GOLDMAN SACHS GROUP INC
Form 10-Q
November 03, 2017
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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, 2017

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)	13-4019460 (I.R.S. Employer Identification No.)
200 West Street, New York, N.Y. (Address of principal executive offices)	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, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 20, 2017, there were 377,201,479 shares of the registrant s common stock outstanding.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2017

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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)

in millions, except per share amounts	Three Months Ended September **2017**	2016	Nine Months Ended September **2017**	2016
Revenues				
Investment banking	**$1,797**	$1,537	**$ 5,230**	$ 4,787
Investment management	**1,419**	1,386	**4,249**	3,908
Commissions and fees	**714**	753	**2,279**	2,447
Market making	**2,112**	2,715	**6,445**	7,067
Other principal transactions	**1,554**	1,163	**4,002**	1,978
Total non-interest revenues	**7,596**	7,554	**22,205**	20,187
Interest income	**3,411**	2,389	**9,377**	7,267
Interest expense	**2,681**	1,775	**7,343**	5,016
Net interest income	**730**	614	**2,034**	2,251
Net revenues, including net interest income	**8,326**	8,168	**24,239**	22,438
Operating expenses				
Compensation and benefits	**3,172**	3,207	**9,696**	9,200
Brokerage, clearing, exchange and distribution fees	**625**	613	**1,903**	1,929
Market development	**138**	92	**413**	326
Communications and technology	**220**	207	**667**	609
Depreciation and amortization	**280**	247	**802**	731

Occupancy	**177**	245	**543**	609
Professional fees	**227**	222	**661**	673
Other expenses	**511**	467	**1,530**	1,454
Total non-compensation expenses	**2,178**	2,093	**6,519**	6,331
Total operating expenses	**5,350**	5,300	**16,215**	15,531
Pre-tax earnings	**2,976**	2,868	**8,024**	6,907
Provision for taxes	**848**	774	**1,810**	1,856
Net earnings	**2,128**	2,094	**6,214**	5,051
Preferred stock dividends	**93**	(6)	**386**	117
Net earnings applicable to common shareholders	**$2,035**	$2,100	**$ 5,828**	$ 4,934
Earnings per common share				
Basic	**$ 5.09**	$ 4.96	**$ 14.32**	$ 11.40
Diluted	**$ 5.02**	$ 4.88	**$ 14.11**	$ 11.24
Dividends declared per common share	**$ 0.75**	$ 0.65	**$ 2.15**	$ 1.95
Average common shares				
Basic	**398.2**	422.4	**405.6**	431.5
Diluted	**405.7**	430.2	**413.0**	438.8

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended September		Nine Months Ended September	
$ in millions	**2017**	2016	**2017**	2016
Net earnings	**$2,128**	$2,094	**$6,214**	$5,051
Other comprehensive income/(loss) adjustments, net of tax:				
Currency translation	**6**	(19)	**19**	(58)
Debt valuation adjustment	**(104)**	(13)	**(518)**	(75)
Pension and postretirement liabilities	**1**	1	**2**	(36)
Available-for-sale securities	**(4)**		**(3)**	
Other comprehensive loss	**(101)**	(31)	**(500)**	(169)
Comprehensive income	**$2,027**	$2,063	**$5,714**	$4,882

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Financial Condition

(Unaudited)

	As of	
$ in millions, except per share amounts	**September 2017**	December 2016
Assets		
Cash and cash equivalents	**$116,610**	$121,711
Collateralized agreements:		
Securities purchased under agreements to resell (includes **$112,108** and $116,077 at fair value)	**112,532**	116,925
Securities borrowed (includes **$74,121** and $82,398 at fair value)	**188,394**	184,600
Receivables:		
Brokers, dealers and clearing organizations	**28,448**	18,044
Customers and counterparties (includes **$3,519** and $3,266 at fair value)	**59,695**	47,780
Loans receivable	**61,486**	49,672
Financial instruments owned (at fair value and includes **$54,266** and $51,278 pledged as collateral)	**333,474**	295,952
Other assets	**29,493**	25,481
Total assets	**$930,132**	$860,165
Liabilities and shareholders equity		
Deposits (includes **$23,752** and $13,782 at fair value)	**$132,761**	$124,098
Collateralized financings:		
Securities sold under agreements to repurchase (at fair value)	**86,424**	71,816
Securities loaned (includes **$5,038** and $2,647 at fair value)	**13,160**	7,524
Other secured financings (includes **$22,303** and $21,073 at fair value)	**22,739**	21,523
Payables:		
Brokers, dealers and clearing organizations	**9,502**	4,386
Customers and counterparties	**193,484**	184,069

Financial instruments sold, but not yet purchased (at fair value)	**114,713**	117,143
Unsecured short-term borrowings (includes **$17,755** and $14,792 at fair value)	**45,357**	39,265
Unsecured long-term borrowings (includes **$35,961** and $29,410 at fair value)	**211,852**	189,086
Other liabilities and accrued expenses (includes **$261** and $621 at fair value)	**13,848**	14,362
Total liabilities	**843,840**	773,272
Commitments, contingencies and guarantees		
Shareholders equity		
Preferred stock, $0.01 par value; aggregate liquidation preference of **$11,203** and $11,203	**11,203**	11,203
Common stock, $0.01 par value; **882,339,255** and 873,608,100 shares issued, and **379,098,583** and 392,632,230 shares outstanding	**9**	9
Share-based awards	**3,355**	3,914
Nonvoting common stock, $0.01 par value; no shares issued and outstanding		
Additional paid-in capital	**53,294**	52,638
Retained earnings	**93,958**	89,039
Accumulated other comprehensive loss	**(1,716)**	(1,216)
Stock held in treasury, at cost, $0.01 par value; **503,240,674** and 480,975,872 shares	**(73,811)**	(68,694)
Total shareholders equity	**86,292**	86,893
Total liabilities and shareholders equity	**$930,132**	$860,165

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Shareholders Equity

(Unaudited)

$ in millions	**Nine Months Ended September 2017**	Year Ended December 2016
Preferred stock		
Beginning balance	**$ 11,203**	$ 11,200
Issued		1,325
Redeemed		(1,322)
Ending balance	**11,203**	11,203
Common stock		
Beginning balance	**9**	9
Issued		
Ending balance	**9**	9
Share-based awards		
Beginning balance, as previously reported	**3,914**	4,151
Cumulative effect of the change in accounting principle related to forfeiture of share-based awards	**35**	
Beginning balance, adjusted	**3,949**	4,151
Issuance and amortization of share-based awards	**1,631**	2,143
Delivery of common stock underlying share-based awards	**(2,041)**	(2,068)
Forfeiture of share-based awards	**(54)**	(102)
Exercise of share-based awards	**(130)**	(210)
Ending balance	**3,355**	3,914
Additional paid-in capital		
Beginning balance	**52,638**	51,340
Delivery of common stock underlying share-based awards	**2,215**	2,282
Cancellation of share-based awards in satisfaction of withholding tax requirements	**(1,556)**	(1,121)

Preferred stock issuance costs, net		(10)
Excess net tax benefit related to share-based awards		147
Cash settlement of share-based awards	**(3)**	
Ending balance	**53,294**	52,638
Retained earnings		
Beginning balance, as previously reported	**89,039**	83,386
Cumulative effect of the change in accounting principle related to debt valuation adjustment, net of tax		(305)
Cumulative effect of the change in accounting principle related to forfeiture of share-based awards, net of tax	**(24)**	
Beginning balance, adjusted	**89,015**	83,081
Net earnings	**6,214**	7,398
Dividends and dividend equivalents declared on common stock and share-based awards	**(885)**	(1,129)
Dividends declared on preferred stock	**(386)**	(577)
Preferred stock redemption discount		266
Ending balance	**93,958**	89,039
Accumulated other comprehensive loss		
Beginning balance, as previously reported	**(1,216)**	(718)
Cumulative effect of the change in accounting principle related to debt valuation adjustment, net of tax		305
Beginning balance, adjusted	**(1,216)**	(413)
Other comprehensive loss	**(500)**	(803)
Ending balance	**(1,716)**	(1,216)
Stock held in treasury, at cost		
Beginning balance	**(68,694)**	(62,640)
Repurchased	**(5,135)**	(6,069)
Reissued	**28**	22
Other	**(10)**	(7)
Ending balance	**(73,811)**	(68,694)
Total shareholders equity	**$ 86,292**	$ 86,893

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

$ in millions	Nine Months Ended September **2017**	2016
Cash flows from operating activities		
Net earnings	**$ 6,214**	$ 5,051
Adjustments to reconcile net earnings to net cash provided by/(used for) operating activities:		
Depreciation and amortization	**802**	731
Share-based compensation	**1,610**	1,943
Gain related to extinguishment of subordinated borrowings	**(108)**	
Changes in operating assets and liabilities:		
Receivables and payables (excluding loans receivable), net	**(8,648)**	(13,524)
Collateralized transactions (excluding other secured financings), net	**20,842**	4,864
Financial instruments owned	**(35,004)**	5,762
Financial instruments sold, but not yet purchased	**(2,430)**	(29)
Other, net	**5,603**	(1,833)
Net cash provided by/(used for) operating activities	**(11,119)**	2,965
Cash flows from investing activities		
Purchase of property, leasehold improvements and equipment	**(2,210)**	(2,063)
Proceeds from sales of property, leasehold improvements and equipment	**436**	332
Net cash acquired in/(used for) business acquisitions	**(1,848)**	15,754
Purchase of investments	**(3,271)**	
Proceeds from sales and paydowns of investments	**1,275**	1,209
Loans receivable, net	**(12,468)**	(3,930)
Net cash provided by/(used for) investing activities	**(18,086)**	11,302

Cash flows from financing activities		
Unsecured short-term borrowings, net	**907**	140
Other secured financings (short-term), net	**(1,757)**	395
Proceeds from issuance of other secured financings (long-term)	**6,518**	2,377
Repayment of other secured financings (long-term), including the current portion	**(3,605)**	(6,486)
Purchase of APEX, senior guaranteed securities and trust preferred securities	**(62)**	(1,171)
Proceeds from issuance of unsecured long-term borrowings	**44,831**	39,134
Repayment of unsecured long-term borrowings, including the current portion	**(25,107)**	(29,198)
Derivative contracts with a financing element, net	**1,684**	81
Deposits, net	**8,664**	10,510
Common stock repurchased	**(5,143)**	(4,590)
Settlement of share-based awards in satisfaction of withholding tax requirements	**(1,559)**	(961)
Dividends and dividend equivalents paid on common stock, preferred stock and share-based awards	**(1,271)**	(1,238)
Proceeds from issuance of preferred stock, net of issuance costs		1,303
Proceeds from issuance of common stock, including exercise of share-based awards	**7**	1
Cash settlement of share-based awards	**(3)**	
Net cash provided by financing activities	**24,104**	10,297
Net increase/(decrease) in cash and cash equivalents	**(5,101)**	24,564
Cash and cash equivalents, beginning balance	**121,711**	93,439
Cash and cash equivalents, ending balance	**$116,610**	**$118,003**

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest, net of capitalized interest, were $12.11 billion and $5.40 billion, and cash payments for income taxes, net of refunds, were $671 million and $767 million during the nine months ended September 2017 and September 2016, respectively. 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 2017:

The firm exchanged $62 million of Trust Preferred Securities and common beneficial interests for $67 million of the firm s junior subordinated debt.

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.

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.

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

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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 that the firm manages, in debt securities and loans, public and private equity securities, infrastructure and real estate entities. The firm also makes unsecured loans to individuals through its online platform.

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, 2016. References to the 2016 Form 10-K are to the firm s Annual Report on Form 10-K for the year ended December 31, 2016. The condensed consolidated financial information as of December 31, 2016 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 2017, June 2017 and September 2016 refer to the firm s periods ended, or the dates, as the context requires, September 30, 2017, June 30, 2017 and September 30, 2016, respectively. All references to December 2016 refer to the date December 31, 2016. 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.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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 and Financial Instruments Sold, But Not Yet Purchased	Note 4
Fair Value Measurements	Note 5
Cash Instruments	Note 6
Derivatives and Hedging Activities	Note 7
Fair Value Option	Note 8
Loans Receivable	Note 9
Collateralized Agreements and Financings	Note 10
Securitization Activities	Note 11
Variable Interest Entities	Note 12
Other Assets	Note 13
Deposits	Note 14
Short-Term Borrowings	Note 15
Long-Term Borrowings	Note 16
Other Liabilities and Accrued Expenses	Note 17
Commitments, Contingencies and Guarantees	Note 18
Shareholders Equity	Note 19

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.

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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. 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 (including governmental investigations) and tax audits, and the allowance for losses on loans receivable 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 and Financial instruments sold, but not yet purchased 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.

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THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

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 Financial Assets

Transfers of financial assets are accounted for as sales when the firm has relinquished control over the assets transferred. For transfers of financial 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 financial assets are initially recognized at fair value. For transfers of financial assets that are not accounted for as sales, the assets generally remain in Financial instruments owned 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 financial assets accounted for as collateralized financings and Note 11 for further information about transfers of financial 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 2017 and December 2016, Cash and cash equivalents included $11.66 billion and $11.15 billion, respectively, of cash and due from banks, and $104.95 billion and $110.56 billion, respectively, of interest-bearing deposits with banks. The firm segregates cash for regulatory and other purposes related to client activity. As of September 2017 and December 2016, $17.42 billion and $14.65 billion, respectively, of Cash and cash equivalents were segregated for regulatory and other purposes. See Recent Accounting Developments for further information. In addition, the firm segregates securities for regulatory and other purposes related to client activity. See Note 10 for further information about segregated securities.

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 both September 2017 and December 2016.

Receivables from Customers and Counterparties

Receivables from customers and counterparties generally relate to collateralized transactions. Such receivables primarily consist 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 2017 and December 2016, the firm s receivables from customers and counterparties included \$3.28 billion and \$2.60 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 both September 2017 and December 2016, the carrying value of receivables not accounted for at fair value generally approximated fair value. While these receivables 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 been included in the firm s fair value hierarchy, substantially all would have been classified in level 2 as of both September 2017 and December 2016. 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 both September 2017 and December 2016. Interest on payables to customers and counterparties is recognized over the life of the transaction and included in Interest expense.

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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. Effective January 2017, forfeitures are recorded when they occur. Prior to January 2017, expected forfeitures were estimated and recorded over the vesting period. See Recent Accounting Developments Improvements to Employee Share-Based Payment Accounting (ASC 718) for further information.

Cash dividend equivalents paid on outstanding restricted stock units (RSUs) are charged to retained earnings. If RSUs that require future service are forfeited, the related dividend equivalents originally charged to retained earnings are reclassified to compensation expense in the period in which forfeiture occurs.

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.

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). This ASU, as amended, provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services, guidance on accounting for certain contract costs, and new disclosures.

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The ASU is effective for the firm in January 2018 under a modified retrospective approach or retrospectively to all periods presented. The firm s implementation efforts have included identifying revenues and costs within the scope of the ASU, reviewing contracts, and analyzing any changes to its existing revenue recognition policies. As a result of adopting this ASU, the firm will, among other things, recognize certain investment management fees earlier than under the firm s current revenue recognition policy. The firm will also change the current presentation of certain costs from a net presentation within net revenues to a gross basis, and vice versa. The firm will adopt this ASU in January 2018 using a modified retrospective approach. The firm does not currently expect that the ASU will have a material impact on its financial condition, results of operations or cash flows on the date of adoption.

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). This ASU 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, and provides new disclosure requirements for those electing this approach.

The firm adopted the ASU in January 2016. Adoption of the ASU 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. This ASU 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 for certain investments in money market funds. It 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.

The firm adopted the ASU in January 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 and in Other liabilities and accrued expenses, respectively. Adoption of this ASU did not have an impact on the firm s results of operations. See Note 12 for further information about the adoption.

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. This ASU eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively.

The firm adopted the ASU in January 2016. Adoption of the ASU 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. This ASU amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. It 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.

The ASU is effective for the firm in January 2018. Early adoption is permitted under a modified retrospective approach for the requirements related to DVA. In January 2016, the firm early adopted this ASU 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. The firm does not expect the adoption of the remaining provisions of the ASU to have a material impact on its financial condition, results of operations or cash flows.

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

The ASU is effective for the firm in January 2019 under a modified retrospective approach. Early adoption is permitted. The firm s implementation efforts include reviewing existing leases and service contracts, which may include embedded leases. The firm expects a gross up on its consolidated statements of financial condition upon recognition of the right-of-use assets and lease liabilities and does not expect the amount of the gross up to have a material impact on its financial condition.

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. 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 rather than directly to additional paid-in capital. This change has no impact on total shareholders equity and is required to be adopted prospectively. The ASU also allows for forfeitures to be recorded when they occur rather than estimated over the vesting period. This change is required to be applied on a modified retrospective basis.

The firm adopted the ASU in January 2017 and the impact of the RSU deliveries and option exercises during the nine months ended September 2017 was a reduction to the provision for taxes of $496 million, which was recognized in the condensed consolidated statements of earnings. The impact will vary in future periods depending upon, among other things, the number of RSUs delivered and their change in value since grant. Prior to the adoption of this ASU, this amount would have been recorded directly to additional paid-in capital. The firm also elected to account for forfeitures as they occur, rather than to estimate forfeitures over the vesting period, and the cumulative effect of this election upon adoption was an increase of $35 million to Share-based awards and a decrease of $24 million (net of tax of $11 million) to Retained earnings within the condensed consolidated statements of changes in shareholders equity.

In addition, the ASU modifies the classification of certain share-based payment activities within the statements of cash flows. As a result, the firm reclassified, on a retrospective basis, a cash outflow of $961 million related to the settlement of share-based awards in satisfaction of withholding tax requirements from operating activities to financing activities and a cash inflow of $97 million of excess tax benefits related to share-based awards from financing activities to operating activities within the condensed consolidated statements of cash flows for the nine months ended September 2016.

Measurement of Credit Losses on Financial Instruments (ASC 326). In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments Credit Losses (Topic 326) Measurement of Credit Losses on Financial

Instruments. This ASU amends several aspects of the measurement of credit losses on financial instruments, including replacing the existing incurred credit loss model and other models with the Current Expected Credit Losses (CECL) model and amending certain aspects of accounting for purchased financial assets with deterioration in credit quality since origination.

Under CECL, the allowance for losses for financial assets that are measured at amortized cost reflects management s estimate of credit losses over the remaining expected life of the financial assets. Expected credit losses for newly recognized financial assets, as well as changes to expected credit losses during the period, would be recognized in earnings. For certain purchased financial assets with deterioration in credit quality since origination, an initial allowance would be recorded for expected credit losses and recognized as an increase to the purchase price rather than as an expense. 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.

The ASU is effective for the firm in January 2020 under a modified retrospective approach. Early adoption is permitted in January 2019. Adoption of the ASU will result in earlier recognition of credit losses and an increase in the recorded allowance for certain purchased loans with deterioration in credit quality since origination with a corresponding increase to their gross carrying value. The impact of adoption of this ASU on the firm s financial condition, results of operations and cash flows will depend on, among other things, the economic environment and the type of financial assets held by the firm on the date of adoption.

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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. This ASU provides guidance on the disclosure and classification of certain items within the statements of cash flows.

The ASU is effective for the firm in January 2018 under a retrospective approach. Since the ASU only impacts classification in the statements of cash flows, adoption will not affect the firm s cash and cash equivalents.

Restricted Cash (ASC 230). In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230) Restricted Cash. This ASU requires that cash segregated for regulatory and other purposes be included in cash and cash equivalents disclosed in the statements of cash flows and is required to be applied retrospectively.

The firm early adopted the ASU in December 2016 and reclassified cash segregated for regulatory and other purposes into Cash and cash equivalents disclosed in the consolidated statements of cash flows. The impact of adoption was an increase of $134 million for the nine months ended September 2016 to Net cash provided by operating activities. In addition, in December 2016, to be consistent with the presentation of segregated cash in the consolidated statements of cash flows under the ASU, the firm reclassified amounts previously included in Cash and securities segregated for regulatory and other purposes into Cash and cash equivalents, Securities purchased under agreements to resell, Securities borrowed and Financial instruments owned in the consolidated statements of financial condition. Previously reported amounts in the condensed consolidated statements of cash flows and notes to the condensed consolidated financial statements have been conformed to the current presentation.

Clarifying the Definition of a Business (ASC 805). In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805) Clarifying the Definition of a Business. The ASU amends the definition of a business and provides a threshold which must be considered to determine whether a transaction is an acquisition (or disposal) of an asset or a business.

The ASU is effective for the firm in January 2018 under a prospective approach. The impact of this ASU will depend on the nature of the firm s activities after adoption, although the firm expects that fewer transactions will be treated as acquisitions (or disposals) of businesses.

Simplifying the Test for Goodwill Impairment (ASC 350). In January 2017, the FASB issued ASU No. 2017-04, Intangibles Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment. The ASU simplifies the quantitative goodwill impairment test by eliminating the second step of the test. Under this ASU, impairment will be measured by comparing the estimated fair value of the reporting unit with its carrying value.

The ASU is effective for the firm in 2020. The firm early adopted this ASU in the fourth quarter of 2017. The firm does not expect that adoption will have a material impact on the results of its goodwill impairment test.

Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets (ASC 610-20). In February 2017, the FASB issued ASU No. 2017-05, Other Income Gains and Losses from the

Derecognition of Nonfinancial Assets (Subtopic 610-20) Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The ASU clarifies the scope of guidance applicable to sales of nonfinancial assets and also provides guidance on accounting for partial sales of such assets.

The ASU is effective for the firm in January 2018 under a retrospective or modified retrospective approach. The firm will adopt this ASU using a modified retrospective approach and does not expect adoption of the ASU will have a material impact on its financial condition, results of operations or cash flows.

Targeted Improvements to Accounting for Hedging Activities (ASC 815). In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedging Activities. The ASU amends certain of the rules for hedging relationships and expands the types of strategies that are eligible for hedge accounting treatment to more closely align the results of hedge accounting with risk management activities.

The ASU is effective for the firm in January 2019 under a modified retrospective approach. Early adoption is permitted. The firm expects to early adopt the ASU in the first quarter of 2018. The firm does not currently expect that adoption of the ASU will have a material impact on its financial condition, results of operations or cash flows.

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Note 4.

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

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

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

$ in millions	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
As of September 2017		
Money market instruments	**$ 2,739**	**$**
U.S. government and agency obligations	**74,392**	**19,369**
Non-U.S. government and agency obligations	**39,691**	**22,702**
Loans and securities backed by:		
Commercial real estate	**4,696**	**2**
Residential real estate	**10,840**	**2**
Corporate loans and debt securities	**33,529**	**9,005**
State and municipal obligations	**1,039**	
Other debt obligations	**1,667**	**1**
Equity securities	**106,599**	**25,666**

Commodities	**3,606**	
Investments in funds at NAV	**5,444**	
Subtotal	**284,242**	**76,747**
Derivatives	**49,232**	**37,966**
Total	**$333,474**	**$114,713**
As of December 2016		
Money market instruments	$ 1,319	$
U.S. government and agency obligations	57,657	16,627
Non-U.S. government and agency obligations	29,381	20,502
Loans and securities backed by:		
Commercial real estate	3,842	
Residential real estate	12,195	3
Corporate loans and debt securities	28,659	6,570
State and municipal obligations	1,059	
Other debt obligations	1,358	1
Equity securities	94,692	25,941
Commodities	5,653	
Investments in funds at NAV	6,465	
Subtotal	242,280	69,644
Derivatives	53,672	47,499
Total	$295,952	$117,143

In the table above:

Money market instruments includes commercial paper, certificates of deposit and time deposits, substantially all of which have a maturity of less than one year.

Equity securities includes public and private equities, exchange-traded funds and convertible debentures.

Financial instruments owned included $2.76 billion and $89 million of securities that are accounted for as available-for-sale as of September 2017 and December 2016, respectively. See Note 6 for further information about available-for-sale securities.

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.

	Three Months Ended September		Nine Months Ended September	
$ in millions	**2017**	2016	**2017**	2016
Interest rates	**$1,492**	$ 821	**$ 5,481**	$1,091
Credit	**471**	440	**1,397**	1,688
Currencies	**(960)**	544	**(3,700)**	1,254
Equities	**971**	663	**2,842**	2,215
Commodities	**138**	247	**425**	819
Market making	**2,112**	2,715	**6,445**	7,067
Other principal transactions	**1,554**	1,163	**4,002**	1,978
Total	**$3,666**	$3,878	**$10,447**	$9,045

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 and financial instruments sold, but not yet purchased, 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.

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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 inputs including, but not limited to, interest rates, volatilities, equity or debt prices, foreign exchange rates, commodity prices, credit spreads and funding spreads (i.e., the spread or difference between the interest rate at which a borrower could finance a given financial instrument relative to a benchmark interest rate).

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

Level 1. Inputs are unadjusted quoted prices in active markets to which the 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 at fair value.

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.

	As of		
$ in millions	**September 2017**	June 2017	December 2016
Total level 1 financial assets	**$160,006**	$163,555	$135,401
Total level 2 financial assets	**392,796**	407,480	419,585
Total level 3 financial assets	**20,740**	20,847	23,280
Investments in funds at NAV	**5,444**	5,910	6,465
Counterparty and cash collateral netting	**(55,764)**	(79,738)	(87,038)
Total financial assets at fair value	**$523,222**	$518,054	$497,693
Total assets	**$930,132**	$906,518	$860,165
Total level 3 financial assets divided by:			
Total assets	**2.2%**	2.3%	2.7%
Total financial assets at fair value	**4.0%**	4.0%	4.7%
Total level 1 financial liabilities	**$ 65,771**		