilities under bilateral agreements that could have been called at the reporting date by counterparties in the event of a one-notch and two-notch downgrade in our credit ratings.

	As of	
	September 2016	December 2015
<i>\$ in millions</i>		
Additional collateral or termination payments:		
One-notch downgrade	<b>\$ 774</b>	\$1,061
Two-notch downgrade	<b>2,076</b>	2,689



**Management's Discussion and Analysis****Cash Flows**

As a global financial institution, our cash flows are complex and bear little relation to our net earnings and net assets. Consequently, we believe that traditional cash flow analysis is less meaningful in evaluating our liquidity position than the liquidity and asset-liability management policies described above. Cash flow analysis may, however, be helpful in highlighting certain macro trends and strategic initiatives in our businesses.

**Nine Months Ended September 2016.** Our cash and cash equivalents increased by \$24.43 billion to \$99.54 billion at the end of the third quarter of 2016. We generated \$11.30 billion in net cash from investing activities, primarily from net cash acquired in business acquisitions. We generated \$13.13 billion in net cash from financing activities and operating activities, primarily from increases in deposits and from net issuances of unsecured long-term borrowings, partially offset by common stock repurchased.

**Nine Months Ended September 2015.** Our cash and cash equivalents increased by \$7.98 billion to \$65.58 billion at the end of the third quarter of 2015. We used \$14.75 billion in net cash for investing activities, primarily due to funding of loans receivable. We generated \$22.72 billion in net cash from financing activities and operating activities primarily from net issuances of long-term borrowings, bank deposits, and issuances of preferred stock.

**Market Risk Management****Overview**

Market risk is the risk of loss in the value of our inventory, as well as certain other financial assets and financial liabilities, due to changes in market conditions. We employ a variety of risk measures, each described in the respective sections below, to monitor market risk. We hold inventory primarily for market making for our clients and for our investing and lending activities. Our inventory therefore changes based on client demands and our investment opportunities. Our inventory is accounted for at fair value and therefore fluctuates on a daily basis, with the related gains and losses included in "Market making" and "Other principal transactions." 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, mortgage 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, petroleum products, natural gas, electricity, and precious and base metals.

Managers in revenue-producing units are accountable for managing risk within prescribed limits. These managers have in-depth knowledge of their positions, markets and the instruments available to hedge their exposures.

Market Risk Management, which is independent of the revenue-producing units and reports to our chief risk officer, has primary responsibility for assessing, monitoring and managing market risk at the firm. We monitor and control risks through strong firmwide oversight and independent control and support functions across our 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.

## Management's Discussion and Analysis

### Market Risk Management Process

We manage our 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.

**Risk Measures.** Market Risk Management produces risk measures and monitors them against market risk limits set by our risk committees. These measures reflect an extensive range of scenarios and the results are aggregated at product, business and firmwide levels.

We use a variety of risk measures to estimate the size of potential losses for both moderate and more extreme market moves over both short-term and long-term time horizons. Our primary risk measures are VaR, which is used for shorter-term periods, and stress tests. Our risk reports detail key risks, drivers and changes for each desk and business, and are distributed daily to senior management of both our revenue-producing units and our 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. For assets and liabilities included in VaR, see "Financial Statement Linkages to Market Risk Measures." We typically employ a one-day time horizon with a 95% confidence level. We use a single VaR model which 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 at the firmwide level.

We are aware of the inherent limitations to VaR and therefore use a variety of risk measures in our market risk management process. Inherent limitations to VaR include:

- VaR does not estimate potential losses over longer time horizons where moves may be extreme;
- VaR does not take account of the relative liquidity of different risk positions; and
- Previous moves in market risk factors may not produce accurate predictions of all future market moves.

When calculating VaR, we use historical simulations with full valuation of approximately 70,000 market factors. VaR is calculated at a position level based on simultaneously shocking the relevant market risk factors for that position. We sample from five years of historical data to generate the scenarios for our VaR calculation. The historical data is weighted so that the relative importance of the data reduces over time. This gives greater importance to more recent observations and reflects current asset volatilities, which improves the accuracy of our estimates of potential loss. As a result, even if our positions included in VaR were unchanged, our VaR would increase with increasing market volatility and vice versa.

Given its reliance on historical data, VaR is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes or shifts in market conditions.

Our VaR measure does not include:

- Positions that are best measured and monitored using sensitivity measures; and
- The impact of changes in counterparty and our own credit spreads on derivatives, as well as changes in our own credit spreads on unsecured borrowings for which the fair value option was elected.

We perform daily backtesting of our VaR model (i.e., comparing daily trading net revenues to the VaR measure calculated as of the prior business day) at the firmwide level and for each of our businesses and major regulated subsidiaries.

**Stress Testing.** Stress testing is a method of determining the effect of various hypothetical stress scenarios on the firm. We use stress testing to examine risks of specific portfolios as well as the potential impact of significant risk exposures across the firm. We use a variety of stress testing techniques to calculate the potential loss from a wide range of market moves on our portfolios, including sensitivity analysis, scenario analysis and firmwide stress tests. The results of our various stress tests are analyzed together for risk management purposes.

Sensitivity analysis is used to quantify the impact of a market move in a single risk factor across all positions (e.g., equity prices or credit spreads) using a variety of defined market shocks, ranging from those that could be expected over a one-day time horizon up to those that could take many months to occur. We also use sensitivity analysis to quantify the impact of the default of any single entity, which captures the risk of large or concentrated exposures.

## Management's Discussion and Analysis

Scenario analysis is used to quantify the impact of a specified event, including how the event impacts multiple risk factors simultaneously. For example, for sovereign stress testing we calculate potential direct exposure associated with our sovereign inventory as well as the corresponding debt, equity and currency exposures associated with our non-sovereign inventory that may be impacted by the sovereign distress. When conducting scenario analysis, we typically consider a number of possible outcomes for each scenario, ranging from moderate to severely adverse market impacts. In addition, these stress tests are constructed using both historical events and forward-looking hypothetical scenarios.

Firmwide stress testing combines market, credit, operational and liquidity risks into a single combined scenario. Firmwide stress tests are primarily used to assess capital adequacy as part of our capital planning and stress testing process; however, we also ensure that firmwide stress testing is integrated into our risk governance framework. This includes selecting appropriate scenarios to use for our capital planning and stress testing process. See "Equity Capital Management and Regulatory Capital — Equity Capital Management" above for further information.

Unlike VaR measures, which have an implied probability because they are calculated at a specified confidence level, there is generally no implied probability that our stress test scenarios will occur. Instead, stress tests are used to model both moderate and more extreme moves in underlying market factors. When estimating potential loss, we generally assume that our positions cannot be reduced or hedged (although experience demonstrates that we are generally able to do so).

Stress test scenarios are conducted on a regular basis as part of our routine risk management process and on an ad hoc basis in response to market events or concerns. Stress testing is an important part of our risk management process because it allows us to quantify our exposure to tail risks, highlight potential loss concentrations, undertake risk/reward analysis, and assess and mitigate our risk positions.

**Limits.** We use risk limits at various levels in the firm (including firmwide, business and product) to govern risk appetite by controlling the size of our exposures to market risk. Limits are set based on VaR and on a range of stress tests relevant to our 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 Risk Committee of the Board and the Risk Governance Committee (through delegated authority from the Firmwide Risk Committee) approve market risk limits and sub-limits at firmwide, business and product levels, consistent with our risk appetite. The Risk Governance Committee is also responsible for setting sub-limits below the approved level of risk limits. The purpose of the firmwide limits is to assist senior management in controlling our overall risk profile. 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.

Our 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 changes in market conditions, such as increased volatilities or changes in correlations), it is escalated to the appropriate risk committee and remediated by an inventory reduction and/or a temporary or permanent increase to the risk limit.

**Management's Discussion and Analysis****Model Review and Validation**

Our VaR and stress testing models are regularly reviewed by Market Risk Management and enhanced in order to incorporate changes in the composition of positions included in our market risk measures, as well as variations in market conditions. Prior to implementing significant changes to our assumptions and/or models, Model Risk Management performs model validations. Significant changes to our VaR and stress testing models are reviewed with our chief risk officer and chief financial officer, and approved by the Firmwide Risk Committee.

See "Model Risk Management" for further information about the review and validation of these models.

**Systems**

We have made a significant investment in technology to monitor market risk including:

- An independent calculation of VaR and stress measures;
- Risk measures calculated at individual position levels;
- Attribution of risk measures to individual risk factors of each position;
- The ability to report many different views of the risk measures (e.g., by desk, business, product type or legal entity); and
- The ability to produce ad hoc analyses in a timely manner.

**Metrics**

We analyze VaR at the firmwide level and a variety of more detailed levels, including by risk category, business, and region. The tables below present, by risk category, 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.

\$ in millions	Three Months Ended			Nine Months Ended September	
	September 2016	June 2016	September 2015	2016	2015
<b>Risk Categories</b>					
Interest rates	\$ 42	\$ 45	\$ 46	\$ 47	\$ 48
Equity prices	23	27	26	25	26
Currency rates	18	17	28	21	30
Commodity prices	17	20	17	18	21
Diversification effect	(43)	(47)	(43)	(48)	(48)
<b>Total</b>	<b>\$ 57</b>	<b>\$ 62</b>	<b>\$ 74</b>	<b>\$ 63</b>	<b>\$ 77</b>

Our average daily VaR decreased to \$57 million for the third quarter of 2016 from \$62 million for the second quarter of 2016, primarily reflecting a decrease in the equity prices category due to lower levels of volatility and decreases in the interest rates and commodity prices categories due to reduced exposures, partially offset by a decrease in the diversification benefit across risk categories.

Our average daily VaR decreased to \$57 million for the third quarter of 2016 from \$74 million for the third quarter of 2015, primarily reflecting a decrease in the currency rates category, due to reduced exposures, and a decrease in the interest rates category, primarily due to reduced exposures. Our average daily VaR decreased to \$63 million for the nine months ended September 2016 from \$77 million for the nine months ended September 2015, primarily reflecting a decrease in the currency rates category, principally due to reduced exposures.

The table below presents period-end VaR, and high and low VaR.

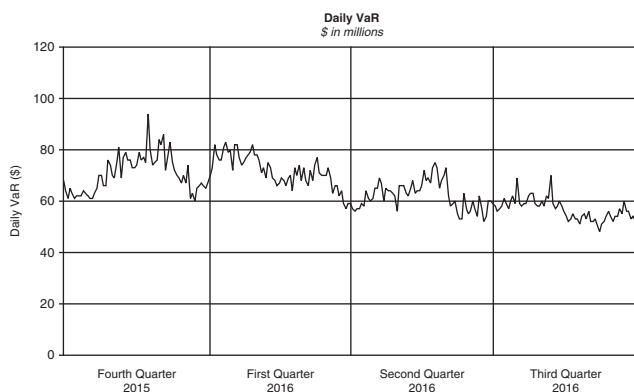
\$ in millions	As of			Three Months Ended September 2016	
	September 2016	June 2016	September 2015	High	Low
<b>Risk Categories</b>					
Interest rates	\$ 38	\$ 39	\$ 51	\$ 49	\$ 37
Equity prices	23	22	23	34	20
Currency rates	16	27	28	31	10
Commodity prices	17	22	16	24	13
Diversification effect	(38)	(50)	(50)		
<b>Total</b>	<b>\$ 56</b>	<b>\$ 60</b>	<b>\$ 68</b>	<b>\$ 70</b>	<b>\$ 48</b>

Our daily VaR decreased to \$56 million as of September 2016 from \$60 million as of June 2016, primarily reflecting a decrease in the currency rates and commodity prices categories, principally due to reduced exposures, partially offset by a decrease in the diversification benefit across risk categories.

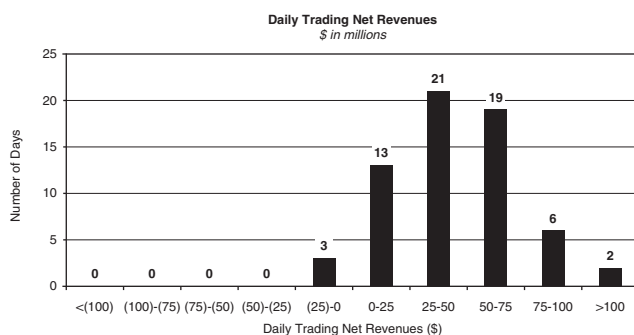
Our daily VaR decreased to \$56 million as of September 2016 from \$68 million as of September 2015, primarily reflecting a decrease in the interest rates and currency rates categories, principally due to reduced exposures, partially offset by a decrease in the diversification benefit across risk categories.

During the third quarter of 2016, the firmwide VaR risk limit was not exceeded, raised or reduced.

The chart below reflects our daily VaR over the last four quarters.



The chart below presents the frequency distribution of our daily trading net revenues for substantially all positions included in VaR for the quarter ended September 2016.



Daily trading net revenues are compared with VaR calculated as of the end of the prior business day. Trading losses incurred on a single day did not exceed our 95% one-day VaR during the third quarter of 2016 (i.e., a VaR exception).

During periods in which we have significantly more positive net revenue days than net revenue loss days, we expect to have fewer VaR exceptions because, under normal conditions, our business model generally produces positive net revenues. In periods in which our franchise revenues are adversely affected, we generally have more loss days, resulting in more VaR exceptions. The daily market-making revenues used to determine VaR exceptions reflect the impact of any intraday activity, including bid/offer net revenues, which are more likely than not to be positive by their nature.

### Sensitivity Measures

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

**10% Sensitivity Measures.** The table below presents market risk for inventory positions that are not included in VaR. The market risk of these positions is determined by estimating the potential reduction in net revenues of a 10% decline in the underlying asset value. Equity positions below relate to private and restricted public equity securities, including interests in funds that invest in corporate equities and real estate and interests in hedge funds, which are included in “Financial instruments owned, at fair value.” Debt positions include interests in funds that invest in corporate mezzanine and senior debt instruments, loans backed by commercial and residential real estate, corporate bank loans and other corporate debt, including acquired portfolios of distressed loans. These debt positions are included in “Financial instruments owned, at fair value.” See Note 6 to the condensed consolidated financial statements for further information about cash instruments. These measures do not reflect diversification benefits across asset categories or across other market risk measures.

	As of		
	September 2016	June 2016	September 2015
<i>\$ in millions</i>			
<b>Asset Categories</b>			
Equity	<b>\$2,108</b>	\$2,031	\$2,090
Debt	<b>1,672</b>	1,677	1,433
<b>Total</b>	<b>\$3,780</b>	\$3,708	\$3,523

**Credit Spread Sensitivity on Derivatives and Financial Liabilities.** VaR excludes the impact of changes in counterparty and our own credit spreads on derivatives as well as changes in our own credit spreads on financial liabilities for which the fair value option was elected. The estimated sensitivity to a one basis point increase in credit spreads (counterparty and our own) on derivatives was a gain of \$3 million (including hedges) as of both September 2016 and June 2016. In addition, the estimated sensitivity to a one basis point increase in our own credit spreads on financial liabilities for which the fair value option was elected was a gain of \$23 million (including hedges) as of both September 2016 and June 2016. However, the actual net impact of a change in our own credit spreads is also affected by the liquidity, duration and convexity (as the sensitivity is not linear to changes in yields) of those financial liabilities for which the fair value option was elected, as well as the relative performance of any hedges undertaken.

## Management's Discussion and Analysis

**Interest Rate Sensitivity.** “Loans receivable” as of September 2016 and June 2016 were \$49.06 billion and \$48.21 billion, respectively, substantially all of which had floating interest rates. As of September 2016 and June 2016, the estimated sensitivity to a 100 basis point increase in interest rates on such loans was \$415 million and \$398 million, respectively, of additional interest income over a twelve-month period, which does not take into account the potential impact of an increase in costs to fund such loans. See Note 9 to the condensed consolidated financial statements for further information about loans receivable.

### Other Market Risk Considerations

In addition, as of September 2016 and June 2016, we had commitments and held loans for which we have obtained credit loss protection from Sumitomo Mitsui Financial Group, Inc. See Note 18 to the condensed consolidated financial statements for further information about such lending commitments.

Additionally, we make investments accounted for under the equity method and we also make direct investments in real estate, both of which are included in “Other assets.” Direct investments in real estate are accounted for at cost less accumulated depreciation. See Note 13 to the condensed consolidated financial statements for information about “Other assets.”

### Financial Statement Linkages to Market Risk Measures

We employ a variety of risk measures, each described in the respective sections above, to monitor market risk across the condensed consolidated statements of financial condition and condensed consolidated statements of earnings. The related gains and losses on these positions are included in “Market making,” “Other principal transactions,” “Interest income” and “Interest expense” in the condensed consolidated statements of earnings, and “Debt valuation adjustment” in the condensed consolidated statements of comprehensive income.

The table below presents certain categories in our condensed consolidated statements of financial condition and the market risk measures used to assess those assets and liabilities. Certain categories on the condensed consolidated statements of financial condition are incorporated in more than one risk measure.

Categories on the Condensed Consolidated Statements of Financial Condition Included in Market Risk Measures	Market Risk Measures
Securities segregated for regulatory and other purposes, at fair value	• VaR
Collateralized agreements <ul style="list-style-type: none"> <li>• Securities purchased under agreements to resell, at fair value</li> <li>• Securities borrowed, at fair value</li> </ul>	• VaR
Receivables <ul style="list-style-type: none"> <li>• Certain secured loans, at fair value</li> <li>• Loans receivable</li> </ul>	• VaR • Interest Rate Sensitivity
Financial instruments owned, at fair value	• VaR • 10% Sensitivity Measures • Credit Spread Sensitivity — Derivatives
Deposits, at fair value	• Credit Spread Sensitivity — Financial Liabilities
Collateralized financings <ul style="list-style-type: none"> <li>• Securities sold under agreements to repurchase, at fair value</li> <li>• Securities loaned, at fair value</li> <li>• Other secured financings, at fair value</li> </ul>	• VaR
Financial instruments sold, but not yet purchased, at fair value	• VaR • Credit Spread Sensitivity — Derivatives
Unsecured short-term borrowings and unsecured long-term borrowings, at fair value	• VaR • Credit Spread Sensitivity — Financial Liabilities

## Credit Risk Management

### Overview

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty (e.g., an OTC derivatives counterparty or a borrower) or an issuer of securities or other instruments we hold. Our exposure to credit risk comes mostly from client transactions in OTC derivatives and loans and lending commitments. 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 receivables from brokers, dealers, clearing organizations, customers and counterparties.

## Management's Discussion and Analysis

Credit Risk Management, which is independent of the revenue-producing units and reports to our chief risk officer, has primary responsibility for assessing, monitoring and managing credit risk at the firm. The Credit Policy Committee and the Firmwide Risk Committee establish and review credit policies and parameters. In addition, we hold other positions that give rise to credit risk (e.g., bonds held in our inventory and secondary bank loans). 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. We also enter 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. Our 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 our current and potential credit exposure and losses resulting from counterparty default;
- Reporting of credit exposures to senior management, the Board and regulators;
- Use of credit risk mitigants, including collateral and hedging; and
- Communication and collaboration 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 our counterparties. For substantially all of our credit exposures, the core of our 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.

Our 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 our aggregate credit risk by product, internal credit rating, industry, country and region.

### Risk Measures and Limits

We measure our credit risk 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 us after taking into account applicable netting and collateral arrangements while potential exposure represents our 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. For loans and lending commitments, the primary measure is a function of the notional amount of the position.

We use credit limits at various levels (counterparty, economic group, industry, country) to control the size of our 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 our risk tolerance and are designed to allow for regular monitoring, review, escalation and management of credit risk concentrations. The Risk Committee of the Board and the Risk Governance Committee (through delegated authority from the Firmwide Risk Committee) approve credit risk limits at firmwide, business and product levels. Credit Risk Management sets credit limits for individual counterparties, economic groups, industries and countries. Policies authorized by the Firmwide Risk Committee, the Risk Governance Committee and the Credit Policy Committee prescribe the level of formal approval required for us to assume credit exposure to a counterparty across all product areas, taking into account any applicable netting provisions, collateral or other credit risk mitigants.

## Management's Discussion and Analysis

### Stress Tests

We use regular stress tests to calculate the credit exposures, including potential concentrations that would result from applying shocks to counterparty credit ratings or credit risk factors (e.g., currency rates, interest rates, equity prices). These shocks include a wide range of moderate and more extreme market movements. Some of our stress tests include shocks to multiple risk factors, consistent with the occurrence of a severe market or economic event. In the case of sovereign default, we estimate the direct impact of the default on our sovereign credit exposures, changes to our credit exposures arising from potential market moves in response to the default, and the impact of credit market deterioration on corporate borrowers and counterparties that may result from the sovereign default. Unlike potential exposure, which is calculated within a specified confidence level, with a stress test there is generally no assumed probability of these events occurring.

We perform stress tests on a regular basis as part of our routine risk management processes and conduct tailored stress tests on an ad hoc basis in response to market developments. Stress tests are regularly conducted jointly with our market and liquidity risk functions.

### Model Review and Validation

Our potential credit exposure and stress testing models, and any changes to such models or assumptions, are reviewed by Model Risk Management. See "Model Risk Management" for further information about the review and validation of these models.

### Risk Mitigants

To reduce our credit exposures on derivatives and securities financing transactions, we may enter into netting agreements with counterparties that permit us to offset receivables and payables with such counterparties. We may also reduce credit risk with counterparties by entering into agreements that enable us to obtain collateral from them on an upfront or contingent basis and/or to terminate transactions if the counterparty's credit rating falls below a specified level. We monitor the fair value of the collateral on a daily basis to ensure that our credit exposures are appropriately collateralized. We seek to minimize exposures where there is a significant positive correlation between the creditworthiness of our counterparties and the market value of collateral we receive.

For loans and lending commitments, depending on the credit quality of the borrower and other characteristics of the transaction, we employ a variety of potential risk mitigants. Risk mitigants include collateral provisions, guarantees, covenants, structural seniority of the bank loan claims and, for certain lending commitments, provisions in the legal documentation that allow us to adjust loan amounts, pricing, structure and other terms as market conditions change. The type and structure of risk mitigants employed can significantly influence the degree of credit risk involved in a loan or lending commitment.

When we do not have sufficient visibility into a counterparty's financial strength or when we believe a counterparty requires support from its parent, we may obtain third-party guarantees of the counterparty's obligations. We may also mitigate our credit risk using credit derivatives or participation agreements.

### Credit Exposures

As of September 2016, our credit exposures increased as compared with December 2015, primarily reflecting an increase in cash deposits with central banks. The percentage of our credit exposures arising from non-investment-grade counterparties (based on our internally determined public rating agency equivalents) decreased as compared with December 2015, reflecting an increase in investment-grade credit exposure related to cash deposits with central banks and a decrease in non-investment-grade loans and lending commitments. During the nine months ended September 2016, the number of counterparty defaults increased as compared with the same prior year period, and such defaults primarily occurred within loans and lending commitments. The total number of counterparty defaults remained low, representing less than 0.5% of all counterparties. Estimated losses associated with counterparty defaults were higher compared with the same prior year period and were not material to the firm. Our credit exposures are described further below.

**Cash and Cash Equivalents.** Cash and cash equivalents include both interest-bearing and non-interest-bearing deposits. To mitigate the risk of credit loss, we place substantially all of our deposits with highly-rated banks and central banks.

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



**Management's Discussion and Analysis**

Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) when a legal right of setoff exists under an enforceable netting agreement. Derivatives are accounted for at fair value, net of cash collateral received or posted under enforceable credit support agreements. We generally enter into OTC derivatives transactions under bilateral collateral arrangements that require the daily exchange of collateral. As credit risk is an essential component of fair value, we include a credit valuation adjustment (CVA) in the fair value of derivatives to reflect counterparty credit risk, as described in Note 7 to the condensed consolidated financial statements. CVA is a function of the present value of expected exposure, the probability of counterparty default and the assumed recovery upon default.

The table below presents the distribution of our exposure to OTC derivatives by tenor, both before and after the effect of collateral and netting agreements.

<i>\$ in millions</i>	Investment-Grade	Non-Investment-Grade / Unrated	Total
<b>As of September 2016</b>			
Less than 1 year	\$ 18,667	\$ 3,826	\$ 22,493
1 - 5 years	33,278	4,639	37,917
Greater than 5 years	106,190	6,857	113,047
Total	158,135	15,322	173,457
Netting	(112,768)	(7,820)	(120,588)
<b>OTC derivative assets</b>	<b>\$ 45,367</b>	<b>\$ 7,502</b>	<b>\$ 52,869</b>
<b>Net credit exposure</b>	<b>\$ 26,824</b>	<b>\$ 6,198</b>	<b>\$ 33,022</b>
<b>As of December 2015</b>			
Less than 1 year	\$ 23,950	\$ 3,965	\$ 27,915
1 - 5 years	35,249	6,749	41,998
Greater than 5 years	85,394	4,713	90,107
Total	144,593	15,427	160,020
Netting	(103,087)	(6,507)	(109,594)
OTC derivative assets	\$ 41,506	\$ 8,920	\$ 50,426
Net credit exposure	\$ 27,001	\$ 7,368	\$ 34,369

In the table above:

- Tenor is based on expected duration for mortgage-related credit derivatives and generally on remaining contractual maturity for other derivatives.
- Receivable and payable balances with the same counterparty in the same tenor category are netted within such tenor category.
- Receivable and payable balances for the same counterparty across tenor categories are netted under enforceable netting agreements, and cash collateral received is netted under enforceable credit support agreements.

- Net credit exposure represents OTC derivative assets, included in "Financial instruments owned, at fair value," less cash collateral and the fair value of securities collateral, primarily U.S. government and federal agency obligations and non-U.S. government and agency obligations, received under credit support agreements, which management considers when determining credit risk, but such collateral is not eligible for netting under U.S. GAAP.

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

<i>\$ in millions</i>	Investment-Grade				Total
	AAA	AA	A	BBB	
<b>As of September 2016</b>					
Less than 1 year	\$ 168	\$ 4,292	\$ 7,448	\$ 6,759	\$ 18,667
1 - 5 years	802	6,313	14,440	11,723	33,278
Greater than 5 years	4,595	49,770	25,391	26,434	106,190
Total	5,565	60,375	47,279	44,916	158,135
Netting	(3,216)	(43,463)	(37,064)	(29,025)	(112,768)
<b>OTC derivative assets</b>	<b>\$ 2,349</b>	<b>\$ 16,912</b>	<b>\$ 10,215</b>	<b>\$ 15,891</b>	<b>\$ 45,367</b>
<b>Net credit exposure</b>	<b>\$ 2,122</b>	<b>\$ 9,090</b>	<b>\$ 5,653</b>	<b>\$ 9,959</b>	<b>\$ 26,824</b>

<b>As of December 2015</b>					
<i>\$ in millions</i>	AAA	AA	A	BBB	Total
Less than 1 year	\$ 411	\$ 6,059	\$ 10,051	\$ 7,429	\$ 23,950
1 - 5 years	1,214	10,374	16,995	6,666	35,249
Greater than 5 years	3,205	40,879	20,507	20,803	85,394
Total	4,830	57,312	47,553	34,898	144,593
Netting	(2,202)	(40,872)	(36,847)	(23,166)	(103,087)
OTC derivative assets	\$ 2,628	\$ 16,440	\$ 10,706	\$ 11,732	\$ 41,506
Net credit exposure	\$ 2,427	\$ 10,269	\$ 6,652	\$ 7,653	\$ 27,001

<i>\$ in millions</i>	Non-Investment-Grade / Unrated		
	BB or lower	Unrated	Total
<b>As of September 2016</b>			
Less than 1 year	\$ 3,467	\$ 359	\$ 3,826
1 - 5 years	4,592	47	4,639
Greater than 5 years	6,651	206	6,857
Total	14,710	612	15,322
Netting	(7,809)	(11)	(7,820)
<b>OTC derivative assets</b>	<b>\$ 6,901</b>	<b>\$ 601</b>	<b>\$ 7,502</b>
<b>Net credit exposure</b>	<b>\$ 5,705</b>	<b>\$ 493</b>	<b>\$ 6,198</b>

<b>As of December 2015</b>			
<i>\$ in millions</i>	BB or lower	Unrated	Total
Less than 1 year	\$ 3,657	\$ 308	\$ 3,965
1 - 5 years	6,505	244	6,749
Greater than 5 years	4,434	279	4,713
Total	14,596	831	15,427
Netting	(6,472)	(35)	(6,507)
OTC derivative assets	\$ 8,124	\$ 796	\$ 8,920
Net credit exposure	\$ 6,769	\$ 599	\$ 7,368

## Management's Discussion and Analysis

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

- **Lending Activities.** Our lending activities include lending to investment-grade and non-investment-grade corporate borrowers. Loans and lending commitments associated with these activities are principally used for operating liquidity and general corporate purposes or in connection with contingent acquisitions. Our lending activities also include extending loans to borrowers that are secured by commercial and other real estate. See the tables below for further information about our credit exposures associated with these lending activities.

- **Securities Financing Transactions.** We enter into securities financing transactions in order to, among other things, facilitate client activities, invest excess cash, acquire securities to cover short positions and finance certain firm activities. We bear credit risk related to resale agreements and securities borrowed only to the extent that cash advanced or the value of securities pledged or delivered to the counterparty exceeds the value of the collateral received. We also have credit exposure on repurchase agreements and securities loaned to the extent that the value of securities pledged or delivered to the counterparty for these transactions exceeds the amount of cash or collateral received. Securities collateral obtained for securities financing transactions primarily includes U.S. government and federal agency obligations and non-U.S. government and agency obligations. We had approximately \$30 billion and \$27 billion as of September 2016 and December 2015, respectively, of credit exposure related to securities financing transactions reflecting both netting agreements and collateral that management considers when determining credit risk. As of both September 2016 and December 2015, substantially all of our credit exposure related to securities financing transactions was with investment-grade financial institutions, funds and governments, primarily located in the Americas and EMEA.

- **Other Credit Exposures.** We are exposed to credit risk from our receivables from brokers, dealers and clearing organizations and customers and counterparties. Receivables from brokers, dealers and clearing organizations are primarily comprised of initial margin placed with clearing organizations and receivables related to sales of securities which have traded, but not yet settled. These receivables generally have minimal credit risk due to the low probability of clearing organization default and the short-term nature of receivables related to securities settlements. Receivables from customers and counterparties are generally comprised of collateralized receivables related to customer securities transactions and generally have minimal credit risk due to both the value of the collateral received and the short-term nature of these receivables. Our net credit exposure related to these activities was approximately \$33 billion as of both September 2016 and December 2015, and was primarily comprised of initial margin (both cash and securities) placed with investment-grade clearing organizations. The regional breakdown of our net credit exposure related to these activities was approximately 41% and 44% in the Americas, approximately 45% and 45% in EMEA, and approximately 14% and 11% in Asia as of September 2016 and December 2015, respectively.

In addition, we extend other loans and lending commitments to our private wealth management clients that are primarily secured by residential real estate, securities or other assets. We also purchase performing and distressed loans backed by residential real estate and consumer loans. The gross exposure related to such loans and lending commitments was approximately \$28 billion as of both September 2016 and December 2015. The regional breakdown of our net credit exposure related to these activities was approximately 90% and 84% in the Americas, approximately 8% and 14% in EMEA, and approximately 2% and 2% in Asia as of September 2016 and December 2015, respectively. The fair value of the collateral received against such loans and lending commitments generally exceeded the gross exposure as of both September 2016 and December 2015.

## Management's Discussion and Analysis

## Credit Exposure by Industry, Region and Credit Quality

The tables below present our credit exposure related to cash, OTC derivatives, and loans and lending commitments (excluding credit exposures described above in "Securities Financing Transactions" and "Other Credit Exposures") broken down by industry, region and credit quality.

\$ in millions	Cash as of	
	September 2016	December 2015
<b>Credit Exposure by Industry</b>		
Funds	\$ 50	\$ 176
Financial Institutions	14,065	12,799
Sovereign	85,420	62,130
<b>Total</b>	<b>\$99,535</b>	<b>\$75,105</b>

Credit Exposure by Region		
Americas	\$73,794	\$54,846
EMEA	13,222	8,496
Asia	12,519	11,763
<b>Total</b>	<b>\$99,535</b>	<b>\$75,105</b>

Credit Exposure by Credit Quality (Credit Rating Equivalent)		
AAA	\$75,189	\$55,626
AA	6,802	4,286
A	16,189	14,243
BBB	1,182	855
BB or lower	173	95
<b>Total</b>	<b>\$99,535</b>	<b>\$75,105</b>

\$ in millions	OTC Derivatives as of	
	September 2016	December 2015
<b>Credit Exposure by Industry</b>		
Funds	\$12,858	\$10,899
Financial Institutions	14,220	14,526
Consumer, Retail & Healthcare	1,336	1,553
Sovereign	7,600	7,566
Municipalities & Nonprofit	4,601	3,984
Natural Resources & Utilities	4,259	4,846
Real Estate	226	205
Technology, Media & Telecommunications	4,737	1,839
Diversified Industrials	3,032	5,008
<b>Total</b>	<b>\$52,869</b>	<b>\$50,426</b>

Credit Exposure by Region		
Americas	\$20,822	\$17,724
EMEA	28,588	27,113
Asia	3,459	5,589
<b>Total</b>	<b>\$52,869</b>	<b>\$50,426</b>

Credit Exposure by Credit Quality (Credit Rating Equivalent)		
AAA	\$ 2,349	\$ 2,628
AA	16,912	16,440
A	10,215	10,706
BBB	15,891	11,732
BB or lower	6,901	8,124
Unrated	601	796
<b>Total</b>	<b>\$52,869</b>	<b>\$50,426</b>

\$ in millions	Loans and Lending Commitments as of	
	September 2016	December 2015
<b>Credit Exposure by Industry</b>		
Funds	\$ 3,091	\$ 2,595
Financial Institutions	11,884	14,063
Consumer, Retail & Healthcare	39,871	31,944
Sovereign	871	419
Municipalities & Nonprofit	713	628
Natural Resources & Utilities	27,264	24,476
Real Estate	12,271	15,045
Technology, Media & Telecommunications	27,234	36,444
Diversified Industrials	21,563	20,047
Other	13,465	13,941
<b>Total</b>	<b>\$158,227</b>	<b>\$159,602</b>

Credit Exposure by Region		
Americas	\$106,575	\$121,271
EMEA	47,367	33,061
Asia	4,285	5,270
<b>Total</b>	<b>\$158,227</b>	<b>\$159,602</b>

Credit Exposure by Credit Quality (Credit Rating Equivalent)		
AAA	\$ 3,135	\$ 4,148
AA	8,310	7,716
A	36,945	27,212
BBB	39,224	43,937
BB or lower	70,457	76,049
Unrated	156	540
<b>Total</b>	<b>\$158,227</b>	<b>\$159,602</b>

## Selected Exposures

The section below provides information about our credit and market exposure to certain jurisdictions and industries that have had heightened focus due to recent events and broad market concerns. Credit exposure represents the potential for loss due to the default or deterioration in credit quality of a counterparty or borrower. Market exposure represents the potential for loss in value of our long and short inventory due to changes in market prices. There is no overlap between the credit and market exposures in the amounts below.

**Country Exposures.** Current levels of oil prices continue to raise concerns about Venezuela and Nigeria, and their sovereign debt. The political situations in Iraq and Russia, as well as the low oil prices, have led to continued concerns about their economic and financial stability. The debt crisis in Mozambique has resulted in the suspension of its funding by the International Monetary Fund and the World Bank, as well as credit rating downgrades. Separately, signs of slowing growth in China and deteriorating macroeconomic conditions in Brazil have led to heightened focus and broad market concerns relating to these countries.

## Management's Discussion and Analysis

As of September 2016, our total credit exposure to Russia was \$424 million, which was substantially all with non-sovereign counterparties or borrowers, and was primarily related to loans and lending commitments. In addition, our total market exposure to Russia as of September 2016 was \$697 million, which was primarily with non-sovereign issuers or underliers and was primarily related to equities.

As of September 2016, our total credit exposure to China was \$3.0 billion, substantially all of which was with non-sovereign counterparties or borrowers, and primarily related to loans and lending commitments and deposits with banks. In addition, our total market exposure to China as of September 2016 was \$1.3 billion and was substantially all related to equities.

As of September 2016, our total credit exposure to Brazil was \$6.3 billion. Substantially all of such exposure was with non-sovereign counterparties or borrowers, and substantially all related to secured receivables and initial margin placed with clearing organizations. In addition, our total market exposure to Brazil as of September 2016 was \$1.8 billion and was primarily related to sovereign debt.

Our total credit and market exposure to each of Mozambique, Iraq, Venezuela and Nigeria as of September 2016 was not material.

We have a comprehensive framework to monitor, measure and assess our country exposures and to determine our risk appetite. We determine the country of risk by the location of the counterparty, issuer or underlier's assets, where they generate revenue, the country in which they are headquartered, the jurisdiction where a claim against them could be enforced, and/or the government whose policies affect their ability to repay their obligations. We monitor our credit exposure to a specific country both at the individual counterparty level as well as at the aggregate country level.

We use regular stress tests, described above, to calculate the credit exposures, including potential concentrations that would result from applying shocks to counterparty credit ratings or credit risk factors. To supplement these regular stress tests, we also conduct tailored stress tests on an ad hoc basis in response to specific market events that we deem significant. These stress tests are designed to estimate the direct impact of the event on our credit and market exposures resulting from shocks to risk factors including, but not limited to, currency rates, interest rates, and equity prices. We also utilize these stress tests to estimate the indirect impact of certain hypothetical events on our country exposures, such as the impact of credit market deterioration on corporate borrowers and counterparties along with the shocks to the risk factors described above. The parameters of these shocks vary based on the scenario reflected in each stress test. We review estimated losses produced by the stress tests in order to understand their magnitude, highlight potential loss concentrations, and assess and mitigate our exposures where necessary.

See "Stress Tests" above, "Liquidity Risk Management — Liquidity Stress Tests" and "Market Risk Management — Market Risk Management Process — Stress Testing" for further information about stress tests.

**Industry Exposures.** Current levels of oil prices have led to market concerns regarding the creditworthiness of certain companies in the oil and gas industry. As of September 2016, our credit exposure to oil and gas companies related to loans and lending commitments was \$10.0 billion (\$1.8 billion of loans and \$8.2 billion of lending commitments). Such exposure included \$4.7 billion of exposure to non-investment-grade counterparties (\$1.5 billion related to loans and \$3.2 billion related to lending commitments). In addition, we have exposure to our clients in the oil and gas industry arising from derivatives. As of September 2016, our credit exposure related to derivatives and receivables with oil and gas companies was \$1.9 billion, primarily with investment-grade counterparties. As of September 2016, our market exposure related to oil and gas companies was \$(824) million, which was primarily to investment-grade issuers or underliers.

**Management's Discussion and Analysis****Operational Risk Management****Overview**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Our exposure to operational risk arises from routine processing errors as well as extraordinary incidents, such as major systems failures or legal and regulatory matters. 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.

We maintain a comprehensive control framework designed to provide a well-controlled environment to minimize operational risks. The Firmwide Operational Risk Committee provides oversight of the ongoing development and implementation of our operational risk policies and framework. Operational Risk Management is a risk management function independent of our revenue-producing units, reports to our chief risk officer, and is responsible for developing and implementing policies, methodologies and a formalized framework for operational risk management with the goal of minimizing our exposure to operational risk.

**Operational Risk Management Process**

Managing operational risk requires timely and accurate information as well as a strong control culture. We seek to manage our operational risk through:

- Training, supervision and development of our people;
- Active participation of senior management in identifying and mitigating key operational risks across the firm;
- 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 our revenue-producing units and our independent control and support functions; and
- A network of systems throughout the firm to facilitate the collection of data used to analyze and assess our operational risk exposure.

We combine top-down and bottom-up approaches to manage and measure operational risk. From a top-down perspective, our senior management assesses firmwide and business-level operational risk profiles. From a bottom-up perspective, revenue-producing units and independent control and support functions are responsible for risk management on a day-to-day basis, including identifying, mitigating, and escalating operational risks to senior management.

Our operational risk framework is in part designed to comply with the operational risk measurement rules under the Revised Capital Framework and has evolved based on the changing needs of our businesses and regulatory guidance. Our framework comprises the following practices:

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

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

## Management's Discussion and Analysis

### Risk Identification and Reporting

The core of our operational risk management framework is risk identification and reporting. We have a comprehensive data collection process, including firmwide policies and procedures, for operational risk events.

We have established policies that require managers in our revenue-producing units and our independent control and support functions to escalate operational risk events. When operational risk events are identified, our policies require that the events be documented and analyzed to determine whether changes are required in our systems and/or processes to further mitigate the risk of future events.

We have established thresholds to monitor the impact of an operational risk event, including single loss events and cumulative losses over a twelve-month period, as well as escalation protocols. We also provide periodic operational risk reports, which include incidents that breach escalation thresholds, to senior management, firmwide and divisional risk committees and the Risk Committee of the Board.

In addition, our firmwide systems capture internal operational risk event data, key metrics such as transaction volumes, and statistical information such as performance trends. We use an internally developed operational risk management application to aggregate and organize this information. Managers from both revenue-producing units and independent control and support functions analyze the information to evaluate operational risk exposures and identify businesses, activities or products with heightened levels of operational risk. We also provide periodic operational risk reports to senior management, risk committees and the Board.

### Risk Measurement

We measure our operational risk exposure over a twelve-month time horizon using both statistical modeling and scenario analyses, which involve qualitative assessments of the potential frequency and extent of potential operational risk losses, for each of our businesses. Operational risk measurement incorporates qualitative and quantitative assessments of factors including:

- Internal and external operational risk event data;
- Assessments of our internal controls;
- Evaluations of the complexity of our business activities;
- The degree of and potential for automation in our processes;
- New product information;
- The legal and regulatory environment;
- Changes in the markets for our products and services, including the diversity and sophistication of our customers and counterparties; and
- Liquidity of the capital markets and the reliability of the infrastructure that supports the capital markets.

The results from these scenario analyses are used to monitor changes in operational risk and to determine business lines that may have heightened exposure to operational risk. These analyses ultimately are used in the determination of the appropriate level of operational risk capital to hold.

### Risk Monitoring

We evaluate changes in the operational risk profile of the firm and its businesses, including changes in business mix or jurisdictions in which we operate, by monitoring the factors noted above at a firmwide level. We have both preventive and detective internal controls, which are designed to reduce the frequency and severity of operational risk losses and the probability of operational risk events. We monitor the results of assessments and independent internal audits of these internal controls.

### Model Review and Validation

The statistical models utilized by Operational Risk Management are subject to independent review and validation by Model Risk Management. See "Model Risk Management" for further information about the review and validation of these models.

## Management's Discussion and Analysis

### Model Risk Management

#### Overview

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

Our model risk management framework is managed through a governance structure and risk management controls, which encompass standards designed to ensure we maintain a comprehensive model inventory, including risk assessment and classification, sound model development practices, independent review and model-specific usage controls. The Firmwide Risk Committee and the Firmwide Model Risk Control Committee oversee our model risk management framework. Model Risk Management, which is independent of model developers, model owners and model users, reports to our chief risk officer, is responsible for identifying and reporting significant risks associated with models, and provides periodic updates to senior management, risk committees and the 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 our 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 utilized 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.

See "Critical Accounting Policies — Fair Value — Review of Valuation Models," "Liquidity Risk Management," "Market Risk Management," "Credit Risk Management" and "Operational Risk Management" for further information about our use of models within these areas.

## Available Information

Our internet address is [www.gs.com](http://www.gs.com) and the investor relations section of our web site is located at [www.gs.com/shareholders](http://www.gs.com/shareholders). We make available free of charge through the investor relations section of our web site, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934 (Exchange Act), as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our web site, and available in print upon request of any shareholder to our Investor Relations Department, are our certificate of incorporation and by-laws, charters for our Audit Committee, Risk Committee, Compensation Committee, Corporate Governance and Nominating Committee, and Public Responsibilities Committee, our Policy Regarding Director Independence Determinations, our Policy on Reporting of Concerns Regarding Accounting and Other Matters, our Corporate Governance Guidelines and our Code of Business Conduct and Ethics governing our directors, officers and employees. Within the time period required by the SEC, we will post on our web site any amendment to the Code of Business Conduct and Ethics and any waiver applicable to any executive officer, director or senior financial officer.

In addition, our web site includes information concerning:

- Purchases and sales of our equity securities by our executive officers and directors;
- Disclosure relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast or by similar means from time to time;
- DFAST results; and
- The firm's risk management practices and regulatory capital ratios, as required under the disclosure-related provisions of the Federal Reserve Board's capital rules.

Our Investor Relations Department can be contacted at The Goldman Sachs Group, Inc., 200 West Street, 29th Floor, New York, New York 10282, Attn: Investor Relations, telephone: 212-902-0300, e-mail: [gs-investor-relations@gs.com](mailto:gs-investor-relations@gs.com).



**Management's Discussion and Analysis****Cautionary Statement Pursuant to the U.S. Private Securities Litigation Reform Act of 1995**

We have included or incorporated by reference in the September 2016 Form 10-Q, and from time to time our management may make, statements that may constitute “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts, but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These statements include statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, among other things, and may also include statements about the effect of changes to the capital, leverage, liquidity, long-term debt and total loss-absorbing capacity rules applicable to banks and bank holding companies, the impact of the Dodd-Frank Act on our businesses and operations, and various legal proceedings or mortgage-related contingencies as set forth in Notes 27 and 18, respectively, to the condensed consolidated financial statements, as well as statements about the results of our Dodd-Frank Act and firm stress tests, statements about the objectives and effectiveness of our risk management and liquidity policies, statements about our resolution plan and resolution strategy and their implications for our debt and other stakeholders, statements about trends in or growth opportunities for our businesses, statements about our future status, activities or reporting under U.S. or non-U.S. banking and financial regulation, statements about the possible effects of the U.K. referendum vote to leave the European Union, and statements about our investment banking transaction backlog. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those described below and in “Risk Factors” in Part I, Item 1A of the 2015 Form 10-K.

Statements about our investment banking transaction backlog are subject to the risk that the terms of these transactions may be modified or that they may not be completed at all; therefore, the net revenues, if any, that we actually earn from these transactions may differ, possibly materially, from those currently expected. Important factors that could result in a modification of the terms of a transaction or a transaction not being completed include, in the case of underwriting transactions, a decline or continued weakness in general economic conditions, outbreak of hostilities, volatility in the securities markets generally or an adverse development with respect to the issuer of the securities and, in the case of financial advisory transactions, a decline in the securities markets, an inability to obtain adequate financing, an adverse development with respect to a party to the transaction or a failure to obtain a required regulatory approval. For information about other important factors that could adversely affect our investment banking transactions, see “Risk Factors” in Part I, Item 1A of the 2015 Form 10-K.

We have provided in this filing information regarding the firm's capital, liquidity and leverage ratios, including the CET1 ratios under the Advanced and Standardized approaches on a fully phased-in basis, as well as the LCR and the NSFR for the firm and the supplementary leverage ratios for the firm and GS Bank USA. The statements with respect to these ratios are forward-looking statements, based on our current interpretation, expectations and understandings of the relevant regulatory rules and guidance, and reflect significant assumptions concerning the treatment of various assets and liabilities and the manner in which the ratios are calculated. As a result, the methods used to calculate these ratios may differ, possibly materially, from those used in calculating the firm's capital, liquidity and leverage ratios for any future disclosures. The ultimate methods of calculating the ratios will depend on, among other things, implementation guidance or further rulemaking from the U.S. federal bank regulatory agencies and the development of market practices and standards.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Quantitative and qualitative disclosures about market risk are set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Market Risk Management” in Part I, Item 2 above.

### **Item 4. Controls and Procedures**

As of the end of the period covered by this report, an evaluation was carried out by Goldman Sachs’ management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (Exchange Act)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during our most recent quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

We are involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of our businesses. Many of these proceedings are in early stages, and many of these cases seek an indeterminate amount of damages. However, we believe, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on our financial condition, but may be material to our operating results for any particular period, depending, in part, upon the operating results for such period. Given the range of litigation and investigations presently under way, our litigation expenses can be expected to remain high. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Use of Estimates” in Part I, Item 2 of the September 2016 Form 10-Q. See Notes 18 and 27 to the condensed consolidated financial statements in Part I, Item 1 of the September 2016 Form 10-Q for information about certain judicial, regulatory and legal proceedings and investigations.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below sets forth the information with respect to purchases made by or on behalf of The Goldman Sachs Group, Inc. (Group Inc.) or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of our common stock during the three months ended September 30, 2016.

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
Month #1 (July 1, 2016 to July 31, 2016)	2,213,108	\$157.39	2,213,108	39,812,647
Month #2 (August 1, 2016 to August 31, 2016)	3,607,688 <sup>1</sup>	163.81	3,607,667	36,204,980
Month #3 (September 1, 2016 to September 30, 2016)	2,009,255	167.09	2,009,255	34,195,725
<b>Total</b>	<b>7,830,051</b>		<b>7,830,030</b>	

1. Includes 21 shares remitted to satisfy minimum statutory withholding taxes on the delivery of equity-based awards.

On March 21, 2000, we announced that our Board had approved a repurchase program authorizing repurchases of up to 15 million shares of our common stock, which was increased by an aggregate of 490 million shares by resolutions of our Board adopted from June 2001 through October 2015. The repurchase program is effected primarily through regular open-market purchases (which may include repurchase plans designed to comply with Rule 10b5-1), the amounts and timing of which are determined primarily by the firm’s current and projected capital position, but which may also be influenced by general market conditions and the prevailing price and trading volumes of our common stock. The repurchase program has no set expiration or termination date. Prior to repurchasing common stock, we must receive confirmation that the Board of Governors of the Federal Reserve System does not object to such capital actions.

## Item 6. Exhibits

### Exhibits

- 12.1 Statement re: Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
- 15.1 Letter re: Unaudited Interim Financial Information.
- 31.1 Rule 13a-14(a) Certifications.
- 32.1 Section 1350 Certifications (This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934).
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Statements of Earnings for the three and nine months ended September 30, 2016 and September 30, 2015, (ii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and September 30, 2015, (iii) the Condensed Consolidated Statements of Financial Condition as of September 30, 2016 and December 31, 2015, (iv) the Condensed Consolidated Statements of Changes in Shareholders’ Equity for the nine months ended September 30, 2016 and year ended December 31, 2015, (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and September 30, 2015, and (vi) the notes to the Condensed Consolidated Financial Statements.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE GOLDMAN SACHS GROUP, INC.

By: /s/ Harvey M. Schwartz

Name: Harvey M. Schwartz

Title: Chief Financial Officer

By: /s/ Sarah E. Smith

Name: Sarah E. Smith

Title: Principal Accounting Officer

Date: November 2, 2016

**THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES**  
**COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES AND RATIOS OF EARNINGS  
TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**

<i>\$ in millions</i>	Nine Months Ended September	Year Ended December				
	2016	2015	2014	2013	2012	2011
Net earnings	<b>\$ 5,051</b>	\$ 6,083	\$ 8,477	\$ 8,040	\$ 7,475	\$ 4,442
Add:						
Provision for taxes	<b>1,856</b>	2,695	3,880	3,697	3,732	1,727
Portion of rents representative of an interest factor	<b>62</b>	83	103	108	125	159
Interest expense on all indebtedness	<b>5,016</b>	5,388	5,557	6,668	7,501	7,982
<b>Pre-tax earnings, as adjusted</b>	<b>\$11,985</b>	\$14,249	\$18,017	\$18,513	\$18,833	\$14,310
Fixed charges <sup>1</sup> :						
Portion of rents representative of an interest factor	<b>\$ 62</b>	\$ 83	\$ 103	\$ 108	\$ 125	\$ 159
Interest expense on all indebtedness	<b>5,031</b>	5,403	5,569	6,672	7,509	7,987
<b>Total fixed charges</b>	<b>\$ 5,093</b>	\$ 5,486	\$ 5,672	\$ 6,780	\$ 7,634	\$ 8,146
Preferred stock dividend requirements	<b>524</b>	743	583	458	274	2,683
<b>Total combined fixed charges and preferred stock dividends</b>	<b>\$ 5,617</b>	\$ 6,229	\$ 6,255	\$ 7,238	\$ 7,908	\$10,829
<b>Ratio of earnings to fixed charges</b>	<b>2.35x</b>	2.60x	3.18x	2.73x	2.47x	1.76x
<b>Ratio of earnings to combined fixed charges and preferred stock dividends</b>	<b>2.13x</b>	2.29x	2.88x	2.56x	2.38x	1.32x

1. Fixed charges include capitalized interest of \$15 million for the nine months ended September 2016, \$15 million for 2015, \$12 million for 2014, \$4 million for 2013, \$8 million for 2012 and \$5 million for 2011.

November 2, 2016

Securities and Exchange Commission  
100 F Street N.E.  
Washington, D.C. 20549

Re: The Goldman Sachs Group, Inc.  
Registration Statements on Form S-8  
(No. 333-80839)  
(No. 333-42068)  
(No. 333-106430)  
(No. 333-120802)

Registration Statements on Form S-3  
(No. 333-198735)

Commissioners:

We are aware that our report dated November 2, 2016 on our review of the condensed consolidated statement of financial condition of The Goldman Sachs Group, Inc. and subsidiaries (the “Company”) as of September 30, 2016, the related condensed consolidated statements of earnings for the three and nine months ended September 30, 2016 and 2015, the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2016 and 2015, the condensed consolidated statement of changes in shareholders’ equity for the nine months ended September 30, 2016, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2016 and 2015 included in the Company’s quarterly report on Form 10-Q for the quarter ended September 30, 2016 is incorporated by reference in the registration statements referred to above. Pursuant to Rule 436(c) under the Securities Act of 1933 (the “Act”), such report should not be considered a part of such registration statements, and is not a report within the meaning of Sections 7 and 11 of the Act.

Very truly yours,

/s/ PRICEWATERHOUSECOOPERS LLP

**CERTIFICATIONS**

I, Lloyd C. Blankfein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 of The Goldman Sachs Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2016

/s/ Lloyd C. Blankfein  
Name: Lloyd C. Blankfein  
Title: Chief Executive Officer

## CERTIFICATIONS

I, Harvey M. Schwartz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 of The Goldman Sachs Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2016

/s/ Harvey M. Schwartz  
Name: Harvey M. Schwartz  
Title: Chief Financial Officer



**CERTIFICATION**

Pursuant to 18 U.S.C. § 1350, the undersigned officer of The Goldman Sachs Group, Inc. (the “Company”) hereby certifies that the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 2, 2016

/s/ Lloyd C. Blankfein

Name: Lloyd C. Blankfein

Title: Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

### **CERTIFICATION**

Pursuant to 18 U.S.C. § 1350, the undersigned officer of The Goldman Sachs Group, Inc. (the “Company”) hereby certifies that the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 2, 2016

/s/ Harvey M. Schwartz  
Name: Harvey M. Schwartz  
Title: Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.