Unaudited Quarterly Financial Report

September 30, 2015

Goldman Sachs International (unlimited company)

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Introduction

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

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

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

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

References to "the financial statements" refer to the unaudited financial statements as presented in Part II of this financial report. References to "the 2014 Annual Report" are to the company's Annual Report for the year ended December 31, 2014. All references to September 2015, June 2015 and September 2014 refer to the periods ended, or the dates, as the context requires, September 30, 2015, June 30, 2015 and September 30, 2014, respectively. All references to December 2014 refer to the date December 31, 2014.

Adoption of Revised Financial Reporting Standards

The Financial Reporting Council revised financial reporting standards (FRSs) in the U.K. and Republic of Ireland for accounting periods beginning on or after January 1, 2015. The revisions fundamentally reform United Kingdom Generally Accepted Accounting Practices (U.K. GAAP), replacing the previous standards (previous U.K. GAAP).

From January 1, 2015, the company has transitioned from the previous U.K. GAAP to the new FRS 101 framework (FRS 101), which applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

All periods presented in this financial report are prepared in accordance with FRS 101. The impact of adopting FRS 101 has been described in Notes 2 and 4 to the financial statements and summarised below.

- Collateralised agreements and collateralised financings balances reduced by $15.72 billion as of December 2014 due to the adoption of IAS 32 'Financial Instruments: Presentation'. This also resulted in level 2 financial assets and financial liabilities reducing by the same amount.

- Profit on ordinary activities after taxation decreased by $4 million for the three months ended September 2014 and $13 million for the nine months ended September 2014, respectively, due to the adoption of IAS 19 'Employee Benefits (amended 2011)'. This was offset by a corresponding increase in other comprehensive income.

- Level 3 financial assets and financial liabilities decreased by $7.36 billion, respectively, as of December 2014 due to the adoption of IFRS 13 'Fair Value Measurement'.

- Market-making-related costs (i.e., brokerage, clearing, exchange and distribution fees) have been reclassified from net revenues to administrative expenses as permitted by IAS 1 'Presentation of Financial Statements' and IAS 18 'Revenue'. This resulted in net revenues and administrative expenses each increasing by $141 million for the three months ended September 2014, and $421 million for the nine months ended September 2014, with no change to the operating profit of the company.

- The company has provided disclosures relating to financial instruments due to the adoption of IFRS 7 'Financial Instruments: Disclosures' and IFRS 13 'Fair Value Measurement'. The company has retained all disclosures which would have been presented under the previous U.K. GAAP.

Unless otherwise stated, all amounts in this financial report are prepared in accordance with FRS 101, and the terms FRS 101 and U.K. GAAP are used interchangeably.

Financial Overview

GS Group prepares consolidated financial statements under United States Generally Accepted Accounting Principles (U.S. GAAP), which include the results of GSI prepared on a U.S. GAAP basis. The company's profit under U.K. GAAP differs from that under U.S. GAAP primarily due to timing differences in the recognition of certain revenues and expenses. The company's total assets and total liabilities under U.K. GAAP are greater than under U.S. GAAP primarily due to certain financial assets and financial liabilities being offset under U.S. GAAP. See "Balance Sheet" below for further details.

Profit and Loss Account

The profit and loss account is set out on page 22 of this financial report. Net revenues were $1.49 billion for the third quarter of 2015, compared with $1.38 billion for the third quarter of 2014. Net revenues were $5.49 billion for the first nine months of 2015, compared with $4.93 billion for the first nine months of 2014.

Profit on ordinary activities before taxation was $852 million for the third quarter of 2015, compared with $290 million for the third quarter of 2014. Profit on ordinary activities before taxation was $2.08 billion for the first nine months of 2015, compared with $1.41 billion for the first nine months of 2014.

Balance Sheet

The balance sheet as of September 2015 is set out on page 23 of this financial report. In the subsequent paragraphs, total assets is defined as the summation of "Fixed assets", "Current assets" and the company's "Pension surplus". Total liabilities is defined as the summation of "Creditors: amounts falling due within one year", "Creditors: amounts falling due after more than one year" and "Provisions for liabilities".

As of September 2015, total assets were $956.21 billion, a decrease of $21.04 billion from December 2014. This decrease reflected a reduction in financial instruments owned of $23.45 billion and collateralised agreements of $22.84 billion, partially offset by an increase in debtors of $19.50 billion. Financial instruments owned decreased primarily due to a reduction in derivative instruments. Collateralised agreements decreased due to the company's initiative to reduce the size of its balance sheet (see "Balance Sheet and Funding Sources – Funding Sources" for further details), partially offset by an increase in client activity during the third quarter of 2015. Debtors increased mainly as a result of increased client activity.

As of September 2015, total liabilities were $930.50 billion, a decrease of $24.74 billion from December 2014. This decrease reflected a reduction in financial instruments sold, but not yet purchased of $23.37 billion and collateralised financings of $6.80 billion, partially offset by an increase in other creditors of $3.34 billion. Financial instruments sold, but not yet purchased decreased primarily due to a reduction in derivative instruments. The net decrease in collateralised financings and other creditors was due to the company's balance sheet reduction initiative (see "Balance Sheet and Funding Sources – Funding Sources" for further details), partially offset by increased client activity.

Under U.S. GAAP, as of September 2015, total assets were $361.78 billion, a decrease of $14.49 billion from December 2014, and total liabilities were $336.08 billion, a decrease of $18.07 billion from December 2014.

GSI's total assets and total liabilities under U.K. GAAP are greater than under U.S. GAAP primarily due to certain financial assets and financial liabilities being offset under U.S. GAAP. Under U.K. GAAP, the company presents derivative balances as gross if they are not net settled in the normal course of business, even where it has a legally enforceable right to offset those balances.

Cash Flows

As a financial institution, the company's cash flows are complex and bear little relation to the company's profitability and net assets. Consequently, the company believes that traditional cash flow analysis is less meaningful in evaluating its liquidity position than the liquidity and asset-liability management policies described in "Risk Management – Liquidity Risk Management". Cash flow analysis may, however, be helpful in highlighting certain macro trends and strategic initiatives in the company's businesses. The statements of cash flows are set out on page 25 of this financial report.

For the first nine months of 2015, the company's cash and cash equivalents increased by $6.05 billion to $9.35 billion as of September 2015. The company generated $1.72 billion in net cash from operating activities, and generated $4.33 billion in net cash from financing activities due to the issuance of long-term subordinated loans and ordinary share capital.

For the first nine months of 2014, the company's cash and cash equivalents were essentially unchanged at $3.88 billion as of September 2014, compared with December 31, 2013.

Future Outlook

The directors consider that the period-end financial position of the company was satisfactory. No significant change in the company's principal business activities is currently expected.

Business Environment

Global

During the third quarter of 2015, global economic conditions appeared weaker compared with the previous quarter, as real gross domestic product (GDP) growth in the United States, China, the Euro area and United Kingdom slowed, and growth in Japan remained negative. Concerns about China's growth outlook heightened during the quarter alongside significant declines in global equity indices, a decrease in commodity prices from already low levels and generally lower long-term government bond yields. In addition, the U.S. Federal Reserve kept its interest rate policy unchanged despite some expectations of a rate hike during the third quarter. In investment banking, industry-wide underwriting activity significantly declined in both equity and debt underwriting compared with the second quarter of 2015, while industry-wide mergers and acquisitions activity remained strong.

Europe

In the Euro area, real GDP growth declined during the quarter, reflecting what appears to be weakness in external demand. Measures of inflation remained low as the European Central Bank (ECB) continued its asset purchase programme. The ECB also maintained its main refinancing operations rate at 0.05% and the deposit rate at (0.20)%. Measures of unemployment remained high and the Euro was essentially unchanged against the U.S. dollar compared with the end of the second quarter of 2015. In the United Kingdom, real GDP growth decreased compared with the previous quarter. The Bank of England maintained its official bank rate at 0.50%, and the British pound depreciated by 4% against the U.S. dollar. Long-term government bond yields generally decreased in both core and periphery economies. In equity markets, the DAX Index and Euro Stoxx 50 Index declined by 12% and 9%, respectively, and the CAC 40 Index and FTSE 100 Index both declined by 7% compared with the end of the second quarter of 2015.

Critical Accounting Policy

The company's critical accounting policy, fair value, is consistent with that described in the 2014 Annual Report.

The fair values for substantially all of the company'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. Total level 3 financial assets were $6.50 billion and $7.79 billion as of September 2015 and December 2014, respectively. See Note 17 to the financial statements for further information about level 3 financial assets, including changes in level 3 financial assets and related fair value measurements.

Results of Operations

The composition of the company's net revenues has varied over time as financial markets and the scope of its operations have changed. The composition of net revenues can also vary over the shorter term due to fluctuations in economic and market conditions. In addition to transactions entered into with third parties, the company also enters into transactions with affiliates in the normal course of business as part of market-making activities and general operations.

Net Revenues

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

Three Months Ended September 2015 versus September 2014. Net revenues were $1.49 billion for the third quarter of 2015, 7% higher than the third quarter of 2014, primarily reflecting higher net revenues in Institutional Client Services and Investment Banking.

Nine Months Ended September 2015 versus September 2014. Net revenues were $5.49 billion for the first nine months of 2015, 11% higher than the first nine months of 2014, primarily reflecting higher net revenues in Institutional Client Services and, to a lesser extent, significantly higher net revenues in Investment Management and Investing & Lending. These increases were partially offset by lower net revenues in Investment Banking.

See "Segment Reporting" below for further details.

Administrative Expenses

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

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

	Three Months Ended September		Nine Months Ended September	
$ in millions	**2015**	2014	**2015**	2014
Direct costs of employment[1]	**$ 272**	$ 767	**$2,333**	$2,566
Brokerage, clearing, exchange and distribution fees	**125**	141	**418**	421
Market development	**21**	22	**72**	74
Communications and technology	**22**	22	**67**	62
Depreciation of tangible fixed assets	**1**	1	**3**	2
Occupancy	**43**	45	**129**	136
Professional fees	**38**	25	**101**	83
Other expenses	**35**	18	**88**	11
Total non-compensation expenses	**285**	274	**878**	789
Total administrative expenses	**$ 557**	$1,041	**$3,211**	$3,355
Average staff for the period	**6,416**	5,642	**6,022**	5,537

1. Includes a credit of $285 million and a charge of $160 million for the three months ended September 2015 and September 2014, respectively, and a credit of $92 million and a credit of $2 million for the nine months ended September 2015 and September 2014, respectively, relating to the mark-to-market of share-based compensation.

Three Months Ended September 2015 versus September 2014. Administrative expenses were $557 million for the third quarter of 2015, 46% lower than the third quarter of 2014. Direct costs of employment were $272 million for the third quarter of 2015, 65% lower than the third quarter of 2014, reflecting a decrease in the mark-to-market impact of share-based compensation. Excluding the mark-to-market impact of share-based compensation for both periods, direct costs of employment were $557 million for the third quarter of 2015, 8% lower than the third quarter of 2014. The average number of the company's staff was 6,416 for the third quarter of 2015, 14% higher than the third quarter of 2014, primarily due to the company's continued investment in regulatory compliance.

Non-compensation expenses were $285 million for the third quarter of 2015, 4% higher than the third quarter of 2014.

Nine Months Ended September 2015 versus September 2014. Administrative expenses were $3.21 billion for the first nine months of 2015, 4% lower than the first nine months of 2014. Direct costs of employment were $2.33 billion for the first nine months of 2015, 9% lower than the first nine months of 2014. Excluding the mark-to-market impact of share-based compensation for both periods, direct costs of employment were $2.43 billion for the first nine months of 2015, 6% lower than the first nine months of 2014. The average number of the company's staff was 6,022 for the first nine months of 2015, 9% higher than the first nine months of 2014, primarily due to the company's continued investment in regulatory compliance.

Non-compensation expenses were $878 million for the first nine months of 2015, 11% higher than the first nine months of 2014.

Interest Payable and Similar Charges

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

Three Months Ended September 2015 versus September 2014. Interest payable and similar charges was $79 million for the third quarter of 2015, 46% higher than the third quarter of 2014, reflecting an increase in the average long-term subordinated loans balance.

Nine Months Ended September 2015 versus September 2014. Interest payable and similar charges was $204 million for the first nine months of 2015, 21% higher than the first nine months of 2014, reflecting an increase in the average long-term subordinated loans balance.

Tax on Profit on Ordinary Activities

The effective tax rate for the first nine months of 2015 was 19.2%, essentially unchanged from the first nine months of 2014. The effective tax rate of 19.2% was down from the full year tax rate of 21.9% for 2014, primarily due to a reduction in the U.K. corporation tax rate from 21.5% in 2014 to 20.25% in 2015.

In July 2015, the United Kingdom government announced a budget proposal which contained several changes that will impact the tax on profit on ordinary activities of the company, including: (i) an 8 percentage point surcharge on banking profits effective in 2016, (ii) a 1 percentage point reduction in corporate income tax rates effective in 2017 and (iii) a further 1 percentage point reduction in corporate tax rates effective in 2020. Upon enactment of the U.K. budget, the company expects to recognise a one-time benefit related to the revaluation of its deferred tax asset. Beginning in 2016 the 8 percentage point surcharge on banking profits is expected to increase the company's effective tax rate.

Segment Reporting

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

	Three Months Ended September		Nine Months Ended September	
$ in millions	**2015**	2014	**2015**	2014
Investment Banking				
Financial Advisory	**$ 167**	$ 84	**$ 463**	$ 319
Underwriting	**139**	185	**588**	811
Total Investment Banking	**$ 306**	$ 269	**$1,051**	$1,130
Institutional Client Services				
Fixed Income, Currency and Commodities Client Execution	**$ 514**	$ 534	**$2,055**	$2,023
Equities	**565**	476	**1,832**	1,370
Total Institutional Client Services	**$1,079**	$1,010	**$3,887**	$3,393
Investing & Lending	**$ 19**	$ 15	**$ 172**	$ 126
Investment Management	**$ 82**	$ 89	**$ 377**	$ 282
Total net revenues	**$1,486**	$1,383	**$5,487**	$4,931

Investment Banking

Investment Banking is comprised of:

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

Underwriting. Includes equity and debt underwriting of public offerings and private placements across a wide range of securities and other financial instruments, and derivative transactions directly related to these client underwriting activities.

Three Months Ended September 2015 versus September 2014. Net revenues in Investment Banking were $306 million for the third quarter of 2015, 14% higher than the third quarter of 2014.

Net revenues in Financial Advisory were $167 million, 99% higher than the third quarter of 2014, reflecting an increase in industry-wide completed mergers and acquisitions. Net revenues in Underwriting were $139 million, 25% lower than the third quarter of 2014, primarily due to significantly lower net revenues in equity underwriting, reflecting a decline in European initial public offerings. This decrease was partially offset by significantly higher net revenues in debt underwriting from structured finance.

During the third quarter of 2015, Investment Banking operated in an environment characterised by a significant decline in industry-wide activity in both equity and debt underwriting compared with the second quarter of 2015. However, industry-wide mergers and acquisitions activity remained strong.

During the third quarter of 2015, the company's investment banking transaction backlog increased due to an increase in estimated net revenues from both potential underwriting transactions and potential advisory transactions. Estimated net revenues from potential equity underwriting transactions were higher compared with the end of the second quarter of 2015, principally related to initial public offerings and private placements, while estimated net revenues from potential debt underwriting transactions were higher, principally related to leveraged finance transactions.

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

Nine Months Ended September 2015 versus September 2014. Net revenues in Investment Banking were $1.05 billion for the first nine months of 2015, 7% lower than the first nine months of 2014.

Net revenues in Financial Advisory were $463 million, 45% higher than the first nine months of 2014, reflecting an increase in industry-wide completed mergers and acquisitions. Net revenues in Underwriting were $588 million, 27% lower than the first nine months of 2014, primarily due to significantly lower net revenues in equity underwriting, reflecting a decline in European initial public offerings, and lower net revenues in debt underwriting, as a result of decreased leveraged finance and investment-grade activity.

During the first nine months of 2015, Investment Banking operated in an environment characterised by strong industry-wide mergers and acquisitions activity. Industry-wide activity in both debt and equity underwriting declined compared with the first nine months of 2014.

During the first nine months of 2015, the company's investment banking transaction backlog increased due to an increase in estimated net revenues from potential underwriting transactions. Estimated net revenues from potential debt underwriting transactions were higher compared with the end of 2014, principally related to leveraged finance transactions, while estimated net revenues from potential equity underwriting transactions were higher, principally related to initial public offerings and private placements. The backlog for advisory transactions was essentially unchanged, remaining at a high level.

Institutional Client Services

Institutional Client Services generates revenues in four ways:

- In large, highly liquid markets, the company executes a high volume of transactions for clients for modest spreads and fees;
- In less liquid markets, the company executes transactions for clients for spreads and fees that are generally somewhat larger;
- The company also structures and executes transactions involving customised or tailor-made products that address clients' risk exposures, investment objectives or other complex needs; and
- The company provides financing to its clients for their securities trading activities, as well as securities lending and other prime brokerage services.

Institutional Client Services is comprised of:

Fixed Income, Currency and Commodities Client Execution. Includes client execution activities related to making markets in interest rate products, credit products, mortgages, currencies and commodities.

- **Interest rate products.** Government bonds, money market instruments such as commercial paper, treasury bills, securities sold under agreements to repurchase (repurchase agreements) and other highly liquid securities and instruments, as well as interest rate swaps, options and other derivatives.
- **Credit products.** Investment-grade corporate securities, high-yield securities, credit derivatives, bank and bridge loans, municipal securities, emerging market and distressed debt, and trade claims.
- **Mortgages.** Commercial mortgage-related securities, loans and derivatives, residential mortgage-related securities, loans and derivatives, and other asset-backed securities, loans and derivatives.
- **Currencies.** Most currencies, including growth-market currencies.
- **Commodities.** Crude oil and petroleum products, natural gas, base, precious and other metals, electricity, coal, agricultural and other commodity products.

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

Three Months Ended September 2015 versus September 2014. Net revenues in Institutional Client Services were $1.08 billion for the third quarter of 2015, 7% higher than the third quarter of 2014.

Net revenues in Fixed Income, Currency and Commodities Client Execution were $514 million for the third quarter of 2015, 4% lower than the third quarter of 2014, due to significantly lower net revenues in mortgages and commodities and, to a lesser extent, lower net revenues in currencies and interest rate products. These results reflected challenging market-making conditions during the third quarter of 2015. These decreases were partially offset by significantly higher net revenues in credit products, although client activity remained low.

Net revenues in Equities were $565 million for the third quarter of 2015, 19% higher than the third quarter of 2014, due to significantly higher commissions and fees, reflecting an increase in client activity. In addition, securities services net revenues were significantly higher, reflecting the impact of higher average customer balances. Net revenues in equities client execution were slightly higher compared with the third quarter of 2014.

During the third quarter of 2015, Institutional Client Services operated in an environment characterised by concerns related to macroeconomic developments, including the economic outlook in China and the United States, as well as uncertainty about the Federal Reserve's interest rate policy. These developments, along with significantly lower global equity prices, widening high-yield credit spreads and declining commodity prices, contributed to lower levels of client activity and more challenging market-making conditions compared with the second quarter of 2015.

Nine Months Ended September 2015 versus September 2014. Net revenues in Institutional Client Services were $3.89 billion for the first nine months of 2015, 15% higher than the first nine months of 2014.

Net revenues in Fixed Income, Currency and Commodities Client Execution were $2.06 billion for the first nine months of 2015, 2% higher than the first nine months of 2014, due to significantly higher net revenues in currencies and interest rate products, reflecting higher volatility levels which contributed to higher client activity levels, particularly during the first quarter of 2015. This increase was partially offset by significantly lower net revenues in mortgages, credit products, and commodities. The decreases in mortgages and credit products reflected challenging market-making conditions and generally low levels of activity during the first nine months of 2015. The decline in commodities primarily reflected less favourable market-making conditions compared with the first nine months of 2014, which included a strong first quarter of 2014.

Net revenues in Equities were $1.83 billion for the first nine months of 2015, 34% higher than the first nine months of 2014, due to significantly higher net revenues in equities client execution, reflecting significantly higher results in both derivatives and cash products. In addition, securities services net revenues were higher, reflecting the impact of higher average customer balances. Commissions and fees were higher compared with the first nine months of 2014, reflecting an increase in client activity.

During the first nine months of 2015, the operating environment for Institutional Client Services was positively impacted by diverging central bank monetary policies in the United States and the Euro area in the first quarter, as increased volatility levels contributed to strong client activity levels in currencies, interest rate products and equity products, and market-making conditions improved. However, during the second and third quarters, a shift in the macroeconomic backdrop, along with concerns about the debt situation in Greece and the economy in China and the United States, as well as uncertainty about the Federal Reserve's interest rate policy, negatively impacted client activity and market-making conditions.

Investing & Lending

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

Three Months Ended September 2015 versus September 2014. Net revenues in Investing & Lending were $19 million for the third quarter of 2015, 27% higher than the third quarter of 2014, primarily due to an increase in net revenues from providing investing services to other GS Group entities.

Nine Months Ended September 2015 versus September 2014. Net revenues in Investing & Lending were $172 million for the first nine months of 2015, 37% higher than the first nine months of 2014, primarily due to an increase in net revenues from providing investing services to other GS Group entities.

Investment Management

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

Three Months Ended September 2015 versus September 2014. Net revenues in Investment Management were $82 million for the third quarter of 2015, 8% lower than the third quarter of 2014, reflecting lower management and other fees, primarily due to a decrease in net revenues from providing investing services to funds managed by GS Group.

Nine Months Ended September 2015 versus September 2014. Net revenues in Investment Management were $377 million for the first nine months of 2015, 34% higher than the first nine months of 2014, reflecting significantly higher management and other fees, primarily due to an increase in net revenues from providing investing services to funds managed by GS Group in the first and second quarters of 2015.

Balance Sheet and Funding Sources

Balance Sheet Management

One of the most important risk management disciplines for the company is its ability to manage the size and composition of its balance sheet. GSI leverages the firmwide balance sheet management process performed at the GS Group level to manage these factors. While the asset base of Group Inc. and its affiliates varies due to client activity, market fluctuations and business opportunities, the size and composition of the balance sheet reflects (i) the overall risk tolerance of GS Group, (ii) the ability to access stable funding sources and (iii) the amount of equity capital held by GS Group.

In order to ensure appropriate risk management, GSI seeks to maintain a liquid balance sheet and leverages GS Group's processes to dynamically manage its assets and liabilities which include (i) quarterly planning, (ii) business-specific limits, (iii) monitoring of key metrics, and (iv) scenario analyses.

Liquidity and Cash

The company maintains substantial liquidity to meet a broad range of potential cash outflows and collateral needs in the event of a stressed environment, referred to as Global Core Liquid Assets (GCLA). The company's liquidity exceeds the minimum liquidity requirement as defined by the PRA's Individual Liquidity Guidance framework. See "Risk Management – Liquidity Risk Management – Global Core Liquid Assets" for details on the composition and sizing of the company's GCLA.

Funding Sources

The company's primary sources of funding are secured financings, intercompany unsecured borrowings and external unsecured borrowings.

GSI raises this funding through a number of different products, including:

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

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

During the first half of 2015, the company undertook an initiative to reduce the size of its balance sheet in response to regulatory developments and to improve the overall efficiency of its balance sheet. A comprehensive analysis of the balance sheet was performed and opportunities were identified for reduction. This primarily resulted in a reduction in collateralised agreements and collateralised financings with affiliates, and a reduction in intercompany unsecured borrowings.

The decreases in collateralised agreements and collateralised financings with affiliates in the first half of 2015 were partially offset by an increase in client activity in the third quarter of 2015.

Secured Funding. The company funds a significant amount of inventory on a secured basis with external counterparties as well as with affiliates. Secured funding with external counterparties totalled $49.22 billion and $42.09 billion as of September 2015 and December 2014, respectively. Secured funding with affiliates totalled $92.16 billion and $105.00 billion as of September 2015 and December 2014, respectively.

A majority of the company's secured funding for securities not eligible for inclusion in the GCLA is executed through term repurchase agreements and securities loaned contracts. The company also raises financing through other types of secured funding, such as secured loans and notes. The table below presents GSI's secured funding.

	As of	
	September	December
$ in millions	**2015**	2014
Repurchase agreements	**$ 52,985**	$ 46,801
Securities loaned	**81,866**	94,850
Amounts due to parent and group undertakings	**2,049**	–
Debt securities issued	**2,294**	2,602
Short-term secured funding	**139,194**	144,253
Debt securities issued	**2,181**	2,840
Long-term secured funding	**2,181**	2,840
Total	**$141,375**	$147,093

The weighted average maturity of the company's external secured funding, excluding funding collateralised by highly liquid securities eligible for inclusion in the GCLA, exceeded 120 days as of September 2015.

Intercompany Unsecured Borrowings. GSI sources funding through intercompany unsecured borrowings from Group Inc. and other affiliates. The majority of GS Group's unsecured funding is raised by Group Inc., which lends the necessary funds to its subsidiaries, including GSI, to meet asset financing, liquidity and capital requirements. The benefits of this approach to subsidiary funding are enhanced control and greater flexibility to meet the funding requirements of GSI and other subsidiaries. Intercompany unsecured borrowings also include debt securities issued. The table below presents GSI's intercompany unsecured borrowings.

	As of	
	September	December
$ in millions	**2015**	2014
Amounts due to parent and group undertakings	**$36,750**	$49,464
Debt securities issued	**1,716**	3,807
Short-term intercompany unsecured borrowings	**38,466**	53,271
Long-term subordinated loans	**8,958**	6,458
Amounts due to parent and group undertakings	**1,783**	2,702
Debt securities issued	**612**	471
Long-term intercompany unsecured borrowings	**11,353**	9,631
Total	**$49,819**	$62,902

External Unsecured Borrowings. External unsecured borrowings include debt securities issued and bank loans and overdrafts. The table below presents GSI's external unsecured borrowings.

	As of	
	September	December
$ in millions	**2015**	2014
Bank loans	**$ 67**	$ 111
Overdrafts	**2**	9
Debt securities issued	**9,179**	9,136
Short-term external unsecured borrowings	**9,248**	9,256
Bank loans	**100**	–
Debt securities issued	**4,374**	3,076
Long-term external unsecured borrowings	**4,474**	3,076
Total	**$13,722**	$12,332

Total Shareholder's Funds

GSI held $25.70 billion and $22.00 billion of total shareholder's funds as of September 2015 and December 2014, respectively. See "Regulatory – Regulatory Capital" for further information about GSI's capital.

Regulatory

Capital Management

Capital adequacy is of critical importance to the company. The company's objective is to be prudently capitalised in terms of the amount and composition of its equity base, both relative to the company's risk exposures and compared to external requirements and benchmarks. Accordingly, a comprehensive capital management policy is in place that provides a framework and a set of guidelines to assist in determining the level and composition of capital that is targeted and maintained.

The appropriate level and composition of equity capital is determined by considering multiple factors, including: current and future regulatory capital requirements; the results of the company's capital planning and stress testing process; and other factors such as rating agency guidelines, the business environment, conditions in the financial markets and assessments of potential future losses due to adverse changes in the company's business and market environments.

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

In addition, as part of the company's comprehensive capital management policy, a contingency capital plan is maintained that provides a framework for analysing and responding to an actual or perceived capital shortfall, 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 ensuring timely communication with external stakeholders.

Resolution and Recovery Planning

GS Group is required by the Federal Reserve Board and the Federal Deposit Insurance Corporation (FDIC) to submit an annual plan that describes their strategy for a rapid and orderly resolution in the event of material financial distress or failure (resolution plan). GSI is considered to be a principal material operating entity for the purposes of the annual resolution plan prepared by GS Group. GS Group submitted its 2015 resolution plan on June 30, 2015 and GSI submitted the 2015 resolution plan to the PRA in July 2015.

GS Group also prepares, on an annual 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.

The EU Bank Recovery and Resolution Directive (BRRD) was published in the Official Journal of the European Union on June 12, 2014 and establishes a framework for the recovery and resolution of credit institutions and investment firms in the EU region. The BRRD was implemented in the U.K. on January 1, 2015, with the exception of certain powers which will come into effect by January 1, 2016. The BRRD aims to provide national supervisory authorities with tools and powers to pre-emptively address potential financial crises in order to promote financial stability and minimise taxpayers' exposure to losses.

Under the BRRD, a resolution authority is empowered to employ one or more resolution tools in relation to certain institutions, including investment firms (such as GSI), where the authority determines that the institution is failing or likely to fail, it is not reasonably likely that any other action can be taken to avoid the failure of the institution, and the resolution action is in the public interest.

The tools available to the resolution authority under the BRRD include a statutory "write-down and conversion power," the so-called "bail-in" tool. The "bail-in" tool gives the resolution authority the ability to cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities of a failing institution and to convert certain debt claims into another security, including ordinary shares of the surviving entity or bridge institution, if any.

Regulatory Capital

The company is subject to the revised capital framework for EU-regulated financial institutions (the fourth EU Capital Requirements Directive and EU Capital Requirements Regulation, collectively known as "CRD IV"). These regulations are largely based on the Basel Committee's final capital framework for strengthening international capital standards (Basel III).

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

On January 1, 2015, under CRD IV Pillar 1, the minimum Common Equity Tier 1 (CET1) ratio increased from 4.0% to 4.5% and the minimum Tier 1 capital ratio increased from 5.5% to 6.0%. The Total capital ratio remained unchanged at 8.0%. The CET1 ratio is defined as CET1 divided by RWAs. The Tier 1 capital ratio is defined as Tier 1 capital divided by RWAs. The total capital ratio is defined as total capital divided by RWAs.

In addition, the company is also subject to the PRA's Pillar 2 framework, which requires U.K. institutions, including GSI, to undertake an internal capital adequacy assessment. The PRA performs a periodic supervisory review of this assessment, which leads to a final determination by the PRA of individual capital guidance under Pillar 2A. This is a point in time assessment of the amount of capital the PRA considers that a bank should hold to meet the overall financial adequacy rule.

As of September 2015, GSI is required to maintain a minimum CET1 ratio of 6.2%, Tier 1 capital ratio of 8.2% and Total capital ratio of 10.9%. These minimum ratios incorporate capital guidance received from the PRA and could change in the future.

These minimum ratios will be supplemented by a new capital conservation buffer, consisting entirely of capital that qualifies as CET1, that phases in, beginning January 1, 2016, in increments of 0.625% per year until it reaches 2.5% of RWAs on January 1, 2019. In addition to the capital conservation buffer, the company may become subject to a domestic systemically important institution buffer and a countercyclical buffer as these become applicable.

GSI was in compliance with external capital requirements as of September 2015 and December 2014.

The ratios in the following sections include the impact of the results for the nine months ended September 2015.

Regulatory Capital Ratios

The table below presents a breakdown of GSI's capital ratios under CRD IV on a fully phased-in basis.

	As of	
	September 2015	December 2014
CET1 ratio	**12.1%**	9.7%
Total capital ratio	**16.6%**	12.7%

As of September 2015 and December 2014, GSI did not have any financial instruments which qualified as additional Tier 1 capital and the Tier 1 capital ratio was identical to the CET1 ratio disclosed above.

Although the fully phased-in capital ratios under CRD IV are not applicable until 2019, they are meaningful because they are measures that the company and its regulators and investors use to assess the company's ability to meet future regulatory capital requirements.

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

Capital Resources

The table below presents a breakdown of GSI's capital components under CRD IV on a fully phased-in basis.

	As of	
$ in millions	**September 2015**	December 2014
Called up share capital	**$ 582**	$ 533
Share premium account including capital reserves	**4,881**	2,880
Retained earnings	**20,239**	18,584
Total shareholder's funds	**25,702**	21,997
Deductions	**(1,427)**	(906)
CET1	**24,275**	21,091
Tier 2 capital (long-term subordinated loans)	**8,958**	6,458
Total capital resources (net of deductions)	**$33,233**	$27,549

Risk-Weighted Assets

The table below presents the components of RWAs within GSI's regulatory capital ratios under CRD IV. See Item 7 "Regulatory" of the 2014 Annual Report for a description of each RWA component.

	As of	
$ in millions	**September 2015**	December 2014
RWAs		
Credit RWAs	**$112,461**	$127,346
Concentration RWAs	**–**	2,114
Market RWAs	**75,257**	75,958
Operational RWAs	**12,303**	11,804
Total RWAs	**$200,021**	$217,222

Leverage Ratio

CRD IV, as amended by the European Commission Delegated Act (the Delegated Act), introduced a new leverage ratio, which compares Tier 1 capital, as defined under CRD IV, to a measure of leverage exposure, defined as the sum of assets less Tier 1 capital deductions plus off-balance-sheet exposures (including a measure of derivatives exposures, securities financing transactions and commitments). The Delegated Act requires the public disclosure of the leverage ratio for reporting periods from January 1, 2015, but does not currently contain a minimum leverage ratio requirement. The Basel Committee has proposed a minimum requirement of 3% with a final calibration expected in 2016, although it is not certain how this will be incorporated into EU legislation, if at all. As of September 2015, the company had a leverage ratio of 3.2%.

Regulatory Developments

GSI's businesses are subject to significant and evolving regulation. Reforms have been adopted or are being considered by regulators and policy makers worldwide. The expectation is that the principal areas of impact from regulatory reform for GSI 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 EU and or U.K. regulations.

With respect to capital requirements, the Basel Committee continues to consult on several potential changes to regulatory capital requirements that could impact GSI's capital ratios in the future. In particular, the Basel Committee is considering changing the market risk capital requirements as described in the consultation papers on a "Fundamental Review of the Trading Book", the credit risk capital requirements applicable to credit valuation adjustments, and applying floors to internal-model based exposure requirements and revising the standardised credit risk rules. The impact of all of these developments on the company (including RWAs and regulatory capital ratios) is subject to uncertainty until corresponding legislation is implemented in the EU.

The provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) referred to as the "Volcker Rule" became effective in July 2015 (subject to a conformance period, as applicable). GSI is subject to these provisions by virtue of being a subsidiary of GS Group. The Volcker Rule prohibits "proprietary trading", but permits activities such as underwriting, market making and risk-mitigation hedging. GS Group is also required to create an extensive compliance programme, which includes additional reporting and record keeping requirements. The reporting requirements include calculating daily quantitative metrics on covered trading activities (as defined in the rule) and providing these metrics to regulators on a monthly basis. The initial implementation of these rules did not have a material impact on the company's financial condition, results of operations or cash flows. However, the rule is highly complex, and its impact may change as market practices further develop.

The Dodd-Frank Act and other reform initiatives proposed and announced by the U.S. federal bank regulatory agencies, the PRA and the FCA, the Basel Committee and other governmental entities and regulators (including the EU) are not in all cases consistent with one another, which adds further uncertainty to the future capital, leverage and liquidity requirements of GSI as a consolidating subsidiary of GS Group.

Principal Risks and Uncertainties

GSI faces a variety of risks that are substantial and inherent in its businesses including market, liquidity, credit, operational, legal, regulatory and reputational risks and uncertainties. Those risks and uncertainties are consistent with those described in the 2014 Annual Report.

Risk Management

The company's risk management framework is consistent with the 2014 Annual Report (see Items 9 – 13).

Liquidity Risk Management

Overview. Liquidity risk is the risk that the company does not have sufficient cash or collateral to make payments to its counterparties and customers as they fall due. Liquidity is of critical importance to financial institutions. Most of the failures of financial institutions have occurred in large part due to insufficient liquidity. Accordingly, the company has in place a comprehensive and conservative set of liquidity and funding policies to address both company-specific and broader industry or market liquidity events. The principal objective is to be able to fund the company and to enable the core businesses to continue to serve clients and generate revenues, even under adverse circumstances.

Liquidity Risk Management Principles. GSI manages liquidity risk according to the following principles:

- **Global Core Liquid Assets.** GSI maintains substantial liquidity (GCLA) to meet a broad range of potential cash outflows and collateral needs in a stressed environment;
- **Asset-liability management.** GSI assesses anticipated holding periods for the company's assets and their expected liquidity in a stressed environment, manage maturities and diversity of funding across markets, products and counterparties, and seek to maintain liabilities of appropriate tenor relative to the asset base; and
- **Contingency funding plan.** GSI maintains a contingency funding plan (CFP), which is an addendum to GS Group's CFP. The CFP provides a framework for analysing and responding to a liquidity crisis situation or periods of market stress. This framework sets forth the plan of action to fund normal business activity in emergency and stress situations.

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

In order to determine the appropriate size of the company's GCLA, an internal liquidity model is used, referred to as the Modelled Liquidity Outflow, which captures and quantifies the company's liquidity risks. Other factors are considered including, but not limited to, an assessment of potential intraday liquidity needs through an additional internal liquidity model, referred to as the Intraday Liquidity Model, applicable regulatory requirements and a qualitative assessment of the condition of the financial markets and of the company. See Item 10 "Liquidity risk management" of the 2014 Annual Report for further details.

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

	Average for the	
$ in millions	**Three Months Ended September 2015**	Year Ended December 2014
Overnight cash deposits	**$ 3,953**	$ 906
U.S. government obligations	**15,518**	15,322
French government obligations	**12,673**	9,073
United Kingdom government obligations	**13,498**	15,614
German government obligations	**7,079**	6,896
Japanese government obligations	**2,115**	2,086
Total	**$54,836**	$49,897

As of September 2015 and December 2014, the fair value of the securities and certain overnight cash deposits included in GSI's GCLA totalled $54.49 billion and $54.20 billion, respectively.

In addition to GCLA, the company has a significant amount of other unencumbered cash and financial instruments owned, at fair value, including other government obligations, high-grade money market securities, corporate obligations, marginable equities, loans and cash deposits not included in the GCLA. The fair value of these assets averaged $22.20 billion for the three months ended September 2015 and $30.54 billion for the year ended December 2014. GSI does not consider these assets liquid enough to be eligible for inclusion in its 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 banks maintain an adequate level of unencumbered high-quality liquid assets based on expected net cash outflows under an acute short-term liquidity stress scenario, and a net stable funding ratio (NSFR), designed to promote more medium- and long-term funding of the assets and off-balance-sheet activities of these entities over a one-year time horizon. The Basel Committee's NSFR framework requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance-sheet activities. These Basel standards have not yet been incorporated into CRD IV regulation or European Commission Delegated Act, and may differ from the Basel standards once implemented. The LCR became effective in the U.K. on October 1, 2015, with a phase-in period whereby firms would have an 80% minimum initially. This requirement would then rise to 90% on January 1, 2017 and 100% on January 1, 2018. The NSFR is expected to be effective on January 1, 2018.

The implementation of these standards could impact the company's liquidity and funding requirements and practices in the future.

Credit Ratings. The table below presents the unsecured credit ratings by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's) and Standard & Poor's Ratings Services (S&P), and outlook of GSI and Group Inc. During the third quarter of 2015, S&P changed the outlook for GSI from stable to positive.

	As of September 2015		
	Fitch	**Moody's**	**S&P[1]**
GSI			
Short-term Debt	**F1**	**P-1**	**A-1**
Long-term Debt	**A**	**A1**	**A**
Ratings Outlook	**Positive**	**Stable**	**Positive**
Group Inc.			
Short-term Debt	**F1**	**P-2**	**A-2**
Long-term Debt	**A**	**A3**	**A-**
Subordinated Debt	**A-**	**Baa2**	**BBB+**
Trust Preferred	**BBB-**	**Baa3**	**BB**
Preferred Stock	**BB+**	**Ba1**	**BB**
Ratings Outlook	**Stable**	**Stable**	**Negative**

1. On November 2, 2015, S&P placed GSI on credit watch positive and Group Inc. on credit watch negative.

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

The company attributes a portion of its GCLA to ensure that it would be able to make the additional collateral or termination payments that may be required in the event of a two-notch reduction in Group Inc. and/or GSI's long-term credit ratings, as well as collateral that has not been called by counterparties, but is available to them. The table below presents the additional collateral or termination payments related to the company's net derivative liabilities under bilateral agreements that could have been called at the reporting date by counterparties in the event of a one-notch and two-notch downgrade in Group Inc. and/or GSI's credit ratings.

	As of	
$ in millions	**September 2015**	December 2014
Additional collateral or termination payments for a one-notch downgrade	**$ 226**	$ 294
Additional collateral or termination payments for a two-notch downgrade	**1,440**	1,295

Market Risk Management

Overview. Market risk is the risk of loss in the value of inventory, as well as certain other financial assets and financial liabilities, due to changes in market conditions. The company employs a variety of risk measures, each described in the respective sections below, to monitor market risk. The company holds inventory primarily for market making for clients. Inventory therefore changes based on client demands. The company's inventory is accounted for at fair value and therefore fluctuates on a daily basis, with the related gains and losses included in net revenues. Categories of market risk include the following:

- Interest rate risk: results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates, 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 and metals.

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

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

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

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

Managers in revenue-producing units are accountable for managing risk within prescribed limits, both at the GS Group and GSI level. These managers have in-depth knowledge of their positions, markets and the instruments available to hedge their exposures.

Managers in revenue-producing units and Market Risk Management discuss market information, positions and estimated risk and loss scenarios on an ongoing basis.

Risk Measures. Market Risk Management produces risk measures and monitors them against market risk limits set by the GSI Risk Committee. These measures reflect an extensive range of scenarios and the results are aggregated by business at the company level.

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

Value-at-Risk. VaR is the potential loss in value of financial instruments due to adverse market movements over a defined time horizon with a specified confidence level. A one-day time horizon with a 95% confidence level is typically employed. The VaR model is a single model that captures risks including interest rates, equity prices, currency rates and commodity prices. As such, VaR facilitates comparison across portfolios of different risk characteristics. VaR also captures the diversification of aggregated risk across GSI. See Item 11 "Market risk management" of the 2014 Annual Report for further details.

Metrics. 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 September		Nine Months Ended September	
Risk Categories	**2015**	2014	**2015**	2014
Interest rates	**$ 23**	$ 19	**$ 22**	$ 19
Equity prices	**18**	16	**17**	19
Currency rates	**9**	4	**7**	5
Commodity prices	**1**	–	**1**	–
Diversification effect	**(19)**	(10)	**(16)**	(12)
Total	**$ 32**	$ 29	**$ 31**	$ 31

The company's average daily VaR increased to $32 million for the third quarter of 2015 from $29 million for the third quarter of 2014, primarily reflecting an increase in the interest rates and equity prices categories due to higher market volatility. The currency rates category increased due to increased exposures. These increases were partially offset by an increase in the diversification benefit across risk categories.

The company's average daily VaR was $31 million for the first nine months of 2015, unchanged compared to the first nine months of 2014.

The table below presents quarter-end VaR, and high and low VaR.

	As of		Three Months Ended	
$ in millions	**September**	June	**September 2015**	
Risk Categories	**2015**	2015	**High**	**Low**
Interest rates	**$ 25**	$ 21	**$28**	**$19**
Equity prices	**18**	25	**28**	**12**
Currency rates	**8**	14	**13**	**5**
Commodity prices	**1**	1	**1**	**–**
Diversification effect	**(20)**	(23)		
Total	**$ 32**	$ 38	**$43**	**$24**

The company's daily VaR decreased to $32 million as of September 2015 from $38 million as of June 2015, reflecting decreases in the equity prices and currency rates categories due to reduced exposures. These decreases were partially offset by an increase in the interest rates category due to higher levels of market volatility.

During the third quarter of 2015, GSI's VaR risk limit was not exceeded, raised or reduced.

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

	As of	
$ in millions	**September**	June
Asset Categories	**2015**	2015
Equity	**$13.0**	$19.2
Debt	**0.3**	0.3
Total	**$13.3**	$19.5

The company's 10% sensitivity measures decreased to $13.3 million as of September 2015 from $19.5 million as of June 2015, reflecting a decrease in the equity asset category due to a decrease in private equity securities.

Credit Risk Management

Overview. Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty (e.g. an OTC derivatives counterparty or a borrower) or an issuer of securities or other instruments the company holds. Exposure to credit risk comes mostly from client transactions in OTC derivatives. Credit risk also comes from cash placed with banks, securities financing transactions (i.e., resale and repurchase agreements and securities borrowing and lending activities) and receivables from broker/dealers, clearing organisations, customers and counterparties.

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

Policies authorised by GS Group's Firmwide Risk Committee and Credit Policy Committee prescribe the level of formal approval required for GS Group to assume credit exposure to a counterparty across all product areas, taking into account any applicable netting provisions, collateral or other credit risk mitigants. These policies are complemented by specific policies for GSI, which are approved by GSI governance bodies, including the GSI Risk Committee.

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

- Approving transactions and setting and communicating credit exposure limits;
- Monitoring compliance with established credit exposure limits;
- Assessing the likelihood that a counterparty will default on its payment obligations;
- Measuring the company's current and potential credit exposure and losses resulting from counterparty default;
- Reporting of credit exposures to senior management, the GSI board of directors and regulators;
- 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 the company's counterparties. For substantially all of the company's credit exposures, the core of the process is an annual counterparty credit review. A credit review is an independent analysis of the capacity and willingness of a counterparty to meet its financial obligations, resulting in an internal credit rating. The determination of internal credit ratings also incorporates assumptions with respect to the nature of and outlook for the counterparty's industry and the economic environment. Senior personnel within Credit Risk Management, with expertise in specific industries, inspect and approve credit reviews and internal credit ratings.

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

Credit Exposures. GSI's credit exposures are described further below.

Financial Instruments Owned

Financial instruments owned includes cash instruments and derivatives. In the table below cash instruments are included in the gross exposure; however, to the extent that they have been captured by market risk they are removed to arrive at net credit exposure. Derivatives are reported at fair value on a gross by counterparty basis in the company's financial statements unless it has current legal right of set off and also intends to settle on a net basis. OTC derivatives are risk managed using the risk processes, measures and limits described in Item 12 "Credit risk management" of the 2014 Annual Report.

Collateralised Agreements

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

Debtors

The company is exposed to credit risk from its debtors through its amounts due from broker/dealers and customers; and amounts due from parent and group undertakings. These primarily comprise receivables related to cash collateral paid to counterparties in respect of derivative financial instruments. In addition, these balances also include initial margin placed with clearing organisations, collateralised receivables related to customer securities transactions 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 organisation default and the short-term nature of receivables related to securities settlements.

Cash at Bank and in Hand

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

The tables below present the company's gross credit exposure to financial assets and net credit exposure after taking account of assets captured by market risk in the company's risk management process, counterparty netting (i.e., the netting of financial assets and financial liabilities for a given counterparty when a legal right of setoff exists under an enforceable netting agreement), and cash and security collateral received and cash collateral posted under credit support agreements, which management considers when determining credit risk. This is presented by financial asset class and by credit rating equivalent (internally determined public rating agency equivalents).

During the year, the company revised its approach for the disclosure of credit risk mitigants for the current and previous periods to align it more closely with management's view of the company's credit risk on financial assets, giving consideration to the expected enforceability of collateral arrangements.

In the tables below, cash collateral and security collateral received differ to the amounts disclosed in Note 18 to the financial statements as the below disclosure includes additional cash and security collateral that management considers when determining credit risk.

	As of September 2015					
$ in millions **Financial Asset Class**	**Gross exposure**	**Assets captured by market risk**	**Counterparty netting**	**Cash collateral**	**Security collateral received**	**Net credit exposure**
Financial instruments owned	**$649,413**	**$(36,128)**	**$(529,305)**	**$(46,613)**	**$ (14,448)**	**$22,919**
Financial instruments owned pledged as collateral	**19,361**	**(19,361)**	**–**	**–**	**–**	**–**
Collateralised agreements	**180,680**	**–**	**(66,494)**	**–**	**(109,938)**	**4,248**
Debtors	**96,710**	**–**	**(557)**	**(34,990)**	**(10,591)**	**50,572**
Cash at bank and in hand	**9,353**	**–**	**–**	**–**	**–**	**9,353**
Total	**$955,517**	**$(55,489)**	**$(596,356)**	**$(81,603)**	**$(134,977)**	**$87,092**

	As of December 2014					
$ in millions **Financial Asset Class**	Gross exposure	Assets captured by market risk	Counterparty netting	Cash collateral	Security collateral received	Net credit exposure
Financial instruments owned	$667,823	$(37,099)	$(549,166)	$(43,040)	$ (10,970)	$27,548
Financial instruments owned pledged as collateral	24,404	(24,404)	–	–	–	–
Collateralised agreements	203,516	–	(88,761)	–	(109,490)	5,265
Debtors	77,142	–	(602)	(28,928)	(8,903)	38,709
Cash at bank and in hand	3,586	–	–	–	–	3,586
Total	$976,471	$(61,503)	$(638,529)	$(71,968)	$(129,363)	$75,108

	As of September 2015					
$ in millions **Credit Rating Equivalent**	**Gross exposure**	**Assets captured by market risk**	**Counterparty netting**	**Cash collateral**	**Security collateral received**	**Net credit exposure**
AAA/Aaa	**$ 15,223**	**$ –**	**$ (3,005)**	**$ (2,724)**	**$ (1,490)**	**$ 8,004**
AA/Aa2	**139,208**	**–**	**(60,523)**	**(20,144)**	**(40,483)**	**18,058**
A/A2	**602,671**	**–**	**(478,350)**	**(34,307)**	**(60,158)**	**29,856**
BBB/Baa2	**84,054**	**–**	**(42,608)**	**(15,509)**	**(14,027)**	**11,910**
BB/Ba2 or lower	**44,103**	**–**	**(11,746)**	**(8,869)**	**(17,361)**	**6,127**
Unrated	**70,258**	**(55,489)**	**(124)**	**(50)**	**(1,458)**	**13,137**
Total	**$955,517**	**$(55,489)**	**$(596,356)**	**$(81,603)**	**$(134,977)**	**$87,092**

	As of December 2014					
$ in millions **Credit Rating Equivalent**	Gross exposure	Assets captured by market risk	Counterparty netting	Cash collateral	Security collateral received	Net credit exposure
AAA/Aaa	$ 7,693	$ –	$ (3,392)	$ (1,790)	$ (287)	$ 2,224
AA/Aa2	123,555	–	(57,999)	(17,350)	(33,321)	14,885
A/A2	642,118	–	(514,027)	(28,606)	(67,402)	32,083
BBB/Baa2	91,796	–	(50,961)	(15,706)	(13,050)	12,079
BB/Ba2 or lower	41,347	–	(12,045)	(8,407)	(13,830)	7,065
Unrated	69,962	(61,503)	(105)	(109)	(1,473)	6,772
Total	$976,471	$(61,503)	$(638,529)	$(71,968)	$(129,363)	$75,108

The unrated net credit exposure of $13.14 billion and $6.77 billion as of September 2015 and December 2014, respectively, primarily relates to debtors balances of $12.18 billion and $4.31 billion as of September 2015 and December 2014, respectively, for which the company has not assigned an internally determined public rating agency equivalent. This balance primarily comprises receivables related to the sale of securities which have traded, but not yet settled which generally have minimal credit risk due to the low probability of clearing organisation default and their short-term nature.

In addition to credit risk on financial assets, the company also has credit exposure in respect of contingent and forward starting resale and securities borrowing agreements. The company's gross credit exposure related to these activities is $50.05 billion and $34.57 billion as of September 2015 and December 2014, respectively. However, this will be mitigated by collateral of approximately $49.65 billion and $33.77 billion as of September 2015 and December 2014, respectively, if these commitments are fulfilled. As a result, the company's net credit exposure to these commitments was $401 million and $804 million as of September 2015 and December 2014, respectively.

As of the current and prior period ends, financial assets past due or impaired were insignificant.

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. Exposure to operational risk arises from routine processing errors as well as extraordinary incidents, such as major systems failures.

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.

GSI's framework for managing operational risk is fully integrated in GS Group's comprehensive control framework designed to provide a well-controlled environment to minimise operational risks. In GSI, the EMEA Operational Risk Committee provides regional oversight for ongoing development and implementation of the operational risk framework and promotion of a robust overall control environment. The Operational Risk Management and Analysis department (Operational Risk Management) is a risk management function independent of revenue-producing units, ultimately reports to GS Group's chief risk officer and is responsible for developing and implementing policies, methodologies and a formalised framework for operational risk management with the goal of minimising exposure to operational risk.

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

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

Top-down and bottom-up approaches are combined to manage and measure operational risk. From a top-down perspective, senior management assesses 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.

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

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

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

Directors

There were no changes in the directorship of the company throughout the quarter.

Date of Issue

This financial report was issued on November 16, 2015.

Unaudited Financial Statements

GOLDMAN SACHS INTERNATIONAL (UNLIMITED COMPANY)

Profit and Loss Account
(Unaudited)

		Three Months Ended September		Nine Months Ended September	
$ in millions	**Note**	**2015**	2014	**2015**	2014
Net revenues		**$1,486**	$ 1,383	**$ 5,487**	$ 4,931
Administrative expenses		**(557)**	(1,041)	**(3,211)**	(3,355)
Operating profit		**929**	342	**2,276**	1,576
Interest payable and similar charges		**(79)**	(54)	**(204)**	(168)
Net finance income		**2**	2	**6**	6
Profit on ordinary activities before taxation		**852**	290	**2,078**	1,414
Tax on profit on ordinary activities	5	**(164)**	(52)	**(398)**	(271)
Profit on ordinary activities after taxation and for the financial period		**$ 688**	$ 238	**$ 1,680**	$ 1,143

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

Statements of Comprehensive Income
(Unaudited)

	Three Months Ended September		Nine Months Ended September	
$ in millions	**2015**	2014	**2015**	2014
Profit for the financial period	**$688**	$238	**$1,680**	$1,143
Other comprehensive income/(loss)				
Items that will not be reclassified subsequently to profit or loss				
Actuarial profit/(loss) relating to the pension scheme	**60**	35	**(31)**	7
U.K. deferred tax attributable to the actuarial profit/(loss)	**(12)**	(7)	**6**	(1)
Other comprehensive income/(loss) for the financial period, net of tax	**48**	28	**(25)**	6
Total comprehensive income for the financial period	**$736**	$266	**$1,655**	$1,149

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

Balance Sheet
(Unaudited)

		As of	
		September	December
$ in millions	**Note**	**2015**	2014
Fixed assets			
Tangible assets		**$ 10**	$ 12
Investments		**2**	2
		12	14
Current assets			
Financial instruments owned	6	**649,413**	667,823
Financial instruments owned pledged as collateral	6	**19,361**	24,404
Collateralised agreements	7	**180,680**	203,516
Debtors	8	**97,146**	77,643
Cash at bank and in hand		**9,353**	3,586
		955,953	976,972
Creditors: amounts falling due within one year			
Financial instruments sold, but not yet purchased	6	**(618,037)**	(641,404)
Collateralised financings	7	**(134,851)**	(141,651)
Other creditors	9	**(158,818)**	(155,474)
		(911,706)	(938,529)
Net current assets		**42,247**	38,443
Total assets less current liabilities		**44,259**	38,457
Creditors: amounts falling due after more than one year	10	**(18,795)**	(16,700)
Provisions for liabilities	11	**(3)**	(17)
Net assets excluding pension surplus		**25,461**	21,740
Pension surplus		**241**	257
Net assets including pension surplus		**$ 25,702**	$ 21,997
Capital and reserves			
Called up share capital	12	**$ 582**	$ 533
Share premium account		**4,864**	2,863
Capital reserve (non-distributable)		**17**	17
Profit and loss account		**20,239**	18,584
Total shareholder’s funds		**$ 25,702**	$ 21,997

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

Statements of Changes in Equity (Unaudited)

	Nine Months Ended September	
$ in millions	**2015**	2014
Called up share capital		
Balance, beginning of year	**$ 533**	$ 533
Shares issued	**49**	–
Balance, end of period	**582**	533
Share premium account		
Balance, beginning of year	**2,863**	2,863
Shares issued	**2,001**	–
Balance, end of period	**4,864**	2,863
Capital reserve (non-distributable)		
Balance, beginning of year	**17**	17
Balance, end of period	**17**	17
Profit and loss account		
Balance, beginning of year	**18,584**	16,887
Profit for the financial period	**1,680**	1,143
Other comprehensive income/(loss)	**(25)**	6
Share-based payments	**592**	489
Management recharge related to share-based payments	**(592)**	(489)
Balance, end of period	**20,239**	18,036
Total shareholder's funds	**$25,702**	$21,449

The directors do not recommend the payment of an ordinary dividend in respect of the nine months ended September 2015. No dividends were paid for the nine months ended September 2014.

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

Statements of Cash Flows (Unaudited)

		Nine Months Ended September	
$ in millions	**Note**	**2015**	2014
Cash flows from operating activities			
Cash generated from operations	14	**$2,047**	$ 268
Taxation received		**1**	14
Taxation paid		**(331)**	(141)
Net cash from operating activities		**1,717**	141
Cash flows from investing activities			
Payments to acquire tangible fixed assets		**(1)**	(2)
Net cash used in investing activities		**(1)**	(2)
Cash flows from financing activities			
Receipts from issuing ordinary share capital		**2,050**	–
Interest paid on long-term subordinated loans		**(217)**	(166)
Receipts from issuing long-term subordinated loans		**2,500**	–
Net cash from/(used in) financing activities		**4,333**	(166)
Net increase/(decrease) in cash and cash equivalents		**6,049**	(27)
Cash and cash equivalents, beginning of year		**3,578**	4,004
Foreign exchange losses on cash and cash equivalents		**(276)**	(101)
Cash and cash equivalents, end of period	13	**$9,351**	$3,876

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

Note 1.

General Information

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

The company's immediate parent undertaking is Goldman Sachs Group UK Limited, a company incorporated and registered in England and Wales.

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

Note 2.

Summary of Significant Accounting Policies

Basis of Presentation

For all periods up to and including the year ended December 2014, the company prepared its financial statements in accordance with the previous U.K. GAAP. The company transitioned from the previous U.K. GAAP to FRS 101 for all periods presented in these financial statements.

These financial statements are for an interim period that is part of the first annual period covered by FRS 101 'Reduced Disclosure Framework' and have been prepared in accordance with FRS 104 'Interim Financial Reporting' (FRS 104). FRS 104 replaced the Accounting Standards Board statement on 'half-yearly financial reports' and is effective for interim periods commencing on or after January 1, 2015.

These financial statements should be read in conjunction with the financial statements for the year ended December 2014, which were prepared under the previous U.K. GAAP.

The impact on the company's financial statements as a result of adopting FRS 101 is described in Note 4.

The following exemptions from the requirements of IFRS as adopted by the EU have been applied in the preparation of these financial statements in accordance with FRS 101:

- IFRS 2 'Share-based Payment' paragraph 45(b) and 46 to 52;
- IAS 1 'Presentation of Financial Statements' paragraph 38 to present comparative information in respect of:
  - IAS 1 'Presentation of Financial Statements' paragraph 79(a)(iv); and
  - IAS 16 'Property, Plant and Equipment' paragraph 73(e).
- IAS 1 'Presentation of Financial Statements' paragraphs 10(f), 16, and 40A-D;
- IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' paragraphs 30 and 31;
- IAS 24 'Related Party Disclosures' paragraph 17; and
- IAS 24 'Related Party Disclosures' requirements to disclose transactions with companies also wholly owned within the group.

As permitted by FRS 104, the company has not disclosed segmental total assets and total liabilities required by paragraph 16A(g) of FRS 104 as the company did not present this information in its most recent annual financial statements, prepared under the previous U.K. GAAP.

The company has disclosed its segmental net revenues and administrative expenses in "Results of Operations" in Part I of this financial report.

Accounting Policies

The accounting policies adopted are consistent with those described in the 2014 Annual Report apart from where noted below.

Revenue Recognition. The company has revised its presentation of market-making related costs (i.e., brokerage, clearing, exchange and distribution fees) to include them within administrative expenses as permitted by IAS 1 'Presentation of Financial Statements' (IAS 1) and IAS 18 'Revenue' (IAS 18), which better reflects the inherent nature of these balances. Previously, the company included market-making-related costs within net revenues. This resulted in net revenues and administrative expenses each increasing by $141 million for the three months ended September 2014 and $421 million for the nine months ended September 2014, respectively, with no change to the operating profit of the company.

Financial Instruments: Offsetting Financial Assets and Financial Liabilities. The company has adopted IAS 32 ‘Financial Instruments: Presentation’ (IAS 32), which includes ‘Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)’. This amendment included additional guidance not brought into the previous U.K. GAAP, which clarifies the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement. See Note 4 for further details about the impact of this change.

Financial Instruments: Fair Value Measurement. The company has adopted IFRS 13 ‘Fair Value Measurement’, which impacts the classification of its level 3 financial assets and financial liabilities. The company now classifies certain financial assets and financial liabilities as level 2 (as opposed to level 3) in the fair value hierarchy if it has no significant net risk to the level 3 inputs. This has resulted in the company reclassifying $5.36 billion of financial assets and financial liabilities from level 3 to level 2 as of January 1, 2014 and reclassifying $7.36 billion of financial assets and financial liabilities from level 3 to level 2 as of December 2014.

Pension Cost. The company has adopted IAS 19 ‘Employee Benefits (amended 2011)’ (IAS 19), which impacts the classification of pension costs related to the defined benefit section (the Plan) of the company’s hybrid pension plan between the profit and loss account and other comprehensive income. Under IAS 19, the company is now required to calculate the net finance income by multiplying both Plan assets and Plan liabilities by the discount rate. Under the previous U.K. GAAP, the net finance income was calculated by multiplying Plan assets by the expected rate of return on Plan assets and the Plan liabilities by the discount rate. Under both IAS 19 and the previous U.K. GAAP, the discount rate is a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the Plan liabilities. This adoption had no impact on the value of the company’s pension surplus. See Note 4 for further details about the impact of this change.

Note 3.

Critical Accounting Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts recognised in these financial statements. The nature of estimation means that actual outcomes could differ from those estimates. The following judgements have had the most significant effect on amounts recognised in the financial statements:

Fair Value Measurement

Certain of the company’s financial instruments include significant unobservable inputs (i.e., level 3). See Note 17 for information about the carrying value, valuation techniques and significant inputs of these instruments.

Litigation and Regulatory Proceedings

The company estimates and provides 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. Significant judgement is required in making these estimates and the company’s final liabilities may ultimately be materially different. See Notes 11 and 15 for further information about the company’s provisions for liabilities and legal proceedings that the company is involved in, for which it is not practicable to estimate an impact, respectively.

Estimated Year-End Discretionary Compensation

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

Defined Benefit Pension

The cost of the Plan and the value of the Plan liabilities are determined using actuarial valuations. This involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, such estimates are subject to significant uncertainty.

Note 4.

First-Time Adoption of FRS 101

As set out in Note 2, these financial statements are for an interim period that is part of the first annual period covered by FRS 101. The accounting policies used to prepare these financial statements are consistent with those described in the 2014 Annual Report, apart from where noted in Note 2.

The following describes the impact to the company's balance sheet and total comprehensive income as a result of adopting FRS 101.

Reconciliation of Equity

There was no impact on the company's equity as a result of adopting FRS 101. The only impact on the company's balance sheet on transition to FRS 101 resulted from the company's adoption of IAS 32. The company has offset $14.38 billion, $11.77 billion and $15.72 billion of collateralised agreements against collateralised financings as of January 1, 2014 (the company's opening balance sheet), September 2014 and December 2014, respectively.

Reconciliation of Total Comprehensive Income

The table below presents a comparison of the company's total comprehensive income under the previous U.K. GAAP and FRS 101.

	Three Months Ended September 2014			Nine Months Ended September 2014		
$ in millions	Previous U.K. GAAP	Adjustments on transition	FRS 101	Previous U.K. GAAP	Adjustments on transition	FRS 101
Net revenues[1]	$1,242	$ 141	$ 1,383	$ 4,510	$ 421	$ 4,931
Administrative expenses[1]	(900)	(141)	(1,041)	(2,934)	(421)	(3,355)
Operating profit	342	–	342	1,576	–	1,576
Interest payable and similar charges	(54)	–	(54)	(168)	–	(168)
Net finance income[2]	7	(5)	2	22	(16)	6
Profit on ordinary activities before taxation	295	(5)	290	1,430	(16)	1,414
Tax on profit on ordinary activities[2]	(53)	1	(52)	(274)	3	(271)
Profit on ordinary activities after taxation and for the financial period	$ 242	$ (4)	$ 238	$ 1,156	$ (13)	$ 1,143
Other comprehensive income/(loss)						
Items that will not be reclassified subsequently to profit or loss						
Actuarial profit/(loss) relating to the pension scheme[2]	30	5	35	(9)	16	7
U.K. deferred tax attributable to the actuarial profit/(loss)[2]	(6)	(1)	(7)	2	(3)	(1)
Other comprehensive income/(loss) for the financial period, net of tax	24	4	28	(7)	13	6
Total comprehensive income for the financial period	$ 266	$ –	$ 266	$ 1,149	$ –	$ 1,149

1. Market-making-related costs (i.e., brokerage, clearing, exchange and distribution fees) have been reclassified from net revenues to administrative expenses as permitted by IAS 1 and IAS 18. As a result, net revenues and administrative expenses each increased by $141 million for the three months ended September 2014 and $421 million for the nine months ended September 2014, respectively. See Note 2 for further details.

2. As a result of adopting IAS 19, the company's net finance income and tax on profit on ordinary activities decreased by $5 million and $1 million, respectively, for the three months ended September 2014, and by $16 million and $3 million, respectively, for the nine months ended September 2014. This was offset by an increase in the company's other comprehensive income. As a result, there was no impact to total comprehensive income. See Note 2 for further details.

Note 5.

Tax on Profit on Ordinary Activities

The table below presents the company's analysis of tax charge.

	Three Months Ended September		Nine Months Ended September	
$ in millions	**2015**	2014	**2015**	2014
Current tax				
U.K. corporation tax	**$ 77**	$ 44	**$261**	$ 96
Adjustments in respect of previous periods	**–**	–	**–**	1
Overseas taxation	**20**	30	**56**	48
Total current tax	**97**	74	**317**	145
Deferred tax				
Origination and reversal of temporary differences	**67**	(22)	**81**	127
Adjustments in respect of previous periods	**–**	–	**–**	(1)
Total deferred tax	**67**	(22)	**81**	126
Total	**$164**	$ 52	**$398**	$271

Note 6.

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

Financial instruments owned and financial instruments sold, but not yet purchased comprise financial instruments and investments within the operating activities of the company. Financial instruments owned pledged as collateral represents financial instruments owned and pledged to counterparties that have the right to deliver or repledge.

The table below presents the company's financial instruments owned, including financial instruments owned pledged as collateral.

	As of	
$ in millions	**September 2015**	December 2014
Cash instruments		
Commercial paper, certificates of deposit, time deposits and other money market instruments	**$ 1,357**	$ 1,225
Government and agency obligations	**15,204**	16,920
Mortgage and other asset-backed loans and securities	**1,484**	1,998
Bank loans and bridge loans	**1,598**	1,694
Corporate and other debt obligations	**9,143**	12,217
Equities and convertible debentures	**29,636**	30,676
Commodities	**11**	–
Total cash instruments	**58,433**	64,730
Derivative instruments		
Interest rates	**358,599**	367,156
Credit	**49,678**	64,636
Currencies	**123,327**	112,717
Commodities	**12,475**	15,964
Equities	**66,262**	67,024
Total derivative instruments	**610,341**	627,497
Financial instruments owned	**649,413**	667,823
Financial instruments owned pledged as collateral	**19,361**	24,404
Total	**$668,774**	$692,227

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

	As of	
$ in millions	**September 2015**	December 2014
Cash instruments		
Government and agency obligations	**$ 8,495**	$ 10,735
Corporate and other debt obligations	**2,542**	2,280
Equities and convertible debentures	**14,662**	14,626
Total cash instruments	**25,699**	27,641
Derivative instruments		
Interest rates	**349,774**	359,428
Credit	**45,499**	59,748
Currencies	**123,522**	113,264
Commodities	**12,346**	15,892
Equities	**61,197**	65,431
Total derivative instruments	**592,338**	613,763
Total	**$618,037**	$641,404

Note 7.

Collateralised Agreements and Collateralised Financings

The table below presents the company's collateralised agreements.

	As of	
$ in millions	**September 2015**	December 2014
Resale agreements	**$114,324**	$116,140
Securities borrowed	**66,356**	87,376
Total[1]	**$180,680**	$203,516

1. Includes amounts due from group undertakings of $102.06 billion and $134.92 billion as of September 2015 and December 2014, respectively.

The table below presents the company's collateralised financings.

	As of	
$ in millions	**September 2015**	December 2014
Repurchase agreements	**$ 52,985**	$ 46,801
Securities loaned	**81,866**	94,850
Total[1]	**$134,851**	$141,651

1. Includes amounts due to group undertakings of $88.55 billion and $103.15 billion as of September 2015 and December 2014, respectively.

Note 8.

Debtors

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

	As of	
$ in millions	**September 2015**	December 2014
Amounts due from broker/dealers and customers[1]	**$80,683**	$63,404
Amounts due from parent and group undertakings	**15,983**	13,711
Deferred tax	**379**	454
Other debtors	**29**	35
Prepayments and accrued income	**72**	39
Total[2]	**$97,146**	$77,643

1. Includes balances due in more than one year relating to secured lending and prepaid commodity contracts of $964 million and $981 million as of September 2015 and December 2014, respectively.
2. Includes financial assets of $96.71 billion and $77.14 billion as of September 2015 and December 2014, respectively, and non-financial assets of $436 million and $501 million as of September 2015 and December 2014, respectively.

Note 9.

Other Creditors

The table below presents the company's other creditors, all of which are payable within one year of the balance sheet date.

	As of	
$ in millions	**September 2015**	December 2014
Bank loans	**$ 67**	$ 111
Overdrafts	**2**	9
Debt securities issued	**13,189**	15,545
Amounts due to broker/dealers and customers	**75,423**	67,073
Amounts due to parent and group undertakings – unsecured borrowings	**36,750**	49,464
Amounts due to parent and group undertakings – secured borrowings[1]	**2,049**	–
Amounts due to parent and group undertakings – other unsecured creditors	**28,858**	20,992
Accrual for management charges payable to parent and group undertakings[2]	**720**	1,077
Corporation tax payable	**110**	78
Other taxes and social security costs	**194**	250
Other creditors and accruals	**1,456**	875
Total[3]	**$158,818**	$155,474

1. Secured borrowings are secured by securities which have been pledged as collateral.
2. The accrual for management charges payable to parent and group undertakings is in respect of share-based compensation.
3. Includes financial liabilities of $158.51 billion and $155.15 billion as of September 2015 and December 2014, respectively, and non-financial liabilities of $304 million and $328 million as of September 2015 and December 2014, respectively.

Debt Securities Issued

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

	As of	
$ in millions	**September 2015**	December 2014
Unsecured debt securities with affiliates	**$ 1,716**	$ 3,807
Unsecured debt securities with external counterparties	**9,179**	9,136
Secured debt securities with affiliates	**300**	672
Secured debt securities with external counterparties	**1,994**	1,930
Total	**$13,189**	$15,545

Secured debt securities are secured by securities which have been pledged as collateral. This pledged collateral is either recognised within financial instruments owned or sourced through collateralised agreements.

Amounts Due to Parent and Group Undertakings – Unsecured Borrowings/Secured Borrowings

During the first nine months of 2015, unsecured borrowings from parent and group undertakings reduced by $12.71 billion, comprising repayments of $31.74 billion, partially offset by new proceeds of $19.03 billion. Secured borrowings from parent and group undertakings increased by $2.05 billion due to new proceeds.

Note 10.

Creditors: Amounts Falling Due After More Than One Year

The table below presents the company's creditors: amounts falling due after more than one year, all of which are financial liabilities.

	As of	
$ in millions	**September 2015**	December 2014
Bank loans	**$ 100**	$ –
Long-term subordinated loans	**8,958**	6,458
Debt securities issued	**7,167**	6,387
Amounts due to parent and group undertakings – unsecured borrowings	**1,783**	2,702
Amounts due to parent and group undertakings – other unsecured creditors	**408**	379
Accrual for management charges payable to parent and group undertakings[1]	**379**	774
Total	**$18,795**	$16,700

1. The accrual for management charges payable to parent and group undertakings is in respect of share-based compensation.

Long-Term Subordinated Loans

During the second quarter of 2015, the company issued $2.50 billion of long-term subordinated loans to its parent undertaking. As of September 2015 and December 2014, long-term subordinated loans comprise long-term subordinated loans from parent and group undertakings, which are unsecured and carry interest at a margin over the U.S. Federal Reserve's federal funds rate. The margin is reset on a periodic basis to reflect changes in GS Group's weighted average cost of debt. Long-term subordinated loans constitute regulatory capital as approved by the PRA and are repayable subject to PRA approval and upon giving or receiving at least 5 years' notice to or from the parent or group undertaking.

Debt Securities Issued

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

	As of	
$ in millions	**September 2015**	December 2014
Unsecured debt securities with affiliates	**$ 612**	$ 471
Unsecured debt securities with external counterparties	**4,374**	3,076
Secured debt securities with affiliates	**1,266**	1,190
Secured debt securities with external counterparties	**915**	1,650
Total	**$7,167**	$6,387

Secured debt securities are secured by securities which have been pledged as collateral. This pledged collateral is either recognised within financial instruments owned or sourced through collateralised agreements.

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

	As of	
$ in millions	**September 2015**	December 2014
In more than one year, but not more than two years	**$2,439**	$1,637
In more than two years, but not more than five years	**1,365**	3,059
In more than five years	**3,363**	1,691
Total	**$7,167**	$6,387

Amounts due in more than five years predominantly relate to structured debt securities with maturities falling due between 2021 and 2045. Payments on these securities are typically referenced to underlying financial assets, which are predominately interest rate and equities-related.

Amounts Due to Parent and Group Undertakings – Unsecured Borrowings

During the first nine months of 2015, unsecured borrowings from parent and group undertakings reduced by $919 million, comprising repayments of $2.70 billion, partially offset by new proceeds of $1.78 billion. As of September 2015 and December 2014, the company had $283 million and $400 million, respectively, of unsecured borrowings from parent and group undertakings with a maturity of greater than five years.

Note 11.

Provisions for Liabilities

The table below presents the company's provisions for liabilities, which are in respect of legal claims made against the company.

$ in millions	2015
As of January 1	$ 17
Charge to the profit and loss account	8
Reduction in provision	(6)
Utilised during the period	(15)
Foreign exchange gain	(1)
As of September 30	**$ 3**

Further details relating to the provisions have not been disclosed as permitted by IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', on the grounds that it would be seriously prejudicial to do so.

Note 12.

Share Capital

The table below presents the company's share capital.

Allotted, called up and fully paid	Ordinary shares of $1 each	$ in millions
As of January 1, 2015	533,470,150	$533
Allotted during the period	48,494,011	49
As of September 30, 2015	**581,964,161**	**$582**

During the second quarter 2015, the directors and shareholder of the company reviewed GSI's capital requirements and new ordinary shares were issued in order to increase the company's regulatory capital and further support ongoing business activities.

On June 10, 2015, 36,088,475 ordinary shares of $1 each were allotted at $42.95 to Goldman Sachs Group UK Limited. The total consideration received was $1,550,000,000 in cash incorporating a share premium of $1,513,911,525.

On June 29, 2015, 12,428,536 ordinary shares of $1 each were allotted at $40.23 to Goldman Sachs Group UK Limited. The total consideration received was $500,000,000 in cash incorporating a share premium of $487,571,464.

Note 13.

Cash and Cash Equivalents

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

	As of September	
$ in millions	2015	2014
Cash at bank and in hand	$9,353	$3,914
Overdrafts (see Note 9)	(2)	(38)
Total	**$9,351**	$3,876

Note 14.

Reconciliation of Cash Flows From Operating Activities

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

	Nine Months Ended September	
$ in millions	2015	2014
Profit on ordinary activities before taxation	$ 2,078	$ 1,414
Adjustments for		
Depreciation of tangible fixed assets	3	2
Charge for defined benefit plan	6	29
Foreign exchange losses	280	106
Share-based compensation expense	65	201
Provision for liabilities	2	(10)
Interest payable and similar charges	204	168
Cash generated before changes in operating assets and liabilities	2,638	1,910
Changes in operating assets		
Decrease/(increase) in financial instruments owned, including financial instruments owned pledged as collateral	23,453	(63,791)
Decrease in collateralised agreements	22,836	7,982
Increase in debtors	(19,583)	(23,828)
	26,706	(79,637)
Changes in operating liabilities		
Increase/(decrease) in financial instruments sold, but not yet purchased	(23,367)	65,359
Decrease in collateralised financings	(6,800)	(33,369)
Increase in other creditors and creditors: amounts falling due after more than one year	2,913	46,039
Decrease in provisions for liabilities	(15)	–
	(27,269)	78,029
Contributions paid to defined benefit plan	(28)	(34)
Cash generated from operations	**$ 2,047**	$ 268

Cash generated from operations includes interest paid of $1.73 billion and $1.59 billion as of September 2015 and September 2014, respectively, and interest received of $1.74 billion and $2.03 billion, as of September 2015 and September 2014, respectively.

Note 15.

Financial Commitments and Contingencies

Commitments and Contingencies

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

	As of	
$ in millions	**September 2015**	December 2014
Contingent and forward starting resale and securities borrowing agreements	**$50,048**	$34,572
Forward starting repurchase and secured lending agreements	**13,689**	14,760
Other	**3,488**	4,001
Total	**$67,225**	$53,333

The company 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 company also enters into commitments to provide contingent financing to its clients and counterparties through resale agreements. The company's funding of these commitments depends on the satisfaction of all contractual conditions to the resale agreement and these commitments can expire unused.

Other commitments primarily relate to collateral commitments.

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

Leases

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

Legal Proceedings

The company is involved in the below legal proceedings, however it is not practicable to estimate an impact, if any, of these proceedings.

Credit Derivatives Antitrust Matters. The European Commission announced in April 2011 that it was initiating proceedings to investigate further numerous financial services companies, including GSI, in connection with the supply of data related to credit default swaps and in connection with profit sharing and fee arrangements for clearing of credit default swaps, including potential anti-competitive practices. On July 1, 2013, the European Commission issued to those financial services companies a Statement of Objections alleging that they colluded to limit competition in the trading of exchange-traded unfunded credit derivatives and exchange trading of credit default swaps more generally, and setting out its process for determining fines and other remedies. GSI's current understanding is that the proceedings related to profit sharing and fee arrangements for clearing of credit default swaps have been suspended indefinitely.

Mortgage-Related Matters. Various alleged purchasers of, and counterparties involved in transactions relating to, mortgage pass-through certificates, CDOs and other mortgage-related products (including Aozora Bank, Ltd., Basis Yield Alpha Fund (Master), Deutsche Zentral-Genossenschaftbank and IKB Deutsche Industriebank AG) have filed complaints in the United States against the company and certain of its 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.

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, 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 August 4, 2014, GSI withdrew its April 10, 2014 motion for summary judgment, and on December 4, 2014, the Libyan Investment Authority filed an amended statement of claim.

Commodities-Related Litigation. GSI is among the defendants named 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 aluminium and aluminium 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 remaining plaintiffs sought to amend their complaints in October 2014. On March 26, 2015, the court granted in part and denied in part plaintiffs' motions for leave to amend their complaints, rejecting their monopolisation claims and most state law claims but permitting their antitrust conspiracy claims and certain parallel state law and unjust enrichment claims to proceed, and the court directed the remaining plaintiffs to file their amended complaints, which they did on April 9, 2015.

GSI is among the defendants in putative class actions, filed beginning May 23, 2014 in the U.S. District Court for the Southern District of New York, based on alleged violations of the federal antitrust laws in connection with the management of zinc storage facilities. The complaints seek declaratory, injunctive and other equitable relief as well as unspecified monetary damages, including treble damages. On June 17, 2015, the plaintiffs filed a consolidated amended complaint. On August 3, 2015, the defendants moved to dismiss.

GSI is among the defendants named in putative class actions relating to trading in platinum and palladium, filed beginning on November 25, 2014, 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 July 27, 2015, plaintiffs filed a second amended consolidated complaint, and on September 21, 2015, the defendants moved to dismiss.

Note 16.

Financial Risk Management and Capital Management

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

Note 17.

Financial Instruments

Financial Instruments by Category

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

	Financial Assets							
	As of September 2015				As of December 2014			
$ in millions	**Held for trading**	**Designated at fair value**	**Loans and receivables**	**Total**	Held for trading	Designated at fair value	Loans and receivables	Total
Financial instruments owned	**$649,413**	**$ –**	**$ –**	**$649,413**	$667,823	$ –	$ –	$667,823
Financial instruments owned pledged as collateral	**19,361**	**–**	**–**	**19,361**	24,404	–	–	24,404
Collateralised agreements	**–**	**147,164**	**33,516**	**180,680**	–	158,809	44,707	203,516
Debtors	**–**	**1,747**	**94,963**	**96,710**	–	1,780	75,362	77,142
Cash at bank and in hand	**–**	**–**	**9,353**	**9,353**	–	–	3,586	3,586
Total	**$668,774**	**$148,911**	**$137,832**	**$955,517**	$692,227	$160,589	$123,655	$976,471

	Financial Liabilities							
	As of September 2015				As of December 2014			
$ in millions	**Held for trading**	**Designated at fair value**	**Amortised cost**	**Total**	Held for trading	Designated at fair value	Amortised cost	Total
Financial instruments sold, but not yet purchased	**$618,037**	**$ –**	**$ –**	**$618,037**	$641,404	$ –	$ –	$641,404
Collateralised financings	**–**	**91,675**	**43,176**	**134,851**	–	87,774	53,877	141,651
Other creditors	**–**	**15,899**	**142,615**	**158,514**	–	16,149	138,997	155,146
Creditors: amounts falling due after more than one year	**–**	**6,731**	**12,064**	**18,795**	–	5,899	10,801	16,700
Total	**$618,037**	**$114,305**	**$197,855**	**$930,197**	$641,404	$109,822	$203,675	$954,901

Fair Value Hierarchy

U.K. GAAP has a three-level fair value hierarchy for disclosure of fair value measurements. The fair value hierarchy prioritises inputs to the valuation techniques used to measure fair value, giving the highest priority to level 1 inputs and the lowest priority to level 3 inputs. A financial 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 company had access at the measurement date for identical, unrestricted assets or liabilities.

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

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

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

Valuation Techniques and Significant Inputs

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

- Level 1 cash instruments are valued using quoted prices for identical unrestricted instruments in active markets.
- 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 have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, level 3 cash instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequently, the company uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realised on sales of financial assets.

The table below presents the valuation techniques and the nature of significant inputs. These valuation techniques and significant inputs are generally used to determine the fair values of each type of level 3 cash instrument.

Level 3 Cash Instruments	Valuation Techniques and Significant Inputs
Mortgages and other asset-backed loans and securities Bank loans and bridge loans	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses and include: • Market yields implied by transactions of similar or related assets. • Current levels and changes in market indices such as the iTraxx, CDX and LCDX (indices that track the performance of corporate credit and loans, respectively). • Current performance of the borrower or loan collateral and recovery assumptions if a default occurs. • Timing of expected future cash flows (duration) which, in certain cases, may incorporate the impact of other unobservable inputs (e.g. prepayment speeds).
Corporate and other debt obligations	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include: • Market yields implied by transactions of similar or related assets. • Current levels and changes in market indices such as the iTraxx, CDX and LCDX (indices that track the performance of corporate credit and loans, respectively). • Current performance of the borrower or loan collateral and recovery assumptions if a default occurs. • Maturity and coupon profile of the instrument.
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.

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

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

- **Interest Rate.** In general, the key inputs used to value interest rate derivatives are transparent, even for most long-dated contracts. Interest rate swaps and options denominated in the currencies of leading industrialised nations are characterised by high trading volumes and tight bid/offer spreads. Interest rate derivatives that reference indices, such as an inflation index, or the shape of the yield curve (e.g. 10-year swap rate vs. 2-year swap rate) are more complex, but the key inputs are generally observable.

- **Credit.** Price transparency for credit default swaps, including both single names and baskets of credits, varies by market and underlying reference entity or obligation. Credit default swaps that reference indices, large corporates and major sovereigns generally exhibit the most price transparency. For credit default swaps with other underliers, price transparency varies based on credit rating, the cost of borrowing the underlying reference obligations, and the availability of the underlying reference obligations for delivery upon the default of the issuer. Credit default swaps that reference loans, asset-backed securities and emerging market debt instruments tend to have less price transparency than those that reference corporate bonds. In addition, more complex credit derivatives, such as those sensitive to the correlation between two or more underlying reference obligations, generally have less price transparency.

- **Currency.** Prices for currency derivatives based on the exchange rates of leading industrialised nations, including those with longer tenors, are generally transparent. The primary difference between the price transparency of developed and emerging market currency derivatives is that emerging markets tend to be observable for contracts with shorter tenors.

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

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

Valuation techniques and significant inputs for each level of the fair value hierarchy include:

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

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

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

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

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

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

Valuation adjustments are integral to determining the fair value of derivative portfolios and are used to adjust the mid-market valuations produced by derivative pricing models to the appropriate exit price valuation. These adjustments incorporate bid/offer spreads, the cost of liquidity, credit valuation adjustments and funding valuation adjustments, which account for the credit and funding risk inherent in the uncollateralised portion of derivative portfolios. The company also makes funding valuation adjustments to collateralised derivatives where the terms of the agreement do not permit the 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 company makes model or exit price adjustments to account for the valuation uncertainty present in the transaction.

Collateralised Agreements and Collateralised Financings. The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned are funding spreads, the amount and timing of expected future cash flows and interest rates.

Debtors. Debtors measured at fair value are primarily comprised of secured lending and prepaid commodity contracts. The significant inputs to the valuation of such receivables are commodity prices, interest rates, the amount and timing of expected future cash flows and funding spreads.

Other Creditors and Creditors: Amounts Falling Due After More Than One Year. Other creditors and creditors: amounts falling due after more than one year primarily comprise hybrid financial instruments and prepaid commodity contracts.

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

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

Significant Unobservable Inputs Used in Level 3 Fair Value Measurement

Cash Instruments. As of September 2015 and December 2014, the company had level 3 asset cash instruments of $1.12 billion and $1.98 billion, respectively. Level 3 liability cash instruments as of both September 2015 and December 2014 were not material. The table below presents the ranges of significant unobservable inputs used to value these level 3 asset cash instruments, as well as the related weighted averages. In the table below:

- 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 financial 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 presented in the tables below for bank loans and bridge loans is appropriate for valuing a specific bank loan but may not be appropriate for valuing any other bank loan. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the company's level 3 cash instruments.
- Increases in yield, discount rate or duration used in the valuation of the company's level 3 cash instruments would result in a lower fair value measurement, while increases in recovery rate, basis or multiples would result in a higher fair value measurement. Due to the distinctive nature of each of the company's level 3 cash instruments, the interrelationship of inputs is not necessarily uniform within each product type.
- 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.

		Range of Significant Unobservable Inputs (Weighted Average)	
Level 3 Cash Instruments	**Valuation Techniques and Significant Unobservable Inputs**	**As of September 2015**	As of December 2014
Bank loans and bridge loans Mortgages and other asset-backed loans and securities *($627 million and $758 million of level 3 assets as of September 2015 and December 2014, respectively)*	Discounted cash flows: • Yield • Recovery rate • Duration (years)	2.9% to 8.5% (5.0%) 22.6% to 70.0% (37.8%) 1.9 to 11.5 (5.2)	1.9% to 17.0% (3.8%) 57.1% to 57.1% (57.1%) 1.3 to 12.7 (3.7)
Corporate and other debt obligations Commercial paper, certificates of deposit, time deposits and other money market instruments Government and agency obligations *($347 million and $1.03 billion of level 3 assets as of September 2015 and December 2014, respectively)*	Discounted cash flows: • Yield • Recovery rate • Duration (years)	1.7% to 12.5% (4.1%) 0.0% to 70.0% (57.3%) 1.3 to 5.9 (2.8)	1.6% to 24.4% (5.5%) 0.0% to 70.0% (37.4%) 0.7 to 6.4 (3.0)
Equities and convertible debentures (including private equity investments and investments in real estate entities) *($150 million and $187 million of level 3 assets as of September 2015 and December 2014, respectively)*	Market comparables and discounted cash flows: • Multiples • Discount rate / yield	0.9x to 14.5x (2.4x) 8.6% to 13.3% (11.4%)	0.9x to 6.3x (1.5x) 15.8% to 15.8% (15.8%)

Derivative Instruments. As of September 2015 and December 2014, the company had net level 3 derivative instruments of $2.80 billion and $3.12 billion, respectively. The table below presents the ranges of significant unobservable inputs used to value the company's credit and equity derivative instruments as well as averages and medians of these inputs. As of September 2015 and December 2014, the company had net level 3 financial instruments of $(132) million and $242 million, respectively, relating to interest rate, currencies and commodities derivatives for which the range of significant unobservable inputs has not been disclosed as the amounts are not material. In the table below:

- 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.
- 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 presented in the tables below for credit derivatives is appropriate for valuing a specific credit derivative but may not be appropriate for valuing any other credit derivative. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the company's level 3 derivatives.
- 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.

Level 3 Derivative Product Type	Valuation Techniques and Significant Unobservable Inputs	Range of Significant Unobservable Inputs (Average / Median) As of September 2015	As of December 2014
Credit *($3.10 billion and $3.36 billion of net level 3 derivative instruments as of September 2015 and December 2014, respectively)*	Option pricing models, correlation models and discounted cash flows models:		
	• Correlation	44% to 99% (70% / 70%)	57% to 99% (77% / 75%)
	• Credit spreads	1 basis points (bps) to 1,016 bps (190 bps / 109 bps)	1 basis points (bps) to 700 bps (143 bps / 107 bps)
	• Upfront credit points	1 points to 67 points (19 points / 31 points)	1 points to 84 points (35 points / 16 points)
	• Recovery rates	11% to 40% (35% / 40%)	14% to 60% (30% / 25%)
Equities *($(163) million and $(484) million of net level 3 derivative instruments as of September 2015 and December 2014, respectively)*	Option pricing models:		
	• Correlation	28% to 94% (67% / 72%)	30% to 91% (74% / 76%)
	• Volatility	5% to 92% (26% / 26%)	5% to 68% (21% / 21%)

Range of Significant Unobservable Inputs

Below is information about the ranges of significant unobservable inputs used to value the company's level 3 derivative instruments.

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

Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

Below is a description of the directional sensitivity of the company's level 3 fair value measurements to changes in significant unobservable inputs, in isolation. Due to the distinctive nature of each of the company's level 3 derivatives, the interrelationship of inputs is not necessarily uniform within each product type.

- **Correlation.** In general, for contracts where the holder benefits from the consistent directional performance of the underlying asset or index prices (e.g. interest rates, credit spreads, foreign exchange rates, inflation rates and equity prices), an increase in correlation results in a higher fair value measurement.
- **Volatility.** In general, for purchased options, an increase in volatility results in a higher fair value measurement.
- **Credit spreads, upfront credit points and recovery rates.** In general, the fair value of purchased credit protection increases as credit spreads or upfront credit points increase or recovery rates decrease. Credit spreads, upfront credit points and recovery rates are strongly related to distinctive risk factors of the underlying reference obligations. These 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.

Collateralised Agreements and Collateralised Financings. As of both September 2015 and December 2014, there were no level 3 resale agreements, securities borrowed or securities loaned. As of both September 2015 and December 2014, the company's level 3 repurchase agreements were not material.

Debtors. As of both September 2015 and December 2014, the company's level 3 debtors were $nil.

Other Creditors and Creditors: Amounts Falling Due After More Than One Year. As of both September 2015 and December 2014, the significant unobservable inputs used to value the company's secured level 3 other creditors and creditors: amounts falling due after more than one year have been incorporated in the company's cash instruments disclosures related to unobservable inputs. See "Cash Instruments" above.

As of both September 2015 and December 2014, substantially all of the company's unsecured level 3 other creditors and creditors: amounts falling due after more than one year 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 company's derivative disclosures related to unobservable inputs. See "Derivative Instruments" above.

Fair Value of Financial Instruments by Level

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

During 2015 and 2014, there were no significant transfers between level 1 and level 2 financial assets and financial liabilities measured at fair value on a recurring basis.

	Financial Assets at Fair Value							
	As of September 2015				As of December 2014			
$ in millions	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Cash instruments	**$40,844**	**$ 16,465**	**$1,124**	**$ 58,433**	$38,819	$ 23,935	$1,976	$ 64,730
Derivative instruments	**7**	**604,958**	**5,376**	**610,341**	17	621,663	5,817	627,497
Financial instruments owned, including financial instruments owned pledged as collateral	**40,851**	**621,423**	**6,500**	**668,774**	38,836	645,598	7,793	692,227
Collateralised agreements	**–**	**147,164**	**–**	**147,164**	–	158,809	–	158,809
Debtors	**–**	**1,747**	**–**	**1,747**	–	1,780	–	1,780
Total	**$40,851**	**$770,334**	**$6,500**	**$817,685**	$38,836	$806,187	$7,793	$852,816

	Financial Liabilities at Fair Value							
	As of September 2015				As of December 2014			
$ in millions	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Cash instruments	**$21,882**	**$ 3,733**	**$ 84**	**$ 25,699**	$22,751	$ 4,869	$ 21	$ 27,641
Derivative instruments	**27**	**589,739**	**2,572**	**592,338**	34	611,032	2,697	613,763
Financial instruments sold, but not yet purchased	**21,909**	**593,472**	**2,656**	**618,037**	22,785	615,901	2,718	641,404
Collateralised financings	**–**	**91,609**	**66**	**91,675**	–	87,650	124	87,774
Other creditors	**–**	**13,011**	**2,888**	**15,899**	–	13,412	2,737	16,149
Creditors: amounts falling due after more than one year	**–**	**4,655**	**2,076**	**6,731**	–	5,056	843	5,899
Total	**$21,909**	**$702,747**	**$7,686**	**$732,342**	$22,785	$722,019	$6,422	$751,226

	Net Derivative Instruments at Fair Value							
	As of September 2015				As of December 2014			
$ in millions	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Net derivative instruments	**$(20)**	**$15,219**	**$2,804**	**$18,003**	$(17)	$10,631	$3,120	$13,734

Level 3 Rollforward

The tables below present the changes in fair value for all level 3 financial assets and financial liabilities measured at fair value on a recurring basis. Gains and losses arising on level 3 assets are recognised within net revenues in the profit and loss account. In the tables 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 financial assets, increases are shown as positive amounts, while decreases are shown as negative amounts. For level 3 financial liabilities, increases are shown as negative amounts, while decreases are shown as positive amounts.

- Transfers between levels are recognised at the beginning of the reporting period in which they occur. Accordingly, the tables do not include gains or losses for level 3 financial assets and financial liabilities that were transferred out of level 3 prior to the end of the period.

- Level 3 financial assets and financial liabilities are frequently economically hedged with level 1 and level 2 financial assets and financial liabilities. Accordingly, level 3 gains or losses that are reported in the table below for a particular class of financial asset or financial liability can be partially offset by gains or losses attributable to level 1 or level 2 in the same class of financial asset or financial liability or gains or losses attributable to level 1, level 2 or level 3 in a different class of financial asset or financial liability. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the company's results of operations, liquidity or capital resources.

- See "Level 3 Rollforward Commentary" below for an explanation of transfers into and transfers out of level 3.

	Level 3 Financial Assets and Financial Liabilities at Fair Value							
$ in millions	**Balance, beginning of year**	**Gains/ (losses)**	**Purchases**	**Sales**	**Settlements**	**Transfers into level 3**	**Transfers out of level 3**	**Balance, end of period**
Nine Months Ended September 2015								
Financial instruments owned, including financial instruments owned pledged as collateral	**$ 7,793**	**$ 640**	**$ 505**	**$ (443)**	**$(1,205)**	**$ 583**	**$(1,373)**	**$ 6,500**
Debtors	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total level 3 financial assets	**$ 7,793**	**$ 640**	**$ 505**	**$ (443)**	**$(1,205)**	**$ 583**	**$(1,373)**	**$ 6,500**
Financial instruments sold, but not yet purchased	**$(2,718)**	**$ (123)**	**$ 48**	**$ (303)**	**$ 423**	**$(409)**	**$ 426**	**$(2,656)**
Collateralised financings	**(124)**	**(1)**	**–**	**–**	**59**	**–**	**–**	**(66)**
Other creditors and creditors: amounts falling due after more than one year	**(3,580)**	**607**	**–**	**(3,206)**	**1,631**	**(435)**	**19**	**(4,964)**
Total level 3 financial liabilities	**$(6,422)**	**$ 483**	**$ 48**	**$(3,509)**	**$ 2,113**	**$(844)**	**$ 445**	**$(7,686)**
Year Ended December 2014								
Financial instruments owned, including financial instruments owned pledged as collateral	$ 8,055	$2,509	$1,700	$ (765)	$(3,089)	$ 712	$(1,329)	$ 7,793
Debtors	180	–	–	–	–	–	(180)	–
Total level 3 financial assets	$ 8,235	$2,509	$1,700	$ (765)	$(3,089)	$ 712	$(1,509)	$ 7,793
Financial instruments sold, but not yet purchased	$(3,835)	$ (423)	$ (1)	$ (655)	$ 1,173	$(245)	$ 1,268	$(2,718)
Collateralised financings	(1,010)	–	–	–	886	–	–	(124)
Other creditors and creditors: amounts falling due after more than one year	(2,668)	132	(2)	(2,954)	1,773	(447)	586	(3,580)
Total level 3 financial liabilities	$(7,513)	$ (291)	$ (3)	$(3,609)	$ 3,832	$(692)	$ 1,854	$(6,422)

Level 3 Rollforward Commentary

Nine Months Ended September 2015. Transfers into level 3 primarily reflected transfers of certain credit derivatives from level 2, principally due to unobservable credit spread inputs becoming significant to the valuation of these instruments and the transfers of certain equity derivatives from level 2, principally due to unobservable volatility and correlation inputs becoming significant to the valuation of these derivatives.

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

Year Ended December 2014. Transfers into level 3 primarily reflected transfers of certain credit derivatives from level 2, principally due to unobservable credit spread inputs becoming significant to the valuation of these instruments or a reduction in market data available for the instrument.

Transfers out of level 3 primarily reflected transfers of certain credit derivatives to level 2, principally due to unobservable credit spread inputs no longer being significant to the net risk of certain portfolios and the transfers of certain equity derivatives to level 2, due to unobservable correlations no longer being significant to the valuation of the instrument.

Fair Value Financial Instruments Valued Using Techniques That Incorporate Unobservable Inputs

The fair value of financial instruments may be determined in whole or part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument or based on available observable market data and changing these assumptions will change the resultant estimate of fair value. The potential impact of using reasonable possible alternative assumptions for the valuations, including significant unobservable inputs, has been quantified as of September 2015 and December 2014, as approximately $236 million and $179 million, respectively, for favourable changes and $227 million and $146 million, respectively, for unfavourable changes. In determining reasonably possible alternative unfavourable assumptions, a detailed business and position level review has been performed to identify and quantify instances where potential uncertainty exists. This has taken into account the positions' fair value as compared to the range of available market information.

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

$ in millions	**Nine Months Ended September 2015**	Year Ended December 2014
As of January 1	**$136**	$ 80
New transactions	**65**	118
Amounts recognised in the profit and loss account during the period	**(72)**	(62)
Ending balance	**$129**	$136

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

As of September 2015 and December 2014, the company had $137.83 billion and $123.66 billion, respectively, of current financial assets and $185.79 billion and $192.87 billion, respectively, of current financial liabilities that are not measured at fair value. Given the short-term nature of these instruments, their carrying amounts in the balance sheet are a reasonable approximation of fair value.

As of September 2015 and December 2014, the company had $12.06 billion and $10.80 billion, respectively, of financial liabilities that are due after more than one year that are not measured at fair value which predominantly relate to long-term intercompany borrowings. The interest rates of these borrowings are variable in nature and approximate prevailing market interest rates for instruments with similar terms and characteristics. As such, their carrying amounts in the balance sheet are a reasonable approximation of fair value.

Note 18.

Offsetting of Financial Assets and Financial Liabilities

The tables below present the company's financial assets and financial liabilities that are subject to enforceable netting agreements and offsetting. Gross amounts exclude the effects of both counterparty netting and collateral, and therefore are not representative of the company's exposure. Amounts are only offset in the balance sheet when the company currently has a legally enforceable right to set off the recognised amounts and an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The tables below also present amounts not offset in the balance sheet in respect of counterparty netting (i.e., the netting of financial assets and financial liabilities for a given counterparty when a legal right of setoff exists under an enforceable netting agreement), and cash and security collateral received and posted under enforceable credit support agreements, that do not meet the criteria for offsetting under U.K. GAAP. Where the company has received or posted collateral under credit support agreements, but has not yet determined whether such agreements are enforceable, the related collateral has not been included in the amounts not offset in the balance sheet, in the table below.

	As of September 2015						
				Amounts not offset in the balance sheet			
$ in millions	Gross amounts[1,2]	Amounts offset in the balance sheet	Net amount presented in the balance sheet	Counterparty netting	Cash collateral	Security collateral	Net amount
Financial assets							
Cash instruments	**$ 13,235**	**$ (10,291)**	**$ 2,944**	**$ (18)**	**$ (878)**	**$ (1,458)**	**$ 590**
Derivative instruments	**681,505**	**(71,164)**	**610,341**	**(529,287)**	**(45,332)**	**(11,680)**	**24,042**
Financial instruments owned	**694,740**	**(81,455)**	**613,285**	**(529,305)**	**(46,210)**	**(13,138)**	**24,632**
Collateralised agreements	**205,835**	**(25,155)**	**180,680**	**(66,494)**	**–**	**(109,730)**	**4,456**
Debtors	**66,559**	**(9,681)**	**56,878**	**(557)**	**(35,031)**	**(10,591)**	**10,699**
Financial assets subject to enforceable netting agreements	**967,134**	**(116,291)**	**850,843**	**(596,356)**	**(81,241)**	**(133,459)**	**39,787**
Financial assets not subject to enforceable netting agreements	**104,674**	**–**	**104,674**	**–**	**–**	**–**	**104,674**
Total financial assets	**$1,071,808**	**$(116,291)**	**$955,517**	**$(596,356)**	**$(81,241)**	**$(133,459)**	**$144,461**
Financial liabilities							
Derivative instruments	**$ 662,074**	**$ (69,736)**	**$592,338**	**$(529,287)**	**$(35,031)**	**$(11,188)**	**$ 16,832**
Financial instruments sold, but not yet purchased	**662,074**	**(69,736)**	**592,338**	**(529,287)**	**(35,031)**	**(11,188)**	**16,832**
Collateralised financings	**169,687**	**(34,836)**	**134,851**	**(66,494)**	**–**	**(51,990)**	**16,367**
Other creditors	**70,796**	**(4,937)**	**65,859**	**(18)**	**(45,332)**	**–**	**20,509**
Creditors: amounts falling due after more than one year	**8,918**	**(6,782)**	**2,136**	**(557)**	**–**	**–**	**1,579**
Financial liabilities subject to enforceable netting agreements	**911,475**	**(116,291)**	**795,184**	**(596,356)**	**(80,363)**	**(63,178)**	**55,287**
Financial liabilities not subject to enforceable netting agreements	**135,013**	**–**	**135,013**	**–**	**–**	**–**	**135,013**
Total financial liabilities	**$1,046,488**	**$(116,291)**	**$930,197**	**$(596,356)**	**$(80,363)**	**$(63,178)**	**$190,300**

1. Derivative assets and derivative liabilities include amounts that are not subject to an enforceable netting agreement or are subject to a netting agreement that the company has not yet determined to be enforceable of $10.34 billion and $7.74 billion, respectively.

2. Substantially all collateralised agreements and collateralised financings are subject to enforceable netting agreements.

Notes to the Financial Statements (Unaudited)

	As of December 2014						
				Amounts not offset in the balance sheet			
$ in millions	Gross amounts[1,2]	Amounts offset in the balance sheet	Net amount presented in the balance sheet	Counterparty netting	Cash collateral	Security collateral	Net amount
Financial assets							
Cash instruments	$ 17,460	$ (14,453)	$ 3,007	$ (161)	$ –	$ –	$ 2,846
Derivative instruments	759,612	(132,115)	627,497	(549,005)	(42,710)	(10,215)	25,567
Financial instruments owned	777,072	(146,568)	630,504	(549,166)	(42,710)	(10,215)	28,413
Collateralised agreements	219,234	(15,718)	203,516	(88,761)	–	(109,488)	5,267
Debtors	58,046	(9,975)	48,071	(602)	(28,928)	(8,903)	9,638
Financial assets subject to enforceable netting agreements	1,054,352	(172,261)	882,091	(638,529)	(71,638)	(128,606)	43,318
Financial assets not subject to enforceable netting agreements	94,380	–	94,380	–	–	–	94,380
Total financial assets	$1,148,732	$(172,261)	$976,471	$(638,529)	$(71,638)	$(128,606)	$137,698
Financial liabilities							
Derivative instruments	$ 744,162	$(130,399)	$613,763	$(549,005)	$(28,928)	$ (16,091)	$ 19,739
Financial instruments sold, but not yet purchased	744,162	(130,399)	613,763	(549,005)	(28,928)	(16,091)	19,739
Collateralised financings	167,344	(25,693)	141,651	(88,761)	–	(38,351)	14,539
Other creditors	72,453	(8,601)	63,852	(161)	(42,710)	–	20,981
Creditors: amounts falling due after more than one year	9,603	(7,568)	2,035	(602)	–	–	1,433
Financial liabilities subject to enforceable netting agreements	993,562	(172,261)	821,301	(638,529)	(71,638)	(54,442)	56,692
Financial liabilities not subject to enforceable netting agreements	133,600	–	133,600	–	–	–	133,600
Total financial liabilities	$1,127,162	$(172,261)	$954,901	$(638,529)	$(71,638)	$ (54,442)	$190,292

1. Derivative assets and derivative liabilities include amounts that are not subject to an enforceable netting agreement or are subject to a netting agreement that the company has not yet determined to be enforceable of $12.52 billion and $10.50 billion, respectively.

2. Substantially all collateralised agreements and collateralised financings are subject to enforceable netting agreements.