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 share [1] 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 ratio [2] was 12.2% as of December 2014, under the Basel III Advanced approach reflecting the applicable transitional provisions. In addition, our global core liquid assets [3] 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 share [1] 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 assets [3] 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.

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.

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.

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.

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.

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.

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).

	Year Ended December		
$ in millions	**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.

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 expenses [1]	**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.

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.

	Year Ended December		
$ in millions	**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]

	Year Ended December		
$ in billions	**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.

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.

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.

	Year Ended December		
$ in millions	**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.

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.

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.

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.

	Year Ended December		
$ in millions	**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.

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.

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)	**111** [1]	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.

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.

	As of December	
$ in millions	**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.

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.

	As of December 2014					
$ in millions	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**

	As of December 2013					
$ in millions	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.

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.

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.

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.

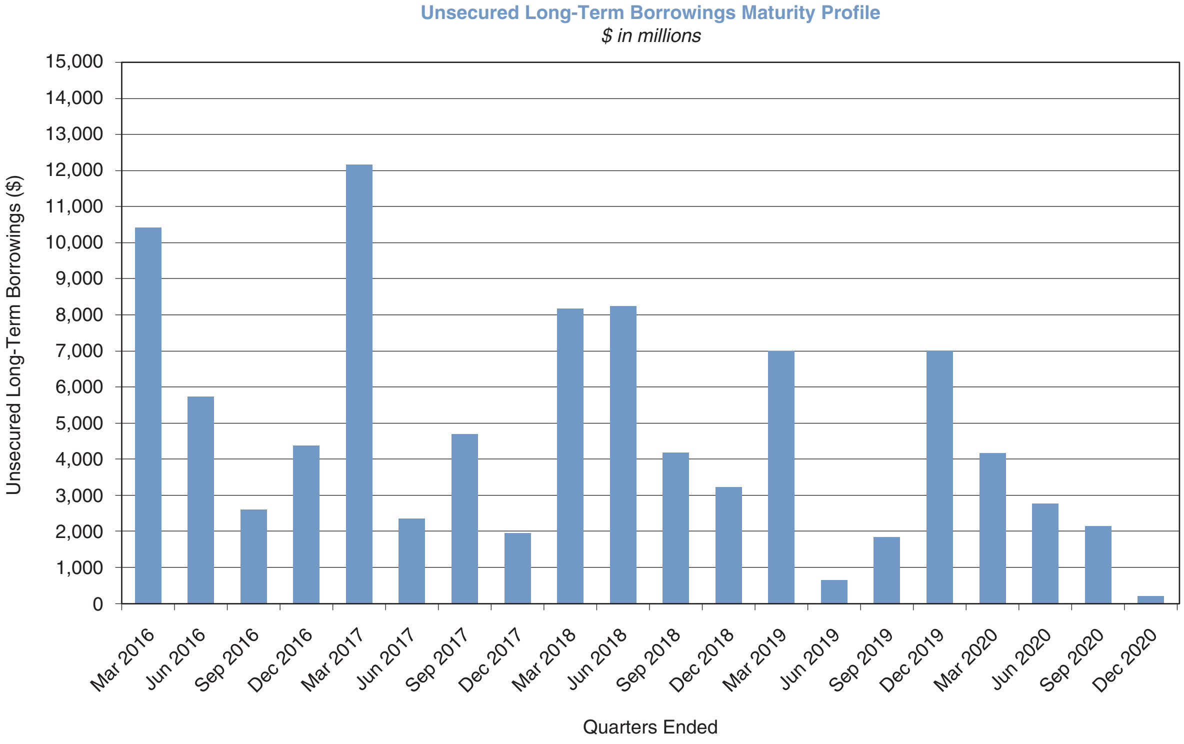
Secured Funding. We fund a significant amount of inventory on a secured basis. Secured funding is less sensitive to changes in our credit quality than unsecured funding, due to our posting of collateral to our lenders. Nonetheless, we continually analyze the refinancing risk of our secured funding activities, 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.

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.

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**
Total [5]	**$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
Total [5]	$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.

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.

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.

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.

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.

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.

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%.

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.

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.

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.

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.

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.

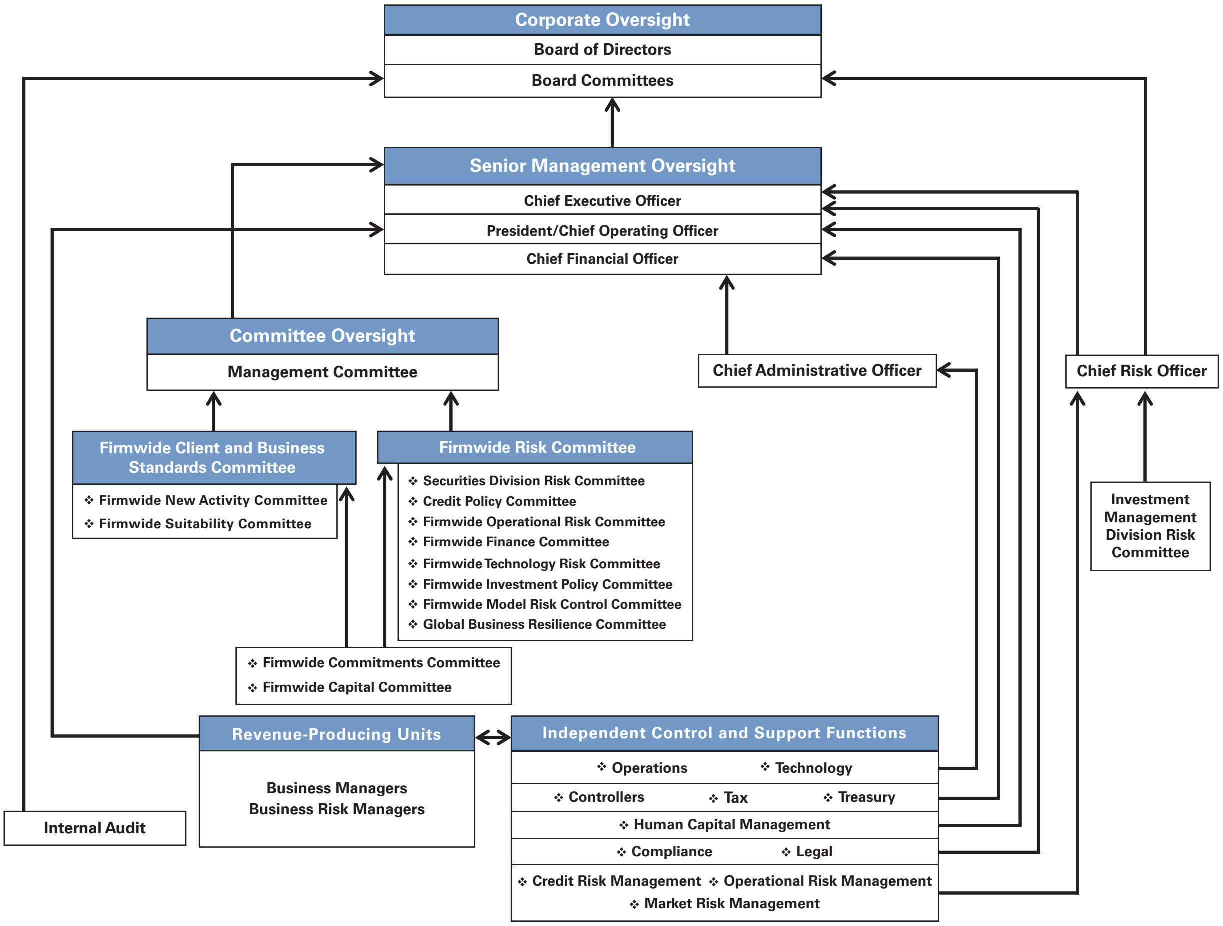
Structure

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.

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:

- **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.

- **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.

	Average for the Year Ended December	
$ in millions	**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.

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.

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.

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.

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.

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

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.

	As of December	
$ in millions	**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.

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.

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.

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	Year Ended December		
Risk Categories	**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.

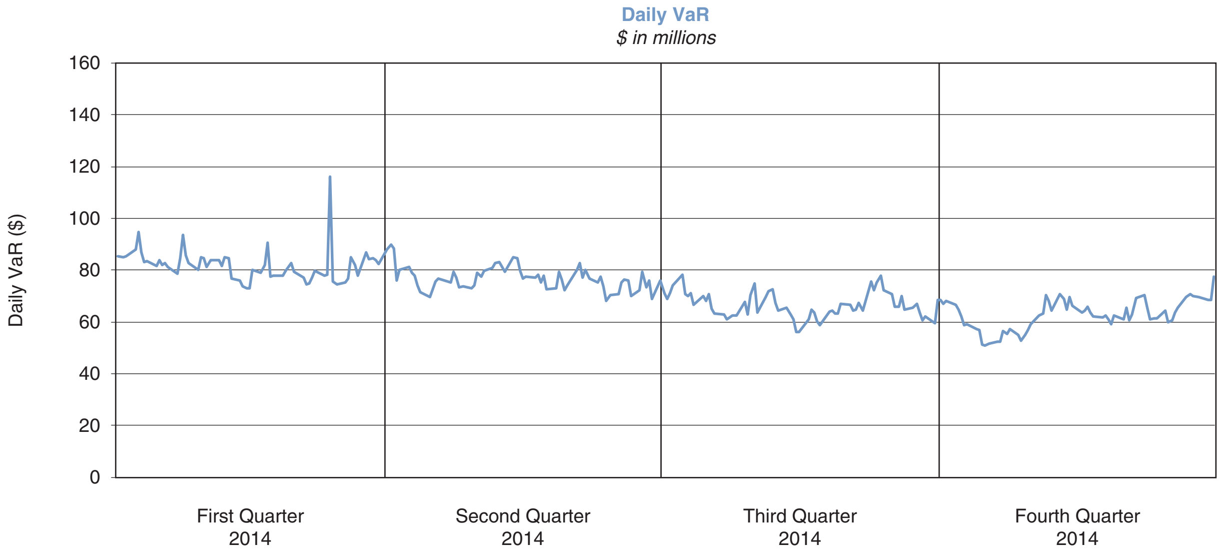
$ in millions	As of December		Year Ended December 2014	
Risk Categories	**2014**	2013	**High**	**Low**
Interest rates	**$ 53**	$ 59	**$ 71**	**$37**
Equity prices	**19**	35	**80**	**16**
Currency rates	**24**	16	**36**	**10**
Commodity prices	**23**	20	**30**	**15**
Diversification effect	**(42)**	(45)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

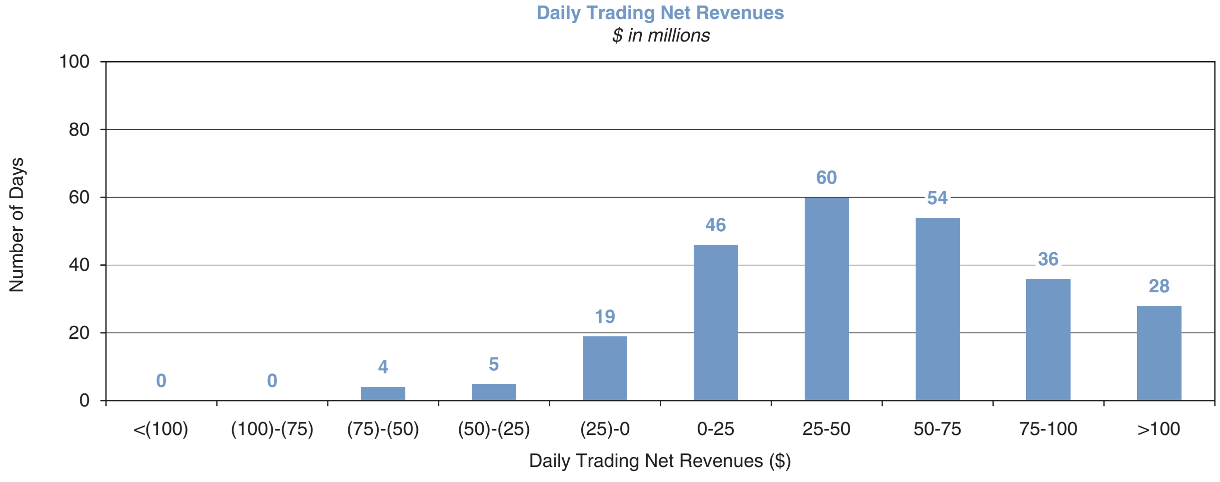
The chart below reflects our daily VaR over the last four quarters.



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.



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.

$ in millions	As of December	
Asset Categories	**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."

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	• VaR
Collateralized agreements • Securities purchased under agreements to resell, at fair value • Securities borrowed, at fair value	• VaR
Receivables from customers and counterparties • Certain secured loans, at fair value • Loans receivable	• VaR • Interest Rate Sensitivity
Financial instruments owned, at fair value	• VaR • 10% Sensitivity Measures • Credit Spread Sensitivity — Derivatives
Collateralized financings • Securities sold under agreements to repurchase, at fair value • Securities loaned, at fair value • Other secured financings, at fair value	• VaR
Financial instruments sold, but not yet purchased, at fair value	• VaR • Credit Spread Sensitivity — Derivatives
Unsecured short-term borrowings and unsecured long-term borrowings, at fair value	• VaR • Credit Spread Sensitivity — 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.

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.

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.

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.

	As of December 2014						
$ in millions **Credit Rating Equivalent**	**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**

	As of December 2013						
$ in millions **Credit Rating Equivalent**	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

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.

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	
Credit Exposure by Industry	**2014**	2013	**2014**	2013	**2014**	2013
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	
Credit Exposure by Region	**2014**	2013	**2014**	2013	**2014**	2013
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	
Credit Exposure by Credit Quality (Credit Rating Equivalent)	**2014**	2013	**2014**	2013	**2014**	2013
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 notionals 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 notionals 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 notionals 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.

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.

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.

- 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.