

2014

FOUR TRENDS SHAPING MARKETS AND ECONOMIES



The Goldman Sachs Business Principles

Our clients' interests always come first.

Our experience shows that if we serve our clients well, our own success will follow.

Our assets are our people, capital and reputation.

If any of these is ever diminished, the last is the most difficult to restore. We are dedicated to complying fully with the letter and spirit of the laws, rules and ethical principles that govern us. Our continued success depends upon unwavering adherence to this standard.

Our goal is to provide superior returns to our shareholders.

Profitability is critical to achieving superior returns, building our capital, and attracting and keeping our best people. Significant employee stock ownership aligns the interests of our employees and our shareholders.

We take great pride in the professional quality of our work.

We have an uncompromising determination to achieve excellence in everything we undertake. Though we may be involved in a wide variety and heavy volume of activity, we would, if it came to a choice, rather be best than biggest.

We stress creativity and imagination in everything we do.

While recognizing that the old way may still be the best way, we constantly strive to find a better solution to a client's problems. We pride ourselves on having pioneered many of the practices and techniques that have become standard in the industry.

We make an unusual effort to identify and recruit the very best person for every job.

Although our activities are measured in billions of dollars, we select our people one by one. In a service business, we know that without the best people, we cannot be the best firm.

We offer our people the opportunity to move ahead more rapidly than is possible at most other places.

Advancement depends on merit and we have yet to find the limits to the responsibility our best people are able to assume. For us to be successful, our men and women must reflect the diversity of the communities and cultures in which we operate. That means we must attract, retain and motivate people from many backgrounds and perspectives. Being diverse is not optional; it is what we must be.

We stress teamwork in everything we do.

While individual creativity is always encouraged, we have found that team effort often produces the best results. We have no room for those who put their personal interests ahead of the interests of the firm and its clients.

The dedication of our people to the firm and the intense effort they give their jobs are greater than one finds in most other organizations.

We think that this is an important part of our success.

We consider our size an asset that we try hard to preserve.

We want to be big enough to undertake the largest project that any of our clients could contemplate, yet small enough to maintain the loyalty, the intimacy and the esprit de corps that we all treasure and that contribute greatly to our success.

We constantly strive to anticipate the rapidly changing needs of our clients and to develop new services to meet those needs.

We know that the world of finance will not stand still and that complacency can lead to extinction.

We regularly receive confidential information as part of our normal client relationships.

To breach a confidence or to use confidential information improperly or carelessly would be unthinkable.

Our business is highly competitive, and we aggressively seek to expand our client relationships.

However, we must always be fair competitors and must never denigrate other firms.

Integrity and honesty are at the heart of our business.

We expect our people to maintain high ethical standards in everything they do, both in their work for the firm and in their personal lives.



Lloyd C. Blankfein
Chairman and
Chief Executive Officer
(right)

Gary D. Cohn
President and
Chief Operating Officer
(left)

Fellow Shareholders:

For much of the last year, the global economy grew in fits and starts. In the United States, the economic recovery accelerated, evidenced by a steadily improving labor market. In Europe, challenges remained pronounced as growth was constrained. And in Asia, conditions slowed in both China and Japan.

Different countries are clearly at different stages of the economic cycle, and the interconnectedness of these economies has made the transition to growth somewhat extended, choppy and, oftentimes, unpredictable. As a result, client activity was uneven across regions and asset classes.

CEO confidence improved and merger and acquisition (M&A) volumes, in particular, rebounded. However, client volumes remained generally lower across our Institutional Client Services business. Despite uneven conditions, we are pleased to report that Goldman Sachs performed well, generating solid results for the year. Our performance benefited from the strength of our global client franchise, diversity of our largely institutional set of businesses and our culture of adaptability.

For 2014, the firm produced net revenues of \$34.53 billion and net earnings of \$8.48 billion, a five percent increase from

\$8.04 billion of net earnings in 2013. Diluted earnings per common share were \$17.07 compared with \$15.46 for 2013. Our return on average common shareholders' equity (ROE) was 11.2 percent. Book value per common share increased by seven percent during 2014 and has grown from \$20.94 at the end of our first year as a public company in 1999 to \$163.01, a compounded annual growth rate of approximately 15 percent over this period. Our capital management in 2014 reflected a prudent approach as our capital ratios continued to improve despite returning \$6.5 billion to common shareholders through share buybacks and dividends.

In our previous letter to shareholders, we discussed our focus on driving returns in a challenging macroeconomic environment. At the same time, we emphasized the need to protect our ability to provide significant upside to our shareholders as the economic cycle turns.

The basis for meeting these goals rests on a strong financial profile and a sustained operating discipline. Our capital and liquidity levels help ensure stability during periods of market stress and position the firm to add value to our clients when they need it most. And, generating operating efficiency has bolstered our capacity to improve returns consistently, despite the lackluster operating environment of recent years.

Letter to Shareholders

Against this backdrop, in this year's letter, we would like to review our financial strength and the benefits embedded in our business model. We will also discuss our operating strategy in the recent environment and our major businesses with a focus on their competitive positions and opportunities for growth. Finally, we will update you on our efforts to protect and sustain our culture of client focus and teamwork, as well as the important progress being made across our corporate engagement initiatives.

Financial Profile

Since the end of 2007, our balance sheet is down by nearly one-quarter, while our common equity is up 85 percent. As a result, gross leverage has been cut by more than one-half. Our liquidity is approximately three times higher than the end of 2007, representing more than 20 percent of our total balance sheet at the end of 2014. And, less liquid level 3 financial assets are down nearly 40 percent over this period.

As represented in the charts on the right, our balance sheet measures have improved across the board. As a result, we have demonstrated our ability to meet or exceed the requirements of various regulations, including Basel III capital, the supplementary leverage ratio and the liquidity coverage ratio.

The combination of a solid financial foundation and a focused operating strategy provides the ability to adapt quickly. Our balance sheet is less than one-half the size of the peer average.* And, our total staff level is less than 20 percent of the peer average. We are an institutional client firm, with a broad range of services. Our retail clients are largely high-net-worth individuals, with an average account size of more than \$40 million. In short, we are not simple, but we are simpler.

Our strong and stable financial footing has given us the wherewithal to stay committed to our core set of businesses over the cycle. We work with tens of thousands of companies, institutions, investing entities, governments and high-net-worth individuals around the world.

Partly because we have remained focused on executing our strategy through our core businesses, we have grown our client franchise over the last several years. Institutional Client Services, for example, has seen an approximately 10 percent increase in active clients since 2010.

Our mix of businesses reflects the diverse needs of our clients. And, the products and services we provide produce a diverse and balanced revenue stream.

In addition to better revenue stability, we have benefited from a variable cost structure. We have long had a "pay for performance" culture. The bottom chart depicts the strong correlation between the firm's performance and its levels of compensation and benefits expense.

To us, this graph underscores the value of a true partnership culture. Culture is not preordained or guaranteed in perpetuity. Since we became a public company, we have invested an enormous amount of time and resources to sustain our

Significantly Improved Financial Profile

Balance Sheet



Common Equity



Gross Leverage



Liquidity

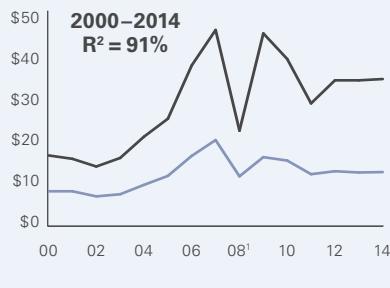


Level 3 Assets



¹Reflects loan value

Net Revenues and Compensation and Benefits Expenses



¹2008 includes the firm's fiscal year-ended November 2008 and the month of December 2008.

*U.S. peers include BAC, C, JPM and MS.

culture. Rigorous partner selection and aligning compensation with long-term performance reinforce an ethos of long-term ownership.

The combination of a diverse set of businesses, effective risk management and a “pay for performance” culture has produced a track record of lower earnings volatility than our peers. From 2005 through 2014, Goldman Sachs’ net earnings to common volatility averaged roughly 50 percent vs. 130 percent for peers.

Our relative earnings stability is critical to our ability to outperform throughout the cycle. We performed when conditions were challenged and we also performed when the environment was more favorable.

Against the backdrop of relatively consistent revenues, we have performed well across several key metrics.

Compared to 2012, earnings per share is 21 percent higher, book value per share is 13 percent higher and our common stock dividends per share have grown 27 percent. Over this three-year period, we have returned \$16 billion via share repurchases, while maintaining stronger capital ratios.

Net revenues were roughly flat over the past three years. But, that’s not the story. Since 2012, we undertook several strategic initiatives to respond to new regulations, including higher capital requirements. We sold a majority stake in both our Americas reinsurance business and our European insurance business — and we liquidated our investment in the Industrial and Commercial Bank of China. We also sold our hedge fund administration business and our REDI platform.

In 2012, these businesses and investments produced \$2.3 billion in net revenues. So, on a “like-for-like” basis, net revenues in 2014 were about \$2.7 billion higher than 2012. Investment Management and Investment Banking contributed \$2.4 billion to this growth.

We have grown revenues while managing expenses and capital. Our average compensation and benefits to net revenues ratio from 2009 through 2014 was more than 900 basis points lower than it was from 2000 through 2007, despite a tougher revenue environment.

We have been equally focused on capital efficiency. We have developed technology to help inform our capital allocation decisions. The combination of our profitability and risk management allowed us to pay out roughly 70 percent

of our net earnings to common shareholders since the beginning of 2009 and basic share count has declined by 17 percent since the end of that year. Since the end of 1999, our basic share count is seven percent lower, while our common equity is actually more than seven times higher.

These efforts not only protected near-term returns, they have also positioned the firm to benefit from operating leverage when the environment improves.

As the cycle turns, our strategic focus shifts to growing revenues and the ability to deliver greater operating leverage to our shareholders through margin expansion. In that vein, we want to review our businesses and opportunities.

Investment Banking

In Investment Banking, we have the preeminent client franchise. We advised on more than \$1 trillion of announced transactions last year, the highest level since 2007. We have maintained a leading market share over the last 25 years. We maintained our market position when M&A activity was dominated by technology in 1999, by financials in 2008 and by natural resources in 2014.

And, we have maintained our position when volumes were low and when they were higher. Our performance carries through to different industries, market environments and regions. Our success is rooted in decades of investment, consistency of coverage and a broad client franchise by both industry and geography.

We see a number of growth opportunities on the horizon. Global economic growth continues to be the biggest driver of the opportunity set. In 2014, global M&A volume as a percentage of market capitalization was roughly 100 basis points below the 15-year average. Returning to the historical average would drive \$630 billion of incremental M&A volume.

We are particularly well-positioned for growth in cross-border activity given our global footprint. And, we believe that the demand for funding and capital remains highly correlated to economic growth and broader corporate activity.

Institutional Client Services

In Institutional Client Services, we benefit from having both a leading fixed income franchise and a leading equities franchise. And, we have a global footprint. While having a diversified mix of businesses supports revenue stability, it is also crucial to driving stable and attractive margins. We also

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have a balance of activities and products that are “high” capital and “low” capital intensive.

Institutional Client Services is one of our most dynamic businesses. It has always been in a state of evolution. The introduction of new regulations has accelerated the evolution in certain areas, including market structure. As a consequence, the value placed on adaptability and operational excellence has significantly grown.

Regulatory requirements and technological investments have raised the barriers to entry higher than at any other time in recent history. This is an expensive business to be in if you don’t have the market share and scale. Consider the numerous business exits that have been announced by our peers, as they reassess their competitive positioning and relative returns.

Longer term, we believe that the value being placed on liquidity provisioning is likely to grow, especially in the context of a more rational marketplace. This provides an opportunity for market share expansion for those firms with strong, global and stable client franchises. Technological innovation will continue to be important and may increasingly become a differentiator amongst competitors and a potential driver of new or incremental revenues. Going forward, we believe that these requirements will likely lead to only a handful of players being able to effectively compete on a global basis.

Investing & Lending

Another core part of our mission and strategy is to provide promising businesses with the capital they need to grow. Sometimes that means offering a loan and, other times, it means making an equity investment. We are able to leverage our global investor network and invest alongside these clients in industries that create jobs and promote economic growth.

These loans and commitments include major infrastructure projects, clean energy and technology companies, and cutting-edge healthcare businesses. Including our own commitments, during 2014 we closed on more than \$15 billion of debt and equity capital raised in private equity and credit funds.*

Our ability to provide equity capital has been important to growing companies. We have a diversified portfolio of

companies which helps drive strong performance for both our co-investors and shareholders. For example, between 2012 and 2014, our private equity and credit funds distributed more than \$40 billion. And generally, our co-investors are clients of the firm, whether it is with Investment Banking, Institutional Client Services or Investment Management.

We will continue to invest and grow our existing investment strategies. At the same time, we will seek growth in new regions and across new strategies.

Lending has become an increasingly important part of our strategy as it relates to corporate, real estate and private wealth clients.

Our private wealth commitments and lending portfolio has been a particular source of significant growth. The portfolio benefits from both the level of collateralization and the fact that borrower credit quality for our average private wealth client is extremely high.

We see an opportunity to continue to grow our lending activities in ways that are accretive to current returns. Since 2012, we’ve made great strides in this business, growing lending by roughly 100 percent. As we grow, we maintain our same conservative and rigorous risk management policies to ensure quality and prudence.

Investment Management

We have made significant progress in our Investment Management business over the last few years. Assets under supervision have grown 32 percent since 2011 to nearly \$1.2 trillion at the end of 2014. Still, we are only the 10th-largest asset manager globally, so there is significant room for growth. Within fixed income products, we are approximately 40 percent of the size of the largest peer. Within equities products, we are about one-quarter of the size of our largest competitor. And for alternatives, we are approximately two-thirds the size of the largest peer.

We remain focused on delivering strong performance for clients, which has already driven meaningful growth. At the end of last year, 83 percent of our client mutual fund assets ranked in the top two quartiles on a 3-year basis, and 75 percent ranked in the top two quartiles on a 5-year basis.** In 2014, Investment Management attracted over \$85 billion in fee-based assets organically.

* Fees generated through the management of client assets in such funds are included in Investment Management.

** Performance calculated using period-end data for global long-term fund assets (non-money market) for all share classes ranked by Morningstar.

We also see attractive opportunities to expand our private wealth management platform. Among the distinguishing characteristics of this franchise is its connectivity to our investment banking efforts, which serves as an important sourcing mechanism. For example, the opportunity for our private wealth clients to invest in Facebook and Uber originated from a banking relationship.

We continue to invest in long-term strategic initiatives, like advisory, defined contribution, insurance and private banking. We have also looked for accretive acquisitions, having recently bought Deutsche Asset & Wealth Management's stable value business and Dwight Asset Management. Performing for our clients and expanding our product offerings will help support continued growth going forward.

Our People

This year, we marked our 145th anniversary as a firm. Over that time, our people and culture have helped define our success. We place a huge priority on preserving and enhancing a tangible environment of teamwork, client focus and long-term stewardship. We are proud that these attributes are as strong and vibrant as ever.

In terms of recruiting, in 2014, nearly 270,000 applicants applied for 8,300 positions. And, of those receiving offers, nearly 90 percent chose to come to Goldman Sachs.

In November 2014, we announced our newest class of 78 partners. The rigor and focus surrounding this biennial process is intense and that investment continues to pay dividends. The partnership is vital to helping ensure a real sense of long-term ownership.

For all of our people, we continue to invest in a workplace environment, including programs and training, which has consistently earned the firm recognition as one of the most attractive places to work.

In 2014, we were proud to be named as one of Fortune magazine's "100 Best Companies to Work For." Goldman Sachs is one of only five companies to be recognized every year that the Great Place to Work Institute has issued its list since 1984. And for nine consecutive years, the firm has been named to Working Mother magazine's "100 Best Companies," which ranks companies with the best programs that support working parents.

Few people have contributed more to our culture and generations of leaders at Goldman Sachs than John Whitehead. Earlier this year, John passed away. We honor his achievements and contributions in service to his country and our firm. John was a man of enormous grace and integrity, and his legacy will endure in the institutions he led and in the lives of those he cared for and mentored. We highlight John's extraordinary contributions later in the Annual Report.

Our Board of Directors

We were also deeply sad to lose our former lead director, Jim Schiro, to cancer. Jim joined our Board of Directors in May 2009, and was elected lead director and named chair of the Corporate Governance, Nominating and Public Responsibilities Committee in May 2012.

Jim was an outstanding Board member and an exceptional individual who made an invaluable contribution to our firm and to all those who worked with him. We will remember him for his unfailing commitment to Goldman Sachs and to our shareholders and for the example he set as a leader and mentor.

He lived his life to make a difference and the mark he has left on institutions and people is powerful. Jim was methodical and careful, yet expansive and philosophical. He understood the black and white of the numbers better than anyone, but appreciated the human element better than most.

For a lot of his tenure on our Board, our firm faced tough scrutiny. He gave us the confidence to be proactive and to deal forthrightly with the issues we were confronting. He asked probing questions that always got to the heart of the matter. Jim had an enormous impact on Goldman Sachs, and on our leadership team. He made us a better company, and, for all those he worked with, better people.

Following Jim's retirement, Adebayo Ogunlesi was appointed lead director and chair of the Corporate Governance, Nominating and Public Responsibilities Committee.

Adebayo is the managing partner and chairman of Global Infrastructure Partners, a private equity firm that invests worldwide in infrastructure assets. Previously, he held various positions at Credit Suisse Investment Bank (and predecessor firms), including as executive vice chairman and head of global investment banking. Adebayo's extensive

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knowledge of finance and global capital markets provides valuable insight and direction for our Board.

After 12 years of distinguished service, Claes Dahlbäck decided to retire from the Goldman Sachs Board of Directors this coming May.

Claes' global experience, independent and wise judgment and quiet leadership made him an invaluable voice on our Board. His deep understanding of global markets, our business and our culture has benefited the firm enormously.

We thank him for his unfailing commitment to our shareholders and our people.

We are pleased to announce two additions to our Board of Directors, Mark Flaherty and Mark Winkelmann.

Mark Flaherty has more than 20 years of experience in investment management. He served as vice chairman of Wellington Management Company before retiring in 2012. Previously, he was director of the company's global investment services from 2002 to 2012, and served as partner and senior vice president from 2001 to 2012.

Mark Winkelmann currently serves on the Board of Directors of Anheuser-Busch InBev. From 2006 to 2008, he served as operating partner of J.C. Flowers & Co. Previously, Mark held several leadership positions at Goldman Sachs before retiring from the firm in 1994, including co-head of the Fixed Income Division. During the course of his career, Mark has demonstrated exceptional judgment, market knowledge and risk management.

We know that our Board, our shareholders and our people will benefit from their deep and varied understanding of economies, global markets and the financial services industry.

Corporate Engagement

Throughout the year, Goldman Sachs continued to engage on broader public policy matters that have the potential to spur economic growth and stability. In June, we convened the North American Energy Summit to discuss how to maximize the economic benefits of North American energy resources through enhanced regional integration and cooperation. Policymakers and corporate and NGO leaders examined the impact of relevant geopolitical, economic and environmental factors around the enormous energy opportunity that will continue to have a profound influence on the global economy.

We hosted the China-U.S. CEO Bilateral Investment Dialogue in Beijing and later in New York, bringing CEOs of some of the largest Chinese and U.S. companies together with policymakers to discuss how to encourage more cross-border trade and investment. Our collective futures are dependent on the relationship between the U.S. and China, and there's nothing more important to that relationship than advancing the mechanisms for more economic activity between these two countries.

And, as explained below, we attended various *10,000 Small Businesses* graduations across the U.S. At each event, whether it was in Detroit, Los Angeles or Miami, we saw how the combined impact from know-how and confidence can advance people and the local economy. And, with each entrepreneur we meet through *10,000 Women*, we recognized how a practical business education and, increasingly, effective access to capital can transform a small business and consequently a family and a community.

10,000 Small Businesses

10,000 Small Businesses continued to help small business owners grow and create jobs through access to business and management education, business services and capital. By year's end, *10,000 Small Businesses* was operating in 23 sites in the U.S. and U.K. and had served over 4,000 entrepreneurs. In the U.S., we launched a new site in Dallas/Fort Worth as well as the inaugural cohort of a new national partnership that allows qualified small business owners from across the U.S. to receive training both online and at Babson College. This innovative model has extended the reach of *10,000 Small Businesses* to business owners in 45 states across the U.S.

Stimulating Small Businesses Growth, a report released in 2014 from lead academic partner Babson College, demonstrates the impact of the program. Within six months of graduating, 64 percent of U.S. participants have reported increasing their revenues and 45 percent reported creating net new jobs. We are proud that the program maintains a 99 percent graduation rate and graduates have developed a strong marketplace among themselves, as 80 percent of participants have done some form of business with another graduate.

10,000 Women

10,000 Women launched an important new partnership in 2014 with International Finance Corporation (IFC), a member of the World Bank Group, to create the first-ever global

finance facility dedicated exclusively to women-owned small-and medium-sized enterprises. The facility is a \$600 million effort to enable approximately 100,000 women entrepreneurs to access capital. Since its launch, seven transactions in seven countries, including China, Brazil and Kenya, have been closed, representing over \$150 million in commitments.

10,000 Women remains committed to providing a business and management education, mentoring and networking to high-potential women entrepreneurs around the world. Since it was announced in 2008, the initiative has reached more than 10,000 women entrepreneurs from over 40 countries around the world. Delivered through a network of 90 academic and nonprofit partners, *10,000 Women* continues to yield promising results. Nearly 70 percent of surveyed graduates have increased revenues and 60 percent have added new jobs.

Goldman Sachs Gives

Goldman Sachs Gives is a donor-advised fund through which participating managing directors (PMDs) of the firm can recommend grants to qualified nonprofit organizations around the world. In 2014, PMD compensation was reduced by approximately \$157 million related to *Goldman Sachs Gives*, \$137 million of which was a charitable contribution in 2014, and 4,400 grants totaling more than \$146 million were made to nonprofit organizations assisting underserved people and communities across a range of areas. Since the *Goldman Sachs Gives*' launch in 2010, approximately 19,000 grants totaling more than \$860 million have been made to various nonprofits in 45 countries.

A continuing focus for *Goldman Sachs Gives* is its support of need-based financial aid to more than 200 colleges and universities globally to ensure students are able to complete their college degrees. In particular, a number of the firm's partners, including all of the U.S.-based members of our Management Committee, recently made individual *Goldman Sachs Gives*' grant recommendations to support LaGuardia Community College, based in Queens, New York. These grants represent the largest private donation in the school's history. In addition, the partners' recommendations created the Goldman Sachs Community College Fund to provide need-based financial aid to additional community colleges around the country.

As part of the firm's commitment to hire and retain veterans, and support the military community, *Goldman Sachs Gives* remains focused on making grants to honor service and

veterans. Demonstrating *Goldman Sachs Gives'* scope, during 2014, it supported nonprofit activities in 29 countries — from building libraries in Cambodia, to fighting Ebola in Africa, to raising awareness of hunger issues in India, and advancing cancer research in the United States and the United Kingdom.

Looking Ahead

The global economic recovery remains fragile and geopolitical risk in Europe and the Middle East will continue to have varying degrees of influence on market sentiment.

Still, conditions at this point are more conducive for our set of businesses than in recent years. Job growth in the U.S. is strong and prospects for above trend GDP growth are good. CEO confidence is up and consumer sentiment is generally better. More than six years after the financial crisis, we are finally seeing dispersion in central bank policies, which, over time, may contribute to more normalized markets and levels of volatility.

Over the last few years, we have protected and expanded our client franchise across our major businesses. Our client franchise today is as strong as ever. We have transformed the financial profile of the firm. We have been proactive in managing our cost structure. We have significantly adjusted both compensation levels and fixed expenses.

We have been judicious managers of capital. We have maintained our culture of client service and partnership. We remain the employer of choice in our industry.

Taken together, we are confident that we have positioned the firm to provide operating leverage for our shareholders as the economy and opportunity set improves.



Lloyd C. Blankfein

Chairman and Chief Executive Officer



Gary D. Cohn

President and Chief Operating Officer





TECHNOLOGY DRIVING INNOVATION, OPPORTUNITY AND TRANSFORMATION

Technological megatrends are transforming businesses, markets and entire economies

At the 2014 Goldman Sachs *Builders + Innovators Summit* (B+I) honoring the 100 most intriguing entrepreneurs in the U.S., we brought together emerging business leaders and seasoned innovators to exchange ideas, insights and strategies. While the range of topics discussed were as compelling as the entrepreneurs themselves, the overarching theme emerging from the plenary sessions and informal conversations was that businesses across all industries must think of themselves as technology companies.

At B+I, each session returned to this central question concerning the role technology will play in shaping the business models and markets of tomorrow. We heard from athletic apparel executives on how wearables — devices worn on the body that measure physical activity — will reinvent their space; from healthcare innovators on the potential to connect tiny, ingestible sensors with users' smartphones to track physiological data; and from medical entrepreneurs, outlining a new doctor-patient paradigm, with on-call medical experts and online behavioral therapies to enable people to more readily take charge of their own well-being and achieve healthier lifestyles.

In short, technological megatrends are transforming businesses, markets and entire economies. 2014 saw the advancement of innovations that continue to shape our lives, such as cloud technology, increasing accessibility of powerful computing; seamless mobile and the Internet of Things (IoT), connecting billions of people through personal devices; 3-D printing, recasting the way we think about design and production; and machine learning, bringing forth technology that is more intelligent and driving a wave of industrial automation and potentially disruptive applications.

Further, we see fundamental changes across the industrial landscape, as connected and intelligent machines continue to make processes more efficient, flexible and productive. Likened to a new industrial revolution, the transformation brought forth by technology is creating both enormous opportunities and structural challenges. In addition to the potential impacts on human capital, incumbents across traditional sectors face increasing competition as technology and tech companies enter their space and alter their competitive landscape. For example, when utility companies invest in smart grid software rather than buying transformers; when customers demand a central hub to control their lights, HVAC and entrance to their houses; and when automotive manufacturers simulate and measure the impact of design on performance, we see technology-driven disruptions that are requiring the currently more established manufacturers to adapt.

In this way, the small-run possibilities of 3-D printing are providing the potential for increased customization and geographical dispersion of manufacturing. As much as we have seen the emergence of "Software as a Service" (SaaS) alter the competitive landscape, a similar and likely outcome will be the rise of "Manufacturing as a Service" (MaaS), whereby designers send layouts for output to local 3-D printers — or even directly to the customer for production on-site.

In the wake of such monumental change, Goldman Sachs is working with clients around the world as they contend with the direct and knock-on effects of the technology revolution. This means helping smaller innovative businesses as well as entrepreneurs capitalize on reduced costs of entry to compete, grow — and sometimes grapple with hyper-

growth — as they look to become leaders in their industries. This also means helping established companies leverage, develop and/or acquire technology that will allow them to pursue new markets, models and pathways to growth.

In the wake of such monumental change, Goldman Sachs is working with clients around the world as they contend with the direct and knock-on effects of the technology revolution.

At the same time, our role at the center of the global capital markets requires us to continually work toward staying at the technological forefront — whether that be in how we assess investment opportunities, raise capital or manage risks.

One of our most important technological initiatives in 2014 was the creation of a Goldman Sachs-designed messaging platform for financial companies, enabling market participants to communicate instantly, securely and compliantly. This platform, called Symphony, was an outgrowth of our core business and our efforts to meet the changing needs of our own people and the clients we serve. Our focus on developing an advanced technology solution to meet a complex financial services need reflects our own mindset as a "technology company" and demonstrates the evolution of our industry as a whole.

The pervasiveness and permeating impact of innovation is, like never before, a reality that is pushing companies across all industries to think and act like disruptors in their own spaces. And in those few sectors that have yet to realize the transformative effects of technology, rest assured that the innovators are coming. Ready or not, technology is ubiquitous. ■

Our Work with Clients



Goldman Sachs team members supporting the transaction:
Brittany Skoda, Lauren Blake, Emily Baker, Andy Fisher,
George Lee, Investment Banking Division, San Francisco

Zendesk IPO

In May 2014, Goldman Sachs served as lead left bookrunner on Zendesk, Inc.'s \$115 million IPO. Zendesk is a leading global customer service software platform based in San Francisco. Investors were attracted to Zendesk's growth potential, given its strong position among small- and medium-sized business customers and increasing traction with enterprise customers. In an environment where expectations for the quality and immediacy of customer service are growing, investors were impressed by Zendesk's opportunity to help its customers meet these rising expectations and by the company's reputation for creating well-designed, easy-to-use software.



Goldman Sachs team members supporting the transaction:
Gabriella Skirnick, Barry O'Brien, Abraham Spitz, Max Justicz,
Investment Banking Division, New York

Aeroflex Sale to Cobham

Announced in May and completed in September 2014, Goldman Sachs served as lead financial advisor to U.S.-based Aeroflex Holding Corp. in its \$1.5 billion sale to Cobham plc, headquartered in the U.K. Aeroflex, whose lead investors included affiliates of Veritas Capital, focuses on specialized systems, including microelectronics products and test and measurement equipment for the aerospace, defense, energy, civil aviation and electronics industries. For Cobham, the acquisition diversifies the company's revenue mix and unlocks opportunities across the test and measurement space. Among other gains, Cobham has bolstered its position in commercial markets through its acquisition of Aeroflex.

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Simona Jankowski, senior equity research analyst, Goldman Sachs Global Investment Research (GIR), discusses GIR's new report *The Internet of Things*.
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The Internet of Things: Making Sense of the Next Megatrend

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Anki, discusses how his company is bringing artificial intelligence to the living room with Anki Drive, a video game in physical form.
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Andrew Thompson, co-founder and CEO, Proteus Digital Health,

discusses how Proteus is revolutionizing self-health management through its digital health feedback system.
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THE NEW ENERGY LANDSCAPE

Our energy future is dependent upon a dynamic and multidimensional energy strategy, a collaborative approach and a commitment to achieving a cleaner and more efficient energy footprint



Less than a decade ago, the global energy forecast seemed bleak. Global demand quickly outpaced new sources of supply, driving oil's march toward an unprecedented high of \$145 per barrel. Rising prices put downward pressure on global economic growth, and many countries, including the U.S., were largely dependent on foreign supplies. In 2006, the U.S. — the world's largest consumer — imported 56 percent of its total oil consumption. Fear of geopolitical events impacting access to energy increased, along with concerns that inevitable conflicts over control of dwindling energy resources would put additional upward pressure on oil prices.

Today, the energy landscape is dramatically different, giving rise to what Goldman Sachs Global Investment Research (GIR) calls "The New Oil Order." This emerging paradigm reflects three major trends:

First, in North America, a decade of investment in shale technologies has resulted in soaring oil and gas production. Second, clean energy sources — particularly solar — are reaching critical mass. And third, improvements in energy efficiency are having an increasing impact on the way we live. With these in mind, we see more opportunities to create a cleaner and more efficient energy footprint that is good for both the environment and the economy over the long term.

We believe the key to a more stable economic and environmental future is a set of well-defined energy best practices and policies.

According to GIR, the investment in shale has had a particularly profound impact on prices and supply. In a few short years, the United States has become the largest producer of natural gas in the world and, more recently, one of the largest producers of crude oil. By 2014, oil production reached 12 million barrels per day, nearly a 70 percent jump over 2008, surpassing that of every OPEC country, including Saudi Arabia. Such increases in U.S. production have put downward pressure on global energy markets, and lower costs have boosted the economies of importing countries.

While many other regions have substantial — and in some cases larger — shale reserves, North America benefits from having all the pieces in place to leverage its reserves. These include innovative companies equipped with a skilled workforce, readily available investment capital, and more developed policy and infrastructure to help catalyze activity. Fully capitalizing on the shale revolution, however, will require long-term, demand-side investments, cleaner, more efficient

Our Work with Clients



Goldman Sachs team members supporting the transaction:
Charles Park, Dinesh Ramasamy, Jeremy Hofmann, Brian
Bolster, Sam Romer, Lynsey Wenger, Maxime Kennel, David
Dubner, Investment Banking Division, New York

NextEra Energy Partners IPO

In June 2014, Goldman Sachs served as bookrunner and structuring agent for clean energy producer NextEra Energy, Inc.'s \$467 million subsidiary IPO of NextEra Energy Partners, LP. This innovative transaction matched institutional investors' demand for shares of companies that offer both current yield and predictable growth with NextEra Energy, Inc.'s need for a new source of capital to cost effectively fund its expansion. NextEra Energy, Inc. has approximately 44,900 megawatts of generating capacity in the U.S. and Canada, and is regarded as the world's largest generator of renewable energy from the wind and sun.

Athlon Sale to Encana

Announced in September and completed in November 2014, Goldman Sachs advised Athlon Energy Inc., an exploration and production company focused on the development of unconventional resources, in its \$7.1 billion sale to Encana Corporation. The prime asset consists of approximately 140,000 net acres in the hydrocarbon-rich Permian Basin of West Texas. Encana specializes in horizontal drilling, a process for extracting oil and gas from horizontal rock structures, such as shale.



Goldman Sachs team members supporting the transaction:
back row, Peter Smith, Akanchsha Singh, Hank Hilliard, Scott
Grandt, Brian Haufrect; *front row*, Bill Lambert, Suhail Sikhtian,
Investment Banking Division, Houston

extraction technologies, new refining capabilities and pipelines to transport fuel to markets where it can be distributed and consumed.

Against this new backdrop, at Goldman Sachs, we believe the key to a more stable economic and environmental future is a set of well-defined energy best practices and policies. Among them, carbon limits should be based on a "well-to-wheel" approach, which accounts for the effect of reductions along the supply chain. Further, our strategy must incorporate an "all of the above" approach that encompasses a broad range of fuel sources and types, and one that charts a course to achieving the right mix based on factors such as scalability and sustainability.

Alternative energy technologies, such as wind, solar, and electrical storage, continued to gain ground in 2014, with

solar in particular capturing almost 50 percent of all global investment in clean energy, which grew to over \$310 billion in 2014, according to Bloomberg.

Mass market adoption of any new, disruptive industry often takes a path of early enthusiasm followed by market rejection, volatility and, ultimately, acceptance. This was true of the Internet, and evidence suggests a similar course when it comes to clean technology and renewable energy. Relatively linear growth in the early years can turn into exponential growth as product awareness increases, demand peaks and additional investment capital follows suit. As noted by Stuart Bernstein, global head of the Clean Technology and Renewables Group in the Investment Banking Division at Goldman Sachs, "We're at a tipping point, where many of these clean technologies will be in homes and businesses in the very near future."

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The New Oil Order



Hear podcast

Jeff Currie, global head of Commodities Research at Goldman Sachs, discusses the surge in U.S. oil production, the changing role of OPEC and how lower oil prices are impacting the global economy. goldmansachs.com/ar-2014/jeff-currie-podcast



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Making Sense of an Industry's Transformation

The shale revolution in the United States has dramatically altered the global energy landscape. Jeff Currie, global head of Commodities Research at Goldman Sachs, discusses how "The New Oil Order" is reshaping the way markets and the oil and gas industry balance supply and demand. goldmansachs.com/ar-2014/new-oil-order-video

North American Energy Summit

The North American Energy Summit assembled public and private stakeholders to discuss a strategy for harnessing the continent's energy resources to spur economic growth, enhance national security and regional competitiveness, and promote responsible development of these resources.



Read report

Unlocking the Economic Potential of North America's Energy Resources

Goldman Sachs Global Investment Research. goldmansachs.com/ar-2014/naes-report



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Explore the long-term economic potential of an integrated North American energy strategy. goldmansachs.com/ar-2014/naes-infographic



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See how North America can encourage significant economic growth through effectively harnessing its energy resources in a video created by Goldman Sachs in collaboration with Vox Media. goldmansachs.com/ar-2014/naes-vox-media

Clean Technology and Renewable Energy



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Renewable Energy and the Capital Markets

Charles Park, managing director in the Investment Banking Division's Equity Capital Markets Group at Goldman Sachs, discusses the evolution of capital raising for renewable energy businesses and growth opportunities in power generation. goldmansachs.com/ar-2014/charles-park-video



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Yield Vehicles — Facilitating Capital Efficiency

Highlights from the Goldman Sachs Environmental Finance Innovation Summit. goldmansachs.com/ar-2014/yield-vehicles-video



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Key Themes, Clean Energy Ecosystem Summit

Radford Small, chief operating officer of the Clean Technology and Renewables Group at Goldman Sachs, shares how innovation in the clean tech space is helping to create cleaner, cheaper sources of energy for consumers around the world. goldmansachs.com/ar-2014/radford-small-video



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Electric Cars

Deepak Ahuja, chief financial officer of Tesla Motors, discusses the technological changes that are transforming the electric car industry. goldmansachs.com/ar-2014/tesla-video



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Clean Energy: A Tipping Point

Stuart Bernstein, global head of the Clean Technology and Renewables Group at Goldman Sachs, discusses how lower costs have led to the rapid adoption of renewable energy, creating a tipping point for energy producers and consumers. goldmansachs.com/ar-2014/tipping-point-video

"While technologies continue to evolve and improve, perhaps the biggest developments in the clean energy space in recent years have been innovations in financing and increasing investor support," notes Charles Park, a managing director in the Investment Banking Division's Equity Capital Markets Group at Goldman Sachs. When the first wave of solar companies went public in the mid-2000s, he concludes that "they were viewed not as energy companies, but as technology companies, and attracted an investor base that mirrored that profile — investors comfortable with high growth potential and high levels of risk."

Today, however, investment is growing as the pervasiveness and perception of clean tech comes into its own. In particular, new financing approaches such as "Yield Co" structures offer companies capital at lower costs than traditional means of financing, and provide investors with an attractive total

return investment profile driven by both dividends and visible dividend growth.

Convening the North American Energy Summit in June 2014 provided energy stakeholders with the opportunity to foster an ongoing dialogue on the continent's energy future. And in 2015, we are working towards enhancing this dialogue with a series of reports, online forums and meetings to keep the momentum going. At Goldman Sachs, we believe helping our clients make sense of the dramatic changes in the global energy landscape is one of our most important roles in the coming years. Our collective future is dependent upon a multifaceted approach to energy, a collaborative mindset and a commitment to change. ■



INCREASINGLY INTERCONNECTED MARKETS AND INDUSTRIES

Boundaries within markets and industries are dissolving, bringing forth new opportunities for consumers, companies and economies

In New York, an investor buys 5,000 shares of a top software developer — in Korea. In Bern, a pharmaceutical giant searches for the next big biotech startup — in Cambridge, Massachusetts. In California, a young technologist discovers the job of his dreams — helping to drive the strategy of a leading retail company. Increasingly, boundaries between markets and industries are fading in just about every sector, industry and region of the world.

The question is no longer whether globalization is upon us, but rather what, if any, are the limits of its impact? For consumers, an interconnected world means more choices and more competitive prices on the goods and services they want. For the companies trying to reach them, it means more competition, increased pressure to anticipate consumer trends, and unprecedented opportunity to tap into new markets.

The global search for growth has led to a surge in M&A activity, a convergence of companies and industries and an opening up of markets around the world like never before. Looking ahead, these increasingly interconnected markets and industries will bring forth a new reality for consumers, corporates, countries and economies alike.

Borderless Industries and the Return of the Strategic — and Cross-border — Acquirer

Fueled by large cash balances, low interest rates, abundant capital and demands for growth, M&A activity soared in 2014. According to Gregg Lemkau, co-head of Global M&A at Goldman Sachs, “2014 marked the return of the strategic acquirer — big companies using mergers and acquisitions to complement their stand-alone strategies.” Worldwide announced M&A volume reached nearly \$3.5 trillion in 2014, with Goldman Sachs-advised transaction volume exceeding \$1.0 trillion.

Among noteworthy drivers was an increase in the number of cross-border deals targeting European companies. Germany in particular had significant investment coming from both the U.S. and China.

In addition, 2014 saw industries break through the constraints of traditional expectations and boundaries. For example, within the healthcare industry, the convergence between pharmaceuticals and biotech has taken shape. This past year saw an increase in established pharmaceutical companies acquiring innovative biotech companies in an effort to add promising therapies, such as immuno-oncology, to their offerings.

Converging Financial Markets and Dependent Economies

Around the world, a renewed commitment to market liberalization and international trade has the potential to foster growth for decades to come. But no single market is guaranteed such benefits. As consumers increasingly tap into the global marketplace, centers of commerce must compete aggressively for the world’s business. Any financial marketplace that is to thrive — if not merely survive — must be as attractive halfway around the world as it is at home.

When it comes to investments and growth, according to Sheila Patel, CEO of International, Goldman Sachs Asset Management, “everyone is thinking not only about the growth in their own economy, but what’s

Increasingly Interconnected Markets and Industries

going on elsewhere. What's happening in China? What's happening in Europe or the U.S.? There is so much that's dependent on each other. And, whether it's oil prices or what a central bank does a continent away, it matters today to everyone in terms of their own investments."

In 2014, the economies of Brazil, Russia, India and China inked major agreements that will enhance connectivity in the developing world. According to Goldman Sachs Global Investment Research, trade between Latin America and China has grown exponentially — from \$12 billion in 2000 to \$289 billion in 2013 — with China being the second-largest source of Latin American imports (after the U.S.) and the third-largest purchaser of Latin America's exports (after the U.S. and the European Union). China was active in its economic reform efforts throughout 2014, as the Shanghai-Hong Kong Stock Connect opened its doors to international investors seeking to invest in companies listed in Shanghai, furthering the globalization of financial markets.

Importantly, the success of this effort comes amid the potential for a bilateral investment treaty, or BIT, which would eliminate many of the restrictions that have previously constrained investment and trade between China and the United States. In July 2014, Goldman Sachs hosted American and Chinese leaders in Beijing for discussions on the BIT and the potential benefits of increased economic activity between the two countries.

The flow of capital is integral to ensuring basic infrastructure and large-scale development in many emerging economies. Put succinctly by Patel, "If the leverage of a great idea that happens in China can be brought to the west coast of the U.S., or the opportunity set up by an Indian technology company can be connected to what's going on in Europe, that's growth for everybody. And that's where interconnectedness presents its greatest opportunity for all of us in the markets today." ■

Our Work with Clients



Goldman Sachs team members supporting the transaction: Mark Schwartz, David Ludwig, Dan Dees, Shan Yee Fok, Xiaoyin Zhang, Eric Liu, Amy Shi, Eddie Byun, Michelle Chen, International Management and Investment Banking Division, Beijing, New York, San Francisco, Hong Kong

Alibaba Group Holding Limited IPO

In September 2014, Goldman Sachs served as joint global coordinator, joint bookrunner and sole stabilization agent for Alibaba's record-breaking IPO with stock listed on the New York Stock Exchange. Raising \$25 billion from investors worldwide, the IPO was a tremendous success despite challenges involving its sheer size, complexity and intensive media scrutiny. Alibaba is recognized as the largest online and mobile commerce company in the world. As disclosed, its holdings include the TaoBao Marketplace, China's largest online shopping destination; Tmall.com, China's largest third-party platform for brands and retailers; Juhuasuan, China's most popular online group-buying marketplace; Alibaba.com, the largest global wholesale marketplace; and AliExpress, an online retail marketplace that enables consumers worldwide to buy directly from Chinese exporters.



Goldman Sachs team members supporting the transaction: Kate Richdale, Christos Tomaras, Vikas Bathla, Marios Broustas, Manita Shinh, Rob Pulford, Investment Banking Division, Hong Kong, London

PizzaExpress

In a transaction that demanded global coordination, Goldman Sachs helped Cinven, the European private equity firm, sell PizzaExpress, a leading U.K. restaurant operator, to an overseas buyer for approximately £900 million. Building on its long-established leadership position in the U.K. casual dining market, PizzaExpress gives Beijing's Hony Capital an opportunity to introduce a Western casual dining experience to Asian consumers. To speed the sale and enhance competition in the process, Goldman Sachs marketed PizzaExpress to investors worldwide and coordinated the necessary financing that culminated in the placement of £610 million in senior notes, further providing Hony Capital with the assurance it needed to move forward with the acquisition.



Goldman Sachs team members supporting the transaction: Gregg Lemkau, Christoph Stanger, Patrick Perreault, Christian Stammchulte, Annika Maldener, Christopher Droege, Tobias Koester, Investment Banking Division, New York, London, Frankfurt

Grohe Sale to Lixil

At the time of the closing of the transaction in January 2014, the \$3.4 billion sale of an 87.5 percent stake in Germany-based Grohe, a water technology company owned by U.S. investors, to Lixil Corporation of Tokyo and the Development Bank of Japan was the largest-ever acquisition of a Germany-based company by a Japanese company. Under the ownership of financial sponsors TPG and DLJ Merchant Banking Partners, the Grohe management team transformed the company into a global leader with attractive positions in high-growth markets. Goldman Sachs served as financial advisor to both sellers and provided integrated M&A advice, with expertise from its global team based in Frankfurt, London, New York, Tokyo and Beijing.



Goldman Sachs team members supporting the transaction:
Lei Shao, Xiaoyin Zhang, Leon Foong, Richard Campbell-Breeden,
Nikhil Taneja, Investment Banking Division, Hong Kong

Lenovo Group's Purchase of IBM's x86 Server Business

Lenovo, a global Fortune 500 company, is a leader in providing innovative consumer and enterprise technology products and solutions to customers in more than 160 countries. The company set the pace for M&A last year with the \$2.3 billion acquisition of IBM's x86 server business. The deal, announced in January 2014 and initially closed in October 2014, was a logical next step for a company growing its global enterprise hardware leadership position. In advising Lenovo, Goldman Sachs brought a wealth of cross-border experience to the deal – critical in this complex transaction involving multiple business carve-outs and strategic relationships. This was the second major M&A transaction between the two companies, following Lenovo's purchase of IBM's ThinkPad PC business in 2005, in which Goldman Sachs was also financial advisor to Lenovo.

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Interconnected Markets



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Interconnected Markets

Sheila Patel, CEO of International, Goldman Sachs Asset Management, explains how connections between industries, markets and economies are driving growth around the world. goldmansachs.com/ar-2014/sheila-patel-video



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Trends in M&A

Gregg Lemkau, co-head of Global Mergers and Acquisitions in the Investment Banking Division at Goldman Sachs, discusses some of the macro trends driving a resurgence in M&A activity. goldmansachs.com/ar-2014/gregg-lemkau-video



Special section

U.S.-China CEO Bilateral Investment Dialogue

Increased investment between the U.S. and China would bolster the overall bilateral relationship and drive global economic growth. goldmansachs.com/ar-2014/us-china-dialogue



Podcast

Trends in the Healthcare Industry

Jami Rubin, business unit leader of the Healthcare Research Group in Global Investment Research at Goldman Sachs, discusses innovation in healthcare, including the extraordinary progress being made in the treatment of cancer through immuno-oncology. goldmansachs.com/ar-2014/jami-rubin-podcast

Shanghai-Hong Kong Stock Connect



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What is the Shanghai-Hong Kong Stock Connect?

A major change is under way in the structure of the Chinese stock market and, by extension, the global stock market. goldmansachs.com/ar-2014/stock-connect-infographic



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Understanding Stock Connect

Christina Ma, a managing director in the Securities Division at Goldman Sachs, discusses the implications of the Shanghai-Hong Kong Stock Connect program and what it may mean for the region and investors around the world. goldmansachs.com/ar-2014/christina-ma-video



THE GLOBAL CAPITAL MARKETS: FUELING ENTREPRENEURSHIP, OPPORTUNITY AND ECONOMIC GROWTH

T

he future dynamism of our global financial system hinges upon continually improving our ability to match pioneering ideas with investment capital. We must continue to explore ways to spur innovation, which is at the heart of a free market system, and fundamental to the process of identifying, investing in and implementing better ways to do things — in a word, *progress*.

The global economy continues to work through the structural issues necessary to return to normalized growth. But, at a time when governments are grappling with budgetary constraints and the nonprofit sector is increasingly overburdened, private sector innovation and capital are also emerging as powerful tools to address various societal challenges.

A growing number of investors are signaling a desire to put their money to work not just to achieve their financial ends, but also to make the broader system stronger. Last year, Goldman Sachs was involved in a number of activities and transactions that sought to leverage the innovative thinking and market expertise of our people to help address some of these broader challenges.

More specifically, in 2014, Goldman Sachs worked alongside the World Bank Group's International Finance Corporation (IFC) to help address a challenge faced by women entrepreneurs around the world — lack of access to capital to help grow their businesses. The IFC estimates that as many as 70 percent of women-owned small- and medium-sized enterprises in developing countries are unserved or underserved by financial institutions, resulting in a credit gap of around \$285 billion.

Together, Goldman Sachs and the IFC have created The Women Entrepreneurs Opportunity Facility, the first-ever global financing facility for women-owned small- and medium-

sized enterprises, a \$600 million commitment to encourage local banks in emerging markets to substantially increase lending. It is our expectation that this facility will enable 100,000 women entrepreneurs around the world to access capital to grow their businesses. To date, we have reached 25,000 women entrepreneurs in seven emerging markets, and the facility made \$150 million in committed investments.

This commitment is an outgrowth of the firm's global *10,000 Women* program, which has reached women in 43 countries through partnerships with 90 academic and nonprofit institutions to provide business and management education, mentoring, networking and access to capital to more than 10,000 women. Research from a range of organizations has shown that investing in women and girls is one of the highest return opportunities available in the developing world. Indeed, independent assessments of the *10,000 Women* program, by leading institutions like the International Center for Research on Women and Babson College, have confirmed immediate and sustained business growth for graduates of the program. Within 18 months of graduation, nearly 70 percent of participants have reported increased revenue and nearly 60 percent reported having created new jobs.

Goldman Sachs has also been a pioneer in the creation of the "social impact bond," an innovative and emerging financial instrument that leverages private investment to support high-impact programs. As a public/private partnership designed to deliver ambitious social programs to underserved communities, in 2014, we launched social impact bonds that will fund pre-kindergarten education for 2,620 Chicago public school children over four years, and a program that works to reduce recidivism and improve employment outcomes for high-risk young men in the greater Boston area.

Environmental sustainability continues to be a focus across both the public and private sectors. In February 2014, the Goldman Sachs Environmental Finance Innovation Summit brought together companies, investors, development banks, NGOs, policymakers and key thought leaders to discuss market-based approaches to the environment. A particular focus of the Summit included green bonds to fund new projects, green banks to finance clean energy technologies and public/private partnerships to address critical water infrastructure and other needs around the world.

The Global Capital Markets: Fueling Entrepreneurship, Opportunity and Economic Growth

Goldman Sachs has been an innovator in the green bond market, a market that saw nearly \$39 billion in new issues last year, more than twice the volume in 2013, according to Bloomberg. We served as lead bookrunner on the first green bond issued in Latin America, a \$204 million 20-year bond that will refinance debt for Peruvian wind farm operator Energía Eólica. We were also lead left bookrunner for the first century green bond and the first U.S. green bond to have an independent sustainability opinion. The \$350 million bond issued by DC Water and Sewer Authority will finance a portion of its Clean Rivers Project, a massive storm water infrastructure program that will nearly eliminate combined sewer overflows into the city's major waterways, including the Anacostia and Potomac rivers.

We remain committed to developing innovative programs and solutions to help bring economic growth, stability and opportunity to communities around the world. ■

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10,000 Small Businesses, Inaugural Graduations

In Miami and Detroit, more than 130 small business owners gain skills and connections they need to grow their companies, create new jobs and help drive economic progress.

Miami: [goldmansachs.com/ar-2014/10ksb-miami-video](#)

Detroit: [goldmansachs.com/ar-2014/10ksb-detroit-video](#)



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The DC Clean Rivers Project will help restore and protect the ecosystems and biodiversity in and around the waterways of Washington, D.C. [goldmansachs.com/ar-2014/dc-water-video](#)

Case Study

Hawaii Green Bond

Goldman Sachs designed an innovative green bond securitization to fund affordable loans for renewable energy. [goldmansachs.com/ar-2014/hawaii-green-bond-case-study](#)



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Overview: Environmental Finance Innovation Summit 2014

A number of innovative financing mechanisms and capital markets solutions are being deployed to scale up greater investment in environmental markets, including in clean tech, energy efficiency, water and green infrastructure. [goldmansachs.com/ar-2014/efi-summit-video](#)



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Giving Credit Where It Is Due

How closing the credit gap for women-owned small- and medium-sized enterprises can drive global growth. [goldmansachs.com/ar-2014/gmi-report](#)



In Memoriam

John C. Whitehead

Former Chairman and Senior Partner

Few people have contributed more to our culture and generations of leaders at Goldman Sachs than John Whitehead, who passed away this year. We honor his achievements and contributions in service to his country and our firm. John was a man of enormous grace and integrity, and his legacy will endure in the institutions he led and in the lives of those he cared for and mentored.

As a 22-year-old, John served as an ensign on the USS *Thomas Jefferson*, where he was placed in charge of five of the landing craft for the invasion of Normandy during World War II. His Higgins Boat landed on Omaha Beach, a site of extraordinary loss of life.

During his 37 years with Goldman Sachs, John was an influential figure whose decisiveness, high ethical standards and creativity helped lead the firm through a significant period of growth. One of John's most important legacies was the

codification of the Goldman Sachs Business Principles, which he crafted in 1979.

Shortly after retiring from the firm in 1984, John was asked to become deputy secretary of state of the United States, a role he held until early 1989. He was later awarded the Presidential Citizens Medal by President Ronald Reagan.

Throughout his life, he remained committed to public service and was active in innumerable educational, civic and charitable organizations. In late 2001, he was appointed chair of the board of the Lower Manhattan Development Corporation to help revitalize that part of New York City after the devastation of September 11th.

John was a gifted leader, effective visionary and outstanding mentor. We will miss him.



Our Business

The Goldman Sachs Group, Inc. 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. Founded in 1869, the firm is headquartered in New York and maintains offices in all major financial centers around the world.

We report our activities in the following four business segments:

Investment Banking

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

Investment Banking

Net Revenues (*in millions*)

2014	\$6,464
2013	\$6,004
2012	\$4,926

Institutional Client Services

We facilitate client transactions and make markets in fixed income, equity, currency and commodity products, primarily with institutional clients such as corporations, financial institutions, investment funds and governments. We also make markets in and clear client transactions on major stock, options and futures exchanges worldwide and provide financing, securities lending and other prime brokerage services to institutional clients.

Institutional Client Services

Net Revenues (*in millions*)

2014	\$15,197
2013	\$15,721
2012	\$18,124

Investing & Lending

We invest in and originate loans to provide financing to clients. These investments and loans are typically longer-term in nature. We make investments, some of which are consolidated, directly and indirectly through funds that we manage, in debt securities and loans, public and private equity securities, and real estate entities.

Investing & Lending

Net Revenues (*in millions*)

2014	\$6,825
2013	\$7,018
2012	\$5,891

Investment Management

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

Investment Management

Net Revenues (*in millions*)

2014	\$6,042
2013	\$5,463
2012	\$5,222

Financial Highlights

	Year Ended or as of December		
\$ and share amounts in millions, except per share amounts and assets under supervision	2014	2013	2012
Operating Results			
Net revenues	\$ 34,528	\$ 34,206	\$ 34,163
Pre-tax earnings	12,357	11,737	11,207
Net earnings	8,477	8,040	7,475
Net earnings applicable to common shareholders	8,077	7,726	7,292
Return on average common shareholders' equity	11.2%	11.0%	10.7%
Common Share Data			
Diluted earnings per common share	\$ 17.07	\$ 15.46	\$ 14.13
Average diluted common shares outstanding	473.2	499.6	516.1
Dividends declared per common share	\$ 2.25	\$ 2.05	\$ 1.77
Book value per common share	163.01	152.48	144.67
Tangible book value per common share ¹	153.79	143.11	134.06
Ending stock price	193.83	177.26	127.56
Financial Condition and Leverage Ratio			
Total assets	\$856,240	\$911,507	\$938,555
Unsecured long-term borrowings	167,571	160,965	167,305
Total shareholders' equity	82,797	78,467	75,716
Leverage ratio ²	10.3x	11.6x	12.4x
Selected Data			
Total staff	34,000	32,900	32,400
Assets under supervision (in billions)	\$ 1,178	\$ 1,042	\$ 965

1. Tangible book value per common share is computed by dividing tangible common shareholders' equity (total shareholders' equity less preferred stock, goodwill and identifiable intangible assets) by the number of common shares outstanding, including restricted stock units granted to employees with no future service requirements. See "Financial Information — Management's Discussion and Analysis — Balance Sheet and Funding Sources — Balance Sheet Analysis and Metrics" for further information about our tangible common shareholders' equity and tangible book value per common share, which are both non-GAAP measures.

2. The leverage ratio equals total assets divided by total shareholders' equity.

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Management's Discussion and Analysis

Introduction

The Goldman Sachs Group, Inc. (Group Inc.) 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. Founded in 1869, the firm is headquartered in New York and maintains offices in all major financial centers around the world.

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

When we use the terms "Goldman Sachs," "the firm," "we," "us" and "our," we mean Group Inc., a Delaware corporation, and its consolidated subsidiaries.

References to "the 2014 Form 10-K" are to our Annual Report on Form 10-K for the year ended December 31, 2014. All references to "the consolidated financial statements" or "Supplemental Financial Information" are to Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2014. All references to 2014, 2013 and 2012 refer to our years ended, or the dates, as the context requires, December 31, 2014, December 31, 2013 and December 31, 2012, respectively. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

In this discussion and analysis of our financial condition and results of operations, we have included information that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts, but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. This information includes statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, among other things, and may also include statements about the effect of changes to the capital and leverage rules applicable to banks and bank holding companies, the impact of the Dodd-Frank Act on our businesses and operations, and various legal proceedings or mortgage-related contingencies as set forth under "Legal Proceedings" and "Certain Mortgage-Related Contingencies" in Notes 27 and 18, respectively, to the consolidated financial statements, as well as statements about the results of our Dodd-Frank Act and firm stress tests, statements about the objectives and effectiveness of our business continuity plan, information security program, risk management and liquidity policies, statements about trends in or growth opportunities for our businesses, statements about our future status, activities or reporting under U.S. or non-U.S. banking and financial regulation, and statements about our investment banking transaction backlog.

By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in these forward-looking statements include, among others, those discussed below under "Certain Risk Factors That May Affect Our Businesses" as well as "Risk Factors" in Part I, Item 1A of the 2014 Form 10-K and "Cautionary Statement Pursuant to the U.S. Private Securities Litigation Reform Act of 1995" in Part I, Item 1 of the 2014 Form 10-K.

Executive Overview

2014 versus 2013. The firm generated net earnings of \$8.48 billion and diluted earnings per common share of \$17.07 for 2014, an increase of 5% and 10%, respectively, compared with \$8.04 billion and \$15.46 per share for 2013. Return on average common shareholders' equity (ROE) was 11.2% for 2014, compared with 11.0% for 2013. Book value per common share was \$163.01 and tangible book value per common share¹ was \$153.79 as of December 2014, both approximately 7% higher compared with the end of 2013.

Net revenues were \$34.53 billion for 2014, essentially unchanged compared with 2013, as higher net revenues in both Investment Management and Investment Banking, reflecting strong performances in these businesses, were largely offset by slightly lower net revenues in both Institutional Client Services and Investing & Lending.

Operating expenses were \$22.17 billion for 2014, essentially unchanged compared with 2013. Non-compensation expenses were slightly lower compared with the prior year, primarily reflecting lower net provisions for litigation and regulatory proceedings, while compensation and benefits expenses were essentially unchanged.

During 2014, as part of a firmwide initiative to reduce activities with lower returns, total assets were reduced by \$55 billion to \$856 billion as of December 2014, while pre-tax margin improved approximately 150 basis points to 35.8%.

We also maintained strong capital ratios and liquidity, while returning \$6.52 billion of capital to shareholders during 2014. During the year, the firm repurchased 31.8 million shares of its common stock for a total cost of \$5.47 billion and paid common dividends of \$1.05 billion. Our Common Equity Tier 1 ratio² was 12.2% as of December 2014, under the Basel III Advanced approach reflecting the applicable transitional provisions. In addition, our global core liquid assets³ were \$183 billion as of December 2014.

2013 versus 2012. The firm generated net earnings of \$8.04 billion and diluted earnings per common share of \$15.46 for 2013, an increase of 8% and 9%, respectively, compared with \$7.48 billion and \$14.13 per share for 2012. ROE was 11.0% for 2013, compared with 10.7% for 2012. Book value per common share increased approximately 5% to \$152.48 and tangible book value per common share¹ increased approximately 7% to \$143.11 compared with the end of 2012.

Net revenues were \$34.21 billion for 2013, essentially unchanged compared with 2012, as significantly higher net revenues in Investment Banking and higher net revenues in both Investing & Lending and Investment Management were offset by lower net revenues in Institutional Client Services.

Operating expenses were \$22.47 billion for 2013, 2% lower than 2012, as both compensation and benefits expenses and non-compensation expenses decreased slightly. The decline in non-compensation expenses reflected the sale of a majority stake in our Americas reinsurance business and lower depreciation and amortization expenses, partially offset by higher net provisions for litigation and regulatory proceedings.

During 2013, the firm repurchased 39.3 million shares of its common stock for a total cost of \$6.17 billion, while maintaining strong capital levels. In addition, our global core liquid assets³ were \$184 billion as of December 2013.

See "Results of Operations — Segment Operating Results" below for information about net revenues and pre-tax earnings for each of our business segments.

Our businesses, by their nature, do not produce predictable earnings. Our results in any given period can be materially affected by conditions in global financial markets, economic conditions generally and other factors. For a further discussion of the factors that may affect our future operating results, see "Certain Risk Factors That May Affect Our Businesses" below, as well as "Risk Factors" in Part I, Item 1A of the 2014 Form 10-K.

1. Tangible book value per common share is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies. See "Balance Sheet and Funding Sources — Balance Sheet Analysis and Metrics" below for further information about our calculation of tangible book value per common share.

2. See Note 20 to the consolidated financial statements for further information about our capital ratios.

3. See "Risk Management and Risk Factors — Liquidity Risk Management" for further information about our global core liquid assets.

Business Environment

During 2014, real gross domestic product (GDP) growth appeared stable and subdued in most major economies, supported by solid private sector growth in the United States and the reduction of fiscal headwinds, particularly in the United States and the Euro area. Ongoing U.S. labor market improvements and robust U.S. consumer activity were notable trends in 2014. Monetary policy generally remained accommodative, helping most major advanced-economy equity markets to increase during the year, while longer-dated government bond yields generally declined. During the second half of 2014, the U.S. dollar strengthened and oil prices declined. Although macroeconomic conditions were fairly stable, U.S. equity market volatility increased towards the end of the year, alongside political uncertainty, particularly in Greece, Russia and the Middle East, as well as short-lived Ebola concerns. In investment banking, industry-wide underwriting activity remained strong in both equity and debt, and industry-wide completed mergers and acquisitions activity increased compared with 2013. Industry-wide announced mergers and acquisitions activity significantly increased compared with 2013. For a further discussion of how market conditions may affect our businesses, see "Certain Risk Factors That May Affect Our Businesses" below, as well as "Risk Factors" in Part I, Item 1A of the 2014 Form 10-K.

Global

During 2014, real GDP growth appeared to improve in advanced economies and slow in emerging markets. Developed market growth improvements were largest in the United Kingdom and Euro area, while Japan's growth declined and the United States' growth improvement was modest. In emerging markets, headwinds from slowing domestic demand offset improving current account balances and contributed to a general slowdown in growth. Unemployment rates in both the United States and United Kingdom declined in 2014 and at faster paces than in 2013. The Euro area unemployment rate declined in 2014, following an increase in 2013. The U.S. Federal Reserve ended its monthly asset purchase program in the fourth quarter of 2014, after tapering its purchases for several months. The European Central Bank (ECB) reduced its policy interest rate twice during the year, and along with the Bank of Japan (BOJ), announced further easing policies.

United States

In the United States, real GDP increased by 2.4% in 2014, compared with an increase of 2.2% in 2013. Consumer expenditures growth and business fixed investment growth both improved, while residential investment growth slowed. The pickup in consumer expenditures was primarily driven by growth in real disposable income, which contracted in 2013. Measures of consumer confidence improved, as the unemployment rate fell during the year. House prices, housing starts and house sales increased in 2014, but the pace of improvements, particularly for starts and sales, slowed compared with 2013. Measures of inflation were mostly stable during 2014. The U.S. Federal Reserve maintained its federal funds rate at a target range of zero to 0.25% during the year, ended its monthly program to purchase U.S. Treasury securities and mortgage-backed securities in the fourth quarter of 2014 and kept forward guidance broadly unchanged. The yield on the 10-year U.S. Treasury note declined by 87 basis points during 2014 to 2.17%. In equity markets, the NASDAQ Composite Index, the S&P 500 Index and the Dow Jones Industrial Average increased by 13%, 11% and 8%, respectively, during 2014.

Europe

In the Euro area, real GDP increased by 0.9% in 2014, compared with a contraction of 0.4% in 2013. While an improvement from 2013, growth remained at a suppressed level. Fixed investment and consumer spending both grew modestly in 2014, after contracting in 2013, and measures of inflation remain subdued. The ECB cut the main refinancing operations and deposit rates by 20 basis points to 0.05% and (0.20)%, respectively, announced a purchase program for asset-backed securities and covered bonds in the fourth quarter of 2014, and discussed the possibility of a quantitative easing program targeting sovereign bonds. The Euro depreciated by 12% against the U.S. dollar. In the United Kingdom, real GDP increased by 2.6% in 2014, compared with an increase of 1.7% in 2013. The Bank of England maintained its official bank rate at 0.50%. The British pound depreciated by 6% against the U.S. dollar. Yields on 10-year government bonds in the region generally fell during the year. In equity markets, the DAX Index and the Euro Stoxx 50 Index increased by 3% and 1%, respectively, while the FTSE 100 Index and the CAC 40 Index decreased by 3% and 1%, respectively, during 2014.

Asia

In Japan, real GDP had no growth in 2014, a sharp slowdown compared with an increase of 1.6% in 2013. Real GDP contracted significantly during the second and third quarters of 2014, as consumer expenditures fell, in part resulting from a consumption tax hike in April. However, real GDP picked up again in the fourth quarter of 2014. Although measures of inflation increased in 2014, inflation remained below the BOJ's 2% inflation target excluding the impact of the consumption tax hike. During the fourth quarter of 2014, the BOJ announced further quantitative and qualitative monetary easing and removed the 2-year timing target for achieving 2% price stability, making the timeframe open ended. During the year, the yield on 10-year Japanese government bonds declined, the U.S. dollar appreciated by 14% against the Japanese yen and, in equity markets, the Nikkei 225 Index increased by 7%.

In China, real GDP increased by 7.4% in 2014, compared with 7.7% in 2013. Measures of inflation remained moderate and the People's Bank of China cut its one-year lending rate by 40 basis points during the fourth quarter of 2014. The U.S. dollar appreciated by 2% against the Chinese yuan and, in equity markets, the Shanghai Composite Index increased by 53%, as regulatory changes influenced sentiment. In contrast, in Hong Kong, the Hang Seng Index increased by 1%.

In India, real GDP increased at a solid pace in both 2014 and 2013. The rate of wholesale inflation declined compared with 2013. The U.S. dollar appreciated by 2% against the Indian rupee and, in equity markets, the BSE Sensex Index increased by 30% during 2014.

Other Markets

In Brazil, estimated real GDP had no growth in 2014, compared with an increase of 2.5% in 2013, as private consumption growth decelerated and fixed investment spending contracted. The U.S. dollar appreciated by 12% against the Brazilian real and, in equity markets, the Bovespa Index decreased by 3%. In Russia, real GDP increased by 0.6% in 2014, compared with an increase of 1.3% in 2013. Tensions related to the political situation in Ukraine and Russia generated concern during the year. The U.S. dollar appreciated by 76% against the Russian ruble and, in equity markets, the MICEX Index decreased by 7% during 2014.

Critical Accounting Policies

Fair Value

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

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

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

Management's Discussion and Analysis

Instruments categorized within level 3 of the fair value hierarchy are those which require one or more significant inputs that are not observable. As of December 2014 and December 2013, level 3 financial assets represented 4.9% and 4.4%, respectively, of our total assets. Absent evidence to the contrary, instruments classified within level 3 of the fair value hierarchy are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequent to the transaction date, we use other methodologies to determine fair value, which vary based on the type of instrument. Estimating the fair value of level 3 financial instruments requires judgments to be made. These judgments include:

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

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

Controls Over Valuation of Financial Instruments.

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

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

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

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

Management's Discussion and Analysis

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

Review of Valuation Models. The firm's independent model validation group, consisting of quantitative professionals who are separate from model developers, performs an independent model approval process. This process incorporates a review of a diverse set of model and trade parameters across a broad range of values (including extreme and/or improbable conditions) in order to critically evaluate:

- The model's suitability for valuation and risk management of a particular instrument type;
- The model's accuracy in reflecting the characteristics of the related product and its significant risks;
- The suitability of the calculation techniques incorporated in the model;
- The model's consistency with models for similar products; and
- The model's sensitivity to input parameters and assumptions.

New or changed models are reviewed and approved prior to being put into use. Models are evaluated and re-approved annually to assess the impact of any changes in the product or market and any market developments in pricing theories.

Level 3 Financial Assets at Fair Value. Total level 3 financial assets were \$42.01 billion and \$40.01 billion as of December 2014 and December 2013, respectively.

See Notes 5 through 8 to the consolidated financial statements for further information about level 3 financial assets, including changes in level 3 financial assets and related fair value measurements.

Goodwill and Identifiable Intangible Assets

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

During the fourth quarter of 2014, we assessed goodwill for impairment. The qualitative assessment required management to make judgments and to evaluate several factors, which included, but were not limited to, macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, entity-specific events, events affecting reporting units and sustained changes in our stock price. Based on our evaluation of these factors, we determined that it was more likely than not that the fair value of each of the reporting units exceeded its respective carrying amount, and therefore, we determined that goodwill was not impaired and that a quantitative goodwill impairment test was not required.

If we experience a prolonged or severe period of weakness in the business environment or financial markets, our goodwill could be impaired in the future. In addition, significant changes to critical inputs of the quantitative goodwill impairment test (e.g., cost of equity) could cause the estimated fair value of our reporting units to decline, which could result in an impairment of goodwill in the future.

See Note 13 to the consolidated financial statements for further information about our goodwill.

Management's Discussion and Analysis

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

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

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

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

Recent Accounting Developments

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

Use of Estimates

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

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

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

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

Management's Discussion and Analysis

Results of Operations

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed. The composition of net revenues can also vary over the shorter term due to fluctuations in U.S. and global economic and market conditions. See “Certain Risk Factors That May Affect Our Businesses” below and “Risk Factors” in Part I, Item 1A of the 2014 Form 10-K for a further discussion of the impact of economic and market conditions on our results of operations.

Financial Overview

The table below presents an overview of our financial results.

\$ in millions, except per share amounts	Year Ended December		
	2014	2013	2012
Net revenues	\$34,528	\$34,206	\$34,163
Pre-tax earnings	12,357	11,737	11,207
Net earnings	8,477	8,040	7,475
Net earnings applicable to common shareholders	8,077	7,726	7,292
Diluted earnings per common share	17.07	15.46	14.13
Return on average common shareholders' equity ¹	11.2%	11.0%	10.7%

1. ROE is computed by dividing net earnings applicable to common shareholders by average monthly common shareholders' equity. The table below presents our average common shareholders' equity.

\$ in millions	Average for the Year Ended December		
	2014	2013	2012
Total shareholders' equity	\$80,839	\$77,353	\$72,530
Preferred stock	(8,585)	(6,892)	(4,392)
Common shareholders' equity	\$72,254	\$70,461	\$68,138

The table below presents selected financial ratios.

	Year Ended December		
	2014	2013	2012
Net earnings to average assets	0.9%	0.9%	0.8%
Return on average total shareholders' equity ¹	10.5%	10.4%	10.3%
Total average equity to average assets	9.0%	8.2%	7.7%
Dividend payout ratio ²	13.2%	13.3%	12.5%

1. Return on average total shareholders' equity is computed by dividing net earnings by average monthly total shareholders' equity.

2. Dividend payout ratio is computed by dividing dividends declared per common share by diluted earnings per common share.

Net Revenues

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

\$ in millions	Year Ended December		
	2014	2013	2012
Investment banking	\$ 6,464	\$ 6,004	\$ 4,941
Investment management	5,748	5,194	4,968
Commissions and fees	3,316	3,255	3,161
Market making	8,365	9,368	11,348
Other principal transactions	6,588	6,993	5,865
Total non-interest revenues	30,481	30,814	30,283
Interest income	9,604	10,060	11,381
Interest expense	5,557	6,668	7,501
Net interest income	4,047	3,392	3,880
Total net revenues	\$34,528	\$34,206	\$34,163

In the table above:

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

Management's Discussion and Analysis

2014 versus 2013

Net revenues on the consolidated statements of earnings were \$34.53 billion for 2014, essentially unchanged compared with 2013, reflecting higher net interest income, investment management revenues and investment banking revenues, as well as slightly higher commissions and fees, largely offset by lower market-making revenues and other principal transactions revenues.

During 2014, the operating environment was favorable for investment banking activities, as industry-wide underwriting activity was strong and industry-wide mergers and acquisitions activity increased. Improved asset prices resulted in appreciation in the value of client assets in investment management. In addition, other principal transactions were impacted by favorable company-specific events and strong corporate performance. However, the operating environment remained challenging for market-making activities as economic uncertainty and low volatility levels contributed to generally low levels of activity, particularly in fixed income products. If macroeconomic concerns continue over the long term, and client activity levels in investment banking broadly decline or market-making activity levels remain low, or if asset prices were to decline, net revenues would likely be negatively impacted. See "Segment Operating Results" below for further information about material trends and uncertainties that may impact our results of operations.

Non-Interest Revenues. Investment banking revenues on the consolidated statements of earnings were \$6.46 billion for 2014, 8% higher than 2013, due to significantly higher revenues in financial advisory, reflecting an increase in industry-wide completed mergers and acquisitions, primarily in the United States. Revenues in underwriting were essentially unchanged compared with a strong 2013, as industry-wide activity levels remained high. Revenues in debt underwriting were slightly lower compared with 2013, reflecting lower revenues from commercial mortgage-related activity, while revenues in equity underwriting were slightly higher, principally from initial public offerings.

Investment management revenues on the consolidated statements of earnings were \$5.75 billion for 2014, 11% higher than 2013, reflecting higher management and other fees, primarily due to higher average assets under supervision, as well as higher incentive fees and transaction revenues.

Commissions and fees on the consolidated statements of earnings were \$3.32 billion for 2014, 2% higher than 2013, due to higher commissions and fees in both Europe and the United States, reflecting generally higher client activity, consistent with increases in listed cash equity market volumes in these regions.

Market-making revenues on the consolidated statements of earnings were \$8.37 billion for 2014, 11% lower than 2013. Results for 2014 included a gain of \$289 million (\$270 million of which was recorded at extinguishment in the third quarter) related to the extinguishment of certain of our junior subordinated debt. Excluding this gain and a gain of \$211 million on the sale of a majority stake in our European insurance business in 2013, the decrease in market-making revenues compared with 2013 reflected significantly lower revenues in both credit products and equity derivatives, lower revenues in mortgages and the sale of our Americas reinsurance business in 2013. These decreases were partially offset by significantly higher revenues in commodities, as well as higher revenues in equity cash products, currencies and interest rate products.

Other principal transactions revenues on the consolidated statements of earnings were \$6.59 billion for 2014, 6% lower than 2013. Net gains from investments in equity securities were slightly lower due to a significant decrease in net gains from investments in public equities, as movements in global equity prices during 2014 were less favorable compared with 2013, partially offset by an increase in net gains from investments in private equities, primarily driven by company-specific events. Net gains from debt securities and loans were slightly higher than 2013, primarily due to sales of certain investments during 2014. Revenues related to our consolidated investments were significantly lower compared with 2013, reflecting a decrease in operating revenues from commodities-related consolidated investments.

Net Interest Income. Net interest income on the consolidated statements of earnings was \$4.05 billion for 2014, 19% higher than 2013. The increase compared with 2013 was primarily due to lower interest expense resulting from a reduction in our total liabilities, lower costs of long-term funding due to a decline in interest rates and the impact of rebates in the securities services business, partially offset by lower interest income due to a reduction in our total assets. See "Supplemental Financial Information — Statistical Disclosures — Distribution of Assets, Liabilities and Shareholders' Equity" for further information about our sources of net interest income.

2013 versus 2012

Net revenues on the consolidated statements of earnings were \$34.21 billion for 2013, essentially unchanged compared with 2012. 2013 included significantly higher investment banking revenues, as well as higher other principal transactions revenues and investment management revenues. In addition, commissions and fees were slightly higher compared with 2012. These increases were offset by lower market-making revenues and lower net interest income compared with 2012.

Management's Discussion and Analysis

During 2013, a significant increase in global equity prices contributed to improved industry-wide equity underwriting activity in investment banking, appreciation in the value of client assets in investment management and net gains from investments in public equities in other principal transactions. Other principal transactions were also impacted by favorable company-specific events and strong corporate performance, and industry-wide debt underwriting activity in investment banking remained solid, as interest rates remained low. However, macroeconomic concerns continued to weigh on industry-wide mergers and acquisitions activity in investment banking, and contributed to a challenging operating environment for market-making activities, resulting in fluctuations in activity levels during 2013. See "Segment Operating Results" below for further information about material trends and uncertainties that may impact our results of operations.

Non-Interest Revenues. Investment banking revenues on the consolidated statements of earnings were \$6.00 billion for 2013, 22% higher than 2012, reflecting significantly higher revenues in underwriting, due to strong revenues in both equity and debt underwriting. Revenues in equity underwriting were significantly higher compared with 2012, reflecting an increase in client activity, particularly in initial public offerings. Revenues in debt underwriting were significantly higher compared with 2012, principally due to leveraged finance activity. Revenues in financial advisory were essentially unchanged compared with 2012.

Investment management revenues on the consolidated statements of earnings were \$5.19 billion for 2013, 5% higher than 2012, reflecting higher management and other fees, primarily due to higher average assets under supervision.

Commissions and fees on the consolidated statements of earnings were \$3.26 billion for 2013, slightly higher than 2012, primarily reflecting higher commissions and fees in Asia and Europe. During 2013, our average daily volumes were higher in Asia and Europe and lower in the United States compared with 2012, consistent with listed cash equity market volumes.

Market-making revenues on the consolidated statements of earnings were \$9.37 billion for 2013, 17% lower than 2012. The decrease compared with 2012 was primarily due to significantly lower revenues in equity products, mortgages and interest rate products, as well as lower revenues in currencies. The decrease in equity products was due to the sale of our Americas reinsurance business in 2013, the sale of our hedge fund administration business in 2012 (2012 included a gain on sale of \$494 million) and lower revenues in derivatives, partially offset by significantly higher revenues in cash products compared with 2012. Revenues in commodities were higher, while revenues in credit products were essentially unchanged compared with 2012. In December 2013, we completed the sale of a majority stake in our European insurance business and recognized a gain of \$211 million.

Other principal transactions revenues on the consolidated statements of earnings were \$6.99 billion for 2013, 19% higher than 2012, reflecting a significant increase in net gains from investments in equity securities, driven by company-specific events and stronger corporate performance, as well as significantly higher global equity prices. In addition, net gains from debt securities and loans were slightly higher, while revenues related to our consolidated investments were lower compared with 2012.

Net Interest Income. Net interest income on the consolidated statements of earnings was \$3.39 billion for 2013, 13% lower than 2012. The decrease compared with 2012 was primarily due to lower average yields on financial instruments owned, at fair value, partially offset by lower interest expense on financial instruments sold, but not yet purchased, at fair value and collateralized financings. See "Supplemental Financial Information — Statistical Disclosures — Distribution of Assets, Liabilities and Shareholders' Equity" for further information about our sources of net interest income.

Operating Expenses

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

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

\$ in millions	Year Ended December		
	2014	2013	2012
Compensation and benefits	\$12,691	\$12,613	\$12,944
Brokerage, clearing, exchange and distribution fees	2,501	2,341	2,208
Market development	549	541	509
Communications and technology	779	776	782
Depreciation and amortization	1,337	1,322	1,738
Occupancy	827	839	875
Professional fees	902	930	867
Insurance reserves ¹	—	176	598
Other expenses	2,585	2,931	2,435
Total non-compensation expenses	9,480	9,856	10,012
Total operating expenses	\$22,171	\$22,469	\$22,956
Total staff at period-end	34,000	32,900	32,400

1. Consists of changes in reserves related to our Americas reinsurance business, including interest credited to policyholder account balances, and expenses related to property catastrophe reinsurance claims. In April 2013, we completed the sale of a majority stake in our Americas reinsurance business and no longer consolidate this business.

2014 versus 2013. Operating expenses on the consolidated statements of earnings were \$22.17 billion for 2014, essentially unchanged compared with 2013. Compensation and benefits expenses on the consolidated statements of earnings were \$12.69 billion for 2014, essentially unchanged compared with 2013. The ratio of compensation and benefits to net revenues for 2014 was 36.8% compared with 36.9% for 2013. Total staff increased 3% during 2014.

Non-compensation expenses on the consolidated statements of earnings were \$9.48 billion for 2014, 4% lower than 2013. The decrease compared with 2013 included a decrease in other expenses, due to lower net provisions for litigation and regulatory proceedings and lower operating expenses related to consolidated investments, as well as a decline in insurance reserves, reflecting the sale of our Americas reinsurance business in 2013. These decreases were partially offset by an increase in brokerage, clearing, exchange and distribution fees. Net provisions for litigation and regulatory proceedings for 2014 were \$754 million compared with \$962 million for 2013 (both primarily comprised of net provisions for mortgage-related matters). 2014 included a charitable contribution of \$137 million to Goldman Sachs Gives, our donor-advised fund. Compensation was reduced to fund this charitable contribution to Goldman Sachs Gives. The firm asks its participating managing directors to make recommendations regarding potential charitable recipients for this contribution.

2013 versus 2012. Operating expenses on the consolidated statements of earnings were \$22.47 billion for 2013, 2% lower than 2012. Compensation and benefits expenses on the consolidated statements of earnings were \$12.61 billion for 2013, 3% lower compared with \$12.94 billion for 2012. The ratio of compensation and benefits to net revenues for 2013 was 36.9% compared with 37.9% for 2012. Total staff increased 2% during 2013.

Non-compensation expenses on the consolidated statements of earnings were \$9.86 billion for 2013, 2% lower than 2012. The decrease compared with 2012 included a decline in insurance reserves, reflecting the sale of our Americas reinsurance business, and a decrease in depreciation and amortization expenses, primarily reflecting lower impairment charges and lower operating expenses related to consolidated investments. These decreases were partially offset by an increase in other expenses, due to higher net provisions for litigation and regulatory proceedings, and higher brokerage, clearing, exchange and distribution fees. Net provisions for litigation and regulatory proceedings for 2013 were \$962 million (primarily comprised of net provisions for mortgage-related matters) compared with \$448 million for 2012 (including a settlement with the Board of Governors of the Federal Reserve System (Federal Reserve Board) regarding the independent foreclosure review). 2013 included a charitable contribution of \$155 million to Goldman Sachs Gives, our donor-advised fund. Compensation was reduced to fund this charitable contribution to Goldman Sachs Gives. The firm asks its participating managing directors to make recommendations regarding potential charitable recipients for this contribution.

Management's Discussion and Analysis

Provision for Taxes

The effective income tax rate for 2014 was 31.4%, essentially unchanged compared with 31.5% for 2013.

The effective income tax rate for 2013 was 31.5%, down from 33.3% for 2012. The decrease from 33.3% to 31.5% was primarily due to a determination that certain non-U.S. earnings will be permanently reinvested abroad.

In December 2014, the rules related to the deferral of U.S. tax on certain non-repatriated active financing income were extended retroactively to January 1, 2014 through December 31, 2014. The expiration of these rules effective December 31, 2014 is not expected to have a material impact on our effective tax rate for 2015.

In March 2014, New York State enacted executive budget legislation for the 2014-2015 fiscal year which changes the taxation of corporations doing business in the state. This change did not have a material impact on our effective tax rate for 2014, and we do not expect it will have a material impact on our effective tax rate for 2015.

Segment Operating Results

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

	Year Ended December		
\$ in millions	2014	2013	2012
Investment Banking			
Net revenues	\$ 6,464	\$ 6,004	\$ 4,926
Operating expenses	3,688	3,479	3,333
Pre-tax earnings	\$ 2,776	\$ 2,525	\$ 1,593
Institutional Client Services			
Net revenues	\$ 15,197	\$ 15,721	\$ 18,124
Operating expenses	10,880	11,792	12,490
Pre-tax earnings	\$ 4,317	\$ 3,929	\$ 5,634
Investing & Lending			
Net revenues	\$ 6,825	\$ 7,018	\$ 5,891
Operating expenses	2,819	2,686	2,668
Pre-tax earnings	\$ 4,006	\$ 4,332	\$ 3,223
Investment Management			
Net revenues	\$ 6,042	\$ 5,463	\$ 5,222
Operating expenses	4,647	4,357	4,296
Pre-tax earnings	\$ 1,395	\$ 1,106	\$ 926
Total net revenues	\$34,528	\$34,206	\$34,163
Total operating expenses¹	22,171	22,469	22,956
Total pre-tax earnings	\$12,357	\$11,737	\$11,207

1. Includes charitable contributions that have not been allocated to our segments of \$137 million for 2014, \$155 million for 2013 and \$169 million for 2012. Operating expenses related to real estate-related exit costs, previously not allocated to our segments, have now been allocated. This allocation reflects the change in the manner in which management views the performance of our segments. Reclassifications have been made to previously reported segment amounts to conform to the current presentation.

Net revenues in our segments include allocations of interest income and interest expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, such underlying positions. See Note 25 to the consolidated financial statements for further information about our business segments.

The cost drivers of Goldman Sachs taken as a whole — compensation, headcount and levels of business activity — are broadly similar in each of our business segments. Compensation and benefits expenses within our segments reflect, among other factors, the overall performance of Goldman Sachs as well as the performance of individual businesses. Consequently, pre-tax margins in one segment of our business may be significantly affected by the performance of our other business segments. A discussion of segment operating results follows.

Management's Discussion and Analysis

Investment Banking

Our Investment Banking segment is comprised of:

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

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

The table below presents the operating results of our Investment Banking segment.

\$ in millions	Year Ended December		
	2014	2013	2012
Financial Advisory	\$2,474	\$1,978	\$1,975
Equity underwriting	1,750	1,659	987
Debt underwriting	2,240	2,367	1,964
Total Underwriting	3,990	4,026	2,951
Total net revenues	6,464	6,004	4,926
Operating expenses	3,688	3,479	3,333
Pre-tax earnings	\$2,776	\$2,525	\$1,593

The table below presents our financial advisory and underwriting transaction volumes.¹

\$ in billions	Year Ended December		
	2014	2013	2012
Announced mergers and acquisitions	\$1,002	\$ 620	\$ 745
Completed mergers and acquisitions	659	632	575
Equity and equity-related offerings ²	78	91	58
Debt offerings ³	268	280	243

1. Source: Thomson Reuters. Announced and completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction. Equity and equity-related offerings and debt offerings are based on full credit for single book managers and equal credit for joint book managers. Transaction volumes may not be indicative of net revenues in a given period. In addition, transaction volumes for prior periods may vary from amounts previously reported due to the subsequent withdrawal or a change in the value of a transaction.

2. Includes Rule 144A and public common stock offerings, convertible offerings and rights offerings.

3. Includes non-convertible preferred stock, mortgage-backed securities, asset-backed securities and taxable municipal debt. Includes publicly registered and Rule 144A issues. Excludes leveraged loans.

2014 versus 2013. Net revenues in Investment Banking were \$6.46 billion for 2014, 8% higher than 2013.

Net revenues in Financial Advisory were \$2.47 billion, 25% higher than 2013, reflecting an increase in industry-wide completed mergers and acquisitions, primarily in the United States. Net revenues in Underwriting were \$3.99 billion, essentially unchanged compared with a strong 2013, as industry-wide activity levels remained high. Net revenues in debt underwriting were slightly lower compared with 2013, reflecting lower net revenues from commercial mortgage-related activity, while net revenues in equity underwriting were slightly higher, principally from initial public offerings.

During 2014, Investment Banking operated in an environment generally characterized by strong industry-wide underwriting activity in both equity and debt, and an increase in industry-wide completed mergers and acquisitions activity compared with 2013. Industry-wide announced mergers and acquisitions activity significantly increased compared with 2013. In the future, if market conditions become less favorable, and client activity levels broadly decline, net revenues in Investment Banking would likely be negatively impacted.

During 2014, our investment banking transaction backlog increased significantly due to a significant increase in estimated net revenues from potential advisory transactions. Estimated net revenues from potential underwriting transactions were lower compared with the end of 2013, as a significant decrease in estimated net revenues from potential equity underwriting transactions, particularly in initial public offerings, was partially offset by an increase in estimated net revenues from potential debt underwriting transactions, reflecting increases across most products.

Management's Discussion and Analysis

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

Operating expenses were \$3.69 billion for 2014, 6% higher than 2013, primarily due to increased compensation and benefits expenses, reflecting higher net revenues. Pre-tax earnings were \$2.78 billion in 2014, 10% higher than 2013.

2013 versus 2012. Net revenues in Investment Banking were \$6.00 billion for 2013, 22% higher than 2012.

Net revenues in Financial Advisory were \$1.98 billion, essentially unchanged compared with 2012. Net revenues in Underwriting were \$4.03 billion, 36% higher than 2012, due to strong net revenues in both equity and debt underwriting. Net revenues in equity underwriting were significantly higher compared with 2012, reflecting an increase in client activity, particularly in initial public offerings. Net revenues in debt underwriting were significantly higher compared with 2012, principally due to leveraged finance activity.

During 2013, Investment Banking operated in an environment generally characterized by improved industry-wide equity underwriting activity, particularly in initial public offerings, as global equity prices significantly increased during the year. In addition, industry-wide debt underwriting activity remained solid, and included significantly higher leveraged finance activity, as interest rates remained low. However, ongoing macroeconomic concerns continued to weigh on investment banking activity as industry-wide mergers and acquisitions activity declined compared with 2012.

During 2013, our investment banking transaction backlog increased significantly due to significantly higher estimated net revenues from both potential advisory transactions and potential underwriting transactions. The increase in underwriting reflects significantly higher estimated net revenues from potential equity underwriting transactions, primarily in initial public offerings, and higher estimated net revenues from potential debt underwriting transactions, principally from leveraged finance activity.

Operating expenses were \$3.48 billion for 2013, 4% higher than 2012, due to increased compensation and benefits expenses, primarily resulting from higher net revenues. Pre-tax earnings were \$2.53 billion in 2013, 59% higher than 2012.

Management's Discussion and Analysis

Institutional Client Services

Our Institutional Client Services segment is comprised of:

Fixed Income, Currency and Commodities Client Execution.

Includes client execution activities related to making markets in interest rate products, credit products, mortgages, currencies and commodities.

- Interest Rate Products.** Government bonds, money market instruments such as commercial paper, treasury bills, 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 (including U.S. government agency-issued collateralized mortgage obligations, other prime, subprime and Alt-A securities and loans), 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 OTC transactions. Equities also includes our securities services business, which provides financing, securities lending and other prime brokerage services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and generates revenues primarily in the form of interest rate spreads or fees.

The table below presents the operating results of our Institutional Client Services segment.

<i>\$ in millions</i>	Year Ended December		
	2014	2013	2012
Fixed Income, Currency and Commodities Client Execution	\$ 8,461	\$ 8,651	\$ 9,914
Equities client execution ¹	2,079	2,594	3,171
Commissions and fees	3,153	3,103	3,053
Securities services	1,504	1,373	1,986
Total Equities	6,736	7,070	8,210
Total net revenues	15,197	15,721	18,124
Operating expenses	10,880	11,792	12,490
Pre-tax earnings	\$ 4,317	\$ 3,929	\$ 5,634

1. Net revenues related to the Americas reinsurance business were \$317 million for 2013 and \$1.08 billion for 2012. In April 2013, we completed the sale of a majority stake in our Americas reinsurance business and no longer consolidate this business.

Management's Discussion and Analysis

2014 versus 2013. Net revenues in Institutional Client Services were \$15.20 billion for 2014, 3% lower than 2013. Results for 2014 included a gain of \$289 million (\$270 million of which was recorded at extinguishment in the third quarter) related to the extinguishment of certain of our junior subordinated debt, of which \$168 million was included in Fixed Income, Currency and Commodities Client Execution and \$121 million in Equities (\$30 million and \$91 million included in equities client execution and securities services, respectively).

Net revenues in Fixed Income, Currency and Commodities Client Execution were \$8.46 billion for 2014, 2% lower than 2013. Excluding the gain related to the extinguishment of debt in 2014 and a gain of \$211 million on the sale of a majority stake in our European insurance business in 2013, net revenues in Fixed Income, Currency and Commodities Client Execution were slightly lower compared with 2013. This decline reflected significantly lower net revenues in credit products and slightly lower net revenues in both interest rate products and mortgages. The decrease in credit products primarily reflected difficult market-making conditions, particularly during the second half of 2014, and generally low levels of activity. These results were largely offset by significantly higher net revenues in commodities and higher net revenues in currencies. The increase in commodities reflected more favorable market-making conditions in certain energy products, primarily during the first quarter of 2014. The increase in currencies reflected a stronger performance towards the end of the year, as activity levels improved and volatility was higher.

Net revenues in Equities were \$6.74 billion for 2014, 5% lower than 2013. Excluding the gain related to the extinguishment of debt in 2014 and net revenues of \$317 million related to the sale of a majority stake in our Americas reinsurance business in 2013, net revenues in Equities were slightly lower compared with 2013. This decline reflected lower net revenues in derivatives, partially offset by slightly higher commissions and fees and slightly higher net revenues in securities services. The increase in securities services net revenues reflected the impact of higher average customer balances. The increase in commissions and fees was due to higher commissions and fees in both Europe and the United States, reflecting generally higher client activity, consistent with increases in listed cash equity market volumes in these regions.

The net gain attributable to the impact of changes in our own credit spreads on borrowings for which the fair value option was elected was \$144 million (\$108 million and \$36 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for 2014, compared with a net loss of \$296 million (\$220 million and \$76 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for 2013.

During 2014, Institutional Client Services continued to operate in a challenging environment, as economic uncertainty contributed to subdued risk appetite for our clients and generally low levels of activity, particularly in credit products, interest rate products and mortgages. In addition, volatility levels remained low, although volatility increased in certain businesses towards the end of the year. Debt markets were also impacted by the widening of high-yield credit spreads and the decline in oil prices during the second half of the year, which contributed to low liquidity, particularly in credit. Equity markets, however, generally increased during the year. If macroeconomic concerns continue over the long term and activity levels remain low, net revenues in Fixed Income, Currency and Commodities Client Execution and Equities would likely continue to be negatively impacted.

Operating expenses were \$10.88 billion for 2014, 8% lower than 2013, due to decreased compensation and benefits expenses, reflecting lower net revenues, lower net provisions for litigation and regulatory proceedings, and lower expenses as a result of the sale of a majority stake in our Americas reinsurance business. Pre-tax earnings were \$4.32 billion in 2014, 10% higher than 2013.

Management's Discussion and Analysis

2013 versus 2012. Net revenues in Institutional Client Services were \$15.72 billion for 2013, 13% lower than 2012.

Net revenues in Fixed Income, Currency and Commodities Client Execution were \$8.65 billion for 2013, 13% lower than 2012, reflecting significantly lower net revenues in interest rate products compared with a solid 2012, and significantly lower net revenues in mortgages compared with a strong 2012. The decrease in interest rate products and mortgages primarily reflected the impact of a more challenging environment and lower activity levels compared with 2012. In addition, net revenues in currencies were slightly lower, while net revenues in credit products and commodities were essentially unchanged compared with 2012. In December 2013, we completed the sale of a majority stake in our European insurance business and recognized a gain of \$211 million.

Net revenues in Equities were \$7.07 billion for 2013, 14% lower compared with 2012, due to the sale of our Americas reinsurance business ¹ in 2013 and the sale of our hedge fund administration business in 2012. Net revenues in equities client execution (excluding net revenues from our Americas reinsurance business) were higher compared with 2012, including significantly higher net revenues in cash products, partially offset by significantly lower net revenues in derivatives. Commissions and fees were slightly higher compared with 2012, reflecting higher commissions and fees in Asia and Europe, partially offset by lower commissions and fees in the United States. Our average daily volumes during 2013 were higher in Asia and Europe and lower in the United States compared with 2012, consistent with listed cash equity market volumes. Securities services net revenues were significantly lower compared with 2012, primarily due to the sale of our hedge fund administration business in 2012 (2012 included a gain on sale of \$494 million). During 2013, Equities operated in an environment characterized by a significant increase in global equity prices, particularly in Japan and the U.S., and generally lower volatility levels.

The net loss attributable to the impact of changes in our own credit spreads on borrowings for which the fair value option was elected was \$296 million (\$220 million and \$76 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for 2013, compared with a net loss of \$714 million (\$433 million and \$281 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for 2012.

During 2013, Institutional Client Services operated in a challenging environment that required continual reassessment of the outlook for the global economy, as uncertainty about when the U.S. Federal Reserve would begin tapering its asset purchase program, as well as constant global political risk and uncertainty, were interspersed with improvements in the U.S. economy over the course of the year. As a result, our clients' risk appetite and activity levels fluctuated during 2013. Compared with 2012, activity levels were generally lower, global equity prices significantly increased and credit spreads tightened.

Operating expenses were \$11.79 billion for 2013, 6% lower than 2012, due to decreased compensation and benefits expenses, primarily resulting from lower net revenues, and lower expenses as a result of the sale of a majority stake in our Americas reinsurance business in April 2013. These decreases were partially offset by increased net provisions for litigation and regulatory proceedings, primarily comprised of net provisions for mortgage-related matters, and higher brokerage, clearing, exchange and distribution fees. Pre-tax earnings were \$3.93 billion in 2013, 30% lower than 2012.

1. Net revenues related to the Americas reinsurance business were \$317 million for 2013 and \$1.08 billion for 2012. In April 2013, we completed the sale of a majority stake in our Americas reinsurance business and no longer consolidate this business.

Management's Discussion and Analysis

Investing & Lending

Investing & Lending includes our investing activities and the origination of loans to provide financing to clients. These investments and loans are typically longer-term in nature. We make investments, some of which are consolidated, directly and indirectly through funds that we manage, in debt securities and loans, public and private equity securities, and real estate entities.

The table below presents the operating results of our Investing & Lending segment.

\$ in millions	Year Ended December		
	2014	2013	2012
Equity securities	\$3,813	\$3,930	\$2,800
Debt securities and loans	2,165	1,947	1,850
Other ¹	847	1,141	1,241
Total net revenues	6,825	7,018	5,891
Operating expenses	2,819	2,686	2,668
Pre-tax earnings	\$4,006	\$4,332	\$3,223

1. Includes net revenues of \$325 million for 2014, \$329 million for 2013 and \$362 million for 2012 related to Metro International Trade Services LLC. We completed the sale of this consolidated investment in December 2014.

2014 versus 2013. Net revenues in Investing & Lending were \$6.83 billion for 2014, 3% lower than 2013. Net gains from investments in equity securities were slightly lower due to a significant decrease in net gains from investments in public equities, as movements in global equity prices during 2014 were less favorable compared with 2013, partially offset by an increase in net gains from investments in private equities, primarily driven by company-specific events. Net revenues from debt securities and loans were higher than 2013, reflecting a significant increase in net interest income, primarily driven by increased lending, and a slight increase in net gains, primarily due to sales of certain investments during 2014. Other net revenues, related to our consolidated investments, were significantly lower compared with 2013, reflecting a decrease in operating revenues from commodities-related consolidated investments.

During 2014, net revenues in Investing & Lending generally reflected favorable company-specific events, including initial public offerings and financings, and strong corporate performance, as well as net gains from sales of certain investments. However, concerns about the outlook for the global economy and uncertainty over the impact of financial regulatory reform continue to be meaningful considerations for the global marketplace. If equity markets decline or credit spreads widen, net revenues in Investing & Lending would likely be negatively impacted.

Operating expenses were \$2.82 billion for 2014, 5% higher than 2013, reflecting higher compensation and benefits expenses, partially offset by lower expenses related to consolidated investments. Pre-tax earnings were \$4.01 billion in 2014, 8% lower than 2013.

2013 versus 2012. Net revenues in Investing & Lending were \$7.02 billion for 2013, 19% higher than 2012, reflecting a significant increase in net gains from investments in equity securities, driven by company-specific events and stronger corporate performance, as well as significantly higher global equity prices. In addition, net gains and net interest income from debt securities and loans were slightly higher, while other net revenues, related to our consolidated investments, were lower compared with 2012.

During 2013, net revenues in Investing & Lending generally reflected favorable company-specific events and strong corporate performance, as well as the impact of significantly higher global equity prices and tighter corporate credit spreads.

Operating expenses were \$2.69 billion for 2013, essentially unchanged compared with 2012. Operating expenses during 2013 included lower impairment charges and lower operating expenses related to consolidated investments, partially offset by increased compensation and benefits expenses due to higher net revenues compared with 2012. Pre-tax earnings were \$4.33 billion in 2013, 34% higher than 2012.

Management's Discussion and Analysis

Investment Management

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

Assets under supervision include assets under management and other client assets. Assets under management include client assets where we earn a fee for managing assets on a discretionary basis. This includes net assets in our mutual funds, hedge funds, credit funds and private equity funds (including real estate funds), and separately managed accounts for institutional and individual investors. Other client assets include client assets invested with third-party managers, bank deposits and advisory relationships where we earn a fee for advisory and other services, but do not have investment discretion. Assets under supervision do not include the self-directed brokerage assets of our clients. Long-term assets under supervision represent assets under supervision excluding liquidity products. Liquidity products represent money markets and bank deposit assets.

Assets under supervision typically generate fees as a percentage of net asset value, which vary by asset class and are affected by investment performance as well as asset inflows and redemptions. Asset classes such as alternative investment and equity assets typically generate higher fees relative to fixed income and liquidity product assets. The average effective management fee (which excludes non-asset-based fees) we earned on our assets under supervision was 40 basis points for both 2014 and 2013, and 39 basis points for 2012.

In certain circumstances, we are also entitled to receive incentive fees based on a percentage of a fund's or a separately managed account's return, or when the return exceeds a specified benchmark or other performance targets. Incentive fees are recognized only when all material contingencies are resolved.

The table below presents the operating results of our Investment Management segment.

	Year Ended December		
\$ in millions	2014	2013	2012
Management and other fees	\$4,800	\$4,386	\$4,105
Incentive fees	776	662	701
Transaction revenues	466	415	416
Total net revenues	6,042	5,463	5,222
Operating expenses	4,647	4,357	4,296
Pre-tax earnings	\$1,395	\$1,106	\$ 926

The tables below present our period-end assets under supervision (AUS) by asset class and by distribution channel.

	As of December		
\$ in billions	2014	2013	2012
Assets under management	\$1,027	\$ 919	\$ 854
Other client assets	151	123	111
Total AUS	\$1,178	\$1,042	\$ 965

Asset Class

Alternative investments ¹	\$ 143	\$ 142	\$ 151
Equity	236	208	153
Fixed income	516	446	411
Long-term AUS	895	796	715
Liquidity products	283	246	250
Total AUS	\$1,178	\$1,042	\$ 965

Distribution Channel

Directly distributed:			
Institutional	\$ 412	\$ 363	\$ 343
High-net-worth individuals	363	330	294
Third-party distributed:			
Institutional, high-net-worth individuals and retail	403	349	328
Total AUS	\$1,178	\$1,042	\$ 965

1. Primarily includes hedge funds, credit funds, private equity, real estate, currencies, commodities and asset allocation strategies.

Management's Discussion and Analysis

The table below presents a summary of the changes in our assets under supervision.

\$ in billions	Year Ended December		
	2014	2013	2012
Balance, beginning of year	\$1,042	\$ 965	\$895
Net inflows/(outflows)			
Alternative investments	1	(13)	1
Equity	15	13	(17)
Fixed income	58	41	34
Long-term AUS net inflows/(outflows)	74	41 ²	18 ³
Liquidity products	37	(4)	3
Total AUS net inflows/(outflows)	111¹	37	21
Net market appreciation/(depreciation)	25	40	49
Balance, end of year	\$1,178	\$1,042	\$965

1. Net inflows in long-term assets under supervision include \$19 billion of fixed income asset inflows in connection with our acquisition of Deutsche Asset & Wealth Management's stable value business. Net inflows in liquidity products include \$6 billion of inflows in connection with our acquisition of RBS Asset Management's money market funds.
2. Fixed income flows include \$10 billion in assets managed by the firm related to our Americas reinsurance business, in which a majority stake was sold in April 2013, that were previously excluded from assets under supervision as they were assets of a consolidated subsidiary.
3. Includes \$34 billion of fixed income asset inflows in connection with our acquisition of Dwight Asset Management Company LLC and \$5 billion of fixed income and equity asset outflows related to our liquidation of Goldman Sachs Asset Management Korea Co., Ltd.

The table below presents our average monthly assets under supervision by asset class.

\$ in billions	Average for the Year Ended December		
	2014	2013	2012
Alternative investments	\$ 145	\$ 145	\$149
Equity	225	180	153
Fixed income	499	425	384
Long-term AUS	869	750	686
Liquidity products	248	235	238
Total AUS	\$1,117	\$ 985	\$924

2014 versus 2013. Net revenues in Investment Management were \$6.04 billion for 2014, 11% higher than 2013, reflecting higher management and other fees, primarily due to higher average assets under supervision, as well as higher incentive fees and transaction revenues. During the year, total assets under supervision increased \$136 billion to \$1.18 trillion. Long-term assets under supervision increased \$99 billion, including net inflows of \$74 billion (including \$19 billion of fixed income asset inflows in connection with our acquisition of Deutsche Asset & Wealth Management's stable value business) and net market appreciation of \$25 billion, both primarily in fixed income and equity assets. In addition, liquidity products increased \$37 billion (including \$6 billion of inflows in connection with our acquisition of RBS Asset Management's money market funds).

During 2014, Investment Management operated in an environment generally characterized by improved asset prices, primarily in equity and fixed income assets, resulting in appreciation in the value of client assets. In addition, the mix of average assets under supervision shifted slightly from liquidity products to long-term assets under supervision, due to growth in fixed income and equity assets, compared with 2013. In the future, if asset prices were to decline, or investors favor asset classes that typically generate lower fees or investors withdraw their assets, net revenues in Investment Management would likely be negatively impacted. In addition, concerns about the global economic outlook could result in downward pressure on assets under supervision.

Operating expenses were \$4.65 billion for 2014, 7% higher than 2013, primarily due to increased compensation and benefits expenses, reflecting higher net revenues, and higher fund distribution fees. Pre-tax earnings were \$1.40 billion in 2014, 26% higher than 2013.

2013 versus 2012. Net revenues in Investment Management were \$5.46 billion for 2013, 5% higher than 2012, reflecting higher management and other fees, primarily due to higher average assets under supervision. During 2013, total assets under supervision increased \$77 billion to \$1.04 trillion. Long-term assets under supervision increased \$81 billion, including net inflows of \$41 billion (including \$10 billion of fixed income asset inflows managed by the firm related to our Americas reinsurance business, in which a majority stake was sold in April 2013, that were previously excluded from assets under supervision as they were assets of a consolidated subsidiary), reflecting inflows in fixed income and equity assets, partially offset by outflows in alternative investment assets. Net market appreciation of \$40 billion during 2013 was primarily in equity assets. Liquidity products decreased \$4 billion.

During 2013, Investment Management operated in an environment generally characterized by improved asset prices, particularly in equities, resulting in appreciation in the value of client assets. In addition, the mix of average assets under supervision shifted slightly compared with 2012 from liquidity products to long-term assets under supervision, primarily due to growth in equity and fixed income assets.

Operating expenses were \$4.36 billion for 2013, up slightly compared to 2012, due to increased compensation and benefits expenses, primarily resulting from higher net revenues. Pre-tax earnings were \$1.11 billion in 2013, 19% higher than 2012.

Geographic Data

See Note 25 to the consolidated financial statements for a summary of our total net revenues, pre-tax earnings and net earnings by geographic region.

Balance Sheet and Funding Sources

Balance Sheet Management

One of our most important risk management disciplines is our ability to manage the size and composition of our balance sheet. While our asset base changes due to client activity, market fluctuations and business opportunities, the size and composition of our balance sheet reflect (i) our overall risk tolerance, (ii) our ability to access stable funding sources and (iii) the amount of equity capital we hold. See “Equity Capital Management and Regulatory Capital — Equity Capital Management” for information about our equity capital management process.

Although our balance sheet fluctuates on a day-to-day basis, our total assets at quarterly and year-end dates are generally not materially different from those occurring within our reporting periods.

In order to ensure appropriate risk management, we seek to maintain a liquid balance sheet and have processes in place to dynamically manage our assets and liabilities which include (i) quarterly planning, (ii) business-specific limits, (iii) monitoring of key metrics and (iv) scenario analyses.

Quarterly Planning. We prepare a quarterly balance sheet plan that combines our projected total assets and composition of assets with our expected funding sources for the upcoming quarter. The objectives of this quarterly planning process are:

- To develop our near-term balance sheet projections, taking into account the general state of the financial markets and expected business activity levels, as well as current regulatory requirements;
- To determine the target amount, tenor and type of funding to raise, based on our projected assets and forecasted maturities; and
- To allow business risk managers and managers from our independent control and support functions to objectively evaluate balance sheet limit requests from business managers in the context of the firm’s overall balance sheet constraints, including the firm’s liability profile and equity capital levels, and key metrics. Limits are typically set at levels that will be periodically exceeded, rather than at levels which reflect our maximum risk appetite.

To prepare our quarterly balance sheet plan, business risk managers and managers from our independent control and support functions meet with business managers to review current and prior period metrics and discuss expectations for the upcoming quarter. The specific metrics reviewed include asset and liability size and composition, aged inventory, limit utilization, risk and performance measures, and capital usage.

Our consolidated quarterly plan, including our balance sheet plans by business, funding projections, and projected key metrics, is reviewed by the Firmwide Finance Committee. See “Overview and Structure of Risk Management” for an overview of our risk management structure.

Business-Specific Limits. The Firmwide Finance Committee sets asset and liability limits for each business and aged inventory limits for certain financial instruments as a disincentive to hold inventory over longer periods of time. These limits are set at levels which are close to actual operating levels in order to ensure prompt escalation and discussion among business managers and managers in our independent control and support functions on a routine basis. The Firmwide Finance Committee reviews and approves balance sheet limits on a quarterly basis and may also approve changes in limits on an ad hoc basis in response to changing business needs or market conditions. Requests for changes in limits are evaluated after giving consideration to their impact on key firm metrics. Compliance with limits is monitored on a daily basis by business risk managers, as well as managers in our independent control and support functions.

Monitoring of Key Metrics. We monitor key balance sheet metrics daily both by business and on a consolidated basis, including asset and liability size and composition, aged inventory, limit utilization, risk measures and capital usage. We allocate assets to businesses and review and analyze movements resulting from new business activity as well as market fluctuations.

Management's Discussion and Analysis

Scenario Analyses. We conduct scenario analyses including as part of the Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act Stress Tests (DFAST) as well as our resolution and recovery planning. See “Equity Capital Management and Regulatory Capital — Equity Capital Management” below for further information. These scenarios cover short-term and long-term time horizons using various macroeconomic and firm-specific assumptions, based on a range of economic scenarios. We use these analyses to assist us in developing our longer-term balance sheet management strategy, including the level and composition of assets, funding and equity capital. Additionally, these analyses help us develop approaches for maintaining appropriate funding, liquidity and capital across a variety of situations, including a severely stressed environment.

Balance Sheet Allocation

In addition to preparing our consolidated statements of financial condition in accordance with U.S. GAAP, we prepare a balance sheet that generally allocates assets to our businesses, which is a non-GAAP presentation and may not be comparable to similar non-GAAP presentations used by other companies. We believe that presenting our assets on this basis is meaningful because it is consistent with the way management views and manages risks associated with the firm’s assets and better enables investors to assess the liquidity of the firm’s assets. The table below presents our balance sheet allocation.

\$ in millions	As of December	
	2014	2013
Global Core Liquid Assets (GCLA)	\$182,947	\$184,070
Other cash	7,805	5,793
GCLA and cash	190,752	189,863
Secured client financing	210,641	263,386
Inventory	230,667	255,534
Secured financing agreements	74,767	79,635
Receivables	47,317	39,557
Institutional Client Services	352,751	374,726
Public equity	4,041	4,308
Private equity	17,979	16,236
Debt ¹	24,768	23,274
Loans receivable ²	28,938	14,895
Other	3,771	2,310
Investing & Lending	79,497	61,023
Total inventory and related assets	432,248	435,749
Other assets	22,599	22,509
Total assets	\$856,240	\$911,507

1. Includes \$18.24 billion and \$15.76 billion as of December 2014 and December 2013, respectively, of direct loans primarily extended to corporate and private wealth management clients that are accounted for at fair value.

2. See Note 9 to the consolidated financial statements for further information about loans receivable.

Below is a description of the captions in the table above.

- **Global Core Liquid Assets and Cash.** We maintain substantial liquidity to meet a broad range of potential cash outflows and collateral needs in the event of a stressed environment. See “Liquidity Risk Management” below for details on the composition and sizing of our “Global Core Liquid Assets” (GCLA), previously Global Core Excess (GCE). In addition to our GCLA, we maintain other operating cash balances, primarily for use in specific currencies, entities, or jurisdictions where we do not have immediate access to parent company liquidity.
- **Secured Client Financing.** We provide collateralized financing for client positions, including margin loans secured by client collateral, securities borrowed, and resale agreements primarily collateralized by government obligations. As a result of client activities, we are required to segregate cash and securities to satisfy regulatory requirements. Our secured client financing arrangements, which are generally short-term, are accounted for at fair value or at amounts that approximate fair value, and include daily margin requirements to mitigate counterparty credit risk.
- **Institutional Client Services.** In Institutional Client Services, we maintain inventory positions to facilitate market-making in fixed income, equity, currency and commodity products. Additionally, as part of market-making activities, we enter into resale or securities borrowing arrangements to obtain securities which we can use to cover transactions in which we or our clients have sold securities that have not yet been purchased. The receivables in Institutional Client Services primarily relate to securities transactions.
- **Investing & Lending.** In Investing & Lending, we make investments and originate loans to provide financing to clients. These investments and loans are typically longer-term in nature. We make investments, directly and indirectly through funds that we manage, in debt securities, loans, public and private equity securities, real estate entities and other investments.
- **Other Assets.** Other assets are generally less liquid, non-financial assets, including property, leasehold improvements and equipment, goodwill and identifiable intangible assets, income tax-related receivables, equity-method investments, assets classified as held for sale and miscellaneous receivables.

Management's Discussion and Analysis

The tables below present the reconciliation of this balance sheet allocation to our U.S. GAAP balance sheet. In the tables below, total assets for Institutional Client Services and Investing & Lending represent inventory and related assets. These amounts differ from total assets by business segment disclosed in Note 25 to the consolidated financial

statements because total assets disclosed in Note 25 include allocations of our GCLA and cash, secured client financing and other assets. See “Balance Sheet Analysis and Metrics” below for explanations on the changes in our balance sheet from December 2013 to December 2014.

\$ in millions	As of December 2014					
	GCLA and Cash ¹	Secured Client Financing	Institutional Client Services	Investing & Lending	Other Assets	Total Assets
Cash and cash equivalents	\$ 57,600	\$ —	\$ —	\$ —	\$ —	\$ 57,600
Cash and securities segregated for regulatory and other purposes	—	51,716	—	—	—	51,716
Securities purchased under agreements to resell and federal funds sold	66,928	34,506	24,940	1,564	—	127,938
Securities borrowed	32,311	78,584	49,827	—	—	160,722
Receivables from brokers, dealers and clearing organizations	—	8,908	21,656	107	—	30,671
Receivables from customers and counterparties	—	36,927	25,661	1,220	—	63,808
Loans receivable	—	—	—	28,938	—	28,938
Financial instruments owned, at fair value	33,913	—	230,667	47,668	—	312,248
Other assets	—	—	—	—	22,599	22,599
Total assets	\$190,752	\$210,641	\$352,751	\$79,497	\$22,599	\$856,240

\$ in millions	As of December 2013					
	GCLA and Cash ¹	Secured Client Financing	Institutional Client Services	Investing & Lending	Other Assets	Total Assets
Cash and cash equivalents	\$ 61,133	\$ —	\$ —	\$ —	\$ —	\$ 61,133
Cash and securities segregated for regulatory and other purposes	—	49,671	—	—	—	49,671
Securities purchased under agreements to resell and federal funds sold	64,595	61,510	35,081	546	—	161,732
Securities borrowed	25,113	94,899	44,554	—	—	164,566
Receivables from brokers, dealers and clearing organizations	—	6,650	17,098	92	—	23,840
Receivables from customers and counterparties	—	50,656	22,459	925	—	74,040
Loans receivable	—	—	—	14,895	—	14,895
Financial instruments owned, at fair value	39,022	—	255,534	44,565	—	339,121
Other assets	—	—	—	—	22,509	22,509
Total assets	\$189,863	\$263,386	\$374,726	\$61,023	\$22,509	\$911,507

1. Includes unencumbered cash, U.S. government and federal agency obligations (including highly liquid U.S. federal agency mortgage-backed obligations), and German, French, Japanese and United Kingdom government obligations.

Management's Discussion and Analysis

Balance Sheet Analysis and Metrics

During 2014, we undertook an initiative to reduce our balance sheet in response to regulatory developments, to improve the overall efficiency of our balance sheet and to position the firm to provide additional risk capacity to our clients. We performed a comprehensive analysis of our balance sheet and identified opportunities for reduction, primarily related to lower return activities within our matched book and other secured client financing activities.

As of December 2014, total assets on our consolidated statements of financial condition were \$856.24 billion, a decrease of \$55.27 billion from December 2013. This decrease was primarily due to a decrease in collateralized agreements of \$37.64 billion, principally reflecting a decline in the matched book and a decrease in financial instruments owned, at fair value of \$26.87 billion, primarily due to a decrease in U.S. government and federal agency obligations. These decreases were partially offset by an increase in loans receivable of \$14.04 billion.

As of December 2014, total liabilities on our consolidated statements of financial condition were \$773.44 billion, a decrease of \$59.60 billion from December 2013. This decrease was primarily due to a decrease in collateralized financings of \$91.75 billion, due to client activity and firm financing activity, including a decline in the matched book. This decrease was partially offset by an increase in deposits of \$12.20 billion primarily used to fund the growth in our loans receivable, an increase in payables to customers and counterparties of \$7.52 billion and an increase in unsecured long-term borrowings of \$6.61 billion.

As of December 2014, our total securities sold under agreements to repurchase, accounted for as collateralized financings, were \$88.22 billion, which was 3% lower and 26% lower than the daily average amount of repurchase agreements during the quarter ended and year ended December 2014, respectively. The decrease in our repurchase agreements relative to the daily average during 2014 resulted from a decrease in client and firm financing activity during the second half of the year, including a reduction in our matched book, primarily resulting from a firmwide initiative to reduce activities with lower returns.

As of December 2013, our total securities sold under agreements to repurchase, accounted for as collateralized financings, were \$164.78 billion, which was 5% higher and 4% higher than the daily average amount of repurchase agreements during the quarter ended and year ended December 2013, respectively. The increase in our repurchase agreements relative to the daily average during 2013 was primarily due to an increase in client activity at the end of the period.

The level of our repurchase agreements fluctuates between and within periods, primarily due to providing clients with access to highly liquid collateral, such as U.S. government and federal agency, and investment-grade sovereign obligations through collateralized financing activities.

Management's Discussion and Analysis

The table below presents information about our assets, unsecured long-term borrowings, shareholders' equity and leverage ratios.

\$ in millions	As of December	
	2014	2013
Total assets	\$856,240	\$911,507
Unsecured long-term borrowings	\$167,571	\$160,965
Total shareholders' equity	\$ 82,797	\$ 78,467
Leverage ratio	10.3x	11.6x
Debt to equity ratio	2.0x	2.1x

In the table above:

- The leverage ratio equals total assets divided by total shareholders' equity and measures the proportion of equity and debt the firm is using to finance assets. This ratio is different from the Tier 1 leverage ratio included in Note 20 to the consolidated financial statements.
- The debt to equity ratio equals unsecured long-term borrowings divided by total shareholders' equity.

The table below presents information about our shareholders' equity and book value per common share, including the reconciliation of total shareholders' equity to tangible common shareholders' equity.

\$ in millions, except per share amounts	As of December	
	2014	2013
Total shareholders' equity	\$ 82,797	\$ 78,467
Deduct: Preferred stock	(9,200)	(7,200)
Common shareholders' equity	73,597	71,267
Deduct: Goodwill and identifiable intangible assets	(4,160)	(4,376)
Tangible common shareholders' equity	\$ 69,437	\$ 66,891
Book value per common share	\$ 163.01	\$ 152.48
Tangible book value per common share	153.79	143.11

In the table above:

- Tangible common shareholders' equity equals total shareholders' equity less preferred stock, goodwill and identifiable intangible assets. We believe that tangible common shareholders' equity is meaningful because it is a measure that we and investors use to assess capital adequacy. Tangible common shareholders' equity is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.
- Book value per common share and tangible book value per common share are based on common shares outstanding, including restricted stock units (RSUs) granted to employees with no future service requirements, of 451.5 million and 467.4 million as of December 2014 and December 2013, respectively. We believe that tangible book value per common share (tangible common shareholders' equity divided by common shares outstanding, including RSUs granted to employees with no future service requirements) is meaningful because it is a measure that we and investors use to assess capital adequacy. Tangible book value per common share is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

Management's Discussion and Analysis

Funding Sources

Our primary sources of funding are secured financings, unsecured long-term and short-term borrowings, and deposits. We seek to maintain broad and diversified funding sources globally across products, programs, markets, currencies and creditors to avoid funding concentrations.

We raise funding through a number of different products, including:

- Collateralized financings, such as repurchase agreements, securities loaned and other secured financings;
- Long-term unsecured debt (including structured notes) through syndicated U.S. registered offerings, U.S. registered and Rule 144A medium-term note programs, offshore medium-term note offerings and other debt offerings;
- Savings and demand deposits through deposit sweep programs and time deposits through internal and third-party broker-dealers; and
- Short-term unsecured debt through U.S. and non-U.S. hybrid financial instruments, commercial paper and promissory note issuances and other methods.

Our funding is primarily raised in U.S. dollar, Euro, British pound and Japanese yen. We generally distribute our funding products through our own sales force and third-party distributors, to a large, diverse creditor base in a variety of markets in the Americas, Europe and Asia. We believe that our relationships with our creditors are critical to our liquidity. Our creditors include banks, governments, securities lenders, pension funds, insurance companies, mutual funds and individuals. We have imposed various internal guidelines to monitor creditor concentration across our funding programs.

Secured Funding. We fund a significant amount of inventory on a secured basis. Secured funding is less sensitive to changes in our credit quality than unsecured funding, due to our posting of collateral to our lenders. Nonetheless, we continually analyze the refinancing risk of our secured funding activities, taking into account trade tenors, maturity profiles, counterparty concentrations, collateral eligibility and counterparty rollover probabilities. We seek to mitigate our refinancing risk by executing term trades with staggered maturities, diversifying counterparties, raising excess secured funding, and pre-funding residual risk through our GCLA.

We seek to raise secured funding with a term appropriate for the liquidity of the assets that are being financed, and we seek longer maturities for secured funding collateralized by asset classes that may be harder to fund on a secured basis especially during times of market stress. Substantially all of our secured funding, excluding funding collateralized by liquid government obligations, is executed for tenors of one month or greater. Assets that may be harder to fund on a secured basis during times of market stress include certain financial instruments in the following categories: mortgage and other asset-backed loans and securities, non-investment-grade corporate debt securities, equities and convertible debentures and emerging market securities. Assets that are classified as level 3 in the fair value hierarchy are generally funded on an unsecured basis. See Notes 5 and 6 to the consolidated financial statements for further information about the classification of financial instruments in the fair value hierarchy and “— Unsecured Long-Term Borrowings” below for further information about the use of unsecured long-term borrowings as a source of funding.

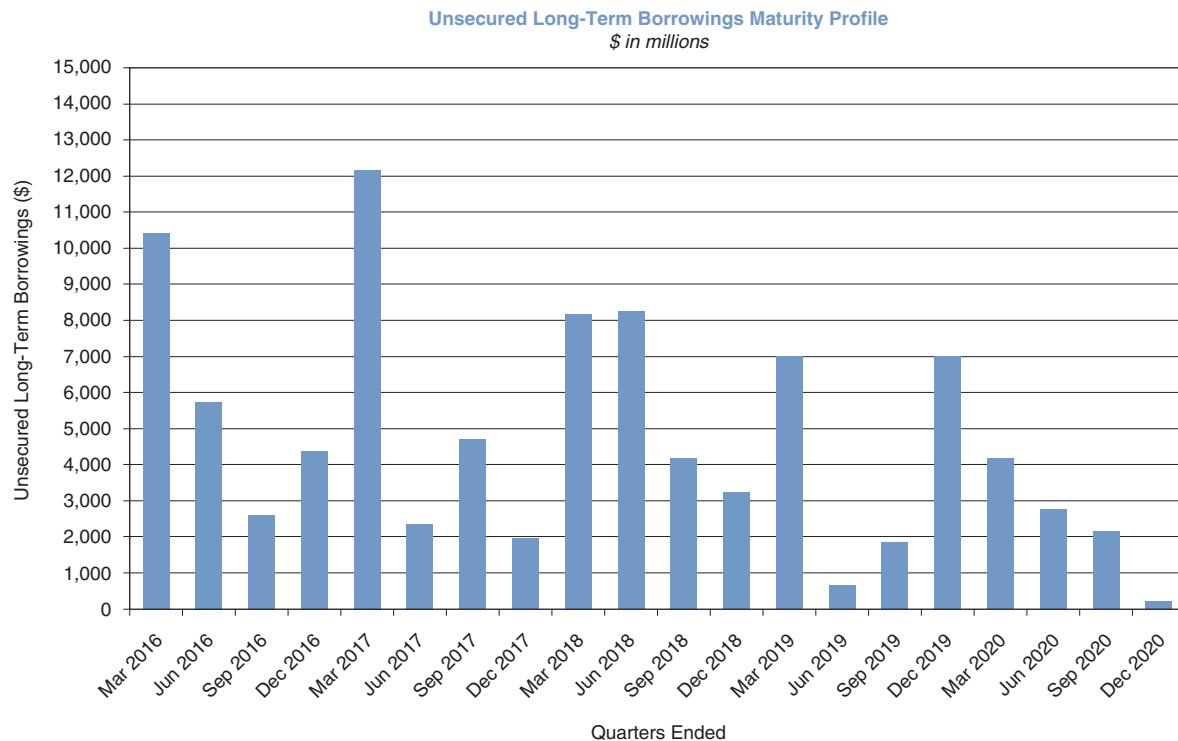
The weighted average maturity of our secured funding, excluding funding collateralized by highly liquid securities eligible for inclusion in our GCLA, exceeded 120 days as of December 2014.

A majority of our secured funding for securities not eligible for inclusion in the GCLA is executed through term repurchase agreements and securities lending contracts. We also raise financing through other types of collateralized financings, such as secured loans and notes. In December 2014, Goldman Sachs Bank USA (GS Bank USA) received approval to access funding from the Federal Home Loan Bank. As of December 2014, we had not accessed this funding. In addition, GS Bank USA has access to funding through the Federal Reserve Bank discount window. While we do not rely on this funding in our liquidity planning and stress testing, we maintain policies and procedures necessary to access this funding and test discount window borrowing procedures.

Management's Discussion and Analysis

Unsecured Long-Term Borrowings. We issue unsecured long-term borrowings as a source of funding for inventory and other assets and to finance a portion of our GCLA. We issue in different tenors, currencies and products to

maximize the diversification of our investor base. The chart below presents our quarterly unsecured long-term borrowings maturity profile through the fourth quarter of 2020 as of December 2014.



The weighted average maturity of our unsecured long-term borrowings as of December 2014 was approximately eight years. To mitigate refinancing risk, we seek to limit the principal amount of debt maturing on any one day or during any week or year. We enter into interest rate swaps

to convert a substantial portion of our unsecured long-term borrowings into floating-rate obligations in order to manage our exposure to interest rates. See Note 16 to the consolidated financial statements for further information about our unsecured long-term borrowings.

Management's Discussion and Analysis

Deposits. As part of our efforts to diversify our funding base, we raise deposits mainly through GS Bank USA and Goldman Sachs International Bank (GSIB). The tables below present the types and sources of our deposits.

	As of December 2014		
\$ in millions	Savings and Demand ¹	Time ²	Total
Private bank deposits ³	\$33,590	\$ 1,609	\$35,199
Certificates of deposit	—	25,908	25,908
Deposit sweep programs ⁴	15,691	—	15,691
Institutional	12	6,198	6,210
Total⁵	\$49,293	\$33,715	\$83,008

	As of December 2013		
\$ in millions	Savings and Demand ¹	Time ²	Total
Private bank deposits ³	\$30,475	\$ 212	\$30,687
Certificates of deposit	—	19,709	19,709
Deposit sweep programs ⁴	15,511	—	15,511
Institutional	33	4,867	4,900
Total⁵	\$46,019	\$24,788	\$70,807

1. Represents deposits with no stated maturity.
2. Weighted average maturity of approximately three years as of both December 2014 and December 2013.
3. Substantially all were from overnight deposit sweep programs related to private wealth management clients.
4. Represents long-term contractual agreements with several U.S. broker-dealers who sweep client cash to FDIC-insured deposits.
5. Deposits insured by the FDIC as of December 2014 and December 2013 were approximately \$45.72 billion and \$41.22 billion, respectively.

Unsecured Short-Term Borrowings. A significant portion of our unsecured short-term borrowings was originally long-term debt that is scheduled to mature within one year of the reporting date. We use unsecured short-term borrowings to finance liquid assets and for other cash management purposes. We issue hybrid financial instruments, commercial paper and promissory notes.

As of December 2014 and December 2013, our unsecured short-term borrowings, including the current portion of unsecured long-term borrowings, were \$44.54 billion and \$44.69 billion, respectively. See Note 15 to the consolidated financial statements for further information about our unsecured short-term borrowings.

Equity Capital Management and Regulatory Capital

Capital adequacy is of critical importance to us. Our objective is to be conservatively capitalized in terms of the amount and composition of our equity base, both relative to our risk exposures and compared to external requirements and benchmarks. Accordingly, we have in place a comprehensive capital management policy that provides a framework and set of guidelines to assist us in determining the level and composition of capital that we target and maintain.

Equity Capital Management

We determine the appropriate level and composition of our equity capital by considering multiple factors including our current and future consolidated regulatory capital requirements, the results of our capital planning and stress testing process and other factors such as rating agency guidelines, subsidiary capital requirements, the business environment, conditions in the financial markets, and assessments of potential future losses due to adverse changes in our business and market environments. Our capital planning and stress testing process incorporates our internally designed stress tests and those required under CCAR and DFAST rules, and is also designed to identify and measure material risks associated with our business activities, including market risk, credit risk and operational risk. We project sources and uses of capital given a range of business environments, including stressed conditions. In addition, as part of our comprehensive capital management policy, we maintain a contingency capital plan that provides a framework for analyzing and responding to an actual or perceived capital shortfall.

We principally manage the level and composition of our equity capital through issuances and repurchases of our common stock. We may also, from time to time, issue or repurchase our preferred stock, junior subordinated debt issued to trusts, and other subordinated debt or other forms of capital as business conditions warrant. Prior to any repurchases, we must receive confirmation that the Federal Reserve Board does not object to such capital actions. We manage our capital requirements and the levels of our capital usage principally by setting limits on balance sheet assets and/or limits on risk, in each case both at the consolidated and business levels. See Notes 16 and 19 to the consolidated financial statements for further information about our preferred stock, junior subordinated debt issued to trusts and other subordinated debt.

Management's Discussion and Analysis

Capital Planning and Stress Testing Process. Our capital planning and stress testing process incorporates our internally designed stress tests and those required under CCAR and DFAST. The process is designed to identify and measure material risks associated with our business activities. We also perform an internal risk-based capital assessment, attribute capital usage to each of our businesses and maintain a contingency capital plan. The following is a description of our capital planning and stress testing process:

- **Stress Testing.** Our stress testing process incorporates an internal capital adequacy assessment with the objective of ensuring that the firm is appropriately capitalized relative to the risks in our business. As part of our assessment, we project sources and uses of capital given a range of business environments, including stressed conditions. Our stress tests incorporate our internally designed stress scenarios, including our internally developed severely adverse scenario, and those required under CCAR and DFAST rules, and are designed to capture our specific vulnerabilities and risks and to analyze whether we hold an appropriate amount of capital. Our goal is to hold sufficient capital to ensure we remain adequately capitalized after experiencing a severe stress event. Our assessment of capital adequacy is viewed in tandem with our assessment of liquidity adequacy and is integrated into our overall risk management structure, governance and policy framework. We provide additional information about our stress test processes and a summary of the results on our web site as described under “Business — Available Information” in Part I, Item 1 of the 2014 Form 10-K.

- **Internal Risk-Based Capital Assessment.** Our capital planning process includes an internal risk-based capital assessment. This assessment incorporates market risk, credit risk and operational risk. Market risk is calculated by using Value-at-Risk (VaR) calculations supplemented by risk-based add-ons which include risks related to rare events (tail risks). Credit risk utilizes assumptions about our counterparties’ probability of default and the size of our losses in the event of a default. Operational risk is calculated based on scenarios incorporating multiple types of operational failures as well as incorporating internal and external actual loss experience. Backtesting is used to gauge the effectiveness of models at capturing and measuring relevant risks.

- **Capital Attribution.** We attribute capital usage to each of our businesses based upon regulatory capital requirements as well as our internal risk-based capital assessment. We manage the levels of our capital usage based upon balance sheet and risk limits, as well as capital return analyses of our businesses based on our capital attribution. We also attribute risk-weighted assets (RWAs) to our business segments. As of December 2014, approximately 70% of RWAs calculated under the Basel III Advanced Rules, subject to transitional provisions, were attributed to our Institutional Client Services segment and substantially all of the remaining RWAs were attributed to our Investing & Lending segment.

- **Contingency Capital Plan.** As part of our comprehensive capital management policy, we maintain a contingency capital plan. Our contingency capital plan provides a framework for analyzing and responding to a perceived or actual capital deficiency, including, but not limited to, identification of drivers of a capital deficiency, as well as mitigants and potential actions. It outlines the appropriate communication procedures to follow during a crisis period, including internal dissemination of information as well as timely communication with external stakeholders.

As required by the Federal Reserve Board’s annual CCAR rules, we submit a capital plan for review by the Federal Reserve Board. The purpose of the Federal Reserve Board’s review is to ensure that we have a robust, forward-looking capital planning process that accounts for our unique risks and that permits continued operation during times of economic and financial stress.

Management's Discussion and Analysis

The Federal Reserve Board evaluates us based, in part, on whether we have the capital necessary to continue operating under the baseline and stress scenarios provided by the Federal Reserve Board and those developed internally. This evaluation also takes into account our process for identifying risk, our controls and governance for capital planning, and our guidelines for making capital planning decisions. In addition, the Federal Reserve Board evaluates our plan to make capital distributions (i.e., dividend payments and repurchases or redemptions of stock, subordinated debt or other capital securities) and issue capital, across a range of macroeconomic scenarios and firm-specific assumptions.

In addition, the DFAST rules require us to conduct stress tests on a semi-annual basis and publish a summary of certain results. The annual DFAST submission is incorporated into our CCAR submission. The Federal Reserve Board also conducts its own annual stress tests and publishes a summary of certain results.

We submitted our initial 2014 CCAR to the Federal Reserve Board in January 2014 and, based on the Federal Reserve Board feedback, we submitted revised capital actions in March 2014. The Federal Reserve Board informed us that it did not object to our revised capital actions, including the repurchase of outstanding common stock, an increase in our quarterly common stock dividend and the possible issuance, redemption and modification of other capital securities through the first quarter of 2015. We published a summary of our annual DFAST results in March 2014. See "Business — Available Information" in Part I, Item 1 of the 2014 Form 10-K. We submitted our 2015 CCAR to the Federal Reserve Board in January 2015 and expect to publish a summary of our annual DFAST results in March 2015.

In addition, we submitted the results of our mid-cycle DFAST to the Federal Reserve Board in July 2014 and published a summary of our mid-cycle DFAST results under our internally developed severely adverse scenario in September 2014. We provide additional information on our internal stress test processes, our internally developed severely adverse scenario used for mid-cycle DFAST and a summary of the results on our web site as described under "Business — Available Information" in Part I, Item 1 of the 2014 Form 10-K.

In October 2014, the Federal Reserve Board issued a final rule modifying the regulations for capital planning and stress testing. The modifications change the dates for submitting the capital plan and stress test results beginning with the 2016 cycle and include a limitation on capital distributions to the extent that actual capital issuances are less than the amount indicated in the capital plan submission.

In addition, the rules adopted by the Federal Reserve Board under the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) require GS Bank USA to conduct stress tests on an annual basis and publish a summary of certain results. GS Bank USA submitted its 2014 annual DFAST stress results to the Federal Reserve Board in January 2014 and published a summary of its results in March 2014. See "Business — Available Information" in Part I, Item 1 of the 2014 Form 10-K. GS Bank USA submitted its 2015 annual DFAST results to the Federal Reserve Board in January 2015 and expects to publish a summary of its results in March 2015.

Share Repurchase Program. We use our share repurchase program to help maintain the appropriate level of common equity. The repurchase program is effected primarily through regular open-market purchases (which may include repurchase plans designed to comply with Rule 10b5-1), the amounts and timing of which are determined primarily by our current and projected capital position, but which may also be influenced by general market conditions and the prevailing price and trading volumes of our common stock.

As of December 2014, under the share repurchase program approved by the Board of Directors of Group Inc. (Board), we can repurchase up to 25.4 million additional shares of common stock; however, prior to any such repurchases, we must receive confirmation that the Federal Reserve Board does not object to such capital actions. See "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" in Part II, Item 5 of the 2014 Form 10-K and Note 19 to the consolidated financial statements for additional information about our share repurchase program and see above for information about our capital planning and stress testing process.

Management's Discussion and Analysis

Resolution and Recovery Plans

We are required by the Federal Reserve Board and the FDIC to submit an annual plan that describes our strategy for a rapid and orderly resolution in the event of material financial distress or failure (resolution plan). We are also required by the Federal Reserve Board to submit, 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. We submitted our 2013 resolution plan in September 2013 and our 2014 resolution plan in June 2014. In August 2014, the Federal Reserve Board and the FDIC indicated that we and other large industry participants had certain shortcomings in the 2013 resolution plans that must be addressed in the 2015 resolution plans, which are required to be submitted on or before July 1, 2015.

In addition, GS Bank USA is required by the FDIC to submit a resolution plan. GS Bank USA submitted its 2013 resolution plan in September 2013 and its 2014 resolution plan in June 2014. GS Bank USA's 2015 resolution plan is required to be submitted on or before July 1, 2015.

Rating Agency Guidelines

The credit rating agencies assign credit ratings to the obligations of Group Inc., which directly issues or guarantees substantially all of the firm's senior unsecured obligations. Goldman, Sachs & Co. (GS&Co.), Goldman Sachs International (GSI) and GSIB have been assigned long- and short-term issuer ratings by certain credit rating agencies. GS Bank USA has also been assigned long- and short-term issuer ratings, as well as ratings on its long-term and short-term bank deposits. In addition, credit rating agencies have assigned ratings to debt obligations of certain other subsidiaries of Group Inc.

The level and composition of our equity capital are among the many factors considered in determining our credit ratings. Each agency has its own definition of eligible capital and methodology for evaluating capital adequacy, and assessments are generally based on a combination of factors rather than a single calculation. See "Liquidity Risk Management — Credit Ratings" for further information about credit ratings of Group Inc., GS Bank USA, GSIB, GS&Co. and GSI.

Consolidated Regulatory Capital

As of December 2013, we were subject to the risk-based capital regulations of the Federal Reserve Board that were based on the Basel I Capital Accord of the Basel Committee on Banking Supervision (Basel Committee), and incorporated the revised market risk regulatory capital requirements (together, the Prior Capital Rules).

As of January 1, 2014, we became subject to the Federal Reserve Board's revised risk-based capital and leverage regulations, subject to certain transitional provisions (Revised Capital Framework). These regulations are largely based on the Basel Committee's final capital framework for strengthening international capital standards (Basel III) and also implement certain provisions of the Dodd-Frank Act. Under the Revised Capital Framework, we are an "Advanced approach" banking organization.

We were notified in the first quarter of 2014 that we had completed a "parallel run" to the satisfaction of the Federal Reserve Board, as required under the Revised Capital Framework. As such, additional changes in our capital requirements became effective on April 1, 2014.

Beginning on January 1, 2014, regulatory capital was calculated based on the Revised Capital Framework. Beginning on April 1, 2014, there were no changes to the calculation of regulatory capital, but RWAs were calculated using (i) the Prior Capital Rules, adjusted for certain items related to capital deductions under the previous definition of regulatory capital and for the phase-in of new capital deductions (Hybrid Capital Rules), and (ii) the Advanced approach and market risk rules set out in the Revised Capital Framework (together, the Basel III Advanced Rules). The lower of the ratios calculated under the Hybrid Capital Rules and those calculated under the Basel III Advanced Rules are our binding regulatory capital requirements.

As a result of the changes in the applicable capital framework in 2014, our capital ratios as of December 2014 and those as of December 2013 included in Note 20 to the consolidated financial statements were calculated on a different basis and, accordingly, are not comparable. See Note 20 to the consolidated financial statements for our capital ratios as of December 2013, a description of the Prior Capital Rules, and for additional information about the Revised Capital Framework, including the transitional arrangements related to new deductions from Common Equity Tier 1 (CET1) and information about RWAs.

Management's Discussion and Analysis

Effective on January 1, 2015, regulatory capital continues to be calculated under the Revised Capital Framework, but RWAs are required to be calculated under the Basel III Advanced Rules, as well as the Standardized approach and market risk rules set out in the Revised Capital Framework (together, the Standardized Capital Rules) as discussed in Note 20 to the consolidated financial statements. The lower of the ratios calculated under the Basel III Advanced Rules and those calculated under the Standardized Capital Rules are our binding regulatory capital requirements.

Minimum Capital Ratios and Capital Buffers

The table below presents the minimum ratios under the Revised Capital Framework as of December 2014 and January 2015, as well as the minimum ratios that we expect will apply at the end of the transitional provisions beginning January 2019.

	December 2014 Minimum Ratio ¹	January 2015 Minimum Ratio ¹	January 2019 Minimum Ratio
CET1 ratio	4.0%	4.5%	8.5% ⁴
Tier 1 capital ratio	5.5%	6.0%	10.0% ⁴
Total capital ratio	8.0% ³	8.0% ³	12.0% ⁴
Tier 1 leverage ratio ²	4.0%	4.0%	4.0%

1. Does not reflect the capital conservation buffer or provisional Global Systemically Important Banks (G-SIB) buffer discussed below.
2. Tier 1 leverage ratio is defined as Tier 1 capital divided by average adjusted total assets (which includes adjustments for goodwill and identifiable intangible assets, and certain investments in nonconsolidated financial institutions).
3. In order to meet the quantitative requirements for being "well-capitalized" under the Federal Reserve Board's capital regulations, the firm must meet a higher required minimum Total capital ratio of 10.0%.
4. Includes the required increases in minimum ratios on January 1, 2015, the capital conservation buffer of 2.5% and a provisional G-SIB buffer of 1.5% under the Basel Committee's methodology discussed below.

The table below presents the supplementary leverage ratio. See "Supplementary Leverage Ratio" below for further information.

	January 2018 Minimum Ratio
Supplementary leverage ratio	5.0% ¹

1. Includes the minimum requirement of 3.0% and a buffer of 2.0% discussed below.

Under the Revised Capital Framework, on January 1, 2015, the minimum CET1 ratio increased from 4.0% to 4.5% and the minimum Tier 1 capital ratio increased from 5.5% to 6.0%. In addition, these minimum ratios will be supplemented by a new capital conservation buffer, consisting entirely of capital that qualifies as CET1, that phases in, beginning on January 1, 2016, in increments of 0.625% per year until it reaches 2.5% of RWAs on January 1, 2019.

The January 2019 minimum ratios in the table above assume the future implementation of an additional preliminary buffer for G-SIBs. Under the methodology published by the Basel Committee, the required amount of additional CET1 for these institutions will initially range from 1% to 2.5% and could be higher in the future for a banking institution that increases its systemic footprint (e.g., by increasing total assets). In November 2014, the Financial Stability Board (established at the direction of the leaders of the Group of 20) indicated that, based on our 2013 financial data, we would be required to hold an additional 1.5% of CET1 as a G-SIB.

In December 2014, the Federal Reserve Board proposed a rule which would establish risk-based capital surcharges for U.S. G-SIBs that are higher than those required by the Basel Committee. Under the proposed rule, U.S. G-SIBs would be required to meet these higher capital surcharges on a phased-in basis, beginning in 2016 through 2019. The proposed rule treats the Basel Committee's methodology as a floor and introduces an alternative calculation to determine the applicable surcharge, which includes a significantly higher surcharge for systemic risk and, as part of the calculation of the applicable surcharge, a new factor based on a G-SIB's use of short-term wholesale funding. Under a preliminary assessment of the proposed rule, our surcharge has been estimated to be 100 basis points higher than the 1.5% surcharge under the Basel Committee's methodology. The table above does not reflect this additional surcharge. This preliminary estimate is subject to significant interpretive assumptions and may change in the future, perhaps materially, due to, among other things (i) any changes in the final rule, the interpretations we have made, or data used in the calculation; (ii) changes in foreign exchange rates, which may have the effect of increasing or decreasing the proportion of the systemic risk measures applicable to U.S. G-SIBs; (iii) increases or decreases in any of the indicators used in the assessment of our systemic risk, including our use of short-term wholesale funding; or (iv) increases or decreases in indicators at any of the other banks that are included in the Basel Committee's methodology.

The Revised Capital Framework also provides a new counter-cyclical capital buffer of up to 2.5% (and also consisting entirely of CET1), to be imposed in the event that national supervisors deem it necessary in order to counteract excessive credit growth. The table above does not reflect this buffer.

Our regulators could change these buffers in the future. As a result, the minimum ratios we are subject to as of January 1, 2019 could be higher than the amounts presented in the table above.

Management's Discussion and Analysis

Fully Phased-in Capital Ratios

The table below presents our estimated ratio of CET1 to RWAs calculated under the Basel III Advanced Rules and the Standardized Capital Rules on a fully phased-in basis.

	As of December	
\$ in millions	2014	2013
Common shareholders' equity	\$ 73,597	\$ 71,267
Deductions for goodwill and identifiable intangible assets, net of deferred tax liabilities	(3,196)	(3,468)
Deductions for investments in nonconsolidated financial institutions	(4,928)	(9,091)
Other adjustments	(1,213)	(489)
CET1	\$ 64,260	\$ 58,219
Basel III Advanced RWAs	\$577,869	\$594,662
Basel III Advanced CET1 ratio	11.1%	9.8%
Standardized RWAs	\$627,444	\$635,092
Standardized CET1 ratio	10.2%	9.2%

Although the fully phased-in capital ratios are not applicable until 2019, we believe that the estimated ratios in the table above are meaningful because they are measures that we, our regulators and investors use to assess our ability to meet future regulatory capital requirements. The estimated fully phased-in Basel III Advanced and Standardized CET1 ratios are non-GAAP measures as of both December 2014 and December 2013 and may not be comparable to similar non-GAAP measures used by other companies (as of those dates). These estimated ratios are based on our current interpretation, expectations and understanding of the Revised Capital Framework and may evolve as we discuss its interpretation and application with our regulators.

See Note 20 to the consolidated financial statements for information about our transitional capital ratios, which represent our binding ratios as of December 2014.

In the table above:

- The deduction for goodwill and identifiable intangible assets, net of deferred tax liabilities, represents goodwill of \$3.65 billion and \$3.71 billion as of December 2014 and December 2013, respectively, and identifiable intangible assets of \$515 million and \$671 million as of December 2014 and December 2013, respectively, net of associated deferred tax liabilities of \$964 million and \$908 million as of December 2014 and December 2013, respectively.
- The deduction for investments in nonconsolidated financial institutions represents the amount by which our investments in the capital of nonconsolidated financial institutions exceed certain prescribed thresholds. The decrease from December 2013 to December 2014 primarily reflects reductions in our fund investments.

- Other adjustments primarily include the overfunded portion of our defined benefit pension plan obligation, net of associated deferred tax liabilities, and disallowed deferred tax assets, credit valuation adjustments on derivative liabilities and debt valuation adjustments, as well as other required credit risk-based deductions.

Supplementary Leverage Ratio

The Revised Capital Framework introduces a new supplementary leverage ratio for Advanced approach banking organizations. Under amendments to the Revised Capital Framework, the U.S. federal bank regulatory agencies approved a final rule that implements the supplementary leverage ratio aligned with the definition of leverage established by the Basel Committee. The supplementary leverage ratio compares Tier 1 capital to a measure of leverage exposure, defined as the sum of our quarterly average assets less certain deductions plus certain off-balance-sheet exposures, including a measure of derivatives exposures and commitments. The Revised Capital Framework requires a minimum supplementary leverage ratio of 5.0% (comprised of the minimum requirement of 3.0% and a 2.0% buffer) for U.S. banks deemed to be G-SIBs, effective on January 1, 2018. Certain disclosures regarding the supplementary leverage ratio are required beginning in the first quarter of 2015.

As of December 2014, our estimated supplementary leverage ratio was 5.0%, including Tier 1 capital on a fully phased-in basis of \$73.17 billion (CET1 of \$64.26 billion plus perpetual non-cumulative preferred stock of \$9.20 billion less other adjustments of \$290 million) divided by total leverage exposure of \$1.45 trillion (total quarterly average assets of \$873 billion plus adjustments of \$579 billion, primarily comprised of off-balance-sheet exposure related to derivatives and commitments).

We believe that the estimated supplementary leverage ratio is meaningful because it is a measure that we, our regulators and investors use to assess our ability to meet future regulatory capital requirements. The supplementary leverage ratio is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

This estimated supplementary leverage ratio is based on our current interpretation and understanding of the U.S. federal bank regulatory agencies' final rule and may evolve as we discuss its interpretation and application with our regulators.

Management's Discussion and Analysis

Subsidiary Capital Requirements

Many of our subsidiaries, including GS Bank USA and our broker-dealer subsidiaries, are subject to separate regulation and capital requirements of the jurisdictions in which they operate.

GS Bank USA. GS Bank USA is subject to minimum capital requirements that are calculated in a manner similar to those applicable to bank holding companies and computes its capital ratios in accordance with the regulatory capital requirements applicable to state member banks, which are based on the Revised Capital Framework. The capital regulations also include requirements with respect to leverage. See Note 20 to the consolidated financial statements for further information about the Revised Capital Framework as it relates to GS Bank USA, including GS Bank USA's capital ratios and required minimum ratios.

The Basel Committee published its final guidelines for calculating incremental capital requirements for domestic systemically important banking institutions. These guidelines are complementary to the framework outlined above for G-SIBs. The impact of these guidelines on the regulatory capital requirements of GS Bank USA will depend on how they are implemented by the banking regulators in the United States.

In addition, under Federal Reserve Board rules, commencing on January 1, 2018, in order to be considered a "well-capitalized" depository institution, GS Bank USA must have a supplementary leverage ratio of 6.0% or greater. As of December 2014, GS Bank USA's estimated supplementary leverage ratio under this rule and on a fully phased-in basis was 6.0%. This estimated supplementary leverage ratio is based on our current interpretation and understanding of this rule and may evolve as we discuss its interpretation and application with our regulators.

GSI. Our regulated U.K. broker-dealer, GSI, is one of the firm's principal non-U.S. regulated subsidiaries and is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Effective on January 1, 2014, GSI became subject to capital regulations which are largely based on Basel III as implemented in the European Union (EU) through the Capital Requirements Directives and which, similar to the Revised Capital Framework, also introduce leverage ratio reporting requirements in the future. As of December 2014, GSI had an estimated CET1 ratio of 9.7%, an estimated Tier 1 capital ratio of 9.7% and an estimated Total capital ratio of 12.7% (all including approximately 80 basis points of 2014 unaudited results). These ratios will be finalized upon the completion of the 2014 GSI audit. Under PRA rules, as of December 2014, GSI is required to maintain a minimum CET1 ratio of 4.0%, Tier 1 capital ratio of 5.5%, and Total capital ratio of 8.0%. In January 2015, the minimum CET1 ratio requirement increased to 4.5%, and the minimum Tier 1 capital ratio requirement increased to 6.0%. GSI's future capital requirements may also be impacted by developments such as the introduction of capital buffers as described above in "— Minimum Capital Ratios and Capital Buffers."

As of December 2013, GSI was subject to capital regulations, which were based on the Basel Committee's June 2006 Framework (Basel II) as modified by the Basel Committee's February 2011 Revisions to the Basel II market risk framework and as implemented in the EU through the Capital Requirements Directives. As of December 2013, GSI had a Tier 1 capital ratio of 14.4% and a Total capital ratio of 18.5%.

Management's Discussion and Analysis

Other Subsidiaries. We expect that the capital requirements of several of our subsidiaries are likely to increase in the future due to the various developments arising from the Basel Committee, the Dodd-Frank Act, and other governmental entities and regulators. See Note 20 to the consolidated financial statements for information about the capital requirements of our other regulated subsidiaries.

Subsidiaries not subject to separate regulatory capital requirements may hold capital to satisfy local tax and legal guidelines, rating agency requirements (for entities with assigned credit ratings) or internal policies, including policies concerning the minimum amount of capital a subsidiary should hold based on its underlying level of risk. In certain instances, Group Inc. may be limited in its ability to access capital held at certain subsidiaries as a result of regulatory, tax or other constraints. As of December 2014 and December 2013, Group Inc.'s equity investment in subsidiaries was \$79.70 billion and \$73.39 billion, respectively, compared with its total shareholders' equity of \$82.80 billion and \$78.47 billion, respectively.

Our capital invested in non-U.S. subsidiaries is generally exposed to foreign exchange risk, substantially all of which is managed through a combination of derivatives and non-U.S. denominated debt.

Guarantees of Subsidiaries. Group Inc. has guaranteed the payment obligations of GS&Co., GS Bank USA, and Goldman Sachs Execution & Clearing, L.P. (GSEC), in each case subject to certain exceptions. In November 2008, Group Inc. contributed subsidiaries into GS Bank USA, and Group Inc. agreed to guarantee certain losses, including credit-related losses, relating to assets held by the contributed entities. In connection with this guarantee, Group Inc. also agreed to pledge to GS Bank USA certain collateral, including interests in subsidiaries and other illiquid assets.

Regulatory Developments

Our businesses are subject to significant and evolving regulation. The Dodd-Frank Act, enacted in July 2010, significantly altered the financial regulatory regime within which we operate. In addition, other reforms have been adopted or are being considered by other regulators and policy makers worldwide. We expect that the principal areas of impact from regulatory reform for us will be increased regulatory capital requirements and increased regulation and restriction on certain activities. However, given that many of the new and proposed rules are highly complex, the full impact of regulatory reform will not be known until the rules are implemented and market practices develop under the final regulations.

There has been increased regulation of, and limitations on, our activities, including the Dodd-Frank Act prohibition on "proprietary trading" and the limitation on the sponsorship of, and investment in, covered funds (as defined in the Volcker Rule). In addition, there is increased regulation of, and restrictions on, OTC derivatives markets and transactions, particularly related to swaps and security-based swaps.

See "Business — Regulation" in Part I, Item 1 of the 2014 Form 10-K for more information about the laws, rules and regulations and proposed laws, rules and regulations that apply to us and our operations. In addition, see Note 20 to the consolidated financial statements for information about regulatory developments as they relate to our regulatory capital and leverage ratios, and "Liquidity Risk Management — Liquidity Regulatory Framework" below for information about the U.S. federal bank regulatory agencies' final rules implementing the liquidity coverage ratio.

Management's Discussion and Analysis

Volcker Rule

In December 2013, the final rules to implement the provisions of the Dodd-Frank Act referred to as the “Volcker Rule” were adopted.

The Volcker Rule prohibits “proprietary trading,” but permits activities such as underwriting, market making and risk-mitigation hedging. We are also required to calculate daily quantitative metrics on covered trading activities (as defined in the rule) and provide these metrics to regulators on a monthly basis. We are required to be in compliance with the prohibition on proprietary trading and to develop an extensive compliance program by July 2015. Based on what we know as of the date of this filing, we do not expect the impact of the prohibition on proprietary trading to be material to our financial condition, results of operations or cash flows. However, the rule is highly complex, and its impact will not be known until market practices are fully developed.

In addition to the prohibition on proprietary trading, the Volcker Rule limits the sponsorship of, and investment in, “covered funds” (as defined in the rule) by banking entities, including Group Inc. and its subsidiaries. It also limits certain types of transactions between us and our sponsored funds, similar to the limitations on transactions between depository institutions and their affiliates as described in “Business — Regulation” in Part I, Item 1 of the 2014 Form 10-K. Covered funds include our private equity funds, certain of our credit and real estate funds, our hedge funds and certain other investment structures. The limitation on investments in covered funds requires us to reduce our investment in each such fund to 3% or less of the fund’s net asset value, and to reduce our aggregate investment in all such funds to 3% or less of our Tier 1 capital. In anticipation of the final rule, we limited our initial investment in certain new covered funds to 3% of the fund’s net asset value.

We continue to manage our existing funds, taking into account the transition periods under the Volcker Rule. We plan to continue to conduct our investing and lending activities in ways that are permissible under the Volcker Rule.

Our current investment in funds that are calculated using NAV is \$9.84 billion as disclosed in Note 6 to the consolidated financial statements. In order to be compliant with the Volcker Rule, we will be required to reduce most of our interests in these funds by the prescribed compliance date. The Federal Reserve Board extended the conformance period through July 2016 for investments in, and relationships with, covered funds that were in place prior to December 31, 2013, and indicated that it intends to further extend the conformance period through July 2017. We currently expect to be able to exit substantially all such interests in these funds in orderly transactions prior to July 2017, subject to market conditions. However, to the extent that the underlying investments of particular funds are not sold, we may be required to sell our interests in such funds. If that occurs, we may receive a value for our interests that is less than the then carrying value as there could be a limited secondary market for these investments and we may be unable to sell them in orderly transactions.

Although our net revenues from our interests in private equity, credit, real estate and hedge funds may vary from period to period, our aggregate net revenues from these investments were approximately 3% and 6% of our aggregate total net revenues over the last 10 years and 5 years, respectively.

Off-Balance-Sheet Arrangements and Contractual Obligations

Off-Balance-Sheet Arrangements

We have various types of off-balance-sheet arrangements that we enter into in the ordinary course of business. Our involvement in these arrangements can take many different forms, including:

- Purchasing or retaining residual and other interests in special purpose entities such as mortgage-backed and other asset-backed securitization vehicles;
- Holding senior and subordinated debt, interests in limited and general partnerships, and preferred and common stock in other nonconsolidated vehicles;
- Entering into interest rate, foreign currency, equity, commodity and credit derivatives, including total return swaps;
- Entering into operating leases; and
- Providing guarantees, indemnifications, loan commitments, letters of credit and representations and warranties.

We enter into these arrangements for a variety of business purposes, including securitizations. The securitization vehicles that purchase mortgages, corporate bonds, and other types of financial assets are critical to the functioning of several significant investor markets, including the mortgage-backed and other asset-backed securities markets, since they offer investors access to specific cash flows and risks created through the securitization process.

We also enter into these arrangements to underwrite client securitization transactions; provide secondary market liquidity; make investments in performing and nonperforming debt, equity, real estate and other assets; provide investors with credit-linked and asset-repackaged notes; and receive or provide letters of credit to satisfy margin requirements and to facilitate the clearance and settlement process.

Our financial interests in, and derivative transactions with, such nonconsolidated entities are generally accounted for at fair value, in the same manner as our other financial instruments, except in cases where we apply the equity method of accounting.

The table below presents where a discussion of our various off-balance-sheet arrangements may be found in the 2014 Form 10-K. In addition, see Note 3 to the consolidated financial statements for a discussion of our consolidation policies.

Type of Off-Balance-Sheet Arrangement	Disclosure in Form 10-K
Variable interests and other obligations, including contingent obligations, arising from variable interests in nonconsolidated VIEs	See Note 12 to the consolidated financial statements.
Leases, letters of credit, and lending and other commitments	See "Contractual Obligations" below and Note 18 to the consolidated financial statements.
Guarantees	See "Contractual Obligations" below and Note 18 to the consolidated financial statements.
Derivatives	See "Credit Risk Management — Credit Exposures — OTC Derivatives" below and Notes 4, 5, 7 and 18 to the consolidated financial statements.

Management's Discussion and Analysis

Contractual Obligations

We have certain contractual obligations which require us to make future cash payments. These contractual obligations include our unsecured long-term borrowings, secured long-term financings, time deposits and contractual interest payments, all of which are included in our consolidated statements of financial condition. Our obligations to make

future cash payments also include certain off-balance-sheet contractual obligations such as purchase obligations, minimum rental payments under noncancelable leases and commitments and guarantees. The table below presents our contractual obligations, commitments and guarantees as of December 2014.

\$ in millions	2015	2016 - 2017	2018 - 2019	2020 - Thereafter	Total
Amounts related to on-balance-sheet obligations					
Time deposits	\$ —	\$ 7,830	\$ 5,308	\$ 5,704	\$ 18,842
Secured long-term financings	—	5,104	1,403	742	7,249
Unsecured long-term borrowings	—	44,342	40,345	82,884	167,571
Contractual interest payments	6,859	12,172	4,850	37,535	61,416
Subordinated liabilities issued by consolidated VIEs	3	—	—	840	843
Amounts related to off-balance-sheet arrangements					
Commitments to extend credit	15,154	23,235	50,423	7,137	95,949
Contingent and forward starting resale and securities borrowing agreements	34,343	557	325	—	35,225
Forward starting repurchase and secured lending agreements	8,180	—	—	—	8,180
Letters of credit	280	14	10	4	308
Investment commitments ¹	1,684	2,818	25	637	5,164
Other commitments	6,136	87	42	56	6,321
Minimum rental payments	321	566	416	870	2,173
Derivative guarantees	351,308	150,989	51,927	58,511	612,735
Securities lending indemnifications	27,567	—	—	—	27,567
Other financial guarantees	471	935	1,390	1,690	4,486

1. \$2.83 billion of commitments to covered funds (as defined by the Volcker Rule) are included in the 2015 and 2016-2017 columns. We expect that substantially all of these commitments will not be called.

In the table above:

- Obligations maturing within one year of our financial statement date or redeemable within one year of our financial statement date at the option of the holder are excluded and are treated as short-term obligations.
- Obligations that are repayable prior to maturity at our option are reflected at their contractual maturity dates and obligations that are redeemable prior to maturity at the option of the holders are reflected at the dates such options become exercisable.
- Amounts included in the table do not necessarily reflect the actual future cash flow requirements for these arrangements because commitments and guarantees represent notional amounts and may expire unused or be reduced or cancelled at the counterparty's request.
- Due to the uncertainty of the timing and amounts that will ultimately be paid, our liability for unrecognized tax benefits has been excluded. See Note 24 to the consolidated financial statements for further information about our unrecognized tax benefits.

- Unsecured long-term borrowings includes \$9.54 billion of adjustments to the carrying value of certain unsecured long-term borrowings resulting from the application of hedge accounting.
- The aggregate contractual principal amount of secured long-term financings and unsecured long-term borrowings for which the fair value option was elected exceeded the related fair value by \$203 million and \$163 million, respectively.
- Contractual interest payments represents estimated future interest payments related to unsecured long-term borrowings, secured long-term financings and time deposits based on applicable interest rates as of December 2014, and includes stated coupons, if any, on structured notes.

Management's Discussion and Analysis

See Notes 15 and 18 to the consolidated financial statements for further information about our short-term borrowings and commitments and guarantees, respectively.

As of December 2014, our unsecured long-term borrowings were \$167.57 billion, with maturities extending to 2061, and consisted principally of senior borrowings. See Note 16 to the consolidated financial statements for further information about our unsecured long-term borrowings.

As of December 2014, our future minimum rental payments, net of minimum sublease rentals under noncancelable leases, were \$2.17 billion. These lease commitments, principally for office space, expire on various dates through 2069. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. See Note 18 to the consolidated financial statements for further information about our leases.

Our occupancy expenses include costs associated with office space held in excess of our current requirements. This excess space, the cost of which is charged to earnings as incurred, is being held for potential growth or to replace currently occupied space that we may exit in the future. We regularly evaluate our current and future space capacity in relation to current and projected staffing levels. For 2014, total occupancy expenses for space held in excess of our current requirements and exit costs related to our office space were not material. We may incur exit costs in the future to the extent we (i) reduce our space capacity or (ii) commit to, or occupy, new properties in the locations in which we operate and, consequently, dispose of existing space that had been held for potential growth. These exit costs may be material to our results of operations in a given period.

Risk Management and Risk Factors

Risks are inherent in our business and include liquidity, market, credit, operational, legal, regulatory and reputational risks. For a further discussion of our risk management processes, see “— Overview and Structure of Risk Management” below. Our risks include the risks across our risk categories, regions or global businesses, as well as those which have uncertain outcomes and have the potential to materially impact our financial results, our liquidity and our reputation. For a further discussion of our areas of risk, see “— Liquidity Risk Management,” “— Market Risk Management,” “— Credit Risk Management,” “— Operational Risk Management” and “— Certain Risk Factors That May Affect Our Businesses” below.

Overview and Structure of Risk Management

Overview

We believe that effective risk management is of primary importance to the success of the firm. Accordingly, we have comprehensive risk management processes through which we monitor, evaluate and manage the risks we assume in conducting our activities. These include market, credit, liquidity, operational, legal, regulatory and reputational risk exposures. Our risk management framework is built around three core components: governance, processes and people.

Governance. Risk management governance starts with our Board, which plays an important role in reviewing and approving risk management policies and practices, both directly and through its committees, including its Risk Committee. The Board also receives regular briefings on firmwide risks, including market risk, liquidity risk, credit risk and operational risk from our independent control and support functions, including the chief risk officer, and on matters impacting our reputation from the chair of our Firmwide Client and Business Standards Committee. The chief risk officer, as part of the review of the firmwide risk portfolio, regularly advises the Risk Committee of the Board of relevant risk metrics and material exposures. Next, at the most senior levels of the firm, our leaders are experienced risk managers, with a sophisticated and detailed understanding of the risks we take. Our senior managers lead and participate in risk-oriented committees, as do the leaders of our independent control and support functions — including those in Compliance, Controllers, our Credit Risk Management department (Credit Risk Management), Human Capital Management, Legal, our Market Risk Management department (Market Risk Management), Operations, our Operational Risk Management department (Operational Risk Management), Tax, Technology and Treasury.

Our governance structure provides the protocol and responsibility for decision-making on risk management issues and ensures implementation of those decisions. We make extensive use of risk-related committees that meet regularly and serve as an important means to facilitate and foster ongoing discussions to identify, manage and mitigate risks.

We maintain strong communication about risk and we have a culture of collaboration in decision-making among the revenue-producing units, independent control and support functions, committees and senior management. While we believe that the first line of defense in managing risk rests with the managers in our revenue-producing units, we dedicate extensive resources to independent control and support functions in order to ensure a strong oversight structure and an appropriate segregation of duties. We regularly reinforce our strong culture of escalation and accountability across all divisions and functions.

Processes. We maintain various processes and procedures that are critical components of our risk management. First and foremost is our daily discipline of marking substantially all of our inventory to current market levels. Goldman Sachs carries its inventory at fair value, with changes in valuation reflected immediately in our risk management systems and in net revenues. We do so because we believe this discipline is one of the most effective tools for assessing and managing risk and that it provides transparent and realistic insight into our financial exposures.

We also apply a rigorous framework of limits to control risk across multiple transactions, products, businesses and markets. This includes setting credit and market risk limits at a variety of levels and monitoring these limits on a daily basis. Limits are typically set at levels that will be periodically exceeded, rather than at levels which reflect our maximum risk appetite. This fosters an ongoing dialogue on risk among revenue-producing units, independent control and support functions, committees and senior management, as well as rapid escalation of risk-related matters. See “Market Risk Management” and “Credit Risk Management” for further information about our risk limits.

Active management of our positions is another important process. Proactive mitigation of our market and credit exposures minimizes the risk that we will be required to take outsized actions during periods of stress.

Management's Discussion and Analysis

We also focus on the rigor and effectiveness of our risk systems. The goal of our risk management technology is to get the right information to the right people at the right time, which requires systems that are comprehensive, reliable and timely. We devote significant time and resources to our risk management technology to ensure that it consistently provides us with complete, accurate and timely information.

People. Even the best technology serves only as a tool for helping to make informed decisions in real time about the risks we are taking. Ultimately, effective risk management requires our people to interpret our risk data on an ongoing and timely basis and adjust risk positions accordingly. In both our revenue-producing units and our independent control and support functions, the experience of our professionals, and their understanding of the nuances and limitations of each risk measure, guide us in assessing exposures and maintaining them within prudent levels.

We reinforce a culture of effective risk management in our training and development programs as well as the way we evaluate performance, and recognize and reward our people. Our training and development programs, including certain sessions led by our most senior leaders, are focused on the importance of risk management, client relationships and reputational excellence. As part of our annual performance review process, we assess reputational excellence including how an employee exercises good risk management and reputational judgment, and adheres to our code of conduct and compliance policies. Our review and reward processes are designed to communicate and reinforce to our professionals the link between behavior and how people are recognized, the need to focus on our clients and our reputation, and the need to always act in accordance with the highest standards of the firm.

Structure

Ultimate oversight of risk is the responsibility of our Board. The Board oversees risk both directly and through its committees, including its Risk Committee. Within the firm, a series of committees with specific risk management mandates have oversight or decision-making responsibilities for risk management activities. Committee membership generally consists of senior managers from both our revenue-producing units and our independent control and support functions. We have established procedures for these committees to ensure that appropriate information barriers are in place. Our primary risk committees, most of which also have additional sub-committees or working groups, are described below. In addition to these committees, we have other risk-oriented committees which provide oversight for different businesses, activities, products, regions and legal entities. All of our firmwide, regional and divisional committees have responsibility for considering the impact of transactions and activities which they oversee on our reputation.

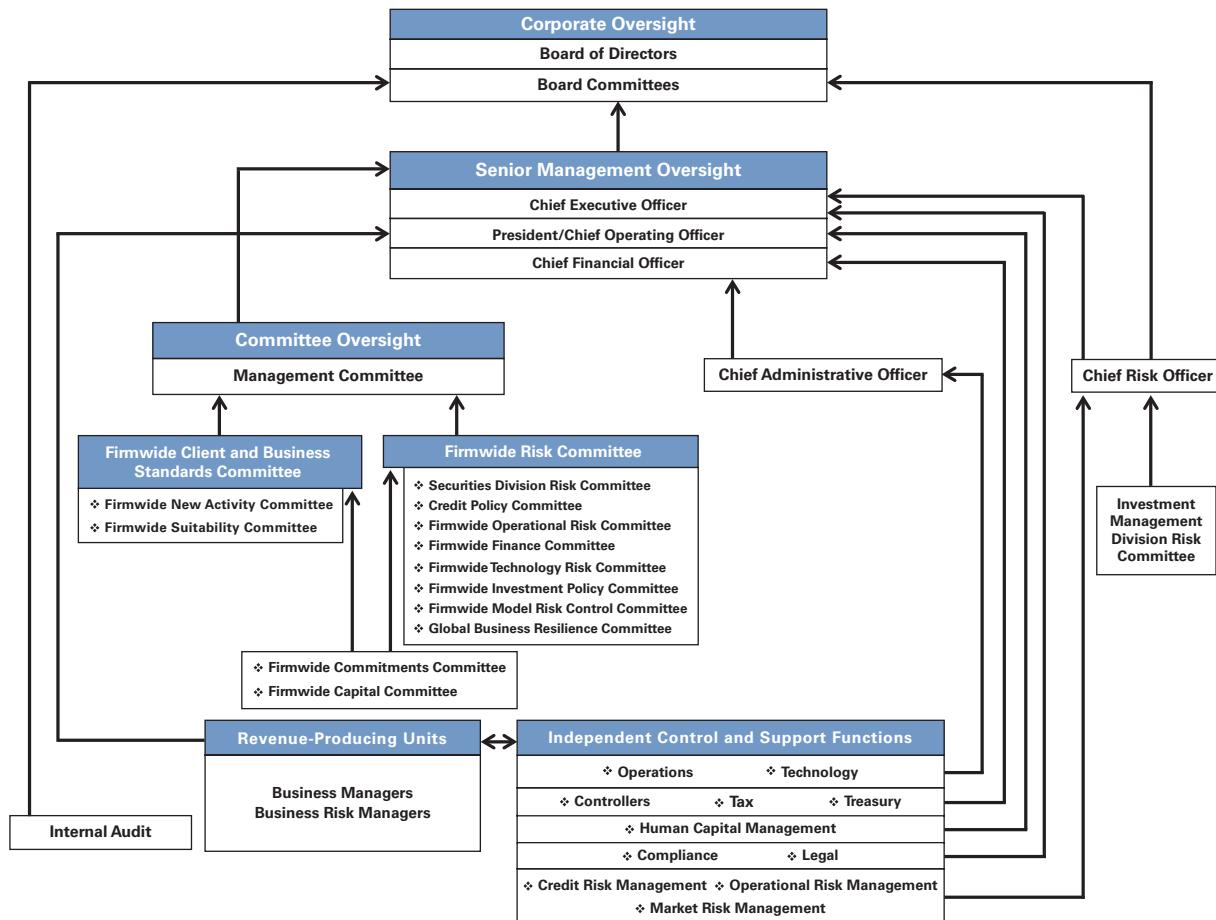
Membership of our risk committees is reviewed regularly and updated to reflect changes in the responsibilities of the committee members. Accordingly, the length of time that members serve on the respective committees varies as determined by the committee chairs and based on the responsibilities of the members within the firm.

In addition, independent control and support functions, which report to the chief financial officer, the chief risk officer, the general counsel and the chief administrative officer, are responsible for day-to-day oversight or monitoring of risk, as discussed in greater detail in the following sections. Internal Audit, which reports to the Audit Committee of the Board and includes professionals with a broad range of audit and industry experience, including risk management expertise, is responsible for independently assessing and validating key controls within the risk management framework.

Management's Discussion and Analysis

The chart below presents an overview of our risk management governance structure, highlighting the

oversight of our Board, our key risk-related committees and the independence of our control and support functions.



Management Committee. The Management Committee oversees our global activities, including all of our independent control and support functions. It provides this oversight directly and through authority delegated to committees it has established. This committee is comprised of our most senior leaders, and is chaired by our chief executive officer. The Management Committee has established various committees with delegated authority and the chairperson of the Management Committee appoints the chairpersons of these committees. Most members of the Management Committee are also members of other firmwide, divisional and regional committees. The following are the committees that are principally involved in firmwide risk management.

Firmwide Client and Business Standards Committee. The Firmwide Client and Business Standards Committee assesses and makes determinations regarding business standards and practices, reputational risk management, client relationships and client service, is chaired by our president and chief operating officer, and reports to the Management Committee. This committee also has responsibility for overseeing recommendations of the Business Standards Committee. This committee periodically updates and receives guidance from the Public Responsibilities Subcommittee of the Corporate Governance, Nominating and Public Responsibilities Committee of the Board. This committee has established the following risk-related committees that report to it:

Management's Discussion and Analysis

- **Firmwide New Activity Committee.** The Firmwide New Activity Committee is responsible for reviewing new activities and for establishing a process to identify and review previously approved activities that are significant and that have changed in complexity and/or structure or present different reputational and suitability concerns over time to consider whether these activities remain appropriate. This committee is co-chaired by our head of operations/chief operating officer for Europe, Middle East and Africa (EMEA) and the chief administrative officer of our Investment Management Division, who are appointed by the Firmwide Client and Business Standards Committee chairperson.
- **Firmwide Suitability Committee.** The Firmwide Suitability Committee is responsible for setting standards and policies for product, transaction and client suitability and providing a forum for consistency across divisions, regions and products on suitability assessments. This committee also reviews suitability matters escalated from other committees. This committee is co-chaired by the deputy head of our Global Compliance Division and the co-head of Global Fixed Income, Currency and Commodities Sales, who are appointed by the Firmwide Client and Business Standards Committee chairperson.
- **Firmwide Risk Committee.** The Firmwide Risk Committee is globally responsible for the ongoing monitoring and management of our financial risks. Through both direct and delegated authority, the Firmwide Risk Committee approves firmwide, product, divisional and business-level limits for both market and credit risks, approves sovereign credit risk limits and reviews results of stress tests and scenario analyses. This committee is co-chaired by our chief financial officer and our chief risk officer, and reports to the Management Committee. The following are the primary committees that report to the Firmwide Risk Committee. The chairperson of the Securities Division Risk Committee is appointed by the chairpersons of the Firmwide Risk Committee; the chairpersons of the Credit Policy and Firmwide Operational Risk Committees are appointed by our chief risk officer; the chairpersons of the Firmwide Finance Committee, the Firmwide Technology Risk Committee, the Firmwide Model Risk Control Committee and the Global Business Resilience Committee are appointed by the Firmwide Risk Committee; and the chairpersons of the Firmwide Investment Policy Committee are appointed by our president and chief operating officer in conjunction with our chief financial officer.
- **Securities Division Risk Committee.** The Securities Division Risk Committee sets market risk limits, subject to overall firmwide risk limits, for the Securities Division based on a number of risk measures, including but not limited to VaR, stress tests, scenario analyses and balance sheet levels. This committee is chaired by the chief risk officer of our Securities Division.
- **Credit Policy Committee.** The Credit Policy Committee establishes and reviews broad firmwide credit policies and parameters that are implemented by Credit Risk Management. This committee is chaired by our chief credit officer.
- **Firmwide Operational Risk Committee.** The Firmwide Operational Risk Committee provides oversight of the ongoing development and implementation of our operational risk policies, framework and methodologies, and monitors the effectiveness of operational risk management. This committee is co-chaired by a managing director in Credit Risk Management and a managing director in Operational Risk Management.
- **Firmwide Finance Committee.** The Firmwide Finance Committee has oversight responsibility for liquidity risk, the size and composition of our balance sheet and capital base, and credit ratings. This committee regularly reviews our liquidity, balance sheet, funding position and capitalization, approves related policies, and makes recommendations as to any adjustments to be made in light of current events, risks, exposures and regulatory requirements. As a part of such oversight, among other things, this committee reviews and approves balance sheet limits and the size of our GCLA. This committee is co-chaired by our chief financial officer and our global treasurer.
- **Firmwide Technology Risk Committee.** The Firmwide Technology Risk Committee reviews matters related to the design, development, deployment and use of technology. This committee oversees cyber security matters, as well as technology risk management frameworks and methodologies, and monitors their effectiveness. This committee is co-chaired by our chief information officer and the head of Global Investment Research.
- **Firmwide Investment Policy Committee.** The Firmwide Investment Policy Committee reviews, approves and sets policies, and provides oversight, for certain illiquid principal investments. This committee is co-chaired by the head of our Merchant Banking Division and a co-head of our Securities Division.

Management's Discussion and Analysis

- **Firmwide Model Risk Control Committee.** The Firmwide Model Risk Control Committee is responsible for oversight of the development and implementation of model risk controls, which includes governance, policies and procedures related to our reliance on financial models. This committee is chaired by our chief market risk officer.

- **Global Business Resilience Committee.** The Global Business Resilience Committee is responsible for oversight of business resilience initiatives, promoting increased levels of security and resilience, and reviewing certain operating risks related to business resilience. This committee is chaired by our chief administrative officer.

The following committees report jointly to the Firmwide Risk Committee and the Firmwide Client and Business Standards Committee:

- **Firmwide Commitments Committee.** The Firmwide Commitments Committee reviews our underwriting and distribution activities with respect to equity and equity-related product offerings, and sets and maintains policies and procedures designed to ensure that legal, reputational, regulatory and business standards are maintained on a global basis. In addition to reviewing specific transactions, this committee periodically conducts general strategic reviews of sectors and products and establishes policies in connection with transaction practices. This committee is co-chaired by our senior strategy officer and the co-head of Global Mergers & Acquisitions, who are appointed by the Firmwide Client and Business Standards Committee chairperson.

- **Firmwide Capital Committee.** The Firmwide Capital Committee provides approval and oversight of debt-related transactions, including principal commitments of our capital. This committee aims to ensure that business and reputational standards for underwritings and capital commitments are maintained on a global basis. This committee is co-chaired by our global treasurer and the head of credit finance for EMEA who are appointed by the Firmwide Risk Committee chairpersons.

Investment Management Division Risk Committee.

The Investment Management Division Risk Committee is responsible for the ongoing monitoring and control of global market, counterparty credit and liquidity risks associated with the activities of our investment management businesses. The head of risk management for the Investment Management Division is the chair of this committee. The Investment Management Division Risk Committee reports to our chief risk officer.

Conflicts Management

Conflicts of interest and our approach to dealing with them are fundamental to our client relationships, our reputation and our long-term success. The term “conflict of interest” does not have a universally accepted meaning, and conflicts can arise in many forms within a business or between businesses. The responsibility for identifying potential conflicts, as well as complying with our policies and procedures, is shared by the entire firm.

We have a multilayered approach to resolving conflicts and addressing reputational risk. Our senior management oversees policies related to conflicts resolution, and, in conjunction with the Business Selection and Conflicts Resolution Group, the Legal Department and Compliance Division, the Firmwide Client and Business Standards Committee, and other internal committees, formulates policies, standards and principles, and assists in making judgments regarding the appropriate resolution of particular conflicts. Resolving potential conflicts necessarily depends on the facts and circumstances of a particular situation and the application of experienced and informed judgment.

As a general matter, the Business Selection and Conflicts Resolution Group reviews all financing and advisory assignments in Investment Banking and certain investing, lending and other activities of the firm. In addition, we have various transaction oversight committees, such as the Firmwide Capital, Commitments and Suitability Committees and other committees across the firm that also review new underwritings, loans, investments and structured products. These groups and committees work with internal and external counsel and the Compliance Division to evaluate and address any actual or potential conflicts.

We regularly assess our policies and procedures that address conflicts of interest in an effort to conduct our business in accordance with the highest ethical standards and in compliance with all applicable laws, rules, and regulations.

Liquidity Risk Management

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, we have in place a comprehensive and conservative set of liquidity and funding policies to address both firm-specific and broader industry or market liquidity events. Our principal objective is to be able to fund the firm and to enable our core businesses to continue to serve clients and generate revenues, even under adverse circumstances.

We manage liquidity risk according to the following principles:

Global Core Liquid Assets. We maintain substantial liquidity (GCLA, previously GCE) to meet a broad range of potential cash outflows and collateral needs in a stressed environment.

Asset-Liability Management. We assess anticipated holding periods for our assets and their expected liquidity in a stressed environment. We manage the maturities and diversity of our funding across markets, products and counterparties, and seek to maintain liabilities of appropriate tenor relative to our asset base.

Contingency Funding Plan. We maintain a contingency funding plan to provide a framework for analyzing and responding to a liquidity crisis situation or periods of market stress. This framework sets forth the plan of action to fund normal business activity in emergency and stress situations. These principles are discussed in more detail below.

Global Core Liquid Assets

Our most important liquidity policy is to pre-fund our estimated potential cash and collateral needs during a liquidity crisis and hold this liquidity in the form of unencumbered, highly liquid securities and cash. We believe that the securities held in our GCLA would be readily convertible to cash in a matter of days, through liquidation, by entering into repurchase agreements or from maturities of resale agreements, and that this cash would allow us to meet immediate obligations without needing to sell other assets or depend on additional funding from credit-sensitive markets.

As of December 2014 and December 2013, the fair value of the securities and certain overnight cash deposits included in our GCLA, totaled \$182.95 billion and \$184.07 billion, respectively. Based on the results of our internal liquidity risk models, discussed below, as well as our consideration of other factors including, but not limited to, an assessment of our potential intraday liquidity needs and a qualitative assessment of the condition of the financial markets and the firm, we believe our liquidity position as of both December 2014 and December 2013 was appropriate.

The table below presents the fair value of the securities and certain overnight cash deposits that are included in our GCLA.

\$ in millions	Average for the Year Ended December	
	2014	2013
U.S. dollar-denominated	\$134,223	\$136,824
Non-U.S. dollar-denominated	45,410	45,826
Total	\$179,633	\$182,650

The U.S. dollar-denominated GCLA is composed of (i) unencumbered U.S. government and federal agency obligations (including highly liquid U.S. federal agency mortgage-backed obligations), all of which are eligible as collateral in Federal Reserve open market operations and (ii) certain overnight U.S. dollar cash deposits. The non-U.S. dollar-denominated GCLA is composed of only unencumbered German, French, Japanese and United Kingdom government obligations and certain overnight cash deposits in highly liquid currencies. We strictly limit our GCLA to this narrowly defined list of securities and cash because they are highly liquid, even in a difficult funding environment. We do not include other potential sources of excess liquidity in our GCLA, such as less liquid unencumbered securities or committed credit facilities.

Management's Discussion and Analysis

The table below presents the fair value of our GCLA by asset class.

\$ in millions	Average for the Year Ended December	
	2014	2013
Overnight cash deposits	\$ 57,177	\$ 61,265
U.S. government obligations	62,838	76,019
U.S. federal agency obligations, including highly liquid U.S. federal agency mortgage- backed obligations	16,722	2,551
German, French, Japanese and United Kingdom government obligations	42,896	42,815
Total	\$179,633	\$182,650

The table below presents the GCLA of Group Inc. and our major broker-dealer and bank subsidiaries.

\$ in millions	Average for the Year Ended December	
	2014	2013
Group Inc.	\$ 37,699	\$ 29,752
Major broker-dealer subsidiaries	89,549	93,103
Major bank subsidiaries	52,385	59,795
Total	\$179,633	\$182,650

Our GCLA reflects the following principles:

- The first days or weeks of a liquidity crisis are the most critical to a company's survival;
- Focus must be maintained on all potential cash and collateral outflows, not just disruptions to financing flows. Our businesses are diverse, and our liquidity needs are determined by many factors, including market movements, collateral requirements and client commitments, all of which can change dramatically in a difficult funding environment;
- During a liquidity crisis, credit-sensitive funding, including unsecured debt and some types of secured financing agreements, may be unavailable, and the terms (e.g., interest rates, collateral provisions and tenor) or availability of other types of secured financing may change; and
- As a result of our policy to pre-fund liquidity that we estimate may be needed in a crisis, we hold more unencumbered securities and have larger debt balances than our businesses would otherwise require. We believe that our liquidity is stronger with greater balances of highly liquid unencumbered securities, even though it increases our total assets and our funding costs.

We believe that our GCLA provides us with a resilient source of funds that would be available in advance of potential cash and collateral outflows and gives us significant flexibility in managing through a difficult funding environment.

In order to determine the appropriate size of our GCLA, we use an internal liquidity model, referred to as the Modeled Liquidity Outflow, which captures and quantifies our liquidity risks. We also consider other factors including, but not limited to, an assessment of our potential intraday liquidity needs through an additional internal liquidity model, referred to as the Intraday Liquidity Model, and a qualitative assessment of the condition of the financial markets and the firm.

We distribute our GCLA across entities, asset types, and clearing agents to provide us with sufficient operating liquidity to ensure timely settlement in all major markets, even in a difficult funding environment.

We maintain our GCLA to enable us to meet current and potential liquidity requirements of our parent company, Group Inc., and its subsidiaries. Our Modeled Liquidity Outflow and Intraday Liquidity Model incorporate a consolidated requirement for Group Inc. as well as a standalone requirement for each of our major broker-dealer and bank subsidiaries. Liquidity held directly in each of these major subsidiaries is intended for use only by that subsidiary to meet its liquidity requirements and is assumed not to be available to Group Inc. unless (i) legally provided for and (ii) there are no additional regulatory, tax or other restrictions. In addition, the Modeled Liquidity Outflow and Intraday Liquidity Model also incorporate a broader assessment of standalone liquidity requirements for other subsidiaries and we hold a portion of our GCLA directly at Group Inc. to support such requirements. In addition to the GCLA, we maintain cash balances in several of our other entities, primarily for use in specific currencies, entities, or jurisdictions where we do not have immediate access to parent company liquidity.

In addition to our GCLA, we have 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 our GCLA. The fair value of these assets averaged \$94.52 billion for 2014 and \$90.77 billion for 2013. We do not consider these assets liquid enough to be eligible for our GCLA.

Management's Discussion and Analysis

Modeled Liquidity Outflow. Our Modeled Liquidity Outflow is based on conducting multiple scenarios that include combinations of market-wide and firm-specific stress. These scenarios are characterized by the following qualitative elements:

- Severely challenged market environments, including low consumer and corporate confidence, financial and political instability, adverse changes in market values, including potential declines in equity markets and widening of credit spreads; and
- A firm-specific crisis potentially triggered by material losses, reputational damage, litigation, executive departure, and/or a ratings downgrade.

The following are the critical modeling parameters of the Modeled Liquidity Outflow:

- Liquidity needs over a 30-day scenario;
- A two-notch downgrade of our long-term senior unsecured credit ratings;
- A combination of contractual outflows, such as upcoming maturities of unsecured debt, and contingent outflows (e.g., actions though not contractually required, we may deem necessary in a crisis). We assume that most contingent outflows will occur within the initial days and weeks of a crisis;
- No issuance of equity or unsecured debt;
- No support from government funding facilities. Although we have access to various central bank funding programs, we do not assume reliance on them as a source of funding in a liquidity crisis; and
- No asset liquidation, other than the GCLA.

The Modeled Liquidity Outflow is calculated and reported to senior management on a daily basis. We regularly refine our model to reflect changes in market or economic conditions and our business mix.

The potential contractual and contingent cash and collateral outflows covered in our Modeled Liquidity Outflow include:

Unsecured Funding

- Contractual: All upcoming maturities of unsecured long-term debt, commercial paper, promissory notes and other unsecured funding products. We assume that we will be unable to issue new unsecured debt or rollover any maturing debt.
- Contingent: Repurchases of our outstanding long-term debt, commercial paper and hybrid financial instruments in the ordinary course of business as a market maker.

Deposits

- Contractual: All upcoming maturities of term deposits. We assume that we will be unable to raise new term deposits or rollover any maturing term deposits.
- Contingent: Withdrawals of bank deposits that have no contractual maturity. The withdrawal assumptions reflect, among other factors, the type of deposit, whether the deposit is insured or uninsured, and our relationship with the depositor.

Secured Funding

- Contractual: A portion of upcoming contractual maturities of secured funding due to either the inability to refinance or the ability to refinance only at wider haircuts (i.e., on terms which require us to post additional collateral). Our assumptions reflect, among other factors, the quality of the underlying collateral, counterparty roll probabilities (our assessment of the counterparty's likelihood of continuing to provide funding on a secured basis at the maturity of the trade) and counterparty concentration.
- Contingent: Adverse changes in value of financial assets pledged as collateral for financing transactions, which would necessitate additional collateral postings under those transactions.

OTC Derivatives

- Contingent: Collateral postings to counterparties due to adverse changes in the value of our OTC derivatives, excluding those that are cleared and settled through central counterparties (OTC-cleared).
- Contingent: Other outflows of cash or collateral related to OTC derivatives, excluding OTC-cleared, including the impact of trade terminations, collateral substitutions, collateral disputes, loss of rehypothecation rights, collateral calls or termination payments required by a two-notch downgrade in our credit ratings, and collateral that has not been called by counterparties, but is available to them.

Management's Discussion and Analysis

Exchange-Traded and OTC-cleared Derivatives

- Contingent: Variation margin postings required due to adverse changes in the value of our outstanding exchange-traded and OTC-cleared derivatives.
- Contingent: An increase in initial margin and guaranty fund requirements by derivative clearing houses.

Customer Cash and Securities

- Contingent: Liquidity outflows associated with our prime brokerage business, including withdrawals of customer credit balances, and a reduction in customer short positions, which may serve as a funding source for long positions.

Firm Securities

- Contingent: Liquidity outflows associated with a reduction or composition change in firm short positions, which may serve as a funding source for long positions.

Unfunded Commitments

- Contingent: Draws on our unfunded commitments. Draw assumptions reflect, among other things, the type of commitment and counterparty.

Other

- Other upcoming large cash outflows, such as tax payments.

Intraday Liquidity Model. Our Intraday Liquidity Model measures our intraday liquidity needs using a scenario analysis characterized by the same qualitative elements as our Modeled Liquidity Outflow. The model assesses the risk of increased intraday liquidity requirements during a scenario where access to sources of intraday liquidity may become constrained.

The following are key modeling elements of the Intraday Liquidity Model:

- Liquidity needs over a one-day settlement period;
- Delays in receipt of counterparty cash payments;
- A reduction in the availability of intraday credit lines at our third-party clearing agents; and
- Higher settlement volumes due to an increase in activity.

We regularly refine our model to reflect changes in market conditions, business mix and operational processes.

Asset-Liability Management

Our liquidity risk management policies are designed to ensure we have a sufficient amount of financing, even when funding markets experience persistent stress. We seek to maintain a long-dated and diversified funding profile, taking into consideration the characteristics and liquidity profile of our assets.

Our approach to asset-liability management includes:

- Conservatively managing the overall characteristics of our funding book, with a focus on maintaining long-term, diversified sources of funding in excess of our current requirements. See “Balance Sheet and Funding Sources — Funding Sources” for additional details;
- Actively managing and monitoring our asset base, with particular focus on the liquidity, holding period and our ability to fund assets on a secured basis. This enables us to determine the most appropriate funding products and tenors. See “Balance Sheet and Funding Sources — Balance Sheet Management” for more detail on our balance sheet management process and “— Funding Sources — Secured Funding” for more detail on asset classes that may be harder to fund on a secured basis; and
- Raising secured and unsecured financing that has a long tenor relative to the liquidity profile of our assets. This reduces the risk that our liabilities will come due in advance of our ability to generate liquidity from the sale of our assets. Because we maintain a highly liquid balance sheet, the holding period of certain of our assets may be materially shorter than their contractual maturity dates.

Our goal is to ensure that we maintain sufficient liquidity to fund our assets and meet our contractual and contingent obligations in normal times as well as during periods of market stress. Through our dynamic balance sheet management process, we use actual and projected asset balances to determine secured and unsecured funding requirements. Funding plans are reviewed and approved by the Firmwide Finance Committee on a quarterly basis. In addition, senior managers in our independent control and support functions regularly analyze, and the Firmwide Finance Committee reviews, our consolidated total capital position (unsecured long-term borrowings plus total shareholders' equity) so that we maintain a level of long-term funding that is sufficient to meet our long-term financing requirements. In a liquidity crisis, we would first use our GCLA in order to avoid reliance on asset sales (other than our GCLA). However, we recognize that orderly asset sales may be prudent or necessary in a severe or persistent liquidity crisis.

Management's Discussion and Analysis

Subsidiary Funding Policies. The majority of our unsecured funding is raised by Group Inc. which lends the necessary funds to its subsidiaries, some of which are regulated, to meet their asset financing, liquidity and capital requirements. In addition, Group Inc. provides its regulated subsidiaries with the necessary capital to meet their regulatory requirements. The benefits of this approach to subsidiary funding are enhanced control and greater flexibility to meet the funding requirements of our subsidiaries. Funding is also raised at the subsidiary level through a variety of products, including secured funding, unsecured borrowings and deposits.

Our intercompany funding policies assume that, unless legally provided for, a subsidiary's funds or securities are not freely available to its parent company or other subsidiaries. In particular, many of our subsidiaries are subject to laws that authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to Group Inc. Regulatory action of that kind could impede access to funds that Group Inc. needs to make payments on its obligations. Accordingly, we assume that the capital provided to our regulated subsidiaries is not available to Group Inc. or other subsidiaries and any other financing provided to our regulated subsidiaries is not available until the maturity of such financing.

Group Inc. has provided substantial amounts of equity and subordinated indebtedness, directly or indirectly, to its regulated subsidiaries. For example, as of December 2014, Group Inc. had \$29.90 billion of equity and subordinated indebtedness invested in GS&Co., its principal U.S. registered broker-dealer; \$27.68 billion invested in GSI, a regulated U.K. broker-dealer; \$2.28 billion invested in GSEC, a U.S. registered broker-dealer; \$2.68 billion invested in Goldman Sachs Japan Co., Ltd. (GSJCL), a regulated Japanese broker-dealer; \$23.50 billion invested in GS Bank USA, a regulated New York State-chartered bank; and \$3.53 billion invested in GSIB, a regulated U.K. bank. Group Inc. also provided, directly or indirectly, \$80.23 billion of unsubordinated loans and \$8.61 billion of collateral to these entities, substantially all of which was to GS&Co., GSI, GSJCL and GS Bank USA, as of December 2014. In addition, as of December 2014, Group Inc. had significant amounts of capital invested in and loans to its other regulated subsidiaries.

Contingency Funding Plan

The Goldman Sachs Contingency Funding Plan sets out the plan of action we would use to fund business activity in crisis situations and periods of market stress. The contingency funding plan outlines a list of potential risk factors, key reports and metrics that are reviewed on an ongoing basis to assist in assessing the severity of, and managing through, a liquidity crisis and/or market dislocation. The contingency funding plan also describes in detail our potential responses if our assessments indicate that we have entered a liquidity crisis, which include pre-funding for what we estimate will be our potential cash and collateral needs as well as utilizing secondary sources of liquidity. Mitigants and action items to address specific risks which may arise are also described and assigned to individuals responsible for execution.

The contingency funding plan identifies key groups of individuals to foster effective coordination, control and distribution of information, all of which are critical in the management of a crisis or period of market stress. The contingency funding plan also details the responsibilities of these groups and individuals, which include making and disseminating key decisions, coordinating all contingency activities throughout the duration of the crisis or period of market stress, implementing liquidity maintenance activities and managing internal and external communication.

Liquidity 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 and bank holding companies maintain an adequate level of unencumbered high-quality liquid assets based on expected net cash outflows under an acute short-term liquidity stress scenario.

Management's Discussion and Analysis

During 2014, the Office of the Comptroller of the Currency, the Federal Reserve Board and the FDIC approved the final rules on minimum liquidity standards that are generally consistent with the Basel Committee's framework as described above, but include accelerated transition provisions, and more stringent requirements related to both the range of assets that qualify as high-quality liquid assets and cash outflow assumptions for certain types of funding and other liquidity risks. Under the accelerated transition timeline, the LCR became effective in the United States on January 1, 2015, with a phase-in period whereby firms have an 80% minimum in 2015, which will increase by 10% per year until 2017. As of December 2014, our calculation of the LCR exceeds the fully phased-in minimum requirement, however this is based on our interpretation and understanding of the finalized framework and may evolve as we review our interpretation and application with our regulators.

The Basel Committee's international framework for liquidity risk measurement, standards and monitoring also calls for a net stable funding ratio (NSFR), designed to promote more medium- and long-term stable funding of the assets and off-balance-sheet activities of banks and bank holding companies over a one-year time horizon. In 2014, the Basel Committee issued the final rules on the calculation of the NSFR which requires banks and bank holding companies to maintain a stable funding profile in relation to the composition of their assets and off-balance-sheet activities. Under the Basel Committee framework, the NSFR will be effective on January 1, 2018. The U.S. federal bank regulatory agencies have not yet proposed rules implementing the NSFR for U.S. banking organizations. We are currently evaluating the impact of the Basel Committee's NSFR framework.

The implementation of these rules, and any amendments adopted by the U.S. federal bank regulatory agencies, could impact our liquidity and funding requirements and practices in the future.

Credit Ratings

We rely on the short-term and long-term debt capital markets to fund a significant portion of our day-to-day operations and the cost and availability of debt financing is influenced by our credit ratings. Credit ratings are also important when we are competing in certain markets, such as OTC derivatives, and when we seek to engage in longer-term transactions. See "Certain Risk Factors That May Affect Our Businesses" below and "Risk Factors" in Part I, Item 1A of the 2014 Form 10-K for a discussion of the risks associated with a reduction in our credit ratings.

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

	As of December 2014				
	DBRS	Fitch	Moody's	S&P	R&I
Short-term Debt	R-1 (middle)	F1	P-2	A-2	a-1
Long-term Debt ¹	A (high)	A	Baa1	A-	A+
Subordinated Debt	A	A-	Baa2	BBB+	A
Trust Preferred ²	A	BBB-	Baa3	BB	N/A
Preferred Stock ³	BBB (high)	BB+	Ba2	BB	N/A
Ratings Outlook	Stable	Stable	Stable	Negative	Negative

1. Fitch, Moody's and S&P include the senior guaranteed trust securities issued by Murray Street Investment Trust I and Vesey Street Investment Trust I.

2. Trust preferred securities issued by Goldman Sachs Capital I.

3. DBRS, Fitch, Moody's and S&P include Group Inc.'s non-cumulative preferred stock and the APEX issued by Goldman Sachs Capital II and Goldman Sachs Capital III.

The table below presents the unsecured credit ratings of GS Bank USA, GSIB, GS&Co. and GSI. During the fourth quarter of 2014, S&P raised its outlook of GS Bank USA, GSIB, GS&Co. and GSI from negative to stable as a result of its review of these subsidiaries' operating trends in the current regulatory environment.

	As of December 2014		
	Fitch	Moody's	S&P
GS Bank USA			
Short-term Debt	F1	P-1	A-1
Long-term Debt	A	A2	A
Short-term Bank Deposits	F1	P-1	N/A
Long-term Bank Deposits	A+	A2	N/A
Ratings Outlook	Stable	Stable	Stable
GSIB			
Short-term Debt	F1	P-1	A-1
Long-term Debt	A	A2	A
Short-term Bank Deposits	F1	P-1	N/A
Long-term Bank Deposits	A	A2	N/A
Ratings Outlook	Stable	Stable	Stable
GS&Co.			
Short-term Debt	F1	N/A	A-1
Long-term Debt	A	N/A	A
Ratings Outlook	Stable	N/A	Stable
GSI			
Short-term Debt	F1	P-1	A-1
Long-term Debt	A	A2	A
Ratings Outlook	Stable	Stable	Stable

Management's Discussion and Analysis

We believe our credit ratings are primarily based on the credit rating agencies' assessment of:

- Our liquidity, market, credit and operational risk management practices;
- The level and variability of our earnings;
- Our capital base;
- Our franchise, reputation and management;
- Our corporate governance; and
- The external operating environment, including, in some cases, the assumed level of government or other systemic support.

Certain of our derivatives have been transacted under bilateral agreements with counterparties who may require us to post collateral or terminate the transactions based on changes in our credit ratings. We assess the impact of these bilateral agreements by determining the collateral or termination payments that would occur assuming a downgrade by all rating agencies. A downgrade by any one rating agency, depending on the agency's relative ratings of us at the time of the downgrade, may have an impact which is comparable to the impact of a downgrade by all rating agencies. We allocate a portion of our GCLA to ensure we would be able to make the additional collateral or termination payments that may be required in the event of a two-notch reduction in our long-term credit ratings, as well as collateral that has not been called by counterparties, but is available to them. The table below presents the additional collateral or termination payments related to our net derivative liabilities under bilateral agreements that could have been called at the reporting date by counterparties in the event of a one-notch and two-notch downgrade in our credit ratings.

\$ in millions	As of December	
	2014	2013
Additional collateral or termination payments for a one-notch downgrade	\$1,072	\$ 911
Additional collateral or termination payments for a two-notch downgrade	2,815	2,989

Cash Flows

As a global financial institution, our cash flows are complex and bear little relation to our net earnings and net assets. Consequently, we believe that traditional cash flow analysis is less meaningful in evaluating our liquidity position than the liquidity and asset-liability management policies described above. Cash flow analysis may, however, be helpful in highlighting certain macro trends and strategic initiatives in our businesses.

Year Ended December 2014. Our cash and cash equivalents decreased by \$3.53 billion to \$57.60 billion at the end of 2014. We used \$22.53 billion in net cash for operating and investing activities, which reflects an initiative to reduce our balance sheet, and the funding of loans receivable. We generated \$19.00 billion in net cash from financing activities from an increase in bank deposits and net proceeds from issuances of unsecured long-term borrowings, partially offset by repurchases of common stock.

Year Ended December 2013. Our cash and cash equivalents decreased by \$11.54 billion to \$61.13 billion at the end of 2013. We generated \$4.54 billion in net cash from operating activities. We used net cash of \$16.08 billion for investing and financing activities, primarily to fund loans receivable and repurchases of common stock.

Year Ended December 2012. Our cash and cash equivalents increased by \$16.66 billion to \$72.67 billion at the end of 2012. We generated \$9.14 billion in net cash from operating and investing activities. We generated \$7.52 billion in net cash from financing activities from an increase in bank deposits, partially offset by net repayments of unsecured and secured long-term borrowings.

Market Risk Management

Overview

Market risk is the risk of loss in the value of our inventory, as well as certain other financial assets and financial liabilities, due to changes in market conditions. We employ a variety of risk measures, each described in the respective sections below, to monitor market risk. We hold inventory primarily for market making for our clients and for our investing and lending activities. Our inventory therefore changes based on client demands and our investment opportunities. Our inventory is accounted for at fair value and therefore fluctuates on a daily basis, with the related gains and losses included in "Market making," and "Other principal transactions." Categories of market risk include the following:

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

Market Risk Management Process

We manage our market risk by diversifying exposures, controlling position sizes and establishing economic hedges in related securities or derivatives. This 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.

Market Risk Management, which is independent of the revenue-producing units and reports to our chief risk officer, has primary responsibility for assessing, monitoring and managing market risk at the firm. We monitor and control risks through strong firmwide oversight and independent control and support functions across our global businesses.

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

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 our risk committees. These measures reflect an extensive range of scenarios and the results are aggregated at trading desk, business and firmwide levels.

We use a variety of risk measures to estimate the size of potential losses for both moderate and more extreme market moves over both short-term and long-term time horizons. Our primary risk measures are VaR, which is used for shorter-term periods, and stress tests. Our risk reports detail key risks, drivers and changes for each desk and business, and are distributed daily to senior management of both our revenue-producing units and our independent control and support functions.

Value-at-Risk

VaR is the potential loss in value due to adverse market movements over a defined time horizon with a specified confidence level. For positions included in VaR, see "— Financial Statement Linkages to Market Risk Measures." We typically employ a one-day time horizon with a 95% confidence level. We use a single VaR model which captures risks including interest rates, equity prices, currency rates and commodity prices. As such, VaR facilitates comparison across portfolios of different risk characteristics. VaR also captures the diversification of aggregated risk at the firmwide level.

Management's Discussion and Analysis

We are aware of the inherent limitations to VaR and therefore use a variety of risk measures in our market risk management process. Inherent limitations to VaR include:

- VaR does not estimate potential losses over longer time horizons where moves may be extreme;
- VaR does not take account of the relative liquidity of different risk positions; and
- Previous moves in market risk factors may not produce accurate predictions of all future market moves.

When calculating VaR, we use historical simulations with full valuation of approximately 70,000 market factors. VaR is calculated at a position level based on simultaneously shocking the relevant market risk factors for that position. We sample from five years of historical data to generate the scenarios for our VaR calculation. The historical data is weighted so that the relative importance of the data reduces over time. This gives greater importance to more recent observations and reflects current asset volatilities, which improves the accuracy of our estimates of potential loss. As a result, even if our positions included in VaR were unchanged, our VaR would increase with increasing market volatility and vice versa.

Given its reliance on historical data, VaR is most effective in estimating risk exposures in markets in which there are no sudden fundamental changes or shifts in market conditions.

Our VaR measure does not include:

- Positions that are best measured and monitored using sensitivity measures; and
- The impact of changes in counterparty and our own credit spreads on derivatives, as well as changes in our own credit spreads on unsecured borrowings for which the fair value option was elected.

Stress Testing

Stress testing is a method of determining the effect of various hypothetical stress scenarios. We use stress testing to examine risks of specific portfolios as well as the potential impact of significant risk exposures across the firm. We use a variety of stress testing techniques to calculate the potential loss from a wide range of market moves on our portfolios, including sensitivity analysis, scenario analysis and firmwide stress tests. The results of our various stress tests are analyzed together for risk management purposes.

Sensitivity analysis is used to quantify the impact of a market move in a single risk factor across all positions (e.g., equity prices or credit spreads) using a variety of defined market shocks, ranging from those that could be expected over a one-day time horizon up to those that could take many months to occur. We also use sensitivity analysis to quantify the impact of the default of a single corporate entity, which captures the risk of large or concentrated exposures.

Scenario analysis is used to quantify the impact of a specified event, including how the event impacts multiple risk factors simultaneously. For example, for sovereign stress testing we calculate potential direct exposure associated with our sovereign inventory as well as the corresponding debt, equity and currency exposures associated with our non-sovereign inventory that may be impacted by the sovereign distress. When conducting scenario analysis, we typically consider a number of possible outcomes for each scenario, ranging from moderate to severely adverse market impacts. In addition, these stress tests are constructed using both historical events and forward-looking hypothetical scenarios.

Firmwide stress testing combines market, credit, operational and liquidity risks into a single combined scenario. Firmwide stress tests are primarily used to assess capital adequacy as part of our capital planning and stress testing process; however, we also ensure that firmwide stress testing is integrated into our risk governance framework. This includes selecting appropriate scenarios to use for our capital planning and stress testing process. See "Equity Capital Management and Regulatory Capital — Equity Capital Management" above for further information.

Management's Discussion and Analysis

Unlike VaR measures, which have an implied probability because they are calculated at a specified confidence level, there is generally no implied probability that our stress test scenarios will occur. Instead, stress tests are used to model both moderate and more extreme moves in underlying market factors. When estimating potential loss, we generally assume that our positions cannot be reduced or hedged (although experience demonstrates that we are generally able to do so).

Stress test scenarios are conducted on a regular basis as part of our routine risk management process and on an ad hoc basis in response to market events or concerns. Stress testing is an important part of our risk management process because it allows us to quantify our exposure to tail risks, highlight potential loss concentrations, undertake risk/reward analysis, and assess and mitigate our risk positions.

Limits

We use risk limits at various levels in the firm (including firmwide, product and business) to govern risk appetite by controlling the size of our exposures to market risk. Limits are set based on VaR and on a range of stress tests relevant to our exposures. Limits are reviewed frequently and amended on a permanent or temporary basis to reflect changing market conditions, business conditions or tolerance for risk.

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

Our market risk limits are monitored daily by Market Risk Management, which is responsible for identifying and escalating, on a timely basis, instances where limits have been exceeded. The business-level limits that are set by the Securities Division Risk Committee are subject to the same scrutiny and limit escalation policy as the firmwide limits.

When a risk limit has been exceeded (e.g., due to changes in market conditions, such as increased volatilities or changes in correlations), it is reported to the appropriate risk committee and a discussion takes place with the relevant desk managers, after which either the risk position is reduced or the risk limit is temporarily or permanently increased.

Model Review and Validation

Our VaR and stress testing models are subject to review and validation by our independent model validation group. This review includes:

- A critical evaluation of the model, its theoretical soundness and adequacy for intended use;
- Verification of the testing strategy utilized by the model developers to ensure that the model functions as intended; and
- Verification of the suitability of the calculation techniques incorporated in the model.

Our VaR and stress testing models are regularly reviewed and enhanced in order to incorporate changes in the composition of positions included in our market risk measures, as well as variations in market conditions. Prior to implementing significant changes to our assumptions and/or models, we perform model validation and test runs. Significant changes to our VaR and stress testing models are reviewed with our chief risk officer and chief financial officer, and approved by the Firmwide Risk Committee.

We evaluate the accuracy of our VaR model through daily backtesting (i.e., by comparing daily trading net revenues to the VaR measure calculated as of the prior business day) at the firmwide level and for each of our businesses and major regulated subsidiaries.

Management's Discussion and Analysis

Systems

We have made a significant investment in technology to monitor market risk including:

- An independent calculation of VaR and stress measures;
- Risk measures calculated at individual position levels;
- Attribution of risk measures to individual risk factors of each position;
- The ability to report many different views of the risk measures (e.g., by desk, business, product type or legal entity); and
- The ability to produce ad hoc analyses in a timely manner.

Metrics

We analyze VaR at the firmwide level and a variety of more detailed levels, including by risk category, business, and region. The tables below present, by risk category, average daily VaR and period-end VaR, as well as the high and low VaR for the period. Diversification effect in the tables below represents the difference between total VaR and the sum of the VaRs for the four risk categories. This effect arises because the four market risk categories are not perfectly correlated.

The following table presents average daily VaR.

\$ in millions Risk Categories	Year Ended December		
	2014	2013	2012
Interest rates	\$ 51	\$ 63	\$ 78
Equity prices	26	32	26
Currency rates	19	17	14
Commodity prices	21	19	22
Diversification effect	(45)	(51)	(54)
Total	\$ 72	\$ 80	\$ 86

Our average daily VaR decreased to \$72 million in 2014 from \$80 million in 2013, primarily reflecting a decrease in the interest rates category due to decreased exposures and lower levels of volatility, and a decrease in the equity prices category principally due to lower levels of volatility. These decreases were partially offset by a decrease in the diversification benefit across risk categories.

Our average daily VaR decreased to \$80 million in 2013 from \$86 million in 2012, primarily reflecting a decrease in the interest rates category principally due to lower levels of volatility and decreased exposures. This decrease was partially offset by an increase in the equity prices category principally due to increased exposures.

The following table presents year-end VaR, and high and low VaR.

\$ in millions Risk Categories	As of December		Year Ended December 2014	
	2014	2013	High	Low
Interest rates	\$ 53	\$ 59	\$ 71	\$37
Equity prices	19	35	80	16
Currency rates	24	16	36	10
Commodity prices	23	20	30	15
Diversification effect	(42)	(45)		
Total	\$ 77	\$ 85	\$116	\$51

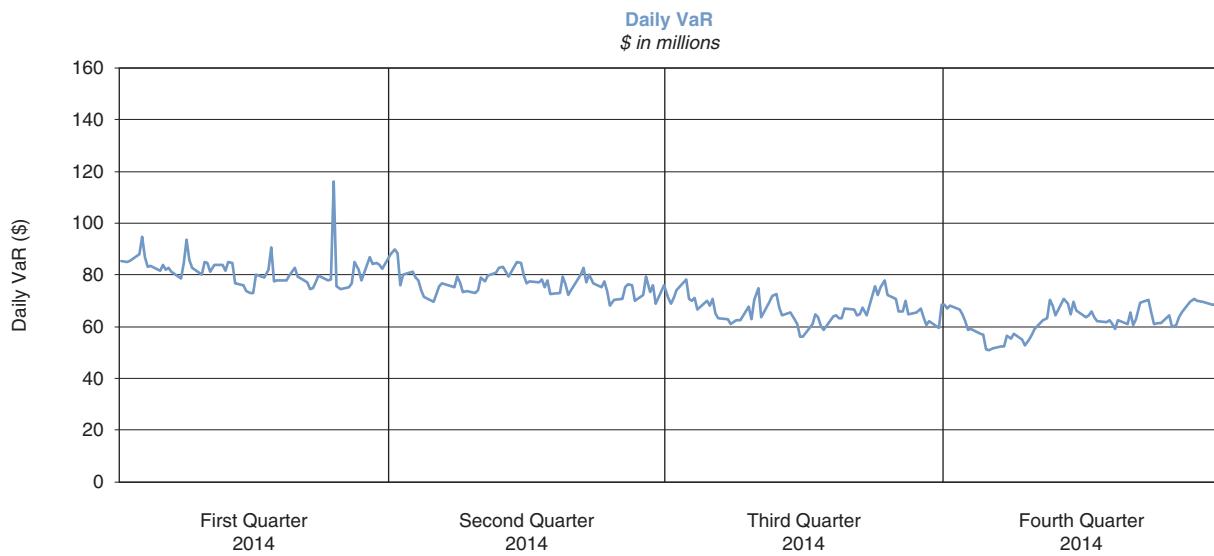
Our daily VaR decreased to \$77 million as of December 2014 from \$85 million as of December 2013, primarily reflecting a decrease in the equity prices category principally due to decreased exposures. This decrease was partially offset by an increase in the currency rates category principally due to increased exposures.

During 2014, the firmwide VaR risk limit was not exceeded, raised or reduced.

During 2013, the firmwide VaR risk limit was not exceeded and was reduced on one occasion due to lower levels of volatility.

Management's Discussion and Analysis

The chart below reflects our daily VaR over the last four quarters.

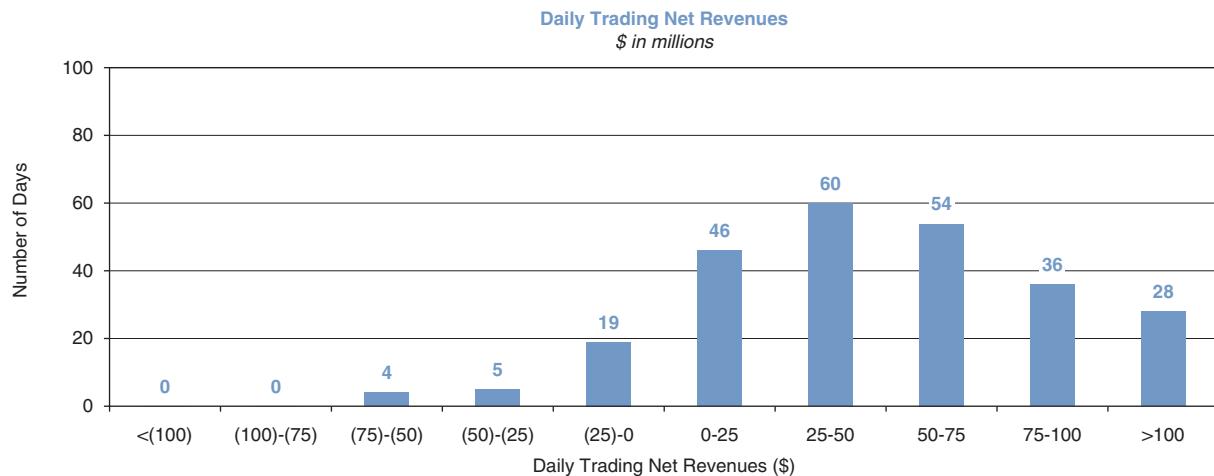


Daily trading net revenues are compared with VaR calculated as of the end of the prior business day. Trading losses incurred on a single day exceeded our 95% one-day VaR on one occasion during 2014 (i.e., a VaR exception). Trading losses incurred on a single day did not exceed our 95% one-day VaR during 2013.

During periods in which we have significantly more positive net revenue days than net revenue loss days, we expect to have fewer VaR exceptions because, under normal conditions, our business model generally produces positive

net revenues. In periods in which our franchise revenues are adversely affected, we generally have more loss days, resulting in more VaR exceptions. The daily market-making revenues used to determine VaR exceptions reflect the impact of any intraday activity, including bid/offer net revenues, which are more likely than not to be positive by their nature.

The chart below presents the frequency distribution of our daily trading net revenues for substantially all positions included in VaR for 2014.



Management's Discussion and Analysis

Sensitivity Measures

Certain portfolios and individual positions are not included in VaR because VaR is not the most appropriate risk measure. Other sensitivity measures we use to analyze market risk are described below.

10% Sensitivity Measures. The table below presents market risk for inventory positions that are not included in VaR. The market risk of these positions is determined by estimating the potential reduction in net revenues of a 10% decline in the underlying asset value. Equity positions below relate to private and restricted public equity securities, including interests in funds that invest in corporate equities and real estate and interests in hedge funds, which are included in "Financial instruments owned, at fair value." Debt positions include interests in funds that invest in corporate mezzanine and senior debt instruments, loans backed by commercial and residential real estate, corporate bank loans and other corporate debt, including acquired portfolios of distressed loans. These debt positions are included in "Financial instruments owned, at fair value." See Note 6 to the consolidated financial statements for further information about cash instruments. These measures do not reflect diversification benefits across asset categories or across other market risk measures.

Asset Categories	As of December	
	2014	2013
Equity	\$2,132	\$2,256
Debt	1,686	1,522
Total	\$3,818	\$3,778

Credit Spread Sensitivity on Derivatives and Borrowings. VaR excludes the impact of changes in counterparty and our own credit spreads on derivatives as well as changes in our own credit spreads on unsecured borrowings for which the fair value option was elected. The estimated sensitivity to a one basis point increase in credit spreads (counterparty and our own) on derivatives was a gain of \$3 million and \$4 million (including hedges) as of December 2014 and December 2013, respectively. In addition, the estimated sensitivity to a one basis point increase in our own credit spreads on unsecured borrowings for which the fair value option was elected was a gain of \$10 million and \$8 million (including hedges) as of December 2014 and December 2013, respectively. However, the actual net impact of a change in our own credit spreads is also affected by the liquidity, duration and convexity (as the sensitivity is not linear to changes in yields) of those unsecured borrowings for which the fair value option was elected, as well as the relative performance of any hedges undertaken.

Interest Rate Sensitivity. "Loans receivable" as of December 2014 and December 2013 were \$28.94 billion and \$14.90 billion, respectively, substantially all of which had floating interest rates. As of December 2014 and December 2013, the estimated sensitivity to a 100 basis point increase in interest rates on such loans was \$254 million and \$136 million, respectively, of additional interest income over a 12-month period, which does not take into account the potential impact of an increase in costs to fund such loans. See Note 9 to the consolidated financial statements for further information about loans receivable.

Other Market Risk Considerations

In addition, as of December 2014 and December 2013, we had commitments and held loans for which we have obtained credit loss protection from Sumitomo Mitsui Financial Group, Inc. See Note 18 to the consolidated financial statements for further information about such lending commitments.

Additionally, we make investments accounted for under the equity method and we also make direct investments in real estate, both of which are included in "Other assets." Direct investments in real estate are accounted for at cost less accumulated depreciation. See Note 13 to the consolidated financial statements for information about "Other assets."

Management's Discussion and Analysis

Financial Statement Linkages to Market Risk Measures

We employ a variety of risk measures, each described in the respective sections above, to monitor market risk across the consolidated statements of financial condition and consolidated statements of earnings. The related gains and losses on these positions are included in “Market making,” “Other principal transactions,” “Interest income” and “Interest expense.” The table below presents certain categories in our consolidated statements of financial condition and the market risk measures used to assess those assets and liabilities. Certain categories on the consolidated statements of financial condition are incorporated in more than one risk measure.

Categories on the Consolidated Statements of Financial Condition Included in Market Risk Measures	Market Risk Measures
Securities segregated for regulatory and other purposes, at fair value	<ul style="list-style-type: none"> • VaR
Collateralized agreements <ul style="list-style-type: none"> • Securities purchased under agreements to resell, at fair value • Securities borrowed, at fair value 	<ul style="list-style-type: none"> • VaR
Receivables from customers and counterparties <ul style="list-style-type: none"> • Certain secured loans, at fair value • Loans receivable 	<ul style="list-style-type: none"> • VaR • Interest Rate Sensitivity
Financial instruments owned, at fair value	<ul style="list-style-type: none"> • VaR • 10% Sensitivity Measures • Credit Spread Sensitivity — Derivatives
Collateralized financings <ul style="list-style-type: none"> • Securities sold under agreements to repurchase, at fair value • Securities loaned, at fair value • Other secured financings, at fair value 	<ul style="list-style-type: none"> • VaR
Financial instruments sold, but not yet purchased, at fair value	<ul style="list-style-type: none"> • VaR • Credit Spread Sensitivity — Derivatives
Unsecured short-term borrowings and unsecured long-term borrowings, at fair value	<ul style="list-style-type: none"> • VaR • Credit Spread Sensitivity — Borrowings

Credit Risk Management

Overview

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty (e.g., an OTC derivatives counterparty or a borrower) or an issuer of securities or other instruments we hold. Our exposure to credit risk comes mostly from client transactions in OTC derivatives and loans and lending commitments. Credit risk also comes from cash placed with banks, securities financing transactions (i.e., resale and repurchase agreements and securities borrowing and lending activities) and receivables from brokers, dealers, clearing organizations, customers and counterparties.

Credit Risk Management, which is independent of the revenue-producing units and reports to our chief risk officer, has primary responsibility for assessing, monitoring and managing credit risk at the firm. The Credit Policy Committee and the Firmwide Risk Committee establish and review credit policies and parameters. In addition, we hold other positions that give rise to credit risk (e.g., bonds held in our inventory and secondary bank loans). These credit risks are captured as a component of market risk measures, which are monitored and managed by Market Risk Management, consistent with other inventory positions. We also enter into derivatives to manage market risk exposures. Such derivatives also give rise to credit risk which is monitored and managed by Credit Risk Management.

Policies authorized by the Firmwide Risk Committee and the Credit Policy Committee prescribe the level of formal approval required for us to assume credit exposure to a counterparty across all product areas, taking into account any applicable netting provisions, collateral or other credit risk mitigants.

Management's Discussion and Analysis

Credit Risk Management Process

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

- Approving transactions and setting and communicating credit exposure limits;
- Monitoring compliance with established credit exposure limits;
- Assessing the likelihood that a counterparty will default on its payment obligations;
- Measuring our current and potential credit exposure and losses resulting from counterparty default;
- Reporting of credit exposures to senior management, the Board and regulators;
- Use of credit risk mitigants, including collateral and hedging; and
- Communication and collaboration with other independent control and support functions such as operations, legal and compliance.

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

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

Risk Measures and Limits

We measure our credit risk based on the potential loss in an event of non-payment by a counterparty. For derivatives and securities financing transactions, the primary measure is potential exposure, which is our estimate of the future exposure that could arise over the life of a transaction based on market movements within a specified confidence level. Potential exposure takes into account netting and collateral arrangements. For loans and lending commitments, the primary measure is a function of the notional amount of the position. We also monitor credit risk in terms of current exposure, which is the amount presently owed to us after taking into account applicable netting and collateral.

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

Stress Tests/Scenario Analysis

We use regular stress tests to calculate the credit exposures, including potential concentrations that would result from applying shocks to counterparty credit ratings or credit risk factors (e.g., currency rates, interest rates, equity prices). These shocks include a wide range of moderate and more extreme market movements. Some of our stress tests include shocks to multiple risk factors, consistent with the occurrence of a severe market or economic event. In the case of sovereign default, we estimate the direct impact of the default on our sovereign credit exposures, changes to our credit exposures arising from potential market moves in response to the default, and the impact of credit market deterioration on corporate borrowers and counterparties that may result from the sovereign default. Unlike potential exposure, which is calculated within a specified confidence level, with a stress test there is generally no assumed probability of these events occurring.

We run stress tests on a regular basis as part of our routine risk management processes and conduct tailored stress tests on an ad hoc basis in response to market developments. Stress tests are regularly conducted jointly with our market and liquidity risk functions.

Management's Discussion and Analysis

Risk Mitigants

To reduce our credit exposures on derivatives and securities financing transactions, we may enter into netting agreements with counterparties that permit us to offset receivables and payables with such counterparties. We may also reduce credit risk with counterparties by entering into agreements that enable us to obtain collateral from them on an upfront or contingent basis and/or to terminate transactions if the counterparty's credit rating falls below a specified level. We monitor the fair value of the collateral on a daily basis to ensure that our credit exposures are appropriately collateralized. We seek to minimize exposures where there is a significant positive correlation between the creditworthiness of our counterparties and the market value of collateral we receive.

For loans and lending commitments, depending on the credit quality of the borrower and other characteristics of the transaction, we employ a variety of potential risk mitigants. Risk mitigants include: collateral provisions, guarantees, covenants, structural seniority of the bank loan claims and, for certain lending commitments, provisions in the legal documentation that allow us to adjust loan amounts, pricing, structure and other terms as market conditions change. The type and structure of risk mitigants employed can significantly influence the degree of credit risk involved in a loan or lending commitment.

When we do not have sufficient visibility into a counterparty's financial strength or when we believe a counterparty requires support from its parent company, we may obtain third-party guarantees of the counterparty's obligations. We may also mitigate our credit risk using credit derivatives or participation agreements.

Credit Exposures

As of December 2014, our credit exposures increased as compared with December 2013, primarily reflecting increases in loans and lending commitments. The percentage of our credit exposure arising from non-investment-grade counterparties (based on our internally determined public rating agency equivalents) increased from December 2013, primarily reflecting an increase in loans and lending commitments. During 2014, the number of counterparty defaults was essentially unchanged as compared with 2013, and such defaults primarily occurred within loans and lending commitments. The total number of counterparty defaults remained low, representing less than 0.5% of all counterparties. Estimated losses associated with counterparty defaults were higher compared with the prior year. However, such estimated losses were not material to the firm. Our credit exposures are described further below.

Cash and Cash Equivalents. Cash and cash equivalents include both interest-bearing and non-interest-bearing deposits. To mitigate the risk of credit loss, we place substantially all of our deposits with highly-rated banks and central banks.

OTC Derivatives. Our credit exposure on OTC derivatives arises primarily from our market-making activities. As a market maker, we enter into derivative transactions to provide liquidity to clients and to facilitate the transfer and hedging of their risks. We also enter into derivatives to manage market risk exposures. We manage our credit exposure on OTC derivatives using the credit risk process, measures, limits and risk mitigants described above.

Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) when a legal right of setoff exists under an enforceable netting agreement. Derivatives are accounted for at fair value, net of cash collateral received or posted under enforceable credit support agreements. We generally enter into OTC derivatives transactions under bilateral collateral arrangements with daily exchange of collateral.

As credit risk is an essential component of fair value, we include a credit valuation adjustment (CVA) in the fair value of derivatives to reflect counterparty credit risk, as described in Note 7 to the consolidated financial statements. CVA is a function of the present value of expected exposure, the probability of counterparty default and the assumed recovery upon default.

Management's Discussion and Analysis

The tables below present the distribution of our exposure to OTC derivatives by tenor, based on expected duration for mortgage-related credit derivatives and generally on remaining contractual maturity for other derivatives, both before and after the effect of collateral and netting agreements. Receivable and payable balances for the same counterparty across tenor categories are netted under enforceable netting agreements, and cash collateral received is netted under enforceable credit support agreements. Receivable and payable balances with the same counterparty in the same tenor category are netted within

such tenor category. Net credit exposure in the tables below represents OTC derivative assets, all of which are included in "Financial instruments owned, at fair value," less cash collateral and the fair value of securities collateral, primarily U.S. government and federal agency obligations and non-U.S. government and agency obligations, received under credit support agreements, which management considers when determining credit risk, but such collateral is not eligible for netting under U.S. GAAP. The categories shown reflect our internally determined public rating agency equivalents.

\$ in millions Credit Rating Equivalent	As of December 2014						
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Netting	OTC Derivative Assets	Net Credit Exposure
AAA/Aaa	\$ 1,119	\$ 898	\$ 3,500	\$ 5,517	\$ (2,163)	\$ 3,354	\$ 3,135
AA/Aa2	8,260	12,182	40,443	60,885	(42,513)	18,372	12,453
A/A2	13,719	18,949	26,649	59,317	(44,147)	15,170	9,493
BBB/Baa2	7,049	8,758	26,087	41,894	(28,321)	13,573	9,577
BB/Ba2 or lower	4,959	6,226	5,660	16,845	(7,062)	9,783	8,506
Unrated	79	363	160	602	(117)	485	188
Total	\$35,185	\$47,376	\$102,499	\$185,060	\$(124,323)	\$60,737	\$43,352

\$ in millions Credit Rating Equivalent	As of December 2013						
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Netting	OTC Derivative Assets	Net Credit Exposure
AAA/Aaa	\$ 473	\$ 1,470	\$ 2,450	\$ 4,393	\$ (2,087)	\$ 2,306	\$ 2,159
AA/Aa2	3,463	7,642	29,926	41,031	(27,918)	13,113	8,596
A/A2	12,693	25,666	29,701	68,060	(48,803)	19,257	11,188
BBB/Baa2	4,377	10,112	24,013	38,502	(29,213)	9,289	5,952
BB/Ba2 or lower	2,972	6,188	4,271	13,431	(5,357)	8,074	6,381
Unrated	1,289	45	238	1,572	(9)	1,563	1,144
Total	\$25,267	\$51,123	\$ 90,599	\$166,989	\$(113,387)	\$53,602	\$35,420

Management's Discussion and Analysis

Lending and Financing Activities. We manage our lending and financing activities using the credit risk process, measures, limits and risk mitigants described above. Other lending positions, including secondary trading positions, are risk-managed as a component of market risk.

- **Lending Activities.** Our lending activities include lending to investment-grade and non-investment-grade corporate borrowers. Loans and lending commitments associated with these activities are principally used for operating liquidity and general corporate purposes or in connection with contingent acquisitions. Our lending activities also include extending loans to borrowers that are secured by commercial and other real estate. See the tables below for further information about our credit exposures associated with these lending activities.

- **Securities Financing Transactions.** We enter into securities financing transactions in order to, among other things, facilitate client activities, invest excess cash, acquire securities to cover short positions and finance certain firm activities. We bear credit risk related to resale agreements and securities borrowed only to the extent that cash advanced or the value of securities pledged or delivered to the counterparty exceeds the value of the collateral received. We also have credit exposure on repurchase agreements and securities loaned to the extent that the value of securities pledged or delivered to the counterparty for these transactions exceeds the amount of cash or collateral received. Securities collateral obtained for securities financing transactions primarily includes U.S. government and federal agency obligations and non-U.S. government and agency obligations. We had approximately \$36 billion and \$29 billion as of December 2014 and December 2013, respectively, of credit exposure related to securities financing transactions reflecting both netting agreements and collateral that management considers when determining credit risk. As of both December 2014 and December 2013, substantially all of our credit exposure related to securities financing transactions was with investment-grade financial institutions, funds and governments, primarily located in the Americas and EMEA.

- **Other Credit Exposures.** We are exposed to credit risk from our receivables from brokers, dealers and clearing organizations and customers and counterparties. Receivables from brokers, dealers and clearing organizations are primarily comprised of initial cash margin placed with clearing organizations and receivables related to sales of securities which have traded, but not yet settled. These receivables generally have minimal credit risk due to the low probability of clearing organization default and the short-term nature of receivables related to securities settlements. Receivables from customers and counterparties are generally comprised of collateralized receivables related to customer securities transactions and generally have minimal credit risk due to both the value of the collateral received and the short-term nature of these receivables. Our net credit exposure related to these activities was approximately \$26 billion and \$18 billion as of December 2014 and December 2013, respectively, and was primarily comprised of initial margin (both cash and securities) placed with investment-grade clearing organizations. The regional breakdown of our net credit exposure related to these activities was approximately 48% and 55% in the Americas, approximately 13% and 10% in Asia, and approximately 39% and 35% in EMEA as of December 2014 and December 2013, respectively.

In addition, we extend other loans and lending commitments to our private wealth management clients that are primarily secured by residential real estate, securities or other assets. The gross exposure related to such loans and lending commitments was approximately \$17 billion and \$11 billion as of December 2014 and December 2013, respectively, and was substantially all concentrated in the Americas region. The fair value of the collateral received against such loans and lending commitments exceeded the gross exposure as of both December 2014 and December 2013.

Management's Discussion and Analysis

Credit Exposure by Industry, Region and Credit Quality

The tables below present our credit exposures related to cash, OTC derivatives, and loans and lending commitments (excluding credit exposures described above in “Securities Financing Transactions” and “Other Credit Exposures”) broken down by industry, region and credit quality. In the “Credit Exposure by Industry” table below, to be

consistent with changes in the manner in which management views credit exposure, we introduced new industries, aggregated certain industries and realigned exposures between industry classifications. Reclassifications have been made for December 2013 to conform to the current presentation.

\$ in millions	Cash as of December		OTC Derivatives as of December		Loans and Lending Commitments as of December	
	2014		2013		2014	
	2014	2013	2014	2013	2014	2013
Credit Exposure by Industry						
Funds	\$ 96	\$ 109	\$13,114	\$10,063	\$ 1,706	\$ 727
Financial Institutions	12,469	9,994	15,051	16,374	11,316	9,910
Consumer, Retail & Healthcare	—	—	3,325	5,041	30,216	27,891
Sovereign	45,029	51,024	10,004	8,603	450	276
Municipalities & Nonprofit	—	—	4,303	2,902	541	458
Natural Resources & Utilities	—	—	5,741 ¹	5,295	24,275 ¹	21,478
Real Estate	6	6	407	388	12,366	8,550
Technology, Media & Telecommunications	—	—	2,995	2,123	20,633	14,962
Diversified Industrials	—	—	4,321	1,733	16,392	16,085
Other	—	—	1,476	1,080	11,998	4,988
Total	\$57,600	\$61,133	\$60,737	\$53,602	\$129,893	\$105,325

1. See “— Selected Country and Industry Exposures — Industry Exposures” below for information about our credit and market exposure to the oil and gas industry.

\$ in millions	Cash as of December		OTC Derivatives as of December		Loans and Lending Commitments as of December	
	2014		2013		2014	
	2014	2013	2014	2013	2014	2013
Credit Exposure by Region						
Americas	\$45,599	\$54,470	\$22,032	\$21,423	\$ 91,378	\$ 77,710
EMEA	1,666	2,143	31,295	25,983	34,397	25,222
Asia	10,335	4,520	7,410	6,196	4,118	2,393
Total	\$57,600	\$61,133	\$60,737	\$53,602	\$129,893	\$105,325

\$ in millions	Cash as of December		OTC Derivatives as of December		Loans and Lending Commitments as of December	
	2014		2013		2014	
	2014	2013	2014	2013	2014	2013
Credit Exposure by Credit Quality (Credit Rating Equivalent)						
AAA/Aaa	\$38,778	\$50,519	\$ 3,354	\$ 2,306	\$ 3,969	\$ 3,079
AA/Aa2	4,598	2,748	18,372	13,113	8,097	7,001
A/A2	13,346	6,821	15,170	19,257	22,623	23,250
BBB/Baa2	730	527	13,573	9,289	35,706	30,496
BB/Ba2 or lower	148	518	9,783	8,074	58,670	41,114
Unrated	—	—	485	1,563	828	385
Total	\$57,600	\$61,133	\$60,737	\$53,602	\$129,893	\$105,325

Selected Country and Industry Exposures

The section below provides information about our credit and market exposure to certain countries and industries that have had heightened focus due to recent events and broad market concerns. Credit exposure represents the potential for loss due to the default or deterioration in credit quality of a counterparty or borrower. Market exposure represents the potential for loss in value of our long and short inventory due to changes in market prices. There is no overlap between the credit and market exposures in the amounts below. We determine the country of risk by the location of the counterparty, issuer or underlier's assets, where they generate revenue, the country in which they are headquartered, and/or the government whose policies affect their ability to repay their obligations.

Country Exposures. During 2014, the political situations in Iraq, Russia and Ukraine have negatively affected market sentiment toward those countries. In addition, the U.S. and the EU have imposed sanctions against certain Russian individuals and institutions, and Argentina has defaulted on its sovereign debt. The decline in oil prices has also raised substantial concerns about Venezuela and its sovereign debt. In addition, recent events in Greece have led to renewed concerns about its economic and financial stability.

As of December 2014, our total credit exposure to Russia was \$416 million and was substantially all with non-sovereign counterparties or borrowers. Such exposure was comprised of \$257 million (including the benefit of \$14 million of cash and securities collateral) related to securities financing transactions and other secured receivables, \$104 million related to loans and lending commitments and \$55 million (including the benefit of \$190 million of cash collateral) related to OTC derivatives. In addition, our total market exposure to Russia as of December 2014 was \$447 million, which was primarily with non-sovereign issuers or underliers. Such exposure was comprised of \$309 million related to credit derivatives, \$117 million related to debt and \$21 million related to equities. Subsequent to December 2014, Russia's sovereign debt was downgraded by S&P and Fitch. These downgrades did not have a material effect on our financial condition, results of operations, liquidity or capital resources.

As of December 2014, our total credit exposure to Greece was \$1.0 billion and was primarily with non-sovereign counterparties or borrowers. Such exposure was comprised of \$694 million (including the benefit of \$1.2 billion of cash and securities collateral) related to securities financing transactions and other secured receivables and \$317 million (including the benefit of \$590 million of cash collateral) related to OTC derivatives. In addition, our total market exposure to Greece as of December 2014 was \$54 million, which was primarily with non-sovereign issuers or underliers.

Our total credit and market exposure to Argentina, Iraq, Ukraine and Venezuela as of December 2014 was not material.

We economically hedge our exposure to written credit derivatives by entering into offsetting purchased credit derivatives with identical underliers. Where possible, we endeavor to match the tenor and credit default terms of such hedges to that of our written credit derivatives. Substantially all purchased credit derivatives related to Russia and Greece are both bought from investment-grade counterparties domiciled outside of these countries and are collateralized with cash. As of December 2014, the gross purchased and written credit derivative notional for single-name and index credit default swaps (included in credit derivatives above) were \$21.1 billion and \$21.7 billion, respectively, related to Russia and \$2.2 billion and \$2.1 billion, respectively, related to Greece. Including netting under legally enforceable netting agreements, the purchased and written credit derivative notional for single-name and index credit default swaps were \$3.6 billion and \$4.3 billion, respectively, related to Russia and \$908 million and \$812 million, respectively, related to Greece as of December 2014. These notional amounts are not representative of our exposure because they exclude available netting under legally enforceable netting agreements on other derivatives outside of these countries and collateral received or posted under credit support agreements. For information about the nature of or payout under trigger events related to written and purchased credit protection contracts see Note 7 to the consolidated financial statements.

Management's Discussion and Analysis

During 2012, and continuing into early 2013, there were concerns about European sovereign debt risk and its impact on the European banking system, as a number of European member states, including Ireland, Italy, Portugal and Spain, experienced significant credit deterioration. Although many of the immediate concerns have subsided, some of the countries in the region face long-term economic and financial challenges. As of December 2014, our aggregate credit and market exposure to these four European countries was \$10.1 billion (\$8.8 billion of credit exposure and \$1.3 billion of market exposure), including \$4.0 billion to Ireland, \$3.1 billion to Italy, \$439 million to Portugal and \$2.6 billion to Spain. We continue to closely monitor our risk exposure to these four countries as part of our risk management process.

To supplement our regular stress tests, we conduct tailored stress tests on an ad hoc basis in response to specific market events that we deem significant. For example, in response to the Euro area debt crisis, we conducted stress tests intended to estimate the direct and indirect impact that might result from a variety of possible events involving certain European member states, including sovereign defaults and the exit of one or more countries from the Euro area. In the stress tests, described in "Market Risk Management — Stress Testing" and "Credit Risk Management — Stress Tests/Scenario Analysis," we estimated the direct impact of the event on our credit and market exposures resulting from shocks to risk factors including, but not limited to, currency rates, interest rates, and equity prices. The parameters of these shocks varied based on the scenario reflected in each stress test. We also estimated the indirect impact on our exposures arising from potential market moves in response to the event, such as the impact of credit market deterioration on corporate borrowers and counterparties along with the shocks to the risk factors described above. We reviewed estimated losses produced by the stress tests in order to understand their magnitude, highlight potential loss concentrations, and assess and mitigate our exposures where necessary.

The Euro area exit scenarios included analysis of the impacts on exposure that might result from the redenomination of assets in the exiting country or countries. We also tested our operational and risk management readiness and capability to respond to a redenomination event. Constructing stress tests for these scenarios requires many assumptions about how exposures might be directly impacted and how resulting secondary market moves would indirectly impact such exposures. Given the multiple parameters involved in such scenarios, losses from such events are inherently difficult to quantify and may materially differ from our estimates.

See "Liquidity Risk Management — Global Core Liquid Assets — Modeled Liquidity Outflow," "Market Risk Management — Stress Testing" and "Credit Risk Management — Stress Tests/Scenario Analysis" for further discussion.

Industry Exposures. Significant declines in the price of oil have led to market concerns regarding the creditworthiness of certain companies in the oil and gas industry. As of December 2014, our credit exposure to oil and gas companies related to loans and lending commitments was \$10.9 billion (\$2.1 billion of loans and \$8.8 billion of lending commitments). Such exposure included \$5.1 billion of exposure to non-investment-grade counterparties (\$1.9 billion related to loans and \$3.2 billion related to lending commitments). Our clients in the oil and gas industry also use derivatives to hedge their exposure to oil prices. As of December 2014, our credit exposure related to derivatives and receivables with oil and gas companies was \$1.7 billion, substantially all of which were with investment-grade counterparties. As of December 2014, our market exposure related to oil and gas companies was \$805 million, substantially all of which was to non-investment-grade issuers or underliers.

Operational Risk Management

Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Our exposure to operational risk arises from routine processing errors as well as extraordinary incidents, such as major systems failures. Potential types of loss events related to internal and external operational risk include:

- Clients, products and business practices;
- Execution, delivery and process management;
- Business disruption and system failures;
- Employment practices and workplace safety;
- Damage to physical assets;
- Internal fraud; and
- External fraud.

We maintain a comprehensive control framework designed to provide a well-controlled environment to minimize operational risks. The Firmwide Operational Risk Committee, along with the support of regional or entity-specific working groups or committees, provides oversight of the ongoing development and implementation of our operational risk policies and framework. Operational Risk Management is a risk management function independent of our revenue-producing units, reports to our chief risk officer, and is responsible for developing and implementing policies, methodologies and a formalized framework for operational risk management with the goal of minimizing our exposure to operational risk.

Operational Risk Management Process

Managing operational risk requires timely and accurate information as well as a strong control culture. We seek to manage our operational risk through:

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

We combine top-down and bottom-up approaches to manage and measure operational risk. From a top-down perspective, our senior management assesses firmwide and business level operational risk profiles. From a bottom-up perspective, revenue-producing units and independent control and support functions are responsible for risk management on a day-to-day basis, including identifying, mitigating, and escalating operational risks to senior management.

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

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

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

Management's Discussion and Analysis

Risk Identification and Reporting

The core of our operational risk management framework is risk identification and reporting. We have a comprehensive data collection process, including firmwide policies and procedures, for operational risk events.

We have established policies that require managers in our revenue-producing units and our independent control and support functions to escalate operational risk events. When operational risk events are identified, our policies require that the events be documented and analyzed to determine whether changes are required in our systems and/or processes to further mitigate the risk of future events.

In addition, our firmwide systems capture internal operational risk event data, key metrics such as transaction volumes, and statistical information such as performance trends. We use an internally-developed operational risk management application to aggregate and organize this information. Managers from both revenue-producing units and independent control and support functions analyze the information to evaluate operational risk exposures and identify businesses, activities or products with heightened levels of operational risk. We also provide periodic operational risk reports to senior management, risk committees and the Board.

Risk Measurement

We measure our operational risk exposure over a twelve-month time horizon using both statistical modeling and scenario analyses, which involve qualitative assessments of the potential frequency and extent of potential operational risk losses, for each of our businesses. Operational risk measurement incorporates qualitative and quantitative assessments of factors including:

- Internal and external operational risk event data;
- Assessments of our internal controls;
- Evaluations of the complexity of our business activities;
- The degree of and potential for automation in our processes;
- New product information;
- The legal and regulatory environment;
- Changes in the markets for our products and services, including the diversity and sophistication of our customers and counterparties; and
- The liquidity of the capital markets and the reliability of the infrastructure that supports the capital markets.

The results from these scenario analyses are used to monitor changes in operational risk and to determine business lines that may have heightened exposure to operational risk. These analyses ultimately are used in the determination of the appropriate level of operational risk capital to hold.

Risk Monitoring

We evaluate changes in the operational risk profile of the firm and its businesses, including changes in business mix or jurisdictions in which we operate, by monitoring the factors noted above at a firmwide level. We have both detective and preventive internal controls, which are designed to reduce the frequency and severity of operational risk losses and the probability of operational risk events. We monitor the results of assessments and independent internal audits of these internal controls.

Certain Risk Factors That May Affect Our Businesses

We face a variety of risks that are substantial and inherent in our businesses, including market, liquidity, credit, operational, legal, regulatory and reputational risks. For a discussion of how management seeks to manage some of these risks, see "Overview and Structure of Risk Management." A summary of the more important factors that could affect our businesses follows. For a further discussion of these and other important factors that could affect our businesses, financial condition, results of operations, cash flows and liquidity, see "Risk Factors" in Part I, Item 1A of the 2014 Form 10-K.

- Our businesses have been and may continue to be adversely affected by conditions in the global financial markets and economic conditions generally.
- Our businesses and those of our clients are subject to extensive and pervasive regulation around the world.
- Our businesses have been and may be adversely affected by declining asset values. This is particularly true for those businesses in which we have net "long" positions, receive fees based on the value of assets managed, or receive or post collateral.
- Our businesses have been and may be adversely affected by disruptions in the credit markets, including reduced access to credit and higher costs of obtaining credit.
- Our market-making activities have been and may be affected by changes in the levels of market volatility.

Management's Discussion and Analysis

- Our investment banking, client execution and investment management businesses have been adversely affected and may continue to be adversely affected by market uncertainty or lack of confidence among investors and CEOs due to general declines in economic activity and other unfavorable economic, geopolitical or market conditions.
- Our investment management business may be affected by the poor investment performance of our investment products.
- We may incur losses as a result of ineffective risk management processes and strategies.
- Our liquidity, profitability and businesses may be adversely affected by an inability to access the debt capital markets or to sell assets or by a reduction in our credit ratings or by an increase in our credit spreads.
- A failure to appropriately identify and address potential conflicts of interest could adversely affect our businesses.
- Group Inc. is a holding company and is dependent for liquidity on payments from its subsidiaries, many of which are subject to restrictions.
- The application of regulatory strategies and requirements in the United States and non-U.S. jurisdictions to facilitate the orderly resolution of large financial institutions could create greater risk of loss for Group Inc.'s security holders.
- Our businesses, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, third parties who owe us money, securities or other assets or whose securities or obligations we hold.
- Concentration of risk increases the potential for significant losses in our market-making, underwriting, investing and lending activities.
- The financial services industry is both highly competitive and interrelated.
- We face enhanced risks as new business initiatives lead us to transact with a broader array of clients and counterparties and expose us to new asset classes and new markets.
- Derivative transactions and delayed settlements may expose us to unexpected risk and potential losses.
- Our businesses may be adversely affected if we are unable to hire and retain qualified employees.
- We may be adversely affected by increased governmental and regulatory scrutiny or negative publicity.
- A failure in our operational systems or infrastructure, or those of third parties, as well as cyber attacks and human error, could impair our liquidity, disrupt our businesses, result in the disclosure of confidential information, damage our reputation and cause losses.
- Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause us significant reputational harm, which in turn could seriously harm our business prospects.
- The growth of electronic trading and the introduction of new trading technology may adversely affect our business and may increase competition.
- Our commodities activities, particularly our physical commodities activities, subject us to extensive regulation, and involve certain potential risks, including environmental, reputational and other risks that may expose us to significant liabilities and costs.
- In conducting our businesses around the world, we are subject to political, economic, legal, operational and other risks that are inherent in operating in many countries.
- We may incur losses as a result of unforeseen or catastrophic events, including the emergence of a pandemic, terrorist attacks, extreme weather events or other natural disasters.

Management's Report on Internal Control over Financial Reporting

Management of The Goldman Sachs Group, Inc., together with its consolidated subsidiaries (the firm), is responsible for establishing and maintaining adequate internal control over financial reporting. The firm's internal control over financial reporting is a process designed under the supervision of the firm's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the firm's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of December 31, 2014, management conducted an assessment of the firm's internal control over financial reporting based on the framework established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the firm's internal control over financial reporting as of December 31, 2014 was effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the firm; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the firm's assets that could have a material effect on our financial statements.

The firm's internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing on page 97, which expresses an unqualified opinion on the effectiveness of the firm's internal control over financial reporting as of December 31, 2014.

Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of The Goldman Sachs Group, Inc. and its subsidiaries (the Company) at December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing on page 96. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, New York
February 20, 2015

Consolidated Statements of Earnings

	Year Ended December		
	2014	2013	2012
<i>in millions, except per share amounts</i>			
Revenues			
Investment banking	\$ 6,464	\$ 6,004	\$ 4,941
Investment management	5,748	5,194	4,968
Commissions and fees	3,316	3,255	3,161
Market making	8,365	9,368	11,348
Other principal transactions	6,588	6,993	5,865
Total non-interest revenues	30,481	30,814	30,283
Interest income	9,604	10,060	11,381
Interest expense	5,557	6,668	7,501
Net interest income	4,047	3,392	3,880
Net revenues, including net interest income	34,528	34,206	34,163
Operating expenses			
Compensation and benefits	12,691	12,613	12,944
Brokerage, clearing, exchange and distribution fees	2,501	2,341	2,208
Market development	549	541	509
Communications and technology	779	776	782
Depreciation and amortization	1,337	1,322	1,738
Occupancy	827	839	875
Professional fees	902	930	867
Insurance reserves	—	176	598
Other expenses	2,585	2,931	2,435
Total non-compensation expenses	9,480	9,856	10,012
Total operating expenses	22,171	22,469	22,956
Pre-tax earnings	12,357	11,737	11,207
Provision for taxes	3,880	3,697	3,732
Net earnings	8,477	8,040	7,475
Preferred stock dividends	400	314	183
Net earnings applicable to common shareholders	\$ 8,077	\$ 7,726	\$ 7,292
Earnings per common share			
Basic	\$ 17.55	\$ 16.34	\$ 14.63
Diluted	17.07	15.46	14.13
Average common shares outstanding			
Basic	458.9	471.3	496.2
Diluted	473.2	499.6	516.1

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

Consolidated Statements of Comprehensive Income

\$ in millions	Year Ended December		
	2014	2013	2012
Net earnings	\$8,477	\$8,040	\$7,475
Other comprehensive income/(loss) adjustments, net of tax:			
Currency translation	(109)	(50)	(89)
Pension and postretirement liabilities	(102)	38	168
Available-for-sale securities	—	(327)	244
Cash flow hedges	(8)	8	—
Other comprehensive income/(loss)	(219)	(331)	323
Comprehensive income	\$8,258	\$7,709	\$7,798

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

Consolidated Statements of Financial Condition

	As of December	
\$ in millions, except per share amounts	2014	2013
Assets		
Cash and cash equivalents	\$ 57,600	\$ 61,133
Cash and securities segregated for regulatory and other purposes (includes \$34,291 and \$31,937 at fair value as of December 2014 and December 2013, respectively)	51,716	49,671
Collateralized agreements:		
Securities purchased under agreements to resell and federal funds sold (includes \$126,036 and \$161,297 at fair value as of December 2014 and December 2013, respectively)	127,938	161,732
Securities borrowed (includes \$66,769 and \$60,384 at fair value as of December 2014 and December 2013, respectively)	160,722	164,566
Receivables:		
Brokers, dealers and clearing organizations	30,671	23,840
Customers and counterparties (includes \$6,944 and \$7,416 at fair value as of December 2014 and December 2013, respectively)	63,808	74,040
Loans receivable	28,938	14,895
Financial instruments owned, at fair value (includes \$64,473 and \$62,348 pledged as collateral as of December 2014 and December 2013, respectively)	312,248	339,121
Other assets (includes \$18 at fair value as of December 2013)	22,599	22,509
Total assets	\$856,240	\$911,507
Liabilities and shareholders' equity		
Deposits (includes \$13,523 and \$7,255 at fair value as of December 2014 and December 2013, respectively)	\$ 83,008	\$ 70,807
Collateralized financings:		
Securities sold under agreements to repurchase, at fair value	88,215	164,782
Securities loaned (includes \$765 and \$973 at fair value as of December 2014 and December 2013, respectively)	5,570	18,745
Other secured financings (includes \$21,450 and \$23,591 at fair value as of December 2014 and December 2013, respectively)	22,809	24,814
Payables:		
Brokers, dealers and clearing organizations	6,636	5,349
Customers and counterparties	206,936	199,416
Financial instruments sold, but not yet purchased, at fair value	132,083	127,426
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes \$18,826 and \$19,067 at fair value as of December 2014 and December 2013, respectively)	44,540	44,692
Unsecured long-term borrowings (includes \$16,005 and \$11,691 at fair value as of December 2014 and December 2013, respectively)	167,571	160,965
Other liabilities and accrued expenses (includes \$831 and \$388 at fair value as of December 2014 and December 2013, respectively)	16,075	16,044
Total liabilities	773,443	833,040
Commitments, contingencies and guarantees		
Shareholders' equity		
Preferred stock, par value \$0.01 per share; aggregate liquidation preference of \$9,200 and \$7,200 as of December 2014 and December 2013, respectively	9,200	7,200
Common stock, par value \$0.01 per share; 4,000,000,000 shares authorized, 852,784,764 and 837,219,068 shares issued as of December 2014 and December 2013, respectively, and 430,259,102 and 446,359,012 shares outstanding as of December 2014 and December 2013, respectively	9	8
Share-based awards	3,766	3,839
Nonvoting common stock, par value \$0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	50,049	48,998
Retained earnings	78,984	71,961
Accumulated other comprehensive loss	(743)	(524)
Stock held in treasury, at cost, par value \$0.01 per share; 422,525,664 and 390,860,058 shares as of December 2014 and December 2013, respectively	(58,468)	(53,015)
Total shareholders' equity	82,797	78,467
Total liabilities and shareholders' equity	\$856,240	\$911,507

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

Consolidated Statements of Changes in Shareholders' Equity

	Year Ended December		
\$ in millions	2014	2013	2012
Preferred stock			
Balance, beginning of year	\$ 7,200	\$ 6,200	\$ 3,100
Issued	2,000	1,000	3,100
Balance, end of year	9,200	7,200	6,200
Common stock			
Balance, beginning of year	8	8	8
Issued	1	—	—
Balance, end of year	9	8	8
Share-based awards			
Balance, beginning of year	3,839	3,298	5,681
Issuance and amortization of share-based awards	2,079	2,017	1,368
Delivery of common stock underlying share-based awards	(1,725)	(1,378)	(3,659)
Forfeiture of share-based awards	(92)	(79)	(90)
Exercise of share-based awards	(335)	(19)	(2)
Balance, end of year	3,766	3,839	3,298
Additional paid-in capital			
Balance, beginning of year	48,998	48,030	45,553
Delivery of common stock underlying share-based awards	2,206	1,483	3,939
Cancellation of share-based awards in satisfaction of withholding tax requirements	(1,922)	(599)	(1,437)
Preferred stock issuance costs	(20)	(9)	(13)
Excess net tax benefit/(provision) related to share-based awards	788	94	(11)
Cash settlement of share-based awards	(1)	(1)	(1)
Balance, end of year	50,049	48,998	48,030
Retained earnings			
Balance, beginning of year	71,961	65,223	58,834
Net earnings	8,477	8,040	7,475
Dividends and dividend equivalents declared on common stock and share-based awards	(1,054)	(988)	(903)
Dividends declared on preferred stock	(400)	(314)	(183)
Balance, end of year	78,984	71,961	65,223
Accumulated other comprehensive loss			
Balance, beginning of year	(524)	(193)	(516)
Other comprehensive income/(loss)	(219)	(331)	323
Balance, end of year	(743)	(524)	(193)
Stock held in treasury, at cost			
Balance, beginning of year	(53,015)	(46,850)	(42,281)
Repurchased	(5,469)	(6,175)	(4,637)
Reissued	49	40	77
Other	(33)	(30)	(9)
Balance, end of year	(58,468)	(53,015)	(46,850)
Total shareholders' equity	\$ 82,797	\$ 78,467	\$ 75,716

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

Consolidated Statements of Cash Flows

\$ in millions	Year Ended December		
	2014	2013	2012
Cash flows from operating activities			
Net earnings	\$ 8,477	\$ 8,040	\$ 7,475
Adjustments to reconcile net earnings to net cash provided by/(used for) operating activities			
Depreciation and amortization	1,337	1,322	1,738
Deferred income taxes	495	29	(356)
Share-based compensation	2,085	2,015	1,319
Gain on sale of hedge fund administration business	—	—	(494)
Gain on sale of European insurance business	—	(211)	—
Gain on extinguishment of junior subordinated debt	(289)	—	—
Changes in operating assets and liabilities			
Cash and securities segregated for regulatory and other purposes	(2,046)	(143)	10,817
Receivables and payables (excluding loans receivable), net	12,328	(3,682)	(20,499)
Collateralized transactions (excluding other secured financings), net	(52,104)	(51,669)	76,558
Financial instruments owned, at fair value	27,547	51,079	(48,783)
Financial instruments sold, but not yet purchased, at fair value	4,642	933	(18,867)
Other, net	(10,095)	(3,170)	3,971
Net cash provided by/(used for) operating activities	(7,623)	4,543	12,879
Cash flows from investing activities			
Purchase of property, leasehold improvements and equipment	(678)	(706)	(961)
Proceeds from sales of property, leasehold improvements and equipment	30	62	49
Business acquisitions, net of cash acquired	(1,732)	(2,274)	(593)
Proceeds from sales of investments	1,514	2,503	1,195
Purchase of available-for-sale securities	—	(738)	(5,220)
Proceeds from sales of available-for-sale securities	—	817	4,537
Loans receivable, net	(14,043)	(8,392)	(2,741)
Net cash used for investing activities	(14,909)	(8,728)	(3,734)
Cash flows from financing activities			
Unsecured short-term borrowings, net	1,659	1,336	(1,952)
Other secured financings (short-term), net	(837)	(7,272)	1,540
Proceeds from issuance of other secured financings (long-term)	6,900	6,604	4,687
Repayment of other secured financings (long-term), including the current portion	(7,636)	(3,630)	(11,576)
Proceeds from issuance of unsecured long-term borrowings	39,857	30,851	27,734
Repayment of unsecured long-term borrowings, including the current portion	(28,138)	(30,473)	(36,435)
Purchase of trust preferred securities	(1,611)	—	—
Derivative contracts with a financing element, net	643	874	1,696
Deposits, net	12,201	683	24,015
Common stock repurchased	(5,469)	(6,175)	(4,640)
Dividends and dividend equivalents paid on common stock, preferred stock and share-based awards	(1,454)	(1,302)	(1,086)
Proceeds from issuance of preferred stock, net of issuance costs	1,980	991	3,087
Proceeds from issuance of common stock, including exercise of share-based awards	123	65	317
Excess tax benefit related to share-based awards	782	98	130
Cash settlement of share-based awards	(1)	(1)	(1)
Net cash provided by/(used for) financing activities	18,999	(7,351)	7,516
Net increase/(decrease) in cash and cash equivalents	(3,533)	(11,536)	16,661
Cash and cash equivalents, beginning of year	61,133	72,669	56,008
Cash and cash equivalents, end of year	\$ 57,600	\$ 61,133	\$ 72,669

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest, net of capitalized interest, were \$6.43 billion, \$5.69 billion and \$9.25 billion for 2014, 2013 and 2012, respectively.

Cash payments for income taxes, net of refunds, were \$3.05 billion, \$4.07 billion and \$1.88 billion for 2014, 2013 and 2012, respectively.

Non-cash activities:

During 2014, the firm exchanged \$1.58 billion of Trust Preferred Securities, common beneficial interests and senior guaranteed trust securities held by the firm for \$1.87 billion of the firm's junior subordinated debt held by the issuing trusts. Following the exchange, this junior subordinated debt was extinguished.

During 2014, the firm sold certain consolidated investments and provided seller financing, which resulted in a non-cash increase to loans receivable of \$115 million.

During 2012, the firm assumed \$77 million of debt in connection with business acquisitions.

Notes to Consolidated Financial Statements

Note 1.

Description of Business

The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation, together with its consolidated subsidiaries (collectively, the firm), is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals. Founded in 1869, the firm is headquartered in New York and maintains offices in all major financial centers around the world.

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

Investment Banking

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

Institutional Client Services

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

Investing & Lending

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

Investment Management

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

Note 2.

Basis of Presentation

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

All references to 2014, 2013 and 2012 refer to the firm's years ended, or the dates, as the context requires, December 31, 2014, December 31, 2013 and December 31, 2012, respectively. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

Notes to Consolidated Financial Statements

Note 3.

Significant Accounting Policies

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

Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value	Note 4
Fair Value Measurements	Note 5
Cash Instruments	Note 6
Derivatives and Hedging Activities	Note 7
Fair Value Option	Note 8
Loans Receivable	Note 9
Collateralized Agreements and Financings	Note 10
Securitization Activities	Note 11
Variable Interest Entities	Note 12
Other Assets, including Goodwill and Identifiable Intangible Assets	Note 13
Deposits	Note 14
Short-Term Borrowings	Note 15
Long-Term Borrowings	Note 16
Other Liabilities and Accrued Expenses	Note 17
Commitments, Contingencies and Guarantees	Note 18
Shareholders' Equity	Note 19
Regulation and Capital Adequacy	Note 20
Earnings Per Common Share	Note 21
Transactions with Affiliated Funds	Note 22
Interest Income and Interest Expense	Note 23
Income Taxes	Note 24
Business Segments	Note 25
Credit Concentrations	Note 26
Legal Proceedings	Note 27
Employee Benefit Plans	Note 28
Employee Incentive Plans	Note 29
Parent Company	Note 30

Consolidation

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

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

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

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

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

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

Use of Estimates

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

Revenue Recognition

Financial Assets and Financial Liabilities at Fair Value.

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

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

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

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

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

Transfers of Assets

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

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business. As of December 2014 and December 2013, “Cash and cash equivalents” included \$5.79 billion and \$4.14 billion, respectively, of cash and due from banks, and \$51.81 billion and \$56.99 billion, respectively, of interest-bearing deposits with banks.

Receivables from Customers and Counterparties

Receivables from customers and counterparties generally relate to collateralized transactions. Such receivables are primarily comprised of customer margin loans, certain transfers of assets accounted for as secured loans rather than purchases at fair value and collateral posted in connection with certain derivative transactions. Certain of the firm’s receivables from customers and counterparties are accounted for at fair value under the fair value option, with changes in fair value generally included in “Market making” revenues. See Note 8 for further information about receivables from customers and counterparties accounted for at fair value under the fair value option.

Receivables from customers and counterparties not accounted for at fair value are accounted for at amortized cost net of estimated uncollectible amounts, which generally approximates fair value. While these items are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm’s fair value hierarchy in Notes 6 through 8. Had these items been included in the firm’s fair value hierarchy, substantially all would have been classified in level 2 as of December 2014 and December 2013. Interest on receivables from customers and counterparties is recognized over the life of the transaction and included in “Interest income.”

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations are accounted for at cost plus accrued interest, which generally approximates fair value. While these receivables and payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm’s fair value hierarchy in Notes 6 through 8. Had these receivables and payables been included in the firm’s fair value hierarchy, substantially all would have been classified in level 2 as of December 2014 and December 2013.

Payables to Customers and Counterparties

Payables to customers and counterparties primarily consist of customer credit balances related to the firm’s prime brokerage activities. Payables to customers and counterparties are accounted for at cost plus accrued interest, which generally approximates fair value. While these payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm’s fair value hierarchy in Notes 6 through 8. Had these payables been included in the firm’s fair value hierarchy, substantially all would have been classified in level 2 as of December 2014 and December 2013. Interest on payables to customers and counterparties is recognized over the life of the transaction and included in “Interest expense.”

Offsetting Assets and Liabilities

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

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

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

Foreign Currency Translation

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

Recent Accounting Developments

Investment Companies (ASC 946). In June 2013, the FASB issued ASU No. 2013-08, "Financial Services — Investment Companies (Topic 946) — Amendments to the Scope, Measurement, and Disclosure Requirements." ASU No. 2013-08 clarifies the approach to be used for determining whether an entity is an investment company and provides new measurement and disclosure requirements. ASU No. 2013-08 was effective for interim and annual reporting periods in fiscal years that began after December 15, 2013. Adoption of ASU No. 2013-08 on January 1, 2014 did not affect the firm's financial condition, results of operations, or cash flows.

Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes (ASC 815).

In July 2013, the FASB issued ASU No. 2013-10, "Derivatives and Hedging (Topic 815) — Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes." ASU No. 2013-10 permits the use of the Fed Funds Effective Swap Rate (OIS) as a U.S. benchmark interest rate for hedge accounting purposes. The ASU also removes the restriction on using different benchmark rates for similar hedges. ASU No. 2013-10 was effective for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013 and adoption did not materially affect the firm's financial condition, results of operations, or cash flows.

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. In April 2014, the FASB issued ASU No. 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) — Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” ASU No. 2014-08 limits discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity’s operations and financial results. The ASU requires expanded disclosures for discontinued operations and disposals of individually significant components of an entity that do not qualify for discontinued operations reporting. The ASU is effective for disposals and components classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted. The firm early adopted ASU No. 2014-08 in 2014 and adoption did not materially affect the firm’s financial condition, results of operations, or cash flows.

Revenue from Contracts with Customers (ASC 606). In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” ASU No. 2014-09 provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services. The ASU also provides guidance on accounting for certain contract costs, and requires new disclosures. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The firm is still evaluating the effect of the ASU on its financial condition, results of operations, and cash flows.

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

Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures (ASC 860). In June 2014, the FASB issued ASU No. 2014-11, “Transfers and Servicing (Topic 860) — Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.” ASU No. 2014-11 changes the accounting for repurchase-and resale-to-maturity agreements by requiring that such agreements be recognized as financing arrangements, and requires that a transfer of a financial asset and a repurchase agreement entered into contemporaneously be accounted for separately. ASU No. 2014-11 also requires additional disclosures about certain transferred financial assets accounted for as sales and certain securities financing transactions. The accounting changes and additional disclosures about certain transferred financial assets accounted for as sales are effective for the first interim and annual reporting periods beginning after December 15, 2014. The additional disclosures for securities financing transactions are required for annual reporting periods beginning after December 15, 2014 and for interim reporting periods beginning after March 15, 2015. Adoption of the accounting changes in ASU No. 2014-11 on January 1, 2015 did not materially affect the firm’s financial condition, results of operations, or cash flows.

Amendments to the Consolidation Analysis (ASC 810). In February 2015, the FASB issued ASU No. 2015-02, “Consolidation (Topic 810) — Amendments to the Consolidation Analysis.” ASU No. 2015-02 eliminates the deferral of the requirements of ASU No. 2009-17, “Consolidations (Topic 810) — Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities” for certain interests in investment funds and provides a scope exception from Topic 810 for certain investments in money market funds. The ASU also makes several modifications to the consolidation guidance for VIEs and general partners’ investments in limited partnerships, as well as modifications to the evaluation of whether limited partnerships are VIEs or voting interest entities. ASU No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted. Adoption of ASU No. 2015-02 is not expected to materially affect the firm’s financial condition, results of operations, or cash flows.

Notes to Consolidated Financial Statements

Note 4.

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

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

financial liabilities accounted for at fair value primarily under the fair value option. The table below presents the firm's financial instruments owned, at fair value, including those pledged as collateral, and financial instruments sold, but not yet purchased, at fair value.

\$ in millions	As of December 2014		As of December 2013	
	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 3,654	\$ —	\$ 8,608	\$ —
U.S. government and federal agency obligations	48,002	12,762	71,072	20,920
Non-U.S. government and agency obligations	37,059	20,500	40,944	26,999
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	6,582 ¹	1	6,596 ¹	1
Loans and securities backed by residential real estate	11,717 ²	—	9,025 ²	2
Bank loans and bridge loans	15,613	464 ⁴	17,400	925 ⁴
Corporate debt securities	21,603	5,800	17,412	5,253
State and municipal obligations	1,203	—	1,476	51
Other debt obligations	3,257 ³	2	3,129 ³	4
Equities and convertible debentures	96,442	28,314	101,024	22,583
Commodities	3,846	1,224	4,556	966
Subtotal	248,978	69,067	281,242	77,704
Derivatives	63,270	63,016	57,879	49,722
Total	\$312,248	\$132,083	\$339,121	\$127,426

1. Includes \$4.41 billion and \$3.75 billion of loans backed by commercial real estate as of December 2014 and December 2013, respectively.

2. Includes \$6.43 billion and \$4.17 billion of loans backed by residential real estate as of December 2014 and December 2013, respectively.

3. Includes \$618 million and \$681 million of loans backed by consumer loans and other assets as of December 2014 and December 2013, respectively.

4. Primarily relates to the fair value of unfunded lending commitments for which the fair value option was elected.

Notes to Consolidated Financial Statements

Gains and Losses from Market Making and Other Principal Transactions

The table below presents “Market making” revenues by major product type, as well as “Other principal transactions” revenues. These gains/(losses) are primarily related to the firm’s financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value, including both derivative and non-derivative financial instruments. These gains/(losses) exclude related interest income and interest expense. See Note 23 for further information about interest income and interest expense.

The gains/(losses) in the table below are not representative of the manner in which the firm manages its business activities because many of the firm’s market-making and client facilitation strategies utilize financial instruments across various product types. Accordingly, gains or losses in one product type frequently offset gains or losses in other product types. For example, most of the firm’s longer-term derivatives across product types are sensitive to changes in interest rates and may be economically hedged with interest rate swaps. Similarly, a significant portion of the firm’s cash instruments and derivatives across product types has exposure to foreign currencies and may be economically hedged with foreign currency contracts.

Product Type	Year Ended December		
	2014	2013	2012
Interest rates	\$ (5,316) ²	\$ 930	\$ 4,445
Credit	2,982	1,845	4,263
Currencies	6,566	2,446	(1,001)
Equities	2,683	2,655	2,482
Commodities	1,450	902	492
Other	—	590 ³	667 ⁴
Market making	8,365	9,368	11,348
Other principal transactions¹	6,588	6,993	5,865
Total	\$14,953	\$16,361	\$17,213

1. Other principal transactions are included in the firm’s Investing & Lending segment. See Note 25 for net revenues, including net interest income, by product type for Investing & Lending, as well as the amount of net interest income included in Investing & Lending. The “Other” category in Note 25 relates to the firm’s consolidated investments, and primarily includes commodities and real estate-related net revenues.

2. Includes a gain of \$289 million (\$270 million of which was recorded at extinguishment in the third quarter) related to the extinguishment of certain of the firm’s junior subordinated debt. See Note 16 for further information.

3. Includes a gain of \$211 million on the sale of a majority stake in the firm’s European insurance business.

4. Includes a gain of \$494 million on the sale of the firm’s hedge fund administration business.

Note 5.

Fair Value Measurements

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

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

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

Notes to Consolidated Financial Statements

The fair value hierarchy is as follows:

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

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

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

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

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

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

	As of December	
\$ in millions	2014	2013
Total level 1 financial assets	\$ 140,221	\$156,030
Total level 2 financial assets	468,678	499,480
Total level 3 financial assets	42,005	40,013
Counterparty and cash collateral netting	(104,616)	(95,350)
Total financial assets at fair value	\$ 546,288	\$600,173
Total assets ¹	\$ 856,240	\$911,507
Total level 3 financial assets as a percentage of Total assets	4.9%	4.4%
Total level 3 financial assets as a percentage of Total financial assets at fair value	7.7%	6.7%
Total level 1 financial liabilities	\$ 59,697	\$ 68,412
Total level 2 financial liabilities	253,364	300,583
Total level 3 financial liabilities	15,904	12,046
Counterparty and cash collateral netting	(37,267)	(25,868)
Total financial liabilities at fair value	\$ 291,698	\$355,173
Total level 3 financial liabilities as a percentage of Total financial liabilities at fair value	5.5%	3.4%

1. Includes approximately \$834 billion and \$890 billion as of December 2014 and December 2013, respectively, that is carried at fair value or at amounts that generally approximate fair value.

The table below presents a summary of Total level 3 financial assets. See Notes 6 through 8 for further information about level 3 financial assets.

	Level 3 Financial Assets as of December	
\$ in millions	2014	2013
Cash instruments	\$34,875	\$32,639
Derivatives	7,074	7,076
Other financial assets	56	298
Total	\$42,005	\$40,013

Level 3 financial assets as of December 2014 increased compared with December 2013, reflecting an increase in cash instruments. See Note 6 for further information about changes in level 3 cash instruments.

Note 6.

Cash Instruments

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

Level 1 Cash Instruments

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

The firm defines active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalization for the instrument. The firm defines active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity.

Level 2 Cash Instruments

Level 2 cash instruments include commercial paper, certificates of deposit, time deposits, most government agency obligations, certain non-U.S. government obligations, most corporate debt securities, commodities, certain mortgage-backed loans and securities, certain bank loans and bridge loans, restricted or less liquid listed equities, most state and municipal obligations and certain lending commitments.

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

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

Level 3 Cash Instruments

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

Notes to Consolidated Financial Statements

Valuation Techniques and Significant Inputs

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
Loans and securities backed by commercial real estate <ul style="list-style-type: none"> • Collateralized by a single commercial real estate property or a portfolio of properties • May include tranches of varying levels of subordination 	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: <ul style="list-style-type: none"> • Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral and the basis, or price difference, to such prices • Market yields implied by transactions of similar or related assets and/or current levels and changes in market indices such as the CMBX (an index that tracks the performance of commercial mortgage bonds) • A measure of expected future cash flows in a default scenario (recovery rates) implied by the value of the underlying collateral, which is mainly driven by current performance of the underlying collateral, capitalization rates and multiples. Recovery rates are expressed as a percentage of notional or face value of the instrument and reflect the benefit of credit enhancements on certain instruments • Timing of expected future cash flows (duration) which, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds)
Loans and securities backed by residential real estate <ul style="list-style-type: none"> • Collateralized by portfolios of residential real estate • May include tranches of varying levels of subordination 	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 to instruments with similar collateral and risk profiles. Significant inputs include: <ul style="list-style-type: none"> • Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral • Market yields implied by transactions of similar or related assets • Cumulative loss expectations, driven by default rates, home price projections, residential property liquidation timelines and related costs • Duration, driven by underlying loan prepayment speeds and residential property liquidation timelines
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, 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: <ul style="list-style-type: none"> • Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX and LCDX (indices that track the performance of corporate credit and loans, respectively) • Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation • Duration
Non-U.S. government and agency obligations Corporate debt securities State and municipal obligations 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: <ul style="list-style-type: none"> • Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX, LCDX and MCDX (an index that tracks the performance of municipal obligations) • Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation • Duration
Equities and convertible debentures (including private equity investments and investments in real estate entities)	Recent third-party completed or pending transactions (e.g., merger proposals, tender offers, debt restructurings) are considered to be the best evidence for any change in fair value. When these are not available, the following valuation methodologies are used, as appropriate: <ul style="list-style-type: none"> • Industry multiples (primarily EBITDA multiples) and public comparables • Transactions in similar instruments • Discounted cash flow techniques • Third-party appraisals • Net asset value per share (NAV) The firm also considers changes in the outlook for the relevant industry and financial performance of the issuer as compared to projected performance. Significant inputs include: <ul style="list-style-type: none"> • Market and transaction multiples • Discount rates, long-term growth rates, earnings compound annual growth rates and capitalization rates • For equity instruments with debt-like features: market yields implied by transactions of similar or related assets, current performance and recovery assumptions, and duration

Notes to Consolidated Financial Statements

Significant Unobservable Inputs

The tables below present the ranges of significant unobservable inputs used to value the firm's level 3 cash instruments. These ranges represent the significant unobservable inputs that were used in the valuation of each type of cash instrument. Weighted averages in the tables below are calculated by weighting each input by the relative fair value of the respective 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 private equity investments is appropriate for valuing a specific private equity investment but may not be appropriate for valuing any other private equity investment. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 cash instruments.

Level 3 Cash Instruments	Level 3 Assets as of December 2014 (\$ in millions)	Valuation Techniques and Significant Unobservable Inputs	Range of Significant Unobservable Inputs (Weighted Average) as of December 2014
Loans and securities backed by commercial real estate <ul style="list-style-type: none"> • Collateralized by a single commercial real estate property or a portfolio of properties • May include tranches of varying levels of subordination 	\$3,394	Discounted cash flows: <ul style="list-style-type: none"> • Yield • Recovery rate • Duration (years) • Basis 	3.2% to 20.0% (10.5%) 24.9% to 100.0% (68.3%) 0.3 to 4.7 (2.0) (8) points to 13 points (2 points)
Loans and securities backed by residential real estate <ul style="list-style-type: none"> • Collateralized by portfolios of residential real estate • May include tranches of varying levels of subordination 	\$2,545	Discounted cash flows: <ul style="list-style-type: none"> • Yield • Cumulative loss rate • Duration (years) 	1.9% to 17.5% (7.6%) 0.0% to 95.1% (24.4%) 0.5 to 13.0 (4.3)
Bank loans and bridge loans	\$7,346	Discounted cash flows: <ul style="list-style-type: none"> • Yield • Recovery rate • Duration (years) 	1.4% to 29.5% (8.7%) 26.6% to 92.5% (60.6%) 0.3 to 7.8 (2.5)
Non-U.S. government and agency obligations Corporate debt securities State and municipal obligations Other debt obligations	\$4,931	Discounted cash flows: <ul style="list-style-type: none"> • Yield • Recovery rate • Duration (years) 	0.9% to 24.4% (9.2%) 0.0% to 71.9% (59.2%) 0.5 to 19.6 (3.7)
Equities and convertible debentures (including private equity investments and investments in real estate entities)	\$16,659¹	Comparable multiples: <ul style="list-style-type: none"> • Multiples Discounted cash flows: <ul style="list-style-type: none"> • Discount rate/yield • Long-term growth rate/compound annual growth rate • Capitalization rate 	0.8x to 16.6x (6.5x) 3.7% to 30.0% (14.4%) 1.0% to 10.0% (6.0%) 3.8% to 13.0% (7.6%)

1. 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.

Notes to Consolidated Financial Statements

Level 3 Cash Instruments	Level 3 Assets as of December 2013 (\$ in millions)	Valuation Techniques and Significant Unobservable Inputs	Range of Significant Unobservable Inputs (Weighted Average) as of December 2013
Loans and securities backed by commercial real estate <ul style="list-style-type: none"> • Collateralized by a single commercial real estate property or a portfolio of properties • May include tranches of varying levels of subordination 	\$2,692	Discounted cash flows: <ul style="list-style-type: none"> • Yield • Recovery rate • Duration (years) • Basis 	2.7% to 29.1% (10.1%) 26.2% to 88.1% (74.4%) 0.6 to 5.7 (2.0) (9) points to 20 points (5 points)
Loans and securities backed by residential real estate <ul style="list-style-type: none"> • Collateralized by portfolios of residential real estate • May include tranches of varying levels of subordination 	\$1,961	Discounted cash flows: <ul style="list-style-type: none"> • Yield • Cumulative loss rate • Duration (years) 	2.6% to 25.8% (10.1%) 9.8% to 56.6% (24.9%) 1.4 to 16.7 (3.6)
Bank loans and bridge loans	\$9,324	Discounted cash flows: <ul style="list-style-type: none"> • Yield • Recovery rate • Duration (years) 	1.0% to 39.6% (9.3%) 40.0% to 85.0% (54.9%) 0.5 to 5.3 (2.1)
Non-U.S. government and agency obligations Corporate debt securities State and municipal obligations Other debt obligations	\$3,977	Discounted cash flows: <ul style="list-style-type: none"> • Yield • Recovery rate • Duration (years) 	1.5% to 40.2% (8.9%) 0.0% to 70.0% (61.9%) 0.6 to 16.1 (4.2)
Equities and convertible debentures (including private equity investments and investments in real estate entities)	\$14,685 ¹	Comparable multiples: <ul style="list-style-type: none"> • Multiples Discounted cash flows: <ul style="list-style-type: none"> • Discount rate/yield • Long-term growth rate/ compound annual growth rate • Capitalization rate 	0.6x to 18.8x (6.9x) 6.0% to 29.1% (14.6%) 1.0% to 19.0% (8.1%) 4.6% to 11.3% (7.1%)

1. 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.

Increases in yield, discount rate, capitalization rate, duration or cumulative loss rate used in the valuation of the firm's level 3 cash instruments would result in a lower fair value measurement, while increases in recovery rate, basis, multiples, long-term growth rate or compound annual

growth rate would result in a higher fair value measurement. Due to the distinctive nature of each of the firm's level 3 cash instruments, the interrelationship of inputs is not necessarily uniform within each product type.

Notes to Consolidated Financial Statements

Fair Value of Cash Instruments by Level

The tables below present, by level within the fair value hierarchy, cash instrument assets and liabilities, at fair value. Cash instrument assets and liabilities are included in

“Financial instruments owned, at fair value” and “Financial instruments sold, but not yet purchased, at fair value,” respectively.

\$ in millions	Cash Instrument Assets at Fair Value as of December 2014			
	Level 1	Level 2	Level 3	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ —	\$ 3,654	\$ —	\$ 3,654
U.S. government and federal agency obligations	18,540	29,462	—	48,002
Non-U.S. government and agency obligations	30,255	6,668	136	37,059
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	—	3,188	3,394	6,582
Loans and securities backed by residential real estate	—	9,172	2,545	11,717
Bank loans and bridge loans	8,267	7,346	—	15,613
Corporate debt securities	249	17,539	3,815	21,603
State and municipal obligations	—	1,093	110	1,203
Other debt obligations	—	2,387	870	3,257
Equities and convertible debentures	69,711	10,072	16,659 ²	96,442
Commodities	—	3,846	—	3,846
Total¹	\$118,755	\$95,348	\$34,875	\$248,978

\$ in millions	Cash Instrument Liabilities at Fair Value as of December 2014			
	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	\$ 12,746	\$ 16	\$ —	\$ 12,762
Non-U.S. government and agency obligations	19,256	1,244	—	20,500
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	—	1	—	1
Bank loans and bridge loans	—	286	178	464
Corporate debt securities	—	5,741	59	5,800
Other debt obligations	—	—	2	2
Equities and convertible debentures	27,587	722	5	28,314
Commodities	—	1,224	—	1,224
Total	\$ 59,589	\$ 9,234	\$ 244	\$ 69,067

1. Includes collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs) backed by real estate and corporate obligations of \$234 million in level 2 and \$1.34 billion in level 3.

2. Includes \$14.93 billion of private equity investments, \$1.17 billion of investments in real estate entities and \$562 million of convertible debentures.

Notes to Consolidated Financial Statements

\$ in millions	Cash Instrument Assets at Fair Value as of December 2013			
	Level 1	Level 2	Level 3	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 216	\$ 8,392	\$ —	\$ 8,608
U.S. government and federal agency obligations	29,582	41,490	—	71,072
Non-U.S. government and agency obligations	29,451	11,453	40	40,944
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	—	3,904	2,692	6,596
Loans and securities backed by residential real estate	—	7,064	1,961	9,025
Bank loans and bridge loans	—	8,076	9,324	17,400
Corporate debt securities	240	14,299	2,873	17,412
State and municipal obligations	—	1,219	257	1,476
Other debt obligations	—	2,322	807	3,129
Equities and convertible debentures	76,945	9,394	14,685 ²	101,024
Commodities	—	4,556	—	4,556
Total ¹	\$136,434	\$112,169	\$32,639	\$281,242

\$ in millions	Cash Instrument Liabilities at Fair Value as of December 2013			
	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	\$ 20,871	\$ 49	\$ —	\$ 20,920
Non-U.S. government and agency obligations	25,325	1,674	—	26,999
Mortgage and other asset-backed loans and securities:				
Loans and securities backed by commercial real estate	—	—	1	1
Loans and securities backed by residential real estate	—	2	—	2
Bank loans and bridge loans	—	641	284	925
Corporate debt securities	10	5,241	2	5,253
State and municipal obligations	—	50	1	51
Other debt obligations	—	3	1	4
Equities and convertible debentures	22,107	468	8	22,583
Commodities	—	966	—	966
Total	\$ 68,313	\$ 9,094	\$ 297	\$ 77,704

1. Includes CDOs and CLOs backed by real estate and corporate obligations of \$746 million in level 2 and \$2.03 billion in level 3.

2. Includes \$12.82 billion of private equity investments, \$1.37 billion of investments in real estate entities and \$491 million of convertible debentures.

Transfers Between Levels of the Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. During 2014, transfers into level 2 from level 1 of cash instruments were \$60 million, including \$47 million of public equity securities and \$13 million of U.S. government and federal agency obligations due to decreased market activity in these instruments. Transfers into level 1 from level 2 of cash instruments were \$92 million, reflecting transfers of public equity securities due to increased market activity in these instruments.

During 2013, transfers into level 2 from level 1 of cash instruments were \$1 million, reflecting transfers of public equity securities due to decreased market activity in these instruments. Transfers into level 1 from level 2 of cash instruments were \$79 million, reflecting transfers of public equity securities, primarily due to increased market activity in these instruments.

See level 3 rollforward below for information about transfers between level 2 and level 3.

Notes to Consolidated Financial Statements

Level 3 Rollforward

If a cash instrument asset or liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3.

Level 3 cash instruments are frequently economically hedged with level 1 and level 2 cash instruments and/or level 1, level 2 or level 3 derivatives. Accordingly, gains or losses that are reported in level 3 can be partially offset by gains or losses attributable to level 1 or level 2 cash

instruments and/or level 1, level 2 or level 3 derivatives. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources.

The tables below present changes in fair value for all cash instrument assets and liabilities categorized as level 3 as of the end of the year. Purchases in the tables below include both originations and secondary market purchases.

Level 3 Cash Instrument Assets at Fair Value for the Year Ended December 2014											
\$ in millions	Balance, beginning of year	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at year-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year		
Non-U.S. government and agency obligations	\$ 40	\$ 7	\$ 3	\$ 95	\$ (20)	\$ 3	\$ 8	\$ —	\$ 136		
Mortgage and other asset-backed loans and securities:											
Loans and securities backed by commercial real estate	2,692	173	64	1,891	(436)	(977)	176	(189)	3,394		
Loans and securities backed by residential real estate	1,961	123	224	1,008	(363)	(497)	235	(146)	2,545		
Bank loans and bridge loans	9,324	696	(194)	3,863	(1,367)	(4,673)	294	(597)	7,346		
Corporate debt securities	2,873	252	(9)	2,645	(1,031)	(926)	427	(416)	3,815		
State and municipal obligations	257	4	3	12	(112)	(2)	25	(77)	110		
Other debt obligations	807	24	41	448	(212)	(164)	21	(95)	870		
Equities and convertible debentures	14,685	131	2,557	3,596	(1,902)	(1,443)	1,300	(2,265)	16,659		
Total	\$32,639	\$1,410¹	\$2,689¹	\$13,558	\$ (5,443)	\$ (8,679)	\$2,486	\$ (3,785)	\$34,875		

Level 3 Cash Instrument Liabilities at Fair Value for the Year Ended December 2014											
\$ in millions	Balance, beginning of year	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at year-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year		
Total	\$ 297	\$ (12)	\$ 1	\$ (223)	\$ 121	\$ 23	\$ 49	\$ (12)	\$ 244		

1. The aggregate amounts include gains of approximately \$247 million, \$2.98 billion and \$875 million reported in "Market making," "Other principal transactions" and "Interest income," respectively.

The net unrealized gain on level 3 cash instruments of \$2.69 billion (reflecting a \$2.69 billion gain on cash instrument assets and a \$1 million loss on cash instrument liabilities) for 2014 primarily reflected gains on private equity investments principally driven by company-specific events and strong corporate performance.

Transfers into level 3 during 2014 primarily reflected transfers of certain private equity investments and corporate debt securities from level 2 principally due to reduced price transparency as a result of a lack of market evidence, including fewer market transactions in these instruments.

Transfers out of level 3 during 2014 primarily reflected transfers of certain private equity investments, bank loan and bridge loans and corporate debt securities to level 2 principally due to increased price transparency as a result of market evidence, including market transactions in these instruments.

Notes to Consolidated Financial Statements

Level 3 Cash Instrument Assets at Fair Value for the Year Ended December 2013										
\$ in millions	Balance, beginning of year	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at year-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year	
Non-U.S. government and agency obligations	\$ 26	\$ 7	\$ 5	\$ 12	\$ (20)	\$ —	\$ 10	\$ —	\$ 40	
Mortgage and other asset-backed loans and securities:										
Loans and securities backed by commercial real estate	3,389	206	224	733	(894)	(1,055)	262	(173)	2,692	
Loans and securities backed by residential real estate	1,619	143	150	660	(467)	(269)	209	(84)	1,961	
Bank loans and bridge loans	11,235	529	444	3,725	(2,390)	(4,778)	942	(383)	9,324	
Corporate debt securities	2,821	407	398	1,140	(1,584)	(576)	404	(137)	2,873	
State and municipal obligations	619	6	(2)	134	(492)	(2)	6	(12)	257	
Other debt obligations	1,185	47	38	648	(445)	(161)	14	(519)	807	
Equities and convertible debentures	14,855	189	1,709	1,866	(862)	(1,610)	882	(2,344)	14,685	
Total	\$35,749	\$1,534 ¹	\$2,966 ¹	\$8,918	\$(7,154)	\$(8,451)	\$2,729	\$(3,652)	\$32,639	

Level 3 Cash Instrument Liabilities at Fair Value for the Year Ended December 2013										
\$ in millions	Balance, beginning of year	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at year-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year	
Total	\$ 642	\$ (1)	\$ (64)	\$ (432)	\$ 269	\$ 8	\$ 35	\$ (160)	\$ 297	

1. The aggregate amounts include gains of approximately \$1.09 billion, \$2.69 billion and \$723 million reported in "Market making," "Other principal transactions" and "Interest income," respectively.

The net unrealized gain on level 3 cash instruments of \$3.03 billion (reflecting \$2.97 billion on cash instrument assets and \$64 million on cash instrument liabilities) for 2013 primarily consisted of gains on private equity investments, principally driven by strong corporate performance, bank loans and bridge loans, primarily due to tighter credit spreads and favorable company-specific events, and corporate debt securities, primarily due to tighter credit spreads.

Transfers into level 3 during 2013 primarily reflected transfers of certain bank loans and bridge loans and private equity investments from level 2, principally due to a lack of market transactions in these instruments.

Transfers out of level 3 during 2013 primarily reflected transfers of certain private equity investments to level 2, principally due to increased transparency of market prices as a result of market transactions in these instruments.

Investments in Funds That Are Calculated Using Net Asset Value Per Share

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

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

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

The firm also invests in hedge funds, primarily multi-disciplinary hedge funds that employ a fundamental bottom-up investment approach across various asset classes and strategies including long/short equity, credit, convertibles, risk arbitrage, special situations and capital structure arbitrage. As of December 2014, the firm's investments in hedge funds primarily include interests where the underlying assets are illiquid in nature, and proceeds from redemptions will not be received until the underlying assets are liquidated or distributed.

Many of the funds described above are "covered funds" as defined by the Volcker Rule of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The Board of Governors of the Federal Reserve System (Federal Reserve Board) extended the conformance period through July 2016 for investments in, and relationships with, covered funds that were in place prior to December 31, 2013, and indicated that it intends to further extend the conformance period through July 2017.

The firm continues to manage its existing funds, taking into account the extension outlined above. Since March 2012, the firm has redeemed \$2.97 billion of its interests in hedge funds, including \$762 million during 2014 and \$1.15 billion during 2013. In order to be compliant with the Volcker Rule, the firm will be required to reduce most of its interests in the funds in the table below by the prescribed compliance date.

The tables below present the fair value of the firm's investments in, and unfunded commitments to, funds that are calculated using NAV.

As of December 2014		
\$ in millions	Fair Value of Investments	Unfunded Commitments
Private equity funds	\$ 6,356	\$2,181
Credit funds ¹	1,021	390
Hedge funds	863	—
Real estate funds	1,604	344
Total	\$ 9,844	\$2,915

As of December 2013		
\$ in millions	Fair Value of Investments	Unfunded Commitments
Private equity funds	\$ 7,446	\$2,575
Credit funds ¹	3,624	2,515
Hedge funds	1,394	—
Real estate funds	1,908	471
Total	\$14,372	\$5,561

1. The decreases from December 2013 to December 2014 primarily reflect both cash and in-kind distributions received and the related cancellations of the firm's commitments to certain credit funds.

Note 7.

Derivatives and Hedging Activities

Derivative Activities

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

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

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

The firm enters into various types of derivatives, including:

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

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

The tables below present the fair value of derivatives on a net-by-counterparty basis.

\$ in millions	As of December 2014	
	Derivative Assets	Derivative Liabilities
Exchange-traded	\$ 2,533	\$ 2,070
OTC	60,737	60,946
Total	\$63,270	\$63,016

\$ in millions	As of December 2013	
	Derivative Assets	Derivative Liabilities
Exchange-traded	\$ 4,277	\$ 6,366
OTC	53,602	43,356
Total	\$57,879	\$49,722

Notes to Consolidated Financial Statements

The table below presents the fair value and the notional amount of derivative contracts by major product type on a gross basis. Gross fair values exclude the effects of both counterparty netting and collateral, and therefore are not representative of the firm's exposure. The table below also presents the amounts of counterparty and cash collateral netting in the consolidated statements of financial condition, as well as cash and securities collateral posted and received under enforceable credit support agreements

that do not meet the criteria for netting under U.S. GAAP. Where the firm has received or posted collateral under credit support agreements, but has not yet determined such agreements are enforceable, the related collateral has not been netted in the table below. Notional amounts, which represent the sum of gross long and short derivative contracts, provide an indication of the volume of the firm's derivative activity and do not represent anticipated losses.

\$ in millions	As of December 2014			As of December 2013		
	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount
Derivatives not accounted for as hedges						
Interest rates	\$ 786,362	\$739,607	\$47,112,518	\$ 641,186	\$587,110	\$44,110,483
Exchange-traded	228	238	3,151,865	157	271	2,366,448
OTC-cleared	351,801	330,298	30,408,636	266,230	252,596	24,888,301
Bilateral OTC	434,333	409,071	13,552,017	374,799	334,243	16,855,734
Credit	54,848	50,154	2,500,958	60,751	56,340	2,946,376
OTC-cleared	5,812	5,663	378,099	3,943	4,482	348,848
Bilateral OTC	49,036	44,491	2,122,859	56,808	51,858	2,597,528
Currencies	109,916	108,607	5,566,203	70,757	63,659	4,311,971
Exchange-traded	69	69	17,214	98	122	23,908
OTC-cleared	100	96	13,304	88	97	11,319
Bilateral OTC	109,747	108,442	5,535,685	70,571	63,440	4,276,744
Commodities	28,990	28,546	669,479	18,007	18,228	701,101
Exchange-traded	7,683	7,166	321,378	4,323	3,661	346,057
OTC-cleared	313	315	3,036	11	12	135
Bilateral OTC	20,994	21,065	345,065	13,673	14,555	354,909
Equities	58,931	58,649	1,525,495	56,719	55,472	1,406,499
Exchange-traded	9,592	9,636	541,711	10,544	13,157	534,840
Bilateral OTC	49,339	49,013	983,784	46,175	42,315	871,659
Subtotal	1,039,047	985,563	57,374,653	847,420	780,809	53,476,430
Derivatives accounted for as hedges						
Interest rates	14,272	262	126,498	11,403	429	132,879
OTC-cleared	2,713	228	31,109	1,327	27	10,637
Bilateral OTC	11,559	34	95,389	10,076	402	122,242
Currencies	125	16	9,636	74	56	9,296
OTC-cleared	12	3	1,205	1	10	869
Bilateral OTC	113	13	8,431	73	46	8,427
Commodities	—	—	—	36	—	335
Exchange-traded	—	—	—	—	—	23
Bilateral OTC	—	—	—	36	—	312
Subtotal	14,397	278	136,134	11,513	485	142,510
Gross fair value/notional amount of derivatives	\$1,053,444¹	\$985,841¹	\$57,510,787	\$858,933¹	\$781,294¹	\$53,618,940
Amounts that have been offset in the consolidated statements of financial condition						
Counterparty netting	(886,670)	(886,670)		(707,411)	(707,411)	
Exchange-traded	(15,039)	(15,039)		(10,845)	(10,845)	
OTC-cleared	(335,792)	(335,792)		(254,756)	(254,756)	
Bilateral OTC	(535,839)	(535,839)		(441,810)	(441,810)	
Cash collateral netting	(103,504)	(36,155)		(93,643)	(24,161)	
OTC-cleared	(24,801)	(738)		(16,353)	(2,515)	
Bilateral OTC	(78,703)	(35,417)		(77,290)	(21,646)	
Fair value included in financial instruments owned/financial instruments sold, but not yet purchased	\$ 63,270	\$ 63,016		\$ 57,879	\$ 49,722	
Amounts that have not been offset in the consolidated statements of financial condition						
Cash collateral received/posted	(980)	(2,940)		(636)	(2,806)	
Securities collateral received/posted	(14,742)	(18,159)		(13,225)	(10,521)	
Total	\$ 47,548	\$ 41,917		\$ 44,018	\$ 36,395	

1. Includes derivative assets and derivative liabilities of \$25.93 billion and \$26.19 billion, respectively, as of December 2014, and derivative assets and derivative liabilities of \$23.18 billion and \$23.46 billion, respectively, as of December 2013, which are not subject to an enforceable netting agreement or are subject to a netting agreement that the firm has not yet determined to be enforceable.

Valuation Techniques for Derivatives

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

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

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

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

Liquidity is essential to observability of all product types. If transaction volumes decline, previously transparent prices and other inputs may become unobservable. Conversely, even highly structured products may at times have trading volumes large enough to provide observability of prices and other inputs. See Note 5 for an overview of the firm's fair value measurement policies.

Level 1 Derivatives

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

Level 2 Derivatives

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

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

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

Level 3 Derivatives

Level 3 derivatives are valued using models which utilize observable level 1 and/or level 2 inputs, as well as unobservable level 3 inputs.

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

- For level 3 equity derivatives, significant unobservable inputs generally include equity volatility inputs for options that are very long-dated and/or have strike prices that differ significantly from current market prices. In addition, the valuation of certain structured trades requires the use of level 3 correlation inputs, such as the correlation of the price performance of two or more individual stocks or the correlation of the price performance for a basket of stocks to another asset class such as commodities.

- For level 3 commodity derivatives, significant unobservable inputs include volatilities for options with strike prices that differ significantly from current market prices and prices or spreads for certain products for which the product quality or physical location of the commodity is not aligned with benchmark indices.

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

Valuation Adjustments

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

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

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Significant Unobservable Inputs

The tables below present the ranges of significant unobservable inputs used to value the firm's level 3 derivatives as well as averages and medians of these inputs. The ranges represent the significant unobservable inputs that were used in the valuation of each type of derivative. Averages represent the arithmetic average of the inputs and are not weighted by the relative fair value or notional of the respective financial instruments. An average greater than the median indicates that the majority of inputs are below the average. The ranges, averages and medians of these

inputs are not representative of the appropriate inputs to use when calculating the fair value of any one derivative. For example, the highest correlation presented in the tables below for interest rate derivatives is appropriate for valuing a specific interest rate derivative but may not be appropriate for valuing any other interest rate derivative. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 derivatives.

Level 3 Derivative Product Type	Net Level 3 Assets/(Liabilities) as of December 2014 (\$ in millions)	Valuation Techniques and Significant Unobservable Inputs	Range of Significant Unobservable Inputs (Average / Median) as of December 2014
Interest rates	\$ (40)	Option pricing models: Correlation ¹ Volatility	(16)% to 84% (37% / 40%) 36 basis points per annum (bps) to 156 bps (100 bps / 115 bps)
Credit	\$3,530	Option pricing models, correlation models and discounted cash flows models ² : Correlation ¹ Credit spreads Upfront credit points Recovery rates	5% to 99% (71% / 72%) 1 basis points (bps) to 700 bps (116 bps / 79 bps) ³ 0 points to 99 points (40 points / 30 points) 14% to 87% (44% / 40%)
Currencies	\$ (267)	Option pricing models: Correlation ¹	55% to 80% (69% / 73%)
Commodities	\$ (1,142)	Option pricing models and discounted cash flows models ² : Volatility Spread per million British Thermal units (MMBTU) of natural gas Spread per Metric Tonne (MT) of coal Spread per barrel of oil and refined products	16% to 68% (33% / 32%) \$(1.66) to \$4.45 (\$0.13) / \$(0.03) ³ \$(10.50) to \$3.00 (\$4.04) / \$(6.74)) \$(15.35) to \$80.55 (\$22.32 / \$13.50) ³
Equities	\$ (1,375)	Option pricing models: Correlation ¹ Volatility	30% to 99% (62% / 55%) 5% to 90% (23% / 21%)

1. The range of unobservable inputs for correlation across derivative product types (i.e., cross-asset correlation) was (34)% to 80% (Average: 33% / Median: 35%) as of December 2014.

2. 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.

3. The difference between the average and the median for these spread inputs indicates that the majority of the inputs fall in the lower end of the range.

Notes to Consolidated Financial Statements

Level 3 Derivative Product Type	Net Level 3 Assets/(Liabilities) as of December 2013 (\$ in millions)	Valuation Techniques and Significant Unobservable Inputs	Range of Significant Unobservable Inputs (Average / Median) as of December 2013
Interest rates	\$(86)	Option pricing models: Correlation ¹ Volatility	22% to 84% (58% / 60%) 36 bpa to 165 bpa (107 bpa / 112 bpa)
Credit	\$4,176	Option pricing models, correlation models and discounted cash flows models ² : Correlation ¹ Credit spreads Upfront credit points Recovery rates	5% to 93% (61% / 61%) 1 bps to 1,395 bps (153 bps / 116 bps) ³ 0 points to 100 points (46 points / 43 points) 20% to 85% (50% / 40%)
Currencies	\$(200)	Option pricing models: Correlation ¹	65% to 79% (72% / 72%)
Commodities	\$60	Option pricing models and discounted cash flows models ² : Volatility Spread per MMBTU of natural gas Spread per MT of coal	15% to 52% (23% / 21%) \$(1.74) to \$5.62 (\$0.11) / \$(0.04)) \$(17.00) to \$0.50 (\$6.54) / \$(5.00))
Equities	\$(959)	Option pricing models: Correlation ¹ Volatility	23% to 99% (58% / 59%) 6% to 63% (20% / 20%)

1. The range of unobservable inputs for correlation across derivative product types (i.e., cross-asset correlation) was (42)% to 78% (Average: 25% / Median: 30%) as of December 2013.

2. 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.

3. The difference between the average and the median for these credit spread inputs indicates that the majority of the inputs fall in the lower end of the range.

Range of Significant Unobservable Inputs

The following provides further information about the ranges of significant unobservable inputs used to value the firm's level 3 derivative instruments.

- **Correlation.** Ranges for correlation cover a variety of underliers both within one market (e.g., equity index and equity single stock names) and across markets (e.g., correlation of an interest rate and a foreign exchange rate), as well as across regions. Generally, cross-asset correlation inputs are used to value more complex instruments and are lower than correlation inputs on assets within the same derivative product type.
- **Volatility.** Ranges for volatility cover numerous underliers across a variety of markets, maturities and strike prices. For example, volatility of equity indices is generally lower than volatility of single stocks.
- **Credit spreads, upfront credit points and recovery rates.** The ranges for credit spreads, upfront credit points and recovery rates cover a variety of underliers (index and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade). The broad range of this population gives rise to the width of the ranges of significant unobservable inputs.
- **Commodity prices and spreads.** The ranges for commodity prices and spreads cover variability in products, maturities and locations.

Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

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

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

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Fair Value of Derivatives by Level

The tables below present the fair value of derivatives on a gross basis by level and major product type as well as the impact of netting. The gross fair values exclude the effects of both counterparty netting and collateral netting, and therefore are not representative of the firm's exposure.

Counterparty netting is reflected in each level to the extent that receivable and payable balances are netted within the same level and is included in "Counterparty and cash collateral netting." Where the counterparty netting is across levels, the netting is reflected in "Cross-Level Netting."

Derivative Assets at Fair Value as of December 2014						
\$ in millions	Level 1	Level 2	Level 3	Cross-Level Netting	Cash Collateral Netting	Total
Interest rates	\$ 123	\$ 800,028	\$ 483	\$ —	\$ —	\$ 800,634
Credit	—	47,190	7,658	—	—	54,848
Currencies	—	109,891	150	—	—	110,041
Commodities	—	28,124	866	—	—	28,990
Equities	175	58,122	634	—	—	58,931
Gross fair value of derivative assets	298	1,043,355	9,791	—	—	1,053,444
Counterparty and cash collateral netting	—	(882,841)	(2,717)	(1,112)	(103,504)	(990,174)
Fair value included in financial instruments owned	\$298	\$ 160,514	\$ 7,074	\$(1,112)	\$ (103,504)	\$ 63,270

Derivative Liabilities at Fair Value as of December 2014						
\$ in millions	Level 1	Level 2	Level 3	Cross-Level Netting	Cash Collateral Netting	Total
Interest rates	\$ 14	\$ 739,332	\$ 523	\$ —	\$ —	\$ 739,869
Credit	—	46,026	4,128	—	—	50,154
Currencies	—	108,206	417	—	—	108,623
Commodities	—	26,538	2,008	—	—	28,546
Equities	94	56,546	2,009	—	—	58,649
Gross fair value of derivative liabilities	108	976,648	9,085	—	—	985,841
Counterparty and cash collateral netting	—	(882,841)	(2,717)	(1,112)	(36,155)	(922,825)
Fair value included in financial instruments sold, but not yet purchased	\$108	\$ 93,807	\$ 6,368	\$ (1,112)	\$ (36,155)	\$ 63,016

Derivative Assets at Fair Value as of December 2013						
\$ in millions	Level 1	Level 2	Level 3	Cross-Level Netting	Cash Collateral Netting	Total
Interest rates	\$ 91	\$ 652,104	\$ 394	\$ —	\$ —	\$ 652,589
Credit	—	52,834	7,917	—	—	60,751
Currencies	—	70,481	350	—	—	70,831
Commodities	—	17,517	526	—	—	18,043
Equities	3	55,826	890	—	—	56,719
Gross fair value of derivative assets	94	848,762	10,077	—	—	858,933
Counterparty and cash collateral netting	—	(702,703)	(3,001)	(1,707)	(93,643)	(801,054)
Fair value included in financial instruments owned	\$ 94	\$ 146,059	\$ 7,076	\$ (1,707)	\$ (93,643)	\$ 57,879

Derivative Liabilities at Fair Value as of December 2013						
\$ in millions	Level 1	Level 2	Level 3	Cross-Level Netting	Cash Collateral Netting	Total
Interest rates	\$ 93	\$ 586,966	\$ 480	\$ —	\$ —	\$ 587,539
Credit	—	52,599	3,741	—	—	56,340
Currencies	—	63,165	550	—	—	63,715
Commodities	—	17,762	466	—	—	18,228
Equities	6	53,617	1,849	—	—	55,472
Gross fair value of derivative liabilities	99	774,109	7,086	—	—	781,294
Counterparty and cash collateral netting	—	(702,703)	(3,001)	(1,707)	(24,161)	(731,572)
Fair value included in financial instruments sold, but not yet purchased	\$ 99	\$ 71,406	\$ 4,085	\$ (1,707)	\$ (24,161)	\$ 49,722

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Level 3 Rollforward

If a derivative was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3. Transfers between levels are reported at the beginning of the reporting period in which they occur. In the tables below, negative amounts for transfers into level 3 and positive amounts for transfers out of level 3 represent net transfers of derivative liabilities.

Gains and losses on level 3 derivatives should be considered in the context of the following:

- A derivative with level 1 and/or level 2 inputs is classified in level 3 in its entirety if it has at least one significant level 3 input.

- If there is one significant level 3 input, the entire gain or loss from adjusting only observable inputs (i.e., level 1 and level 2 inputs) is classified as level 3.
- Gains or losses that have been reported in level 3 resulting from changes in level 1 or level 2 inputs are frequently offset by gains or losses attributable to level 1 or level 2 derivatives and/or level 1, level 2 and level 3 cash instruments. As a result, gains/(losses) included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources.

The tables below present changes in fair value for all derivatives categorized as level 3 as of the end of the year.

Level 3 Derivative Assets and Liabilities at Fair Value for the Year Ended December 2014									
\$ in millions	Asset/ (liability) balance, beginning of year	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at year-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Asset/ (liability) balance, end of year
Interest rates — net	\$ (86)	\$ (50)	\$ (101)	\$ 97	\$ (2)	\$ 92	\$ 14	\$ (4)	\$ (40)
Credit — net	4,176	64	1,625	151	(138)	(1,693)	(194)	(461)	3,530
Currencies — net	(200)	(70)	(175)	19	—	172	(9)	(4)	(267)
Commodities — net	60	(19)	(1,096)	38	(272)	95	84	(32)	(1,142)
Equities — net	(959)	(48)	(436)	344	(979)	270	(115)	548	(1,375)
Total derivatives — net	\$2,991	\$ (123)¹	\$ (183)¹	\$649	\$ (1,391)	\$ (1,064)	\$ (220)	\$ 47	\$ 706

1. The aggregate amounts include losses of approximately \$276 million and \$30 million reported in "Market making" and "Other principal transactions," respectively.

The net unrealized loss on level 3 derivatives of \$183 million for 2014 was primarily attributable to the impact of a decrease in commodity prices on certain commodity derivatives, a decrease in equity prices on certain equity derivatives, and the impact of changes in foreign exchange rates on certain currency derivatives, largely offset by the impact of tighter credit spreads and a decrease in interest rates on certain credit derivatives.

Transfers into level 3 derivatives during 2014 primarily reflected transfers of certain credit derivative liabilities from level 2, principally due to unobservable credit spread inputs becoming significant to the valuation of these derivatives and transfers of certain equity derivative liabilities from level 2, primarily due to reduced transparency of volatility inputs used to value these derivatives.

Transfers out of level 3 derivatives during 2014 primarily reflected transfers of certain equity derivative liabilities to level 2, principally due to unobservable correlation inputs no longer being significant to the valuation of these derivatives, and transfers of certain credit derivative assets to level 2, principally due to unobservable credit spread inputs no longer being significant to the net risk of certain portfolios.

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Level 3 Derivative Assets and Liabilities at Fair Value for the Year Ended December 2013										
\$ in millions	Asset/ (liability) balance, beginning of year	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at year-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Asset/ (liability) balance, end of year	
Interest rates — net	\$ (355)	\$ (78)	\$ 168	\$ 1	\$ (8)	\$ 196	\$ (9)	\$ (1)	\$ (86)	
Credit — net	6,228	(1)	(977)	201	(315)	(1,508)	695	(147)	4,176	
Currencies — net	35	(93)	(419)	22	(6)	169	139	(47)	(200)	
Commodities — net	(304)	(6)	58	21	(48)	281	50	8	60	
Equities — net	(1,248)	(67)	(202)	77	(472)	1,020	(15)	(52)	(959)	
Total derivatives — net	\$4,356	\$ (245) ¹	\$ (1,372) ¹	\$322	\$ (849)	\$ 158	\$860	\$ (239)	\$2,991	

1. The aggregate amounts include losses of approximately \$1.29 billion and \$324 million reported in "Market making" and "Other principal transactions," respectively.

The net unrealized loss on level 3 derivatives of \$1.37 billion for 2013 principally resulted from changes in level 2 inputs and was primarily attributable to losses on certain credit derivatives, principally due to the impact of tighter credit spreads, and losses on certain currency derivatives, primarily due to changes in foreign exchange rates.

Transfers into level 3 derivatives during 2013 primarily reflected transfers of credit derivative assets from level 2, principally due to reduced transparency of upfront credit points and correlation inputs used to value these derivatives.

Transfers out of level 3 derivatives during 2013 primarily reflected transfers of certain credit derivatives to level 2, principally due to unobservable credit spread and correlation inputs no longer being significant to the valuation of these derivatives and unobservable inputs not being significant to the net risk of certain portfolios.

Impact of Credit Spreads on Derivatives

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

The net gain/(loss), including hedges, attributable to the impact of changes in credit exposure and credit spreads (counterparty and the firm's) on derivatives was \$135 million for 2014, \$(66) million for 2013 and \$(735) million for 2012.

Bifurcated Embedded Derivatives

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

\$ in millions	As of December	
	2014	2013
Fair value of assets	\$ 390	\$ 285
Fair value of liabilities	690	373
Net liability	\$ 300	\$ 88
Notional amount	\$7,735	\$7,580

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OTC Derivatives

The tables below present the fair values of OTC derivative assets and liabilities by tenor and major product type. Tenor is based on expected duration for mortgage-related credit derivatives and generally on remaining contractual maturity for other derivatives. Counterparty netting within the same product type and tenor category is included within

such product type and tenor category. Counterparty netting across product types within the same tenor category is included in “Counterparty and cash collateral netting.” Where the counterparty netting is across tenor categories, the netting is reflected in “Cross-Tenor Netting.”

\$ in millions	OTC Derivative Assets as of December 2014						Total
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Cross-Tenor Netting	Cash Collateral Netting		
Interest rates	\$ 7,064	\$25,049	\$ 90,553	\$ —	\$ —	\$ —	\$ 122,666
Credit	1,696	6,093	5,707	—	—	—	13,496
Currencies	17,835	9,897	6,386	—	—	—	34,118
Commodities	8,298	4,068	161	—	—	—	12,527
Equities	4,771	9,285	3,750	—	—	—	17,806
Counterparty and cash collateral netting	(4,479)	(7,016)	(4,058)	(20,819)	(103,504)	(139,876)	
Total	\$35,185	\$47,376	\$102,499	\$ (20,819)	\$ (103,504)	\$ 60,737	

\$ in millions	OTC Derivative Liabilities as of December 2014						Total
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Cross-Tenor Netting	Cash Collateral Netting		
Interest rates	\$ 7,001	\$17,649	\$ 37,242	\$ —	\$ —	\$ —	\$ 61,892
Credit	2,154	4,942	1,706	—	—	—	8,802
Currencies	18,549	7,667	6,482	—	—	—	32,698
Commodities	5,686	4,105	2,810	—	—	—	12,601
Equities	7,064	6,845	3,571	—	—	—	17,480
Counterparty and cash collateral netting	(4,479)	(7,016)	(4,058)	(20,819)	(36,155)	(72,527)	
Total	\$35,975	\$34,192	\$ 47,753	\$ (20,819)	\$ (36,155)	\$ 60,946	

\$ in millions	OTC Derivative Assets as of December 2013						Total
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Cross-Tenor Netting	Cash Collateral Netting		
Interest rates	\$ 7,235	\$26,029	\$ 75,731	\$ —	\$ —	\$ —	\$ 108,995
Credit	1,233	8,410	5,787	—	—	—	15,430
Currencies	9,499	8,478	7,361	—	—	—	25,338
Commodities	2,843	4,040	143	—	—	—	7,026
Equities	7,016	9,229	4,972	—	—	—	21,217
Counterparty and cash collateral netting	(2,559)	(5,063)	(3,395)	(19,744)	(93,643)	(124,404)	
Total	\$25,267	\$51,123	\$ 90,599	\$ (19,744)	\$ (93,643)	\$ 53,602	

\$ in millions	OTC Derivative Liabilities as of December 2013						Total
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Cross-Tenor Netting	Cash Collateral Netting		
Interest rates	\$ 5,019	\$16,910	\$ 21,903	\$ —	\$ —	\$ —	\$ 43,832
Credit	2,339	6,778	1,901	—	—	—	11,018
Currencies	8,843	5,042	4,313	—	—	—	18,198
Commodities	3,062	2,424	2,387	—	—	—	7,873
Equities	6,325	6,964	4,068	—	—	—	17,357
Counterparty and cash collateral netting	(2,559)	(5,063)	(3,395)	(19,744)	(24,161)	(54,922)	
Total	\$23,029	\$33,055	\$ 31,177	\$ (19,744)	\$ (24,161)	\$ 43,356	

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

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

\$ in millions	As of December	
	2014	2013
Net derivative liabilities under bilateral agreements	\$35,764	\$22,176
Collateral posted	30,824	18,178
Additional collateral or termination payments for a one-notch downgrade	1,072	911
Additional collateral or termination payments for a two-notch downgrade	2,815	2,989

Credit Derivatives

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

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

Credit Default Swaps. Single-name credit default swaps protect the buyer against the loss of principal on one or more bonds, loans or mortgages (reference obligations) in the event the issuer (reference entity) of the reference obligations suffers a credit event. The buyer of protection pays an initial or periodic premium to the seller and receives protection for the period of the contract. If there is no credit event, as defined in the contract, the seller of protection makes no payments to the buyer of protection. However, if a credit event occurs, the seller of protection is required to make a payment to the buyer of protection, which is calculated in accordance with the terms of the contract.

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

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

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Credit Options. In a credit option, the option writer assumes the obligation to purchase or sell a reference obligation at a specified price or credit spread. The option purchaser buys the right, but does not assume the obligation, to sell the reference obligation to, or purchase it from, the option writer. The payments on credit options depend either on a particular credit spread or the price of the reference obligation.

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

As of December 2014, written and purchased credit derivatives had total gross notional amounts of \$1.22 trillion and \$1.28 trillion, respectively, for total net notional purchased protection of \$59.35 billion. As of December 2013, written and purchased credit derivatives had total gross notional amounts of \$1.43 trillion and \$1.52 trillion, respectively, for total net notional purchased protection of \$81.55 billion. Substantially all of the firm's written and purchased credit derivatives are in the form of credit default swaps.

The table below presents certain information about credit derivatives. In the table below:

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

\$ in millions	Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor			Maximum Payout/Notional Amount of Purchased Credit Derivatives			Fair Value of Written Credit Derivatives		
	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Offsetting Purchased Credit Derivatives ¹	Other Purchased Credit Derivatives ²	Asset	Liability	Net Asset/(Liability)
As of December 2014									
Credit spread on underlier (basis points)									
0 - 250	\$261,591	\$ 775,784	\$68,830	\$1,106,205	\$1,012,874	\$152,465	\$28,004	\$ 3,629	\$ 24,375
251 - 500	7,726	37,255	5,042	50,023	41,657	8,426	1,542	2,266	(724)
501 - 1,000	8,449	18,046	1,309	27,804	26,240	1,949	112	1,909	(1,797)
Greater than 1,000	8,728	26,834	1,279	36,841	33,112	3,499	82	13,943	(13,861)
Total	\$286,494	\$ 857,919	\$76,460	\$1,220,873	\$1,113,883	\$166,339	\$29,740	\$21,747	\$ 7,993

As of December 2013

\$ in millions	0 - 12 Months	1 - 5 Years	5 Years or Greater	Total	Offsetting Purchased Credit Derivatives ¹	Other Purchased Credit Derivatives ²	Asset	Liability	Net Asset/(Liability)
As of December 2013									
Credit spread on underlier (basis points)									
0 - 250	\$286,029	\$ 950,126	\$79,241	\$1,315,396	\$1,208,334	\$183,665	\$32,508	\$ 4,396	\$ 28,112
251 - 500	7,148	42,570	10,086	59,804	44,642	16,884	2,837	1,147	1,690
501 - 1,000	3,968	18,637	1,854	24,459	22,748	2,992	101	1,762	(1,661)
Greater than 1,000	5,600	27,911	1,226	34,737	30,510	6,169	514	12,436	(11,922)
Total	\$302,745	\$1,039,244	\$92,407	\$1,434,396	\$1,306,234	\$209,710	\$35,960	\$19,741	\$ 16,219

1. Offsetting purchased credit derivatives represent the notional amount of purchased credit derivatives that economically hedge written credit derivatives with identical underliers.

2. This purchased protection represents the notional amount of all other purchased credit derivatives not included in "Offsetting Purchased Credit Derivatives."

Hedge Accounting

The firm applies hedge accounting for (i) certain interest rate swaps used to manage the interest rate exposure of certain fixed-rate unsecured long-term and short-term borrowings and certain fixed-rate certificates of deposit, (ii) certain foreign currency forward contracts and foreign currency-denominated debt used to manage foreign currency exposures on the firm's net investment in certain non-U.S. operations and (iii) certain commodities-related swap and forward contracts used to manage the exposure to the variability in cash flows associated with the forecasted sales of certain energy commodities by one of the firm's consolidated investments.

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

Fair Value Hedges

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

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

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

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

<i>\$ in millions</i>	Year Ended December		
	2014	2013	2012
Interest rate hedges	\$ 1,936	\$(8,683)	\$(2,383)
Hedged borrowings and bank deposits	(2,451)	6,999	665
Hedge ineffectiveness	\$ (515)	\$(1,684)	\$(1,718)

Net Investment Hedges

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

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

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

\$ in millions	Year Ended December		
	2014	2013	2012
Foreign currency forward contract hedges	\$576	\$150	\$(233)
Foreign currency-denominated debt hedges	202	470	347

The gain/(loss) related to ineffectiveness and the gain/(loss) reclassified to earnings from accumulated other comprehensive income/(loss) were not material for 2014, 2013 or 2012.

As of December 2014 and December 2013, the firm had designated \$1.36 billion and \$1.97 billion, respectively, of foreign currency-denominated debt, included in “Unsecured long-term borrowings” and “Unsecured short-term borrowings,” as hedges of net investments in non-U.S. subsidiaries.

Cash Flow Hedges

Beginning in 2013, the firm designated certain commodities-related swap and forward contracts as cash flow hedges. These swap and forward contracts hedged the firm’s exposure to the variability in cash flows associated with the forecasted sales of certain energy commodities by one of the firm’s consolidated investments. During the fourth quarter of 2014, the firm de-designated these swaps and forward contracts as cash flow hedges as it became probable that the hedged forecasted sales would not occur.

Prior to de-designation, the firm applied a statistical method that utilized regression analysis when assessing hedge effectiveness. A cash flow hedge was considered highly effective in offsetting changes in forecasted cash flows attributable to the hedged risk when the regression analysis resulted in a coefficient of determination of 80% or greater and a slope between 80% and 125%.

For qualifying cash flow hedges, the gains or losses on derivatives, to the extent effective, were included in “Cash flow hedges” within the consolidated statements of comprehensive income. Such gains or losses were reclassified to “Other principal transactions” within the consolidated statements of earnings when it became probable that the hedged forecasted sales would not occur. Gains or losses resulting from hedge ineffectiveness were included in “Other principal transactions.”

The effective portion of the gains recognized on these cash flow hedges, gains reclassified to earnings from accumulated other comprehensive income and gains related to hedge ineffectiveness were not material for 2014 and 2013. There were no gains/(losses) excluded from the assessment of hedge effectiveness for 2014 and 2013.

Note 8.

Fair Value Option

Other Financial Assets and Financial Liabilities at Fair Value

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

The primary reasons for electing the fair value option are to:

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

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

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

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

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

Notes to Consolidated Financial Statements

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

Resale and Repurchase Agreements and Securities Borrowed and Loaned. The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned are funding spreads, the amount and timing of expected future cash flows and interest rates. As of both December 2014 and December 2013, there were no level 3 securities borrowed or securities loaned. As of December 2014, the firm's level 3 resale and repurchase agreements were not material. The range of significant unobservable inputs used to value level 3 resale and repurchase agreements as of December 2013 was 1.3% to 3.9% (weighted average: 1.4%) for yield, and 0.2 years to 2.7 years (weighted average: 2.5 years) for duration. Generally, increases in yield or duration, in isolation, would result in a lower fair value measurement. Due to the distinctive nature of each of the firm's level 3 resale and repurchase agreements, the interrelationship of inputs is not necessarily uniform across such agreements. See Note 10 for further information about collateralized agreements and financings.

Other Secured Financings. The significant inputs to the valuation of other secured financings at fair value are the amount and timing of expected future cash flows, interest rates, funding spreads, the fair value of the collateral delivered by the firm (which is determined using the amount and timing of expected future cash flows, market prices, market yields and recovery assumptions) and the frequency of additional collateral calls. The ranges of significant unobservable inputs used to value level 3 other secured financings are as follows:

As of December 2014:

- Funding spreads: 210 bps to 325 bps (weighted average: 278 bps)
- Yield: 1.1% to 10.0% (weighted average: 3.1%)
- Duration: 0.7 to 3.8 years (weighted average: 2.6 years)

As of December 2013:

- Funding spreads: 40 bps to 250 bps (weighted average: 162 bps)
- Yield: 0.9% to 14.3% (weighted average: 5.0%)
- Duration: 0.8 to 16.1 years (weighted average: 3.7 years)

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

Unsecured Short-term and Long-term Borrowings.

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

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

Receivables from Customers and Counterparties.

Receivables from customers and counterparties at fair value are primarily comprised of transfers of assets accounted for as secured loans rather than purchases. The significant inputs to the valuation of such receivables are commodity prices, interest rates, the amount and timing of expected future cash flows and funding spreads. As of December 2014, the firm's level 3 receivables from customers and counterparties were not material. The range of significant unobservable inputs used to value level 3 secured loans as of December 2013 was 40 bps to 477 bps (weighted average: 142 bps) for funding spreads. Generally, an increase in funding spreads would result in a lower fair value measurement.

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

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

Notes to Consolidated Financial Statements

Fair Value of Other Financial Assets and Financial Liabilities by Level

The tables below present, by level within the fair value hierarchy, other financial assets and financial liabilities

accounted for at fair value primarily under the fair value option.

\$ in millions	Other Financial Assets at Fair Value as of December 2014			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes ¹	\$ 21,168	\$ 13,123	\$ —	\$ 34,291
Securities purchased under agreements to resell	—	126,036	—	126,036
Securities borrowed	—	66,769	—	66,769
Receivables from customers and counterparties	—	6,888	56	6,944
Total	\$ 21,168	\$ 212,816	\$ 56	\$ 234,040

\$ in millions	Other Financial Liabilities at Fair Value as of December 2014			
	Level 1	Level 2	Level 3	Total
Deposits	\$ —	\$ 12,458	\$ 1,065	\$ 13,523
Securities sold under agreements to repurchase	—	88,091	124	88,215
Securities loaned	—	765	—	765
Other secured financings	—	20,359	1,091	21,450
Unsecured short-term borrowings	—	15,114	3,712	18,826
Unsecured long-term borrowings	—	13,420	2,585	16,005
Other liabilities and accrued expenses	—	116	715	831
Total	\$ —	\$ 150,323	\$ 9,292	\$ 159,615

\$ in millions	Other Financial Assets at Fair Value as of December 2013			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes ¹	\$ 19,502	\$ 12,435	\$ —	\$ 31,937
Securities purchased under agreements to resell	—	161,234	63	161,297
Securities borrowed	—	60,384	—	60,384
Receivables from customers and counterparties	—	7,181	235	7,416
Other assets	—	18	—	18
Total	\$ 19,502	\$ 241,252	\$ 298	\$ 261,052

\$ in millions	Other Financial Liabilities at Fair Value as of December 2013			
	Level 1	Level 2	Level 3	Total
Deposits	\$ —	\$ 6,870	\$ 385	\$ 7,255
Securities sold under agreements to repurchase	—	163,772	1,010	164,782
Securities loaned	—	973	—	973
Other secured financings	—	22,572	1,019	23,591
Unsecured short-term borrowings	—	15,680	3,387	19,067
Unsecured long-term borrowings	—	9,854	1,837	11,691
Other liabilities and accrued expenses	—	362	26	388
Total	\$ —	\$ 220,083	\$ 7,664	\$ 227,747

1. Includes securities segregated for regulatory and other purposes accounted for at fair value under the fair value option, which consists of securities borrowed and resale agreements. In addition, level 1 consists of securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP, consisting of U.S. Treasury securities and money market instruments.

Transfers Between Levels of the Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. There were no transfers of other financial assets and financial liabilities between level 1 and level 2 during 2014 or 2013. The tables below present information about transfers between level 2 and level 3.

Level 3 Rollforward

If a financial asset or financial liability was transferred to level 3 during a reporting year, its entire gain or loss for the year is included in level 3.

Notes to Consolidated Financial Statements

The tables below present changes in fair value for other financial assets and financial liabilities accounted for at fair value categorized as level 3 as of the end of the year. Level 3 other financial assets and liabilities are frequently economically hedged with cash instruments and derivatives. Accordingly, gains or losses that are reported in level 3 can

be partially offset by gains or losses attributable to level 1, 2 or 3 cash instruments or derivatives. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources.

Level 3 Other Financial Assets at Fair Value for the Year Ended December 2014										
\$ in millions	Balance, beginning of year	Net realized gains/(losses)	Net unrealized gains/(losses) relating to instruments still held at year-end	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year
Securities purchased under agreements to resell	\$ 63	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (63)	\$ —	\$ —	\$ —
Receivables from customers and counterparties	235	3	2	29	—	—	(33)	—	(180)	56
Total	\$ 298	\$ 3¹	\$ 2¹	\$29	\$ —	\$ —	\$ (96)	\$ —	\$ (180)	\$ 56

1. Included in "Market making."

Level 3 Other Financial Liabilities at Fair Value for the Year Ended December 2014										
\$ in millions	Balance, beginning of year	Net realized (gains)/losses	Net unrealized (gains)/losses relating to instruments still held at year-end	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year
Deposits	\$ 385	\$ —	\$ 21	(\$5)	\$ —	\$ 442	\$ (6)	\$ 280	\$ (52)	\$ 1,065
Securities sold under agreements to repurchase	1,010	—	—	—	—	—	(886)	—	—	124
Other secured financings	1,019	31	(27)	20	—	402	(521)	364	(197)	1,091
Unsecured short-term borrowings	3,387	11	251	5	—	2,246	(1,828)	981	(1,341)	3,712
Unsecured long-term borrowings	1,837	46	(56)	(3)	—	1,221	(446)	1,344	(1,358)	2,585
Other liabilities and accrued expenses	26	5	434	—	19	—	(20)	301	(50)	715
Total	\$7,664	\$93¹	\$ 623¹	\$17	\$19	\$4,311	\$ (3,707)	\$3,270	\$ (2,998)	\$9,292

1. The aggregate amounts include (gains)/losses of approximately \$(150) million, \$833 million and \$33 million reported in "Market making," "Other principal transactions" and "Interest expense," respectively.

The net unrealized loss on level 3 other financial assets and liabilities of \$621 million (reflecting \$2 million of gains on other financial assets and \$623 million of losses on other financial liabilities) for 2014 primarily reflected losses on certain subordinated liabilities included in other liabilities and accrued expenses, principally due to changes in the market value of the related underlying investments, and certain hybrid financial instruments included in unsecured short-term borrowings, principally due to an increase in global equity prices.

Transfers out of level 3 of other financial assets during 2014 primarily reflected transfers of certain secured loans included in receivables from customers and counterparties to level 2, principally due to unobservable inputs not being significant to the net risk of the portfolio.

Transfers into level 3 of other financial liabilities during 2014 primarily reflected transfers of certain hybrid financial instruments included in unsecured long-term and short-term borrowings from level 2, principally due to unobservable inputs being significant to the valuation of these instruments, and transfers from level 3 unsecured long-term borrowings to level 3 unsecured short-term borrowings, as these borrowings neared maturity.

Transfers out of level 3 of other financial liabilities during 2014 primarily reflected transfers of certain hybrid financial instruments included in unsecured long-term and short-term borrowings to level 2, principally due to increased transparency of certain correlation and volatility inputs used to value these instruments, transfers of certain other hybrid financial instruments included in unsecured short-term borrowings to level 2, principally due to certain unobservable inputs not being significant to the valuation of these hybrid financial instruments, and transfers to level 3 unsecured short-term borrowings from level 3 unsecured long-term borrowings, as these borrowings neared maturity.

Notes to Consolidated Financial Statements

Level 3 Other Financial Assets at Fair Value for the Year Ended December 2013										
\$ in millions	Balance, beginning of year	Net realized gains/(losses)	Net unrealized gains/(losses) relating to instruments still held at year-end	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year
Securities purchased under agreements to resell	\$ 278	\$ 4	\$ —	\$ —	\$ —	\$ —	\$ (16)	\$ —	\$ (203)	\$ 63
Receivables from customers and counterparties	641	1	14	54	(474)	—	(1)	—	—	235
Other assets	507	—	—	—	(507)	—	—	—	—	—
Total	\$ 1,426	\$ 5 ¹	\$ 14 ¹	\$ 54	\$ (981)	\$ —	\$ (17)	\$ —	\$ (203)	\$ 298

1. The aggregate amounts include gains of approximately \$14 million, \$1 million and \$4 million reported in "Market making," "Other principal transactions" and "Interest income," respectively.

Level 3 Other Financial Liabilities at Fair Value for the Year Ended December 2013										
\$ in millions	Balance, beginning of year	Net realized (gains)/ losses	Net unrealized (gains)/losses relating to instruments still held at year-end	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year
Deposits	\$ 359	\$ —	\$ (6)	\$ —	\$ —	\$ 109	\$ (6)	\$ —	\$ (71)	\$ 385
Securities sold under agreements to repurchase	1,927	—	—	—	—	—	(917)	—	—	1,010
Other secured financings	1,412	10	2	—	—	708	(894)	126	(345)	1,019
Unsecured short-term borrowings	2,584	1	239	—	—	1,624	(1,502)	714	(273)	3,387
Unsecured long-term borrowings	1,917	22	43	(3)	—	470	(558)	671	(725)	1,837
Other liabilities and accrued expenses	11,274	(29)	(2)	—	(10,288)	—	(426)	—	(503)	26
Total	\$19,473	\$ 4 ¹	\$ 276 ¹	\$ (3)	\$ (10,288)	\$ 2,911	\$ (4,303)	\$ 1,511	\$ (1,917)	\$ 7,664

1. The aggregate amounts include losses of approximately \$184 million, \$88 million and \$8 million reported in "Market making," "Other principal transactions" and "Interest expense," respectively.

The net unrealized loss on level 3 other financial assets and liabilities of \$262 million (reflecting \$14 million of gains on other financial assets and \$276 million of losses on other financial liabilities) for 2013 primarily reflected losses on certain hybrid financial instruments included in unsecured short-term borrowings, principally due to an increase in global equity prices.

Sales of other liabilities and accrued expenses during 2013 primarily reflected the sale of a majority stake in the firm's European insurance business.

Transfers out of level 3 of other financial assets during 2013 primarily reflected transfers of certain resale agreements to level 2, principally due to increased price transparency as a result of market transactions in similar instruments.

Transfers into level 3 of other financial liabilities during 2013 primarily reflected transfers of certain hybrid financial instruments included in unsecured short-term and long-term borrowings from level 2, principally due to decreased transparency of certain correlation and volatility inputs used to value these instruments.

Transfers out of level 3 of other financial liabilities during 2013 primarily reflected transfers of certain hybrid financial instruments included in unsecured short-term and long-term borrowings to level 2, principally due to increased transparency of certain correlation and volatility inputs used to value these instruments, and transfers of subordinated liabilities included in other liabilities and accrued expenses to level 2, principally due to increased price transparency as a result of market transactions in the related underlying investments.

Notes to Consolidated Financial Statements

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

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

The amounts in the table exclude contractual interest, which is included in “Interest income” and “Interest expense,” for all instruments other than hybrid financial instruments. See Note 23 for further information about interest income and interest expense.

\$ in millions	Gains/(Losses) on Financial Assets and Financial Liabilities at Fair Value Under the Fair Value Option		
	Year Ended December 2014	2013	2012
Unsecured short-term borrowings ¹	\$(1,180)	\$(1,145)	\$ (973)
Unsecured long-term borrowings ²	(592)	683	(1,523)
Other liabilities and accrued expenses ³	(441)	(167)	(1,486)
Other ⁴	(366)	(443)	(81)
Total	\$(2,579)	\$(1,072)	\$(4,063)

1. Includes losses on the embedded derivative component of hybrid financial instruments of \$1.22 billion for 2014, \$1.04 billion for 2013 and \$814 million for 2012, respectively.
2. Includes gains/(losses) on the embedded derivative component of hybrid financial instruments of \$(697) million for 2014, \$902 million for 2013 and \$(887) million for 2012, respectively.
3. Includes gains/(losses) on certain subordinated liabilities issued by consolidated VIEs. Gains/(losses) for 2013 and 2012 also includes gains on certain insurance contracts.
4. Primarily consists of gains/(losses) on securities purchased under agreements to resell, securities borrowed, receivables from customers and counterparties, deposits and other secured financings.

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

Loans and Lending Commitments

The table below presents the difference between the aggregate fair value and the aggregate contractual principal amount for loans and long-term receivables for which the fair value option was elected.

	As of December	
	2014	2013
<i>\$ in millions</i>		
Performing loans and long-term receivables		
Aggregate contractual principal in excess of the related fair value	\$1,699	\$3,106
Loans on nonaccrual status and/or more than 90 days past due¹		
Aggregate contractual principal in excess of the related fair value (excluding loans carried at zero fair value and considered uncollectible)	13,106	11,041
Aggregate fair value of loans on nonaccrual status and/or more than 90 days past due	3,333	2,781

1. The aggregate contractual principal amount of these loans exceeds the related fair value primarily because the firm regularly purchases loans, such as distressed loans, at values significantly below contractual principal amounts.

As of December 2014 and December 2013, the fair value of unfunded lending commitments for which the fair value option was elected was a liability of \$402 million and \$1.22 billion, respectively, and the related total contractual amount of these lending commitments was \$26.19 billion and \$51.54 billion, respectively. See Note 18 for further information about lending commitments.

Long-Term Debt Instruments

The aggregate contractual principal amount of long-term other secured financings for which the fair value option was elected exceeded the related fair value by \$203 million and \$154 million as of December 2014 and December 2013, respectively. The aggregate contractual principal amount of unsecured long-term borrowings for which the fair value option was elected exceeded the related fair value by \$163 million and \$92 million as of December 2014 and December 2013, respectively. The amounts above include both principal and non-principal-protected long-term borrowings.

Impact of Credit Spreads on Loans and Lending Commitments

The estimated net gain attributable to changes in instrument-specific credit spreads on loans and lending commitments for which the fair value option was elected was \$1.83 billion for 2014, \$2.69 billion for 2013 and \$3.07 billion for 2012, respectively. Changes in the fair value of loans and lending commitments are primarily attributable to changes in instrument-specific credit spreads. Substantially all of the firm's performing loans and lending commitments are floating-rate.

Impact of Credit Spreads on Borrowings

The table below presents the net gains/(losses) attributable to the impact of changes in the firm's own credit spreads on borrowings for which the fair value option was elected. The firm calculates the fair value of borrowings by discounting future cash flows at a rate which incorporates the firm's credit spreads.

\$ in millions	Year Ended December		
	2014	2013	2012
Net gains/(losses) including hedges	\$144	\$(296)	\$(714)
Net gains/(losses) excluding hedges	142	(317)	(800)

Note 9.

Loans Receivable

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

\$ in millions	As of December	
	2014	2013
Corporate loans	\$15,044	\$ 7,667
Loans to private wealth management clients	11,289	6,558
Loans backed by commercial real estate	1,705	809
Other loans	1,128	—
Subtotal	29,166	15,034
Allowance for loan losses	(228)	(139)
Total loans receivable	\$28,938	\$14,895

As of December 2014 and December 2013, the fair value of "Loans receivable" was \$28.90 billion and \$14.91 billion, respectively. As of December 2014, had these loans been carried at fair value and included in the fair value hierarchy, \$13.75 billion and \$15.15 billion would have been classified in level 2 and level 3, respectively. As of December 2013, had these loans been carried at fair value and included in the fair value hierarchy, \$6.16 billion and \$8.75 billion would have been classified in level 2 and level 3, respectively.

The firm also extends lending commitments that are held for investment and accounted for on an accrual basis. As of December 2014 and December 2013, such lending commitments were \$66.22 billion and \$35.66 billion, respectively, substantially all of which were extended to corporate borrowers. The carrying value and the estimated fair value of such lending commitments were liabilities of \$199 million and \$1.86 billion, respectively, as of December 2014, and \$132 million and \$1.02 billion, respectively, as of December 2013. Had these commitments been included in the firm's fair value hierarchy, they would have primarily been classified in level 3 as of both December 2014 and December 2013.

Notes to Consolidated Financial Statements

Below is a description of the captions in the table above.

- **Corporate Loans.** Corporate loans include term loans, revolving lines of credit, letter of credit facilities and bridge loans, and are principally used for operating liquidity and general corporate purposes, or in connection with acquisitions. Corporate loans may be secured or unsecured, depending on the loan purpose, the risk profile of the borrower and other factors. The majority of these loans have maturities between one year and five years and carry a floating interest rate.
- **Loans to Private Wealth Management Clients.** Loans to the firm's private wealth management clients include loans used by clients to finance private asset purchases, employ leverage for strategic investments in real or financial assets, bridge cash flow timing gaps or provide liquidity for other needs. Such loans are primarily secured by securities or other assets. The majority of these loans are demand or short-term loans and carry a floating interest rate.
- **Loans Backed by Commercial Real Estate.** Loans backed by commercial real estate include loans collateralized by hotels, retail stores, multifamily housing complexes and commercial and industrial properties. The majority of these loans have maturities between one year and five years and carry a floating interest rate.
- **Other Loans.** Other loans primarily include loans secured by consumer loans, residential real estate and other assets. The majority of these loans have maturities between one year and five years and carry a floating interest rate.

Credit Quality

The firm's risk assessment process includes evaluating the credit quality of its loans receivable. The firm performs credit reviews which include initial and ongoing analyses of its borrowers. A credit review is an independent analysis of the capacity and willingness of a borrower to meet its financial obligations, resulting in an internal credit rating. The determination of internal credit ratings also incorporates assumptions with respect to the nature of and outlook for the borrower's industry, and the economic environment. The firm also assigns a regulatory risk rating to such loans based on the definitions provided by the U.S. federal bank regulatory agencies.

As of December 2014 and December 2013, loans receivable were primarily extended to non-investment-grade borrowers and lending commitments held for investment and accounted for on an accrual basis were primarily extended to investment-grade borrowers. Substantially all of these loans and lending commitments align with the U.S. federal bank regulatory agencies' definition of Pass. Loans and lending commitments meet the definition of Pass when they are performing and/or do not demonstrate adverse characteristics that are likely to result in a credit loss.

Impaired Loans and Loans on Non-Accrual Status

A loan is determined to be impaired when it is probable that the firm will not be able to collect all principal and interest due under the contractual terms of the loan. At that time, loans are placed on non-accrual status and all accrued but uncollected interest is reversed against interest income and interest subsequently collected is recognized on a cash basis to the extent the loan balance is deemed collectible. Otherwise all cash received is used to reduce the outstanding loan balance. As of December 2014 and December 2013, impaired loans receivable in non-accrual status were not material.

Allowance for Losses on Loans and Lending Commitments

The firm's allowance for loan losses is comprised of two components: specific loan level reserves and a collective, portfolio level reserve. Specific loan level reserves are determined on loans that exhibit credit quality weakness and are therefore individually evaluated for impairment. Portfolio level reserves are determined on the remaining loans, not deemed impaired, by aggregating groups of loans with similar risk characteristics and estimating the probable loss inherent in the portfolio. As of December 2014 and December 2013, substantially all of the firm's loans receivable were evaluated for impairment at the portfolio level.

Notes to Consolidated Financial Statements

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

The firm also records an allowance for losses on lending commitments that are held for investment and accounted for on an accrual basis. Such allowance is determined using the same methodology as the allowance for loan losses, while also taking into consideration the probability of drawdowns or funding and is included in "Other liabilities and accrued expenses" in the consolidated statements of financial condition. As of December 2014 and December 2013, substantially all of such lending commitments were evaluated for impairment at the portfolio level.

The tables below present the changes in allowance for loan losses, and allowance for losses on lending commitments for the years ended December 2014 and December 2013.

\$ in millions	Year Ended December	
	2014	2013
Allowance for loan losses		
Balance, beginning of year	\$139	\$ 24
Charge-offs	(3)	—
Provision for loan losses	92	115
Balance, end of year	\$228	\$139

\$ in millions	Year Ended December	
	2014	2013
Allowance for losses on lending commitments		
Balance, beginning of year	\$ 57	\$ 28
Provision for losses on lending commitments	29	29
Balance, end of year	\$ 86	\$ 57

The provision for losses on loans and lending commitments is included in "Other principal transactions" in the consolidated statements of earnings. As of December 2014 and December 2013, substantially all of the allowance for loan losses and allowance for losses on lending commitments were related to corporate loans and corporate lending commitments. Substantially all of these allowances were determined at the portfolio level.

Note 10.

Collateralized Agreements and Financings

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

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

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

	As of December	
\$ in millions	2014	2013
Securities purchased under agreements to resell ¹	\$127,938	\$161,732
Securities borrowed ²	160,722	164,566
Securities sold under agreements to repurchase ¹	88,215	164,782
Securities loaned ²	5,570	18,745

1. Substantially all resale agreements and all repurchase agreements are carried at fair value under the fair value option. See Note 8 for further information about the valuation techniques and significant inputs used to determine fair value.

2. As of December 2014 and December 2013, \$66.77 billion and \$60.38 billion of securities borrowed, and \$765 million and \$973 million of securities loaned were at fair value, respectively.

Resale and Repurchase Agreements

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

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

The financial instruments purchased or sold in resale and repurchase agreements typically include U.S. government and federal agency, and investment-grade sovereign obligations.

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

Even though repurchase and resale agreements involve the legal transfer of ownership of financial instruments, they are accounted for as financing arrangements because they require the financial instruments to be repurchased or resold at the maturity of the agreement. However, “repo-to-maturity” are accounted for as sales. A repo-to-maturity is a transaction in which the firm transfers a security under an agreement to repurchase the security where the maturity date of the repurchase agreement matches the maturity date of the underlying security. Therefore, the firm effectively no longer has a repurchase obligation and has relinquished control over the underlying security and, accordingly, accounts for the transaction as a sale. See Note 3 for information about changes to the accounting for repos-to-maturity which became effective in January 2015. The firm had no repos-to-maturity outstanding as of December 2014 and December 2013.

Securities Borrowed and Loaned Transactions

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

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

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

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

Securities borrowed and loaned within Securities Services are recorded based on the amount of cash collateral advanced or received plus accrued interest. As these arrangements generally can be terminated on demand, they exhibit little, if any, sensitivity to changes in interest rates. Therefore, the carrying value of such arrangements approximates fair value. While these arrangements are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6 through 8. Had these arrangements been included in the firm's fair value hierarchy, they would have been classified in level 2 as of December 2014 and December 2013.

Notes to Consolidated Financial Statements

Offsetting Arrangements

The tables below present the gross and net resale and repurchase agreements and securities borrowed and loaned transactions, and the related amount of netting with the same counterparty under enforceable netting agreements (i.e., counterparty netting) included in the consolidated statements of financial condition. Substantially all of the gross carrying values of these arrangements are subject to enforceable netting agreements. The tables below also present the amounts not offset in the consolidated statements of financial condition including counterparty netting that does not meet the criteria for netting under U.S. GAAP and the fair value of cash or securities collateral received or posted subject to enforceable credit support agreements. Where the firm has received or posted collateral under credit support agreements, but has not yet determined such agreements are enforceable, the related collateral has not been netted in the tables below.

	As of December 2014			
	Assets		Liabilities	
\$ in millions	Resale Securities agreements borrowed	Repurchase Securities agreements loaned		
Amounts included in the consolidated statements of financial condition				
Gross carrying value	\$ 160,644	\$ 171,384	\$ 114,879	\$ 9,150
Counterparty netting	(26,664)	(3,580)	(26,664)	(3,580)
Total	133,980¹	167,804¹	88,215	5,570
Amounts not offset in the consolidated statements of financial condition				
Counterparty netting	(3,834)	(641)	(3,834)	(641)
Collateral	(124,528)	(154,058)	(78,457)	(4,882)
Total	\$ 5,618	\$ 13,105	\$ 5,924	\$ 47

	As of December 2013			
	Assets		Liabilities	
\$ in millions	Resale agreements borrowed	Securities borrowed	Repurchase Securities agreements loaned	
Amounts included in the consolidated statements of financial condition				
Gross carrying value	\$ 190,536	\$ 172,283	\$ 183,913	\$ 23,700
Counterparty netting	(19,131)	(4,955)	(19,131)	(4,955)
Total	171,405¹	167,328¹	164,782	18,745
Amounts not offset in the consolidated statements of financial condition				
Counterparty netting	(10,725)	(2,224)	(10,725)	(2,224)
Collateral	(152,914)	(147,223)	(141,300)	(16,278)
Total	\$ 7,766	\$ 17,881	\$ 12,757	\$ 243

1. As of December 2014 and December 2013, the firm had \$6.04 billion and \$9.67 billion, respectively, of securities received under resale agreements, and \$7.08 billion and \$2.77 billion, respectively, of securities borrowed transactions that were segregated to satisfy certain regulatory requirements. These securities are included in "Cash and securities segregated for regulatory and other purposes."

Other Secured Financings

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

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

Other secured financings include arrangements that are nonrecourse. As of December 2014 and December 2013, nonrecourse other secured financings were \$1.94 billion and \$1.54 billion, respectively.

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

Other secured financings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, which generally approximates fair value. While these financings are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6 through 8. Had these financings been included in the firm's fair value hierarchy, they would have primarily been classified in level 2 as of December 2014 and December 2013.

Notes to Consolidated Financial Statements

The tables below present information about other secured financings.

\$ in millions	As of December 2014		
	U.S. Dollar	Non-U.S. Dollar	Total
Other secured financings (short-term):			
At fair value	\$ 7,887	\$ 7,668	\$15,555
At amortized cost	5	—	5
Weighted average interest rates	4.33%	—%	
Other secured financings (long-term):			
At fair value	3,290	2,605	5,895
At amortized cost	580	774	1,354
Weighted average interest rates	2.69%	2.31%	
Total¹	\$11,762	\$11,047	\$22,809
Amount of other secured financings collateralized by:			
Financial instruments ²	\$11,460	\$10,483	\$21,943
Other assets	302	564	866

\$ in millions	As of December 2013		
	U.S. Dollar	Non-U.S. Dollar	Total
Other secured financings (short-term):			
At fair value	\$ 9,374	\$ 7,828	\$17,202
At amortized cost	88	—	88
Weighted average interest rates	2.86%	—%	
Other secured financings (long-term):			
At fair value	3,711	2,678	6,389
At amortized cost	372	763	1,135
Weighted average interest rates	3.78%	1.53%	
Total¹	\$13,545	\$11,269	\$24,814
Amount of other secured financings collateralized by:			
Financial instruments ²	\$13,366	\$10,880	\$24,246
Other assets	179	389	568

1. Includes \$974 million and \$1.54 billion related to transfers of financial assets accounted for as financings rather than sales as of December 2014 and December 2013, respectively. Such financings were collateralized by financial assets included in "Financial instruments owned, at fair value" of \$995 million and \$1.58 billion as of December 2014 and December 2013, respectively.

2. Includes \$10.24 billion and \$14.75 billion of other secured financings collateralized by financial instruments owned, at fair value as of December 2014 and December 2013, respectively, and includes \$11.70 billion and \$9.50 billion of other secured financings collateralized by financial instruments received as collateral and repledged as of December 2014 and December 2013, respectively.

In the tables above:

- Short-term secured financings include financings maturing within one year of the financial statement date and financings that are redeemable within one year of the financial statement date at the option of the holder.
- Long-term secured financings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates.
- Long-term secured financings that are redeemable prior to maturity at the option of the holders are reflected at the dates such options become exercisable.
- Weighted average interest rates exclude secured financings at fair value and include the effect of hedging activities. See Note 7 for further information about hedging activities.

The table below presents other secured financings by maturity.

\$ in millions	As of December 2014
Other secured financings (short-term)	\$15,560
Other secured financings (long-term):	
2016	3,304
2017	1,800
2018	938
2019	465
2020-and thereafter	742
Total other secured financings (long-term)	7,249
Total other secured financings	\$22,809

Notes to Consolidated Financial Statements

Collateral Received and Pledged

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

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

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

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

\$ in millions	As of December	
	2014	2013
Collateral available to be delivered or repledged ¹	\$630,046	\$608,390
Collateral that was delivered or repledged	474,057	450,127

1. As of December 2014 and December 2013, amounts exclude \$6.04 billion and \$9.67 billion, respectively, of securities received under resale agreements, and \$7.08 billion and \$2.77 billion, respectively, of securities borrowed transactions that contractually had the right to be delivered or repledged, but were segregated to satisfy certain regulatory requirements.

The table below presents information about assets pledged.

\$ in millions	As of December	
	2014	2013
Financial instruments owned, at fair value pledged to counterparties that:		
Had the right to deliver or repledge	\$64,473	\$62,348
Did not have the right to deliver or repledge	68,027	84,799
Other assets pledged to counterparties that:		
Did not have the right to deliver or repledge	1,304	769

Note 11.

Securitization Activities

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

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

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

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

Notes to Consolidated Financial Statements

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

The primary risks included in beneficial interests and other interests from the firm's continuing involvement with securitization vehicles are the performance of the underlying collateral, the position of the firm's investment in the capital structure of the securitization vehicle and the market yield for the security. These interests are accounted for at fair value, are included in "Financial instruments owned, at fair value" and are substantially all classified in level 2 of the fair value hierarchy. See Notes 5 through 8 for further information about fair value measurements.

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

	Year Ended December		
\$ in millions	2014	2013	2012
Residential mortgages	\$19,099	\$29,772	\$33,755
Commercial mortgages	2,810	6,086	300
Other financial assets	1,009	—	—
Total	\$22,918	\$35,858	\$34,055
Cash flows on retained interests	\$ 215	\$ 249	\$ 389

The tables below present the firm's continuing involvement in nonconsolidated securitization entities to which the firm sold assets, as well as the total outstanding principal amount of transferred assets in which the firm has continuing involvement. In these tables:

- The outstanding principal amount is presented for the purpose of providing information about the size of the securitization entities in which the firm has continuing involvement and is not representative of the firm's risk of loss.
- For retained or purchased interests, the firm's risk of loss is limited to the fair value of these interests.
- Purchased interests represent senior and subordinated interests, purchased in connection with secondary market-making activities, in securitization entities in which the firm also holds retained interests.

	As of December 2014		
\$ in millions	Outstanding Principal Amount	Fair Value of Retained Interests	Fair Value of Purchased Interests
U.S. government agency-issued collateralized mortgage obligations	\$56,792	\$2,140	\$ —
Other residential mortgage-backed	2,273	144	5
Other commercial mortgage-backed	3,313	86	45
CDOs, CLOs and other	4,299	59	17
Total	\$66,677	\$2,429	\$ 67

	As of December 2013		
\$ in millions	Outstanding Principal Amount	Fair Value of Retained Interests	Fair Value of Purchased Interests
U.S. government agency-issued collateralized mortgage obligations	\$61,543	\$3,455	\$ —
Other residential mortgage-backed	2,072	46	—
Other commercial mortgage-backed	7,087	140	153
CDOs, CLOs and other	6,861	86	8
Total ¹	\$77,563	\$3,727	\$161

1. Outstanding principal amount includes \$418 million related to securitization entities in which the firm's only continuing involvement is retained servicing which is not a variable interest.

Notes to Consolidated Financial Statements

In addition, the outstanding principal and fair value of retained interests in the tables above relate to the following types of securitizations and vintage as described:

- The outstanding principal amount and fair value of retained interests for U.S. government agency-issued collateralized mortgage obligations as of December 2014 primarily relate to securitizations during 2014 and 2013, and as of December 2013 primarily relate to securitizations during 2013 and 2012.
- The outstanding principal amount and fair value of retained interests for other residential mortgage-backed obligations as of December 2014 primarily relate to resecuritizations during 2014, and prime and Alt-A securitizations during 2007, and as of December 2013 primarily relate to prime and Alt-A securitizations during 2007 and 2006.
- The outstanding principal amount and fair value of retained interests for other commercial mortgage-backed obligations as of December 2014 primarily relate to securitizations during 2014, and as of December 2013 primarily relate to securitizations during 2013.
- The outstanding principal amount and fair value of retained interests for CDOs, CLOs and other as of December 2014 primarily relate to securitizations during 2014 and 2007, and as of December 2013 primarily relate to securitizations during 2007.

In addition to the interests in the tables above, the firm had other continuing involvement in the form of derivative transactions with certain nonconsolidated VIEs. The carrying value of these derivatives was a net asset of \$115 million and \$26 million as of December 2014 and December 2013, respectively. The notional amounts of these derivatives are included in maximum exposure to loss in the nonconsolidated VIE tables in Note 12.

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

	As of December 2014	
	Type of Retained Interests	
\$ in millions	Mortgage-Backed	Other ¹
Fair value of retained interests	\$ 2,370	\$ 59
Weighted average life (years)	7.6	3.6
Constant prepayment rate	13.2%	N.M.
Impact of 10% adverse change	\$ (33)	N.M.
Impact of 20% adverse change	(66)	N.M.
Discount rate	4.1%	N.M.
Impact of 10% adverse change	\$ (50)	N.M.
Impact of 20% adverse change	(97)	N.M.

	As of December 2013	
	Type of Retained Interests	
\$ in millions	Mortgage-Backed	Other ¹
Fair value of retained interests	\$3,641	\$ 86
Weighted average life (years)	8.3	1.9
Constant prepayment rate	7.5%	N.M.
Impact of 10% adverse change	\$ (36)	N.M.
Impact of 20% adverse change	(64)	N.M.
Discount rate	3.9%	N.M.
Impact of 10% adverse change	\$ (85)	N.M.
Impact of 20% adverse change	(164)	N.M.

1. Due to the nature and current fair value of certain of these retained interests, the weighted average assumptions for constant prepayment and discount rates and the related sensitivity to adverse changes are not meaningful as of December 2014 and December 2013. The firm's maximum exposure to adverse changes in the value of these interests is the carrying value of \$59 million and \$86 million as of December 2014 and December 2013, respectively.

In the tables above:

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

Note 12.

Variable Interest Entities

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

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

Mortgage-Backed VIEs and Corporate CDO and CLO VIEs.

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

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

Real Estate, Credit-Related and Other Investing VIEs.

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

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

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

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

VIE Consolidation Analysis

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

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

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

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

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

Nonconsolidated VIEs

The firm's exposure to the obligations of VIEs is generally limited to its interests in these entities. In certain instances, the firm provides guarantees, including derivative guarantees, to VIEs or holders of variable interests in VIEs.

The tables below present information about nonconsolidated VIEs in which the firm holds variable interests. Nonconsolidated VIEs are aggregated based on principal business activity. The nature of the firm's variable interests can take different forms, as described in the rows under maximum exposure to loss. In the tables below:

- The maximum exposure to loss excludes the benefit of offsetting financial instruments that are held to mitigate the risks associated with these variable interests.
- For retained and purchased interests, and loans and investments, the maximum exposure to loss is the carrying value of these interests.
- For commitments and guarantees, and derivatives, the maximum exposure to loss is the notional amount, which does not represent anticipated losses and also has not been reduced by unrealized losses already recorded. As a result, the maximum exposure to loss exceeds liabilities recorded for commitments and guarantees, and derivatives provided to VIEs.

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

- Substantially all assets held by the firm related to mortgage-backed, corporate CDO and CLO, and other asset-backed VIEs are included in "Financial instruments owned, at fair value." Substantially all liabilities held by the firm related to corporate CDO and CLO, and other asset-backed VIEs are included in "Financial instruments sold, but not yet purchased, at fair value;"
- Substantially all assets held by the firm related to real estate, credit-related and other investing VIEs are included in "Financial instruments owned, at fair value," "Loans receivable," and "Other assets." Substantially all liabilities held by the firm related to real estate, credit-related and other investing VIEs are included in "Financial Instruments sold, but not yet purchased, at fair value" and "Other liabilities and accrued expenses;" and
- Substantially all assets held by the firm related to other VIEs are included in "Financial instruments owned, at fair value."

Notes to Consolidated Financial Statements

	Nonconsolidated VIEs as of December 2014					
\$ in millions	Mortgage-backed	Corporate CDOs and CLOs	Real estate, credit-related and other investing	Other asset-backed	Other	Total
Assets in VIE	\$78,107 ²	\$ 8,317	\$8,720	\$8,253	\$5,677	\$109,074
Carrying Value of the Firm's Variable Interests						
Assets	4,348	463	3,051	509	290	8,661
Liabilities	—	3	3	16	—	22
Maximum Exposure to Loss in Nonconsolidated VIEs						
Retained interests	2,370	4	—	55	—	2,429
Purchased interests	1,978	184	—	322	—	2,484
Commitments and guarantees	—	—	604	213	307	1,124
Derivatives ¹	392	2,053	—	3,221	88	5,754
Loans and investments	—	—	3,051	—	290	3,341
Total	\$ 4,740 ²	\$ 2,241	\$3,655	\$3,811	\$ 685	\$ 15,132

	Nonconsolidated VIEs as of December 2013					
\$ in millions	Mortgage-backed	Corporate CDOs and CLOs	Real estate, credit-related and other investing	Other asset-backed	Other	Total
Assets in VIE	\$86,562 ²	\$19,761	\$8,599	\$4,401	\$2,925	\$122,248
Carrying Value of the Firm's Variable Interests						
Assets	5,269	1,063	2,756	284	165	9,537
Liabilities	—	3	2	40	—	45
Maximum Exposure to Loss in Nonconsolidated VIEs						
Retained interests	3,641	80	—	6	—	3,727
Purchased interests	1,627	659	—	142	—	2,428
Commitments and guarantees	—	—	485	—	281	766
Derivatives ¹	586	4,809	—	2,115	—	7,510
Loans and investments	—	—	2,756	—	165	2,921
Total	\$ 5,854 ²	\$ 5,548	\$3,241	\$2,263	\$ 446	\$ 17,352

1. The aggregate amounts include \$1.64 billion and \$2.01 billion as of December 2014 and December 2013, respectively, related to derivative transactions with VIEs to which the firm transferred assets.

2. Assets in VIE and maximum exposure to loss include \$3.57 billion and \$662 million, respectively, as of December 2014, and \$4.55 billion and \$900 million, respectively, as of December 2013, related to CDOs backed by mortgage obligations.

Notes to Consolidated Financial Statements

Consolidated VIEs

The tables below present the carrying amount and classification of assets and liabilities in consolidated VIEs, excluding the benefit of offsetting financial instruments that are held to mitigate the risks associated with the firm's variable interests. Consolidated VIEs are aggregated based on principal business activity and their assets and liabilities are presented net of intercompany eliminations. The majority of the assets in principal-protected notes VIEs are intercompany and are eliminated in consolidation.

Substantially all the assets in consolidated VIEs can only be used to settle obligations of the VIE.

The tables below exclude VIEs in which the firm holds a majority voting interest if (i) the VIE meets the definition of a business and (ii) the VIE's assets can be used for purposes other than the settlement of its obligations.

The liabilities of real estate, credit-related and other investing VIEs, and CDOs, mortgage-backed and other asset-backed VIEs do not have recourse to the general credit of the firm.

\$ in millions

	Consolidated VIEs as of December 2014			
	Real estate, credit-related and other investing	CDOs, mortgage-backed and other asset-backed	Principal- protected notes	Total
Assets				
Cash and cash equivalents	\$ 218	\$ —	\$ —	\$ 218
Cash and securities segregated for regulatory and other purposes	19	—	31	50
Loans receivable	589	—	—	589
Financial instruments owned, at fair value	2,608	121	276	3,005
Other assets	349	—	—	349
Total	\$3,783	\$121	\$ 307	\$4,211
Liabilities				
Other secured financings	\$ 419	\$ 99	\$ 439	\$ 957
Financial instruments sold, but not yet purchased, at fair value	10	8	—	18
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings	—	—	1,090	1,090
Unsecured long-term borrowings	12	—	103	115
Other liabilities and accrued expenses	906	—	—	906
Total	\$1,347	\$107	\$1,632	\$3,086

\$ in millions

	Consolidated VIEs as of December 2013			
	Real estate, credit-related and other investing	CDOs, mortgage-backed and other asset-backed	Principal- protected notes	Total
Assets				
Cash and cash equivalents	\$ 183	\$ —	\$ —	\$ 183
Cash and securities segregated for regulatory and other purposes	84	—	63	147
Loans receivable	50	—	—	50
Financial instruments owned, at fair value	1,309	310	155	1,774
Other assets	921	—	—	921
Total	\$2,547	\$310	\$ 218	\$3,075
Liabilities				
Other secured financings	\$ 417	\$ 198	\$ 404	\$1,019
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings	—	—	1,258	1,258
Unsecured long-term borrowings	57	—	193	250
Other liabilities and accrued expenses	556	—	—	556
Total	\$1,030	\$198	\$1,855	\$3,083

Notes to Consolidated Financial Statements

Note 13.

Other Assets

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

\$ in millions	As of December	
	2014	2013
Property, leasehold improvements and equipment	\$ 9,344	\$ 9,196
Goodwill and identifiable intangible assets	4,160	4,376
Income tax-related assets	5,181	5,241
Equity-method investments ¹	360	417
Miscellaneous receivables and other ²	3,554	3,279
Total	\$22,599	\$22,509

1. Excludes investments accounted for at fair value under the fair value option where the firm would otherwise apply the equity method of accounting of \$6.62 billion and \$6.07 billion as of December 2014 and December 2013, respectively, which are included in "Financial instruments owned, at fair value." The firm has generally elected the fair value option for such investments acquired after the fair value option became available.
2. Includes \$461 million related to investments in qualified affordable housing projects as of December 2014.

Property, Leasehold Improvements and Equipment

Property, leasehold improvements and equipment in the table above is presented net of accumulated depreciation and amortization of \$8.98 billion and \$9.04 billion as of December 2014 and December 2013, respectively. Property, leasehold improvements and equipment included \$5.81 billion and \$6.02 billion as of December 2014 and December 2013, respectively, related to property, leasehold improvements and equipment that the firm uses in connection with its operations. The remainder is held by investment entities, including VIEs, consolidated by the firm.

Substantially all property and equipment are depreciated on a straight-line basis over the useful life of the asset. Leasehold improvements are amortized on a straight-line basis over the useful life of the improvement or the term of the lease, whichever is shorter. Certain costs of software developed or obtained for internal use are capitalized and amortized on a straight-line basis over the useful life of the software.

Goodwill and Identifiable Intangible Assets

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

\$ in millions	Goodwill as of December	
	2014	2013
Investment Banking:		
Financial Advisory	\$ 98	\$ 98
Underwriting	183	183
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution	269	269
Equities Client Execution	2,403	2,404
Securities Services	105	105
Investing & Lending ¹	—	60
Investment Management	587	586
Total	\$3,645	\$3,705

\$ in millions	Identifiable Intangible Assets as of December	
	2014	2013
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution ²	\$ 138	\$ 35
Equities Client Execution ³	246	348
Investing & Lending ¹	18	180
Investment Management	113	108
Total	\$ 515	\$ 671

1. The decrease from December 2013 to December 2014 for goodwill and identifiable intangible assets reflects the sale of two consolidated investments. The decrease in goodwill also reflects an impairment of \$22 million in connection with the sale of Metro International Trade Services LLC (Metro). See "— Impairments" below for further information about the impairment.
2. The increase from December 2013 to December 2014 is primarily related to the acquisition of commodities-related intangible assets.
3. The decrease from December 2013 to December 2014 reflects an impairment related to the firm's exchange-traded fund lead market maker (LMM) rights.

Notes to Consolidated Financial Statements

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

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

The quantitative goodwill impairment test consists of two steps:

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

The firm performed a quantitative goodwill impairment test during the fourth quarter of 2012 (2012 quantitative goodwill test). When performing this test, the firm estimated the fair value of each reporting unit and compared it to the respective reporting unit's net book value (estimated carrying value). The reporting units were valued using relative value and residual income valuation techniques because the firm believes market participants would use these techniques to value the firm's reporting units. The net book value of each reporting unit reflected an allocation of total shareholders' equity and represented the estimated amount of shareholders' equity required to support the activities of the reporting unit under guidelines issued by the Basel Committee on Banking Supervision (Basel Committee) in December 2010. In performing its 2012 quantitative goodwill test, the firm determined that goodwill was not impaired, and the estimated fair value of the firm's reporting units, in which substantially all of the firm's goodwill is held, significantly exceeded their estimated carrying values.

During the fourth quarter of 2014, the firm assessed goodwill for impairment. Multiple factors were assessed with respect to each of the firm's reporting units to determine whether it was more likely than not that the fair value of any of the reporting units was less than its carrying amount. The qualitative assessment also considered changes since the 2012 quantitative goodwill test.

In accordance with ASC 350, the firm considered the following factors in the 2014 qualitative assessment performed in the fourth quarter when evaluating whether it was more likely than not that the fair value of a reporting unit was less than its carrying amount:

- **Macroeconomic conditions.** Since the 2012 quantitative goodwill test was performed, the firm's general operating environment improved as credit spreads tightened, global equity prices increased significantly, and industry-wide mergers and acquisitions activity, and industry-wide debt and equity underwriting activity, improved.
- **Industry and market considerations.** Since the 2012 quantitative goodwill test was performed, industry-wide metrics have trended positively and most publicly-traded industry participants, including the firm, experienced increases in stock price, price-to-book multiples and price-to-earnings multiples. In addition, clarity was obtained on a number of regulations and other reforms have been adopted or proposed by regulators. Many of these rules are highly complex and their full impact will not be known until the rules are implemented and market practices develop under the final regulations. However, the firm does not expect compliance to have a significant negative impact on reporting unit results.
- **Cost factors.** Although certain expenses increased, there were no significant negative changes to the firm's overall cost structure since the 2012 quantitative goodwill test was performed.
- **Overall financial performance.** During 2014, the firm's net earnings, pre-tax margin, diluted earnings per common share, return on average common shareholders' equity and book value per common share increased as compared with 2012.

Notes to Consolidated Financial Statements

• **Entity-specific events.** There were no entity-specific events since the 2012 quantitative goodwill test was performed that would have had a significant negative impact on the valuation of the firm's reporting units.

• **Events affecting reporting units.** There were no events since the 2012 quantitative goodwill test was performed that would have had a significant negative impact on the valuation of the firm's reporting units.

• **Sustained changes in stock price.** Since the 2012 quantitative goodwill test was performed, the firm's stock price has increased significantly. In addition, the stock price exceeded book value per common share throughout most of 2013 and 2014.

The firm also considered other factors in its qualitative assessment, including changes in the book value of reporting units, the estimated excess of the fair values as compared with the carrying values for the reporting units in the 2012 quantitative goodwill test, projected earnings and the cost of equity. The firm considered all of the above factors in the aggregate as part of its qualitative assessment.

As a result of the 2014 qualitative assessment, the firm determined that it was more likely than not that the fair value of each of the reporting units exceeded its respective carrying amount. Therefore, the firm determined that goodwill was not impaired and that a quantitative goodwill impairment test was not required.

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

\$ in millions	As of December		
	2014	Weighted Average Remaining Useful Lives (years)	2013
Customer lists			
Gross carrying amount	\$1,036		\$ 1,102
Accumulated amortization	(715)		(706)
Net carrying amount	321	6	396
Commodities-related¹			
Gross carrying amount	216		510
Accumulated amortization	(78)		(341)
Net carrying amount	138	8	169
Other			
Gross carrying amount ²	200		906
Accumulated amortization ²	(144)		(800)
Net carrying amount	56	5	106
Total			
Gross carrying amount	1,452		2,518
Accumulated amortization	(937)		(1,847)
Net carrying amount	\$ 515	7	\$ 671

1. Includes commodities-related transportation rights, customer contracts and relationships, and permits.

2. The decrease from December 2013 to December 2014 is primarily due to the sale of the firm's New York Stock Exchange Designated Market Maker rights in August 2014.

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

The tables below present amortization for 2014, 2013 and 2012, and the estimated future amortization through 2019 for identifiable intangible assets.

\$ in millions	Year Ended December		
	2014	2013	2012
Amortization	\$217	\$205	\$338

\$ in millions	As of December 2014	
	Estimated future amortization	
2015		\$117
2016		106
2017		96
2018		81
2019		53

Impairments

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

During 2014 and 2013, primarily as a result of deterioration in market and operating conditions related to certain of the firm's consolidated investments and the firm's LMM rights, the firm determined that certain assets were impaired and recorded impairments of \$360 million and \$216 million, respectively.

- In 2014, these impairments consisted of \$268 million related to property, leasehold improvements and equipment, substantially all of which was attributable to a consolidated investment in Latin America, \$70 million related to identifiable intangible assets, primarily attributable to the firm's LMM rights, and \$22 million related to goodwill as a result of the sale of Metro. The impairments related to property, leasehold improvements and equipment and goodwill were included in the firm's Investing & Lending segment and the impairments related to identifiable intangible assets were principally included in the firm's Institutional Client Services segment.

- In 2013, these impairments consisted of \$160 million related to property, leasehold improvements and equipment and \$56 million related to identifiable intangible assets primarily attributable to a consolidated investment in Latin America. Substantially all of these impairments were included in the firm's Investing & Lending segment.

The impairments in both 2014 and 2013 were included in "Depreciation and amortization" and represented the excess of the carrying values of these assets over their estimated fair values, substantially all of which are calculated using level 3 measurements. These fair values were calculated using a combination of discounted cash flow analyses and relative value analyses, including the estimated cash flows expected to result from the use and eventual disposition of these assets.

Notes to Consolidated Financial Statements

Note 14.

Deposits

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

	As of December	
\$ in millions	2014	2013
U.S. offices	\$69,270	\$61,016
Non-U.S. offices	13,738	9,791
Total	\$83,008	\$70,807

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

	As of December 2014		
\$ in millions	U.S.	Non-U.S.	Total
2015	\$ 6,478	\$8,395	\$14,873
2016	3,755	8	3,763
2017	4,067	—	4,067
2018	2,410	—	2,410
2019	2,898	2,898	
2020 - thereafter	5,661	43	5,704
Total	\$25,269¹	\$8,446²	\$33,715³

1. Includes \$1.57 billion greater than \$100,000, of which \$198 million matures within three months, \$937 million matures within three to six months, \$170 million matures within six to twelve months, and \$266 million matures after twelve months.

2. Includes \$6.51 billion greater than \$100,000.

3. Includes \$13.52 billion of time deposits accounted for at fair value under the fair value option. See Note 8 for further information about deposits accounted for at fair value.

As of December 2014 and December 2013, deposits include \$49.29 billion and \$46.02 billion, respectively, of savings and demand deposits, which have no stated maturity, and were recorded based on the amount of cash received plus accrued interest, which approximates fair value. In addition, the firm designates certain derivatives as fair value hedges to convert substantially all of its time deposits not accounted for at fair value from fixed-rate obligations into floating-rate obligations. Accordingly, the carrying value of time deposits approximated fair value as of December 2014 and December 2013. While these savings and demand deposits and time deposits are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6 through 8. Had these deposits been included in the firm's fair value hierarchy, they would have been classified in level 2 as of December 2014 and December 2013.

Note 15.

Short-Term Borrowings

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

\$ in millions	As of December	
	2014	2013
Other secured financings (short-term)	\$15,560	\$17,290
Unsecured short-term borrowings	44,540	44,692
Total	\$60,100	\$61,982

See Note 10 for information about other secured financings.

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

The firm accounts for promissory notes, commercial paper and certain hybrid financial instruments at fair value under the fair value option. See Note 8 for further information about unsecured short-term borrowings that are accounted for at fair value. The carrying value of unsecured short-term borrowings that are not recorded at fair value generally approximates fair value due to the short-term nature of the obligations. While these unsecured short-term borrowings are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6 through 8. Had these borrowings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2014 and December 2013.

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

\$ in millions	As of December	
	2014	2013
Current portion of unsecured long-term borrowings ¹	\$25,126	\$25,312
Hybrid financial instruments	14,083	13,391
Promissory notes	338	292
Commercial paper	617	1,011
Other short-term borrowings	4,376	4,686
Total	\$44,540	\$44,692
Weighted average interest rate ²	1.52%	1.65%

1. Includes \$23.82 billion and \$24.20 billion as of December 2014 and December 2013, respectively, issued by Group Inc.

2. The weighted average interest rates for these borrowings include the effect of hedging activities and exclude financial instruments accounted for at fair value under the fair value option. See Note 7 for further information about hedging activities.

Notes to Consolidated Financial Statements

Note 16.

Long-Term Borrowings

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

\$ in millions	As of December	
	2014	2013
Other secured financings (long-term)	\$ 7,249	\$ 7,524
Unsecured long-term borrowings	167,571	160,965
Total	\$174,820	\$168,489

See Note 10 for information about other secured financings. The tables below present unsecured long-term borrowings extending through 2061 and consisting principally of senior borrowings.

\$ in millions	As of December 2014		
	U.S. Dollar	Non-U.S. Dollar	Total
Fixed-rate obligations ¹			
Group Inc.	\$ 86,403	\$34,146	\$120,549
Subsidiaries	3,074	711	3,785
Floating-rate obligations ²			
Group Inc.	23,402	14,615	38,017
Subsidiaries	4,139	1,081	5,220
Total	\$117,018	\$50,553	\$167,571

\$ in millions	As of December 2013		
	U.S. Dollar	Non-U.S. Dollar	Total
Fixed-rate obligations ¹			
Group Inc.	\$ 83,537	\$34,362	\$117,899
Subsidiaries	1,978	989	2,967
Floating-rate obligations ²			
Group Inc.	19,446	16,168	35,614
Subsidiaries	3,144	1,341	4,485
Total	\$108,105	\$52,860	\$160,965

1. Interest rates on U.S. dollar-denominated debt ranged from 1.55% to 10.04% (with a weighted average rate of 5.08%) and 1.35% to 10.04% (with a weighted average rate of 5.19%) as of December 2014 and December 2013, respectively. Interest rates on non-U.S. dollar-denominated debt ranged from 0.02% to 13.00% (with a weighted average rate of 4.06%) and 0.33% to 13.00% (with a weighted average rate of 4.29%) as of December 2014 and December 2013, respectively.

2. Floating interest rates generally are based on LIBOR or OIS. Equity-linked and indexed instruments are included in floating-rate obligations.

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

\$ in millions	As of December 2014		
	Group Inc.	Subsidiaries	Total
2016	\$ 22,368	\$ 789	\$ 23,157
2017	20,818	367	21,185
2018	22,564	1,272	23,836
2019	14,718	1,791	16,509
2020 - thereafter	78,098	4,786	82,884
Total¹	\$158,566	\$9,005	\$167,571

1. Includes \$9.54 billion of adjustments to the carrying value of certain unsecured long-term borrowings resulting from the application of hedge accounting by year of maturity as follows: \$485 million in 2016, \$738 million in 2017, \$816 million in 2018, \$459 million in 2019 and \$7.04 billion in 2020 and thereafter.

In the table above:

- Unsecured long-term borrowings maturing within one year of the financial statement date and unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holders are excluded from the table as they are included as unsecured short-term borrowings.
- Unsecured long-term borrowings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates.
- Unsecured long-term borrowings that are redeemable prior to maturity at the option of the holders are reflected at the dates such options become exercisable.

The firm designates certain derivatives as fair value hedges to convert a substantial portion of its fixed-rate unsecured long-term borrowings not accounted for at fair value into floating-rate obligations. Accordingly, excluding the cumulative impact of changes in the firm's credit spreads, the carrying value of unsecured long-term borrowings approximated fair value as of December 2014 and December 2013. See Note 7 for further information about hedging activities. For unsecured long-term borrowings for which the firm did not elect the fair value option, the cumulative impact due to changes in the firm's own credit spreads would be an increase of 2% and 3% in the carrying value of total unsecured long-term borrowings as of December 2014 and December 2013, respectively. As these borrowings are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP, their fair value is not included in the firm's fair value hierarchy in Notes 6 through 8. Had these borrowings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of December 2014 and December 2013.

Notes to Consolidated Financial Statements

The tables below present unsecured long-term borrowings, after giving effect to hedging activities that converted a substantial portion of fixed-rate obligations to floating-rate obligations.

\$ in millions	As of December 2014		
	Group Inc.	Subsidiaries	Total
Fixed-rate obligations			
At fair value	\$ —	\$ 861	\$ 861
At amortized cost ¹	31,296	2,452	33,748
Floating-rate obligations			
At fair value	11,661	3,483	15,144
At amortized cost ¹	115,609	2,209	117,818
Total	\$158,566	\$9,005	\$167,571

\$ in millions	As of December 2013		
	Group Inc.	Subsidiaries	Total
Fixed-rate obligations			
At fair value	\$ —	\$ 471	\$ 471
At amortized cost ¹	31,741	1,959	33,700
Floating-rate obligations			
At fair value	8,671	2,549	11,220
At amortized cost ¹	113,101	2,473	115,574
Total	\$153,513	\$7,452	\$160,965

1. The weighted average interest rates on the aggregate amounts were 2.68% (5.09% related to fixed-rate obligations and 2.01% related to floating-rate obligations) and 2.73% (5.23% related to fixed-rate obligations and 2.04% related to floating-rate obligations) as of December 2014 and December 2013, respectively. These rates exclude financial instruments accounted for at fair value under the fair value option.

Subordinated Borrowings

Unsecured long-term borrowings include subordinated debt and junior subordinated debt. Junior subordinated debt is junior in right of payment to other subordinated borrowings, which are junior to senior borrowings. As of December 2014 and December 2013, subordinated debt had maturities ranging from 2017 to 2038, and 2015 to 2038, respectively. The tables below present subordinated borrowings.

\$ in millions	As of December 2014		
	Par Amount	Carrying Amount	Rate ¹
Subordinated debt ²	\$14,254	\$17,241	3.77%
Junior subordinated debt	1,582	2,122	6.21%
Total subordinated borrowings	\$15,836	\$19,363	4.02%

\$ in millions	As of December 2013		
	Par Amount	Carrying Amount	Rate ¹
Subordinated debt ²	\$14,508	\$16,982	4.16%
Junior subordinated debt	2,835	3,760	4.79%
Total subordinated borrowings	\$17,343	\$20,742	4.26%

- Weighted average interest rates after giving effect to fair value hedges used to convert these fixed-rate obligations into floating-rate obligations. See Note 7 for further information about hedging activities. See below for information about interest rates on junior subordinated debt.
- Par amount and carrying amount of subordinated debt issued by Group Inc. was \$13.68 billion and \$16.67 billion, respectively, as of December 2014, and \$13.94 billion and \$16.41 billion, respectively, as of December 2013.

Junior Subordinated Debt

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

The 2012 Trusts purchased the junior subordinated debt from Goldman Sachs Capital II and Goldman Sachs Capital III (APEX Trusts). The APEX Trusts used the proceeds from such sales to purchase shares of Group Inc.'s Perpetual Non-Cumulative Preferred Stock, Series E (Series E Preferred Stock) and Perpetual Non-Cumulative Preferred Stock, Series F (Series F Preferred Stock). See Note 19 for more information about the Series E and Series F Preferred Stock.

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

The firm has the right to defer payments on the junior subordinated debt, subject to limitations. During any such deferral period, the firm will not be permitted to, among other things, pay dividends on or make certain repurchases of its common or preferred stock. However, as Group Inc. fully and unconditionally guarantees the payment of the distribution and redemption amounts when due on a senior basis on the senior guaranteed trust securities issued by the 2012 Trusts, if the 2012 Trusts are unable to make scheduled distributions to the holders of the senior guaranteed trust securities, under the guarantee, Group Inc. would be obligated to make those payments. As such, the \$2.08 billion of junior subordinated debt held by the 2012 Trusts for the benefit of investors, included in "Unsecured long-term borrowings" in the consolidated statements of financial condition, is not classified as subordinated borrowings.

Notes to Consolidated Financial Statements

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

The firm has covenanted in favor of the holders of Group Inc.'s 6.345% junior subordinated debt due February 15, 2034, that, subject to certain exceptions, the firm will not redeem or purchase the capital securities issued by the APEX Trusts or shares of Group Inc.'s Series E or Series F Preferred Stock prior to specified dates in 2022 for a price that exceeds a maximum amount determined by reference to the net cash proceeds that the firm has received from the sale of qualifying securities.

Junior Subordinated Debt Issued in Connection with Trust Preferred Securities. Group Inc. issued \$2.84 billion of junior subordinated debt in 2004 to Goldman Sachs Capital I (Trust), a Delaware statutory trust. The Trust issued \$2.75 billion of guaranteed preferred beneficial interests (Trust Preferred Securities) to third parties and \$85 million of common beneficial interests to Group Inc. and used the proceeds from the issuances to purchase the junior subordinated debt from Group Inc. During the second quarter of 2014, the firm purchased \$1.22 billion (par amount) of Trust Preferred Securities and delivered these securities, along with \$37.6 million of common beneficial interests, to the Trust in the third quarter of 2014 in exchange for a corresponding par amount of the junior subordinated debt. Following the exchange, these Trust Preferred Securities, common beneficial interests and junior subordinated debt were extinguished and the firm recognized a gain of \$289 million (\$270 million of which was recorded at extinguishment in the third quarter of 2014), which is included in "Market making" in the consolidated statements of earnings. Subsequent to this exchange, during the second half of 2014, the firm purchased \$214 million (par amount) of Trust Preferred Securities and delivered these securities, along with \$6.6 million of common beneficial interests, to the Trust in February 2015 in exchange for a corresponding par amount of the junior subordinated debt. The Trust is a wholly-owned finance subsidiary of the firm for regulatory and legal purposes but is not consolidated for accounting purposes.

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

Note 17.

Other Liabilities and Accrued Expenses

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

\$ in millions	As of December	
	2014	2013
Compensation and benefits	\$ 8,368	\$ 7,874
Noncontrolling interests ¹	404	326
Income tax-related liabilities	1,533	1,974
Employee interests in consolidated funds	176	210
Subordinated liabilities issued by		
consolidated VIEs	843	477
Accrued expenses and other	4,751	5,183
Total	\$16,075	\$16,044

1. Primarily relates to consolidated investment funds.

Notes to Consolidated Financial Statements

Note 18.

Commitments, Contingencies and Guarantees

Commitments

The table below presents the firm's commitments.

\$ in millions	Commitment Amount by Period of Expiration as of December 2014				Total Commitments as of December	
	2015	2016 - 2017	2018 - 2019	2020 - Thereafter	2014	2013
Commitments to extend credit						
Commercial lending:						
Investment-grade	\$ 9,712	\$15,003	\$36,200	\$2,719	\$ 63,634	\$ 60,499
Non-investment-grade	4,136	7,080	14,111	4,278	29,605	25,412
Warehouse financing	1,306	1,152	112	140	2,710	1,716
Total commitments to extend credit	15,154	23,235	50,423	7,137	95,949	87,627
Contingent and forward starting resale and securities borrowing agreements	34,343	557	325	—	35,225	34,410
Forward starting repurchase and secured lending agreements	8,180	—	—	—	8,180	8,256
Letters of credit	280	14	10	4	308	501
Investment commitments	1,684	2,818	25	637	5,164	7,116
Other	6,136	87	42	56	6,321	3,955
Total commitments	\$65,777	\$26,711	\$50,825	\$7,834	\$151,147	\$141,865

Commitments to Extend Credit

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

As of December 2014 and December 2013, \$66.22 billion and \$35.66 billion, respectively, of the firm's lending commitments were held for investment and were accounted for on an accrual basis. See Note 9 for further information about such commitments.

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

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

Notes to Consolidated Financial Statements

Sumitomo Mitsui Financial Group, Inc. (SMFG) provides the firm with credit loss protection on certain approved loan commitments (primarily investment-grade commercial lending commitments). The notional amount of such loan commitments was \$27.51 billion and \$29.24 billion as of December 2014 and December 2013, respectively. The credit loss protection on loan commitments provided by SMFG is generally limited to 95% of the first loss the firm realizes on such commitments, up to a maximum of approximately \$950 million. In addition, subject to the satisfaction of certain conditions, upon the firm's request, SMFG will provide protection for 70% of additional losses on such commitments, up to a maximum of \$1.13 billion, of which \$768 million and \$870 million of protection had been provided as of December 2014 and December 2013, respectively. The firm also uses other financial instruments to mitigate credit risks related to certain commitments not covered by SMFG. These instruments primarily include credit default swaps that reference the same or similar underlying instrument or entity, or credit default swaps that reference a market index.

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

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

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

Letters of Credit

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

Investment Commitments

The firm's investment commitments of \$5.16 billion and \$7.12 billion as of December 2014 and December 2013, respectively, include commitments to invest in private equity, real estate and other assets directly and through funds that the firm raises and manages. Of these amounts, \$2.87 billion and \$5.48 billion as of December 2014 and December 2013, respectively, relate to commitments to invest in funds managed by the firm. If these commitments are called, they would be funded at market value on the date of investment.

Leases

The firm has contractual obligations under long-term noncancelable lease agreements, principally for office space, expiring on various dates through 2069. Certain agreements are subject to periodic escalation provisions for increases in real estate taxes and other charges. The table below presents future minimum rental payments, net of minimum sublease rentals.

\$ in millions	As of December 2014
2015	\$ 321
2016	292
2017	274
2018	226
2019	190
2020 - thereafter	870
Total	\$2,173

Rent charged to operating expense was \$309 million for 2014, \$324 million for 2013 and \$374 million for 2012.

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

Contingencies

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

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

• **Representations and Warranties.** The firm has not been a significant originator of residential mortgage loans. The firm did purchase loans originated by others and generally received loan-level representations of the type described below from the originators. During the period 2005 through 2008, the firm sold approximately \$10 billion of loans to government-sponsored enterprises and approximately \$11 billion of loans to other third parties. In addition, the firm transferred loans to trusts and other mortgage securitization vehicles. As of December 2014 and December 2013, the outstanding balance of the loans transferred to trusts and other mortgage securitization vehicles during the period 2005 through 2008 was approximately \$25 billion and \$29 billion, respectively. These amounts reflect paydowns and cumulative losses of approximately \$100 billion (\$23 billion of which are cumulative losses) as of December 2014 and approximately \$96 billion (\$22 billion of which are cumulative losses) as of December 2013. A small number of these Goldman Sachs-issued securitizations with an outstanding principal balance of \$401 million and total paydowns and cumulative losses of \$1.66 billion (\$550 million of which are cumulative losses) as of December 2014, and an outstanding principal balance of \$463 million and total paydowns and cumulative losses of \$1.60 billion (\$534 million of which are cumulative losses) as of December 2013, were structured with credit protection obtained from monoline insurers. In connection with both sales of loans and securitizations, the firm provided loan level representations of the type described below and/or assigned the loan level representations from the party from whom the firm purchased the loans.

The loan level representations made in connection with the sale or securitization of mortgage loans varied among transactions but were generally detailed representations applicable to each loan in the portfolio and addressed matters relating to the property, the borrower and the note. These representations generally included, but were not limited to, the following: (i) certain attributes of the borrower's financial status; (ii) loan-to-value ratios, owner occupancy status and certain other characteristics of the property; (iii) the lien position; (iv) the fact that the loan was originated in compliance with law; and (v) completeness of the loan documentation.

The firm has received repurchase claims for residential mortgage loans based on alleged breaches of representations from government-sponsored enterprises, other third parties, trusts and other mortgage securitization vehicles, which have not been significant. During both the years ended December 2014 and December 2013, the firm repurchased loans with an unpaid principal balance of less than \$10 million and related losses were not material. The firm has received a communication from counsel purporting to represent certain institutional investors in portions of Goldman Sachs-issued securitizations between 2003 and 2007, such securitizations having a total original notional face amount of approximately \$150 billion, offering to enter into a "settlement dialogue" with respect to alleged breaches of representations made by Goldman Sachs in connection with such offerings.

Ultimately, the firm's exposure to claims for repurchase of residential mortgage loans based on alleged breaches of representations will depend on a number of factors including the following: (i) the extent to which these claims are actually made within the statute of limitations taking into consideration the agreements to toll the statute of limitations the firm has entered into with trustees representing trusts; (ii) the extent to which there are underlying breaches of representations that give rise to valid claims for repurchase; (iii) in the case of loans originated by others, the extent to which the firm could be held liable and, if it is, the firm's ability to pursue and collect on any claims against the parties who made representations to the firm; (iv) macroeconomic factors, including developments in the residential real estate market; and (v) legal and regulatory developments. Based upon the large number of defaults in residential mortgages, including those sold or securitized by the firm, there is a potential for increasing claims for repurchases. However, the firm is not in a position to make a meaningful estimate of that exposure at this time.

Notes to Consolidated Financial Statements

- **Foreclosure and Other Mortgage Loan Servicing Practices and Procedures.** The firm had received a number of requests for information from regulators and other agencies, including state attorneys general and banking regulators, as part of an industry-wide focus on the practices of lenders and servicers in connection with foreclosure proceedings and other aspects of mortgage loan servicing practices and procedures. The requests sought information about the foreclosure and servicing protocols and activities of Litton Loan Servicing LP (Litton), a residential mortgage servicing subsidiary sold by the firm to Ocwen Financial Corporation (Ocwen) in the third quarter of 2011. The firm is cooperating with the requests and these inquiries may result in the imposition of fines or other regulatory action.

In connection with the sale of Litton, the firm provided customary representations and warranties, and indemnities for breaches of these representations and warranties, to Ocwen. These indemnities are subject to various limitations, and are capped at approximately \$50 million. The firm has not yet received any claims under these indemnities. The firm also agreed to provide specific indemnities to Ocwen related to claims made by third parties with respect to servicing activities during the period that Litton was owned by the firm and which are in excess of the related reserves accrued for such matters by Litton at the time of the sale. These indemnities are capped at approximately \$125 million. The firm has recorded a reserve for the portion of these potential losses that it believes is probable and can be reasonably estimated. As of December 2014, claims received and payments made in connection with these claims were not material to the firm.

The firm further agreed to provide indemnities to Ocwen not subject to a cap, which primarily relate to potential liabilities constituting fines or civil monetary penalties which could be imposed in settlements with U.S. states' attorneys general or in consent orders with the U.S. federal bank regulatory agencies or the New York State Department of Financial Services, in each case relating to Litton's foreclosure and servicing practices while it was owned by the firm. The firm has entered into a settlement with the Federal Reserve Board relating to foreclosure and servicing matters.

Under the Litton sale agreement the firm also retained liabilities associated with claims related to Litton's failure to maintain lender-placed mortgage insurance, obligations to repurchase certain loans from government-sponsored enterprises, subpoenas from one of Litton's regulators, and fines or civil penalties imposed by the Federal Reserve Board or the New York State Department of Financial Services in connection with certain compliance matters. Management does not believe, based on currently available information, that any payments under these indemnities will have a material adverse effect on the firm's financial condition.

Other Contingencies. In connection with the sale of Metro, the firm provided customary representations and warranties, and indemnities for breaches of these representations and warranties, to the buyer. The firm further agreed to provide indemnities to the buyer, which primarily relate to potential liabilities for legal or regulatory proceedings arising out of the conduct of Metro's business while it was owned by the firm.

Notes to Consolidated Financial Statements

Guarantees

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

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

Securities Lending Indemnifications. The firm, in its capacity as an agency lender, indemnifies most of its securities lending customers against losses incurred in the event that borrowers do not return securities and the collateral held is insufficient to cover the market value of the securities borrowed. Collateral held by the lenders in connection with securities lending indemnifications was \$28.49 billion and \$27.14 billion as of December 2014 and December 2013, respectively. Because the contractual nature of these arrangements requires the firm to obtain collateral with a market value that exceeds the value of the securities lent to the borrower, there is minimal performance risk associated with these guarantees.

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

The tables below present information about certain derivatives that meet the definition of a guarantee, securities lending indemnifications and certain other guarantees. The maximum payout in the tables below is based on the notional amount of the contract and therefore does not represent anticipated losses. See Note 7 for information about credit derivatives that meet the definition of a guarantee which are not included below. The tables below also exclude certain commitments to issue standby letters of credit that are included in "Commitments to extend credit." See the table in "Commitments" above for a summary of the firm's commitments.

	As of December 2014		
\$ in millions	Derivatives	Securities lending indemnifications	Other financial guarantees

Carrying Value of Net Liability	\$ 11,201	\$ —	\$ 119
Maximum Payout/Notional Amount by Period of Expiration			
2015	\$351,308	\$27,567	\$ 471
2016 - 2017	150,989	—	935
2018 - 2019	51,927	—	1,390
2020 - Thereafter	58,511	—	1,690
Total	\$612,735	\$27,567	\$4,486

	As of December 2013		
\$ in millions	Derivatives	Securities lending indemnifications	Other financial guarantees

Carrying Value of Net Liability	\$ 7,634	\$ —	\$ 213
Maximum Payout/Notional Amount by Period of Expiration			
2014	\$517,634	\$26,384	\$1,361
2015 - 2016	180,543	—	620
2017 - 2018	39,367	—	1,140
2019 - Thereafter	57,736	—	1,046
Total	\$795,280	\$26,384	\$4,167

Notes to Consolidated Financial Statements

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

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

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

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

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

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

The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these guarantees and indemnifications have been recognized in the consolidated statements of financial condition as of December 2014 and December 2013.

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

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

These indemnifications generally are standard contractual terms and are entered into in the ordinary course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the contingencies triggering the obligation to indemnify are not expected to occur. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these arrangements have been recognized in the consolidated statements of financial condition as of December 2014 and December 2013.

Notes to Consolidated Financial Statements

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

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

In November 2008, the firm contributed subsidiaries into GS Bank USA, and Group Inc. agreed to guarantee the reimbursement of certain losses, including credit-related losses, relating to assets held by the contributed entities. In connection with this guarantee, Group Inc. also agreed to pledge to GS Bank USA certain collateral, including interests in subsidiaries and other illiquid assets.

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

Note 19.

Shareholders' Equity

Common Equity

Dividends declared per common share were \$2.25 in 2014, \$2.05 in 2013 and \$1.77 in 2012. On January 15, 2015, Group Inc. declared a dividend of \$0.60 per common share to be paid on March 30, 2015 to common shareholders of record on March 2, 2015.

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

The table below presents the amount of common stock repurchased by the firm under the share repurchase program during 2014, 2013 and 2012.

in millions, except per share amounts	Year Ended December		
	2014	2013	2012
Common share repurchases	\$31.8	39.3	42.0
Average cost per share	\$171.79	\$157.11	\$110.31
Total cost of common share repurchases	\$ 5,469	\$ 6,175	\$ 4,637

Pursuant to the terms of certain share-based compensation plans, employees may remit shares to the firm or the firm may cancel restricted stock units (RSUs) or stock options to satisfy minimum statutory employee tax withholding requirements and the exercise price of stock options. Under these plans, during 2014, 2013 and 2012, employees remitted 174,489 shares, 161,211 shares and 33,477 shares with a total value of \$31 million, \$25 million and \$3 million, and the firm cancelled 5.8 million, 4.0 million and 12.7 million of RSUs with a total value of \$974 million, \$599 million and \$1.44 billion. Under these plans, the firm also cancelled 15.6 million stock options with a total value of \$2.65 billion during 2014.

Notes to Consolidated Financial Statements

Preferred Equity

The tables below present details about the perpetual preferred stock issued and outstanding as of December 2014.

Series	Shares Authorized	Shares Issued	Shares Outstanding	Depository Shares Per Share
A	50,000	30,000	29,999	1,000
B	50,000	32,000	32,000	1,000
C	25,000	8,000	8,000	1,000
D	60,000	54,000	53,999	1,000
E	17,500	17,500	17,500	N/A
F	5,000	5,000	5,000	N/A
I	34,500	34,000	34,000	1,000
J	46,000	40,000	40,000	1,000
K ¹	32,200	28,000	28,000	1,000
L ¹	52,000	52,000	52,000	25
Total	372,200	300,500	300,498	

1. In April 2014, Group Inc. issued 28,000 shares of Series K perpetual 6.375% Fixed-to-Floating Rate Non-Cumulative Preferred Stock (Series K Preferred Stock) and 52,000 shares of Series L perpetual 5.70% Fixed-to-Floating Rate Non-Cumulative Preferred Stock (Series L Preferred Stock).

Series	Liquidation Preference	Redemption Price Per Share	Redemption Value (\$ in millions)
A	\$ 25,000	\$25,000 plus declared and unpaid dividends	\$ 750
B	25,000	\$25,000 plus declared and unpaid dividends	800
C	25,000	\$25,000 plus declared and unpaid dividends	200
D	25,000	\$25,000 plus declared and unpaid dividends	1,350
E	100,000	\$100,000 plus declared and unpaid dividends	1,750
F	100,000	\$100,000 plus declared and unpaid dividends	500
I	25,000	\$25,000 plus accrued and unpaid dividends	850
J	25,000	\$25,000 plus accrued and unpaid dividends	1,000
K	25,000	\$25,000 plus accrued and unpaid dividends	700
L	25,000	\$25,000 plus accrued and unpaid dividends	1,300
Total			\$9,200

In the tables above:

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

- Each share of non-cumulative Series I Preferred Stock issued and outstanding is redeemable at the firm's option beginning November 10, 2017.
- Each share of non-cumulative Series J Preferred Stock issued and outstanding is redeemable at the firm's option beginning May 10, 2023.
- Each share of non-cumulative Series K Preferred Stock issued and outstanding is redeemable at the firm's option beginning May 10, 2024.
- Each share of non-cumulative Series L Preferred Stock issued and outstanding is redeemable at the firm's option beginning May 10, 2019.
- All shares of preferred stock have a par value of \$0.01 per share and, where applicable, each share of preferred stock is represented by the specified number of depositary shares.

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

The table below presents the dividend rates of the firm's perpetual preferred stock as of December 2014.

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

Notes to Consolidated Financial Statements

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

Series	Year Ended December 2014	
	per share	\$ in millions
A	\$ 945.32	\$ 28
B	1,550.00	50
C	1,008.34	8
D	1,008.34	54
E	4,044.44	71
F	4,044.44	20
I	1,487.52	51
J	1,375.00	55
K	850.00	24
L	760.00	39
Total		\$400

Series	Year Ended December 2013	
	per share	\$ in millions
A	\$ 947.92	\$ 28
B	1,550.00	50
C	1,011.11	8
D	1,011.11	54
E	4,044.44	71
F	4,044.44	20
I	1,553.63	53
J	744.79	30
Total		\$314

Series	Year Ended December 2012	
	per share	\$ in millions
A	\$ 960.94	\$ 29
B	1,550.00	50
C	1,025.01	8
D	1,025.01	55
E	2,055.56	36
F	1,000.00	5
Total		\$183

On January 7, 2015, Group Inc. declared dividends of \$239.58, \$387.50, \$255.56, \$255.56, \$371.88, \$343.75 and \$398.44 per share of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series I Preferred Stock, Series J Preferred Stock and Series K Preferred Stock, respectively, to be paid on February 10, 2015 to preferred shareholders of record on January 26, 2015. In addition, the firm declared dividends of \$1,011.11 per each share of Series E Preferred Stock and Series F Preferred Stock, to be paid on March 2, 2015 to preferred shareholders of record on February 15, 2015.

Accumulated Other Comprehensive Loss

The tables below present accumulated other comprehensive loss, net of tax by type.

\$ in millions	December 2014		
	Balance, beginning of year	Other comprehensive income/(loss) adjustments, net of tax	Balance, end of year
Currency translation	(\$364)	(\$109)	(\$473)
Pension and postretirement liabilities	(168)	(102)	(270)
Cash flow hedges	8	(8)	—
Accumulated other comprehensive loss, net of tax	(\$524)	(\$219)	(\$743)

\$ in millions	December 2013		
	Balance, beginning of year	Other comprehensive income/(loss) adjustments, net of tax	Balance, end of year
Currency translation	(\$314)	\$ (50)	(\$364)
Pension and postretirement liabilities	(206)	38	(168)
Available-for-sale securities	327	(327)	—
Cash flow hedges	—	8	8
Accumulated other comprehensive loss, net of tax	(\$193)	(\$331)	(\$524)

Note 20.

Regulation and Capital Adequacy

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

These capital requirements are expressed as capital ratios that compare measures of regulatory capital to risk-weighted assets (RWAs). The firm's capital levels are subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors. In addition, the firm is subject to requirements with respect to leverage.

Furthermore, certain of the firm's subsidiaries are subject to separate regulations and capital requirements as described below.

Applicable Capital Framework

As of December 2013, the firm was subject to the risk-based capital regulations of the Federal Reserve Board that were based on the Basel I Capital Accord of the Basel Committee on Banking Supervision (Basel Committee), and incorporated the revised market risk regulatory capital requirements (together, the Prior Capital Rules).

As of January 1, 2014, the firm became subject to the Federal Reserve Board's revised risk-based capital and leverage regulations, subject to certain transitional provisions (Revised Capital Framework). These regulations are largely based on the Basel Committee's final capital framework for strengthening international capital standards (Basel III) and also implement certain provisions of the Dodd-Frank Act. Under the Revised Capital Framework, the firm is an "Advanced approach" banking organization.

The firm was notified in the first quarter of 2014 that it had completed a "parallel run" to the satisfaction of the Federal Reserve Board, as required under the Revised Capital Framework. As such, additional changes in the firm's capital requirements became effective on April 1, 2014.

Beginning on January 1, 2014, regulatory capital was calculated based on the Revised Capital Framework. Beginning April 1, 2014, there were no changes to the calculation of regulatory capital, but RWAs were calculated using (i) the Prior Capital Rules, adjusted for certain items related to capital deductions under the previous definition of regulatory capital and for the phase-in of new capital deductions (Hybrid Capital Rules), and (ii) the Advanced approach and market risk rules set out in the Revised Capital Framework (together, the Basel III Advanced Rules). The lower of the ratios calculated under the Hybrid Capital Rules and those calculated under the Basel III Advanced Rules are the binding regulatory capital requirements for the firm. The ratios calculated under the Basel III Advanced Rules were lower than those calculated under the Hybrid Capital Rules and therefore were the binding ratios for the firm as of December 2014.

As a result of the changes in the applicable capital framework in 2014, the firm's capital ratios as of December 2014 and those as of December 2013 were calculated on a different basis and, accordingly, are not comparable.

Notes to Consolidated Financial Statements

Effective on January 1, 2015, regulatory capital continues to be calculated under the Revised Capital Framework, but RWAs are required to be calculated under the Basel III Advanced Rules, as well as the Standardized approach and market risk rules set out in the Revised Capital Framework (together, the Standardized Capital Rules). The lower of the ratios calculated under the Basel III Advanced Rules and those calculated under the Standardized Capital Rules are the binding regulatory capital requirements for the firm.

The Basel III Advanced Rules, Hybrid Capital Rules and Standardized Capital Rules are discussed in more detail below.

Regulatory Capital and Capital Ratios. The Revised Capital Framework changed the definition of regulatory capital to include a new capital measure called Common Equity Tier 1 (CET1) and the related regulatory capital ratio of CET1 to RWAs (CET1 ratio), and changed the definition of Tier 1 capital. The Revised Capital Framework also increased the level of certain minimum risk-based capital and leverage ratios applicable to the firm.

The table below presents the minimum ratios applicable to the firm as of December 2014 and January 2015. Failure to comply with these capital requirements could result in restrictions being imposed by the firm's regulators.

	December 2014 Minimum Ratio	January 2015 Minimum Ratio
CET1 ratio	4.0%	4.5%
Tier 1 capital ratio	5.5%	6.0%
Total capital ratio ¹	8.0%	8.0%
Tier 1 leverage ratio ²	4.0%	4.0%

1. In order to meet the quantitative requirements for being "well-capitalized" under the Federal Reserve Board's capital regulations, the firm must meet a higher required minimum Total capital ratio of 10.0%.

2. Tier 1 leverage ratio is defined as Tier 1 capital divided by average adjusted total assets (which includes adjustments for goodwill and identifiable intangible assets, and certain investments in nonconsolidated financial institutions).

Certain aspects of the Revised Capital Framework's requirements phase in over time (transitional provisions). These include increases in the minimum capital ratio requirements and the introduction of new capital buffers and certain deductions from regulatory capital (such as investments in nonconsolidated financial institutions). In addition, junior subordinated debt issued to trusts is being phased out of regulatory capital. The minimum CET1, Tier 1 and Total capital ratios applicable to the firm will increase as the transitional provisions phase in and new capital buffers are introduced.

Definition of Risk-Weighted Assets. As of December 2014, RWAs were calculated under both the Basel III Advanced Rules and the Hybrid Capital Rules. Under both the Basel III Advanced Rules and the Hybrid Capital Rules, certain amounts not required to be deducted from CET1 under the transitional provisions are either deducted from Tier 1 capital or are risk weighted.

The primary difference between the Basel III Advanced Rules and the Hybrid Capital Rules is that the latter utilizes prescribed risk-weightings for credit RWAs and does not contemplate the use of internal models to compute exposure for credit risk on derivatives and securities financing transactions, whereas the Basel III Advanced Rules permit the use of such models, subject to supervisory approval. In addition, RWAs under the Hybrid Capital Rules depend largely on the type of counterparty (e.g., whether the counterparty is a sovereign, bank, broker-dealer or other entity), rather than on internal assessments of each counterparty's creditworthiness. Furthermore, the Hybrid Capital Rules do not include a capital requirement for operational risk.

As of December 2013, the firm calculated RWAs under the Prior Capital Rules.

Credit Risk

Credit RWAs are calculated based upon measures of exposure, which are then risk weighted. The exposure amount is generally based on the following:

- For on-balance-sheet assets, the carrying value; and
- For off-balance-sheet exposures, including commitments and guarantees, a credit equivalent exposure amount is calculated based on the notional amount of each exposure multiplied by a credit conversion factor.

Counterparty credit risk is a component of total credit risk, and includes credit exposure arising from derivatives, securities financing transactions and eligible margin loans.

- For the Basel III Advanced Rules, the firm uses the Internal Models Methodology for the measurement of exposure on derivatives, securities financing transactions and eligible margin loans. The Revised Capital Framework requires that a bank holding company obtain prior written agreement from its regulators before using the Internal Models Methodology; and
- For the Hybrid and Prior Capital Rules, the exposure amount for derivatives is based on a combination of positive net exposure and a percentage of the notional amount for each trade, and includes the effect of counterparty netting and collateral, as applicable; for securities financing transactions and eligible margin loans, it is based on the carrying value.

All exposures are then assigned a risk weight computed as follows:

- For the Basel III Advanced Rules, the firm has been given permission by its supervisors to compute risk weights for certain exposures in accordance with the Advanced Internal Ratings-Based approach, which utilizes internal assessments of each counterparty's creditworthiness. Key inputs to the risk weight calculation are the probability of default, loss given default and the effective maturity. RWAs for securitization and equity exposures are calculated using specific required formula approaches; and
- For the Hybrid and Prior Capital Rules, a standard risk weight is assigned depending on, among other things, whether the counterparty is a sovereign, bank or a qualifying securities firm or other entity (and if collateral is held, the risk weight may depend on the nature of the collateral).

The Standardized Capital Rules utilize prescribed risk-weightings for credit RWAs and do not contemplate the use of internal models to compute exposure for credit risk on derivatives and securities financing transactions. The exposure measure for securities financing transactions is calculated to reflect adjustments for potential price volatility, the size of which depends on factors such as the type of and maturity of the security, and whether it is denominated in the same currency as the other side of the financing transaction. In addition, RWAs under the Standardized Capital Rules depend largely on the type of counterparty (e.g., whether the counterparty is a sovereign, bank, broker-dealer or other entity), rather than on internal assessments of each counterparty's creditworthiness.

Market Risk

RWAs for market risk are determined using measures for Value-at-Risk (VaR), stressed VaR, incremental risk and comprehensive risk based on internal models, and a standardized measurement method for specific risk. The market risk regulatory capital rules require that a bank holding company obtain prior written agreement from its regulators before using any internal model to calculate its risk-based capital requirement.

- VaR is the potential loss in value of inventory positions, as well as certain other financial assets and financial liabilities, due to adverse market movements over a defined time horizon with a specified confidence level. For both risk management purposes and regulatory capital calculations the firm uses a single VaR model which captures risks including those related to interest rates, equity prices, currency rates and commodity prices. However, VaR used for regulatory capital requirements (regulatory VaR) differs from risk management VaR due to different time horizons and confidence levels (10-day and 99% for regulatory VaR vs. one-day and 95% for risk management VaR), as well as differences in the scope of positions on which VaR is calculated. In addition, the daily trading net revenues used to determine risk management VaR exceptions (i.e., comparing the daily trading net revenues to the VaR measure calculated as of the prior business day) include intraday activity, whereas the Federal Reserve Board's regulatory capital regulations require that intraday activity be excluded from daily trading net revenues when calculating regulatory VaR exceptions. Intraday activity includes bid/offer net revenues, which are more likely than not to be positive. Under these regulations, the firm's positional losses observed on a single day exceeded its 99% one-day regulatory VaR on three occasions during 2014. There was no change in the VaR multiplier used to calculate Market RWAs;

Notes to Consolidated Financial Statements

- Stressed VaR is the potential loss in value of inventory positions during a period of significant market stress;
- Incremental risk is the potential loss in value of non-securitized inventory positions due to the default or credit migration of issuers of financial instruments over a one-year time horizon; and
- Comprehensive risk is the potential loss in value, due to price risk and defaults, within the firm's credit correlation positions.

The standardized measurement method is used to determine RWAs for specific risk on certain positions by applying supervisory defined risk-weighting factors to such positions after applicable netting is performed.

RWAs for market risk under the Standardized Capital Rules are calculated in a manner that is generally consistent with the RWAs calculated under the Basel III Advanced Rules.

Operational Risk

The Basel III Advanced Rules include a capital requirement for operational risk. The firm has been given permission by its supervisors to compute operational RWAs in accordance with the "Advanced Measurement Approach" of the Revised Capital Framework. Operational RWAs are therefore calculated based on an internal risk-based operational risk quantification model that meets the requirements for the "Advanced Measurement Approach."

The Standardized Capital Rules do not include a capital requirement for operational risk.

Consolidated Regulatory Capital Ratios

December 2014 Capital Ratios and RWAs. The firm was required to calculate ratios under both the Basel III Advanced Rules and Hybrid Capital Rules as of December 2014, in both cases subject to transitional provisions. The ratios calculated under the Basel III Advanced Rules presented in the table below were lower than those calculated under the Hybrid Capital Rules and therefore were the binding ratios for the firm as of December 2014.

Effective on January 1, 2015, the firm was required to calculate ratios under both the Basel III Advanced Rules and Standardized Capital Rules. The firm's ratios calculated under the Standardized Capital Rules as of December 2014 are also presented in the table below, although the ratios were not binding until January 2015.

	As of December 2014
\$ in millions	
Common shareholders' equity	\$ 73,597
Deductions for goodwill and identifiable intangible assets, net of deferred tax liabilities	(2,787)
Deductions for investments in nonconsolidated financial institutions	(953)
Other adjustments	(27)
Common Equity Tier 1	69,830
Perpetual non-cumulative preferred stock	9,200
Junior subordinated debt issued to trusts	660
Other adjustments	(1,257)
Tier 1 capital	78,433
Qualifying subordinated debt	11,894
Junior subordinated debt issued to trusts	660
Other adjustments	(9)
Tier 2 capital ¹	12,545
Total capital	\$ 90,978
Basel III Advanced	
RWAs	\$570,313
CET1 ratio	12.2%
Tier 1 capital ratio	13.8%
Total capital ratio	16.0%
Tier 1 leverage ratio	9.0%
Standardized	
RWAs	\$619,216
CET1 ratio	11.3%
Tier 1 capital ratio	12.7%
Total capital ratio	14.7%

1. Tier 2 capital under the Standardized Capital Rules is approximately \$300 million higher due to the allowance for losses on loans and lending commitments.

In the table above:

- The deduction for goodwill and identifiable intangible assets, net of deferred tax liabilities, represents goodwill of \$3.65 billion and identifiable intangible assets of \$103 million (20% of \$515 million), net of associated deferred tax liabilities of \$961 million. The remaining 80% of the deduction of identifiable intangible assets will be phased in ratably per year from 2015 to 2018. Identifiable intangible assets that are not deducted during the transitional period are risk weighted.
- The deduction for investments in nonconsolidated financial institutions represents the amount by which the firm's investments in the capital of nonconsolidated financial institutions exceed certain prescribed thresholds. As of December 2014, 20% of the deduction was reflected (calculated based on transitional thresholds). The remaining 80% will be phased in ratably per year from 2015 to 2018. The balance that is not deducted during the transitional period is risk weighted.

Notes to Consolidated Financial Statements

- Other adjustments within CET1 and Tier 1 capital primarily include accumulated other comprehensive loss, credit valuation adjustments on derivative liabilities, the overfunded portion of the firm's defined benefit pension plan obligation, net of associated deferred tax liabilities, disallowed deferred tax assets and other required credit risk-based deductions. As of December 2014, 20% of the deductions related to credit valuation adjustments on derivative liabilities, the overfunded portion of the firm's defined benefit pension plan obligation, net of associated deferred tax liabilities, disallowed deferred tax assets and other required credit risk-based deductions were included in other adjustments within CET1 and 80% of the deductions were included in other adjustments within Tier 1 capital. Most of the deductions that were included in other adjustments within Tier 1 capital will be phased into CET1 ratably per year from 2015 to 2018. Other adjustments within Tier 1 capital also include a deduction for investments in the preferred equity of nonconsolidated financial institutions.
- Junior subordinated debt issued to trusts is reflected in both Tier 1 capital (50%) and Tier 2 capital (50%) and is reduced by the amount of trust preferred securities purchased by the firm. Junior subordinated debt issued to trusts will be fully phased out of Tier 1 capital by 2016, and then also from Tier 2 capital by 2022. See Note 16 for additional information about the firm's junior subordinated debt issued to trusts and trust preferred securities purchased by the firm.
- Qualifying subordinated debt represents subordinated debt issued by Group Inc. with an original term to maturity of five years or greater. The outstanding amount of subordinated debt qualifying for Tier 2 capital is reduced, or discounted, upon reaching a remaining maturity of five years. See Note 16 for additional information about the firm's subordinated debt.

The table below presents the changes in CET1, Tier 1 capital and Tier 2 capital for the period December 31, 2013 to December 31, 2014.

	Period Ended December 2014
\$ in millions	
Common Equity Tier 1	
Balance, December 31, 2013	\$63,248
Change in CET1 related to the transition to the Revised Capital Framework ¹	3,177
Increase in common shareholders' equity	2,330
Change in deduction for goodwill and identifiable intangible assets, net of deferred tax liabilities	144
Change in deduction for investments in nonconsolidated financial institutions	839
Change in other adjustments	92
Balance, December 31, 2014	\$69,830
Tier 1 capital	
Balance, December 31, 2013	\$72,471
Change in CET1 related to the transition to the Revised Capital Framework ¹	3,177
Change in Tier 1 capital related to the transition to the Revised Capital Framework ²	(443)
Other net increase in CET1	3,405
Increase in perpetual non-cumulative preferred stock	2,000
Redesignation of junior subordinated debt issued to trusts and decrease related to trust preferred securities purchased by the firm	(1,403)
Change in other adjustments	(774)
Balance, December 31, 2014	78,433
Tier 2 capital	
Balance, December 31, 2013	13,632
Change in Tier 2 capital related to the transition to the Revised Capital Framework ³	(197)
Decrease in qualifying subordinated debt	(879)
Trust preferred securities purchased by the firm, net of redesignation of junior subordinated debt issued to trusts	(27)
Change in other adjustments	16
Balance, December 31, 2014	12,545
Total capital	\$90,978

1. Includes \$3.66 billion related to the transition to the Revised Capital Framework on January 1, 2014 as well as \$(479) million related to the firm's application of the Basel III Advanced Rules on April 1, 2014.

2. Includes \$(219) million related to the transition to the Revised Capital Framework on January 1, 2014 as well as \$(224) million related to the firm's application of the Basel III Advanced Rules on April 1, 2014.

3. Includes \$(2) million related to the transition to the Revised Capital Framework on January 1, 2014 as well as \$(195) million related to the firm's application of the Basel III Advanced Rules on April 1, 2014.

Notes to Consolidated Financial Statements

The change in CET1 related to the transition to the Revised Capital Framework is principally related to the change in treatment of equity investments in certain nonconsolidated entities. Under the Prior Capital Rules, such investments were treated as deductions. However, during the transition to the Revised Capital Framework, only a portion of such investments that exceed certain prescribed thresholds are treated as deductions from CET1 and the remainder are risk weighted.

The table below presents the components of RWAs under the Basel III Advanced Rules and Standardized Capital Rules as of December 2014.

	As of December 2014	
\$ in millions	Basel III Advanced	Standardized
Credit RWAs		
Derivatives	\$122,501	\$180,771
Commitments, guarantees and loans	95,209	89,783
Securities financing transactions ¹	15,618	92,116
Equity investments	40,146	38,526
Other ²	54,470	71,499
Total Credit RWAs	327,944	472,695
Market RWAs		
Regulatory VaR	10,238	10,238
Stressed VaR	29,625	29,625
Incremental risk	16,950	16,950
Comprehensive risk	8,150	9,855
Specific risk	79,918	79,853
Total Market RWAs	144,881	146,521
Total Operational RWAs	97,488	—
Total RWAs	\$570,313	\$619,216

1. Represents resale and repurchase agreements and securities borrowed and loaned transactions.

2. Includes receivables, other assets, and cash and cash equivalents.

The table below presents the changes in RWAs under the Basel III Advanced Rules for the period December 31, 2013 to December 31, 2014, and reflects the transition to the Revised Capital Framework from the Prior Capital Rules on January 1, 2014.

	Period Ended December 2014
<i>\$ in millions</i>	
Risk-weighted assets	
Total RWAs, December 31, 2013	\$433,226
Credit RWAs	
Change related to the transition to the Revised Capital Framework ¹	69,101
Other changes:	
Decrease in derivatives	(24,109)
Increase in commitments, guarantees and loans	18,208
Decrease in securities financing transactions	(2,782)
Decrease in equity investments	(2,728)
Increase in other	2,007
Change in Credit RWAs	59,697
Market RWAs	
Change related to the transition to the Revised Capital Framework	1,626
Decrease in regulatory VaR	(5,175)
Decrease in stressed VaR	(11,512)
Increase in incremental risk	7,487
Decrease in comprehensive risk	(6,617)
Decrease in specific risk	(5,907)
Change in Market RWAs	(20,098)
Operational RWAs	
Change related to the transition to the Revised Capital Framework	88,938
Increase in operational risk	8,550
Change in Operational RWAs	97,488
Total RWAs, December 31, 2014	\$570,313

1. Includes \$26.67 billion of RWA changes related to the transition to the Revised Capital Framework on January 1, 2014 and \$42.43 billion of changes to the calculation of Credit RWAs under the Basel III Advanced Rules related to the firm's application of the Basel III Advanced Rules on April 1, 2014.

Credit RWAs as of December 2014 increased by \$59.70 billion compared with December 2013, primarily due to increased risk weightings related to counterparty credit risk for derivative exposures and the inclusion of RWAs for equity investments in certain nonconsolidated entities, both resulting from the transition to the Revised Capital Framework. Market RWAs as of December 2014 decreased by \$20.10 billion compared with December 2013, primarily due to a decrease in stressed VaR, reflecting reduced fixed income and equities exposures. Operational RWAs as of December 2014 increased by \$97.49 billion compared with December 2013, substantially all of which was due to the transition to the Revised Capital Framework.

Notes to Consolidated Financial Statements

December 2013 Capital Ratios and RWAs. The table below presents information about the firm's regulatory ratios as of December 2013 under the Prior Capital Rules.

\$ in millions	As of December 2013
Common shareholders' equity	\$ 71,267
Perpetual non-cumulative preferred stock	7,200
Junior subordinated debt issued to trusts	2,063
Deduction for goodwill and identifiable intangible assets	(4,376)
Deduction for equity investments in certain entities	(3,314)
Other adjustments	(369)
Tier 1 capital	72,471
Qualifying subordinated debt	12,773
Junior subordinated debt issued to trusts	687
Other adjustments	172
Tier 2 capital	13,632
Total capital	\$ 86,103
Credit RWAs	\$268,247
Market RWAs	164,979
Total RWAs	\$433,226
Tier 1 capital ratio	16.7%
Total capital ratio	19.9%
Tier 1 leverage ratio	8.1%

In the table above:

- Junior subordinated debt issued to trusts is reflected in both Tier 1 capital (75%) and Tier 2 capital (25%). See Note 16 for additional information about the firm's junior subordinated debt issued to trusts.
- The deduction for goodwill and identifiable intangible assets includes goodwill of \$3.71 billion and identifiable intangible assets of \$671 million.
- Other adjustments within Tier 1 capital primarily include disallowed deferred tax assets and the overfunded portion of the firm's defined benefit pension plan obligation, net of associated deferred tax liabilities.
- Qualifying subordinated debt represents subordinated debt issued by Group Inc. with an original term to maturity of five years or greater. The outstanding amount of subordinated debt qualifying for Tier 2 capital is reduced, or discounted, upon reaching a remaining maturity of five years. See Note 16 for additional information about the firm's subordinated debt.

The table below presents the changes in Tier 1 capital and Tier 2 capital for the period ended December 2013 under the Prior Capital Rules.

\$ in millions	Period Ended December 2013
Tier 1 capital	
Balance, December 31, 2012	\$66,977
Increase in common shareholders' equity	1,751
Increase in perpetual non-cumulative preferred stock	1,000
Redesignation of junior subordinated debt issued to trusts	(687)
Change in goodwill and identifiable intangible assets	723
Change in equity investments in certain entities	1,491
Change in other adjustments	1,216
Balance, December 31, 2013	72,471
Tier 2 capital	
Balance, December 31, 2012	13,429
Decrease in qualifying subordinated debt	(569)
Redesignation of junior subordinated debt issued to trusts	687
Change in other adjustments	85
Balance, December 31, 2013	13,632
Total capital	\$86,103

The table below presents the components of RWAs as of December 2013 under the Prior Capital Rules.

\$ in millions	As of December 2013
Credit RWAs	
Derivatives	\$ 94,753
Commitments, guarantees and loans	78,997
Securities financing transactions ¹	30,010
Equity investments	3,673
Other ²	60,814
Total Credit RWAs	268,247
Market RWAs	
Regulatory VaR	13,425
Stressed VaR	38,250
Incremental risk	9,463
Comprehensive risk	18,150
Specific risk	85,691
Total Market RWAs	164,979
Total RWAs	\$433,226

1. Represents resale and repurchase agreements and securities borrowed and loaned transactions.

2. Includes receivables, other assets, and cash and cash equivalents.

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The table below presents the changes in RWAs for the period ended December 31, 2013 under the Prior Capital Rules.

\$ in millions	Period Ended December 2013
Risk-weighted assets	
Balance, December 31, 2012	\$399,928
Credit RWAs	
Decrease in derivatives	(12,516)
Increase in commitments, guarantees and loans	18,151
Decrease in securities financing transactions	(17,059)
Increase in equity investments	1,077
Change in other	(8,932)
Change in Credit RWAs	(19,279)
Market RWAs	
Increase related to the revised market risk rules	127,608
Decrease in regulatory VaR	(2,038)
Decrease in stressed VaR	(13,700)
Decrease in incremental risk	(17,350)
Decrease in comprehensive risk	(9,568)
Decrease in specific risk	(32,375)
Change in Market RWAs	52,577
Total RWAs, December 31, 2013	\$433,226

Credit RWAs as of December 2013 decreased \$19.28 billion compared with December 2012, primarily due to a decrease in securities financing exposure. Market RWAs as of December 2013 increased by \$52.58 billion compared with December 2012, reflecting the impact of the revised market risk regulatory capital requirements, which became effective on January 1, 2013, partially offset by, among other things, a decrease in specific risk due to a decrease in inventory.

Bank Subsidiaries

Regulatory Capital Ratios. GS Bank USA, an FDIC-insured, New York State-chartered bank and a member of the Federal Reserve System, is supervised and regulated by the Federal Reserve Board, the FDIC, the New York State Department of Financial Services and the Consumer Financial Protection Bureau, and is subject to minimum capital requirements (described below) that are calculated in a manner similar to those applicable to bank holding companies. For purposes of assessing the adequacy of its capital, GS Bank USA computes its capital ratios in accordance with the regulatory capital requirements applicable to state member banks. Those requirements are based on the Revised Capital Framework described above, with changes to the definition of regulatory capital and capital ratios effective from January 1, 2014. GS Bank USA was notified in the first quarter of 2014 that it had completed a “parallel run” to the satisfaction of the Federal Reserve Board, as required under the Revised Capital Framework. As such, additional changes in GS Bank USA’s capital requirements, including changes to RWAs, became effective on April 1, 2014. GS Bank USA is an Advanced approach banking organization under the Revised Capital Framework. Under the Revised Capital Framework, as of January 1, 2014, GS Bank USA became subject to a new minimum CET1 ratio requirement of 4.0%. As of January 2015, the minimum CET1 ratio for GS Bank USA increased from 4.0% to 4.5%.

Under the regulatory framework for prompt corrective action applicable to GS Bank USA as of December 2014, in order to meet the quantitative requirements for being a “well-capitalized” depository institution, GS Bank USA was required to maintain a Tier 1 capital ratio of at least 6.0%, a Total capital ratio of at least 10.0% and a Tier 1 leverage ratio of at least 5.0%. As of January 1, 2015, the Revised Capital Framework changed the standards for “well-capitalized” status under prompt corrective action regulations by, among other things, introducing a CET1 ratio requirement of 6.5% and increasing the Tier 1 capital ratio requirement from 6.0% to 8.0%. The Total capital ratio and Tier 1 leverage ratio requirements remain at 10.0% and 5.0%, respectively.

Notes to Consolidated Financial Statements

As noted in the tables below, GS Bank USA was in compliance with these minimum capital requirements as of December 2014 and December 2013. GS Bank USA's capital levels and prompt corrective action classification are also subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors. Failure to comply with these capital requirements could result in restrictions being imposed by GS Bank USA's regulators.

Similar to the firm, GS Bank USA is required to calculate ratios under both the Basel III Advanced Rules and Hybrid Capital Rules as of December 2014, in both cases subject to transitional provisions. The ratios calculated under the Hybrid Capital Rules presented in the table below were lower than those calculated under the Basel III Advanced Rules, and therefore were the binding ratios for GS Bank USA as of December 2014.

As a result of the changes in the applicable capital framework in 2014, GS Bank USA's capital ratios as of December 2014 and December 2013 were calculated on a different basis and, accordingly, are not comparable.

Effective on January 1, 2015, GS Bank USA was required to calculate ratios under both the Basel III Advanced Rules and Standardized Capital Rules. GS Bank USA's ratios calculated under the Standardized Capital Rules as of December 2014 are also presented in the table below, although the ratios were not binding until January 2015.

\$ in millions	As of December 2014
Common Equity Tier 1	\$ 21,293
Tier 1 capital	\$ 21,293
Tier 2 capital	\$ 2,182
Total capital	\$ 23,475
Hybrid RWAs	\$149,963
CET1 ratio	14.2%
Tier 1 capital ratio	14.2%
Total capital ratio	15.7%
Tier 1 leverage ratio	17.3%
Standardized RWAs	\$200,605
CET1 ratio	10.6%
Tier 1 capital ratio	10.6%
Total capital ratio	11.7%

The table below presents information as of December 2013 regarding GS Bank USA's regulatory ratios under the Prior Capital Rules.

\$ in millions	As of December 2013
Tier 1 capital	\$ 20,086
Tier 2 capital	\$ 116
Total capital	\$ 20,202
Risk-weighted assets	\$134,935
Tier 1 capital ratio	14.9%
Total capital ratio	15.0%
Tier 1 leverage ratio	16.9%

The firm's principal non-U.S. bank subsidiary, GSIB, is a wholly-owned credit institution, regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and is subject to minimum capital requirements. As of December 2014 and December 2013, GSIB was in compliance with all regulatory capital requirements.

Notes to Consolidated Financial Statements

Other. The deposits of GS Bank USA are insured by the FDIC to the extent provided by law. The Federal Reserve Board requires that GS Bank USA maintain cash reserves with the Federal Reserve Bank of New York. The amount deposited by GS Bank USA held at the Federal Reserve Bank of New York was \$38.68 billion and \$50.39 billion as of December 2014 and December 2013, respectively, which exceeded required reserve amounts by \$38.57 billion and \$50.29 billion as of December 2014 and December 2013, respectively.

Broker-Dealer Subsidiaries

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

As of December 2014 and December 2013, GS&Co. had regulatory net capital, as defined by Rule 15c3-1, of \$14.83 billion and \$15.81 billion, respectively, which exceeded the amount required by \$12.46 billion and \$13.76 billion, respectively. As of December 2014 and December 2013, GSEC had regulatory net capital, as defined by Rule 15c3-1, of \$1.67 billion and \$1.38 billion, respectively, which exceeded the amount required by \$1.53 billion and \$1.21 billion, respectively.

In addition to its alternative minimum net capital requirements, GS&Co. is also required to hold tentative net capital in excess of \$1 billion and net capital in excess of \$500 million in accordance with the market and credit risk standards of Appendix E of Rule 15c3-1. GS&Co. is also required to notify the SEC in the event that its tentative net capital is less than \$5 billion. As of December 2014 and December 2013, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements.

Non-U.S. Regulated Broker-Dealer Subsidiaries. The firm's principal non-U.S. regulated broker-dealer subsidiaries include Goldman Sachs International (GSI) and Goldman Sachs Japan Co., Ltd. (GSJCL). GSI, the firm's regulated U.K. broker-dealer, is regulated by the PRA and the FCA. GSJCL, the firm's Japanese broker-dealer, is regulated by Japan's Financial Services Agency. These and certain other non-U.S. subsidiaries of the firm are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of December 2014 and December 2013, these subsidiaries were in compliance with their local capital adequacy requirements.

Restrictions on Payments

Group Inc.'s ability to withdraw capital from its regulated subsidiaries is limited by minimum equity capital requirements applicable to those subsidiaries, as well as by provisions of applicable law and regulations that limit the ability of those subsidiaries to declare and pay dividends without prior regulatory approval even if the relevant subsidiary would satisfy the equity capital requirements applicable to it after giving effect to the dividend. As of December 2014 and December 2013, Group Inc. was required to maintain \$33.62 billion and \$31.20 billion, respectively, of minimum equity capital in its regulated subsidiaries in order to satisfy the regulatory requirements of such subsidiaries. In addition to statutory limitations on the payment of dividends, the Federal Reserve Board, the FDIC and the New York State Department of Financial Services have authority to prohibit or to limit the payment of dividends by the banking organizations they supervise (including GS Bank USA) if, in the relevant regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in the light of the financial condition of the banking organization. Similar restrictions are imposed by regulators in jurisdictions outside of the U.S.

Notes to Consolidated Financial Statements

Note 21.

Earnings Per Common Share

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

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

	Year Ended December		
<i>in millions, except per share amounts</i>	2014	2013	2012
Numerator for basic and diluted EPS — net earnings applicable to common shareholders	\$8,077	\$7,726	\$7,292
Denominator for basic EPS — weighted average number of common shares	458.9	471.3	496.2
Effect of dilutive securities:			
RSUs	6.1	7.2	11.3
Stock options and warrants	8.2	21.1	8.6
Dilutive potential common shares	14.3	28.3	19.9
Denominator for diluted EPS — weighted average number of common shares and dilutive potential common shares	473.2	499.6	516.1
Basic EPS	\$17.55	\$16.34	\$14.63
Diluted EPS	17.07	15.46	14.13

In the table above, unvested share-based awards that have non-forfeitable rights to dividends or dividend equivalents are treated as a separate class of securities in calculating EPS. The impact of applying this methodology was a reduction in basic EPS of \$0.05 for both 2014 and 2013, and \$0.07 for 2012.

The diluted EPS computations in the table above do not include antidilutive RSUs and common shares underlying antidilutive stock options and warrants of 6.0 million for both 2014 and 2013, and 52.4 million for 2012.

Note 22.

Transactions with Affiliated Funds

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

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

	Year Ended December		
<i>\$ in millions</i>	2014	2013	2012
Fees earned from affiliated funds	\$3,232	\$2,897	\$2,935

	As of December	
<i>\$ in millions</i>	2014	2013
Fees receivable from funds	\$ 724	\$ 817
Aggregate carrying value of interests in funds ¹	9,099	13,124

1. The decrease from December 2013 to December 2014 primarily reflects both cash and in-kind distributions received by the firm.

As of December 2014 and December 2013, the firm had outstanding guarantees on behalf of its funds of \$304 million and \$147 million, respectively. The amounts as of December 2014 and December 2013 primarily relate to a guarantee that the firm has voluntarily provided in connection with a financing agreement with a third-party lender executed by one of the firm's real estate funds that is not covered by the Volcker Rule. As of December 2014 and December 2013, the firm had no outstanding loans or commitments to extend credit to affiliated funds.

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

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

Notes to Consolidated Financial Statements

Note 23.

Interest Income and Interest Expense

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

\$ in millions	Year Ended December		
	2014	2013	2012
Interest income			
Deposits with banks	\$ 164	\$ 186	\$ 156
Securities borrowed, securities purchased under agreements to resell and federal funds sold ¹	(81)	43	(77)
Financial instruments owned, at fair value	7,452	8,159	9,817
Loans receivable	708	296	150
Other interest ²	1,361	1,376	1,335
Total interest income	9,604	10,060	11,381
Interest expense			
Deposits	333	387	399
Securities loaned and securities sold under agreements to repurchase	431	576	822
Financial instruments sold, but not yet purchased, at fair value	1,741	2,054	2,438
Short-term borrowings ³	447	394	581
Long-term borrowings ³	3,460	3,752	3,736
Other interest ⁴	(855)	(495)	(475)
Total interest expense	5,557	6,668	7,501
Net interest income	\$4,047	\$ 3,392	\$ 3,880

1. Includes rebates paid and interest income on securities borrowed.
2. Includes interest income on customer debit balances and other interest-earning assets.
3. Includes interest on unsecured borrowings and other secured financings.
4. Includes rebates received on other interest-bearing liabilities and interest expense on customer credit balances.

Note 24.

Income Taxes

Provision for Income Taxes

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

The tables below present the components of the provision/(benefit) for taxes and a reconciliation of the U.S. federal statutory income tax rate to the firm's effective income tax rate.

\$ in millions	Year Ended December		
	2014	2013	2012
Current taxes			
U.S. federal	\$1,908	\$2,589	\$3,013
State and local	576	466	628
Non-U.S.	901	613	447
Total current tax expense	3,385	3,668	4,088
Deferred taxes			
U.S. federal	190	(188)	(643)
State and local	38	67	38
Non-U.S.	267	150	249
Total deferred tax (benefit)/expense	495	29	(356)
Provision for taxes	\$3,880	\$3,697	\$3,732

	Year Ended December		
	2014	2013	2012
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
State and local taxes, net of U.S. federal income tax effects	3.2%	4.1%	3.8%
Tax credits	(1.1)%	(1.0)%	(1.0)%
Non-U.S. operations ¹	(5.8)%	(5.6)%	(4.8)%
Tax-exempt income, including dividends	(0.3)%	(0.5)%	(0.5)%
Other	0.4%	(0.5)%	0.8%
Effective income tax rate	31.4%	31.5%	33.3%

1. Includes the impact of permanently reinvested earnings.

Notes to Consolidated Financial Statements

Deferred Income Taxes

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

The table below presents the significant components of deferred tax assets and liabilities, excluding the impact of netting within tax jurisdictions.

\$ in millions	As of December	
	2014	2013
Deferred tax assets		
Compensation and benefits	\$3,032	\$2,740
Unrealized losses	—	309
ASC 740 asset related to unrecognized tax benefits	172	475
Non-U.S. operations	1,418	1,318
Net operating losses	336	232
Occupancy-related	78	108
Other comprehensive income-related	277	69
Other, net	545	729
Subtotal	5,858	5,980
Valuation allowance	(64)	(183)
Total deferred tax assets	\$5,794	\$5,797
Depreciation and amortization	1,176	\$1,269
Unrealized gains	406	—
Other comprehensive income-related	—	68
Total deferred tax liabilities	\$1,582	\$1,337

The firm has recorded deferred tax assets of \$336 million and \$232 million as of December 2014 and December 2013, respectively, in connection with U.S. federal, state and local and foreign net operating loss carryforwards. The firm also recorded a valuation allowance of \$26 million and \$45 million as of December 2014 and December 2013, respectively, related to these net operating loss carryforwards.

As of December 2014, the U.S. federal and foreign net operating loss carryforwards were \$108 million and \$1.2 billion, respectively. If not utilized, the U.S. federal net operating loss carryforward will begin to expire in 2015. The foreign net operating loss carryforwards can be carried forward indefinitely. State and local net operating loss carryforwards of \$790 million will begin to expire in 2015. If these carryforwards expire, they will not have a material impact on the firm’s results of operations. The firm had no foreign tax credit carryforwards and no related net deferred income tax assets as of December 2014 and December 2013.

The firm had no capital loss carryforwards and no related net deferred income tax assets as of December 2014 and December 2013.

The valuation allowance decreased by \$119 million during 2014 and increased by \$15 million during 2013. The decrease in 2014 was primarily due to a decrease in deferred tax assets from which the firm does not expect to realize any benefit. The increase in 2013 was primarily due to an increase in deferred tax assets from which the firm does not expect to realize any benefit.

The firm permanently reinvests eligible earnings of certain foreign subsidiaries and, accordingly, does not accrue any U.S. income taxes that would arise if such earnings were repatriated. As of December 2014 and December 2013, this policy resulted in an unrecognized net deferred tax liability of \$4.66 billion and \$4.06 billion, respectively, attributable to reinvested earnings of \$24.88 billion and \$22.54 billion, respectively.

Notes to Consolidated Financial Statements

Unrecognized Tax Benefits

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

As of December 2014 and December 2013, the accrued liability for interest expense related to income tax matters and income tax penalties was \$101 million and \$410 million, respectively. The firm recognized interest expense and income tax penalties of \$45 million, \$53 million and \$95 million for 2014, 2013 and 2012, respectively. It is reasonably possible that unrecognized tax benefits could change significantly during the twelve months subsequent to December 2014 due to potential audit settlements. However, at this time it is not possible to estimate any potential change.

The table below presents the changes in the liability for unrecognized tax benefits. This liability is included in "Other liabilities and accrued expenses." See Note 17 for further information.

\$ in millions	As of December		
	2014	2013	2012
Balance, beginning of year	\$ 1,765	\$2,237	\$1,887
Increases based on tax positions related to the current year	204	144	190
Increases based on tax positions related to prior years	263	149	336
Decreases based on tax positions related to prior years	(241)	(471)	(109)
Decreases related to settlements	(1,112)	(299)	(35)
Acquisitions/(dispositions)	—	—	(47)
Exchange rate fluctuations	(8)	5	15
Balance, end of year	\$ 871	\$1,765	\$2,237
Related deferred income tax asset ¹	172	475	685
Net unrecognized tax benefit ²	\$ 699	\$1,290	\$1,552

1. Included in "Other assets." See Note 13.

2. If recognized, the net tax benefit would reduce the firm's effective income tax rate.

Regulatory Tax Examinations

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

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

Jurisdiction	As of December 2014
U.S. Federal	2008
New York State and City	2007
United Kingdom	2012
Japan	2010
Hong Kong	2006
Korea	2010

The U.S. Federal examinations of fiscal 2008 through calendar 2010 were finalized, but the settlement is subject to review by the Joint Committee of Taxation. The examinations of 2011 and 2012 began in 2013.

New York State and City examinations of fiscal 2004 through 2006 were finalized during 2014. The examinations of fiscal 2007 through 2010 began in 2013.

The United Kingdom examinations of fiscal 2008 through 2011 were finalized during 2014.

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

In January 2013, the firm was accepted into the Compliance Assurance Process program by the IRS. This program allows the firm to work with the IRS to identify and resolve potential U.S. federal tax issues before the filing of tax returns. The 2013 tax year is the first year that was examined under the program, and remains subject to post-filing review. The firm was also accepted into the program for the 2014 and 2015 tax years.

Notes to Consolidated Financial Statements

Note 25.

Business Segments

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

Basis of Presentation

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

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

The firm allocates assets (including allocations of global core liquid assets and cash, secured client financing and other assets), revenues and expenses among the four business segments. Due to the integrated nature of these segments, estimates and judgments are made in allocating certain assets, revenues and expenses. The allocation process is based on the manner in which management currently views the performance of the segments. Transactions between segments are based on specific criteria or approximate third-party rates. Total operating expenses include charitable contributions that have not been allocated to individual business segments.

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

	Year Ended or as of December		
\$ in millions	2014	2013	2012
Investment Banking			
Financial Advisory	\$ 2,474	\$ 1,978	\$ 1,975
Equity underwriting	1,750	1,659	987
Debt underwriting	2,240	2,367	1,964
Total Underwriting	3,990	4,026	2,951
Total net revenues	6,464	6,004	4,926
Operating expenses	3,688	3,479	3,333
Pre-tax earnings	\$ 2,776	\$ 2,525	\$ 1,593
Segment assets	\$ 1,845	\$ 1,901	\$ 1,712
Institutional Client Services			
Fixed Income, Currency and Commodities Client Execution	\$ 8,461	\$ 8,651	\$ 9,914
Equities client execution	2,079	2,594	3,171
Commissions and fees	3,153	3,103	3,053
Securities services	1,504	1,373	1,986
Total Equities	6,736	7,070	8,210
Total net revenues ¹	15,197	15,721	18,124
Operating expenses	10,880	11,792	12,490
Pre-tax earnings	\$ 4,317	\$ 3,929	\$ 5,634
Segment assets	\$696,013	\$788,238	\$825,496
Investing & Lending			
Equity securities	\$ 3,813	\$ 3,930	\$ 2,800
Debt securities and loans	2,165	1,947	1,850
Other	847	1,141	1,241
Total net revenues	6,825	7,018	5,891
Operating expenses	2,819	2,686	2,668
Pre-tax earnings	\$ 4,006	\$ 4,332	\$ 3,223
Segment assets	\$143,842	\$109,285	\$ 98,600
Investment Management			
Management and other fees	\$ 4,800	\$ 4,386	\$ 4,105
Incentive fees	776	662	701
Transaction revenues	466	415	416
Total net revenues	6,042	5,463	5,222
Operating expenses	4,647	4,357	4,296
Pre-tax earnings	\$ 1,395	\$ 1,106	\$ 926
Segment assets	\$ 14,540	\$ 12,083	\$ 12,747
Total net revenues	\$ 34,528	\$ 34,206	\$ 34,163
Total operating expenses ²	22,171	22,469	22,956
Total pre-tax earnings	\$ 12,357	\$ 11,737	\$ 11,207
Total assets	\$856,240	\$911,507	\$938,555

1. Includes \$37 million for 2013 and \$121 million for 2012 of realized gains on available-for-sale securities.

2. Includes charitable contributions that have not been allocated to the firm's segments of \$137 million for 2014, \$155 million for 2013 and \$169 million for 2012. Operating expenses related to real estate-related exit costs, previously not allocated to the firm's segments, have now been allocated. This allocation reflects the change in the manner in which management views the performance of the firm's segments. Reclassifications have been made to previously reported segment amounts to conform to the current presentation.

Notes to Consolidated Financial Statements

The segment information presented in the table above is prepared according to the following methodologies:

- Revenues and expenses directly associated with each segment are included in determining pre-tax earnings.
- Net revenues in the firm's segments include allocations of interest income and interest expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, such underlying positions. Net interest is included in segment net revenues as it is consistent with the way in which management assesses segment performance.
- Overhead expenses not directly allocable to specific segments are allocated ratably based on direct segment expenses.

The tables below present the amounts of net interest income or interest expense included in net revenues, and the amounts of depreciation and amortization expense included in pre-tax earnings.

\$ in millions	Year Ended December		
	2014	2013	2012
Investment Banking	\$ —	\$ —	\$ (15)
Institutional Client Services	3,679	3,250	3,723
Investing & Lending	237	25	26
Investment Management	131	117	146
Total net interest income	\$4,047	\$3,392	\$3,880

\$ in millions	Year Ended December		
	2014	2013	2012
Investment Banking	\$ 135	\$ 144	\$ 166
Institutional Client Services	525	571	802
Investing & Lending	530	441	565
Investment Management	147	166	205
Total depreciation and amortization ¹	\$1,337	\$1,322	\$1,738

1. Depreciation and amortization related to real estate-related exit costs, previously not allocated to the firm's segments, have now been allocated. This allocation reflects the change in the manner in which management views the performance of the firm's segments. Reclassifications have been made to previously reported segment amounts to conform to the current presentation.

Geographic Information

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

Geographic results are generally allocated as follows:

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

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

\$ in millions	Year Ended December					
	2014	2013	2012	2014	2013	2012
Net revenues						
Americas	\$20,062	58%	\$19,858	58%	\$20,159	59%
Europe, Middle East and Africa	9,057	26%	8,828	26%	8,612	25%
Asia	5,409	16%	5,520	16%	5,392	16%
Total net revenues	\$34,528	100%	\$34,206	100%	\$34,163	100%
Pre-tax earnings						
Americas	\$ 7,144	57%	\$ 6,794	57%	\$ 6,956	61%
Europe, Middle East and Africa	3,338	27%	3,230	27%	2,931	26%
Asia	2,012	16%	1,868	16%	1,489	13%
Subtotal	12,494	100%	11,892	100%	11,376	100%
Corporate ¹	(137)		(155)		(169)	
Total pre-tax earnings	\$12,357		\$11,737		\$11,207	
Net earnings						
Americas	\$ 4,558	53%	\$ 4,425	54%	\$ 4,255	56%
Europe, Middle East and Africa	2,576	30%	2,377	29%	2,361	31%
Asia	1,434	17%	1,345	17%	971	13%
Subtotal	8,568	100%	8,147	100%	7,587	100%
Corporate	(91)		(107)		(112)	
Total net earnings	\$ 8,477		\$ 8,040		\$ 7,475	

1. Includes charitable contributions that have not been allocated to the firm's geographic regions. Operating expenses related to real estate-related exit costs, previously not allocated to the firm's geographic regions, have now been allocated. This allocation reflects the change in the manner in which management views the performance of the geographic regions. Reclassifications have been made to previously reported geographic region amounts to conform to the current presentation.

Notes to Consolidated Financial Statements

Note 26.

Credit Concentrations

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

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

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

The table below presents the credit concentrations in cash instruments held by the firm.

\$ in millions	As of December	
	2014	2013
U.S. government and federal agency obligations ¹	\$69,170	\$90,118
% of total assets	8.1%	9.9%
Non-U.S. government and agency obligations ¹	\$37,059	\$40,944
% of total assets	4.3%	4.5%

1. Included in "Financial instruments owned, at fair value" and "Cash and securities segregated for regulatory and other purposes."

As of December 2014 and December 2013, the firm did not have credit exposure to any other counterparty that exceeded 2% of total assets.

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

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

\$ in millions	As of December	
	2014	2013
U.S. government and federal agency obligations	\$103,263	\$100,672
Non-U.S. government and agency obligations ¹	71,302	79,021

1. Principally consists of securities issued by the governments of France, the United Kingdom, Japan and Germany.

Note 27.

Legal Proceedings

The firm is involved in a number of judicial, regulatory and arbitration proceedings (including those described below) concerning matters arising in connection with the conduct of the firm's businesses. Many of these proceedings are in early stages, and many of these cases seek an indeterminate amount of damages.

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

With respect to matters described below for which management has been able to estimate a range of reasonably possible loss where (i) actual or potential plaintiffs have claimed an amount of money damages, (ii) the firm is being, or threatened to be, sued by purchasers in an underwriting and is not being indemnified by a party that the firm believes will pay any judgment, or (iii) the purchasers are demanding that the firm repurchase securities, management has estimated the upper end of the range of reasonably possible loss as being equal to (a) in the case of (i), the amount of money damages claimed, (b) in the case of (ii), the difference between the initial sales price of the securities that the firm sold in such underwriting and the estimated lowest subsequent price of such securities and (c) in the case of (iii), the price that purchasers paid for the securities less the estimated value, if any, as of December 2014 of the relevant securities, in each of cases (i), (ii) and (iii), taking into account any factors believed to be relevant to the particular matter or matters of that type. As of the date hereof, the firm has estimated the upper end of the range of reasonably possible aggregate loss for such matters and for any other matters described below where management has been able to estimate a range of reasonably possible aggregate loss to be approximately \$3.0 billion in excess of the aggregate reserves for such matters.

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

Notes to Consolidated Financial Statements

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

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

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

GS&Co., Goldman Sachs Mortgage Company and GS Mortgage Securities Corp. and three current or former Goldman Sachs employees are defendants in a putative class action commenced on December 11, 2008 in the U.S. District Court for the Southern District of New York brought on behalf of purchasers of various mortgage pass-through certificates and asset-backed certificates issued by various securitization trusts established by the firm and underwritten by GS&Co. in 2007. The complaint generally alleges that the registration statement and prospectus supplements for the certificates violated the federal securities laws, and seeks unspecified compensatory damages and rescission or rescissionary damages. By a decision dated September 6, 2012, the U.S. Court of Appeals for the Second Circuit affirmed the district court’s dismissal of plaintiff’s claims with respect to 10 of the 17 offerings included in plaintiff’s original complaint but vacated the dismissal and remanded the case to the district court with instructions to reinstate the plaintiff’s claims with respect to the other seven offerings. On October 31, 2012, the plaintiff served an amended complaint relating to those seven offerings, plus seven additional offerings (additional offerings). On July 10, 2014, the court granted the defendants’ motion to dismiss as to the additional offerings. On June 3, 2010, another investor filed a separate putative class action asserting substantively similar allegations relating to one of the additional offerings and thereafter moved to further amend its amended complaint to add claims with respect to two of the additional offerings. On March 27, 2014, the district court largely denied defendants’ motion to dismiss as to the original offering, but denied the separate plaintiff’s motion to add the two additional offerings through an amendment. The securitization trusts issued, and GS&Co. underwrote, approximately \$11 billion principal amount of certificates to all purchasers in the offerings at issue in the complaints.

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On September 30, 2010, a class action was filed in the U.S. District Court for the Southern District of New York against GS&Co., Group Inc. and two former GS&Co. employees on behalf of investors in \$823 million of notes issued in 2006 and 2007 by two synthetic CDOs (Hudson Mezzanine 2006-1 and 2006-2). The amended complaint asserts federal securities law and common law claims, and seeks unspecified compensatory, punitive and other damages. The defendants' motion to dismiss was granted as to plaintiff's claim of market manipulation and denied as to the remainder of plaintiff's claims by a decision dated March 21, 2012. On May 21, 2012, the defendants counterclaimed for breach of contract and fraud. On June 27, 2014, the appellate court denied defendants' petition for leave to appeal from the district court's January 22, 2014 order granting class certification. On January 30, 2015, defendants moved for summary judgment.

Various alleged purchasers of, and counterparties and providers of credit enhancement involved in transactions relating to, mortgage pass-through certificates, CDOs and other mortgage-related products (including Aozora Bank, Ltd., Basis Yield Alpha Fund (Master), the Charles Schwab Corporation, CIFG Assurance of North America, Inc., CMFG Life Insurance Company and related parties, Deutsche Zentral-Genossenschaftsbank, the FDIC (as receiver for Guaranty Bank), the Federal Home Loan Banks of Chicago and Seattle, IKB Deutsche Industriebank AG, John Hancock and related parties, Massachusetts Mutual Life Insurance Company, National Australia Bank, the National Credit Union Administration (as conservator or liquidating agent for several failed credit unions), Phoenix Light SF Limited and related parties, Royal Park Investments SA/NV, The Union Central Life Insurance Company, Ameritas Life Insurance Corp., Acacia Life Insurance Company, Watertown Savings Bank, Commerzbank, Texas County & District Retirement System and the Commonwealth of Virginia (on behalf of the Virginia Retirement System)) have filed complaints or summonses with notice in state and federal court or initiated arbitration proceedings against firm affiliates, generally alleging that the offering documents for the securities that they purchased contained untrue statements of material fact and material omissions and generally seeking rescission and/or damages. Certain of these complaints allege fraud and seek punitive damages. Certain of these complaints also name other firms as defendants.

A number of other entities (including John Hancock and related parties, Norges Bank Investment Management, Selective Insurance Company and the State of Illinois (on behalf of Illinois state retirement systems)) have threatened to assert claims of various types against the firm in connection with the sale of mortgage-related securities. The firm has entered into agreements with a number of these entities to toll the relevant statute of limitations.

As of the date hereof, the aggregate amount of mortgage-related securities sold to plaintiffs in active and threatened cases described in the preceding two paragraphs where those plaintiffs are seeking rescission of such securities was approximately \$6.6 billion (which does not reflect adjustment for any subsequent paydowns or distributions or any residual value of such securities, statutory interest or any other adjustments that may be claimed). This amount does not include the potential claims by these or other purchasers in the same or other mortgage-related offerings that have not been described above, or claims that have been dismissed.

The firm has entered into agreements with Deutsche Bank National Trust Company and U.S. Bank National Association to toll the relevant statute of limitations with respect to claims for repurchase of residential mortgage loans based on alleged breaches of representations related to \$11.4 billion original notional face amount of securitizations issued by trusts for which they act as trustees.

Group Inc., Litton, Ocwen and Arrow Corporate Member Holdings LLC, a former subsidiary of Group Inc., are defendants in a putative class action pending since January 23, 2013 in the U.S. District Court for the Southern District of New York generally challenging the procurement manner and scope of "force-placed" hazard insurance arranged by Litton when homeowners failed to arrange for insurance as required by their mortgages. The complaint asserts claims for breach of contract, breach of fiduciary duty, misappropriation, conversion, unjust enrichment and violation of Florida unfair practices law, and seeks unspecified compensatory and punitive damages as well as declaratory and injunctive relief. An amended complaint, filed on November 19, 2013, added an additional plaintiff and RICO claims. On September 29, 2014, the court denied without prejudice and with leave to renew at a later date Group Inc.'s motion to sever the claims against it and certain other defendants.

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The firm has also received, and continues to receive, requests for information and/or subpoenas as part of inquiries or investigations by the U.S. Department of Justice, other members of the RMBS Working Group and other federal, state and local regulators and law enforcement authorities relating to the mortgage-related securitization process, subprime mortgages, CDOs, synthetic mortgage-related products, sales communications and particular transactions involving these products, and servicing and foreclosure activities, which may subject the firm to actions, including litigation, penalties and fines. In December 2014, as part of the RMBS Working Group investigation, the firm received a letter from the U.S. Attorney for the Eastern District of California stating in connection with potentially bringing a civil action that it had preliminarily concluded that the firm had violated federal law in connection with its underwriting, securitization and sale of residential mortgage-backed securities and offering the firm an opportunity to respond. The firm is cooperating with these regulators and other authorities, including in some cases agreeing to the tolling of the relevant statute of limitations. See also "Regulatory Investigations and Reviews and Related Litigation" below.

The firm expects to be the subject of additional putative shareholder derivative actions, purported class actions, rescission and "put back" claims and other litigation, additional investor and shareholder demands, and additional regulatory and other investigations and actions with respect to mortgage-related offerings, loan sales, CDOs, and servicing and foreclosure activities. See Note 18 for information regarding mortgage-related contingencies not described in this Note 27.

Private Equity-Sponsored Acquisitions Litigation. Group Inc. is among numerous private equity firms named as defendants in a federal antitrust action filed in the U.S. District Court for the District of Massachusetts in December 2007. As amended, the complaint generally alleges that the defendants have colluded to limit competition in bidding for private equity-sponsored acquisitions of public companies, thereby resulting in lower prevailing bids and, by extension, less consideration for shareholders of those companies in violation of Section 1 of the U.S. Sherman Antitrust Act and common law. The complaint seeks, among other things, treble damages in an unspecified amount. In June 2014, Group Inc. and the plaintiffs agreed to a settlement, which the court preliminarily approved on September 29, 2014. Group Inc., together with its affiliates, has paid the full amount of its proposed contribution to the settlement.

RALI Pass-Through Certificates Litigation. GS&Co. is among numerous underwriters named as defendants in a securities class action initially filed in September 2008 in New York Supreme Court, and subsequently removed to the U.S. District Court for the Southern District of New York. As to the underwriters, plaintiffs allege that the offering documents in connection with various offerings of mortgage-backed pass-through certificates violated the disclosure requirements of the federal securities laws. In addition to the underwriters, the defendants include Residential Capital, LLC (ResCap), Residential Accredit Loans, Inc. (RALI), Residential Funding Corporation (RFC), Residential Funding Securities Corporation (RFSC), and certain of their officers and directors. On January 3, 2013, the district court certified a class in connection with one offering underwritten by GS&Co. which includes only initial purchasers who bought the securities directly from the underwriters or their agents no later than ten trading days after the offering date. On April 30, 2013, the district court granted in part plaintiffs' request to reinstate a number of the previously dismissed claims relating to an additional nine offerings underwritten by GS&Co. On May 10, 2013, the plaintiffs filed an amended complaint incorporating those nine additional offerings. On December 27, 2013, the court granted the plaintiffs' motion for class certification as to the nine additional offerings but denied the plaintiffs' motion to expand the time period and scope covered by the previous class definition. On October 17, 2014, the plaintiffs and defendants moved for summary judgment. On February 11, 2015, GS&Co. and the other underwriter defendants agreed to a settlement with the plaintiffs, subject to court approval. The firm has reserved the full amount of its proposed contribution to the settlement.

GS&Co. underwrote approximately \$5.57 billion principal amount of securities to all purchasers in the offerings included in the amended complaint. On May 14, 2012, ResCap, RALI and RFC filed for Chapter 11 bankruptcy in the U.S. Bankruptcy Court for the Southern District of New York. On June 28, 2013, the district court entered a final order and judgment approving a settlement between plaintiffs and ResCap, RALI, RFC, RFSC and their officers and directors named as defendants in the action.

MF Global Securities Litigation. GS&Co. is among numerous underwriters named as defendants in class action complaints and an individual action filed in the U.S. District Court for the Southern District of New York commencing November 18, 2011. These complaints generally allege that the offering materials for two offerings of MF Global Holdings Ltd. (MF Global) convertible notes (aggregating approximately \$575 million in principal amount) in February 2011 and July 2011, among other things, failed to describe adequately the nature, scope and risks of MF Global's exposure to European sovereign debt, in violation of the disclosure requirements of the federal securities laws. On December 12, 2014, the court preliminarily approved a settlement resolving the class action, and on January 5, 2015, the court entered an order effectuating the settlement of all claims against GS&Co. in the individual action. GS&Co. has paid the full amount of its contribution to the settlements.

GS&Co. has also received inquiries from various governmental and regulatory bodies and self-regulatory organizations concerning certain transactions with MF Global prior to its bankruptcy filing. Goldman Sachs is cooperating with all such inquiries.

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

FireEye Securities Litigation. GS&Co. is among the underwriters named as defendants in several putative securities class actions, filed beginning in June 2014 in the California Superior Court, County of Santa Clara. In addition to the underwriters, the defendants include FireEye, Inc. (FireEye) and certain of its directors and officers. The complaints generally allege misstatements and omissions in connection with the offering materials for the March 2014 offering of approximately \$1.15 billion of FireEye common stock, assert claims under the federal securities laws, and seek compensatory damages in an unspecified amount and rescission. GS&Co. underwrote 2,100,000 shares for a total offering price of approximately \$172 million.

Millennial Media Securities Litigation. GS&Co. is among the underwriters named as defendants in a putative securities class action filed on September 30, 2014 in the U.S. District Court for the Southern District of New York. In addition to the underwriters, the defendants include Millennial Media, Inc. (Millennial Media) and certain of its directors, officers and shareholders. As to the underwriters, the complaint generally alleges misstatements and omissions in connection with Millennial Media's \$152 million March 2012 initial public offering and the October 2012 offering of approximately \$163 million of Millennial Media's common stock, asserts claims under the federal securities laws, and seeks compensatory damages in an unspecified amount and rescission. GS&Co. underwrote 3,519,000 and 3,450,000 shares of common stock in the March and October 2012 offerings, respectively, for an aggregate offering price of approximately \$95 million.

Zynga Securities Litigation. GS&Co. was among the underwriters named as defendants in a putative securities class action filed on August 1, 2012 in the California Superior Court, County of San Francisco. In addition to the underwriters, the defendants included Zynga Inc. (Zynga) and certain of its directors and officers. The consolidated amended complaint, filed on April 29, 2013, generally alleged that the offering materials for the March 2012 \$516 million secondary offering of Zynga common stock by certain of Zynga's shareholders violated the disclosure requirements of the federal securities laws, and sought compensatory damages in an unspecified amount and rescission. On February 11, 2015, the court dismissed the action.

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Cobalt International Energy Securities Litigation. Cobalt International Energy, Inc. (Cobalt), certain of its officers and directors (including employees of affiliates of Group Inc. who served as directors of Cobalt), shareholders of Cobalt (including certain funds affiliated with Group Inc.), affiliates of these shareholders (including Group Inc.) and underwriters (including GS&Co.) for certain offerings of Cobalt's securities are defendants in a putative securities class action filed on November 30, 2014 in the U.S. District Court for the Southern District of Texas. The complaint asserts claims under the federal securities laws, seeks compensatory and rescissory damages in unspecified amounts and alleges material misstatements and omissions concerning Cobalt in connection with a \$1.67 billion February 2012 offering of Cobalt common stock, a \$1.38 billion December 2012 offering of Cobalt's convertible notes, a \$1.00 billion January 2013 offering of Cobalt's common stock, a \$1.33 billion May 2013 offering of Cobalt's common stock, and a \$1.30 billion May 2014 offering of Cobalt's convertible notes. The complaint alleges that Group Inc., GS&Co. and the affiliated funds are liable as controlling persons with respect to all five offerings. The complaint also seeks damages (i) from GS&Co. in connection with its acting as an underwriter of 14,430,000 shares of common stock representing an aggregate offering price of approximately \$465 million, \$690 million principal amount of convertible notes, and approximately \$508 million principal amount of convertible notes in the February 2012, December 2012 and May 2014 offerings, respectively, for an aggregate offering price of approximately \$1.66 billion, and (ii) from Group Inc. and the affiliated funds in connection with their sales of 40,042,868 shares of common stock for aggregate gross proceeds of approximately \$1.06 billion in the February 2012, January 2013 and May 2013 common stock offerings.

Employment-Related Matters. On September 15, 2010, a putative class action was filed in the U.S. District Court for the Southern District of New York by three female former employees alleging that Group Inc. and GS&Co. have systematically discriminated against female employees in respect of compensation, promotion, assignments, mentoring and performance evaluations. The complaint alleges a class consisting of all female employees employed at specified levels in specified areas by Group Inc. and GS&Co. since July 2002, and asserts claims under federal and New York City discrimination laws. The complaint seeks class action status, injunctive relief and unspecified amounts of compensatory, punitive and other damages. On July 17, 2012, the district court issued a decision granting in part Group Inc.'s and GS&Co.'s motion to strike certain of plaintiffs' class allegations on the ground that plaintiffs lacked standing to pursue certain equitable remedies and denying Group Inc.'s and GS&Co.'s motion to strike plaintiffs' class allegations in their entirety as premature. On March 21, 2013, the U.S. Court of Appeals for the Second Circuit held that arbitration should be compelled with one of the named plaintiffs, who as a managing director was a party to an arbitration agreement with the firm. On May 19, 2014, plaintiffs moved for class certification.

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

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

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Credit Derivatives Antitrust Matters. The European Commission announced in April 2011 that it was initiating proceedings to investigate further numerous financial services companies, including Group Inc., 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. Group Inc.'s current understanding is that the proceedings related to profit sharing and fee arrangements for clearing of credit default swaps have been suspended indefinitely. The firm has received civil investigative demands from the U.S. Department of Justice for information on similar matters. Goldman Sachs is cooperating with the investigations and reviews.

GS&Co. and Group Inc. are among the numerous defendants in putative antitrust class actions relating to credit derivatives, filed beginning in May 2013 and consolidated in the U.S. District Court for the Southern District of New York. The complaints generally allege that defendants violated federal antitrust laws by conspiring to forestall the development of alternatives to OTC trading of credit derivatives and to maintain inflated bid-ask spreads for credit derivatives trading. The complaints seek declaratory and injunctive relief as well as treble damages in an unspecified amount. On September 4, 2014, the court granted in part and denied in part the defendants' motion to dismiss, permitting the claim alleging an antitrust conspiracy to proceed but confining it to a period after the fall of 2008.

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.

Municipal Securities Matters. GS&Co. (along with, in some cases, other financial services firms) is named as respondent in a number of FINRA arbitrations filed by municipalities, municipal-owned entities, state-owned agencies or instrumentalities and non-profit entities, based on GS&Co.'s role as underwriter of the claimants' issuances of an aggregate of approximately \$2.0 billion of auction rate securities from 2003 through 2007 and as a broker-dealer with respect to auctions for these securities. The claimants generally allege that GS&Co. failed to disclose that it had a practice of placing cover bids in auctions, and/or failed to inform the claimant of the deterioration of the auction rate market beginning in the fall of 2007, and that, as a result, the claimant was forced to engage in a series of expensive refinancing and conversion transactions after the failure of the auction market in February 2008. Certain claimants also allege that GS&Co. advised them to enter into interest rate swaps in connection with their auction rate securities issuances, causing them to incur additional losses. The claims include breach of fiduciary duty, fraudulent concealment, negligent misrepresentation, breach of contract, violations of the Exchange Act and state securities laws, and breach of duties under the rules of the Municipal Securities Rulemaking Board and the NASD. One claimant has also filed a complaint against GS&Co. in federal court asserting the same claims as in the FINRA arbitration.

GS&Co. filed complaints and motions in federal court seeking to enjoin certain of the arbitrations to effectuate the exclusive forum selection clauses in the transaction documents. In one case, the district court denied the injunction but was reversed by the appellate court, and the U.S. Supreme Court denied the claimant's petition for certiorari seeking review of the appellate court's decision; in other cases, the district court granted the injunctions, which have been affirmed by the appellate court.

GS&Co. has also filed motions with the FINRA Panels to dismiss the arbitrations, one of which has been granted.

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Commodities-Related Litigation. Group Inc. and its subsidiary, GS Power Holdings LLC (GS Power), as well as Metro, a previously consolidated subsidiary of Group Inc. that was sold in the fourth quarter of 2014, are among the defendants in a number of putative class actions filed beginning on August 1, 2013 and consolidated in the U.S. District Court for the Southern District of New York. The complaints generally allege violation of federal antitrust laws and other federal and state laws in connection with the management of aluminum storage facilities. 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 filed proposed amended complaints on October 9 and 10, 2014.

Group Inc., GS Power, Metro and GSI are among the defendants named in putative class actions, filed beginning on May 23, 2014 in the U.S. District Court for the Southern District of New York, based on similar alleged violations of the federal antitrust laws in connection with the management of zinc storage facilities.

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.

ISDAFIX-Related Litigation. GS&Co. is among the defendants named in several putative class actions relating to trading in interest rate derivatives, filed beginning in September 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 the ISDAFIX benchmark and seek declaratory and injunctive relief as well as treble damages in an unspecified amount. On December 12, 2014, defendants moved to dismiss the consolidated amended complaint, and on February 12, 2015, the plaintiffs filed a second amended consolidated complaint.

Currencies-Related Litigation. GS&Co. and Group Inc. are among the defendants named in several putative antitrust class actions relating to trading in the foreign exchange markets, filed beginning in December 2013 in the U.S. District Court for the Southern District of New York. The complaints generally allege that defendants violated federal antitrust laws in connection with an alleged conspiracy to manipulate the foreign currency exchange markets and seek declaratory and injunctive relief as well as treble damages in an unspecified amount. On February 13, 2014, the cases were consolidated into one action. On February 28, 2014, Group Inc. was named in a separate putative class action on behalf of non-U.S. plaintiffs containing substantially similar allegations, which was not consolidated but was coordinated with the other proceedings for pretrial purposes; that complaint was amended on April 30, 2014. On January 28, 2015, the court denied defendants' motion to dismiss the consolidated action and granted defendants' motion to dismiss the amended complaint on behalf of the non-U.S. plaintiffs.

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

- The 2008 financial crisis;
- The public offering process;
- The firm's investment management and financial advisory services;
- Conflicts of interest;
- Research practices, including research independence and interactions between research analysts and other firm personnel, including investment banking personnel, as well as third parties;

- Transactions involving municipal securities, including wall-cross procedures and conflict of interest disclosure with respect to state and municipal clients, the trading and structuring of municipal derivative instruments in connection with municipal offerings, political contribution rules, underwriting of Build America Bonds, municipal advisory services and the possible impact of credit default swap transactions on municipal issuers;
- The sales, trading and clearance of corporate and government securities, currencies, commodities and other financial products and related sales and other communications and activities, including compliance with the SEC's short sale rule, algorithmic, high-frequency and quantitative trading, the firm's U.S. alternative trading system, futures trading, options trading, transaction reporting, technology systems and controls, securities lending practices, trading and clearance of credit derivative instruments, commodities activities and metals storage, private placement practices, allocations of and trading in securities, and trading activities and communications in connection with the establishment of benchmark rates, such as currency rates and the ISDAFIX benchmark rates;
- Compliance with the U.S. Foreign Corrupt Practices Act, including with respect to the firm's hiring practices;
- The firm's system of risk management and controls; and
- Insider trading, the potential misuse and dissemination of material nonpublic information regarding corporate and governmental developments and the effectiveness of the firm's insider trading controls and information barriers.

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

Note 28.

Employee Benefit Plans

The firm sponsors various pension plans and certain other postretirement benefit plans, primarily healthcare and life insurance. The firm also provides certain benefits to former or inactive employees prior to retirement.

Defined Benefit Pension Plans and Postretirement Plans

Employees of certain non-U.S. subsidiaries participate in various defined benefit pension plans. These plans generally provide benefits based on years of credited service and a percentage of the employee's eligible compensation. The firm maintains a defined benefit pension plan for certain U.K. employees. As of April 2008, the U.K. defined benefit plan was closed to new participants, but allows existing participants to continue to accrue benefits. In 2014, the firm notified plan participants that it intends to close the U.K. defined benefit plan to future benefit accruals after March 31, 2016. The non-U.S. plans do not have a material impact on the firm's consolidated results of operations.

The firm also maintains a defined benefit pension plan for substantially all U.S. employees hired prior to November 1, 2003. As of November 2004, this plan was closed to new participants and frozen such that existing participants would not accrue any additional benefits. In addition, the firm maintains unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees and their dependents covered under these programs. These plans do not have a material impact on the firm's consolidated results of operations.

The firm recognizes the funded status of its defined benefit pension and postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation, in the consolidated statements of financial condition. As of December 2014, "Other assets" and "Other liabilities and accrued expenses" included \$273 million (related to overfunded pension plans) and \$739 million, respectively, related to these plans. As of December 2013, "Other assets" and "Other liabilities and accrued expenses" included \$179 million (related to overfunded pension plans) and \$482 million, respectively, related to these plans.

Defined Contribution Plans

The firm contributes to employer-sponsored U.S. and non-U.S. defined contribution plans. The firm's contribution to these plans was \$223 million for 2014, \$219 million for 2013 and \$221 million for 2012.

Notes to Consolidated Financial Statements

Note 29.

Employee Incentive Plans

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

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

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

Stock Incentive Plan

The firm sponsors a stock incentive plan, The Goldman Sachs Amended and Restated Stock Incentive Plan (2013) (2013 SIP), which provides for grants of RSUs, restricted stock, dividend equivalent rights, incentive stock options, nonqualified stock options, stock appreciation rights, and other share-based awards, each of which may be subject to performance conditions. On May 23, 2013, shareholders approved the 2013 SIP. The 2013 SIP replaces The Goldman Sachs Amended and Restated Stock Incentive Plan (SIP) previously in effect, and applies to awards granted on or after the date of approval.

The total number of shares of common stock that may be delivered pursuant to awards granted under the 2013 SIP cannot exceed 60 million shares, subject to adjustment for certain changes in corporate structure as permitted under the 2013 SIP. The 2013 SIP is scheduled to terminate on the date of the annual meeting of shareholders that occurs in 2016. As of December 2014, 45.7 million shares were available for grant under the 2013 SIP.

Restricted Stock Units

The firm grants RSUs to employees under the 2013 SIP, which are valued based on the closing price of the underlying shares on the date of grant after taking into account a liquidity discount for any applicable post-vesting transfer restrictions. RSUs generally vest and underlying shares of common stock deliver as outlined in the applicable RSU agreements. Employee RSU agreements generally provide that vesting is accelerated in certain circumstances, such as on retirement, death, disability and conflicted employment. Delivery of the underlying shares of common stock is conditioned on the grantees satisfying certain vesting and other requirements outlined in the award agreements.

The table below presents the activity related to RSUs.

	Restricted Stock Units Outstanding		Weighted Average Grant-Date Fair Value of Restricted Stock Units Outstanding	
	Future Service Required	No Future Service Required	Future Service Required	No Future Service Required
Outstanding,				
December 2013	8,226,869 ⁴	21,002,821	\$118.91	\$117.53
Granted ^{1,2}	4,832,540	9,567,783	155.13	149.52
Forfeited	(800,429)	(158,958)	130.57	139.02
Delivered ³	—	(14,723,912)	—	121.60
Vested ²	(5,602,111)	5,602,111	119.78	119.78
Outstanding,				
December 2014	6,656,869 ⁴	21,289,845	143.07	129.52

1. The weighted average grant-date fair value of RSUs granted during 2014, 2013 and 2012 was \$151.40, \$122.59 and \$84.72, respectively. The fair value of the RSUs granted during 2014, 2013 and 2012 includes a liquidity discount of 13.8%, 13.7% and 21.7%, respectively, to reflect post-vesting transfer restrictions of up to 4 years.

2. The aggregate fair value of awards that vested during 2014, 2013 and 2012 was \$2.39 billion, \$2.26 billion and \$1.57 billion, respectively.

3. Includes RSUs that were cash settled.

4. Includes restricted stock subject to future service requirements as of December 2014 and December 2013 of 20,651 and 4,768 shares, respectively.

In the first quarter of 2015, the firm granted to its employees 14.0 million year-end RSUs, of which 3.6 million RSUs require future service as a condition of delivery. These awards are subject to additional conditions as outlined in the award agreements. Generally, shares underlying these awards, net of required withholding tax, deliver over a three-year period but are subject to post-vesting transfer restrictions through January 2020. These grants are not included in the table above.

Notes to Consolidated Financial Statements

Stock Options

Stock options generally vest as outlined in the applicable stock option agreement. No options have been granted since 2010. In general, options expire on the tenth anniversary of the grant date, although they may be subject to earlier termination or cancellation under certain circumstances in accordance with the terms of the applicable stock option agreement and the SIP in effect at the time of grant.

The table below presents the activity related to stock options.

	Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)	Weighted Average Remaining Life (years)
Outstanding, December 2013	42,565,241	\$ 99.37	\$3,465	4.60
Exercised	(22,609,903)	80.81		
Outstanding, December 2014	19,955,338	120.40	1,516	3.28
Exercisable, December 2014	19,955,338	120.40	1,516	3.28

The total intrinsic value of options exercised during 2014, 2013 and 2012 was \$2.03 billion, \$26 million and \$151 million, respectively.

The table below presents options outstanding.

Exercise Price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life (years)
\$ 75.00 - \$ 89.99	12,236,264	\$ 78.78	4.00
90.00 - 119.99	—	—	—
120.00 - 134.99	1,737,950	131.64	0.92
135.00 - 194.99	—	—	—
195.00 - 209.99	5,981,124	202.27	2.48
Outstanding, December 2014	19,955,338	120.40	3.28

As of December 2014, there was \$468 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements. This cost is expected to be recognized over a weighted average period of 1.53 years.

The table below presents the share-based compensation and the related excess tax benefit/(provision).

\$ in millions	Year Ended December		
	2014	2013	2012
Share-based compensation	\$2,101	\$2,039	\$1,338
Excess net tax benefit related to options exercised	549	3	53
Excess net tax benefit/(provision) related to share-based awards ¹	788	94	(11)

1. Represents the net tax benefit/(provision) recognized in additional paid-in capital on stock options exercised and the delivery of common stock underlying share-based awards.

Notes to Consolidated Financial Statements

Note 30.

Parent Company

Group Inc. — Condensed Statements of Earnings

	Year Ended December		
\$ in millions	2014	2013	2012
Revenues			
Dividends from subsidiaries			
Bank subsidiaries	\$ 16	\$ 2,000	\$ —
Nonbank subsidiaries	2,739	4,176	3,622
Undistributed earnings of subsidiaries	5,330	1,086	3,682
Other revenues	826	2,209	1,567
Total non-interest revenues	8,911	9,471	8,871
Interest income	3,769	4,048	4,751
Interest expense	3,802	4,161	4,287
Net interest income/(loss)	(33)	(113)	464
Net revenues, including net interest income	8,878	9,358	9,335
Operating expenses			
Compensation and benefits	411	403	452
Other expenses	282	424	448
Total operating expenses	693	827	900
Pre-tax earnings	8,185	8,531	8,435
Provision/(benefit) for taxes	(292)	491	960
Net earnings	8,477	8,040	7,475
Preferred stock dividends	400	314	183
Net earnings applicable to common shareholders	\$8,077	\$7,726	\$7,292

Group Inc. — Condensed Statements of Financial Condition

	As of December	
\$ in millions	2014	2013
Assets		
Cash and cash equivalents	\$ 42	\$ 17
Loans to and receivables from subsidiaries		
Bank subsidiaries	8,222	5,366
Nonbank subsidiaries ¹	171,121	169,653
Investments in subsidiaries and other affiliates		
Bank subsidiaries	22,393	20,972
Nonbank subsidiaries and other affiliates	57,311	52,422
Financial instruments owned, at fair value	11,812	16,065
Other assets	7,629	7,575
Total assets	\$278,530	\$272,070
Liabilities and shareholders' equity		
Payables to subsidiaries	\$ 129	\$ 489
Financial instruments sold, but not yet purchased, at fair value	169	421
Unsecured short-term borrowings		
With third parties ²	31,022	30,611
With subsidiaries	1,955	4,289
Unsecured long-term borrowings		
With third parties ³	158,613	153,576
With subsidiaries ⁴	1,616	1,587
Other liabilities and accrued expenses	2,229	2,630
Total liabilities	195,733	193,603
Commitments, contingencies and guarantees		
Shareholders' equity		
Preferred stock	9,200	7,200
Common stock	9	8
Share-based awards	3,766	3,839
Additional paid-in capital	50,049	48,998
Retained earnings	78,984	71,961
Accumulated other comprehensive loss	(743)	(524)
Stock held in treasury, at cost	(58,468)	(53,015)
Total shareholders' equity	82,797	78,467
Total liabilities and shareholders' equity	\$278,530	\$272,070

Group Inc. — Condensed Statements of Cash Flows

	Year Ended December		
\$ in millions	2014	2013	2012
Cash flows from operating activities			
Net earnings	\$ 8,477	\$ 8,040	\$ 7,475
Adjustments to reconcile net earnings to net cash provided by operating activities			
Undistributed earnings of subsidiaries	(5,330)	(1,086)	(3,682)
Depreciation and amortization	42	15	15
Deferred income taxes	(4)	1,398	(1,258)
Share-based compensation	188	194	81
Gain on extinguishment of junior subordinated debt	(289)	—	—
Changes in operating assets and liabilities			
Financial instruments owned, at fair value	6,766	(3,235)	2,197
Financial instruments sold, but not yet purchased, at fair value	(252)	183	(3)
Other, net	(5,793)	586	1,888
Net cash provided by operating activities	3,805	6,095	6,713
Cash flows from investing activities			
Purchase of property, leasehold improvements and equipment	(15)	(3)	(12)
Repayments/(issuances) of short-term loans by/(to) subsidiaries, net	(4,099)	(5,153)	6,584
Issuance of term loans to subsidiaries	(8,803)	(2,174)	(17,414)
Repayments of term loans by subsidiaries	3,979	7,063	18,715
Capital distributions from/(contributions to) subsidiaries, net	865	655	(298)
Net cash provided by/(used for) investing activities	(8,073)	388	7,575
Cash flows from financing activities			
Unsecured short-term borrowings, net	963	1,296	(2,647)
Proceeds from issuance of long-term borrowings	37,101	28,458	26,160
Repayment of long-term borrowings, including the current portion	(27,931)	(29,910)	(35,608)
Purchase of trust preferred securities and senior guaranteed trust securities	(1,801)	—	—
Common stock repurchased	(5,469)	(6,175)	(4,640)
Dividends and dividend equivalents paid on common stock, preferred stock and share-based awards	(1,454)	(1,302)	(1,086)
Proceeds from issuance of preferred stock, net of issuance costs	1,980	991	3,087
Proceeds from issuance of common stock, including exercise of share-based awards	123	65	317
Excess tax benefit related to share-based awards	782	98	130
Cash settlement of share-based awards	(1)	(1)	(1)
Net cash provided by/(used for) financing activities	4,293	(6,480)	(14,288)
Net increase in cash and cash equivalents	25	3	—
Cash and cash equivalents, beginning of year	17	14	14
Cash and cash equivalents, end of year	\$ 42	\$ 17	\$ 14

SUPPLEMENTAL DISCLOSURES:

Cash payments for third-party interest, net of capitalized interest, were \$4.31 billion, \$2.78 billion and \$5.11 billion for 2014, 2013 and 2012, respectively. Cash payments for income taxes, net of refunds, were \$2.35 billion, \$3.21 billion and \$1.59 billion for 2014, 2013 and 2012, respectively.

Non-cash activity:

During 2014, the firm exchanged \$1.58 billion of Trust Preferred Securities, common beneficial interests and senior guaranteed trust securities held by the firm for \$1.87 billion of the firm's junior subordinated debt held by the issuing trusts. Following the exchange, this junior subordinated debt was extinguished.

1. Primarily includes overnight loans, the proceeds of which can be used to satisfy the short-term obligations of Group Inc.
2. Includes \$5.88 billion and \$5.83 billion at fair value for 2014 and 2013, respectively.
3. Includes \$11.66 billion and \$8.67 billion at fair value for 2014 and 2013, respectively.
4. Unsecured long-term borrowings with subsidiaries by maturity date are \$186 million in 2016, \$338 million in 2017, \$159 million in 2018, \$44 million in 2019, and \$889 million in 2020-thereafter.

Supplemental Financial Information

Quarterly Results (unaudited)

The following represents the firm's unaudited quarterly results for 2014 and 2013. These quarterly results were prepared in accordance with U.S. GAAP and reflect all

adjustments that are, in the opinion of management, necessary for a fair statement of the results. These adjustments are of a normal, recurring nature.

<i>in millions, except per share data</i>	Three Months Ended			
	December 2014	September 2014	June 2014	March 2014
Non-interest revenues	\$6,727	\$7,338	\$8,125	\$8,291
Interest income	2,134	2,297	2,579	2,594
Interest expense	1,173	1,248	1,579	1,557
Net interest income	961	1,049	1,000	1,037
Net revenues, including net interest income	7,688	8,387	9,125	9,328
Operating expenses ¹	4,478	5,082	6,304	6,307
Pre-tax earnings	3,210	3,305	2,821	3,021
Provision for taxes	1,044	1,064	784	988
Net earnings	2,166	2,241	2,037	2,033
Preferred stock dividends	134	98	84	84
Net earnings applicable to common shareholders	\$2,032	\$2,143	\$1,953	\$1,949
Earnings per common share				
Basic	\$ 4.50	\$ 4.69	\$ 4.21	\$ 4.15
Diluted	4.38	4.57	4.10	4.02
Dividends declared per common share	0.60	0.55	0.55	0.55

<i>in millions, except per share data</i>	Three Months Ended			
	December 2013	September 2013	June 2013	March 2013
Non-interest revenues	\$7,981	\$5,882	\$7,786	\$9,165
Interest income	2,391	2,398	2,663	2,608
Interest expense	1,590	1,558	1,837	1,683
Net interest income	801	840	826	925
Net revenues, including net interest income	8,782	6,722	8,612	10,090
Operating expenses ¹	5,230	4,555	5,967	6,717
Pre-tax earnings	3,552	2,167	2,645	3,373
Provision for taxes	1,220	650	714	1,113
Net earnings	2,332	1,517	1,931	2,260
Preferred stock dividends	84	88	70	72
Net earnings applicable to common shareholders	\$2,248	\$1,429	\$1,861	\$2,188
Earnings per common share				
Basic	\$ 4.80	\$ 3.07	\$ 3.92	\$ 4.53
Diluted	4.60	2.88	3.70	4.29
Dividends declared per common share	0.55	0.50	0.50	0.50

1. The timing and magnitude of changes in the firm's discretionary compensation accruals can have a significant effect on results in a given quarter.

Supplemental Financial Information

Common Stock Price Range

The table below presents the high and low sales prices per share of the firm's common stock.

	Year Ended December					
	2014		2013		2012	
	High	Low	High	Low	High	Low
First quarter	\$181.13	\$159.77	\$159.00	\$129.62	\$128.72	\$ 92.42
Second quarter	171.08	151.65	168.20	137.29	125.54	90.43
Third quarter	188.58	161.53	170.00	149.28	122.60	91.15
Fourth quarter	198.06	171.26	177.44	152.83	129.72	113.84

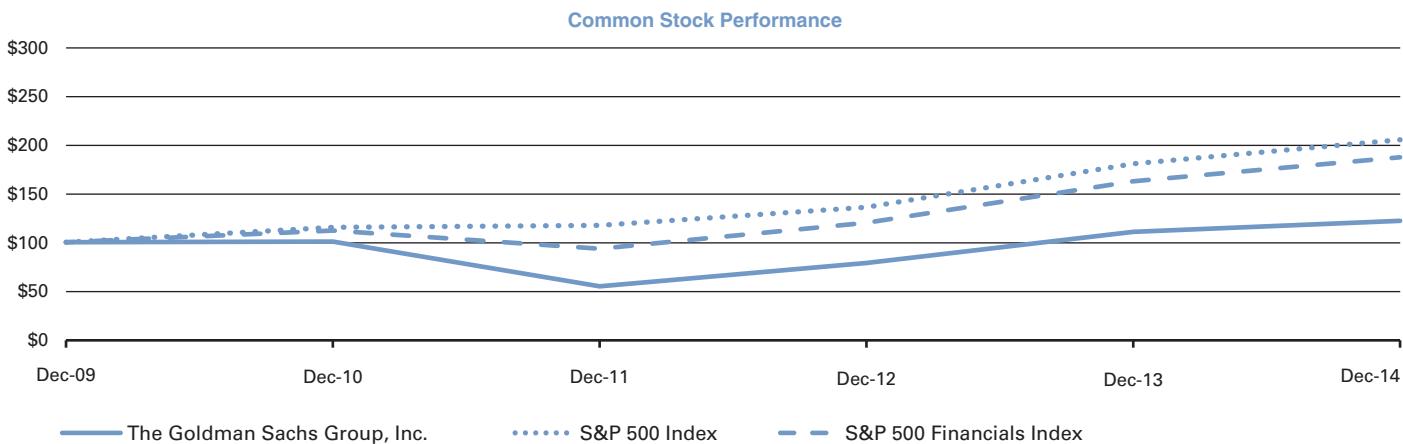
As of February 6, 2015, there were 10,230 holders of record of the firm's common stock.

On February 6, 2015, the last reported sales price for the firm's common stock on the New York Stock Exchange was \$183.43 per share.

Common Stock Performance

The following graph and table compare the performance of an investment in the firm's common stock from December 31, 2009 (the last trading day before the firm's 2010 fiscal year) through December 31, 2014, with the S&P 500 Index and the S&P 500 Financials Index. The graph and table assume \$100 was invested on

December 31, 2009 in each of the firm's common stock, the S&P 500 Index and the S&P 500 Financials Index, and the dividends were reinvested on the date of payment without payment of any commissions. The performance shown represents past performance and should not be considered an indication of future performance.



	As of December					
	2009	2010	2011	2012	2013	2014
The Goldman Sachs Group, Inc.	\$100.00	\$100.54	\$ 54.69	\$ 78.41	\$110.39	\$122.29
S&P 500 Index	100.00	115.06	117.49	136.27	180.40	205.08
S&P 500 Financials Index	100.00	112.13	93.00	119.73	162.34	186.98

Supplemental Financial Information

Selected Financial Data

	Year Ended or as of December				
	2014	2013	2012	2011	2010
Income statement data (\$ in millions)					
Non-interest revenues	\$ 30,481	\$ 30,814	\$ 30,283	\$ 23,619	\$ 33,658
Interest income	9,604	10,060	11,381	13,174	12,309
Interest expense	5,557	6,668	7,501	7,982	6,806
Net interest income	4,047	3,392	3,880	5,192	5,503
Net revenues, including net interest income	34,528	34,206	34,163	28,811	39,161
Compensation and benefits	12,691	12,613	12,944	12,223	15,376
U.K. bank payroll tax	—	—	—	—	465
Non-compensation expenses	9,480	9,856	10,012	10,419	10,428
Pre-tax earnings	\$ 12,357	\$ 11,737	\$ 11,207	\$ 6,169	\$ 12,892
Balance sheet data (\$ in millions)					
Total assets	\$856,240	\$911,507	\$938,555	\$923,225	\$911,332
Other secured financings (long-term)	7,249	7,524	8,965	8,179	13,848
Unsecured long-term borrowings	167,571	160,965	167,305	173,545	174,399
Total liabilities	773,443	833,040	862,839	852,846	833,976
Total shareholders' equity	82,797	78,467	75,716	70,379	77,356
Common share data (in millions, except per share amounts)					
Earnings per common share					
Basic	\$ 17.55	\$ 16.34	\$ 14.63	\$ 4.71	\$ 14.15
Diluted	17.07	15.46	14.13	4.51	13.18
Dividends declared per common share	2.25	2.05	1.77	1.40	1.40
Book value per common share ¹	163.01	152.48	144.67	130.31	128.72
Average common shares outstanding					
Basic	458.9	471.3	496.2	524.6	542.0
Diluted	473.2	499.6	516.1	556.9	585.3
Selected data (unaudited)					
Total staff					
Americas	17,400	16,600	16,400	17,200	19,900
Non-Americas	16,600	16,300	16,000	16,100	15,800
Total staff	34,000	32,900	32,400	33,300	35,700
Assets under supervision (\$ in billions)					
Asset class					
Alternative investments	\$ 143	\$ 142	\$ 151	\$ 148	\$ 150
Equity	236	208	153	147	162
Fixed income	516	446	411	353	346
Long-term assets under supervision	895	796	715	648	658
Liquidity products	283	246	250	247	259
Total assets under supervision	\$ 1,178	\$ 1,042	\$ 965	\$ 895	\$ 917

1. Book value per common share is based on common shares outstanding, including RSUs granted to employees with no future service requirements, of 451.5 million, 467.4 million, 480.5 million, 516.3 million and 546.9 million as of December 2014, December 2013, December 2012, December 2011 and December 2010, respectively.

Supplemental Financial Information

Statistical Disclosures

Distribution of Assets, Liabilities and Shareholders' Equity

The table below presents a summary of consolidated average balances and interest rates. Assets, liabilities and interest are

classified as U.S. and non-U.S.-based on the location of the legal entity in which the assets and liabilities are held.

\$ in millions	Year Ended December								
	2014			2013			2012		
	Average balance	Interest	Average rate	Average balance	Interest	Average rate	Average balance	Interest	Average rate
Assets									
Deposits with banks	\$ 59,135	\$ 164	0.28%	\$ 61,921	\$ 186	0.30%	\$ 52,500	\$ 156	0.30%
U.S.	53,606	144	0.27%	56,848	167	0.29%	49,123	132	0.27%
Non-U.S.	5,529	20	0.36%	5,073	19	0.37%	3,377	24	0.71%
Securities borrowed, securities purchased under agreements to resell and federal funds sold	302,321	(81)	(0.03)%	327,748	43	0.01%	331,828	(77)	(0.02)%
U.S.	193,555	(514)	(0.27)%	198,677	(289)	(0.15)%	191,166	(431)	(0.23)%
Non-U.S.	108,766	433	0.40%	129,071	332	0.26%	140,662	354	0.25%
Financial instruments owned, at fair value ¹	271,810	7,452	2.74%	292,965	8,159	2.78%	310,982	9,817	3.16%
U.S.	170,647	5,045	2.96%	182,158	5,353	2.94%	190,490	6,548	3.44%
Non-U.S.	101,163	2,407	2.38%	110,807	2,806	2.53%	120,492	3,269	2.71%
Loans receivable	22,425	708	3.16%	10,296	296	2.87%	5,617	150	2.67%
U.S.	21,459	650	3.03%	9,736	268	2.75%	5,526	148	2.68%
Non-U.S.	966	58	6.00%	560	28	5.00%	91	2	2.20%
Other interest-earning assets ²	140,733	1,361	0.97%	138,775	1,376	0.99%	130,810	1,335	1.02%
U.S.	85,811	813	0.95%	81,759	796	0.97%	84,545	826	0.98%
Non-U.S.	54,922	548	1.00%	57,016	580	1.02%	46,265	509	1.10%
Total interest-earning assets	796,424	9,604	1.21%	831,705	10,060	1.21%	831,737	11,381	1.37%
Cash and due from banks	5,237			6,212			7,357		
Other non-interest-earning assets ¹	93,002			106,095			107,702		
Total assets	\$894,663			\$944,012			\$946,796		
Liabilities									
Interest-bearing deposits	\$ 73,286	\$ 333	0.45%	\$ 69,707	\$ 387	0.56%	\$ 56,399	\$ 399	0.71%
U.S.	62,717	286	0.46%	60,824	352	0.58%	48,668	362	0.74%
Non-U.S.	10,569	47	0.44%	8,883	35	0.39%	7,731	37	0.48%
Securities loaned and securities sold under agreements to repurchase	131,911	431	0.33%	178,686	576	0.32%	177,550	822	0.46%
U.S.	79,517	206	0.26%	114,884	242	0.21%	121,145	380	0.31%
Non-U.S.	52,394	225	0.43%	63,802	334	0.52%	56,405	442	0.78%
Financial instruments sold, but not yet purchased, at fair value ¹	82,219	1,741	2.12%	92,913	2,054	2.21%	94,740	2,438	2.57%
U.S.	39,708	828	2.09%	37,923	671	1.77%	41,436	852	2.06%
Non-U.S.	42,511	913	2.15%	54,990	1,383	2.52%	53,304	1,586	2.98%
Short-term borrowings ³	64,594	447	0.69%	60,926	394	0.65%	70,359	581	0.83%
U.S.	45,843	413	0.90%	40,511	365	0.90%	47,614	479	1.01%
Non-U.S.	18,751	34	0.18%	20,415	29	0.14%	22,745	102	0.45%
Long-term borrowings ³	172,047	3,460	2.01%	174,195	3,752	2.15%	176,698	3,736	2.11%
U.S.	164,844	3,327	2.02%	168,106	3,635	2.16%	170,163	3,582	2.11%
Non-U.S.	7,203	133	1.85%	6,089	117	1.92%	6,535	154	2.36%
Other interest-bearing liabilities ⁴	215,911	(855)	(0.40)%	203,482	(495)	(0.24)%	206,790	(475)	(0.23)%
U.S.	153,600	(1,222)	(0.80)%	144,888	(904)	(0.62)%	150,986	(988)	(0.65)%
Non-U.S.	62,311	367	0.59%	58,594	409	0.70%	55,804	513	0.92%
Total interest-bearing liabilities	739,968	5,557	0.75%	779,909	6,668	0.85%	782,536	7,501	0.96%
Non-interest-bearing deposits	799			655			324		
Other non-interest-bearing liabilities ¹	73,057			86,095			91,406		
Total liabilities	813,824			866,659			874,266		
Shareholders' equity									
Preferred stock	8,585			6,892			4,392		
Common stock	72,254			70,461			68,138		
Total shareholders' equity	80,839			77,353			72,530		
Total liabilities and shareholders' equity	\$894,663			\$944,012			\$946,796		
Interest rate spread			0.46%			0.36%			0.41%
Net interest income and net yield on interest-earning assets	\$ 4,047	0.51%		\$ 3,392	0.41%		\$ 3,880	0.47%	
U.S.	2,300	0.44%		1,934	0.37%		2,556	0.49%	
Non-U.S.	1,747	0.64%		1,458	0.48%		1,324	0.43%	
Percentage of interest-earning assets and interest-bearing liabilities attributable to non-U.S. operations									
Assets		34.07%				36.37%			37.38%
Liabilities		26.18%				27.28%			25.88%

1. Derivative instruments and commodities are included in other non-interest-earning assets and other non-interest-bearing liabilities.

2. Primarily consists of certain receivables from customers and counterparties and cash and securities segregated for regulatory and other purposes.

3. Interest rates include the effects of interest rate swaps accounted for as hedges.

4. Substantially all consists of certain payables to customers and counterparties.

Supplemental Financial Information

Changes in Net Interest Income, Volume and Rate Analysis

The table below presents an analysis of the effect on net interest income of volume and rate changes. In this analysis,

changes due to volume/rate variance have been allocated to volume.

\$ in millions	Year Ended					
	December 2014 versus December 2013			December 2013 versus December 2012		
	Increase (decrease) due to change in:		Net Change	Increase (decrease) due to change in:		Net Change
	Volume	Rate		Volume	Rate	
Interest-earning assets						
Deposits with banks	\$ (7)	\$ (15)	\$ (22)	\$ 29	\$ 1	\$ 30
U.S.	(9)	(14)	(23)	23	12	35
Non-U.S.	2	(1)	1	6	(11)	(5)
Securities borrowed, securities purchased under agreements to resell and federal funds sold	(67)	(57)	(124)	(41)	161	120
U.S.	14	(239)	(225)	(11)	153	142
Non-U.S.	(81)	182	101	(30)	8	(22)
Financial instruments owned, at fair value	(569)	(138)	(707)	(490)	(1,168)	(1,658)
U.S.	(340)	32	(308)	(245)	(950)	(1,195)
Non-U.S.	(229)	(170)	(399)	(245)	(218)	(463)
Loans receivable	379	33	412	139	7	146
U.S.	355	27	382	116	4	120
Non-U.S.	24	6	30	23	3	26
Other interest-earning assets	17	(32)	(15)	82	(41)	41
U.S.	38	(21)	17	(27)	(3)	(30)
Non-U.S.	(21)	(11)	(32)	109	(38)	71
Change in interest income	(247)	(209)	(456)	(281)	(1,040)	(1,321)
Interest-bearing liabilities						
Interest-bearing deposits	16	(70)	(54)	75	(87)	(12)
U.S.	9	(75)	(66)	70	(80)	(10)
Non-U.S.	7	5	12	5	(7)	(2)
Securities loaned and securities sold under agreements to repurchase	(141)	(4)	(145)	26	(272)	(246)
U.S.	(92)	56	(36)	(13)	(125)	(138)
Non-U.S.	(49)	(60)	(109)	39	(147)	(108)
Financial instruments sold, but not yet purchased, at fair value	(231)	(82)	(313)	(20)	(364)	(384)
U.S.	37	120	157	(62)	(119)	(181)
Non-U.S.	(268)	(202)	(470)	42	(245)	(203)
Short-term borrowings	45	8	53	(67)	(120)	(187)
U.S.	48	—	48	(64)	(50)	(114)
Non-U.S.	(3)	8	5	(3)	(70)	(73)
Long-term borrowings	(45)	(247)	(292)	(53)	69	16
U.S.	(66)	(242)	(308)	(44)	97	53
Non-U.S.	21	(5)	16	(9)	(28)	(37)
Other interest-bearing liabilities	(47)	(313)	(360)	57	(77)	(20)
U.S.	(69)	(249)	(318)	38	46	84
Non-U.S.	22	(64)	(42)	19	(123)	(104)
Change in interest expense	(403)	(708)	(1,111)	18	(851)	(833)
Change in net interest income	\$ 156	\$ 499	\$ 655	\$ (299)	\$ (189)	\$ (488)

Supplemental Financial Information

Deposits

The tables below present a summary of the firm's interest-bearing deposits.

\$ in millions	Average Balances for the Year Ended December		
	2014	2013	2012
U.S.:			
Savings ¹	\$41,785	\$39,411	\$32,235
Time	20,932	21,413	16,433
Total U.S. deposits	62,717	60,824	48,668
Non-U.S.:			
Demand	4,571	4,613	5,318
Time	5,998	4,270	2,413
Total Non-U.S. deposits	10,569	8,883	7,731
Total deposits	\$73,286	\$69,707	\$56,399

1. Amounts are available for withdrawal upon short notice, generally within seven days.

\$ in millions	Average Interest Rates for the Year Ended December		
	2014	2013	2012
U.S.:			
Savings	0.23%	0.30%	0.42%
Time	0.91%	1.09%	1.38%
Total U.S. deposits	0.46%	0.58%	0.74%
Non-U.S.:			
Demand	0.18%	0.22%	0.30%
Time	0.65%	0.59%	0.87%
Total Non-U.S. deposits	0.44%	0.39%	0.48%
Total deposits	0.45%	0.56%	0.71%

Short-term and Other Borrowed Funds

The tables below present a summary of the firm's securities loaned and securities sold under agreements to repurchase, and short-term borrowings. These borrowings generally mature within one year of the financial statement date and include borrowings that are redeemable at the option of the holder within one year of the financial statement date.

\$ in millions	Securities Loaned and Securities Sold Under Agreements to Repurchase as of December		
	2014	2013	2012
Amounts outstanding at year-end	\$ 93,785	\$183,527	\$185,572
Average outstanding during the year	131,911	178,686	177,550
Maximum month-end outstanding	178,049	196,393	198,456

Weighted average interest rate

During the year	0.33%	0.32%	0.46%
At year-end	0.31%	0.28%	0.44%

\$ in millions	Short-Term Borrowings as of December		
	2014	2013	2012
Amounts outstanding at year-end ¹	\$ 60,100	\$ 61,982	\$ 67,349
Average outstanding during the year	64,594	60,926	70,359
Maximum month-end outstanding	68,572	66,978	75,280

Weighted average interest rate²

During the year	0.69%	0.65%	0.83%
At year-end	0.68%	0.89%	0.79%

1. Includes short-term secured financings of \$15.56 billion, \$17.29 billion and \$23.05 billion as of December 2014, December 2013 and December 2012, respectively.

2. The weighted average interest rates for these borrowings include the effect of hedging activities.

Supplemental Financial Information

Cross-border Outstandings

Cross-border outstandings are based on the Federal Financial Institutions Examination Council's (FFIEC) guidelines for reporting cross-border information and represent the amounts that the firm may not be able to obtain from a foreign country due to country-specific events, including unfavorable economic and political conditions, economic and social instability, and changes in government policies.

Credit exposure represents the potential for loss due to the default or deterioration in credit quality of a counterparty or an issuer of securities or other instruments the firm holds and is measured based on the potential loss in an event of non-payment by a counterparty. Credit exposure is reduced through the effect of risk mitigants, such as netting agreements with counterparties that permit the firm to offset receivables and payables with such counterparties or obtaining collateral from counterparties. The tables below do not include all the effects of such risk mitigants and do not represent the firm's credit exposure.

The tables below present cross-border outstandings and commitments for each country in which cross-border outstandings exceed 0.75% of consolidated assets in accordance with the FFIEC guidelines and include cash, receivables, securities purchased under agreements to resell, securities borrowed and cash financial instruments, but exclude derivative instruments. Securities purchased under agreements to resell and securities borrowed are presented gross, without reduction for related securities collateral held. Margin loans (included in receivables) are presented based on the amount of collateral advanced by the counterparty. Substantially all commitments in the table below consist of commitments to extend credit and forward starting resale and securities borrowing agreements.

\$ in millions

Country	Banks	Governments	Other	Total	Commitments
Cayman Islands	\$ 2	\$ —	\$35,829	\$35,831	\$ 2,658
France	4,730	4,932	18,261 ¹	27,923	12,214
Japan	13,862	373	10,763	24,998	11,413
Germany	5,362	4,479	10,629	20,470	4,631
United Kingdom	1,870	282	8,821	10,973	11,755
Italy	3,331	4,173	2,215	9,719	783
China	2,474	1,952	4,984	9,410	6

\$ in millions

Country	Banks	Governments	Other	Total	Commitments
Cayman Islands	\$ 12	\$ 1	\$35,969	\$35,982	\$ 1,671
Japan	23,026	123	11,981	35,130	5,086
France	12,427	2,871	16,567 ¹	31,865	12,060
Germany	5,148	4,336	7,793	17,277	4,716
Spain	7,002	2,281	2,491	11,774	1,069
United Kingdom	2,688	217	7,321	10,226	19,014
Netherlands	1,785	540	5,786	8,111	1,962

\$ in millions

Country	Banks	Governments	Other	Total	Commitments
Cayman Islands	\$ —	\$ —	\$39,283	\$39,283	\$ 1,088
France	6,991	2,370	23,161 ¹	32,522	18,846
Japan	16,679	19	8,908	25,606	9,635
Germany	4,012	10,976	7,912	22,900	4,887
Spain	3,790	4,237	1,816	9,843	473
Ireland	438	68	7,057	7,563 ²	176
United Kingdom	1,422	237	5,874	7,533	20,327
China	2,564	1,265	3,564	7,393	—
Brazil	1,383	3,704	2,280	7,367	865
Switzerland	3,706	230	3,133	7,069	1,305

1. Primarily comprised of secured lending transactions with a clearing house.

2. Primarily comprised of interests in and receivables from funds domiciled in Ireland, but whose underlying investments are primarily located outside of Ireland, and secured lending transactions.

Board Members, Officers and Directors

as of March 5, 2015

Board of Directors

Lloyd C. Blankfein <i>Chairman and Chief Executive Officer</i>	Gary D. Cohn <i>President and Chief Operating Officer</i>	M. Michele Burns <i>Former Chairman and CEO, Mercer LLC</i>	Claes Dahlbäck <i>Senior Advisor to Investor AB and Foundation Asset Management</i>	Mark A. Flaherty <i>Former Vice Chairman, Wellington Management Company</i>	William W. George <i>Senior Fellow at Harvard Business School</i>	James A. Johnson <i>Chairman of Johnson Capital Partners</i>	Lakshmi N. Mittal <i>Chairman and Chief Executive Officer of ArcelorMittal S.A.</i>	Adebayo O. Ogunlesi, <i>Lead Director Chairman and Managing Partner of Global Infrastructure Partners, LLC</i>	Peter Oppenheimer <i>Former Senior Vice President and Chief Financial Officer of Apple, Inc.</i>	Debra L. Spar <i>President of Barnard College</i>	Mark E. Tucker <i>Executive Director, Group Chief Executive and President of AIA Group Limited</i>	David A. Viniar <i>Former Chief Financial Officer of The Goldman Sachs Group, Inc.</i>	Mark O. Winkelmann <i>Private Investor</i>
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John F.W. Rogers
Secretary to the Board

Management Committee

Lloyd C. Blankfein <i>Chairman and Chief Executive Officer</i>	Gary D. Cohn <i>President and Chief Operating Officer</i>	John S. Weinberg <i>Vice Chairman</i>	Craig W. Broderick <i>General Counsel</i>	R. Martin Chavez <i>General Counsel</i>	Christopher A. Cole <i>General Counsel</i>	Edith W. Cooper*	Michael D. Daffey <i>General Counsel</i>	Gordon E. Dyal <i>General Counsel</i>	Isabelle Ealet <i>General Counsel</i>	Richard A. Friedman <i>General Counsel</i>	Justin G. Gmelich <i>General Counsel</i>	Ken W. Hitchner <i>General Counsel</i>	Gwen R. Libstag <i>General Counsel</i>	Masanori Mochida <i>General Counsel</i>
Mark Schwartz <i>General Counsel</i>	Gene T. Sykes <i>General Counsel</i>	John S. Weinberg <i>General Counsel</i>	John S. Weinberg <i>General Counsel</i>	Sharmin Mossavar-Rahmani <i>General Counsel</i>	Armen A. Avanessians <i>General Counsel</i>	Gary D. Cohn <i>General Counsel</i>	Christopher A. Cole <i>General Counsel</i>	Michael S. Sherwood <i>General Counsel</i>	Esta E. Stecher <i>General Counsel</i>	Thomas C. Bracco <i>General Counsel</i>	Peter D. Brundage <i>General Counsel</i>	Abby Joseph Cohen <i>General Counsel</i>	E. Gerald Corrigan <i>General Counsel</i>	Charles P. Eve <i>General Counsel</i>
Michael S. Sherwood <i>General Counsel</i>	John S. Weinberg <i>General Counsel</i>	Sharmin Mossavar-Rahmani <i>General Counsel</i>	Sharmin Mossavar-Rahmani <i>General Counsel</i>	Armen A. Avanessians <i>General Counsel</i>	Christopher A. Cole <i>General Counsel</i>	Michael S. Sherwood <i>General Counsel</i>	Michael S. Sherwood <i>General Counsel</i>	Esta E. Stecher <i>General Counsel</i>	Thomas C. Bracco <i>General Counsel</i>	Peter D. Brundage <i>General Counsel</i>	Abby Joseph Cohen <i>General Counsel</i>	E. Gerald Corrigan <i>General Counsel</i>	Charles P. Eve <i>General Counsel</i>	Christopher G. French <i>General Counsel</i>
Mark Schwartz <i>General Counsel</i>	John S. Weinberg <i>General Counsel</i>	Sharmin Mossavar-Rahmani <i>General Counsel</i>	Sharmin Mossavar-Rahmani <i>General Counsel</i>	Armen A. Avanessians <i>General Counsel</i>	Christopher A. Cole <i>General Counsel</i>	Michael S. Sherwood <i>General Counsel</i>	Michael S. Sherwood <i>General Counsel</i>	Esta E. Stecher <i>General Counsel</i>	Thomas C. Bracco <i>General Counsel</i>	Peter D. Brundage <i>General Counsel</i>	Abby Joseph Cohen <i>General Counsel</i>	E. Gerald Corrigan <i>General Counsel</i>	Charles P. Eve <i>General Counsel</i>	Christopher G. French <i>General Counsel</i>
Gene T. Sykes <i>General Counsel</i>	John S. Weinberg <i>General Counsel</i>	Sharmin Mossavar-Rahmani <i>General Counsel</i>	Sharmin Mossavar-Rahmani <i>General Counsel</i>	Armen A. Avanessians <i>General Counsel</i>	Christopher A. Cole <i>General Counsel</i>	Michael S. Sherwood <i>General Counsel</i>	Michael S. Sherwood <i>General Counsel</i>	Esta E. Stecher <i>General Counsel</i>	Thomas C. Bracco <i>General Counsel</i>	Peter D. Brundage <i>General Counsel</i>	Abby Joseph Cohen <i>General Counsel</i>	E. Gerald Corrigan <i>General Counsel</i>	Charles P. Eve <i>General Counsel</i>	Christopher G. French <i>General Counsel</i>

Managing Directors

Managing Directors are organized by Managing Director class

Lloyd C. Blankfein	Richard M. Campbell-Breeden
Mark Schwartz	Anthony H. Carpet
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Timothy J. O'Neill	Kent A. Clark
Gregory K. Palm	Edith W. Cooper*
Masanori Mochida	John S. Daly
Gene T. Sykes	Gordon E. Dyal
John S. Weinberg	Michael P. Esposito
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Christopher A. Cole	James A. Hudis
Michael S. Sherwood	David J. Kostin
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Peter D. Brundage	Paul M. Russo
Abby Joseph Cohen	Sarah E. Smith
E. Gerald Corrigan	Steven H. Strongin
Charles P. Eve	John J. Vaske
Christopher G. French	David M. Solomon
C. Douglas Fuge	Karen R. Cook
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Timothy J. Ingrassia	Dean C. Backer
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Sanjeev K. Mehra	Michele I. Docharty
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W. Thomas York, Jr.*	Michael R. Housden
Jonathan A. Beinner	Paul J. Huchro
Steven M. Bunson	Andrew J. Jonas
Matthew S. Darnall	James M. Karp
Alexander C. Dibelius	Matthew Lavicka
Karlo J. Duvnjak	Ronald S. Levin
Isabelle Ealet	Richard P. McNeil
Elizabeth C. Fascielli	Michael R. Miele
Oliver L. Frankel	Suok J. Noh
Celeste A. Guth	David B. Philip
Gregory T. Hoogkamp	Ellen R. Porges
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J. William McMahon	John S. Willian
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John J. Rafter	Paul M. Young*
John F.W. Rogers	Jack Levy
Michael M. Smith	Mark F. Dehnert
Haruko Watanuki	Michael H. Siegel
Paolo Zannoni	Matthew C. Westerman
Frances R. Bermanzohn*	Jason H. Ekaireb
Robert A. Berry	Seaborn S. Eastland
Craig W. Broderick	Alan J. Brazil

*Partnership Committee Member

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as of March 5, 2015

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Jeffrey P. Nedelman	Steven M. Pinkos	Alan M. Cohen	David Z. Solomon
Gavin G. O'Connor	Richard J. Revell	Helena Koo	Joseph J. Struzziery, III

*Partnership Committee Member

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as of March 5, 2015

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Robert J. Sweeney
Pawan Tewari
Paul Walker*
Dominic A. Wilson
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Yoshihiko Yano
Xing Zhang
R. Martin Chavez
Atosa Moini
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Andy Fisher
Marshall Smith
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Farid Pasha
Hidehiro Imatsu
Nick S. Advani
Analisa M. Allen
Ichiro Amano
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Marc O. Boheim
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Samantha R. Brown
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Martin Hintze
Todd Hohman
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Christopher E. Hussey

Etsuko Kanayama
C. Annette Kelton
John J. Kim
Hideki Kinuhata
Michael E. Koester
Geoffrey C. Lee
Laurent Lelouche
John R. Levene
David M. Marcinek
Marvin Markus
Thomas F. Matthias
F. Scott McDermott
John J. McGuire, Jr.
Sean T. McHugh
David R. Mittelbushner
Bryan P. Mix
Junko Mori
Takashi Murata
Amol S. Naik
Nicholas W. Phillips
Louis Piliego
Michelle H. Pinggera
M. Louise Pitt
James F. Radecki
Richard N. Ramsden
Scott A. Romanoff
Michael J. Rost
David T. Rusoff
Ankur A. Sahu
Guy E. Saidenberg
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Julian F. Simon
Michael L. Simpson
Barry Sklar
Mark R. Sorrell
John D. Storey
Ram K. Sundaram
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Joseph D. Swift
Teresa Teague
Klaus B. Toft
Leo J. Van Der Linden
Simone Verri
Toby C. Watson
Oliver C. Will
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Han Song Zhu
Steven A. Mayer
Michael T. Smith
Thomas G. Fruge
Clifford D. Schlesinger
Krishnamurthy Sudarshan
Maziar Minovi

Tuan Lam
Todd E. Eagle
Jess T. Fardella
Robin Rousseau
Adam S. Clayton
Jonathan M. Penkin
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Craig W. Packer
Michael Rimland
Carlos Pertejo
Massimo Della Ragione
Iain N. Drayton
Fadi Abuali
David Z. Alter
Vincent L. Amatulli
Ramaz A. Ashurov
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John F. Daly
Michael J. Daum
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Christina Drews
Steven T. Elia
Harry Eliades
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Graham P. Shaw
Hazem A. Shawki
Radford Small
Ramsey D. Smith
Kevin M. Sterling
Daiki Takayama
Tin Hsien Tan
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Richard J. Taylor
Oliver Thym
Ingrid C. Tierens
Joseph K. Todd
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as of March 5, 2015

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Brendan M. McGovern	Huntley Garriott	James R. Peters	Peeyush Misra
Shigemitsu Sugisaki	Maksim Gelfer	Luis Puchol-Plaza	Neil C. Kearns
Takashi Yoshimura	Gabe E. Gelman	Sumit Rajpal	Jeffrey M. Scruggs
Matthew C. Schwab	Tamilla F. Ghodsi	Peggy D. Rawitt	Antonio F. Esteves
Julie A. Harris	Federico J. Gilly	James H. Reynolds	Caglayan Cetin
Michael S. Swell	Marc C. Gilly	Sean D. Rice	Aya Stark Hamilton
William F. Spoor	John L. Glover, III	Robert E. Ritchie	Alan Zagury
Erich Bluhm	Richard C. Govers	Scott M. Rofey	Mary Anne Choo
David G. McDonald	Bradley J. Gross	Jeroen Rombouts	Daniel J. Rothman
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Anthony Gutman*	Pierre Hudry	Laura D. Sanchez	Marc d'Andlau
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Thalia Chryssikou	Xavier C. Menguy	Peter A. Weidman	Nicholas T. Cullen, III

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as of March 5, 2015

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Salvatore Fortunato
Sheara J. Fredman
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Pedro E. Scherer
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Gaurav Seth
Kiran V. Shah
Roopesh K. Shah
Takehisa Shimada
Tomoya Shimizu
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David A. Sievers
Brigit L. Simler
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Kathryn E. Sweeney
Teppei Takanabe
Troy S. Thornton
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Mark A. Van Wyk
Jonathan R. Vanica
Rajesh Venkataramani
John R. Vitha, II
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Nicole A. Weeldreyer
John A. Weir
Noah Y. Weisberger

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Pansy Piao Wong
Yat Wai Wu
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Xi Ye
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Una M. Neary
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as of March 5, 2015

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Stephen J. Nundy	William Shope, Jr.	Gilbert Chan	Jeremy P. Herman
Jernej Omahen	Steven K. Barg	Kevin M. Chan	Matthias Hieber
Daniel S. Oneglia	Guido Filippa	Francis S. Chlapowski	Amanda S. Hindlian
Anna Ostrovsky	Kathleen Hughes	Dongsuk Choi	Darren S. Hodges
Marco Pagliara	Michael Zeier	Stephen L. Christian	Simon Hurst
Gena Palumbo	David Wells	Peter I. Chu	Edward McKay Hyde
Jonathan E. Perry	Philip A. May	Vania H. Chu	Nagisa Inoue
Gerald J. Peterson	Alastair Maxwell	Emmanuel D. Clair	Shintaro Isono
Julien D. Petit	Jiming Ha	Bracha Cohen	Ronald Jansen
Charlotte L. Pissaridou	Sara Strang	Darren W. Cohen	Mikhail Jirnov
David S. Plutzer	Julian Zhu	Christopher J. Creed	Benjamin R. Johnson
Ian E. Pollington	Michael Wise	Helen A. Crowley	Mariam Kamshad
Alexander E. Potter	Pierre-Emmanuel Y. Juillard	Matthew J. Curtis	Makiko Kawamura
Alberto Ramos	Clemens Grafe	Jason S. Cuttler	Christina Kelerchian
Marko J. Ratesic	Gary Suen	Sterling D. Daines	Andre H. Kelleners
Joanna Redgrave	Jeffrey A. Barclay	Kevin J. Daly	Sven H. Khatri
Ryan E. Roderick	David K. Gallagher	Rajashree Datta	Sandip S. Khosla
Philip J. Salem	Frederique Gilain-Huneus	Samantha S. Davidson	David A. Killian
Jason M. Savarese	Theodore Lubke	Adam E. Davis	Melinda Kleehamer
Joshua S. Schiffrin	Patrick J. Moran	Sally Pope Davis	Maxim B. Klimov
Johan F. Schulten	Ronald Arons	George J. Dennis	Goohoon Kwon
Gaik Khin Nancy Seah	Michael S. Goldstein	Sara V. Devereux	Laurent-Olivier Labeis
Oliver R.C. Sedgwick	John P. Killian	Diana R. Dieckman	Lambert M. Lau
David Sismey	Brett A. Olsher	Avi Dimor	Sandra G. Lawson
Bryan Slotkin	Geoffrey P. Adamson	Lisa A. Donnelly	Deborah A. Lento
Timothy A. Smith	Yashar Aghababaie	Mark T. Drabkin	Gavin J. Leo-Rhynie
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Thomas E. Speight	Ahmet Akarli	Thomas K. Dunlap	Ke Li
Chandra K. Sunkara	Ali A. Al-Ali	Steven M. Durham	Xing Li
Kengo Taguchi	Jorge Alcover	Michael S. DuVally	Jason R. Lilien
Kristi A. Tange	Moazzam Ali	Masahiro Ehara	Amy M. Liu
Jonathan E.A. ten Oever	Gina M. Angelico	Grant M. Eldred	Bernard C. Liu
David S. Thomas	John J. Arege	Manal I. Eldumiaty	Nelson Lo
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Frank T. Tota	Naohiko Baba	Craig R. Farber	Joshua Lu
Hiroshi Ueki	Gargi Banerjee	John W. Fathers	Yvonne Lung
Naohide Une	Thomas J. Barrett, III	Lev Finkelstein	Uday Malhotra
Fernando P. Vallada	Roger K. Bartlett	Warren P. Finnerty	Upacala Mapatuna
Samuel Villegas	Stephen E. Becker	Elizabeth O. Fischer	Kristerfor T. Mastronardi
Christian von Schimmelmann	Ron Bezosa	John J. Flynn	Ikuo Matsuhashi
Martin Weber	David R. Binnion	Veronica Foo	Francois Mauran
Ronnie A. Wexler	Michael Bogdan	Francesca Fornasari	Brendan M. McCarthy
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Julian Wills	Didier Breant	Ruth Gao	Charles M. McGarraugh
William Wong	Kelly Reed Brennan	David M. Garofalo	Matthew R. Mitchell
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Sonjoy Chatterjee	Elizabeth A. Byrnes	Luke G. Gordon	Petra Monteiro
Asita Anche	Alvaro Camara	Pooja Grover	Heather L. Mulahasani
Bernard Thye Peng Teo	Tavis C. Cannell	Patricia R. Hall	Eric Murciano

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as of March 5, 2015

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Kevin Ohn
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Raya Prabhu
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J Ram
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Laurie E. Schmidt
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Carsten Schwarting
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Terri M. Messina
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Sanjiv Nathwani
Ramez Attieh
Joe Raia
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Soares R. Rodolfo
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Jayne Lerman
Eduard E. van Wyk
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Flavio Aidar
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Osman Ali

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Christopher M. Dyer
Mariano Echeguren
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Jenniffer Emanuel
Sean Fan
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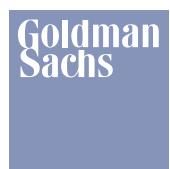
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