

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

Form 10-Q

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from _____ to _____

Commission File Number: 001-14965

The Goldman Sachs Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

10282
(Zip Code)

(212) 902-1000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
 Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of October 16, 2015, there were 426,536,163 shares of the registrant's common stock outstanding.

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

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Earnings
(Unaudited)

	Three Months Ended September		Nine Months Ended September	
<i>in millions, except per share amounts</i>	2015	2014	2015	2014
Revenues				
Investment banking	\$1,556	\$1,464	\$ 5,480	\$ 5,024
Investment management	1,331	1,386	4,400	4,262
Commissions and fees	859	783	2,517	2,441
Market making	1,730	2,087	7,964	6,911
Other principal transactions	543	1,618	3,822	5,116
Total non-interest revenues	6,019	7,338	24,183	23,754
Interest income	2,119	2,297	6,304	7,470
Interest expense	1,277	1,248	3,940	4,384
Net interest income	842	1,049	2,364	3,086
Net revenues, including net interest income	6,861	8,387	26,547	26,840
Operating expenses				
Compensation and benefits	2,351	2,801	10,619	10,736
Brokerage, clearing, exchange and distribution fees	665	624	1,950	1,832
Market development	123	129	409	408
Communications and technology	200	190	601	576
Depreciation and amortization	222	301	706	985
Occupancy	182	212	572	627
Professional fees	253	220	714	656
Other expenses	819	605	3,270	1,873
Total non-compensation expenses	2,464	2,281	8,222	6,957
Total operating expenses	4,815	5,082	18,841	17,693
Pre-tax earnings	2,046	3,305	7,706	9,147
Provision for taxes	620	1,064	2,388	2,836
Net earnings	1,426	2,241	5,318	6,311
Preferred stock dividends	96	98	324	266
Net earnings applicable to common shareholders	\$1,330	\$2,143	\$ 4,994	\$ 6,045
Earnings per common share				
Basic	\$ 2.95	\$ 4.69	\$ 11.03	\$ 13.05
Diluted	2.90	4.57	10.84	12.69
Dividends declared per common share	\$ 0.65	\$ 0.55	\$ 1.90	\$ 1.65
Average common shares outstanding				
Basic	449.0	455.5	451.2	461.8
Diluted	458.6	469.2	460.9	476.5

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

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
<i>\$ in millions</i>				
Net earnings	\$1,426	\$2,241	\$5,318	\$6,311
Other comprehensive income/(loss) adjustments, net of tax:				
Currency translation	(39)	(44)	(94)	(103)
Pension and postretirement liabilities	36	(7)	(74)	(21)
Cash flow hedges	—	3	—	5
Other comprehensive loss	(3)	(48)	(168)	(119)
Comprehensive income	\$1,423	\$2,193	\$5,150	\$6,192

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

Condensed Consolidated Statements of Financial Condition (Unaudited)

	As of	
	September 2015	December 2014
<i>\$ in millions, except per share amounts</i>		
Assets		
Cash and cash equivalents	\$ 65,575	\$ 57,600
Cash and securities segregated for regulatory and other purposes (includes \$38,044 and \$34,291 at fair value as of September 2015 and December 2014, respectively)	58,168	51,716
Collateralized agreements:		
Securities purchased under agreements to resell and federal funds sold (includes \$125,265 and \$126,036 at fair value as of September 2015 and December 2014, respectively)	126,903	127,938
Securities borrowed (includes \$68,481 and \$66,769 at fair value as of September 2015 and December 2014, respectively)	173,315	160,722
Receivables:		
Brokers, dealers and clearing organizations	46,986	30,671
Customers and counterparties (includes \$6,346 and \$6,944 at fair value as of September 2015 and December 2014, respectively)	52,016	63,808
Loans receivable	42,189	28,938
Financial instruments owned, at fair value (includes \$52,029 and \$64,473 pledged as collateral as of September 2015 and December 2014, respectively)	290,487	312,248
Other assets	24,920	22,201
Total assets	\$880,559	\$855,842
Liabilities and shareholders' equity		
Deposits (includes \$14,802 and \$13,523 at fair value as of September 2015 and December 2014, respectively)	\$ 91,458	\$ 82,880
Collateralized financings:		
Securities sold under agreements to repurchase, at fair value	89,481	88,215
Securities loaned (includes \$1,081 and \$765 at fair value as of September 2015 and December 2014, respectively)	3,519	5,570
Other secured financings (includes \$23,787 and \$21,450 at fair value as of September 2015 and December 2014, respectively)	25,222	22,809
Payables:		
Brokers, dealers and clearing organizations	6,956	6,636
Customers and counterparties	215,822	206,936
Financial instruments sold, but not yet purchased, at fair value	125,428	132,083
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings (includes \$16,390 and \$18,826 at fair value as of September 2015 and December 2014, respectively)	41,331	44,539
Unsecured long-term borrowings (includes \$20,820 and \$16,005 at fair value as of September 2015 and December 2014, respectively)	175,817	167,302
Other liabilities and accrued expenses (includes \$1,446 and \$831 at fair value as of September 2015 and December 2014, respectively)	17,822	16,075
Total liabilities	792,856	773,045
Commitments, contingencies and guarantees		
Shareholders' equity		
Preferred stock, par value \$0.01 per share; aggregate liquidation preference of \$11,200 and \$9,200 as of September 2015 and December 2014, respectively	11,200	9,200
Common stock, par value \$0.01 per share; 4,000,000,000 shares authorized, 863,546,793 and 852,784,764 shares issued as of September 2015 and December 2014, respectively, and 427,904,332 and 430,259,102 shares outstanding as of September 2015 and December 2014, respectively	9	9
Share-based awards	4,011	3,766
Nonvoting common stock, par value \$0.01 per share; 200,000,000 shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	51,281	50,049
Retained earnings	83,105	78,984
Accumulated other comprehensive loss	(911)	(743)
Stock held in treasury, at cost, par value \$0.01 per share; 435,642,463 and 422,525,664 shares as of September 2015 and December 2014, respectively	(60,992)	(58,468)
Total shareholders' equity	87,703	82,797
Total liabilities and shareholders' equity	\$880,559	\$855,842

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

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

<i>\$ in millions</i>	Nine Months Ended September 2015	Year Ended December 2014
Preferred stock		
Balance, beginning of year	\$ 9,200	\$ 7,200
Issued	2,000	2,000
Balance, end of period	11,200	9,200
Common stock		
Balance, beginning of year	9	8
Issued	—	1
Balance, end of period	9	9
Share-based awards		
Balance, beginning of year	3,766	3,839
Issuance and amortization of share-based awards	2,147	2,079
Delivery of common stock underlying share-based awards	(1,738)	(1,725)
Forfeiture of share-based awards	(70)	(92)
Exercise of share-based awards	(94)	(335)
Balance, end of period	4,011	3,766
Additional paid-in capital		
Balance, beginning of year	50,049	48,998
Delivery of common stock underlying share-based awards	2,037	2,206
Cancellation of share-based awards in satisfaction of withholding tax requirements	(1,185)	(1,922)
Preferred stock issuance costs	(7)	(20)
Excess net tax benefit related to share-based awards	388	788
Cash settlement of share-based awards	(1)	(1)
Balance, end of period	51,281	50,049
Retained earnings		
Balance, beginning of year	78,984	71,961
Net earnings	5,318	8,477
Dividends and dividend equivalents declared on common stock and share-based awards	(873)	(1,054)
Dividends declared on preferred stock	(324)	(400)
Balance, end of period	83,105	78,984
Accumulated other comprehensive loss		
Balance, beginning of year	(743)	(524)
Other comprehensive loss	(168)	(219)
Balance, end of period	(911)	(743)
Stock held in treasury, at cost		
Balance, beginning of year	(58,468)	(53,015)
Repurchased	(2,545)	(5,469)
Reissued	29	49
Other	(8)	(33)
Balance, end of period	(60,992)	(58,468)
Total shareholders' equity	\$ 87,703	\$ 82,797

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

Condensed Consolidated Statements of Cash Flows (Unaudited)

\$ in millions	Nine Months Ended September	
	2015	2014
Cash flows from operating activities		
Net earnings	\$ 5,318	\$ 6,311
Adjustments to reconcile net earnings to net cash provided by/(used for) operating activities		
Depreciation and amortization	706	985
Share-based compensation	2,107	1,931
Gain related to extinguishment of junior subordinated debt	(34)	(270)
Changes in operating assets and liabilities		
Cash and securities segregated for regulatory and other purposes	(6,452)	5,480
Receivables and payables (excluding loans receivable), net	4,524	12,952
Collateralized transactions (excluding other secured financings), net	(12,902)	(52,273)
Financial instruments owned, at fair value	18,366	13,228
Financial instruments sold, but not yet purchased, at fair value	(6,753)	4,580
Other, net	(4,714)	(5,515)
Net cash provided by/(used for) operating activities	166	(12,591)
Cash flows from investing activities		
Purchase of property, leasehold improvements and equipment	(1,205)	(508)
Proceeds from sales of property, leasehold improvements and equipment	120	17
Business acquisitions, net of cash acquired	(1,684)	(626)
Proceeds from sales of investments	714	1,127
Loans receivable, net	(12,692)	(10,601)
Net cash used for investing activities	(14,747)	(10,591)
Cash flows from financing activities		
Unsecured short-term borrowings, net	(1,228)	1,417
Other secured financings (short-term), net	(492)	417
Proceeds from issuance of other secured financings (long-term)	10,772	5,700
Repayment of other secured financings (long-term), including the current portion	(7,360)	(5,562)
Proceeds from issuance of unsecured long-term borrowings	36,031	30,402
Repayment of unsecured long-term borrowings, including the current portion	(22,513)	(19,940)
Purchase of trust preferred securities	(1)	(1,429)
Derivative contracts with a financing element, net	(89)	550
Deposits, net	8,578	7,144
Common stock repurchased	(2,545)	(4,219)
Dividends and dividend equivalents paid on common stock, preferred stock and share-based awards	(1,197)	(1,045)
Proceeds from issuance of preferred stock, net of issuance costs	1,993	1,980
Proceeds from issuance of common stock, including exercise of share-based awards	220	79
Excess tax benefit related to share-based awards	388	706
Cash settlement of share-based awards	(1)	(1)
Net cash provided by financing activities	22,556	16,199
Net increase/(decrease) in cash and cash equivalents	7,975	(6,983)
Cash and cash equivalents, beginning of year	57,600	61,133
Cash and cash equivalents, end of period	\$ 65,575	\$ 54,150

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest, net of capitalized interest, were \$4.09 billion and \$5.45 billion during the nine months ended September 2015 and September 2014, respectively.

Cash payments for income taxes, net of refunds, were \$2.20 billion and \$2.51 billion during the nine months ended September 2015 and September 2014, respectively.

Non-cash activities:

The firm exchanged \$262 million of Trust Preferred Securities and common beneficial interests held by the firm for \$296 million of the firm's junior subordinated debt held by the issuing trust during the nine months ended September 2015. Following the exchange, this junior subordinated debt was extinguished.

The firm exchanged \$1.59 billion of Trust Preferred Securities, common beneficial interests and senior guaranteed trust securities held by the firm for \$1.86 billion of the firm's junior subordinated debt held by the issuing trusts during the nine months ended September 2014. Following the exchange, this junior subordinated debt was extinguished.

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1.

Description of Business

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

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

Investment Banking

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

Institutional Client Services

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

Investing & Lending

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

Investment Management

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

Note 2.

Basis of Presentation

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

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements included in the firm's Annual Report on Form 10-K for the year ended December 31, 2014. References to "the 2014 Form 10-K" are to the firm's Annual Report on Form 10-K for the year ended December 31, 2014. The condensed consolidated financial information as of December 31, 2014 has been derived from audited consolidated financial statements not included herein.

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

All references to September 2015, June 2015 and September 2014 refer to the firm's periods ended, or the dates, as the context requires, September 30, 2015, June 30, 2015 and September 30, 2014, respectively. All references to December 2014 refer to the date December 31, 2014. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 3.

Significant Accounting Policies

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

Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value	Note 4
Fair Value Measurements	Note 5
Cash Instruments	Note 6
Derivatives and Hedging Activities	Note 7
Fair Value Option	Note 8
Loans Receivable	Note 9
Collateralized Agreements and Financings	Note 10
Securitization Activities	Note 11
Variable Interest Entities	Note 12
Other Assets, including Goodwill and Identifiable Intangible Assets	Note 13
Deposits	Note 14
Short-Term Borrowings	Note 15
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Consolidation

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

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

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

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

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

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

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

Use of Estimates

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

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

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

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

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

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

Transfers of Assets

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

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business. As of September 2015 and December 2014, “Cash and cash equivalents” included \$6.85 billion and \$5.79 billion, respectively, of cash and due from banks, and \$58.73 billion and \$51.81 billion, respectively, of interest-bearing deposits with banks.

Receivables from Customers and Counterparties

Receivables from customers and counterparties generally relate to collateralized transactions. Such receivables are primarily comprised of customer margin loans, certain transfers of assets accounted for as secured loans rather than purchases at fair value and collateral posted in connection with certain derivative transactions. Substantially all of these receivables are accounted for at amortized cost net of estimated uncollectible amounts. Certain of the firm’s receivables from customers and counterparties are accounted for at fair value under the fair value option, with changes in fair value generally included in “Market making” revenues. See Note 8 for further information about receivables from customers and counterparties accounted for at fair value under the fair value option. In addition, as of September 2015 and December 2014, the firm’s receivables from customers and counterparties included \$1.63 billion and \$400 million, respectively, of loans held for sale, accounted for at the lower of cost or fair value. See Note 5 for an overview of the firm’s fair value measurement policies.

As of September 2015 and December 2014, the carrying value of receivables not accounted for at fair value generally approximated fair value. While these items are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm’s fair value hierarchy in Notes 6 through 8. Had these items been included in the firm’s fair value hierarchy, substantially all would have been classified in level 2 as of September 2015 and December 2014. Interest on receivables from customers and counterparties is recognized over the life of the transaction and included in “Interest income.”

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations are accounted for at cost plus accrued interest, which generally approximates fair value. While these receivables and payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm’s fair value hierarchy in Notes 6 through 8. Had these receivables and payables been included in the firm’s fair value hierarchy, substantially all would have been classified in level 2 as of September 2015 and December 2014.

Payables to Customers and Counterparties

Payables to customers and counterparties primarily consist of customer credit balances related to the firm’s prime brokerage activities. Payables to customers and counterparties are accounted for at cost plus accrued interest, which generally approximates fair value. While these payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm’s fair value hierarchy in Notes 6 through 8. Had these payables been included in the firm’s fair value hierarchy, substantially all would have been classified in level 2 as of September 2015 and December 2014. Interest on payables to customers and counterparties is recognized over the life of the transaction and included in “Interest expense.”

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

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

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

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

Share-based Compensation

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

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

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

Foreign Currency Translation

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

**Notes to Condensed Consolidated Financial Statements
(Unaudited)****Recent Accounting Developments****Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASC 205 and ASC 360).**

In April 2014, the FASB issued ASU No. 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) — Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU No. 2014-08 limits discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. The ASU requires expanded disclosures for discontinued operations and disposals of individually significant components of an entity that do not qualify for discontinued operations reporting. The ASU was effective for disposals and components classified as held for sale that occurred within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption was permitted. The firm early adopted ASU No. 2014-08 in 2014 and adoption did not materially affect the firm's financial condition, results of operations, or cash flows.

Revenue from Contracts with Customers (ASC 606).

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU No. 2014-09 provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services. The ASU also provides guidance on accounting for certain contract costs, and requires new disclosures. ASU No. 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. In August 2015, the FASB issued ASU No. 2015-14, which deferred the effective date of ASU No. 2014-09 by one year, to annual reporting periods beginning after December 15, 2017. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. The firm is still evaluating the effect of the ASU on its financial condition, results of operations, and cash flows.

Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures (ASC 860).

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860) — Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." ASU No. 2014-11 changes the accounting for repurchase- and resale-to-maturity agreements by requiring that such agreements be recognized as financing arrangements, and requires that a transfer of a financial asset and a repurchase agreement entered into contemporaneously be accounted for separately. ASU No. 2014-11 also requires additional disclosures about certain transferred financial assets accounted for as sales and certain securities financing transactions. The accounting changes and additional disclosures about certain transferred financial assets accounted for as sales were effective for the first interim and annual reporting periods beginning after December 15, 2014. The additional disclosures for certain securities financing transactions were required for annual reporting periods beginning after December 15, 2014 and for interim reporting periods beginning after March 15, 2015. Adoption of ASU No. 2014-11 did not materially affect the firm's financial condition, results of operations, or cash flows.

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

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

Amendments to the Consolidation Analysis

(ASC 810). In February 2015, the FASB issued ASU No. 2015-02, “Consolidation (Topic 810) — Amendments to the Consolidation Analysis.” ASU No. 2015-02 eliminates the deferral of the requirements of ASU No. 2009-17, “Consolidations (Topic 810) — Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities” for certain interests in investment funds and provides a scope exception from Topic 810 for certain investments in money market funds. The ASU also makes several modifications to the consolidation guidance for VIEs and general partners’ investments in limited partnerships, as well as modifications to the evaluation of whether limited partnerships are VIEs or voting interest entities. ASU No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. Early adoption is permitted and the firm intends to early adopt in the fourth quarter of 2015. Adoption of ASU No. 2015-02 will not materially affect the firm’s financial condition, results of operations, or cash flows.

Simplifying the Presentation of Debt Issuance Costs

(ASC 835). In April 2015, the FASB issued ASU No. 2015-03, “Interest — Imputation of Interest (Subtopic 835-30) — Simplifying the Presentation of Debt Issuance Costs.” ASU No. 2015-03 simplifies the presentation of debt issuance costs by requiring that these costs related to a recognized debt liability be presented in the statement of financial condition as a direct reduction from the carrying amount of that liability. ASU No. 2015-03 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. ASU No. 2015-03 is required to be applied retrospectively to all periods presented beginning in the year of adoption. Early adoption is permitted. The firm early adopted ASU No. 2015-03 in September 2015. In accordance with ASU No. 2015-03, previously reported amounts have been conformed to the current presentation, as reflected in Notes 13 through 16. The impact of adoption as of September 2015 and December 2014 was a reduction to both total assets and total liabilities of \$444 million and \$398 million, respectively.

Disclosures for Investments in Certain Entities That Calculate Net Asset Value (NAV) per Share (or Its Equivalent) (ASC 820).

In May 2015, the FASB issued ASU No. 2015-07, “Fair Value Measurement (Topic 820) — Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent).” ASU No. 2015-07 requires that investments for which the fair value is measured at NAV using the practical expedient (investments in funds measured at NAV) under “Fair Value Measurements and Disclosures” (Topic 820) be excluded from the fair value hierarchy. ASU No. 2015-07 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. ASU No. 2015-07 is required to be applied retrospectively to all periods presented beginning in the period of adoption. Early adoption is permitted. The firm early adopted ASU No. 2015-07 in June 2015 and adoption did not affect the firm’s financial condition, results of operations, or cash flows. In accordance with ASU No. 2015-07, previously reported amounts have been conformed to the current presentation. See Notes 4 through 6 for the disclosures required by ASU No. 2015-07.

Simplifying the Accounting for Measurement-Period Adjustments (ASC 805).

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

Note 4.

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

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

<i>\$ in millions</i>	As of September 2015	
	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 4,636	\$ —
U.S. government and federal agency obligations	51,357	11,163
Non-U.S. government and agency obligations	31,666	18,483
Loans and securities backed by commercial real estate	5,904 ¹	—
Loans and securities backed by residential real estate	13,212 ²	—
Bank loans and bridge loans	11,844	434
Corporate debt securities	17,492	5,726
State and municipal obligations	1,570	—
Other debt obligations	1,862 ³	1
Equities and convertible debentures	81,091	38,124
Commodities	3,466	435
Investments in funds measured at NAV	7,896	—
Subtotal	231,996	74,366
Derivatives	58,491	51,062
Total	\$290,487	\$125,428

<i>\$ in millions</i>	As of December 2014	
	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 3,654	\$ —
U.S. government and federal agency obligations	48,002	12,762
Non-U.S. government and agency obligations	37,059	20,500
Loans and securities backed by commercial real estate	7,140 ¹	1
Loans and securities backed by residential real estate	11,717 ²	—
Bank loans and bridge loans	14,171	464
Corporate debt securities	21,419	5,800
State and municipal obligations	1,203	—
Other debt obligations	3,257 ³	2
Equities and convertible debentures	87,900	28,314
Commodities	3,846	1,224
Investments in funds measured at NAV	9,610	—
Subtotal	248,978	69,067
Derivatives	63,270	63,016
Total	\$312,248	\$132,083

1. Includes \$3.74 billion and \$4.97 billion of loans backed by commercial real estate as of September 2015 and December 2014, respectively.

2. Includes \$9.79 billion and \$6.43 billion of loans backed by residential real estate as of September 2015 and December 2014, respectively.

3. Includes \$410 million and \$618 million of loans backed by consumer loans and other assets as of September 2015 and December 2014, respectively.

Gains and Losses from Market Making and Other Principal Transactions

The table below presents "Market making" revenues by major product type, as well as "Other principal transactions" revenues. These gains/(losses) include both realized and unrealized gains and losses, and are primarily related to the firm's financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value, including both derivative and non-derivative financial instruments. These gains/(losses) exclude related interest income and interest expense. See Note 23 for further information about interest income and interest expense.

The gains/(losses) in the table below are not representative of the manner in which the firm manages its business activities because many of the firm's market-making and client facilitation strategies utilize financial instruments across various product types. Accordingly, gains or losses in one product type frequently offset gains or losses in other product types. For example, most of the firm's longer-term derivatives across product types are sensitive to changes in interest rates and may be economically hedged with interest rate swaps. Similarly, a significant portion of the firm's cash instruments and derivatives across product types has exposure to foreign currencies and may be economically hedged with foreign currency contracts.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Product Type				
Interest rates	\$ (132)	\$(2,811)	\$ 146	\$(3,267)
Credit	298	497	1,218	2,699
Currencies	(656)	3,689	1,135	4,545
Equities	1,968	498	4,671	1,725
Commodities	252	214	794	1,209
Market making	1,730	2,087	7,964	6,911
Other principal transactions¹	543	1,618	3,822	5,116
Total	\$2,273	\$ 3,705	\$11,786	\$12,027

1. Other principal transactions are included in the firm's Investing & Lending segment. See Note 25 for net revenues, including net interest income, by product type for Investing & Lending, as well as the amount of net interest income included in Investing & Lending.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 5.

Fair Value Measurements

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

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

U.S. GAAP has a three-level fair value hierarchy for disclosure of fair value measurements. The fair value hierarchy prioritizes inputs to the valuation techniques used to measure fair value, giving the highest priority to level 1 inputs and the lowest priority to level 3 inputs. A financial instrument's level in the fair value hierarchy is based on the lowest level of input that is significant to its fair value measurement. The fair value hierarchy is as follows:

Level 1. Inputs are unadjusted quoted prices in active markets to which the firm had access at the measurement date for identical, unrestricted assets or liabilities.

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

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

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

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

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

\$ in millions	As of		
	September 2015	June 2015	December 2014
Total level 1 financial assets	\$124,475	\$143,808	\$139,484
Total level 2 financial assets	464,679	423,629	466,030
Total level 3 financial assets	27,213	32,412	35,780
Investments in funds measured at NAV	7,896	8,956	9,610
Counterparty and cash collateral netting	(95,640)	(90,510)	(104,616)
Total financial assets at fair value	\$528,623	\$518,295	\$546,288
Total assets ¹	\$880,559	\$859,454	\$855,842
Total level 3 financial assets as a percentage of total assets	3.1%	3.8%	4.2%
Total level 3 financial assets as a percentage of total financial assets at fair value	5.1%	6.3%	6.5%
Total level 1 financial liabilities	\$ 65,269	\$ 63,772	\$ 59,697
Total level 2 financial liabilities	256,247	247,883	253,364
Total level 3 financial liabilities	16,949	18,353	15,904
Counterparty and cash collateral netting	(45,230)	(39,075)	(37,267)
Total financial liabilities at fair value	\$293,235	\$290,933	\$291,698
Total level 3 financial liabilities as a percentage of total financial liabilities at fair value	5.8%	6.3%	5.5%

1. Includes \$856 billion as of September 2015, and \$834 billion as of both June 2015 and December 2014, that is carried at fair value or at amounts that generally approximate fair value.

The table below presents a summary of level 3 financial assets. See Notes 6 through 8 for further information about level 3 financial assets.

\$ in millions	Level 3 Financial Assets as of		
	September 2015	June 2015	December 2014
Cash instruments	\$ 20,305	\$ 26,195	\$ 28,650
Derivatives	6,866	6,175	7,074
Other financial assets	42	42	56
Total	\$ 27,213	\$ 32,412	\$ 35,780

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

Level 3 financial assets as of September 2015 decreased compared with June 2015 and December 2014, primarily reflecting a decrease in level 3 cash instruments. See Note 6 for further information about changes in level 3 cash instruments.

Note 6.**Cash Instruments**

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

Level 1 Cash Instruments

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

The firm defines active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalization for the instrument. The firm defines active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity.

Level 2 Cash Instruments

Level 2 cash instruments include commercial paper, certificates of deposit, time deposits, most government agency obligations, certain non-U.S. government obligations, most corporate debt securities, commodities, certain mortgage-backed loans and securities, certain bank loans and bridge loans, restricted or less liquid listed equities, most state and municipal obligations and certain lending commitments.

Valuations of level 2 cash instruments can be verified to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Valuation adjustments are typically made to level 2 cash instruments (i) if the cash instrument is subject to transfer restrictions and/or (ii) for other premiums and liquidity discounts that a market participant would require to arrive at fair value. Valuation adjustments are generally based on market evidence.

Level 3 Cash Instruments

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

Valuation Techniques and Significant Inputs

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

Level 3 Cash Instruments	Valuation Techniques and Significant Inputs
Loans and securities backed by commercial real estate <ul style="list-style-type: none"> • Collateralized by a single commercial real estate property or a portfolio of properties • May include tranches of varying levels of subordination 	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses and include: <ul style="list-style-type: none"> • Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral and the basis, or price difference, to such prices • Market yields implied by transactions of similar or related assets and/or current levels and changes in market indices such as the CMBX (an index that tracks the performance of commercial mortgage bonds) • A measure of expected future cash flows in a default scenario (recovery rates) implied by the value of the underlying collateral, which is mainly driven by current performance of the underlying collateral, capitalization rates and multiples. Recovery rates are expressed as a percentage of notional or face value of the instrument and reflect the benefit of credit enhancements on certain instruments • Timing of expected future cash flows (duration) which, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds)
Loans and securities backed by residential real estate <ul style="list-style-type: none"> • Collateralized by portfolios of residential real estate • May include tranches of varying levels of subordination 	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons to instruments with similar collateral and risk profiles. Significant inputs include: <ul style="list-style-type: none"> • Transaction prices in both the underlying collateral and instruments with the same or similar underlying collateral • Market yields implied by transactions of similar or related assets • Cumulative loss expectations, driven by default rates, home price projections, residential property liquidation timelines, related costs and subsequent recoveries • Duration, driven by underlying loan prepayment speeds and residential property liquidation timelines
Bank loans and bridge loans	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include: <ul style="list-style-type: none"> • Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX and LCDX (indices that track the performance of corporate credit and loans, respectively) • Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation • Duration
Commercial paper, certificates of deposit, time deposits and other money market instruments Non-U.S. government and agency obligations Corporate debt securities State and municipal obligations Other debt obligations	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include: <ul style="list-style-type: none"> • Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX and LCDX • Current performance and recovery assumptions and, where the firm uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation • Duration
Equities and convertible debentures (including private equity investments and investments in real estate entities)	Recent third-party completed or pending transactions (e.g., merger proposals, tender offers, debt restructurings) are considered to be the best evidence for any change in fair value. When these are not available, the following valuation methodologies are used, as appropriate: <ul style="list-style-type: none"> • Industry multiples (primarily EBITDA multiples) and public comparables • Transactions in similar instruments • Discounted cash flow techniques • Third-party appraisals The firm also considers changes in the outlook for the relevant industry and financial performance of the issuer as compared to projected performance. Significant inputs include: <ul style="list-style-type: none"> • Market and transaction multiples • Discount rates, long-term growth rates, earnings compound annual growth rates and capitalization rates • For equity instruments with debt-like features: market yields implied by transactions of similar or related assets, current performance and recovery assumptions, and duration

Notes to Condensed Consolidated Financial Statements (Unaudited)

Significant Unobservable Inputs

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

- Ranges represent the significant unobservable inputs that were used in the valuation of each type of cash instrument.
- Weighted averages are calculated by weighting each input by the relative fair value of the financial instruments.
- The ranges and weighted averages of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one cash instrument. For example, the highest multiple presented in the tables below for private equity investments is appropriate for valuing a specific private equity investment but may not be appropriate for valuing any other private equity investment. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 cash instruments.
- Increases in yield, discount rate, capitalization rate, duration or cumulative loss rate used in the valuation of the firm's level 3 cash instruments would result in a lower fair value measurement, while increases in recovery rate, basis, multiples, long-term growth rate or compound annual growth rate would result in a higher fair value measurement. Due to the distinctive nature of each of the firm's level 3 cash instruments, the interrelationship of inputs is not necessarily uniform within each product type.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, market comparables and discounted cash flows may be used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.

Level 3 Cash Instruments	Valuation Techniques and Significant Unobservable Inputs	Range of Significant Unobservable Inputs (Weighted Average)	
		As of September 2015	As of December 2014
Loans and securities backed by commercial real estate <ul style="list-style-type: none"> • Collateralized by a single commercial real estate property or a portfolio of properties • May include tranches of varying levels of subordination <i>(\$2.11 billion and \$3.28 billion of level 3 assets as of September 2015 and December 2014, respectively)</i>	Discounted cash flows: <ul style="list-style-type: none"> • Yield • Recovery rate • Duration (years) • Basis 	3.1% to 20.0% (11.1%) 31.6% to 96.4% (57.6%) 0.2 to 5.5 (2.2) (9) points to 4 points ((2) points)	3.2% to 20.0% (10.5%) 24.9% to 100.0% (68.3%) 0.3 to 4.7 (2.0) (8) points to 13 points (2 points)
Loans and securities backed by residential real estate <ul style="list-style-type: none"> • Collateralized by portfolios of residential real estate • May include tranches of varying levels of subordination <i>(\$1.64 billion and \$2.55 billion of level 3 assets as of September 2015 and December 2014, respectively)</i>	Discounted cash flows: <ul style="list-style-type: none"> • Yield • Cumulative loss rate • Duration (years) 	2.9% to 12.0% (7.4%) 6.0% to 41.6% (27.0%) 1.5 to 13.1 (7.0)	1.9% to 17.5% (7.6%) 0.0% to 95.1% (24.4%) 0.5 to 13.0 (4.3)
Bank loans and bridge loans <i>(\$3.76 billion and \$6.97 billion of level 3 assets as of September 2015 and December 2014, respectively)</i>	Discounted cash flows: <ul style="list-style-type: none"> • Yield • Recovery rate • Duration (years) 	1.4% to 27.8% (9.8%) 16.9% to 85.1% (52.6%) 0.4 to 6.2 (2.4)	1.4% to 29.5% (8.7%) 26.6% to 92.5% (60.6%) 0.3 to 7.8 (2.5)
Non-U.S. government and agency obligations Corporate debt securities State and municipal obligations Other debt obligations <i>(\$2.96 billion and \$4.75 billion of level 3 assets as of September 2015 and December 2014, respectively)</i>	Discounted cash flows: <ul style="list-style-type: none"> • Yield • Recovery rate • Duration (years) 	1.0% to 19.3% (10.1%) 0.0% to 71.7% (62.1%) 1.3 to 12.8 (4.9)	0.9% to 24.4% (9.2%) 0.0% to 71.9% (59.2%) 0.5 to 19.6 (3.7)
Equities and convertible debentures (including private equity investments and investments in real estate entities) <i>(\$9.84 billion and \$11.11 billion of level 3 assets as of September 2015 and December 2014, respectively)</i>	Market comparables and discounted cash flows: <ul style="list-style-type: none"> • Multiples • Discount rate/yield • Long-term growth rate/compound annual growth rate • Capitalization rate 	0.8x to 21.0x (4.8x) 6.0% to 20.0% (14.4%) 3.0% to 9.9% (5.2%) 5.3% to 12.5% (7.5%)	0.8x to 16.6x (6.5x) 3.7% to 30.0% (14.4%) 1.0% to 10.0% (6.0%) 3.8% to 13.0% (7.6%)

Notes to Condensed Consolidated Financial Statements (Unaudited)

Fair Value of Cash Instruments by Level

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

included in “Financial instruments owned, at fair value” and “Financial instruments sold, but not yet purchased, at fair value,” respectively.

Cash Instrument Assets at Fair Value

\$ in millions	As of September 2015				As of December 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 961	\$ 3,675	\$ —	\$ 4,636	\$ —	\$ 3,654	\$ —	\$ 3,654
U.S. government and federal agency obligations	23,201	28,156	—	51,357	18,540	29,462	—	48,002
Non-U.S. government and agency obligations	26,873	4,780	13	31,666	30,255	6,668	136	37,059
Loans and securities backed by commercial real estate	—	3,799	2,105	5,904	—	3,865	3,275	7,140
Loans and securities backed by residential real estate	—	11,572	1,640	13,212	—	9,172	2,545	11,717
Bank loans and bridge loans	—	8,083	3,761	11,844	—	7,198	6,973	14,171
Corporate debt securities	264	14,910	2,318	17,492	249	17,537	3,633	21,419
State and municipal obligations	—	1,481	89	1,570	—	1,093	110	1,203
Other debt obligations	—	1,321	541	1,862	—	2,387	870	3,257
Equities and convertible debentures	60,036	11,217	9,838 ²	81,091	68,974	7,818	11,108 ²	87,900
Commodities	—	3,466	—	3,466	—	3,846	—	3,846
Subtotal	\$111,335	\$92,460	\$20,305	\$224,100	\$118,018	\$92,700	\$28,650	\$239,368
Investments in funds measured at NAV	—	—	—	7,896	—	—	—	9,610
Total¹				\$231,996				\$248,978

Cash Instrument Liabilities at Fair Value

\$ in millions	As of September 2015				As of December 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
U.S. government and federal agency obligations	\$ 11,143	\$ 20	\$ —	\$ 11,163	\$ 12,746	\$ 16	\$ —	\$ 12,762
Non-U.S. government and agency obligations	16,703	1,780	—	18,483	19,256	1,244	—	20,500
Loans and securities backed by commercial real estate	—	—	—	—	—	1	—	1
Bank loans and bridge loans	—	305	129	434	—	286	178	464
Corporate debt securities	4	5,720	2	5,726	—	5,741	59	5,800
Other debt obligations	—	—	1	1	—	—	2	2
Equities and convertible debentures	37,391	646	87	38,124	27,587	722	5	28,314
Commodities	—	435	—	435	—	1,224	—	1,224
Total	\$ 65,241	\$ 8,906	\$ 219	\$ 74,366	\$ 59,589	\$ 9,234	\$ 244	\$ 69,067

1. Includes collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs) backed by real estate and corporate obligations of \$313 million in level 2 and \$915 million in level 3 as of September 2015, and \$234 million in level 2 and \$1.34 billion in level 3 as of December 2014, respectively.

2. Includes \$9.09 billion of private equity investments, \$327 million of investments in real estate entities and \$423 million of convertible debentures as of September 2015, and \$10.25 billion of private equity investments, \$294 million of investments in real estate entities and \$562 million of convertible debentures as of December 2014.

Transfers Between Levels of the Fair Value Hierarchy

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

During the three months ended September 2015:

- Transfers into level 2 from level 1 of cash instruments were \$95 million, reflecting transfers of public equity securities primarily due to decreased market activity in these instruments.
- Transfers into level 1 from level 2 of cash instruments were \$113 million, reflecting transfers of public equity securities due to increased market activity in these instruments.

During the nine months ended September 2015:

- Transfers into level 2 from level 1 of cash instruments were \$138 million, reflecting transfers of public equity securities primarily due to decreased market activity in these instruments.
- Transfers into level 1 from level 2 of cash instruments were \$264 million, reflecting transfers of public equity securities due to increased market activity in these instruments.

During the three months ended September 2014:

- Transfers into level 2 from level 1 of cash instruments were \$25 million, reflecting transfers of public equity securities due to decreased market activity in these instruments.
- Transfers into level 1 from level 2 of cash instruments were \$1 million, reflecting transfers of public equity securities due to increased market activity in these instruments.

During the nine months ended September 2014:

- Transfers into level 2 from level 1 of cash instruments were \$65 million, including \$47 million of public equity securities and \$18 million of U.S. government and federal agency obligations primarily due to decreased market activity in these instruments.
- Transfers into level 1 from level 2 of cash instruments were \$80 million, reflecting transfers of public equity securities due to increased market activity in these instruments.

See level 3 rollforward below for information about transfers between level 2 and level 3.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Level 3 Rollforward

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

- If a cash instrument asset or liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3. For level 3 cash instrument assets, increases are shown as positive amounts, while decreases are shown as negative amounts. For level 3 cash instrument liabilities, increases are shown as negative amounts, while decreases are shown as positive amounts.
- Purchases include both originations and secondary market purchases.
- Level 3 cash instruments are frequently economically hedged with level 1 and level 2 cash instruments and/or level 1, level 2 or level 3 derivatives. Accordingly, gains or losses that are reported in level 3 can be partially offset by gains or losses attributable to level 1 or level 2 cash instruments and/or level 1, level 2 or level 3 derivatives. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources.
- See "Level 3 Rollforward Commentary" below for an explanation of the net unrealized gains/(losses) on level 3 cash instruments, and the activity related to transfers into and transfers out of level 3.

Level 3 Cash Instrument Assets and Liabilities at Fair Value

<i>\$ in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Three Months Ended September 2015									
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 11	\$ —	\$ —	\$ —	\$ (10)	\$ (1)	\$ —	\$ —	\$ —
Non-U.S. government and agency obligations	21	—	—	—	—	(9)	1	—	13
Loans and securities backed by commercial real estate	2,134	22	28	232	(100)	(131)	87	(167)	2,105
Loans and securities backed by residential real estate	2,717	24	29	91	(238)	(76)	69	(976)	1,640
Bank loans and bridge loans	5,377	55	(77)	243	(43)	(574)	152	(1,372)	3,761
Corporate debt securities	2,595	51	(34)	95	(153)	(19)	161	(378)	2,318
State and municipal obligations	143	—	—	7	(9)	—	12	(64)	89
Other debt obligations	740	2	4	16	(63)	(102)	—	(56)	541
Equities and convertible debentures	12,457	77	(2)	177	(93)	(514)	212	(2,476)	9,838
Total cash instrument assets	\$26,195	\$231¹	\$ (52)¹	\$ 861	\$ (709)	\$ (1,426)	\$ 694	\$ (5,489)	\$20,305
Total cash instrument liabilities	\$ (178)	\$ 13	\$ (31)	\$ 102	\$ (35)	\$ 3	\$ (98)	\$ 5	\$ (219)

Nine Months Ended September 2015

Non-U.S. government and agency obligations	\$ 136	\$ 9	\$ —	\$ 1	\$ (35)	\$ (24)	\$ —	\$ (74)	\$ 13
Loans and securities backed by commercial real estate	3,275	120	91	429	(605)	(1,332)	340	(213)	2,105
Loans and securities backed by residential real estate	2,545	115	19	387	(639)	(255)	158	(690)	1,640
Bank loans and bridge loans	6,973	228	(177)	760	(833)	(1,481)	389	(2,098)	3,761
Corporate debt securities	3,633	128	(58)	455	(448)	(399)	345	(1,338)	2,318
State and municipal obligations	110	3	2	11	(21)	(2)	12	(26)	89
Other debt obligations	870	21	5	91	(192)	(82)	2	(174)	541
Equities and convertible debentures	11,108	197	962	676	(489)	(1,313)	885	(2,188)	9,838
Total cash instrument assets	\$28,650	\$821¹	\$844¹	\$2,810	\$ (3,262)	\$ (4,888)	\$2,131	\$ (6,801)	\$20,305
Total cash instrument liabilities	\$ (244)	\$ 12	\$ (26)	\$ 170	\$ (45)	\$ (6)	\$ (121)	\$ 41	\$ (219)

1. The aggregate amounts include gains/(losses) of approximately \$(39) million, \$(18) million and \$236 million reported in "Market making," "Other principal transactions" and "Interest income," respectively, for the three months ended September 2015, and approximately \$(10) million, \$1.13 billion and \$547 million reported in "Market making," "Other principal transactions" and "Interest income," respectively, for the nine months ended September 2015.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Level 3 Cash Instrument Assets and Liabilities at Fair Value

<i>\$ in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Three Months Ended September 2014									
Non-U.S. government and agency obligations	\$ 53	\$ 1	\$ —	\$ 87	\$ (6)	\$ (11)	\$ —	\$ —	\$ 124
Loans and securities backed by commercial real estate	2,508	56	(7)	108	(62)	(165)	877	(125)	3,190
Loans and securities backed by residential real estate	2,039	37	37	373	(167)	(125)	155	(49)	2,300
Bank loans and bridge loans	6,280	109	(46)	1,697	(355)	(1,099)	880	(435)	7,031
Corporate debt securities	2,192	83	(42)	1,793	(491)	(557)	697	(239)	3,436
State and municipal obligations	169	2	(1)	3	(35)	—	27	(34)	131
Other debt obligations	629	5	2	102	(12)	(68)	44	(91)	611
Equities and convertible debentures	10,551	33	358	460	(232)	(215)	705	(922)	10,738
Total cash instrument assets	\$24,421	\$ 326¹	\$ 301¹	\$ 4,623	\$(1,360)	\$(2,240)	\$3,385	\$(1,895)	\$27,561
Total cash instrument liabilities	\$ (197)	\$ (6)	\$ (20)	\$ 76	\$ (31)	\$ 7	\$ (29)	\$ 11	\$ (189)
Nine Months Ended September 2014									
Non-U.S. government and agency obligations	\$ 40	\$ 4	\$ 2	\$ 93	\$ (19)	\$ (4)	\$ 8	\$ —	\$ 124
Loans and securities backed by commercial real estate	2,515	112	127	1,318	(373)	(472)	178	(215)	3,190
Loans and securities backed by residential real estate	1,961	145	148	648	(289)	(329)	232	(216)	2,300
Bank loans and bridge loans	6,071	450	47	3,667	(696)	(2,590)	375	(293)	7,031
Corporate debt securities	2,744	233	22	2,277	(926)	(872)	380	(422)	3,436
State and municipal obligations	257	3	3	31	(112)	(1)	—	(50)	131
Other debt obligations	807	45	62	99	(187)	(106)	18	(127)	611
Equities and convertible debentures	8,671	189	1,046	2,097	(873)	(537)	1,236	(1,091)	10,738
Total cash instrument assets	\$23,066	\$1,181¹	\$1,457¹	\$10,230	\$(3,475)	\$(4,911)	\$2,427	\$(2,414)	\$27,561
Total cash instrument liabilities	\$ (297)	\$ 2	\$ 47	\$ 171	\$ (89)	\$ (27)	\$ (19)	\$ 23	\$ (189)

1. The aggregate amounts include gains of approximately \$27 million, \$325 million and \$275 million reported in "Market making," "Other principal transactions" and "Interest income," respectively, for the three months ended September 2014, and approximately \$464 million, \$1.40 billion and \$771 million reported in "Market making," "Other principal transactions" and "Interest income," respectively, for the nine months ended September 2014.

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

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

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

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

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

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

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

Three Months Ended September 2014. The net unrealized gain on level 3 cash instruments of \$281 million (reflecting \$301 million of gains on cash instrument assets and \$20 million of losses on cash instrument liabilities) for the three months ended September 2014 reflected gains on private equity investments principally driven by company-specific events and strong corporate performance.

Transfers into level 3 during the three months ended September 2014 primarily reflected transfers of certain bank loans and bridge loans, loans and securities backed by commercial real estate, private equity investments and corporate debt securities from level 2 principally due to reduced price transparency as a result of a lack of market evidence, including fewer market transactions in these instruments.

Transfers out of level 3 during the three months ended September 2014 primarily reflected transfers of certain private equity investments and bank loans and bridge loans to level 2 principally due to increased price transparency as a result of market evidence, including market transactions in these instruments.

Nine Months Ended September 2014. The net unrealized gain on level 3 cash instruments of \$1.50 billion (reflecting \$1.46 billion on cash instrument assets and \$47 million on cash instrument liabilities) for the nine months ended September 2014 primarily consisted of gains on private equity investments principally driven by company-specific events and strong corporate performance.

Transfers into level 3 during the nine months ended September 2014 primarily reflected transfers of certain private equity investments, corporate debt securities and bank loans and bridge loans from level 2 principally due to reduced price transparency as a result of a lack of market evidence, including fewer market transactions in these instruments.

Transfers out of level 3 during the nine months ended September 2014 primarily reflected transfers of certain private equity investments, corporate debt securities and bank loans and bridge loans to level 2 principally due to increased price transparency as a result of market evidence, including market transactions in these instruments.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Investments in Funds That Are Measured at Net Asset Value Per Share

Cash instruments at fair value include investments in funds that are measured at NAV of the investment fund. The firm uses NAV to measure the fair value of its fund investments when (i) the fund investment does not have a readily determinable fair value and (ii) the NAV of the investment fund is calculated in a manner consistent with the measurement principles of investment company accounting, including measurement of the underlying investments at fair value. The firm early adopted ASU No. 2015-07 in June 2015 and, as required, disclosures in the paragraphs and tables below are limited to only those investments in funds that are measured at NAV. In accordance with ASU No. 2015-07, previously reported amounts have been conformed to the current presentation.

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

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

The firm also invests in hedge funds, primarily multi-disciplinary hedge funds that employ a fundamental bottom-up investment approach across various asset classes and strategies including long/short equity, credit, convertibles, risk arbitrage, special situations and capital structure arbitrage. The firm's investments in hedge funds primarily include interests where the underlying assets are illiquid in nature, and proceeds from redemptions will not be received until the underlying assets are liquidated or distributed.

Many of the funds described above are "covered funds" as defined by the Volcker Rule of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The Board of Governors of the Federal Reserve System (Federal Reserve Board) extended the conformance period through July 2016 for investments in, and relationships with, covered funds that were in place prior to December 31, 2013, and indicated that it intends to further extend the conformance period through July 2017. The firm currently expects 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, the firm may be required to sell its interests in such funds. If that occurs, the firm may receive a value for its interests that is less than the then carrying value as there could be a limited secondary market for these investments and the firm may be unable to sell them in orderly transactions.

The firm continues to manage its existing funds, taking into account the conformance period outlined above, and has redeemed \$3.18 billion of its interests in hedge funds since March 2012. In order to be compliant with the Volcker Rule, the firm will be required to reduce most of its interests in the funds in the table below by the end of the conformance period.

The tables below present the fair value of the firm's investments in, and unfunded commitments to, funds that are measured at NAV.

<i>\$ in millions</i>	As of September 2015	
	Fair Value of Investments	Unfunded Commitments
Private equity funds	\$5,290	\$2,068
Credit funds	667	375
Hedge funds	614	—
Real estate funds	1,325	296
Total	\$7,896	\$2,739

<i>\$ in millions</i>	As of December 2014	
	Fair Value of Investments	Unfunded Commitments
Private equity funds	\$6,307	\$2,175
Credit funds	1,008	383
Hedge funds	863	—
Real estate funds	1,432	310
Total	\$9,610	\$2,868

**Notes to Condensed Consolidated Financial Statements
(Unaudited)****Note 7.****Derivatives and Hedging Activities****Derivative Activities**

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

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

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

The firm enters into various types of derivatives, including:

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

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

In the table below:

- Gross fair values exclude the effects of both counterparty netting and collateral, and therefore are not representative of the firm's exposure.
- Where the firm has received or posted collateral under credit support agreements, but has not yet determined such agreements are enforceable, the related collateral has not been netted.
- Notional amounts, which represent the sum of gross long and short derivative contracts, provide an indication of the volume of the firm's derivative activity and do not represent anticipated losses.

	As of September 2015			As of December 2014		
	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount
<i>\$ in millions</i>						
Derivatives not accounted for as hedges						
Exchange-traded	\$ 365	\$ 389	\$ 4,365,237	\$ 228	\$ 238	\$ 3,151,865
OTC-cleared	272,253	250,611	23,715,996	351,801	330,298	30,408,636
Bilateral OTC	380,259	356,608	13,083,131	434,333	409,071	13,552,017
Total interest rates	652,877	607,608	41,164,364	786,362	739,607	47,112,518
OTC-cleared	5,732	6,087	453,464	5,812	5,663	378,099
Bilateral OTC	36,903	32,609	1,740,633	49,036	44,491	2,122,859
Total credit	42,635	38,696	2,194,097	54,848	50,154	2,500,958
Exchange-traded	332	248	26,526	69	69	17,214
OTC-cleared	215	164	18,174	100	96	13,304
Bilateral OTC	102,439	107,568	5,668,553	109,747	108,442	5,535,685
Total currencies	102,986	107,980	5,713,253	109,916	108,607	5,566,203
Exchange-traded	5,235	5,274	297,402	7,683	7,166	321,378
OTC-cleared	226	233	2,888	313	315	3,036
Bilateral OTC	16,271	17,701	272,286	20,994	21,065	345,065
Total commodities	21,732	23,208	572,576	28,990	28,546	669,479
Exchange-traded	11,202	10,284	651,206	9,592	9,636	541,711
Bilateral OTC	44,975	43,384	999,681	49,339	49,013	983,784
Total equities	56,177	53,668	1,650,887	58,931	58,649	1,525,495
Subtotal	876,407	831,160	51,295,177	1,039,047	985,563	57,374,653
Derivatives accounted for as hedges						
OTC-cleared	2,224	72	42,149	2,713	228	31,109
Bilateral OTC	10,223	11	72,868	11,559	34	95,389
Total interest rates	12,447	83	115,017	14,272	262	126,498
OTC-cleared	22	4	1,191	12	3	1,205
Bilateral OTC	219	9	8,165	113	13	8,431
Total currencies	241	13	9,356	125	16	9,636
Subtotal	12,688	96	124,373	14,397	278	136,134
Total gross fair value/notional amount of derivatives	\$ 889,095¹	\$ 831,256¹	\$51,419,550	\$1,053,444¹	\$ 985,841¹	\$57,510,787
Amounts that have been offset in the condensed consolidated statements of financial condition						
Exchange-traded	\$ (13,298)	\$ (13,298)		\$ (15,039)	\$ (15,039)	
OTC-cleared	(254,089)	(254,089)		(335,792)	(335,792)	
Bilateral OTC	(469,322)	(469,322)		(535,839)	(535,839)	
Total counterparty netting	(736,709)	(736,709)		(886,670)	(886,670)	
OTC-cleared	(26,205)	(2,973)		(24,801)	(738)	
Bilateral OTC	(67,690)	(40,512)		(78,703)	(35,417)	
Total cash collateral netting	(93,895)	(43,485)		(103,504)	(36,155)	
Total counterparty and cash collateral netting	\$(830,604)	\$(780,194)		\$ (990,174)	\$(922,825)	
Amounts included in financial instruments owned/financial instruments sold, but not yet purchased						
Exchange-traded	\$ 3,836	\$ 2,897		\$ 2,533	\$ 2,070	
OTC-cleared	378	109		158	73	
Bilateral OTC	54,277	48,056		60,579	60,873	
Total amounts included in the condensed consolidated statements of financial condition	\$ 58,491	\$ 51,062		\$ 63,270	\$ 63,016	
Amounts that have not been offset in the condensed consolidated statements of financial condition						
Cash collateral received/posted	\$ (1,011)	\$ (2,047)		\$ (980)	\$ (2,940)	
Securities collateral received/posted	(15,084)	(12,472)		(14,742)	(18,159)	
Total	\$ 42,396	\$ 36,543		\$ 47,548	\$ 41,917	

1. Includes derivative assets and derivative liabilities of \$19.87 billion and \$18.64 billion, respectively, as of September 2015, and derivative assets and derivative liabilities of \$25.93 billion and \$26.19 billion, respectively, as of December 2014, which are not subject to an enforceable netting agreement or are subject to a netting agreement that the firm has not yet determined to be enforceable.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Valuation Techniques for Derivatives

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

- **Interest Rate.** In general, the key inputs used to value interest rate derivatives are transparent, even for most long-dated contracts. Interest rate swaps and options denominated in the currencies of leading industrialized nations are characterized by high trading volumes and tight bid/offer spreads. Interest rate derivatives that reference indices, such as an inflation index, or the shape of the yield curve (e.g., 10-year swap rate vs. 2-year swap rate) are more complex, but the key inputs are generally observable.
- **Credit.** Price transparency for credit default swaps, including both single names and baskets of credits, varies by market and underlying reference entity or obligation. Credit default swaps that reference indices, large corporates and major sovereigns generally exhibit the most price transparency. For credit default swaps with other underliers, price transparency varies based on credit rating, the cost of borrowing the underlying reference obligations, and the availability of the underlying reference obligations for delivery upon the default of the issuer. Credit default swaps that reference loans, asset-backed securities and emerging market debt instruments tend to have less price transparency than those that reference corporate bonds. In addition, more complex credit derivatives, such as those sensitive to the correlation between two or more underlying reference obligations, generally have less price transparency.
- **Currency.** Prices for currency derivatives based on the exchange rates of leading industrialized nations, including those with longer tenors, are generally transparent. The primary difference between the price transparency of developed and emerging market currency derivatives is that emerging markets tend to be observable for contracts with shorter tenors.

- **Commodity.** Commodity derivatives include transactions referenced to energy (e.g., oil and natural gas), metals (e.g., precious and base) and soft commodities (e.g., agricultural). Price transparency varies based on the underlying commodity, delivery location, tenor and product quality (e.g., diesel fuel compared to unleaded gasoline). In general, price transparency for commodity derivatives is greater for contracts with shorter tenors and contracts that are more closely aligned with major and/or benchmark commodity indices.
- **Equity.** Price transparency for equity derivatives varies by market and underlier. Options on indices and the common stock of corporates included in major equity indices exhibit the most price transparency. Equity derivatives generally have observable market prices, except for contracts with long tenors or reference prices that differ significantly from current market prices. More complex equity derivatives, such as those sensitive to the correlation between two or more individual stocks, generally have less price transparency.

Liquidity is essential to observability of all product types. If transaction volumes decline, previously transparent prices and other inputs may become unobservable. Conversely, even highly structured products may at times have trading volumes large enough to provide observability of prices and other inputs. See Note 5 for an overview of the firm's fair value measurement policies.

Level 1 Derivatives

Level 1 derivatives include short-term contracts for future delivery of securities when the underlying security is a level 1 instrument, and exchange-traded derivatives if they are actively traded and are valued at their quoted market price.

Level 2 Derivatives

Level 2 derivatives include OTC derivatives for which all significant valuation inputs are corroborated by market evidence and exchange-traded derivatives that are not actively traded and/or that are valued using models that calibrate to market-clearing levels of OTC derivatives. In evaluating the significance of a valuation input, the firm considers, among other factors, a portfolio's net risk exposure to that input.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

Level 3 Derivatives

Level 3 derivatives are valued using models which utilize observable level 1 and/or level 2 inputs, as well as unobservable level 3 inputs.

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

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

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

Valuation Adjustments

Valuation adjustments are integral to determining the fair value of derivative portfolios and are used to adjust the mid-market valuations produced by derivative pricing models to the appropriate exit price valuation. These adjustments incorporate bid/offer spreads, the cost of liquidity, credit valuation adjustments and funding valuation adjustments, which account for the credit and funding risk inherent in the uncollateralized portion of derivative portfolios. The firm also makes funding valuation adjustments to collateralized derivatives where the terms of the agreement do not permit the firm to deliver or repledge collateral received. Market-based inputs are generally used when calibrating valuation adjustments to market-clearing levels.

In addition, for derivatives that include significant unobservable inputs, the firm makes model or exit price adjustments to account for the valuation uncertainty present in the transaction.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Significant Unobservable Inputs

The table below presents the ranges, averages and medians of significant unobservable inputs used to value the firm's level 3 derivatives. In the table below:

- Ranges represent the significant unobservable inputs that were used in the valuation of each type of derivative.
- Averages represent the arithmetic average of the inputs and are not weighted by the relative fair value or notional of the respective financial instruments. An average greater than the median indicates that the majority of inputs are below the average.

- The ranges, averages and medians of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one derivative. For example, the highest correlation presented in the tables below for interest rate derivatives is appropriate for valuing a specific interest rate derivative but may not be appropriate for valuing any other interest rate derivative. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the firm's level 3 derivatives.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, option pricing models and discounted cash flows models are typically used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.

Level 3 Derivative Product Type	Valuation Techniques and Significant Unobservable Inputs	Range of Significant Unobservable Inputs (Average / Median)	
		As of September 2015	As of December 2014
Interest rates (<i>\$200 million and \$40 million of net level 3 liabilities as of September 2015 and December 2014, respectively</i>)	Option pricing models: • Correlation ¹ • Volatility	(25)% to 92% (56% / 61%) 31 basis points per annum (bpa) to 152 bpa (84 bpa / 57 bpa)	(16)% to 84% (37% / 40%) 36 basis points per annum (bpa) to 156 bpa (100 bpa / 115 bpa)
Credit (<i>\$3.29 billion and \$3.53 billion of net level 3 assets as of September 2015 and December 2014, respectively</i>)	Option pricing models, correlation models and discounted cash flows models: • Correlation ¹ • Credit spreads • Upfront credit points • Recovery rates	44% to 99% (70% / 70%) 1 basis points (bps) to 660 bps (145 bps / 108 bps) ² 0 points to 99 points (40 points / 33 points) 11% to 71% (45% / 40%)	5% to 99% (71% / 72%) 1 basis points (bps) to 700 bps (116 bps / 79 bps) ² 0 points to 99 points (40 points / 30 points) 14% to 87% (44% / 40%)
Currencies (<i>\$160 million of net level 3 assets and \$267 million of net level 3 liabilities as of September 2015 and December 2014, respectively</i>)	Option pricing models: • Correlation ¹	55% to 80% (69% / 73%)	55% to 80% (69% / 73%)
Commodities (<i>\$23 million of net level 3 assets and \$1.14 billion of net level 3 liabilities as of September 2015 and December 2014, respectively</i>)	Option pricing models and discounted cash flows models: • Volatility • Spread per million British Thermal units (MMBTU) of natural gas • Spread per Metric Tonne (MT) of coal • Spread per barrel of oil and refined products	13% to 61% (35% / 34%) \$(1.63) to \$6.82 (\$0.00 / \$(0.03)) \$(8.00) to \$(5.00) (\$7.08) / \$(7.46) \$(8.39) to \$55.46 (\$7.37 / \$0.11) ²	16% to 68% (33% / 32%) \$(1.66) to \$4.45 (\$0.13) / \$(0.03) \$(10.50) to \$3.00 (\$4.04) / \$(6.74) \$(15.35) to \$80.55 (\$22.32 / \$13.50) ²
Equities (<i>\$884 million and \$1.38 billion of net level 3 liabilities as of September 2015 and December 2014, respectively</i>)	Option pricing models: • Correlation ¹ • Volatility	28% to 94% (62% / 60%) 3% to 103% (28% / 26%)	30% to 99% (62% / 55%) 5% to 90% (23% / 21%)

1. The range of unobservable inputs for correlation across derivative product types (i.e., cross-asset correlation) was (30)% to 80% (Average: 35% / Median: 43%) as of September 2015, and (34)% to 80% (Average: 33% / Median: 35%) as of December 2014.

2. The difference between the average and the median for these spread inputs indicates that the majority of the inputs fall in the lower end of the range.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Range of Significant Unobservable Inputs

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

- **Correlation.** Ranges for correlation cover a variety of underliers both within one market (e.g., equity index and equity single stock names) and across markets (e.g., correlation of an interest rate and a foreign exchange rate), as well as across regions. Generally, cross-asset correlation inputs are used to value more complex instruments and are lower than correlation inputs on assets within the same derivative product type.
- **Volatility.** Ranges for volatility cover numerous underliers across a variety of markets, maturities and strike prices. For example, volatility of equity indices is generally lower than volatility of single stocks.
- **Credit spreads, upfront credit points and recovery rates.** The ranges for credit spreads, upfront credit points and recovery rates cover a variety of underliers (index and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade). The broad range of this population gives rise to the width of the ranges of significant unobservable inputs.
- **Commodity prices and spreads.** The ranges for commodity prices and spreads cover variability in products, maturities and locations.

Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

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

- **Correlation.** In general, for contracts where the holder benefits from the convergence of the underlying asset or index prices (e.g., interest rates, credit spreads, foreign exchange rates, inflation rates and equity prices), an increase in correlation results in a higher fair value measurement.
- **Volatility.** In general, for purchased options, an increase in volatility results in a higher fair value measurement.
- **Credit spreads, upfront credit points and recovery rates.** In general, the fair value of purchased credit protection increases as credit spreads or upfront credit points increase or recovery rates decrease. Credit spreads, upfront credit points and recovery rates are strongly related to distinctive risk factors of the underlying reference obligations, which include reference entity-specific factors such as leverage, volatility and industry, market-based risk factors, such as borrowing costs or liquidity of the underlying reference obligation, and macroeconomic conditions.
- **Commodity prices and spreads.** In general, for contracts where the holder is receiving a commodity, an increase in the spread (price difference from a benchmark index due to differences in quality or delivery location) or price results in a higher fair value measurement.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Fair Value of Derivatives by Level

The tables below present the fair value of derivatives on a gross basis by level and major product type as well as the impact of netting. In the tables below:

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

Derivative Assets at Fair Value as of September 2015				
<i>\$ in millions</i>	Level 1	Level 2	Level 3	Total
Interest rates	\$ 5	\$ 664,814	\$ 505	\$ 665,324
Credit	—	35,911	6,724	42,635
Currencies	—	102,870	357	103,227
Commodities	—	21,037	695	21,732
Equities	4	55,498	675	56,177
Gross fair value of derivative assets	9	880,130	8,956	889,095
Counterparty netting within levels	—	(732,874)	(2,090)	(734,964)
Subtotal	\$ 9	\$ 147,256	\$ 6,866	\$ 154,131
Cross-level counterparty netting				(1,745)
Cash collateral netting				(93,895)
Fair value included in financial instruments owned				\$ 58,491

Derivative Liabilities at Fair Value as of September 2015				
<i>\$ in millions</i>	Level 1	Level 2	Level 3	Total
Interest rates	\$13	\$ 606,973	\$ 705	\$ 607,691
Credit	—	35,266	3,430	38,696
Currencies	—	107,796	197	107,993
Commodities	—	22,536	672	23,208
Equities	15	52,094	1,559	53,668
Gross fair value of derivative assets	28	824,665	6,563	831,256
Counterparty netting within levels	—	(732,874)	(2,090)	(734,964)
Subtotal	\$28	\$ 91,791	\$ 4,473	\$ 96,292
Cross-level counterparty netting				(1,745)
Cash collateral netting				(43,485)
Fair value included in financial instruments sold, but not yet purchased				\$ 51,062

Derivative Assets at Fair Value as of December 2014				
<i>\$ in millions</i>	Level 1	Level 2	Level 3	Total
Interest rates	\$123	\$ 800,028	\$ 483	\$ 800,634
Credit	—	47,190	7,658	54,848
Currencies	—	109,891	150	110,041
Commodities	—	28,124	866	28,990
Equities	175	58,122	634	58,931
Gross fair value of derivative assets	298	1,043,355	9,791	1,053,444
Counterparty netting within levels	—	(882,841)	(2,717)	(885,558)
Subtotal	\$298	\$ 160,514	\$ 7,074	\$ 167,886
Cross-level counterparty netting				(1,112)
Cash collateral netting				(103,504)
Fair value included in financial instruments owned				\$ 63,270

Derivative Liabilities at Fair Value as of December 2014				
<i>\$ in millions</i>	Level 1	Level 2	Level 3	Total
Interest rates	\$ 14	\$ 739,332	\$ 523	\$ 739,869
Credit	—	46,026	4,128	50,154
Currencies	—	108,206	417	108,623
Commodities	—	26,538	2,008	28,546
Equities	94	56,546	2,009	58,649
Gross fair value of derivative assets	108	976,648	9,085	985,841
Counterparty netting within levels	—	(882,841)	(2,717)	(885,558)
Subtotal	\$108	\$ 93,807	\$ 6,368	\$ 100,283
Cross-level counterparty netting				(1,112)
Cash collateral netting				(36,155)
Fair value included in financial instruments sold, but not yet purchased				\$ 63,016

Notes to Condensed Consolidated Financial Statements (Unaudited)

Level 3 Rollforward

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

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

Level 3 Derivative Assets and Liabilities at Fair Value

<i>\$ in millions</i>	Asset/ (liability) balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Asset/ (liability) balance, end of period
Three Months Ended September 2015									
Interest rates — net	\$ (78)	\$ (27)	\$ 1	\$ 2	\$ (1)	\$ 10	\$(112)	\$ 5	\$ (200)
Credit — net	2,968	39	416	32	(46)	109	(5)	(219)	3,294
Currencies — net	(149)	(18)	183	4	—	37	(4)	107	160
Commodities — net	(54)	1	(27)	2	(56)	(4)	7	154	23
Equities — net	(2,349)	(17)	318	39	(407)	1,513	(88)	107	(884)
Total derivatives — net	\$ 338	\$ (22)¹	\$ 891¹	\$ 79	\$ (510)	\$ 1,665	\$(202)	\$ 154	\$ 2,393
Nine Months Ended September 2015									
Interest rates — net	\$ (40)	\$ (10)	\$ (4)	\$ 5	\$ (32)	\$ 31	\$(105)	\$ (45)	\$ (200)
Credit — net	3,530	147	553	56	(151)	(700)	127	(268)	3,294
Currencies — net	(267)	(71)	301	31	(8)	108	(19)	85	160
Commodities — net	(1,142)	9	(68)	—	(87)	(95)	(20)	1,426	23
Equities — net	(1,375)	83	185	105	(694)	942	(148)	18	(884)
Total derivatives — net	\$ 706	\$ 158¹	\$ 967¹	\$ 197	\$ (972)	\$ 286	\$(165)	\$ 1,216	\$ 2,393
Three Months Ended September 2014									
Interest rates — net	\$ (129)	\$ (28)	\$ 6	\$ 1	\$ (1)	\$ 21	\$ 27	\$ 5	\$ (98)
Credit — net	3,900	9	170	11	(36)	(512)	(116)	(106)	3,320
Currencies — net	(81)	(22)	(256)	6	—	61	9	(3)	(286)
Commodities — net	(7)	6	61	27	(20)	4	126	(9)	188
Equities — net	(1,499)	13	(175)	36	(2,939)	340	(212)	1,009	(3,427)
Total derivatives — net	\$ 2,184	\$ (22)²	\$(194)²	\$ 81	\$(2,996)	\$ (86)	\$(166)	\$ 896	\$ (303)
Nine Months Ended September 2014									
Interest rates — net	\$ (86)	\$ (57)	\$ (63)	\$ 4	\$ (8)	\$ 103	\$ 33	\$ (24)	\$ (98)
Credit — net	4,176	(18)	803	174	(139)	(1,491)	(102)	(83)	3,320
Currencies — net	(200)	(60)	(210)	15	(24)	188	8	(3)	(286)
Commodities — net	60	130	73	38	(37)	(58)	41	(59)	188
Equities — net	(959)	(27)	(253)	187	(3,204)	111	(150)	868	(3,427)
Total derivatives — net	\$ 2,991	\$ (32)²	\$ 350²	\$ 418	\$(3,412)	\$(1,147)	\$(170)	\$ 699	\$ (303)

1. The aggregate amounts include gains of approximately \$647 million and \$222 million reported in "Market making" and "Other principal transactions," respectively, for the three months ended September 2015, and approximately \$945 million and \$180 million reported in "Market making" and "Other principal transactions," respectively, for the nine months ended September 2015.

2. The aggregate amounts include gains/(losses) of approximately \$(243) million and \$27 million reported in "Market making" and "Other principal transactions," respectively, for the three months ended September 2014, and approximately \$394 million and \$(76) million reported in "Market making" and "Other principal transactions," respectively, for the nine months ended September 2014.

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

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

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

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

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

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

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

Three Months Ended September 2014. The net unrealized loss on level 3 derivatives of \$194 million for the three months ended September 2014 principally resulted from changes in observable inputs and was primarily attributable to the impact of changes in foreign exchange rates on certain currency derivatives and a decrease in equity prices on certain equity derivatives, partially offset by the impact of wider credit spreads on certain credit derivatives.

Transfers into level 3 derivatives during the three months ended September 2014 primarily reflected transfers of certain equity derivative liabilities from level 2, principally due to reduced transparency of volatility inputs used to value these derivatives, transfers of certain credit derivative liabilities from level 2, primarily due to reduced transparency of upfront credit point inputs used to value these derivatives, and transfers of certain commodity derivative assets from level 2, reflecting the impact of unobservable volatility inputs becoming significant to the valuation of these derivatives.

Transfers out of level 3 derivatives during the three months ended September 2014 primarily reflected transfers of certain equity derivative liabilities to level 2, principally due to unobservable correlation inputs no longer being significant to the valuation of these derivatives.

Nine Months Ended September 2014. The net unrealized gain on level 3 derivatives of \$350 million for the nine months ended September 2014 principally resulted from changes in observable inputs and was primarily attributable to the impact of tighter credit spreads and a decrease in interest rates on certain credit derivatives, partially offset by the impact of changes in foreign exchange rates on certain currency derivatives and a decrease in equity prices on certain equity derivatives.

Transfers into level 3 derivatives during the nine months ended September 2014 primarily reflected transfers of certain equity derivative liabilities from level 2, principally due to reduced transparency of volatility inputs used to value these derivatives, and transfers of certain credit derivative liabilities from level 2, primarily due to reduced transparency of upfront credit point inputs used to value these derivatives.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Transfers out of level 3 derivatives during the nine months ended September 2014 primarily reflected transfers of certain equity derivative liabilities to level 2, principally due to unobservable correlation inputs no longer being significant to the valuation of these derivatives.

OTC Derivatives

The tables below present the fair values of OTC derivative assets and liabilities by tenor and major product type. In the tables below:

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

OTC Derivative Assets as of September 2015

<i>\$ in millions</i>	Less than 1 Year	1 - 5 Years	Greater than 5 Years	Total
Interest rates	\$ 6,182	\$24,494	\$86,704	\$117,380
Credit	1,224	4,424	6,275	11,923
Currencies	13,366	9,355	6,698	29,419
Commodities	4,978	4,769	101	9,848
Equities	7,913	6,605	3,360	17,878
Counterparty netting within tenors	(3,905)	(6,938)	(5,833)	(16,676)
Subtotal	\$29,758	\$42,709	\$97,305	\$169,772
Cross-tenor counterparty netting				(21,222)
Cash collateral netting				(93,895)
Total				\$ 54,655

OTC Derivative Liabilities as of September 2015

<i>\$ in millions</i>	Less than 1 Year	1 - 5 Years	Greater than 5 Years	Total
Interest rates	\$ 5,420	\$17,056	\$37,248	\$ 59,724
Credit	1,919	3,964	2,101	7,984
Currencies	12,728	10,972	10,569	34,269
Commodities	5,156	3,449	2,680	11,285
Equities	7,084	5,640	3,562	16,286
Counterparty netting within tenors	(3,905)	(6,938)	(5,833)	(16,676)
Subtotal	\$28,402	\$34,143	\$50,327	\$112,872
Cross-tenor counterparty netting				(21,222)
Cash collateral netting				(43,485)
Total				\$ 48,165

OTC Derivative Assets as of December 2014

<i>\$ in millions</i>	Less than 1 Year	1 - 5 Years	Greater than 5 Years	Total
Interest rates	\$ 7,064	\$25,049	\$ 90,553	\$122,666
Credit	1,696	6,093	5,707	13,496
Currencies	17,835	9,897	6,386	34,118
Commodities	8,298	4,068	161	12,527
Equities	4,771	9,285	3,750	17,806
Counterparty netting within tenors	(4,479)	(7,016)	(4,058)	(15,553)
Subtotal	\$35,185	\$47,376	\$102,499	\$185,060
Cross-tenor counterparty netting				(20,819)
Cash collateral netting				(103,504)
Total				\$ 60,737

OTC Derivative Liabilities as of December 2014

<i>\$ in millions</i>	Less than 1 Year	1 - 5 Years	Greater than 5 Years	Total
Interest rates	\$ 7,001	\$17,649	\$ 37,242	\$ 61,892
Credit	2,154	4,942	1,706	8,802
Currencies	18,549	7,667	6,482	32,698
Commodities	5,686	4,105	2,810	12,601
Equities	7,064	6,845	3,571	17,480
Counterparty netting within tenors	(4,479)	(7,016)	(4,058)	(15,553)
Subtotal	\$35,975	\$34,192	\$ 47,753	\$117,920
Cross-tenor counterparty netting				(20,819)
Cash collateral netting				(36,155)
Total				\$ 60,946

Notes to Condensed Consolidated Financial Statements (Unaudited)

Credit Derivatives

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

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

The firm enters into the following types of credit derivatives:

- **Credit Default Swaps.** Single-name credit default swaps protect the buyer against the loss of principal on one or more bonds, loans or mortgages (reference obligations) in the event the issuer (reference entity) of the reference obligations suffers a credit event. The buyer of protection pays an initial or periodic premium to the seller and receives protection for the period of the contract. If there is no credit event, as defined in the contract, the seller of protection makes no payments to the buyer of protection. However, if a credit event occurs, the seller of protection is required to make a payment to the buyer of protection, which is calculated in accordance with the terms of the contract.
- **Credit Indices, Baskets and Tranches.** Credit derivatives may reference a basket of single-name credit default swaps or a broad-based index. If a credit event occurs in one of the underlying reference obligations, the protection seller pays the protection buyer. The payment is typically a pro-rata portion of the transaction's total notional amount based on the underlying defaulted reference obligation. In certain transactions, the credit risk of a basket or index is separated into various portions (tranches), each having different levels of subordination. The most junior tranches cover initial defaults and once losses exceed the notional amount of these junior tranches, any excess loss is covered by the next most senior tranche in the capital structure.

- **Total Return Swaps.** A total return swap transfers the risks relating to economic performance of a reference obligation from the protection buyer to the protection seller. Typically, the protection buyer receives from the protection seller a floating rate of interest and protection against any reduction in fair value of the reference obligation, and in return the protection seller receives the cash flows associated with the reference obligation, plus any increase in the fair value of the reference obligation.
- **Credit Options.** In a credit option, the option writer assumes the obligation to purchase or sell a reference obligation at a specified price or credit spread. The option purchaser buys the right, but does not assume the obligation, to sell the reference obligation to, or purchase it from, the option writer. The payments on credit options depend either on a particular credit spread or the price of the reference obligation.

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

As of September 2015, written and purchased credit derivatives had total gross notional amounts of \$1.07 trillion and \$1.12 trillion, respectively, for total net notional purchased protection of \$55.20 billion. As of December 2014, written and purchased credit derivatives had total gross notional amounts of \$1.22 trillion and \$1.28 trillion, respectively, for total net notional purchased protection of \$59.35 billion. Substantially all of the firm's written and purchased credit derivatives are in the form of credit default swaps.

Notes to Condensed Consolidated Financial Statements (Unaudited)

The tables below present certain information about credit derivatives. In the tables below:

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

As of September 2015					
Credit Spread on Underlier (basis points)					
	0 - 250	251 - 500	501 - 1,000	Greater than 1,000	Total
<i>\$ in millions</i>					
Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor					
Less than 1 year	\$ 213,120	\$ 5,479	\$ 2,996	\$ 9,721	\$ 231,316
1 - 5 years	620,419	59,098	17,704	25,823	723,044
Greater than 5 years	92,863	14,981	4,199	3,101	115,144
Total	\$ 926,402	\$ 79,558	\$ 24,899	\$ 38,645	\$ 1,069,504
Maximum Payout/Notional Amount of Purchased Credit Derivatives					
Offsetting	\$ 861,969	\$ 72,341	\$ 21,659	\$ 33,700	\$ 989,669
Other	118,099	7,238	5,074	4,621	135,032
Fair Value of Written Credit Derivatives					
Asset	\$ 18,213	\$ 1,597	\$ 272	\$ 166	\$ 20,248
Liability	3,761	3,650	1,415	10,816	19,642
Net asset/(liability)	\$ 14,452	\$ (2,053)	\$ (1,143)	\$ (10,650)	\$ 606

As of December 2014					
Credit Spread on Underlier (basis points)					
	0 - 250	251 - 500	501 - 1,000	Greater than 1,000	Total
<i>\$ in millions</i>					
Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor					
Less than 1 year	\$ 261,591	\$ 7,726	\$ 8,449	\$ 8,728	\$ 286,494
1 - 5 years	775,784	37,255	18,046	26,834	857,919
Greater than 5 years	68,830	5,042	1,309	1,279	76,460
Total	\$ 1,106,205	\$ 50,023	\$ 27,804	\$ 36,841	\$ 1,220,873
Maximum Payout/Notional Amount of Purchased Credit Derivatives					
Offsetting	\$ 1,012,874	\$ 41,657	\$ 26,240	\$ 33,112	\$ 1,113,883
Other	152,465	8,426	1,949	3,499	166,339
Fair Value of Written Credit Derivatives					
Asset	\$ 28,004	\$ 1,542	\$ 112	\$ 82	\$ 29,740
Liability	3,629	2,266	1,909	13,943	21,747
Net asset/(liability)	\$ 24,375	\$ (724)	\$ (1,797)	\$ (13,861)	\$ 7,993

Impact of Credit Spreads on Derivatives

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

The net gain/(loss), including hedges, attributable to the impact of changes in credit exposure and credit spreads (counterparty and the firm's) on derivatives was \$89 million and \$24 million for the three months ended September 2015 and September 2014, respectively, and \$68 million and \$173 million for the nine months ended September 2015 and September 2014, respectively.

Bifurcated Embedded Derivatives

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

<i>\$ in millions</i>	As of	
	September 2015	December 2014
Fair value of assets	\$ 497	\$ 390
Fair value of liabilities	787	690
Net liability	\$ 290	\$ 300
Notional amount	\$7,874	\$7,735

Notes to Condensed Consolidated Financial Statements (Unaudited)

Derivatives with Credit-Related Contingent Features

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

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

<i>\$ in millions</i>	As of	
	September 2015	December 2014
Net derivative liabilities under bilateral agreements	\$32,651	\$35,764
Collateral posted	27,160	30,824
Additional collateral or termination payments for a one-notch downgrade	1,092	1,072
Additional collateral or termination payments for a two-notch downgrade	2,787	2,815

Hedge Accounting

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

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

Fair Value Hedges

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

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

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

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

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Interest rate hedges	\$ 1,277	\$(564)	\$(246)	\$ 292
Hedged borrowings and bank deposits	(1,363)	438	(273)	(766)
Hedge ineffectiveness	\$ (86)	\$(126)	\$(519)	\$(474)

Notes to Condensed Consolidated Financial Statements (Unaudited)

Net Investment Hedges

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

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

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

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Foreign currency forward contract hedges	\$380	\$494	\$627	\$223
Foreign currency-denominated debt hedges	(45)	155	(14)	77

The gain/(loss) related to ineffectiveness and the gain/(loss) reclassified to earnings from accumulated other comprehensive income/(loss) were not material for the three and nine months ended September 2015 or September 2014.

As of September 2015 and December 2014, the firm had designated \$2.21 billion and \$1.36 billion, respectively, of foreign currency-denominated debt, included in “Unsecured long-term borrowings” and “Unsecured short-term borrowings,” as hedges of net investments in non-U.S. subsidiaries.

Cash Flow Hedges

During 2013, the firm designated certain commodities-related swap and forward contracts as cash flow hedges. These swap and forward contracts hedged the firm’s exposure to the variability in cash flows associated with the forecasted sales of certain energy commodities by one of the firm’s consolidated investments. During the fourth quarter of 2014, the firm de-designated these swaps and forward contracts as cash flow hedges as it became probable that the hedged forecasted sales would not occur.

Prior to de-designation, the firm applied a statistical method that utilized regression analysis when assessing hedge effectiveness. A cash flow hedge was considered highly effective in offsetting changes in forecasted cash flows attributable to the hedged risk when the regression analysis resulted in a coefficient of determination of 80% or greater and a slope between 80% and 125%.

For qualifying cash flow hedges, the gains or losses on derivatives, to the extent effective, were included in “Cash flow hedges” within the condensed consolidated statements of comprehensive income. Such gains or losses were reclassified to “Other principal transactions” within the condensed consolidated statements of earnings when it became probable that the hedged forecasted sales would not occur. Gains or losses resulting from hedge ineffectiveness were included in “Other principal transactions.”

The effective portion of the gains recognized on these cash flow hedges, gains reclassified to earnings from accumulated other comprehensive income and gains related to hedge ineffectiveness were not material for the three and nine months ended September 2014. There were no gains/(losses) excluded from the assessment of hedge effectiveness for the three and nine months ended September 2014.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 8.

Fair Value Option

Other Financial Assets and Financial Liabilities at Fair Value

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

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

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

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

- Repurchase agreements and substantially all resale agreements;
- Securities borrowed and loaned within Fixed Income, Currency and Commodities Client Execution;
- Substantially all other secured financings, including transfers of assets accounted for as financings rather than sales;
- Certain unsecured short-term borrowings, consisting of all promissory notes and commercial paper, and certain hybrid financial instruments;

- Certain unsecured long-term borrowings, including certain prepaid commodity transactions and certain hybrid financial instruments;
- Certain receivables from customers and counterparties, including transfers of assets accounted for as secured loans rather than purchases and certain margin loans;
- Certain time deposits issued by the firm’s bank subsidiaries (deposits with no stated maturity are not eligible for a fair value option election), including structured certificates of deposit, which are hybrid financial instruments; and
- Certain subordinated liabilities issued by consolidated VIEs.

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

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

Resale and Repurchase Agreements and Securities Borrowed and Loaned.

The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned are funding spreads, the amount and timing of expected future cash flows and interest rates. As of both September 2015 and December 2014, there were no level 3 resale agreements, securities borrowed or securities loaned. As of both September 2015 and December 2014, the firm's level 3 repurchase agreements were not material. See Note 10 for further information about collateralized agreements and financings.

Other Secured Financings. The significant inputs to the valuation of other secured financings at fair value are the amount and timing of expected future cash flows, interest rates, funding spreads, the fair value of the collateral delivered by the firm (which is determined using the amount and timing of expected future cash flows, market prices, market yields and recovery assumptions) and the frequency of additional collateral calls. The ranges of significant unobservable inputs used to value level 3 other secured financings are as follows:

As of September 2015:

- Funding spreads: 21 bps to 250 bps (weighted average: 199 bps)
- Yield: 0.6% to 10.0% (weighted average: 2.7%)
- Duration: 1.3 to 9.1 years (weighted average: 2.8 years)

As of December 2014:

- Funding spreads: 210 bps to 325 bps (weighted average: 278 bps)
- Yield: 1.1% to 10.0% (weighted average: 3.1%)
- Duration: 0.7 to 3.8 years (weighted average: 2.6 years)

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

Unsecured Short-term and Long-term Borrowings.

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

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

Receivables from Customers and Counterparties.

Receivables from customers and counterparties at fair value are primarily comprised of transfers of assets accounted for as secured loans rather than purchases. The significant inputs to the valuation of such receivables are commodity prices, interest rates, the amount and timing of expected future cash flows and funding spreads. As of both September 2015 and December 2014, the firm's level 3 receivables from customers and counterparties were not material.

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

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

Fair Value of Other Financial Assets and Financial Liabilities by Level

The tables below present, by level within the fair value hierarchy, other financial assets and financial liabilities accounted for at fair value primarily under the fair value option. In the tables below:

- Securities segregated for regulatory and other purposes include segregated securities accounted for at fair value under the fair value option and consists of securities borrowed and resale agreements.
- Level 1 other financial assets at fair value include U.S. Treasury securities segregated for regulatory and other purposes accounted for at fair value under other U.S. GAAP.

\$ in millions	Other Financial Assets at Fair Value as of September 2015			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes	\$13,131	\$ 24,913	\$ —	\$ 38,044
Securities purchased under agreements to resell	—	125,265	—	125,265
Securities borrowed	—	68,481	—	68,481
Receivables from customers and counterparties	—	6,304	42	6,346
Total	\$13,131	\$224,963	\$ 42	\$238,136

\$ in millions	Other Financial Liabilities at Fair Value as of September 2015			
	Level 1	Level 2	Level 3	Total
Deposits	\$ —	\$ 12,843	\$ 1,959	\$ 14,802
Securities sold under agreements to repurchase	—	89,415	66	89,481
Securities loaned	—	1,081	—	1,081
Other secured financings	—	22,006	1,781	23,787
Unsecured short-term borrowings	—	11,951	4,439	16,390
Unsecured long-term borrowings	—	16,858	3,962	20,820
Other liabilities and accrued expenses	—	1,396	50	1,446
Total	\$ —	\$155,550	\$12,257	\$167,807

\$ in millions	Other Financial Assets at Fair Value as of December 2014			
	Level 1	Level 2	Level 3	Total
Securities segregated for regulatory and other purposes	\$21,168	\$ 13,123	\$ —	\$ 34,291
Securities purchased under agreements to resell	—	126,036	—	126,036
Securities borrowed	—	66,769	—	66,769
Receivables from customers and counterparties	—	6,888	56	6,944
Total	\$21,168	\$212,816	\$ 56	\$234,040

\$ in millions	Other Financial Liabilities at Fair Value as of December 2014			
	Level 1	Level 2	Level 3	Total
Deposits	\$ —	\$ 12,458	\$1,065	\$ 13,523
Securities sold under agreements to repurchase	—	88,091	124	88,215
Securities loaned	—	765	—	765
Other secured financings	—	20,359	1,091	21,450
Unsecured short-term borrowings	—	15,114	3,712	18,826
Unsecured long-term borrowings	—	13,420	2,585	16,005
Other liabilities and accrued expenses	—	116	715	831
Total	\$ —	\$150,323	\$9,292	\$159,615

Transfers Between Levels of the Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. There were no transfers of other financial assets and financial liabilities between level 1 and level 2 during the three and nine months ended September 2015 and September 2014. The tables below present information about transfers between level 2 and level 3.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Level 3 Rollforward

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

- If a financial asset or financial liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3. For level 3 other financial assets, increases are shown as positive amounts, while decreases are shown as negative amounts. For level 3 other financial liabilities, increases are shown as negative amounts, while decreases are shown as positive amounts.

- Level 3 other financial assets and liabilities are frequently economically hedged with cash instruments and derivatives. Accordingly, gains or losses that are reported in level 3 can be partially offset by gains or losses attributable to level 1, 2 or 3 cash instruments or derivatives. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the firm's results of operations, liquidity or capital resources.
- See "Level 3 Rollforward Commentary" below for an explanation of the net unrealized gains/(losses) on level 3 other financial assets and liabilities, and the activity related to transfers into and transfers out of level 3.

Level 3 Other Financial Assets and Liabilities at Fair Value

<i>\$ in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Three Months Ended September 2015										
Receivables from customers and counterparties	\$ 42	\$ —	\$ —	\$ 2	\$ (3)	\$ —	\$ 1	\$ —	\$ —	\$ 42
Total other financial assets	\$ 42	\$ —	\$ —	\$ 2	\$ (3)	\$ —	\$ 1	\$ —	\$ —	\$ 42
Deposits	\$ (1,680)	\$ (3)	\$ 11	\$ —	\$ —	\$ (295)	\$ 8	\$ —	\$ —	\$ (1,959)
Securities sold under agreements to repurchase	(82)	—	—	—	—	—	16	—	—	(66)
Other secured financings	(1,479)	(4)	64	(10)	—	(125)	84	(312)	1	(1,781)
Unsecured short-term borrowings	(4,490)	66	548	—	—	(1,023)	552	(154)	62	(4,439)
Unsecured long-term borrowings	(3,462)	(2)	155	—	—	(586)	98	(227)	62	(3,962)
Other liabilities and accrued expenses	(1,145)	1	(8)	—	—	(1)	1	(23)	1,125	(50)
Total other financial liabilities	\$(12,338)	\$ 58¹	\$ 770¹	\$(10)	\$ —	\$(2,030)	\$ 759	\$ (716)	\$ 1,250	\$(12,257)
Nine Months Ended September 2015										
Receivables from customers and counterparties	\$ 56	\$ 1	\$ (4)	\$ 6	\$ (3)	\$ —	\$ (21)	\$ 7	\$ —	\$ 42
Total other financial assets	\$ 56	\$ 1²	\$ (4)²	\$ 6	\$ (3)	\$ —	\$ (21)	\$ 7	\$ —	\$ 42
Deposits	\$ (1,065)	\$ (6)	\$ 64	\$ —	\$ —	\$ (997)	\$ 45	\$ —	\$ —	\$ (1,959)
Securities sold under agreements to repurchase	(124)	—	(1)	—	—	—	59	—	—	(66)
Other secured financings	(1,091)	(20)	84	(10)	32	(630)	290	(481)	45	(1,781)
Unsecured short-term borrowings	(3,712)	62	356	—	—	(2,735)	1,882	(669)	377	(4,439)
Unsecured long-term borrowings	(2,585)	(4)	292	—	—	(2,364)	726	(421)	394	(3,962)
Other liabilities and accrued expenses	(715)	4	(8)	—	—	(1)	7	(23)	686	(50)
Total other financial liabilities	\$ (9,292)	\$ 36¹	\$ 787¹	\$(10)	\$ 32	\$(6,727)	\$ 3,009	\$(1,594)	\$ 1,502	\$(12,257)

1. The aggregate amounts include gains/(losses) of approximately \$786 million, \$46 million and \$(4) million reported in "Market making," "Other principal transactions" and "Interest expense," respectively, for the three months ended September 2015, and approximately \$977 million, \$(134) million and \$(20) million reported in "Market making," "Other principal transactions" and "Interest expense," respectively, for the nine months ended September 2015.

2. The aggregate amounts include gains/(losses) of approximately \$1 million and \$(4) million included in "Market making" and "Other principal transactions," respectively.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Level 3 Other Financial Assets and Liabilities at Fair Value

<i>\$ in millions</i>	Balance, beginning of period	Net realized gains/ (losses)	Net unrealized gains/(losses) relating to instruments still held at period-end	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Three Months Ended September 2014										
Securities purchased under agreements to resell	\$ 50	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 50
Receivables from customers and counterparties	55	1	—	7	—	—	(1)	—	—	62
Total other financial assets	\$ 105	\$ 1¹	\$ —	\$ 7	\$ —	\$ —	\$ (1)	\$ —	\$ —	\$ 112
Deposits	\$ (525)	\$ —	\$ 2	\$ 2	\$ —	\$ (107)	\$ 1	\$ —	\$ 27	\$ (600)
Securities sold under agreements to repurchase	(555)	—	(8)	—	—	—	167	—	—	(396)
Other secured financings	(1,035)	(2)	14	(18)	—	—	221	(47)	12	(855)
Unsecured short-term borrowings	(3,057)	(36)	(19)	(9)	7	(720)	435	(255)	923	(2,731)
Unsecured long-term borrowings	(2,163)	(47)	179	(1)	—	(372)	177	(157)	159	(2,225)
Other liabilities and accrued expenses	(432)	—	(121)	—	—	—	19	—	—	(534)
Total other financial liabilities	\$(7,767)	\$ (85)²	\$ 47²	\$(26)	\$ 7	\$(1,199)	\$1,020	\$ (459)	\$1,121	\$(7,341)
Nine Months Ended September 2014										
Securities purchased under agreements to resell	\$ 63	\$ 1	\$ —	\$ —	\$ —	\$ —	\$ (14)	\$ —	\$ —	\$ 50
Receivables from customers and counterparties	235	2	3	29	—	—	(27)	—	(180)	62
Total other financial assets	\$ 298	\$ 3³	\$ 3³	\$ 29	\$ —	\$ —	\$ (41)	\$ —	\$ (180)	\$ 112
Deposits	\$ (385)	\$ —	\$ (14)	\$ 2	\$ —	\$ (235)	\$ 5	\$ —	\$ 27	\$ (600)
Securities sold under agreements to repurchase	(1,010)	—	(3)	—	—	—	617	—	—	(396)
Other secured financings	(1,019)	(14)	19	(26)	—	(402)	446	(66)	207	(855)
Unsecured short-term borrowings	(3,387)	(41)	(76)	(6)	7	(1,524)	1,564	(508)	1,240	(2,731)
Unsecured long-term borrowings	(1,837)	(123)	181	1	—	(810)	383	(1,062)	1,042	(2,225)
Other liabilities and accrued expenses	(26)	(5)	(220)	—	—	—	18	(301)	—	(534)
Total other financial liabilities	\$(7,664)	\$(183)²	\$(113)²	\$(29)	\$ 7	\$(2,971)	\$3,033	\$(1,937)	\$2,516	\$(7,341)

1. Included in "Market making."

2. The aggregate amounts include gains/(losses) of approximately \$94 million, \$(129) million and \$(3) million reported in "Market making," "Other principal transactions" and "Interest expense," respectively, for the three months ended September 2014, and approximately \$(5) million, \$(276) million and \$(15) million reported in "Market making," "Other principal transactions" and "Interest expense," respectively, for the nine months ended September 2014.

3. The aggregate amounts include gains of approximately \$5 million and \$1 million reported in "Market making" and "Interest income," respectively.

Level 3 Rollforward Commentary

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

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

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

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

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

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

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

Three Months Ended September 2014. The net unrealized gain on level 3 other financial liabilities of \$47 million for the three months ended September 2014 primarily reflected gains on certain hybrid financial instruments included in unsecured long-term borrowings, principally due to the impact of wider credit spreads, partially offset by losses on certain subordinated liabilities included in other liabilities and accrued expenses, principally due to changes in the market value of the related underlying investments.

Transfers into level 3 of other financial liabilities during the three months ended September 2014 primarily reflected transfers of certain hybrid financial instruments included in unsecured short-term and long-term borrowings from level 2, principally due to unobservable inputs being significant to the valuation of these instruments.

Transfers out of level 3 of other financial liabilities during the three months ended September 2014 primarily reflected transfers of certain hybrid financial instruments included in unsecured short-term borrowings to level 2, principally due to increased transparency of certain volatility and correlation inputs used to value these instruments and certain unobservable inputs no longer being significant to the valuation of other hybrid financial instruments.

Nine Months Ended September 2014. The net unrealized loss on level 3 other financial assets and liabilities of \$110 million (reflecting \$3 million of gains on other financial assets and \$113 million of losses on other financial liabilities) for the nine months ended September 2014 primarily reflected losses on certain subordinated liabilities included in other liabilities and accrued expenses, principally due to changes in the market value of the related underlying investments, and certain hybrid financial instruments included in unsecured short-term borrowings, principally due to a decrease in interest rates, partially offset by gains on certain hybrid financial instruments included in unsecured long-term borrowings, principally due to the impact of wider credit spreads.

Transfers out of level 3 of other financial assets during the nine months ended September 2014 primarily reflected transfers of certain secured loans included in receivables from customers and counterparties to level 2, principally due to unobservable inputs not being significant to the net risk of the portfolio.

Transfers into level 3 of other financial liabilities during the nine months ended September 2014 primarily reflected transfers of certain hybrid financial instruments included in unsecured short-term and long-term borrowings from level 2, principally due to unobservable inputs being significant to the valuation of these instruments.

Transfers out of level 3 of other financial liabilities during the nine months ended September 2014 primarily reflected transfers of certain hybrid financial instruments included in unsecured short-term and long-term borrowings to level 2, principally due to unobservable inputs not being significant to the valuation of these instruments.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

The amounts in the table exclude contractual interest, which is included in “Interest income” and “Interest expense,” for all instruments other than hybrid financial instruments. See Note 23 for further information about interest income and interest expense.

<i>\$ in millions</i>	Gains/(Losses) on Financial Assets and Financial Liabilities at Fair Value Under the Fair Value Option			
	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Unsecured short-term borrowings ¹	\$1,845	\$(470)	\$ 947	\$(1,270)
Unsecured long-term borrowings ²	273	372	746	(404)
Other liabilities and accrued expenses ³	(237)	(103)	(676)	(182)
Other ⁴	34	22	(28)	(92)
Total	\$1,915	\$(179)	\$ 989	\$(1,948)

1. Includes gains/(losses) on the embedded derivative component of hybrid financial instruments of \$1.84 billion and \$(505) million for the three months ended September 2015 and September 2014, respectively, and \$925 million and \$(1.27) billion for the nine months ended September 2015 and September 2014, respectively.

2. Includes gains/(losses) on the embedded derivative component of hybrid financial instruments of \$112 million and \$324 million for the three months ended September 2015 and September 2014, respectively, and \$645 million and \$(451) million for the nine months ended September 2015 and September 2014, respectively.

3. Includes gains/(losses) on certain subordinated liabilities issued by consolidated VIEs.

4. Primarily consists of gains/(losses) on resale and repurchase agreements, securities borrowed, receivables from customers and counterparties, deposits and other secured financings.

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

Loans and Lending Commitments

The table below presents the difference between the aggregate fair value and the aggregate contractual principal amount for loans and long-term receivables for which the fair value option was elected.

<i>\$ in millions</i>	As of	
	September 2015	December 2014
Performing loans and long-term receivables		
Aggregate contractual principal in excess of the related fair value	\$ 767	\$ 1,699
Loans on nonaccrual status and/or more than 90 days past due¹		
Aggregate contractual principal in excess of the related fair value (excluding loans carried at zero fair value and considered uncollectible)	11,115	13,106
Aggregate fair value of loans on nonaccrual status and/or more than 90 days past due	2,729	3,333

1. The aggregate contractual principal amount of these loans exceeds the related fair value primarily because the firm regularly purchases loans, such as distressed loans, at values significantly below contractual principal amounts.

As of September 2015 and December 2014, the fair value of unfunded lending commitments for which the fair value option was elected was a liability of \$258 million and \$402 million, respectively, and the related total contractual amount of these lending commitments was \$15.86 billion and \$26.19 billion, respectively. See Note 18 for further information about lending commitments.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Long-Term Debt Instruments

The aggregate contractual principal amount of long-term other secured financings for which the fair value option was elected exceeded the related fair value by \$227 million and \$203 million as of September 2015 and December 2014, respectively. The aggregate contractual principal amount of unsecured long-term borrowings for which the fair value option was elected exceeded the related fair value by \$814 million and \$163 million as of September 2015 and December 2014, respectively. The amounts above include both principal and non-principal-protected long-term borrowings.

Impact of Credit Spreads on Loans and Lending Commitments

The estimated net gain attributable to changes in instrument-specific credit spreads on loans and lending commitments for which the fair value option was elected was \$165 million and \$278 million for the three months ended September 2015 and September 2014, respectively, and \$835 million and \$1.49 billion for the nine months ended September 2015 and September 2014, respectively. Changes in the fair value of loans and lending commitments are primarily attributable to changes in instrument-specific credit spreads. Substantially all of the firm's performing loans and lending commitments are floating-rate.

Impact of Credit Spreads on Borrowings

The table below presents the net gains/(losses) attributable to the impact of changes in the firm's own credit spreads on borrowings for which the fair value option was elected. The firm calculates the fair value of borrowings by discounting future cash flows at a rate which incorporates the firm's credit spreads.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Net gains/(losses) including hedges	\$182	\$66	\$323	\$62
Net gains/(losses) excluding hedges	182	66	323	60

Note 9.

Loans Receivable

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

The table below presents details about loans receivable.

<i>\$ in millions</i>	As of	
	September 2015	December 2014
Corporate loans	\$19,806	\$14,310
Loans to private wealth management clients	13,707	11,289
Loans backed by commercial real estate	3,931	2,425
Other loans	5,078	1,142
Subtotal	42,522	29,166
Allowance for loan losses	(333)	(228)
Total loans receivable	\$42,189	\$28,938

As of September 2015 and December 2014, the fair value of loans receivable was \$42.03 billion and \$28.90 billion, respectively. As of September 2015, had these loans been carried at fair value and included in the fair value hierarchy, \$19.88 billion and \$22.15 billion would have been classified in level 2 and level 3, respectively. As of December 2014, had these loans been carried at fair value and included in the fair value hierarchy, \$13.75 billion and \$15.15 billion would have been classified in level 2 and level 3, respectively.

The firm also extends lending commitments that are held for investment and accounted for on an accrual basis. As of September 2015 and December 2014, such lending commitments were \$87.58 billion and \$66.22 billion, respectively, substantially all of which were extended to corporate borrowers. The carrying value and the estimated fair value of such lending commitments were liabilities of \$273 million and \$2.93 billion, respectively, as of September 2015, and \$199 million and \$1.86 billion, respectively, as of December 2014. Had these commitments been included in the firm's fair value hierarchy, they would have primarily been classified in level 3 as of both September 2015 and December 2014.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

- **Corporate Loans.** Corporate loans include term loans, revolving lines of credit, letter of credit facilities and bridge loans, and are principally used for operating liquidity and general corporate purposes, or in connection with acquisitions. Corporate loans may be secured or unsecured, depending on the loan purpose, the risk profile of the borrower and other factors. The majority of these loans have maturities between one year and five years and carry a floating interest rate.
- **Loans to Private Wealth Management Clients.** Loans to the firm's private wealth management clients include loans used by clients to finance private asset purchases, employ leverage for strategic investments in real or financial assets, bridge cash flow timing gaps or provide liquidity for other needs. Such loans are primarily secured by securities or other assets. The majority of these loans are demand or short-term loans and carry a floating interest rate.
- **Loans Backed by Commercial Real Estate.** Loans backed by commercial real estate include loans directly or indirectly secured by hotels, retail stores, multifamily housing complexes and commercial and industrial properties. The majority of these loans have maturities between one year and five years and carry a floating interest rate.
- **Other Loans.** Other loans primarily include loans directly or indirectly secured by consumer loans, residential real estate and other assets. The majority of these loans have maturities between one year and five years and carry a floating interest rate.

Credit Quality

The firm's risk assessment process includes evaluating the credit quality of its loans receivable. The firm performs credit reviews which include initial and ongoing analyses of its borrowers. A credit review is an independent analysis of the capacity and willingness of a borrower to meet its financial obligations, resulting in an internal credit rating. The determination of internal credit ratings also incorporates assumptions with respect to the nature of and outlook for the borrower's industry, and the economic environment. The firm also assigns a regulatory risk rating to such loans based on the definitions provided by the U.S. federal bank regulatory agencies.

As of September 2015 and December 2014, loans receivable were primarily extended to non-investment-grade borrowers and lending commitments held for investment and accounted for on an accrual basis were primarily extended to investment-grade borrowers. Substantially all of these loans and lending commitments align with the U.S. federal bank regulatory agencies' definition of Pass. Loans and lending commitments meet the definition of Pass when they are performing and/or do not demonstrate adverse characteristics that are likely to result in a credit loss.

Impaired Loans and Loans on Non-Accrual Status

A loan is determined to be impaired when it is probable that the firm will not be able to collect all principal and interest due under the contractual terms of the loan. At that time, loans are placed on non-accrual status and all accrued but uncollected interest is reversed against interest income, and interest subsequently collected is recognized on a cash basis to the extent the loan balance is deemed collectible. Otherwise, all cash received is used to reduce the outstanding loan balance. As of September 2015 and December 2014, impaired loans receivable in non-accrual status were not material.

Allowance for Losses on Loans and Lending Commitments

The firm's allowance for loan losses is comprised of two components: specific loan level reserves and a collective, portfolio level reserve. Specific loan level reserves are determined on loans that exhibit credit quality weakness and are therefore individually evaluated for impairment. Portfolio level reserves are determined on the remaining loans, not deemed impaired, by aggregating groups of loans with similar risk characteristics and estimating the probable loss inherent in the portfolio. As of September 2015 and December 2014, substantially all of the firm's loans receivable were evaluated for impairment at the portfolio level.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

The firm also records an allowance for losses on lending commitments that are held for investment and accounted for on an accrual basis. Such allowance is determined using the same methodology as the allowance for loan losses, while also taking into consideration the probability of drawdowns or funding, and is included in "Other liabilities and accrued expenses" in the condensed consolidated statements of financial condition. As of September 2015 and December 2014, substantially all of such lending commitments were evaluated for impairment at the portfolio level.

The tables below present changes in the allowance for loan losses and the allowance for losses on lending commitments.

<i>\$ in millions</i>	Nine Months Ended September 2015	Year Ended December 2014
Allowance for loan losses		
Balance, beginning of period	\$228	\$139
Charge-offs	(1)	(3)
Provision for loan losses	106	92
Balance, end of period	\$333	\$228

<i>\$ in millions</i>	Nine Months Ended September 2015	Year Ended December 2014
Allowance for losses on lending commitments		
Balance, beginning of period	\$ 86	\$ 57
Provision for losses on lending commitments	78	29
Balance, end of period	\$164	\$ 86

The provision for losses on loans and lending commitments is included in "Other principal transactions" in the condensed consolidated statements of earnings. As of September 2015 and December 2014, substantially all of the allowance for loan losses and allowance for losses on lending commitments were related to corporate loans and corporate lending commitments. These allowances were primarily determined at the portfolio level.

Note 10.

Collateralized Agreements and Financings

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

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

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

<i>\$ in millions</i>	As of September 2015	December 2014
Securities purchased under agreements to resell ¹	\$126,903	\$127,938
Securities borrowed ²	173,315	160,722
Securities sold under agreements to repurchase ¹	89,481	88,215
Securities loaned ²	3,519	5,570

1. Substantially all resale agreements and all repurchase agreements are carried at fair value under the fair value option. See Note 8 for further information about the valuation techniques and significant inputs used to determine fair value.

2. As of September 2015 and December 2014, \$68.48 billion and \$66.77 billion of securities borrowed, and \$1.08 billion and \$765 million of securities loaned were at fair value, respectively.

**Notes to Condensed Consolidated Financial Statements
(Unaudited)****Resale and Repurchase Agreements**

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

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

The financial instruments purchased or sold in resale and repurchase agreements typically include U.S. government and federal agency, and investment-grade sovereign obligations.

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

Even though repurchase and resale agreements (including “repos- and reverses-to-maturity”) involve the legal transfer of ownership of financial instruments, they are accounted for as financing arrangements because they require the financial instruments to be repurchased or resold at the maturity of the agreement. A repo-to-maturity is a transaction in which the firm transfers a security under an agreement to repurchase the security where the maturity date of the repurchase agreement matches the maturity date of the underlying security. Prior to January 2015, repos-to-maturity were accounted for as sales. The firm had no repos-to-maturity as of September 2015 and December 2014. See Note 3 for information about changes to the accounting for repos-to-maturity which became effective in January 2015.

Securities Borrowed and Loaned Transactions

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

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

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

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

Securities borrowed and loaned within Securities Services are recorded based on the amount of cash collateral advanced or received plus accrued interest. As these arrangements generally can be terminated on demand, they exhibit little, if any, sensitivity to changes in interest rates. Therefore, the carrying value of such arrangements approximates fair value. While these arrangements are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm’s fair value hierarchy in Notes 6 through 8. Had these arrangements been included in the firm’s fair value hierarchy, they would have been classified in level 2 as of September 2015 and December 2014.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Offsetting Arrangements

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

	As of September 2015			
	Assets		Liabilities	
	Resale agreements	Securities borrowed	Repurchase agreements	Securities loaned
<i>\$ in millions</i>				
Amounts included in the condensed consolidated statements of financial condition				
Gross carrying value	\$ 169,859	\$ 186,607	\$ 117,303	\$ 7,032
Counterparty netting	(27,822)	(3,513)	(27,822)	(3,513)
Total	142,037¹	183,094¹	89,481	3,519
Amounts not offset in the condensed consolidated statements of financial condition				
Counterparty netting	(4,904)	(1,413)	(4,904)	(1,413)
Collateral	(132,168)	(173,162)	(80,971)	(2,001)
Total	\$ 4,965	\$ 8,519	\$ 3,606	\$ 105

	As of December 2014			
	Assets		Liabilities	
	Resale agreements	Securities borrowed	Repurchase agreements	Securities loaned
<i>\$ in millions</i>				
Amounts included in the condensed consolidated statements of financial condition				
Gross carrying value	\$ 160,644	\$ 171,384	\$ 114,879	\$ 9,150
Counterparty netting	(26,664)	(3,580)	(26,664)	(3,580)
Total	133,980¹	167,804¹	88,215	5,570
Amounts not offset in the condensed consolidated statements of financial condition				
Counterparty netting	(3,834)	(641)	(3,834)	(641)
Collateral	(124,528)	(154,058)	(78,457)	(4,882)
Total	\$ 5,618	\$ 13,105	\$ 5,924	\$ 47

1. As of September 2015 and December 2014, the firm had \$15.13 billion and \$6.04 billion, respectively, of securities received under resale agreements, and \$9.78 billion and \$7.08 billion, respectively, of securities borrowed transactions that were segregated to satisfy certain regulatory requirements. These securities are included in "Cash and securities segregated for regulatory and other purposes."

In the tables above:

- Substantially all of the gross carrying values of these arrangements are subject to enforceable netting agreements.
- Where the firm has received or posted collateral under credit support agreements, but has not yet determined such agreements are enforceable, the related collateral has not been netted.

Gross Carrying Value of Repurchase Agreements and Securities Loaned

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

	As of September 2015	
	Repurchase agreements	Securities loaned
<i>\$ in millions</i>		
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 1,831	\$ —
U.S. government and federal agency obligations	51,860	110
Non-U.S. government and agency obligations	31,071	3,502
Securities backed by commercial real estate	323	—
Securities backed by residential real estate	1,792	—
Corporate debt securities	7,038	41
State and municipal obligations	547	—
Other debt obligations	472	—
Equities and convertible debentures	22,369	3,379
Total	\$117,303	\$7,032

	As of December 2014	
	Repurchase agreements	Securities loaned
<i>\$ in millions</i>		
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 900	\$ —
U.S. government and federal agency obligations	56,788	123
Non-U.S. government and agency obligations	27,169	3,463
Securities backed by commercial real estate	419	—
Securities backed by residential real estate	1,574	—
Corporate debt securities	8,028	26
State and municipal obligations	984	—
Other debt obligations	562	—
Equities and convertible debentures	18,455	5,538
Total	\$114,879	\$9,150

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

<i>\$ in millions</i>	As of September 2015	
	Repurchase agreements	Securities loaned
No stated maturity and overnight	\$ 32,961	\$4,254
2 - 30 days	32,207	1,699
31 - 90 days	16,882	—
91 days - 1 year	27,193	1,079
Greater than 1 year	8,060	—
Total	\$117,303	\$7,032

In the table above:

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

Other Secured Financings

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

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

Other secured financings include arrangements that are nonrecourse. As of September 2015 and December 2014, nonrecourse other secured financings were \$2.81 billion and \$1.94 billion, respectively.

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

Other secured financings that are not recorded at fair value are recorded based on the amount of cash received plus accrued interest, which generally approximates fair value. While these financings are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6 through 8. Had these financings been included in the firm's fair value hierarchy, they would have been primarily classified in level 2 as of September 2015 and December 2014.

The tables below present information about other secured financings.

<i>\$ in millions</i>	As of September 2015		
	U.S. Dollar	Non-U.S. Dollar	Total
Other secured financings (short-term):			
At fair value	\$ 8,474	\$ 5,146	\$13,620
At amortized cost	263	297	560
<i>Weighted average interest rates</i>	<i>2.50%</i>	<i>3.99%</i>	
Other secured financings (long-term):			
At fair value	5,396	4,771	10,167
At amortized cost	510	365	875
<i>Weighted average interest rates</i>	<i>3.13%</i>	<i>1.47%</i>	
Total¹	\$14,643	\$10,579	\$25,222
Amount of other secured financings collateralized by:			
Financial instruments ²	\$13,652	\$ 9,411	\$23,063
Other assets	991	1,168	2,159

<i>\$ in millions</i>	As of December 2014		
	U.S. Dollar	Non-U.S. Dollar	Total
Other secured financings (short-term):			
At fair value	\$ 7,887	\$ 7,668	\$15,555
At amortized cost	5	—	5
<i>Weighted average interest rates</i>	<i>4.33%</i>	<i>—%</i>	
Other secured financings (long-term):			
At fair value	3,290	2,605	5,895
At amortized cost	580	774	1,354
<i>Weighted average interest rates</i>	<i>2.69%</i>	<i>2.31%</i>	
Total¹	\$11,762	\$11,047	\$22,809
Amount of other secured financings collateralized by:			
Financial instruments ²	\$11,460	\$10,483	\$21,943
Other assets	302	564	866

1. Includes \$374 million and \$974 million related to transfers of financial assets accounted for as financings rather than sales as of September 2015 and December 2014, respectively. Such financings were collateralized by financial assets included in "Financial instruments owned, at fair value" of \$374 million and \$995 million as of September 2015 and December 2014, respectively.

2. Includes \$12.41 billion and \$10.24 billion of other secured financings collateralized by financial instruments owned, at fair value as of September 2015 and December 2014, respectively, and includes \$10.65 billion and \$11.70 billion of other secured financings collateralized by financial instruments received as collateral and repledged as of September 2015 and December 2014, respectively.

Notes to Condensed Consolidated Financial Statements (Unaudited)

In the tables above:

- Short-term secured financings include financings maturing within one year of the financial statement date and financings that are redeemable within one year of the financial statement date at the option of the holder.
- Weighted average interest rates exclude secured financings at fair value and include the effect of hedging activities. See Note 7 for further information about hedging activities.

The table below presents other secured financings by maturity date.

<i>\$ in millions</i>	As of September 2015
Other secured financings (short-term)	\$14,180
Other secured financings (long-term):	
2016	2,049
2017	4,130
2018	2,197
2019	1,155
2020	955
2021 - thereafter	556
Total other secured financings (long-term)	11,042
Total other secured financings	\$25,222

In the table above:

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

Collateral Received and Pledged

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

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

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

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

<i>\$ in millions</i>	As of	
	September 2015	December 2014
Collateral available to be delivered or repledged ¹	\$659,010	\$630,046
Collateral that was delivered or repledged	\$11,959	474,057

1. As of September 2015 and December 2014, amounts exclude \$15.13 billion and \$6.04 billion, respectively, of securities received under resale agreements, and \$9.78 billion and \$7.08 billion, respectively, of securities borrowed transactions that contractually had the right to be delivered or repledged, but were segregated to satisfy certain regulatory requirements.

The table below presents information about assets pledged.

<i>\$ in millions</i>	As of	
	September 2015	December 2014
Financial instruments owned, at fair value pledged to counterparties that:		
Had the right to deliver or repledge	\$ 52,029	\$ 64,473
Did not have the right to deliver or repledge	61,969	68,027
Other assets pledged to counterparties that:		
Did not have the right to deliver or repledge	2,996	1,304

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 11.

Securitization Activities

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

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

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

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

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

The primary risks included in beneficial interests and other interests from the firm's continuing involvement with securitization vehicles are the performance of the underlying collateral, the position of the firm's investment in the capital structure of the securitization vehicle and the market yield for the security. Substantially all of these interests are accounted for at fair value, are included in "Financial instruments owned, at fair value" and are classified in level 2 of the fair value hierarchy. See Notes 5 through 8 for further information about fair value measurements.

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

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Residential mortgages	\$2,056	\$6,499	\$11,258	\$17,080
Commercial mortgages	3,506	543	8,255	543
Other financial assets	478	—	478	481
Total	\$6,040	\$7,042	\$19,991	\$18,104
Cash flows on retained interests	\$ 64	\$ 108	\$ 142	\$ 220

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

<i>\$ in millions</i>	As of September 2015		
	Outstanding Principal Amount	Fair Value of Retained Interests	Fair Value of Purchased Interests
U.S. government agency-issued collateralized mortgage obligations	\$43,872	\$1,440	\$ 4
Other residential mortgage-backed	2,455	182	—
Other commercial mortgage-backed	8,844	320	64
CDOs, CLOs and other	3,280	55	7
Total	\$58,451	\$1,997	\$75

<i>\$ in millions</i>	As of December 2014		
	Outstanding Principal Amount	Fair Value of Retained Interests	Fair Value of Purchased Interests
U.S. government agency-issued collateralized mortgage obligations	\$56,792	\$2,140	\$—
Other residential mortgage-backed	2,273	144	5
Other commercial mortgage-backed	3,313	86	45
CDOs, CLOs and other	4,299	59	17
Total	\$66,677	\$2,429	\$67

In the tables above:

- The outstanding principal amount is presented for the purpose of providing information about the size of the securitization entities in which the firm has continuing involvement and is not representative of the firm's risk of loss.
- For retained or purchased interests, the firm's risk of loss is limited to the fair value of these interests.
- Purchased interests represent senior and subordinated interests, purchased in connection with secondary market-making activities, in securitization entities in which the firm also holds retained interests.

In addition, the outstanding principal and fair value of retained interests in the tables above relate to the following types of securitizations and vintage as described:

- The outstanding principal amount and fair value of retained interests for U.S. government agency-issued collateralized mortgage obligations as of September 2015 primarily relate to securitizations during 2015 and 2014, and as of December 2014 primarily relate to securitizations during 2014 and 2013.
- The outstanding principal amount and fair value of retained interests for other residential mortgage-backed obligations as of September 2015 primarily relate to resecuritizations during 2015 and 2014, and prime and Alt-A securitizations during 2007, and as of December 2014 primarily relate to resecuritizations during 2014, and prime and Alt-A securitizations during 2007.
- The outstanding principal amount and fair value of retained interests for other commercial mortgage-backed obligations as of September 2015 primarily relate to securitizations during 2015, and as of December 2014 primarily relate to securitizations during 2014.
- The outstanding principal amount and fair value of retained interests for CDOs, CLOs and other as of September 2015 primarily relate to securitizations during 2015, 2014 and 2007, and as of December 2014 primarily relate to securitizations during 2014 and 2007.

In addition to the interests in the tables above, the firm had other continuing involvement in the form of derivative transactions and commitments with certain nonconsolidated VIEs. The carrying value of these derivatives and commitments was a net asset of \$114 million and \$115 million as of September 2015 and December 2014, respectively. The notional amounts of these derivatives and commitments are included in maximum exposure to loss in the nonconsolidated VIE table in Note 12.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

<i>\$ in millions</i>	As of September 2015	
	Type of Retained Interests	
	Mortgage-Backed	Other ¹
Fair value of retained interests	\$ 1,942	\$ 55
Weighted average life (years)	7.3	4.6
Constant prepayment rate	10.5%	N.M.
Impact of 10% adverse change	\$ (28)	N.M.
Impact of 20% adverse change	(54)	N.M.
Discount rate	4.4%	N.M.
Impact of 10% adverse change	\$ (40)	N.M.
Impact of 20% adverse change	(79)	N.M.

<i>\$ in millions</i>	As of December 2014	
	Type of Retained Interests	
	Mortgage-Backed	Other ¹
Fair value of retained interests	\$ 2,370	\$ 59
Weighted average life (years)	7.6	3.6
Constant prepayment rate	13.2%	N.M.
Impact of 10% adverse change	\$ (33)	N.M.
Impact of 20% adverse change	(66)	N.M.
Discount rate	4.1%	N.M.
Impact of 10% adverse change	\$ (50)	N.M.
Impact of 20% adverse change	(97)	N.M.

1. Due to the nature and current fair value of certain of these retained interests, the weighted average assumptions for constant prepayment and discount rates and the related sensitivity to adverse changes are not meaningful as of September 2015 and December 2014. The firm's maximum exposure to adverse changes in the value of these interests is the carrying value of \$55 million and \$59 million as of September 2015 and December 2014, respectively.

In the tables above:

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 12.

Variable Interest Entities

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

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

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

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

Real Estate, Credit-Related and Other Investing VIEs.

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

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

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

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

VIE Consolidation Analysis

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

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

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

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

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

Nonconsolidated VIEs

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

\$ in millions	Nonconsolidated VIEs as of	
	September 2015	December 2014
Mortgage-backed¹		
Assets in VIE	\$68,832	\$ 78,107
Carrying value of variable interests - assets	3,447	4,348
Maximum Exposure to Loss		
Retained interests	1,942	2,370
Purchased interests	1,505	1,978
Commitments and guarantees	22	—
Derivatives	222	392
Total maximum exposure to loss	\$ 3,691	\$ 4,740
Corporate CDOs and CLOs		
Assets in VIE	\$ 7,558	\$ 8,317
Carrying value of variable interests - assets	758	463
Carrying value of variable interests - liabilities	8	3
Maximum Exposure to Loss		
Retained interests	3	4
Purchased interests	384	184
Derivatives	2,331	2,053
Total maximum exposure to loss	\$ 2,718	\$ 2,241
Real estate, credit-related and other investing		
Assets in VIE	\$ 9,413	\$ 8,720
Carrying value of variable interests - assets	3,235	3,051
Carrying value of variable interests - liabilities	4	3
Maximum Exposure to Loss		
Commitments and guarantees	546	604
Loans and investments	3,235	3,051
Total maximum exposure to loss	\$ 3,781	\$ 3,655
Other asset-backed		
Assets in VIE	\$ 5,248	\$ 8,253
Carrying value of variable interests - assets	168	509
Carrying value of variable interests - liabilities	196	16
Maximum Exposure to Loss		
Retained interests	52	55
Purchased interests	23	322
Commitments and guarantees	213	213
Derivatives	3,516	3,221
Total maximum exposure to loss	\$ 3,804	\$ 3,811
Other		
Assets in VIE	\$ 4,067	\$ 5,677
Carrying value of variable interests - assets	260	290
Maximum Exposure to Loss		
Commitments and guarantees	304	307
Derivatives	6	88
Loans and investments	260	290
Total maximum exposure to loss	\$ 570	\$ 685
Total nonconsolidated VIEs		
Assets in VIE	\$95,118	\$109,074
Carrying value of variable interests - assets	7,868	8,661
Carrying value of variable interests - liabilities	208	22
Maximum Exposure to Loss		
Retained interests	1,997	2,429
Purchased interests	1,912	2,484
Commitments and guarantees ²	1,085	1,124
Derivatives ²	6,075	5,754
Loans and investments	3,495	3,341
Total maximum exposure to loss	\$14,564	\$ 15,132

1. Assets in VIE and maximum exposure to loss include \$4.21 billion and \$563 million, respectively, as of September 2015, and \$3.57 billion and \$662 million, respectively, as of December 2014, related to CDOs backed by mortgage obligations.

2. Includes \$1.53 billion and \$1.64 billion as of September 2015 and December 2014, respectively, related to derivative transactions and commitments with VIEs to which the firm transferred assets.

Notes to Condensed Consolidated Financial Statements (Unaudited)

The firm's exposure to the obligations of VIEs is generally limited to its interests in these entities. In certain instances, the firm provides guarantees, including derivative guarantees, to VIEs or holders of variable interests in VIEs.

In the table above, nonconsolidated VIEs are aggregated based on principal business activity. The nature of the firm's variable interests can take different forms, as described in the rows under maximum exposure to loss. In the table above:

- The maximum exposure to loss excludes the benefit of offsetting financial instruments that are held to mitigate the risks associated with these variable interests.
- For retained and purchased interests, and loans and investments, the maximum exposure to loss is the carrying value of these interests.
- For commitments and guarantees, and derivatives, the maximum exposure to loss is the notional amount, which does not represent anticipated losses and also has not been reduced by unrealized losses already recorded. As a result, the maximum exposure to loss exceeds liabilities recorded for commitments and guarantees, and derivatives provided to VIEs.

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

- Substantially all assets held by the firm related to mortgage-backed and corporate CDO and CLO VIEs are included in "Financial instruments owned, at fair value." Substantially all liabilities held by the firm related to corporate CDO and CLO VIEs are included in "Financial instruments sold, but not yet purchased, at fair value;"
- Substantially all assets held by the firm related to other asset-backed VIEs are included in "Financial instruments owned, at fair value" and "Loans Receivable." Substantially all liabilities held by the firm related to other asset-backed VIEs are included in "Financial instruments sold, but not yet purchased, at fair value;"
- Substantially all assets held by the firm related to real estate, credit-related and other investing VIEs are included in "Financial instruments owned, at fair value," "Loans receivable," and "Other assets." Substantially all liabilities held by the firm related to real estate, credit-related and other investing VIEs are included in "Other liabilities and accrued expenses" and "Financial Instruments sold, but not yet purchased, at fair value;" and
- Substantially all assets held by the firm related to other VIEs are included in "Financial instruments owned, at fair value."

Consolidated VIEs

The table below presents the carrying amount and classification of assets and liabilities in consolidated VIEs, excluding the benefit of offsetting financial instruments that are held to mitigate the risks associated with the firm's variable interests.

	Consolidated VIEs as of	
<i>\$ in millions</i>	September 2015	December 2014
Real estate, credit-related and other investing		
<i>Assets</i>		
Cash and cash equivalents	\$ 167	\$ 218
Cash and securities segregated for regulatory and other purposes	19	19
Loans receivable	1,239	589
Financial instruments owned, at fair value	3,139	2,608
Other assets	482	349
Total	\$5,046	\$3,783
<i>Liabilities</i>		
Other secured financings	\$ 345	\$ 419
Payables to brokers, dealers and clearing organizations	35	—
Financial instruments sold, but not yet purchased, at fair value	224	10
Unsecured long-term borrowings	—	12
Other liabilities and accrued expenses	1,470	906
Total	\$2,074	\$1,347
CDOs, mortgage-backed and other asset-backed		
<i>Assets</i>		
Financial instruments owned, at fair value	\$ 191	\$ 121
Other assets	68	—
Total	\$ 259	\$ 121
<i>Liabilities</i>		
Other secured financings	\$ 175	\$ 99
Payables to customers and counterparties	84	—
Financial instruments sold, but not yet purchased, at fair value	—	8
Total	\$ 259	\$ 107
Principal-protected notes		
<i>Assets</i>		
Cash and securities segregated for regulatory and other purposes	\$ —	\$ 31
Financial instruments owned, at fair value	132	276
Total	\$ 132	\$ 307
<i>Liabilities</i>		
Other secured financings	\$ 424	\$ 439
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings	293	1,090
Unsecured long-term borrowings	471	103
Total	\$1,188	\$1,632
Total consolidated VIEs		
<i>Assets</i>		
Cash and cash equivalents	\$ 167	\$ 218
Cash and securities segregated for regulatory and other purposes	19	50
Loans receivable	1,239	589
Financial instruments owned, at fair value	3,462	3,005
Other assets	550	349
Total	\$5,437	\$4,211
<i>Liabilities</i>		
Other secured financings	\$ 944	\$ 957
Payables to brokers, dealers and clearing organizations	35	—
Payables to customers and counterparties	84	—
Financial instruments sold, but not yet purchased, at fair value	224	18
Unsecured short-term borrowings, including the current portion of unsecured long-term borrowings	293	1,090
Unsecured long-term borrowings	471	115
Other liabilities and accrued expenses	1,470	906
Total	\$3,521	\$3,086

Notes to Condensed Consolidated Financial Statements (Unaudited)

In the table above:

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

Note 13.

Other Assets

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

\$ in millions	As of	
	September 2015	December 2014
Property, leasehold improvements and equipment	\$11,671	\$ 9,344
Goodwill and identifiable intangible assets	4,168	4,160
Income tax-related assets	5,536	5,181
Equity-method investments ¹	276	360
Miscellaneous receivables and other ²	3,269	3,156
Total	\$24,920	\$22,201

1. Excludes investments accounted for at fair value under the fair value option where the firm would otherwise apply the equity method of accounting of \$7.91 billion and \$6.62 billion as of September 2015 and December 2014, respectively, all of which are included in "Financial instruments owned, at fair value." The firm has generally elected the fair value option for such investments acquired after the fair value option became available.

2. Includes \$558 million and \$461 million of investments in qualified affordable housing projects as of September 2015 and December 2014, respectively.

Property, Leasehold Improvements and Equipment

Property, leasehold improvements and equipment in the table above is net of accumulated depreciation and amortization of \$8.30 billion and \$8.98 billion as of September 2015 and December 2014, respectively. Property, leasehold improvements and equipment included \$5.76 billion and \$5.81 billion as of September 2015 and December 2014, respectively, related to property, leasehold improvements and equipment that the firm uses in connection with its operations. The remainder is held by investment entities, including VIEs, consolidated by the firm. Substantially all property and equipment are depreciated on a straight-line basis over the useful life of the asset. Leasehold improvements are amortized on a straight-line basis over the useful life of the improvement or the term of the lease, whichever is shorter. Certain costs of software developed or obtained for internal use are capitalized and amortized on a straight-line basis over the useful life of the software.

Goodwill and Identifiable Intangible Assets

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

\$ in millions	Goodwill as of	
	September 2015	December 2014
Investment Banking:		
Financial Advisory	\$ 98	\$ 98
Underwriting	183	183
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution	269	269
Equities Client Execution	2,403	2,403
Securities Services	105	105
Investment Management	594	587
Total	\$3,652	\$3,645

\$ in millions	Identifiable Intangible Assets as of	
	September 2015	December 2014
Institutional Client Services:		
Fixed Income, Currency and Commodities Client Execution	\$ 102	\$ 138
Equities Client Execution	206	246
Investing & Lending	73	18
Investment Management	135	113
Total	\$ 516	\$ 515

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

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

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

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

The firm performed a quantitative goodwill impairment test during the fourth quarter of 2012 (2012 quantitative goodwill test). When performing this test, the firm estimated the fair value of each reporting unit and compared it to the respective reporting unit's net book value (estimated carrying value). The reporting units were valued using relative value and residual income valuation techniques because the firm believes market participants would use these techniques to value the firm's reporting units. The net book value of each reporting unit reflected an allocation of total shareholders' equity and represented the estimated amount of shareholders' equity required to support the activities of the reporting unit under guidelines issued by the Basel Committee on Banking Supervision (Basel Committee) in December 2010. In performing its 2012 quantitative goodwill test, the firm determined that goodwill was not impaired, and the estimated fair value of the firm's reporting units, in which substantially all of the firm's goodwill is held, significantly exceeded their estimated carrying values.

During the fourth quarter of 2014, the firm assessed goodwill for impairment. Multiple factors were assessed with respect to each of the firm's reporting units to determine whether it was more likely than not that the fair value of any of the reporting units was less than its carrying amount. The qualitative assessment also considered changes since the 2012 quantitative goodwill test.

As a result of the 2014 qualitative assessment, the firm determined that it was more likely than not that the fair value of each of the reporting units exceeded its respective carrying amount. Therefore, the firm determined that goodwill was not impaired and that a quantitative goodwill impairment test was not required.

There were no events or changes in circumstances during the nine months ended September 2015 that would indicate that it was more likely than not that the fair value of each of the reporting units did not exceed its respective carrying amount as of September 2015.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

\$ in millions	As of		
	September 2015	Weighted Average Remaining Useful Lives (years)	December 2014
Customer lists			
Gross carrying amount	\$1,070		\$1,036
Accumulated amortization	(760)		(715)
Net carrying amount	310	6	321
Commodities-related			
Gross carrying amount	186		216
Accumulated amortization	(84)		(78)
Net carrying amount	102 ¹	7	138
Other			
Gross carrying amount	257		200
Accumulated amortization	(153)		(144)
Net carrying amount	104 ²	6	56
Total			
Gross carrying amount	1,513		1,452
Accumulated amortization	(997)		(937)
Net carrying amount	\$ 516	6	\$ 515

1. Primarily includes commodities-related transportation rights.
2. Primarily includes intangible assets related to acquired leases.

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

The tables below present amortization for the three and nine months ended September 2015 and September 2014, and the estimated future amortization through 2020 for identifiable intangible assets.

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Amortization	\$28	\$91	\$98	\$177

\$ in millions	As of September 2015
Estimated future amortization	
Remainder of 2015	\$ 35
2016	127
2017	115
2018	99
2019	68
2020	21

Impairments

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

During the first nine months of 2015, the firm recorded impairments of \$78 million attributable to consolidated investments, all of which were included in the firm's Investing & Lending segment. The impairments reflected challenging market conditions for certain companies in the energy industry resulting from continued low energy commodity prices. These impairments consisted of \$56 million related to property, leasehold improvements and equipment, which was included in "Depreciation and amortization," and \$22 million related to other assets, which was included in "Other Expenses."

During the first nine months of 2014, as a result of continued deterioration in market and operating conditions, the firm determined that certain assets were impaired and recorded impairments of \$250 million, all of which were included in "Depreciation and amortization." These impairments consisted of \$180 million related to property, leasehold improvements and equipment, substantially all of which was attributable to a consolidated investment in Latin America, and \$70 million related to identifiable intangible assets, primarily attributable to the firm's exchange-traded fund lead market maker rights. The impairments related to property, leasehold improvements and equipment were included within the firm's Investing & Lending segment and the impairments related to identifiable intangible assets were principally included within the firm's Institutional Client Services segment.

The impairments represented the excess of the carrying values of these assets over their estimated fair values, substantially all of which are calculated using level 3 measurements. These fair values were calculated using a combination of discounted cash flow analyses and relative value analyses, including the estimated cash flows expected to result from the use and eventual disposition of these assets.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 14.

Deposits

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

<i>\$ in millions</i>	As of	
	September 2015	December 2014
U.S. offices	\$76,480	\$69,142
Non-U.S. offices	14,978	13,738
Total	\$91,458	\$82,880

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

<i>\$ in millions</i>	As of September 2015		
	U.S.	Non-U.S.	Total
Remainder of 2015	\$ 2,371	\$4,803	\$ 7,174
2016	6,684	3,830	10,514
2017	5,774	15	5,789
2018	3,559	—	3,559
2019	3,734	—	3,734
2020	2,696	—	2,696
2021 - thereafter	7,619	66	7,685
Total	\$32,437¹	\$8,714²	\$41,151³

1. Includes \$2.05 billion greater than \$100,000, of which \$852 million matures within three months, \$545 million matures within three to six months, \$526 million matures within six to twelve months, and \$127 million matures after twelve months.

2. Includes \$6.36 billion greater than \$100,000.

3. Includes \$14.80 billion of time deposits accounted for at fair value under the fair value option. See Note 8 for further information about deposits accounted for at fair value.

As of September 2015 and December 2014, deposits include \$50.31 billion and \$49.29 billion, respectively, of savings and demand deposits, which have no stated maturity, and were recorded based on the amount of cash received plus accrued interest, which approximates fair value. In addition, the firm designates certain derivatives as fair value hedges to convert substantially all of its time deposits not accounted for at fair value from fixed-rate obligations into floating-rate obligations. Accordingly, the carrying value of time deposits approximated fair value as of September 2015 and December 2014. While these savings and demand deposits and time deposits are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6 through 8. Had these deposits been included in the firm's fair value hierarchy, they would have been classified in level 2 as of September 2015 and December 2014.

Note 15.

Short-Term Borrowings

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

<i>\$ in millions</i>	As of	
	September 2015	December 2014
Other secured financings (short-term)	\$14,180	\$15,560
Unsecured short-term borrowings	41,331	44,539
Total	\$55,511	\$60,099

See Note 10 for information about other secured financings.

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

The firm accounts for promissory notes, commercial paper and certain hybrid financial instruments at fair value under the fair value option. See Note 8 for further information about unsecured short-term borrowings that are accounted for at fair value. The carrying value of unsecured short-term borrowings that are not recorded at fair value generally approximates fair value due to the short-term nature of the obligations. While these unsecured short-term borrowings are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 6 through 8. Had these borrowings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of September 2015 and December 2014.

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

<i>\$ in millions</i>	As of	
	September 2015	December 2014
Current portion of unsecured long-term borrowings	\$24,656	\$25,125
Hybrid financial instruments	12,370	14,083
Promissory notes	—	338
Commercial paper	342	617
Other short-term borrowings	3,963	4,376
Total	\$41,331	\$44,539
Weighted average interest rate ¹	1.39%	1.52%

1. The weighted average interest rates for these borrowings include the effect of hedging activities and exclude financial instruments accounted for at fair value under the fair value option. See Note 7 for further information about hedging activities.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 16.

Long-Term Borrowings

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

<i>\$ in millions</i>	As of	
	September 2015	December 2014
Other secured financings (long-term)	\$ 11,042	\$ 7,249
Unsecured long-term borrowings	175,817	167,302
Total	\$186,859	\$174,551

See Note 10 for information about other secured financings.

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

<i>\$ in millions</i>	As of September 2015		
	U.S. Dollar	Non-U.S. Dollar	Total
Fixed-rate obligations ¹	\$ 91,660	\$32,302	\$123,962
Floating-rate obligations ²	32,931	18,924	51,855
Total	\$124,591	\$51,226	\$175,817

<i>\$ in millions</i>	As of December 2014		
	U.S. Dollar	Non-U.S. Dollar	Total
Fixed-rate obligations ¹	\$ 89,317	\$34,780	\$124,097
Floating-rate obligations ²	27,533	15,672	43,205
Total	\$116,850	\$50,452	\$167,302

1. Interest rates on U.S. dollar-denominated debt ranged from 1.60% to 10.04% (with a weighted average rate of 4.96%) and 1.55% to 10.04% (with a weighted average rate of 5.08%) as of September 2015 and December 2014, respectively. Interest rates on non-U.S. dollar-denominated debt ranged from 0.40% to 13.00% (with a weighted average rate of 3.78%) and 0.02% to 13.00% (with a weighted average rate of 4.06%) as of September 2015 and December 2014, respectively.

2. Floating interest rates generally are based on LIBOR or OIS. Equity-linked and indexed instruments are included in floating-rate obligations.

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

<i>\$ in millions</i>	As of September 2015
2016	\$ 5,622
2017	24,604
2018	24,964
2019	15,995
2020	16,815
2021 - thereafter ¹	87,817
Total ²	\$175,817

1. Includes \$1.33 billion of unsecured long-term borrowings which were redeemed by the firm on November 2, 2015.

2. Includes \$9.31 billion of adjustments to the carrying value of certain unsecured long-term borrowings resulting from the application of hedge accounting by year of maturity as follows: \$125 million in 2016, \$537 million in 2017, \$746 million in 2018, \$522 million in 2019, \$522 million in 2020 and \$6.86 billion in 2021 and thereafter.

In the table above:

- Unsecured long-term borrowings maturing within one year of the financial statement date and unsecured long-term borrowings that are redeemable within one year of the financial statement date at the option of the holders are excluded from the table as they are included as unsecured short-term borrowings.
- Unsecured long-term borrowings that are repayable prior to maturity at the option of the firm are reflected at their contractual maturity dates.
- Unsecured long-term borrowings that are redeemable prior to maturity at the option of the holders are reflected at the earliest dates such options become exercisable.

The firm designates certain derivatives as fair value hedges to convert a majority of the amount of its fixed-rate unsecured long-term borrowings not accounted for at fair value into floating-rate obligations. Accordingly, excluding the cumulative impact of changes in the firm's credit spreads, the carrying value of unsecured long-term borrowings approximated fair value as of September 2015 and December 2014. See Note 7 for further information about hedging activities. For unsecured long-term borrowings for which the firm did not elect the fair value option, the cumulative impact due to changes in the firm's own credit spreads would be a decrease of 1% and an increase of 2% in the carrying value of total unsecured long-term borrowings as of September 2015 and December 2014, respectively. As these borrowings are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP, their fair value is not included in the firm's fair value hierarchy in Notes 6 through 8. Had these borrowings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of September 2015 and December 2014.

Notes to Condensed Consolidated Financial Statements (Unaudited)

The table below presents unsecured long-term borrowings, after giving effect to hedging activities that converted a majority of the amount of fixed-rate obligations to floating-rate obligations.

<i>\$ in millions</i>	As of	
	September 2015	December 2014
Fixed-rate obligations		
At fair value	\$ 106	\$ 861
At amortized cost ¹	51,981	33,672
Floating-rate obligations		
At fair value	20,714	15,144
At amortized cost ¹	103,016	117,625
Total	\$175,817	\$167,302

1. The weighted average interest rates on the aggregate amounts were 2.67% (4.41% related to fixed-rate obligations and 1.80% related to floating-rate obligations) and 2.68% (5.09% related to fixed-rate obligations and 2.01% related to floating-rate obligations) as of September 2015 and December 2014, respectively. These rates exclude financial instruments accounted for at fair value under the fair value option.

Subordinated Borrowings

Unsecured long-term borrowings include subordinated debt and junior subordinated debt. Junior subordinated debt is junior in right of payment to other subordinated borrowings, which are junior to senior borrowings. As of September 2015 and December 2014, subordinated debt had maturities ranging from 2017 to 2045, and 2017 to 2038, respectively.

The tables below present subordinated borrowings.

<i>\$ in millions</i>	As of September 2015		
	Par Amount	Carrying Amount	Rate ¹
Subordinated debt	\$16,029	\$18,984	3.67%
Junior subordinated debt	1,359	1,819	5.85%
Total subordinated borrowings	\$17,388	\$20,803	3.84%

<i>\$ in millions</i>	As of December 2014		
	Par Amount	Carrying Amount	Rate ¹
Subordinated debt	\$14,254	\$17,236	3.77%
Junior subordinated debt	1,582	2,121	6.21%
Total subordinated borrowings	\$15,836	\$19,357	4.02%

1. Weighted average interest rates after giving effect to fair value hedges used to convert these fixed-rate obligations into floating-rate obligations. See Note 7 for further information about hedging activities. See below for information about interest rates on junior subordinated debt.

Junior Subordinated Debt

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

The 2012 Trusts purchased the junior subordinated debt from Goldman Sachs Capital II and Goldman Sachs Capital III (APEX Trusts). The APEX Trusts used the proceeds from such sales to purchase shares of Group Inc.'s Perpetual Non-Cumulative Preferred Stock, Series E (Series E Preferred Stock) and Perpetual Non-Cumulative Preferred Stock, Series F (Series F Preferred Stock). See Note 19 for more information about the Series E and Series F Preferred Stock.

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

The firm has the right to defer payments on the junior subordinated debt, subject to limitations. During any such deferral period, the firm will not be permitted to, among other things, pay dividends on or make certain repurchases of its common or preferred stock. However, as Group Inc. fully and unconditionally guarantees the payment of the distribution and redemption amounts when due on a senior basis on the senior guaranteed trust securities issued by the 2012 Trusts, if the 2012 Trusts are unable to make scheduled distributions to the holders of the senior guaranteed trust securities, under the guarantee, Group Inc. would be obligated to make those payments. As such, the \$2.08 billion of junior subordinated debt held by the 2012 Trusts for the benefit of investors, included in "Unsecured long-term borrowings" in the condensed consolidated statements of financial condition, is not classified as subordinated borrowings.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

The firm has covenanted in favor of the holders of Group Inc.'s 6.345% junior subordinated debt due February 15, 2034, that, subject to certain exceptions, the firm will not redeem or purchase the capital securities issued by the APEX Trusts or shares of Group Inc.'s Series E or Series F Preferred Stock prior to specified dates in 2022 for a price that exceeds a maximum amount determined by reference to the net cash proceeds that the firm has received from the sale of qualifying securities.

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

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

Note 17.

Other Liabilities and Accrued Expenses

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

<i>\$ in millions</i>	As of	
	September 2015	December 2014
Compensation and benefits	\$ 8,042	\$ 8,368
Noncontrolling interests ¹	418	404
Income tax-related liabilities	1,470	1,533
Employee interests in consolidated funds	160	176
Subordinated liabilities issued by consolidated VIEs	1,421	843
Accrued expenses and other ²	6,311	4,751
Total	\$17,822	\$16,075

1. Primarily relates to consolidated investment funds.

2. Substantially all of the increase in the first nine months of 2015 relates to net provisions for mortgage-related litigation and regulatory matters.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 18.

Commitments, Contingencies and Guarantees

Commitments

The table below presents the firm's commitments.

<i>\$ in millions</i>	Commitment Amount by Period of Expiration as of September 2015				Total Commitments as of	
	Remainder of 2015	2016 - 2017	2018 - 2019	2020 - Thereafter	September 2015	December 2014
Commitments to extend credit						
Commercial lending:						
Investment-grade	\$ 2,030	\$21,737	\$26,441	\$19,362	\$ 69,570	\$ 63,634
Non-investment-grade	536	8,920	12,667	13,553	35,676	29,605
Warehouse financing	150	1,964	431	1,070	3,615	2,710
Total commitments to extend credit	2,716	32,621	39,539	33,985	108,861	95,949
Contingent and forward starting resale and securities borrowing agreements	48,598	2,264	—	—	50,862	35,225
Forward starting repurchase and secured lending agreements	10,507	—	—	—	10,507	8,180
Letters of credit	50	166	13	4	233	308
Investment commitments	2,207	2,822	17	1,092	6,138	5,164
Other	5,798	138	53	56	6,045	6,321
Total commitments	\$69,876	\$38,011	\$39,622	\$35,137	\$182,646	\$151,147

Commitments to Extend Credit

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

As of September 2015 and December 2014, \$87.58 billion and \$66.22 billion, respectively, of the firm's lending commitments were held for investment and were accounted for on an accrual basis. See Note 9 for further information about such commitments. In addition, as of September 2015 and December 2014, \$5.80 billion and \$3.12 billion, respectively, of the firm's lending commitments were held for sale and were accounted for at the lower of cost or fair value.

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

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

Sumitomo Mitsui Financial Group, Inc. (SMFG) provides the firm with credit loss protection on certain approved loan commitments (primarily investment-grade commercial lending commitments). The notional amount of such loan commitments was \$26.78 billion and \$27.51 billion as of September 2015 and December 2014, respectively. The credit loss protection on loan commitments provided by SMFG is generally limited to 95% of the first loss the firm realizes on such commitments, up to a maximum of approximately \$950 million. In addition, subject to the satisfaction of certain conditions, upon the firm's request, SMFG will provide protection for 70% of additional losses on such commitments, up to a maximum of \$1.13 billion, of which \$768 million of protection had been provided as of both September 2015 and December 2014. The firm also uses other financial instruments to mitigate credit risks related to certain commitments not covered by SMFG. These instruments primarily include credit default swaps that reference the same or similar underlying instrument or entity, or credit default swaps that reference a market index.

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

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

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

Letters of Credit

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

Investment Commitments

The firm's investment commitments of \$6.14 billion and \$5.16 billion as of September 2015 and December 2014, respectively, include commitments to invest in private equity, real estate and other assets directly and through funds that the firm raises and manages. Of these amounts, \$2.78 billion and \$2.87 billion as of September 2015 and December 2014, respectively, relate to commitments to invest in funds managed by the firm. If these commitments are called, they would be funded at market value on the date of investment.

Leases

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

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

<i>\$ in millions</i>	As of September 2015
Remainder of 2015	\$ 82
2016	310
2017	298
2018	290
2019	248
2020	215
2021 - thereafter	931
Total	\$2,374

Rent charged to operating expense was \$63 million and \$80 million for the three months ended September 2015 and September 2014, respectively, and \$190 million and \$238 million for the nine months ended September 2015 and September 2014, respectively.

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

Contingencies

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

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

- **Representations and Warranties.** The firm has not been a significant originator of residential mortgage loans. The firm did purchase loans originated by others and generally received loan-level representations of the type described below from the originators. During the period 2005 through 2008, the firm sold approximately \$10 billion of loans to government-sponsored enterprises and approximately \$11 billion of loans to other third parties. In addition, the firm transferred loans to trusts and other mortgage securitization vehicles. As of September 2015 and December 2014, the outstanding balance of the loans transferred to trusts and other mortgage securitization vehicles during the period 2005 through 2008 was approximately \$23 billion and \$25 billion, respectively. These amounts reflect paydowns and cumulative losses of approximately \$102 billion (\$23 billion of which are cumulative losses) as of September 2015 and approximately \$100 billion (\$23 billion of which are cumulative losses) as of December 2014. A small number of these Goldman Sachs-issued securitizations with an outstanding principal balance of \$356 million and total paydowns and cumulative losses of \$1.70 billion (\$561 million of which are cumulative losses) as of September 2015, and an outstanding principal balance of \$401 million and total paydowns and cumulative losses of \$1.66 billion (\$550 million of which are cumulative losses) as of December 2014, were structured with credit protection obtained from monoline insurers. In connection with both sales of loans and securitizations, the firm provided loan level representations of the type described below and/or assigned the loan level representations from the party from whom the firm purchased the loans.

The loan level representations made in connection with the sale or securitization of mortgage loans varied among transactions but were generally detailed representations applicable to each loan in the portfolio and addressed matters relating to the property, the borrower and the note. These representations generally included, but were not limited to, the following: (i) certain attributes of the borrower's financial status; (ii) loan-to-value ratios, owner occupancy status and certain other characteristics of the property; (iii) the lien position; (iv) the fact that the loan was originated in compliance with law; and (v) completeness of the loan documentation.

The firm has received repurchase claims for residential mortgage loans based on alleged breaches of representations from government-sponsored enterprises, other third parties, trusts and other mortgage securitization vehicles, which have not been significant. During both the three and nine months ended September 2015 and September 2014, the firm repurchased loans with an unpaid principal balance of less than \$10 million and related losses were not material. The firm received a communication from counsel in 2013 purporting to represent certain institutional investors in portions of Goldman Sachs-issued securitizations between 2003 and 2007, such securitizations having a total original notional face amount of approximately \$150 billion, offering to enter into a "settlement dialogue" with respect to alleged breaches of representations made by the firm in connection with such offerings.

The firm's exposure to claims for repurchase of residential mortgage loans based on alleged breaches of representations will depend on a number of factors including: (i) the extent to which these claims are made within the statute of limitations taking into consideration the agreements to toll the statute of limitations the firm has entered into with trustees representing trusts; (ii) the extent to which there are underlying breaches of representations that give rise to valid claims for repurchase; (iii) in the case of loans originated by others, the extent to which the firm could be held liable and, if so, the firm's ability to pursue and collect on any claims against the parties who made representations to the firm; (iv) macroeconomic factors, including developments in the residential real estate market; and (v) legal and regulatory developments. Based upon the large number of defaults in residential mortgages, including those sold or securitized by the firm, there is a potential for increasing claims for repurchases. However, the firm is not in a position to make a meaningful estimate of that exposure at this time.

Notes to Condensed Consolidated Financial Statements (Unaudited)

- **Foreclosure and Other Mortgage Loan Servicing Practices and Procedures.** The firm had received a number of requests for information from regulators and other agencies, including state attorneys general and banking regulators, as part of an industry-wide focus on the practices of lenders and servicers in connection with foreclosure proceedings and other aspects of mortgage loan servicing practices and procedures. The requests sought information about the foreclosure and servicing protocols and activities of Litton Loan Servicing LP (Litton), a residential mortgage servicing subsidiary sold by the firm to Ocwen Financial Corporation (Ocwen) in the third quarter of 2011. The firm is cooperating with the requests and these inquiries may result in the imposition of fines or other regulatory action.

In connection with the sale of Litton, the firm provided customary representations and warranties, and indemnities for breaches of these representations and warranties, to Ocwen. These indemnities are subject to various limitations, and are capped at approximately \$50 million. The firm has not yet received any claims under these indemnities. The firm also agreed to provide specific indemnities to Ocwen related to claims made by third parties with respect to servicing activities during the period that Litton was owned by the firm and which are in excess of the related reserves accrued for such matters by Litton at the time of the sale. These indemnities are capped at approximately \$125 million. The firm has recorded a reserve for the portion of these potential losses that it believes is probable and can be reasonably estimated. As of September 2015, claims received and payments made in connection with these claims were not material to the firm.

The firm further agreed to provide indemnities to Ocwen not subject to a cap, which primarily relate to potential liabilities constituting fines or civil monetary penalties which could be imposed in settlements with U.S. states' attorneys general or in consent orders with the U.S. federal bank regulatory agencies or the New York State Department of Financial Services, in each case relating to Litton's foreclosure and servicing practices while it was owned by the firm. The firm has entered into a settlement with the Federal Reserve Board relating to foreclosure and servicing matters.

Under the Litton sale agreement the firm also retained liabilities associated with claims related to Litton's failure to maintain lender-placed mortgage insurance, obligations to repurchase certain loans from government-sponsored enterprises, subpoenas from one of Litton's regulators, and fines or civil penalties imposed by the Federal Reserve Board or the New York State Department of Financial Services in connection with certain compliance matters. Management does not believe, based on currently available information, that any payments under these indemnities will have a material adverse effect on the firm's financial condition.

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

Guarantees

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

<i>\$ in millions</i>	As of September 2015		
	Derivatives	Securities lending indemnifications	Other financial guarantees
Carrying Value of Net Liability	\$ 10,146	\$ —	\$ 83
Maximum Payout/Notional Amount by Period of Expiration			
Remainder of 2015	\$236,939	\$31,019	\$ 285
2016 - 2017	463,674	—	1,169
2018 - 2019	77,022	—	1,043
2020 - thereafter	85,045	—	1,882
Total	\$862,680	\$31,019	\$4,379

<i>\$ in millions</i>	As of December 2014		
	Derivatives	Securities lending indemnifications	Other financial guarantees
Carrying Value of Net Liability	\$ 11,201	\$ —	\$ 119
Maximum Payout/Notional Amount by Period of Expiration			
2015	\$351,308	\$27,567	\$ 471
2016 - 2017	150,989	—	935
2018 - 2019	51,927	—	1,390
2020 - thereafter	58,511	—	1,690
Total	\$612,735	\$27,567	\$4,486

In the tables above:

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

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

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

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

Securities Lending Indemnifications. The firm, in its capacity as an agency lender, indemnifies most of its securities lending customers against losses incurred in the event that borrowers do not return securities and the collateral held is insufficient to cover the market value of the securities borrowed. Collateral held by the lenders in connection with securities lending indemnifications was \$32.06 billion and \$28.49 billion as of September 2015 and December 2014, respectively. Because the contractual nature of these arrangements requires the firm to obtain collateral with a market value that exceeds the value of the securities lent to the borrower, there is minimal performance risk associated with these guarantees.

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

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

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

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

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

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

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

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

The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these guarantees and indemnifications have been recognized in the condensed consolidated statements of financial condition as of September 2015 and December 2014.

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

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

These indemnifications generally are standard contractual terms and are entered into in the ordinary course of business. Generally, there are no stated or notional amounts included in these indemnifications, and the contingencies triggering the obligation to indemnify are not expected to occur. The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these arrangements have been recognized in the condensed consolidated statements of financial condition as of September 2015 and December 2014.

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

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

In November 2008, the firm contributed subsidiaries into GS Bank USA, and Group Inc. agreed to guarantee the reimbursement of certain losses, including credit-related losses, relating to assets held by the contributed entities. In connection with this guarantee, Group Inc. also agreed to pledge to GS Bank USA certain collateral, including interests in subsidiaries and other illiquid assets.

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 19.

Shareholders' Equity

Common Equity

On October 14, 2015, the Board of Directors of Group Inc. (Board) declared a dividend of \$0.65 per common share to be paid on December 30, 2015 to common shareholders of record on December 2, 2015.

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

The table below presents the amount of common stock repurchased by the firm under the share repurchase program during the three and nine months ended September 2015.

	September 2015	
	Three Months Ended	Nine Months Ended
<i>in millions, except per share amounts</i>		
Common share repurchases	5.4	13.3
Average cost per share	\$196.00	\$191.58
Total cost of common share repurchases	\$ 1,050	\$ 2,545

Pursuant to the terms of certain share-based compensation plans, employees may remit shares to the firm or the firm may cancel restricted stock units (RSUs) or stock options to satisfy minimum statutory employee tax withholding requirements and the exercise price of stock options. Under these plans, during the nine months ended September 2015, employees remitted 35,217 shares with a total value of \$6 million, and the firm cancelled 5.7 million RSUs with a total value of \$1.03 billion and 1.8 million stock options with a total value of \$368 million.

Preferred Equity

The tables below present details about the perpetual preferred stock issued and outstanding as of September 2015.

Series	Shares Authorized	Shares Issued	Shares Outstanding	Depository Shares Per Share
A	50,000	30,000	29,999	1,000
B	50,000	32,000	32,000	1,000
C	25,000	8,000	8,000	1,000
D	60,000	54,000	53,999	1,000
E	17,500	17,500	17,500	N/A
F	5,000	5,000	5,000	N/A
I	34,500	34,000	34,000	1,000
J	46,000	40,000	40,000	1,000
K	32,200	28,000	28,000	1,000
L	52,000	52,000	52,000	25
M ¹	80,000	80,000	80,000	25
Total	452,200	380,500	380,498	

1. In April 2015, Group Inc. issued 80,000 shares of Series M perpetual 5.375% Fixed-to-Floating Rate Non-Cumulative Preferred Stock (Series M Preferred Stock).

Series	Liquidation Preference	Redemption Price Per Share	Redemption Value (\$ in millions)
A	\$ 25,000	\$25,000 plus declared and unpaid dividends	\$ 750
B	25,000	\$25,000 plus declared and unpaid dividends	800
C	25,000	\$25,000 plus declared and unpaid dividends	200
D	25,000	\$25,000 plus declared and unpaid dividends	1,350
E	100,000	\$100,000 plus declared and unpaid dividends	1,750
F	100,000	\$100,000 plus declared and unpaid dividends	500
I	25,000	\$25,000 plus accrued and unpaid dividends	850
J	25,000	\$25,000 plus accrued and unpaid dividends	1,000
K	25,000	\$25,000 plus accrued and unpaid dividends	700
L	25,000	\$25,000 plus accrued and unpaid dividends	1,300
M	25,000	\$25,000 plus accrued and unpaid dividends	2,000
Total			\$11,200

Notes to Condensed Consolidated Financial Statements (Unaudited)

In the tables above:

- Each share of non-cumulative Series A, Series B, Series C and Series D Preferred Stock issued and outstanding is redeemable at the firm's option.
- Each share of non-cumulative Series E and Series F Preferred Stock issued and outstanding is redeemable at the firm's option, subject to certain covenant restrictions governing the firm's ability to redeem or purchase the preferred stock without issuing common stock or other instruments with equity-like characteristics. See Note 16 for information about the replacement capital covenants applicable to the Series E and Series F Preferred Stock.
- Each share of non-cumulative Series I Preferred Stock issued and outstanding is redeemable at the firm's option beginning November 10, 2017.
- Each share of non-cumulative Series J Preferred Stock issued and outstanding is redeemable at the firm's option beginning May 10, 2023.
- Each share of non-cumulative Series K Preferred Stock issued and outstanding is redeemable at the firm's option beginning May 10, 2024.
- Each share of non-cumulative Series L Preferred Stock issued and outstanding is redeemable at the firm's option beginning May 10, 2019.
- Each share of non-cumulative Series M Preferred Stock issued and outstanding is redeemable at the firm's option beginning May 10, 2020.
- All shares of preferred stock have a par value of \$0.01 per share and, where applicable, each share of preferred stock is represented by the specified number of depository shares.

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

The table below presents the dividend rates of the firm's perpetual preferred stock as of September 2015.

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

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

Series	Three Months Ended September			
	2015		2014	
	per share	\$ in millions	per share	\$ in millions
A	\$ 236.98	\$ 7	\$ 236.98	\$ 7
B	387.50	12	387.50	13
C	252.78	2	252.78	2
D	252.78	14	252.78	14
E	1,022.22	19	1,022.22	19
F	1,022.22	5	1,022.22	5
I	371.88	12	371.88	12
J	343.75	14	343.75	14
K	398.44	11	451.56	12
L	—	—	—	—
Total		\$ 96		\$ 98

Series	Nine Months Ended September			
	2015		2014	
	per share	\$ in millions	per share	\$ in millions
A	\$ 710.94	\$ 21	\$ 708.34	\$ 21
B	1,162.50	37	1,162.50	37
C	758.34	6	755.56	6
D	758.34	41	755.56	41
E	3,044.44	54	3,044.44	54
F	3,044.44	15	3,044.44	15
I	1,115.64	38	1,115.64	38
J	1,031.25	42	1,031.25	42
K	1,195.32	33	451.56	12
L	712.50	37	—	—
Total		\$324		\$266

Notes to Condensed Consolidated Financial Statements (Unaudited)

Accumulated Other Comprehensive Loss

The tables below present accumulated other comprehensive loss, net of tax by type.

	September 2015		
	Balance, beginning of year	Other comprehensive income/(loss) adjustments, net of tax	Balance, end of period
<i>\$ in millions</i>			
Currency translation	\$(473)	\$ (94)	\$(567)
Pension and postretirement liabilities	(270)	(74)	(344)
Accumulated other comprehensive loss, net of tax	\$(743)	\$ (168)	\$(911)

	December 2014		
	Balance, beginning of year	Other comprehensive income/(loss) adjustments, net of tax	Balance, end of year
<i>\$ in millions</i>			
Currency translation	\$(364)	\$(109)	\$(473)
Pension and postretirement liabilities	(168)	(102)	(270)
Cash flow hedges	8	(8)	—
Accumulated other comprehensive loss, net of tax	\$(524)	\$(219)	\$(743)

Note 20.

Regulation and Capital Adequacy

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

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

Capital Framework

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

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

As of December 2014, the firm calculated its CET1, Tier 1 capital and Total capital ratios using the Revised Capital Framework for regulatory capital, but RWAs were calculated in accordance with (i) the Basel I Capital Accord of the Basel Committee, incorporating the market risk requirements set out in the Revised Capital Framework, and adjusted for certain items related to capital deductions and for the phase-in of capital deductions (Hybrid Capital Rules), and (ii) the Basel III Advanced Rules. The lower of each ratio calculated in (i) and (ii) was the ratio against which the firm's compliance with its minimum ratio requirements was assessed. Each of the ratios calculated in accordance with the Basel III Advanced Rules was lower than that calculated in accordance with the Hybrid Capital Rules and therefore the Basel III Advanced ratios were the ratios that applied to the firm as of December 2014.

Regulatory Capital and Capital Ratios. The table below presents the minimum ratios required for the firm as of September 2015.

	Minimum Ratio
CET1 ratio	4.5%
Tier 1 capital ratio	6.0%
Total capital ratio ¹	8.0%
Tier 1 leverage ratio ²	4.0%

1. In order to meet the quantitative requirements for being "well-capitalized" under the Federal Reserve Board's regulations, the firm must meet a higher required minimum Total capital ratio of 10.0%.

2. Tier 1 leverage ratio is defined as Tier 1 capital divided by quarterly average adjusted total assets (which includes adjustments for goodwill and identifiable intangible assets, and certain investments in nonconsolidated financial institutions).

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

Definition of Risk-Weighted Assets. As of September 2015, RWAs were calculated in accordance with both the Standardized Capital Rules and the Basel III Advanced Rules. The following is a comparison of RWA calculations under these rules:

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

As of December 2014, the firm calculated RWAs in accordance with both the Basel III Advanced Rules and the Hybrid Capital Rules discussed below.

Credit Risk

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

- For credit RWAs calculated in accordance with the Standardized Capital Rules, the firm utilizes prescribed risk-weights which depend largely on the type of counterparty (e.g., whether the counterparty is a sovereign, bank, broker-dealer or other entity). The exposure measure for derivatives is based on a combination of positive net current exposure and a percentage of the notional amount of each derivative. The exposure measure for securities financing transactions is calculated to reflect adjustments for potential price volatility, the size of which depends on factors such as the type and maturity of the security, and whether it is denominated in the same currency as the other side of the financing transaction. The firm utilizes specific required formulaic approaches to measure exposure for securitizations and equities;
- For credit RWAs calculated in accordance with the Basel III Advanced Rules, the firm has been given permission by its regulators to compute risk weights for wholesale and retail credit exposures in accordance with the Advanced Internal Ratings-Based approach. This approach is based on internal assessments of the creditworthiness of counterparties, with key inputs being the probability of default, loss given default and the effective maturity. The firm utilizes internal models to measure exposure for derivatives, securities financing transactions and eligible margin loans. The Revised Capital Framework requires that a bank holding company obtain prior written agreement from its regulators before using internal models for such purposes. The firm utilizes specific required formulaic approaches to measure exposure for securitizations and equities; and
- For credit RWAs calculated in accordance with the Hybrid Capital Rules, the firm utilized prescribed risk-weights depending on, among other things, the type of counterparty. The exposure measure for derivatives was based on a combination of positive net current exposure and a percentage of the notional amount of each derivative. The exposure measure for securities financing transactions was based on the carrying value without the application of potential price volatility adjustments required under the Standardized Capital Rules.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Market Risk

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

- VaR is the potential loss in value of inventory positions, as well as certain other financial assets and financial liabilities, due to adverse market movements over a defined time horizon with a specified confidence level. For both risk management purposes and regulatory capital calculations the firm uses a single VaR model which captures risks including those related to interest rates, equity prices, currency rates and commodity prices. However, VaR used for regulatory capital requirements (regulatory VaR) differs from risk management VaR due to different time horizons and confidence levels (10-day and 99% for regulatory VaR vs. one-day and 95% for risk management VaR), as well as differences in the scope of positions on which VaR is calculated. In addition, the daily trading net revenues used to determine risk management VaR exceptions (i.e., comparing the daily trading net revenues to the VaR measure calculated as of the end of the prior business day) include intraday activity, whereas the Federal Reserve Board's regulatory capital rules require that intraday activity be excluded from daily trading net revenues when calculating regulatory VaR exceptions. Intraday activity includes bid/offer net revenues, which are more likely than not to be positive by their nature. As a result, there may be differences in the number of VaR exceptions and the amount of daily trading net revenues calculated for regulatory VaR compared to the amounts calculated for risk management VaR. The firm's positional losses observed on a single day did not exceed its 99% one-day regulatory VaR during the three and nine months ended September 2015, but did exceed its 99% one-day regulatory VaR on three occasions during 2014. There was no change in the VaR multiplier used to calculate Market RWAs;

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

Operational Risk

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

Consolidated Regulatory Capital Ratios

Capital Ratios and RWAs. Each of the ratios calculated in accordance with the Standardized Capital Rules was lower than that calculated in accordance with the Basel III Advanced Rules as of September 2015 and therefore such lower ratios applied to the firm as of that date. Each of the ratios calculated in accordance with the Basel III Advanced Rules was lower than that calculated in accordance with the Hybrid Capital Rules as of December 2014 and therefore such lower ratios applied to the firm as of that date.

The table below presents the ratios calculated in accordance with both the Standardized and Basel III Advanced rules as of both September 2015 and December 2014. While the ratios calculated in accordance with the Standardized Capital Rules were not applicable until January 2015, the December 2014 ratios are presented in the table below for comparative purposes.

\$ in millions	As of	
	September 2015	December 2014
Standardized		
Common shareholders' equity	\$ 76,503	\$ 73,597
Deductions for goodwill and identifiable intangible assets, net of deferred tax liabilities	(2,861)	(2,787)
Deductions for investments in nonconsolidated financial institutions	(1,010)	(953)
Other adjustments	(432)	(27)
Common Equity Tier 1	72,200	69,830
Perpetual non-cumulative preferred stock	11,200	9,200
Junior subordinated debt issued to trusts	330	660
Deduction for investments in covered funds	(457)	—
Other adjustments	(1,023)	(1,257)
Tier 1 capital	82,250	78,433
Qualifying subordinated debt	13,120	11,894
Junior subordinated debt issued to trusts	990	660
Allowance for losses on loans and lending commitments	497	316
Other adjustments	(17)	(9)
Tier 2 capital	14,590	12,861
Total capital	\$ 96,840	\$ 91,294
RWAs	\$581,671	\$619,216
CET1 ratio	12.4%	11.3%
Tier 1 capital ratio	14.1%	12.7%
Total capital ratio	16.6%	14.7%
Basel III Advanced		
Standardized Tier 2 capital	\$ 14,590	\$ 12,861
Allowance for losses on loans and lending commitments	(497)	(316)
Tier 2 capital	14,093	12,545
Total capital	\$ 96,343	\$ 90,978
RWAs	\$570,481	\$570,313
CET1 ratio	12.7%	12.2%
Tier 1 capital ratio	14.4%	13.8%
Total capital ratio	16.9%	16.0%
Tier 1 leverage ratio	9.5%	9.0%

In the table above:

- The deductions for goodwill and identifiable intangible assets, net of deferred tax liabilities, include goodwill of \$3.65 billion as of both September 2015 and December 2014, and identifiable intangible assets of \$206 million (40% of \$516 million) and \$103 million (20% of \$515 million) as of September 2015 and December 2014, respectively, net of associated deferred tax liabilities of \$997 million and \$961 million as of September 2015 and December 2014, respectively. Goodwill is fully deducted from CET1, while the deduction for identifiable intangible assets is required to be phased into CET1 ratably over five years from 2014 to 2018. The balance that is not deducted during the transitional period is risk weighted.
- The deductions for investments in nonconsolidated financial institutions represent the amount by which the firm's investments in the capital of nonconsolidated financial institutions exceed certain prescribed thresholds. The deduction for such investments is required to be phased into CET1 ratably over five years from 2014 to 2018. As of September 2015 and December 2014, CET1 reflects 40% and 20% of the deduction, respectively. The balance that is not deducted during the transitional period is risk weighted.
- The deduction for investments in covered funds represents the firm's aggregate investments in applicable covered funds as permitted by the Volcker Rule that were purchased after December 2013. Substantially all of these investments in covered funds were purchased in connection with the firm's market-making activities. This deduction became effective in July 2015 and is not subject to a transition period. See Note 6 for further information about the Volcker Rule.
- Other adjustments within CET1 and Tier 1 capital primarily include accumulated other comprehensive loss, credit valuation adjustments on derivative liabilities, the overfunded portion of the firm's defined benefit pension plan obligation, net of associated deferred tax liabilities, disallowed deferred tax assets and other required credit risk-based deductions. The deductions for such items are generally required to be phased into CET1 ratably over five years from 2014 to 2018. As of September 2015 and December 2014, CET1 reflects 40% and 20% of such deductions, respectively. The balance that is not deducted from CET1 during the transitional period is generally deducted from Tier 1 capital within other adjustments.

Notes to Condensed Consolidated Financial Statements (Unaudited)

- Junior subordinated debt issued to trusts is reflected in both Tier 1 capital (25%) and Tier 2 capital (75%) as of September 2015. Such percentages were 50% for both Tier 1 and Tier 2 capital as of December 2014. Junior subordinated debt issued to trusts is reduced by the amount of trust preferred securities purchased by the firm and will be fully phased out of Tier 1 capital into Tier 2 capital by 2016, and then out of Tier 2 capital by 2022. See Note 16 for additional information about the firm's junior subordinated debt issued to trusts and trust preferred securities purchased by the firm.
- Qualifying subordinated debt represents subordinated debt issued by Group Inc. with an original term to maturity of five years or greater. The outstanding amount of subordinated debt qualifying for Tier 2 capital is reduced, or discounted, upon reaching a remaining maturity of five years. See Note 16 for additional information about the firm's subordinated debt.

The tables below present changes in CET1, Tier 1 capital and Tier 2 capital for the nine months ended September 2015 and the period from December 31, 2013 to December 31, 2014.

\$ in millions	Nine Months Ended September 2015	
	Standardized	Basel III Advanced
Common Equity Tier 1		
Beginning balance	\$69,830	\$69,830
Increased deductions due to transitional provisions ¹	(1,368)	(1,368)
Increase in common shareholders' equity	2,906	2,906
Change in deduction for goodwill and identifiable intangible assets, net of deferred tax liabilities	28	28
Change in deduction for investments in nonconsolidated financial institutions	913	913
Change in other adjustments	(109)	(109)
Ending balance	\$72,200	\$72,200
Tier 1 capital		
Beginning balance	\$78,433	\$78,433
Increased deductions due to transitional provisions ¹	(1,073)	(1,073)
Other net increase in CET1	3,738	3,738
Redesignation of junior subordinated debt issued to trusts	(330)	(330)
Increase in perpetual non-cumulative preferred stock	2,000	2,000
Deduction for investments in covered funds	(457)	(457)
Change in other adjustments	(61)	(61)
Ending balance	\$82,250	\$82,250
Tier 2 capital		
Beginning balance	12,861	12,545
Increased deductions due to transitional provisions ¹	(53)	(53)
Increase in qualifying subordinated debt	1,226	1,226
Redesignation of junior subordinated debt issued to trusts	330	330
Change in the allowance for losses on loans and lending commitments	181	—
Change in other adjustments	45	45
Ending balance	14,590	14,093
Total capital	\$96,840	\$96,343

1. Represents the increased phase-in of deductions from 20% to 40%, effective January 2015.

\$ in millions	Period Ended December 2014
Common Equity Tier 1	
Balance, December 31, 2013	\$63,248
Change in CET1 related to the transition to the Revised Capital Framework ¹	3,177
Increase in common shareholders' equity	2,330
Change in deduction for goodwill and identifiable intangible assets, net of deferred tax liabilities	144
Change in deduction for investments in nonconsolidated financial institutions	839
Change in other adjustments	92
Balance, December 31, 2014	\$69,830
Tier 1 capital	
Balance, December 31, 2013	\$72,471
Change in CET1 related to the transition to the Revised Capital Framework ¹	3,177
Change in Tier 1 capital related to the transition to the Revised Capital Framework ²	(443)
Other net increase in CET1	3,405
Increase in perpetual non-cumulative preferred stock	2,000
Redesignation of junior subordinated debt issued to trusts and decrease related to trust preferred securities purchased by the firm	(1,403)
Change in other adjustments	(774)
Balance, December 31, 2014	78,433
Tier 2 capital	
Balance, December 31, 2013	13,632
Change in Tier 2 capital related to the transition to the Revised Capital Framework ³	(197)
Decrease in qualifying subordinated debt	(879)
Trust preferred securities purchased by the firm, net of redesignation of junior subordinated debt issued to trusts	(27)
Change in other adjustments	16
Balance, December 31, 2014	12,545
Total capital	\$90,978

1. Includes \$3.66 billion related to the transition to the Revised Capital Framework on January 1, 2014 as well as \$(479) million related to the firm's application of the Basel III Advanced Rules on April 1, 2014.

2. Includes \$(219) million related to the transition to the Revised Capital Framework on January 1, 2014 as well as \$(224) million related to the firm's application of the Basel III Advanced Rules on April 1, 2014.

3. Includes \$(2) million related to the transition to the Revised Capital Framework on January 1, 2014 as well as \$(195) million related to the firm's application of the Basel III Advanced Rules on April 1, 2014.

In the table above, "Change in CET1 related to the transition to the Revised Capital Framework" primarily reflects the change in the treatment of equity investments in certain nonconsolidated entities. The Revised Capital Framework requires only a portion of such investments that exceed certain prescribed thresholds to be treated as deductions from CET1 and the remainder are risk-weighted, subject to the applicable transitional provisions. As of December 2013, in accordance with the previous capital regulations, these equity investments were treated as deductions.

Notes to Condensed Consolidated Financial Statements (Unaudited)

The tables below present the components of RWAs calculated in accordance with the Standardized and Basel III Advanced rules as of September 2015 and December 2014.

\$ in millions	Standardized Capital Rules	
	September 2015	December 2014
Credit RWAs		
Derivatives	\$159,291	\$180,771
Commitments, guarantees and loans	107,169	89,783
Securities financing transactions ¹	79,369	92,116
Equity investments	41,522	38,526
Other ²	74,182	71,499
Total Credit RWAs	461,533	472,695
Market RWAs		
Regulatory VaR	11,813	10,238
Stressed VaR	24,275	29,625
Incremental risk	10,000	16,950
Comprehensive risk	6,451	9,855
Specific risk	67,599	79,853
Total Market RWAs	120,138	146,521
Total RWAs	\$581,671	\$619,216

\$ in millions	Basel III Advanced Rules	
	September 2015	December 2014
Credit RWAs		
Derivatives	\$115,837	\$122,501
Commitments, guarantees and loans	107,254	95,209
Securities financing transactions ¹	16,671	15,618
Equity investments	43,530	40,146
Other ²	58,124	54,470
Total Credit RWAs	341,416	327,944
Market RWAs		
Regulatory VaR	11,813	10,238
Stressed VaR	24,275	29,625
Incremental risk	10,000	16,950
Comprehensive risk	5,303	8,150
Specific risk	67,599	79,918
Total Market RWAs	118,990	144,881
Total Operational RWAs	110,075	97,488
Total RWAs	\$570,481	\$570,313

1. Represents resale and repurchase agreements and securities borrowed and loaned transactions.

2. Includes receivables, other assets, and cash and cash equivalents.

The table below presents changes in RWAs calculated in accordance with the Standardized and Basel III Advanced rules for the nine months ended September 2015.

\$ in millions	Nine Months Ended September 2015	
	Standardized	Basel III Advanced
Risk-Weighted Assets		
Beginning balance	\$619,216	\$570,313
Credit RWAs		
Increase/decreases due to transitional provisions ¹	(1,073)	(1,073)
Increase/(decrease) in derivatives	(21,480)	(6,664)
Increase/(decrease) in commitments, guarantees and loans	17,386	12,045
Increase/(decrease) in securities financing transactions	(12,747)	1,053
Increase/(decrease) in equity investments	3,966	4,354
Change in other	2,786	3,757
Change in Credit RWAs	(11,162)	13,472
Market RWAs		
Increase/(decrease) in regulatory VaR	1,575	1,575
Increase/(decrease) in stressed VaR	(5,350)	(5,350)
Increase/(decrease) in incremental risk	(6,950)	(6,950)
Increase/(decrease) in comprehensive risk	(3,404)	(2,847)
Increase/(decrease) in specific risk	(12,254)	(12,319)
Change in Market RWAs	(26,383)	(25,891)
Operational RWAs		
Increase/(decrease) in operational risk	—	12,587
Change in Operational RWAs	—	12,587
Ending balance	\$581,671	\$570,481

1. Represents the increased phase-in of deductions from 20% to 40%, effective January 2015.

Standardized Credit RWAs as of September 2015 decreased by \$11.16 billion compared with December 2014, reflecting decreases in derivatives and securities financing transactions, primarily due to lower exposures. These decreases were partially offset by an increase in lending activity. Standardized Market RWAs as of September 2015 decreased by \$26.38 billion compared with December 2014, as a result of reduced risk exposures.

Basel III Advanced Credit RWAs as of September 2015 increased by \$13.47 billion compared with December 2014, primarily reflecting an increase in lending activity. This increase was partially offset by a decrease in RWAs related to derivatives, due to lower counterparty credit risk. Basel III Advanced Market RWAs as of September 2015 decreased by \$25.89 billion compared with December 2014, as a result of reduced risk exposures. Basel III Advanced Operational RWAs as of September 2015 increased by \$12.59 billion compared with December 2014, primarily driven by an increase in operational risk associated with legal matters and regulatory proceedings.

Notes to Condensed Consolidated Financial Statements (Unaudited)

The table below presents changes in RWAs from December 31, 2013 to December 31, 2014. As of December 31, 2013, the firm was subject to the capital regulations of the Federal Reserve Board that were based on the Basel Committee's Basel I Capital Accord, including the revised market risk capital requirements.

<i>\$ in millions</i>	Period Ended December 2014
Risk-weighted assets	
Balance, December 31, 2013	\$433,226
Credit RWAs	
Change related to the transition to the Revised Capital Framework ¹	69,101
Decrease in derivatives	(24,109)
Increase in commitments, guarantees and loans	18,208
Decrease in securities financing transactions	(2,782)
Decrease in equity investments	(2,728)
Increase in other	2,007
Change in Credit RWAs	59,697
Market RWAs	
Change related to the transition to the Revised Capital Framework	1,626
Decrease in regulatory VaR	(5,175)
Decrease in stressed VaR	(11,512)
Increase in incremental risk	7,487
Decrease in comprehensive risk	(6,617)
Decrease in specific risk	(5,907)
Change in Market RWAs	(20,098)
Operational RWAs	
Change related to the transition to the Revised Capital Framework	88,938
Increase in operational risk	8,550
Change in Operational RWAs	97,488
Ending balance (Basel III Advanced)	\$570,313

1. Includes \$26.67 billion of RWA changes related to the transition to the Revised Capital Framework on January 1, 2014 and \$42.43 billion of changes to the calculation of credit RWAs in accordance with the Basel III Advanced Rules related to the firm's application of the Basel III Advanced Rules on April 1, 2014.

Credit RWAs as of December 2014 increased by \$59.70 billion compared with December 2013, primarily due to increased risk weightings related to counterparty credit risk for derivative exposures and the inclusion of RWAs for equity investments in certain nonconsolidated entities, both resulting from the transition to the Revised Capital Framework. Market RWAs as of December 2014 decreased by \$20.10 billion compared with December 2013, primarily due to a decrease in stressed VaR, reflecting reduced fixed income and equities exposures. Operational RWAs as of December 2014 increased by \$97.49 billion compared with December 2013, substantially all of which was due to the transition to the Revised Capital Framework.

Bank Subsidiaries

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

Under the regulatory framework for prompt corrective action applicable to GS Bank USA, in order to meet the quantitative requirements for being a "well-capitalized" depository institution, GS Bank USA must meet higher minimum requirements than the minimum ratios in the table below. The table below presents the minimum ratios and "well-capitalized" minimum ratios required for GS Bank USA as of September 2015.

	Minimum Ratio	"Well-capitalized" Minimum Ratio
CET1 ratio	4.5%	6.5%
Tier 1 capital ratio	6.0%	8.0%
Total capital ratio	8.0%	10.0%
Tier 1 leverage ratio	4.0%	5.0%

GS Bank USA was in compliance with its minimum capital requirements and the "well-capitalized" minimum ratios as of September 2015 and December 2014. GS Bank USA's capital levels and prompt corrective action classification are also subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors. Failure to comply with these capital requirements could result in restrictions being imposed by GS Bank USA's regulators.

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

As of December 2014, GS Bank USA was required to calculate each of the CET1, Tier 1 capital and Total capital ratios in accordance with both the Basel III Advanced Rules and Hybrid Capital Rules. The lower of each ratio calculated in accordance with the Basel III Advanced Rules and the Hybrid Capital Rules was the ratio against which GS Bank USA's compliance with its minimum ratio requirements was assessed. Each of the ratios calculated in accordance with the Hybrid Capital Rules was lower than that calculated in accordance with the Basel III Advanced Rules and therefore the Hybrid Capital ratios were the ratios that applied to GS Bank USA as of December 2014.

The table below presents the ratios for GS Bank USA calculated in accordance with both the Standardized and Basel III Advanced rules as of both September 2015 and December 2014, and with the Hybrid Capital Rules as of December 2014. While the ratios calculated in accordance with the Standardized Capital Rules were not applicable until January 2015, the December 2014 ratios are presented in the table below for comparative purposes.

<i>\$ in millions</i>	As of	
	September 2015	December 2014
Standardized		
Common Equity Tier 1	\$ 22,482	\$ 21,293
Tier 1 capital	22,482	21,293
Tier 2 capital	2,269	2,182
Total capital	\$ 24,751	\$ 23,475
RWAs	\$203,254	\$200,605
CET1 ratio	11.1%	10.6%
Tier 1 capital ratio	11.1%	10.6%
Total capital ratio	12.2%	11.7%
Basel III Advanced		
Standardized Tier 2 capital	\$ 2,269	\$ 2,182
Allowance for losses on loans and lending commitments	(269)	(182)
Tier 2 capital	2,000	2,000
Total capital	\$ 24,482	\$ 23,293
RWAs	\$135,421	\$141,978
CET1 ratio	16.6%	15.0%
Tier 1 capital ratio	16.6%	15.0%
Total capital ratio	18.1%	16.4%
Hybrid		
RWAs	N/A	\$149,963
CET1 ratio	N/A	14.2%
Tier 1 capital ratio	N/A	14.2%
Total capital ratio	N/A	15.7%
Tier 1 leverage ratio	17.1%	17.3%

The firm's principal non-U.S. bank subsidiary, GSIB, is a wholly-owned credit institution, regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) and is subject to minimum capital requirements. As of September 2015 and December 2014, GSIB was in compliance with all regulatory capital requirements.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Broker-Dealer Subsidiaries

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

As of September 2015 and December 2014, GS&Co. had regulatory net capital, as defined by Rule 15c3-1, of \$16.04 billion and \$14.83 billion, respectively, which exceeded the amount required by \$13.41 billion and \$12.46 billion, respectively. As of September 2015 and December 2014, GSEC had regulatory net capital, as defined by Rule 15c3-1, of \$1.58 billion and \$1.67 billion, respectively, which exceeded the amount required by \$1.44 billion and \$1.53 billion, respectively.

In addition to its alternative minimum net capital requirements, GS&Co. is also required to hold tentative net capital in excess of \$1 billion and net capital in excess of \$500 million in accordance with the market and credit risk standards of Appendix E of Rule 15c3-1. GS&Co. is also required to notify the SEC in the event that its tentative net capital is less than \$5 billion. As of September 2015 and December 2014, GS&Co. had tentative net capital and net capital in excess of both the minimum and the notification requirements.

Non-U.S. Regulated Broker-Dealer Subsidiaries. The firm's principal non-U.S. regulated broker-dealer subsidiaries include Goldman Sachs International (GSI) and Goldman Sachs Japan Co., Ltd. (GSJCL). GSI, the firm's U.K. broker-dealer, is regulated by the PRA and the FCA. GSJCL, the firm's Japanese broker-dealer, is regulated by Japan's Financial Services Agency. These and certain other non-U.S. subsidiaries of the firm are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of September 2015 and December 2014, these subsidiaries were in compliance with their local capital adequacy requirements.

Restrictions on Payments

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

As of September 2015 and December 2014, Group Inc. was required to maintain \$47.75 billion and \$33.62 billion, respectively, of minimum equity capital in its regulated subsidiaries in order to satisfy the regulatory requirements of such subsidiaries. The increased requirement is primarily a result of higher regulatory capital requirements in GS Bank USA, reflecting the implementation of the Standardized Capital Rules.

Other

The deposits of GS Bank USA are insured by the FDIC to the extent provided by law. The Federal Reserve Board requires that GS Bank USA maintain cash reserves with the Federal Reserve Bank of New York. The amount deposited by GS Bank USA held at the Federal Reserve Bank of New York was \$38.93 billion and \$38.68 billion as of September 2015 and December 2014, respectively, which exceeded required reserve amounts by \$38.75 billion and \$38.57 billion as of September 2015 and December 2014, respectively.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 21.

Earnings Per Common Share

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

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

<i>in millions, except per share amounts</i>	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Numerator for basic and diluted EPS — net earnings applicable to common shareholders	\$1,330	\$2,143	\$4,994	\$6,045
Denominator for basic EPS — weighted average number of common shares	449.0	455.5	451.2	461.8
Effect of dilutive securities:				
RSUs	5.6	6.5	5.0	5.9
Stock options	4.0	7.2	4.7	8.8
Dilutive potential common shares	9.6	13.7	9.7	14.7
Denominator for diluted EPS — weighted average number of common shares and dilutive potential common shares	458.6	469.2	460.9	476.5
Basic EPS	\$ 2.95	\$ 4.69	\$11.03	\$13.05
Diluted EPS	2.90	4.57	10.84	12.69

In the table above, unvested share-based awards that have non-forfeitable rights to dividends or dividend equivalents are treated as a separate class of securities in calculating EPS. The impact of applying this methodology was a reduction in basic EPS of \$0.01 for both the three months ended September 2015 and September 2014, and \$0.04 for both the nine months ended September 2015 and September 2014.

The diluted EPS computations in the table above do not include antidilutive RSUs and common shares underlying antidilutive stock options of 6.0 million for both the three months ended September 2015 and September 2014, and 6.0 million and 6.2 million for the nine months ended September 2015 and September 2014, respectively.

Note 22.

Transactions with Affiliated Funds

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

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

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Fees earned from funds	\$687	\$725	\$2,489	\$2,335

<i>\$ in millions</i>	As of	
	September 2015	December 2014
Fees receivable from funds	\$ 572	\$ 724
Aggregate carrying value of interests in funds	7,944	9,099

As of September 2015 and December 2014, the firm had outstanding guarantees on behalf of its funds of \$300 million and \$304 million, respectively. This amount primarily related to a guarantee that the firm has voluntarily provided in connection with a financing agreement with a third-party lender executed by one of the firm's real estate funds that is not covered by the Volcker Rule. As of September 2015 and December 2014, the firm had no outstanding loans or commitments to extend credit to affiliated funds.

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

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 23.

Interest Income and Interest Expense

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

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Interest income				
Deposits with banks	\$ 35	\$ 44	\$ 114	\$ 143
Securities borrowed, securities purchased under agreements to resell and federal funds sold ¹	15	(42)	14	(5)
Financial instruments owned, at fair value	1,458	1,790	4,406	5,803
Loans receivable	314	191	840	487
Other interest ²	297	314	930	1,042
Total interest income	2,119	2,297	6,304	7,470
Interest expense				
Deposits	106	87	289	254
Securities loaned and securities sold under agreements to repurchase	88	91	236	350
Financial instruments sold, but not yet purchased, at fair value	344	374	1,001	1,353
Short-term borrowings ³	67	121	318	320
Long-term borrowings ³	935	847	2,843	2,675
Other interest ⁴	(263)	(272)	(747)	(568)
Total interest expense	1,277	1,248	3,940	4,384
Net interest income	\$ 842	\$1,049	\$2,364	\$3,086

1. Includes rebates paid and interest income on securities borrowed.

2. Includes interest income on customer debit balances and other interest-earning assets.

3. Includes interest on unsecured borrowings and other secured financings.

4. Includes rebates received on other interest-bearing liabilities and interest expense on customer credit balances.

Note 24.

Income Taxes

Provision for Income Taxes

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

Deferred Income Taxes

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

Unrecognized Tax Benefits

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

Notes to Condensed Consolidated Financial Statements (Unaudited)

Regulatory Tax Examinations

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

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

Jurisdiction	As of September 2015
U.S. Federal	2008
New York State and City	2007
United Kingdom	2013
Japan	2010
Hong Kong	2006
Korea	2010

The U.S. Federal examinations of fiscal 2008 through calendar 2010 have been finalized, but the settlement is subject to review by the Joint Committee of Taxation. The examinations of 2011 and 2012 began in 2013.

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

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

In January 2013, the firm was accepted into the Compliance Assurance Process program by the IRS. This program allows the firm to work with the IRS to identify and resolve potential U.S. federal tax issues before the filing of tax returns. The 2013 tax year is the first year that was examined under the program, and remains subject to post-filing review. The firm was also accepted into the program for the 2014 and 2015 tax years.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 25.

Business Segments

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

Basis of Presentation

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

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

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

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

<i>\$ in millions</i>	Three Months Ended or as of September		Nine Months Ended September	
	2015	2014	2015	2014
Investment Banking				
Financial Advisory	\$ 809	\$ 594	\$ 2,591	\$ 1,782
Equity underwriting	190	426	1,318	1,408
Debt underwriting	557	444	1,571	1,834
Total Underwriting	747	870	2,889	3,242
Total net revenues	1,556	1,464	5,480	5,024
Operating expenses	788	805	3,049	2,927
Pre-tax earnings	\$ 768	\$ 659	\$ 2,431	\$ 2,097
Segment assets	\$ 2,515	\$ 2,061		
Institutional Client Services				
Fixed Income, Currency and Commodities Client Execution	\$ 1,461	\$ 2,170	\$ 6,199	\$ 7,243
Equities client execution	555	429	2,466	1,328
Commissions and fees	818	745	2,393	2,324
Securities services	379	428	1,215	1,153
Total Equities	1,752	1,602	6,074	4,805
Total net revenues	3,213	3,772	12,273	12,048
Operating expenses	2,522	2,585	10,101	8,724
Pre-tax earnings	\$ 691	\$ 1,187	\$ 2,172	\$ 3,324
Segment assets	\$700,548	\$718,150		
Investing & Lending				
Equity securities	\$ 370	\$ 1,058	\$ 2,784	\$ 3,412
Debt securities and loans	300	634	1,356	1,881
Total net revenues ¹	670	1,692	4,140	5,293
Operating expenses	358	591	1,948	2,482
Pre-tax earnings	\$ 312	\$ 1,101	\$ 2,192	\$ 2,811
Segment assets	\$162,444	\$133,649		
Investment Management				
Management and other fees	\$ 1,212	\$ 1,214	\$ 3,651	\$ 3,569
Incentive fees	73	133	590	576
Transaction revenues	137	112	413	330
Total net revenues	1,422	1,459	4,654	4,475
Operating expenses	1,122	1,101	3,718	3,560
Pre-tax earnings	\$ 300	\$ 358	\$ 936	\$ 915
Segment assets	\$ 15,052	\$ 14,671		
Total net revenues	\$ 6,861	\$ 8,387	\$26,547	\$26,840
Total operating expenses²	4,815	5,082	18,841	17,693
Total pre-tax earnings	\$ 2,046	\$ 3,305	\$ 7,706	\$ 9,147
Total assets	\$880,559	\$868,531		

1. Net revenues related to the firm's consolidated investments, previously reported in other net revenues within Investing & Lending, are now reported in equity securities and debt securities and loans, as results from these activities (\$99 million and \$265 million for the three and nine months ended September 2015, respectively) are no longer significant due to the sale of Metro in the fourth quarter of 2014. Reclassifications have been made to previously reported amounts to conform to the current presentation.

2. Includes charitable contributions that have not been allocated to the firm's segments of \$25 million for the three and nine months ended September 2015. Operating expenses related to real estate-related exit costs, previously not allocated to the firm's segments, have now been allocated. This allocation reflects the change in the manner in which management views the performance of the firm's segments. Reclassifications have been made to previously reported segment amounts to conform to the current presentation.

Notes to Condensed Consolidated Financial Statements (Unaudited)

The segment information presented in the table above is prepared according to the following methodologies:

- Revenues and expenses directly associated with each segment are included in determining pre-tax earnings.
- Net revenues in the firm's segments include allocations of interest income and interest expense to specific securities, commodities and other positions in relation to the cash generated by, or funding requirements of, such underlying positions. Net interest is included in segment net revenues as it is consistent with the way in which management assesses segment performance.
- Overhead expenses not directly allocable to specific segments are allocated ratably based on direct segment expenses.

The tables below present the amounts of net interest income or interest expense included in net revenues, and the amounts of depreciation and amortization expense included in pre-tax earnings.

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Investment Banking	\$ —	\$ —	\$ —	\$ —
Institutional Client Services	665	940	1,916	2,813
Investing & Lending	127	74	318	177
Investment Management	50	35	130	96
Total net interest income	\$842	\$1,049	\$2,364	\$3,086

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Investment Banking	\$ 32	\$ 35	\$ 90	\$ 102
Institutional Client Services	104	166	326	404
Investing & Lending	50	65	182	369
Investment Management	36	35	108	110
Total depreciation and amortization¹	\$222	\$ 301	\$ 706	\$ 985

1. Depreciation and amortization related to real estate-related exit costs, previously not allocated to the firm's segments, have now been allocated. This allocation reflects the change in the manner in which management views the performance of the firm's segments. Reclassifications have been made to previously reported segment amounts to conform to the current presentation.

Geographic Information

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

Geographic results are generally allocated as follows:

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

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

\$ in millions	Three Months Ended September			
	2015		2014	
Net revenues				
Americas	\$ 3,838	56%	\$ 4,605	55%
Europe, Middle East and Africa	2,042	30%	2,175	26%
Asia	981	14%	1,607	19%
Total net revenues	\$ 6,861	100%	\$ 8,387	100%
Pre-tax earnings				
Americas	\$ 1,022	50%	\$ 1,644	50%
Europe, Middle East and Africa	712	34%	929	28%
Asia	337	16%	732	22%
Total pre-tax earnings¹	\$ 2,046	100%	\$ 3,305	100%

\$ in millions	Nine Months Ended September			
	2015		2014	
Net revenues				
Americas	\$14,851	56%	\$15,304	57%
Europe, Middle East and Africa	7,157	27%	7,551	28%
Asia	4,539	17%	3,985	15%
Total net revenues	\$26,547	100%	\$26,840	100%
Pre-tax earnings				
Americas	\$ 3,458	44%	\$ 4,786	52%
Europe, Middle East and Africa	2,525	33%	2,912	32%
Asia	1,748	23%	1,449	16%
Total pre-tax earnings¹	\$ 7,706	100%	\$ 9,147	100%

1. Includes charitable contributions that have not been allocated to the firm's geographic regions of \$25 million for the three and nine months ended September 2015. Operating expenses related to real estate-related exit costs, previously not allocated to the firm's geographic regions, have now been allocated. This allocation reflects the change in the manner in which management views the performance of the geographic regions. Reclassifications have been made to previously reported geographic region amounts to conform to the current presentation.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 26.

Credit Concentrations

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

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

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

The table below presents the credit concentrations in cash instruments held by the firm.

<i>\$ in millions</i>	As of	
	September 2015	December 2014
U.S. government and federal agency obligations ¹	\$62,988	\$69,170
% of total assets	7.2%	8.1%
Non-U.S. government and agency obligations ¹	\$31,666	\$37,059
% of total assets	3.6%	4.3%

1. Included in "Financial instruments owned, at fair value" and "Cash and securities segregated for regulatory and other purposes."

As of September 2015 and December 2014, the firm did not have credit exposure to any other counterparty that exceeded 2% of total assets.

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

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

<i>\$ in millions</i>	As of	
	September 2015	December 2014
U.S. government and federal agency obligations	\$102,506	\$103,263
Non-U.S. government and agency obligations ¹	88,424	71,302

1. Principally consists of securities issued by the governments of France, the United Kingdom, Japan and Germany.

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

The firm is involved in a number of judicial, regulatory and arbitration proceedings (including those described below) concerning matters arising in connection with the conduct of the firm's businesses. Many of these proceedings are in early stages, and many of these cases seek an indeterminate amount of damages.

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

With respect to matters described below for which management has been able to estimate a range of reasonably possible loss where (i) actual or potential plaintiffs have claimed an amount of money damages, (ii) the firm is being, or threatened to be, sued by purchasers in an underwriting and is not being indemnified by a party that the firm believes will pay any judgment, or (iii) the purchasers are demanding that the firm repurchase securities, management has estimated the upper end of the range of reasonably possible loss as being equal to (a) in the case of (i), the amount of money damages claimed, (b) in the case of (ii), the difference between the initial sales price of the securities that the firm sold in such underwriting and the estimated lowest subsequent price of such securities and (c) in the case of (iii), the price that purchasers paid for the securities less the estimated value, if any, as of September 2015 of the relevant securities, in each of cases (i), (ii) and (iii), taking into account any factors believed to be relevant to the particular matter or matters of that type. As of the date hereof, the firm has estimated the upper end of the range of reasonably possible aggregate loss for such matters and for any other matters described below where management has been able to estimate a range of reasonably possible aggregate loss to be approximately \$5.3 billion in excess of the aggregate reserves for such matters.

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

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

Mortgage-Related Matters. Beginning in April 2010, a number of purported securities law class actions were filed in the U.S. District Court for the Southern District of New York challenging the adequacy of Group Inc.'s public disclosure of, among other things, the firm's activities in the CDO market, the firm's conflict of interest management, and the SEC investigation that led to GS&Co. entering into a consent agreement with the SEC, settling all claims made against GS&Co. by the SEC in connection with the ABACUS 2007-AC1 CDO offering (ABACUS 2007-AC1 transaction), pursuant to which GS&Co. paid \$550 million of disgorgement and civil penalties. The consolidated amended complaint filed on July 25, 2011, which names as defendants Group Inc. and certain officers and employees of Group Inc. and its affiliates, generally alleges violations of Sections 10(b) and 20(a) of the Exchange Act and seeks unspecified damages. On June 21, 2012, the district court dismissed the claims based on Group Inc.'s not disclosing that it had received a "Wells" notice from the staff of the SEC related to the ABACUS 2007-AC1 transaction, but permitted the plaintiffs' other claims to proceed. On September 24, 2015, the court granted the plaintiffs' motion for class certification, and on October 8, 2015, the defendants petitioned the appellate court for leave to appeal the class certification order.

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

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

GS&Co., Goldman Sachs Mortgage Company and GS Mortgage Securities Corp. and three current or former Goldman Sachs employees are defendants in a putative class action commenced on December 11, 2008 in the U.S. District Court for the Southern District of New York brought on behalf of purchasers of various mortgage pass-through certificates and asset-backed certificates issued by various securitization trusts established by the firm and underwritten by GS&Co. in 2007. The complaint generally alleges that the registration statement and prospectus supplements for the certificates violated the federal securities laws, and seeks unspecified compensatory damages and rescission or rescissory damages. By a decision dated September 6, 2012, the U.S. Court of Appeals for the Second Circuit affirmed the district court's dismissal of plaintiff's claims with respect to 10 of the 17 offerings included in plaintiff's original complaint but vacated the dismissal and remanded the case to the district court with instructions to reinstate the plaintiff's claims with respect to the other seven offerings. On October 31, 2012, the plaintiff served an amended complaint relating to those seven offerings, plus seven additional offerings (additional offerings). On July 10, 2014, the court granted the defendants' motion to dismiss as to the additional offerings. On March 23, 2015, the plaintiff moved for class certification. On June 3, 2010, another investor filed a separate putative class action asserting substantively similar allegations relating to one of the additional offerings and thereafter moved to further amend its amended complaint to add claims with respect to two of the additional offerings. On March 27, 2014, the district court largely denied defendants' motion to dismiss as to the original offering, but denied the separate plaintiff's motion to add the two additional offerings through an amendment. On March 20, 2015, the separate plaintiff moved for class certification. On August 12, 2015, the plaintiffs in both actions and the defendants entered into a definitive settlement agreement, subject to court approval. The firm has paid the full amount of the proposed settlement into an escrow account. The securitization trusts issued, and GS&Co. underwrote, approximately \$11 billion principal amount of certificates to all purchasers in the offerings at issue in the complaints.

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

On September 30, 2010, a class action was filed in the U.S. District Court for the Southern District of New York against GS&Co., Group Inc. and two former GS&Co. employees on behalf of investors in \$823 million of notes issued in 2006 and 2007 by two synthetic CDOs (Hudson Mezzanine 2006-1 and 2006-2). The amended complaint asserts federal securities law and common law claims, and seeks unspecified compensatory, punitive and other damages. The defendants' motion to dismiss was granted as to plaintiff's claim of market manipulation and denied as to the remainder of plaintiff's claims by a decision dated March 21, 2012. On May 21, 2012, the defendants counterclaimed for breach of contract and fraud. On June 27, 2014, the appellate court denied defendants' petition for leave to appeal from the district court's January 22, 2014 order granting class certification. On September 8, 2015, the court granted defendants' motion for summary judgment as to plaintiff's remaining claims.

Various alleged purchasers of, and counterparties and providers of credit enhancement involved in transactions relating to, mortgage pass-through certificates, CDOs and other mortgage-related products (including ACA Financial Guaranty Corp., Aozora Bank, Ltd., Basis Yield Alpha Fund (Master), the Charles Schwab Corporation, CIFG Assurance of North America, Inc., Deutsche Zentral-Genossenschaftsbank, the FDIC (as receiver for Guaranty Bank), the Federal Home Loan Banks of Chicago and Seattle, IKB Deutsche Industriebank AG, Massachusetts Mutual Life Insurance Company, the National Credit Union Administration (as conservator or liquidating agent for several failed credit unions), Texas County & District Retirement System, the Commonwealth of Virginia (on behalf of the Virginia Retirement System) and the Tennessee Consolidated Retirement System) have filed complaints in state and federal court against firm affiliates, generally alleging that the offering documents for the securities that they purchased contained untrue statements of material fact and material omissions and generally seeking rescission and/or damages. Certain of these complaints allege fraud and seek punitive damages. Certain of these complaints also name other firms as defendants.

Norges Bank Investment Management, Selective Insurance Company and the State of Illinois (on behalf of Illinois state retirement systems) have threatened to assert claims of various types against the firm in connection with the sale of mortgage-related securities. The firm has entered into agreements with one of these entities to toll the relevant statute of limitations.

As of the date hereof, the aggregate amount of mortgage-related securities sold to plaintiffs in active and threatened cases described in the preceding two paragraphs where those plaintiffs are seeking rescission of such securities was approximately \$5.6 billion (which does not reflect adjustment for any subsequent paydowns or distributions or any residual value of such securities, statutory interest or any other adjustments that may be claimed). This amount does not include the potential claims by these or other purchasers in the same or other mortgage-related offerings that have not been described above, or claims that have been dismissed.

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

Group Inc., Litton, Ocwen and Arrow Corporate Member Holdings LLC, a former subsidiary of Group Inc., are defendants in a putative class action pending since January 23, 2013 in the U.S. District Court for the Southern District of New York generally challenging the procurement manner and scope of "force-placed" hazard insurance arranged by Litton when homeowners failed to arrange for insurance as required by their mortgages. The complaint asserts claims for breach of contract, breach of fiduciary duty, misappropriation, conversion, unjust enrichment and violation of Florida unfair practices law, and seeks unspecified compensatory and punitive damages as well as declaratory and injunctive relief. An amended complaint, filed on November 19, 2013, added an additional plaintiff and RICO claims. On September 29, 2014, the court denied without prejudice and with leave to renew at a later date Group Inc.'s motion to sever the claims against it and certain other defendants. On February 20, 2015, the defendants moved to dismiss.

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

The firm has also received, and continues to receive, requests for information and/or subpoenas from, and is engaged in discussions with, the U.S. Department of Justice, other members of the Residential Mortgage-Backed Securities Working Group of the U.S. Financial Fraud Enforcement Task Force (RMBS Working Group) and other federal, state and local regulators and law enforcement authorities as part of inquiries or investigations relating to the mortgage-related securitization process, subprime mortgages, CDOs, synthetic mortgage-related products, sales communications and particular transactions involving these products, and servicing and foreclosure activities, which may subject the firm to actions, including litigation, penalties and fines. As part of the RMBS Working Group investigation, the U.S. Attorney for the Eastern District of California, in connection with potentially bringing a civil action, has concluded that the firm violated federal law in connection with its underwriting, securitization and sale of residential mortgage-backed securities. The firm is in discussions with the RMBS Working Group with respect to potential resolution of this matter and were it to be resolved, of which there can be no assurance, such resolution may result in significant penalties and other costs. The firm is cooperating with these regulators and other authorities, including in some cases agreeing to the tolling of the relevant statute of limitations. See also “Regulatory Investigations and Reviews and Related Litigation” below.

The firm expects to be the subject of additional putative shareholder derivative actions, purported class actions, rescission and “put back” claims and other litigation, additional investor and shareholder demands, and additional regulatory and other investigations and actions with respect to mortgage-related offerings, loan sales, CDOs, and servicing and foreclosure activities. See Note 18 for information regarding mortgage-related contingencies not described in this Note 27.

GT Advanced Technologies Securities Litigation.

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

FireEye Securities Litigation.

GS&Co. is among the underwriters named as defendants in several putative securities class actions, filed beginning in June 2014 in the California Superior Court, County of Santa Clara. In addition to the underwriters, the defendants include FireEye, Inc. (FireEye) and certain of its directors and officers. The complaints generally allege misstatements and omissions in connection with the offering materials for the March 2014 offering of approximately \$1.15 billion of FireEye common stock, assert claims under the federal securities laws, and seek compensatory damages in an unspecified amount and rescission. On August 11, 2015, the court overruled the defendants’ demurrers, which sought to have the consolidated amended complaint dismissed. GS&Co. underwrote 2,100,000 shares for a total offering price of approximately \$172 million.

**Notes to Condensed Consolidated Financial Statements
(Unaudited)****Cobalt International Energy Securities Litigation.**

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

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

Employment-Related Matters. On September 15, 2010, a putative class action was filed in the U.S. District Court for the Southern District of New York by three female former employees alleging that Group Inc. and GS&Co. have systematically discriminated against female employees in respect of compensation, promotion, assignments, mentoring and performance evaluations. The complaint alleges a class consisting of all female employees employed at specified levels in specified areas by Group Inc. and GS&Co. since July 2002, and asserts claims under federal and New York City discrimination laws. The complaint seeks class action status, injunctive relief and unspecified amounts of compensatory, punitive and other damages. On July 17, 2012, the district court issued a decision granting in part Group Inc.'s and GS&Co.'s motion to strike certain of plaintiffs' class allegations on the ground that plaintiffs lacked standing to pursue certain equitable remedies and denying Group Inc.'s and GS&Co.'s motion to strike plaintiffs' class allegations in their entirety as premature. On March 21, 2013, the U.S. Court of Appeals for the Second Circuit held that arbitration should be compelled with one of the named plaintiffs, who as a managing director was a party to an arbitration agreement with the firm. On March 10, 2015, the magistrate judge to whom the district judge assigned the remaining plaintiffs' May 2014 motion for class certification recommended that the motion be denied in all respects. On August 3, 2015, the magistrate judge denied plaintiffs' motion for reconsideration of that recommendation and granted the plaintiffs' motion to intervene two female individuals, one of whom was employed by the firm as of September 2010 and the other of whom is a current employee of the firm. On August 17, 2015, the defendants appealed the magistrate judge's decision on intervention. On September 28, 2015, the defendants moved to dismiss the claims of an intervenor who is not a current employee of the firm for lack of standing.

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

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

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

Credit Derivatives Antitrust Matters. The European Commission announced in April 2011 that it was initiating proceedings to investigate further numerous financial services companies, including Group Inc., in connection with the supply of data related to credit default swaps and in connection with profit sharing and fee arrangements for clearing of credit default swaps, including potential anti-competitive practices. On July 1, 2013, the European Commission issued to those financial services companies a Statement of Objections alleging that they colluded to limit competition in the trading of exchange-traded unfunded credit derivatives and exchange trading of credit default swaps more generally, and setting out its process for determining fines and other remedies. Group Inc.'s current understanding is that the proceedings related to profit sharing and fee arrangements for clearing of credit default swaps have been suspended indefinitely. The firm has received civil investigative demands from the U.S. Department of Justice for information on similar matters. Goldman Sachs is cooperating with the investigations and reviews.

GS&Co. is among the numerous defendants in putative antitrust class actions relating to credit derivatives, filed beginning in May 2013 and consolidated in the U.S. District Court for the Southern District of New York. The complaints generally allege that defendants violated federal antitrust laws by conspiring to forestall the development of alternatives to OTC trading of credit derivatives and to maintain inflated bid-ask spreads for credit derivatives trading. The complaints seek declaratory and injunctive relief as well as treble damages in an unspecified amount. On September 4, 2014, the court granted in part and denied in part the defendants' motion to dismiss, permitting the claim alleging an antitrust conspiracy to proceed but confining it to a period after the fall of 2008. On September 30, 2015, GS&Co. entered into a definitive settlement agreement with the plaintiffs, subject to court approval. The firm has reserved the full amount of the proposed settlement.

Libya-Related Litigation. GSI is the defendant in an action filed on January 21, 2014 with the High Court of Justice in London by the Libyan Investment Authority, relating to nine derivative transactions between the plaintiff and GSI and seeking, among other things, rescission of the transactions and unspecified equitable compensation and damages exceeding \$1 billion. On August 4, 2014, GSI withdrew its April 10, 2014 motion for summary judgment, and on December 4, 2014, the Libyan Investment Authority filed an amended statement of claim.

Municipal Securities Matters. GS&Co. (along with, in some cases, other financial services firms) is named by municipalities, municipal-owned entities, state-owned agencies or instrumentalities and non-profit entities in a number of FINRA arbitrations and federal court cases based on GS&Co.'s role as underwriter of the claimants' issuances of an aggregate of approximately \$2 billion of auction rate securities from 2003 through 2007 and as a broker-dealer with respect to auctions for these securities. The claimants generally allege that GS&Co. failed to disclose that it had a practice of placing cover bids in auctions, and/or failed to inform the claimant of the deterioration of the auction rate market beginning in the fall of 2007, and that, as a result, the claimant was forced to engage in a series of expensive refinancing and conversion transactions after the failure of the auction market in February 2008. Certain claimants also allege that GS&Co. advised them to enter into or continue with interest rate swaps in connection with their auction rate securities issuances, causing them to incur additional losses. The claims include breach of fiduciary duty, fraudulent concealment, negligent misrepresentation, breach of contract, violations of the Exchange Act and state securities laws, and breach of duties under the rules of the Municipal Securities Rulemaking Board and the NASD. Certain of the arbitrations have been enjoined in accordance with the exclusive forum selection clauses in the transaction documents. In addition, GS&Co. has filed motions with the FINRA Panels to dismiss the arbitrations, one of which has been granted, and has filed a motion to dismiss two of the proceedings pending in federal court. GS&Co. has also reached settlements in three actions and a settlement in principle in one action. One action was voluntarily dismissed.

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

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

Commodities-Related Litigation. GS&Co., GSI, J. Aron & Company and Metro, a previously consolidated subsidiary of Group Inc. that was sold in the fourth quarter of 2014, are among the defendants in a number of putative class actions filed beginning on August 1, 2013 and consolidated in the U.S. District Court for the Southern District of New York. The complaints generally allege violations of federal antitrust laws and state laws in connection with the storage of aluminum and aluminum trading. The complaints seek declaratory, injunctive and other equitable relief as well as unspecified monetary damages, including treble damages. On August 29, 2014, the court granted the Goldman Sachs defendants' motion to dismiss. Certain plaintiffs appealed on September 24, 2014, and the remaining plaintiffs sought to amend their complaints in October 2014. On March 26, 2015, the court granted in part and denied in part plaintiffs' motions for leave to amend their complaints, rejecting their monopolization claims and most state law claims but permitting their antitrust conspiracy claims and certain parallel state law and unjust enrichment claims to proceed, and the court directed the remaining plaintiffs to file their amended complaints, which they did on April 9, 2015.

GS Power, Metro and GSI are among the defendants named in putative class actions, filed beginning on May 23, 2014 in the U.S. District Court for the Southern District of New York, based on similar alleged violations of the federal antitrust laws in connection with the management of zinc storage facilities. On June 17, 2015, the plaintiffs filed a consolidated amended complaint. On August 3, 2015, the defendants moved to dismiss.

GSI is among the defendants named in putative class actions relating to trading in platinum and palladium, filed beginning on November 25, 2014, in the U.S. District Court for the Southern District of New York. The complaints generally allege that the defendants violated federal antitrust laws and the Commodity Exchange Act in connection with an alleged conspiracy to manipulate a benchmark for physical platinum and palladium prices and seek declaratory and injunctive relief as well as treble damages in an unspecified amount. On July 27, 2015, plaintiffs filed a second amended consolidated complaint, and on September 21, 2015, the defendants moved to dismiss.

ISDAFIX-Related Litigation. Group Inc. is among the defendants named in several putative class actions relating to trading in interest rate derivatives, filed beginning in September 2014 in the U.S. District Court for the Southern District of New York. The second consolidated amended complaint, filed on February 12, 2015, asserts claims under the federal antitrust laws and state common law in connection with an alleged conspiracy to manipulate the ISDAFIX benchmark and seeks declaratory and injunctive relief as well as treble damages in an unspecified amount. Defendants moved to dismiss the second consolidated amended complaint on April 13, 2015.

Currencies-Related Litigation. GS&Co. and Group Inc. are among the defendants named in several putative antitrust class actions relating to trading in the foreign exchange markets, filed beginning in December 2013 in the U.S. District Court for the Southern District of New York. The complaints generally allege that defendants violated federal antitrust laws in connection with an alleged conspiracy to manipulate the foreign currency exchange markets and seek declaratory and injunctive relief as well as treble damages in an unspecified amount. On February 13, 2014, the cases were consolidated into one action, and a consolidated amended complaint was filed on March 31, 2014. On January 28, 2015, the court denied defendants' motion to dismiss the consolidated action. On July 16, 2015, the plaintiffs filed a second consolidated amended complaint, which, among other things, added the claims in the actions discussed in the paragraph immediately below.

Beginning in February 2015, GS&Co. and Group Inc. were named as defendants in separate putative class actions filed in the U.S. District Court for the Southern District of New York. The complaints generally allege that defendants violated federal antitrust laws and the Commodity Exchange Act in connection with an alleged conspiracy to manipulate foreign exchange benchmark rates, which caused artificial foreign exchange futures prices. Plaintiffs seek declaratory and injunctive relief and treble damages in an unspecified amount. On August 13, 2015, the court consolidated these actions with the antitrust class actions discussed above. On October 1, 2015, GS&Co. and Group Inc. entered into a definitive settlement agreement with the plaintiffs in the consolidated action, subject to court approval. The firm has reserved the full amount of the proposed settlement.

Notes to Condensed Consolidated Financial Statements (Unaudited)

On June 3, 2015, GS&Co. and Group Inc. were among the defendants named in a putative class action filed in the U.S. District Court for the Southern District of New York on behalf of certain ERISA employee benefit plans. As to the claims brought against GS&Co. and Group Inc., the complaint generally alleges that the defendants violated ERISA in connection with an alleged conspiracy to manipulate the foreign currency exchange markets, which caused losses to ERISA plans for which the defendants provided foreign exchange services or otherwise authorized the execution of foreign exchange services. Plaintiffs seek declaratory and injunctive relief as well as restitution and disgorgement in an unspecified amount.

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

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

Regulatory Investigations and Reviews and Related Litigation. Group Inc. and certain of its affiliates are subject to a number of other investigations and reviews by, and in some cases have received subpoenas and requests for documents and information from, various governmental and regulatory bodies and self-regulatory organizations and litigation relating to various matters relating to the firm's businesses and operations, including:

- The 2008 financial crisis;
- The public offering process;
- The firm's investment management and financial advisory services;
- Conflicts of interest;
- Research practices, including research independence and interactions between research analysts and other firm personnel, including investment banking personnel, as well as third parties;
- Transactions involving municipal securities, including wall-cross procedures and conflict of interest disclosure with respect to state and municipal clients, the trading and structuring of municipal derivative instruments in connection with municipal offerings, political contribution rules, underwriting of Build America Bonds, municipal advisory services and the possible impact of credit default swap transactions on municipal issuers;
- The offering, auction, sales, trading and clearance of corporate and government securities, currencies, commodities and other financial products and related sales and other communications and activities, including compliance with the SEC's short sale rule, algorithmic, high-frequency and quantitative trading, the firm's U.S. alternative trading system, futures trading, options trading, when-issued trading, transaction reporting, technology systems and controls, securities lending practices, trading and clearance of credit derivative instruments, commodities activities and metals storage, private placement practices, allocations of and trading in securities, and trading activities and communications in connection with the establishment of benchmark rates, such as currency rates and the ISDAFIX benchmark rates;
- Compliance with the U.S. Foreign Corrupt Practices Act, including with respect to the firm's hiring practices;
- The firm's system of risk management and controls; and
- Insider trading, the potential misuse and dissemination of material nonpublic information regarding corporate and governmental developments and the effectiveness of the firm's insider trading controls and information barriers.

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

Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying condensed consolidated statement of financial condition of The Goldman Sachs Group, Inc. and its subsidiaries (the Company) as of September 30, 2015, the related condensed consolidated statements of earnings for the three and nine months ended September 30, 2015 and 2014, the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2015 and 2014, the condensed consolidated statement of changes in shareholders' equity for the nine months ended September 30, 2015, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2015 and 2014. These condensed consolidated interim financial statements are the responsibility of the Company's management.

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

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition as of December 31, 2014, and the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the year then ended (not presented herein), and in our report dated February 20, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of December 31, 2014, and the condensed consolidated statement of changes in shareholders' equity for the year ended December 31, 2014, is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

/s/ PRICEWATERHOUSECOOPERS LLP

New York, New York
November 2, 2015

Statistical Disclosures

Distribution of Assets, Liabilities and Shareholders' Equity

The tables below present a summary of consolidated average balances and interest rates. Assets, liabilities and interest are

classified as U.S. and non-U.S. based on the location of the legal entity in which the assets and liabilities are held.

	Three Months Ended September					
	2015			2014		
	Average balance	Interest	Average rate (annualized)	Average balance	Interest	Average rate (annualized)
<i>\$ in millions</i>						
Assets						
U.S.	\$ 55,733	\$ 29	0.21%	\$ 54,655	\$ 38	0.28%
Non-U.S.	5,190	6	0.46%	6,130	6	0.39%
Total deposits with banks	60,923	35	0.23%	60,785	44	0.29%
U.S.	176,744	(57)	(0.13)%	186,762	(135)	(0.29)%
Non-U.S.	114,570	72	0.25%	98,908	93	0.37%
Total securities borrowed, securities purchased under agreements to resell and federal funds sold	291,314	15	0.02%	285,670	(42)	(0.06)%
U.S.	146,873	1,024	2.77%	164,883	1,216	2.93%
Non-U.S.	94,298	434	1.83%	100,306	574	2.27%
Total financial instruments owned, at fair value¹	241,171	1,458	2.40%	265,189	1,790	2.68%
U.S.	37,743	289	3.04%	23,241	176	3.01%
Non-U.S.	2,740	25	3.62%	977	15	5.91%
Total loans receivable	40,483	314	3.08%	24,218	191	3.13%
U.S.	85,229	200	0.93%	79,111	198	0.99%
Non-U.S.	48,948	97	0.79%	53,568	116	0.86%
Total other interest-earning assets²	134,177	297	0.88%	132,679	314	0.94%
Total interest-earning assets	768,068	2,119	1.09%	768,541	2,297	1.19%
Cash and due from banks	6,759			5,332		
Other non-interest-earning assets ¹	99,298			90,786		
Total assets	\$874,125			\$864,659		
Liabilities						
U.S.	\$ 73,952	\$ 92	0.49%	\$ 63,592	\$ 73	0.46%
Non-U.S.	14,552	14	0.38%	9,969	14	0.56%
Total interest-bearing deposits	88,504	106	0.48%	73,561	87	0.47%
U.S.	59,012	55	0.37%	66,713	50	0.30%
Non-U.S.	29,574	33	0.44%	42,869	41	0.38%
Total securities loaned and securities sold under agreements to repurchase	88,586	88	0.39%	109,582	91	0.33%
U.S.	39,242	172	1.74%	38,669	168	1.72%
Non-U.S.	35,020	172	1.95%	38,251	206	2.14%
Total financial instruments sold, but not yet purchased, at fair value¹	74,262	344	1.84%	76,920	374	1.93%
U.S.	41,970	63	0.60%	49,369	111	0.89%
Non-U.S.	13,636	4	0.12%	18,154	10	0.22%
Total short-term borrowings³	55,606	67	0.48%	67,523	121	0.71%
U.S.	175,265	915	2.07%	164,660	825	1.99%
Non-U.S.	9,458	20	0.84%	7,876	22	1.11%
Total long-term borrowings³	184,723	935	2.01%	172,536	847	1.95%
U.S.	153,192	(339)	(0.88)%	150,832	(339)	(0.89)%
Non-U.S.	62,458	76	0.48%	61,018	67	0.44%
Total other interest-bearing liabilities⁴	215,650	(263)	(0.48)%	211,850	(272)	(0.51)%
Total interest-bearing liabilities	707,331	1,277	0.72%	711,972	1,248	0.70%
Non-interest-bearing deposits	2,237			880		
Other non-interest-bearing liabilities ¹	77,048			70,205		
Total liabilities	786,616			783,057		
Shareholders' equity						
Preferred stock	11,200			9,200		
Common stock	76,309			72,402		
Total shareholders' equity	87,509			81,602		
Total liabilities and shareholders' equity	\$874,125			\$864,659		
Interest rate spread			0.37%			0.49%
U.S.		\$ 527	0.42%		\$ 605	0.47%
Non-U.S.		315	0.47%		444	0.68%
Net interest income and net yield on interest-earning assets		842	0.43%		1,049	0.54%
Percentage of interest-earning assets and interest-bearing liabilities attributable to non-U.S. operations						
Assets			34.60%			33.82%
Liabilities			23.28%			25.02%

1. Derivative instruments and commodities are included in other non-interest-earning assets and other non-interest-bearing liabilities.

2. Primarily consists of certain receivables from customers and counterparties and cash and securities segregated for regulatory and other purposes.

3. Interest rates include the effects of interest rate swaps accounted for as hedges.

4. Substantially all consists of certain payables to customers and counterparties.

Statistical Disclosures

Nine Months Ended September

	2015			2014		
	Average balance	Interest	Average rate (annualized)	Average balance	Interest	Average rate (annualized)
<i>\$ in millions</i>						
Assets						
U.S.	\$ 56,169	\$ 99	0.24%	\$ 53,718	\$ 122	0.30%
Non-U.S.	4,462	15	0.45%	6,617	21	0.42%
Total deposits with banks	60,631	114	0.25%	60,335	143	0.32%
U.S.	176,838	(298)	(0.23)%	196,568	(375)	(0.26)%
Non-U.S.	111,380	312	0.37%	112,105	370	0.44%
Total securities borrowed, securities purchased under agreements to resell and federal funds sold	288,218	14	0.01%	308,673	(5)	0.00%
U.S.	152,329	3,026	2.66%	171,714	3,885	3.02%
Non-U.S.	97,631	1,380	1.89%	101,754	1,918	2.52%
Total financial instruments owned, at fair value¹	249,960	4,406	2.36%	273,468	5,803	2.84%
U.S.	32,754	779	3.18%	19,713	444	3.01%
Non-U.S.	2,071	61	3.94%	947	43	6.04%
Total loans receivable	34,825	840	3.22%	20,660	487	3.15%
U.S.	73,639	566	1.03%	87,000	620	0.95%
Non-U.S.	58,186	364	0.84%	54,308	422	1.04%
Total other interest-earning assets²	131,825	930	0.94%	141,308	1,042	0.99%
Total interest-earning assets	765,459	6,304	1.10%	804,444	7,470	1.24%
Cash and due from banks	6,240			5,012		
Other non-interest-earning assets ¹	101,027			91,892		
Total assets	\$872,726			\$901,348		
Liabilities						
U.S.	\$ 72,013	\$ 253	0.47%	\$ 61,372	\$ 214	0.47%
Non-U.S.	13,635	36	0.35%	9,842	40	0.54%
Total interest-bearing deposits	85,648	289	0.45%	71,214	254	0.48%
U.S.	59,339	156	0.35%	84,915	153	0.24%
Non-U.S.	31,197	80	0.34%	58,130	197	0.45%
Total securities loaned and securities sold under agreements to repurchase	90,536	236	0.35%	143,045	350	0.33%
U.S.	35,729	475	1.78%	40,637	631	2.08%
Non-U.S.	37,220	526	1.89%	43,795	722	2.20%
Total financial instruments sold, but not yet purchased, at fair value¹	72,949	1,001	1.83%	84,432	1,353	2.14%
U.S.	42,525	301	0.95%	46,016	294	0.85%
Non-U.S.	14,526	17	0.16%	19,556	26	0.18%
Total short-term borrowings³	57,051	318	0.75%	65,572	320	0.65%
U.S.	169,902	2,737	2.15%	163,847	2,588	2.11%
Non-U.S.	8,786	106	1.61%	6,805	87	1.71%
Total long-term borrowings³	178,688	2,843	2.13%	170,652	2,675	2.10%
U.S.	155,721	(1,053)	(0.90)%	152,717	(869)	(0.76)%
Non-U.S.	62,993	306	0.65%	62,727	301	0.64%
Total other interest-bearing liabilities⁴	218,714	(747)	(0.46)%	215,444	(568)	(0.35)%
Total interest-bearing liabilities	703,586	3,940	0.75%	750,359	4,384	0.78%
Non-interest-bearing deposits	1,821			772		
Other non-interest-bearing liabilities ¹	81,214			69,817		
Total liabilities	786,621			820,948		
Shareholders' equity						
Preferred stock	10,400			8,400		
Common stock	75,705			72,000		
Total shareholders' equity	86,105			80,400		
Total liabilities and shareholders' equity	\$872,726			\$901,348		
Interest rate spread			0.35%			0.46%
U.S.		\$ 1,303	0.35%		\$ 1,685	0.43%
Non-U.S.		1,061	0.52%		1,401	0.68%
Net interest income and net yield on interest-earning assets		2,364	0.41%		3,086	0.51%
Percentage of interest-earning assets and interest-bearing liabilities attributable to non-U.S. operations						
Assets			35.76%			34.28%
Liabilities			23.93%			26.77%

1. Derivative instruments and commodities are included in other non-interest-earning assets and other non-interest-bearing liabilities.

2. Primarily consists of certain receivables from customers and counterparties and cash and securities segregated for regulatory and other purposes.

3. Interest rates include the effects of interest rate swaps accounted for as hedges.

4. Substantially all consists of certain payables to customers and counterparties.

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

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Management's Discussion and Analysis**Introduction**

The Goldman Sachs Group, Inc. (Group Inc. or parent company), a Delaware corporation, together with its consolidated subsidiaries (collectively, the firm), is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and 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.

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014. References to "the 2014 Form 10-K" are to our Annual Report on Form 10-K for the year ended December 31, 2014.

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

References to "the September 2015 Form 10-Q" are to our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015. All references to "the condensed consolidated financial statements" or "Statistical Disclosures" are to Part I, Item 1 of the September 2015 Form 10-Q. All references to September 2015, June 2015 and September 2014 refer to our periods ended, or the dates, as the context requires, September 30, 2015, June 30, 2015 and September 30, 2014, respectively. All references to December 2014 refer to the date December 31, 2014. Any reference to a future year refers to a year ending on December 31 of that year. Certain reclassifications have been made to previously reported amounts to conform to the current presentation.

Executive Overview

Three Months Ended September 2015 versus September 2014. The firm generated net earnings of \$1.43 billion and diluted earnings per common share of \$2.90 for the third quarter of 2015, a decrease of 36% and 37%, respectively, compared with \$2.24 billion and \$4.57 per share for the third quarter of 2014. Annualized return on average common shareholders' equity (ROE) was 7.0% for the third quarter of 2015, compared with 11.8% for the third quarter of 2014.

Book value per common share was \$171.45 and tangible book value per common share¹ was \$162.11 as of September 2015, both 1% higher compared with the end of the second quarter of 2015 and 5% higher compared with the end of 2014.

Net revenues were \$6.86 billion for the third quarter of 2015, 18% lower than the third quarter of 2014, reflecting significantly lower net revenues in Investing & Lending, lower net revenues in Institutional Client Services and slightly lower net revenues in Investment Management. These decreases were partially offset by higher net revenues in Investment Banking.

Operating expenses were \$4.82 billion for the third quarter of 2015, 5% lower than the third quarter of 2014, due to lower compensation and benefits expenses, partially offset by higher non-compensation expenses, reflecting higher net provisions for litigation and regulatory proceedings.

We continued to maintain strong capital ratios and liquidity. As of September 2015, our Common Equity Tier 1 ratio² as computed in accordance with the Standardized approach and the Basel III Advanced approach, in each case reflecting the applicable transitional provisions, was 12.4% and 12.7%, respectively. In addition, our global core liquid assets³ were \$193 billion as of September 2015.

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 condensed consolidated financial statements for further information about our capital ratios.

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

Management's Discussion and Analysis

Nine Months Ended September 2015 versus September 2014. The firm generated net earnings of \$5.32 billion and diluted earnings per common share of \$10.84 for the first nine months of 2015, a decrease of 16% and 15%, respectively, compared with \$6.31 billion and \$12.69 per share for the first nine months of 2014. Annualized ROE was 8.8% for the first nine months of 2015, compared with 11.2% for the first nine months of 2014.

Net revenues were \$26.55 billion for the first nine months of 2015, essentially unchanged compared with the first nine months of 2014, as significantly lower net revenues in Investing & Lending were offset by higher net revenues in Investment Banking and slightly higher net revenues in both Institutional Client Services and Investment Management.

Operating expenses were \$18.84 billion for the first nine months of 2015, 6% higher than the first nine months of 2014, due to higher non-compensation expenses, primarily reflecting significantly higher net provisions for mortgage-related litigation and regulatory matters. Compensation and benefits expenses were essentially unchanged compared with the same prior year period.

Business Environment**Global**

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

United States

In the United States, real GDP growth declined compared with the second quarter of 2015, reflecting lower inventory investment, although personal consumption grew at a solid rate. Measures of consumer confidence were mixed, and home sales and housing starts increased slightly. The unemployment rate declined slightly during the quarter and measures of inflation remained low. The U.S. Federal Reserve maintained its federal funds rate at a target range of zero to 0.25%, with policymakers projecting the possibility of a rate hike later this year. The 10-year U.S. Treasury note yield ended the quarter at 2.06%, 29 basis points lower compared with the end of the second quarter of 2015. In equity markets, the Dow Jones Industrial Average declined by 8%, and the NASDAQ Composite Index and S&P 500 Index both declined by 7% compared with the end of the previous quarter.

Management's Discussion and Analysis**Europe**

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

Asia

In Japan, real GDP appeared to increase in the third quarter compared with a contraction in the second quarter of 2015. This improvement reflected positive growth in consumer expenditure after negative growth last quarter. Inflation was significantly below the Bank of Japan's (BOJ) 2% inflation target, and the BOJ continued its program of monetary easing. The yield on 10-year Japanese government bonds declined slightly, the U.S. dollar depreciated by 2% against the Japanese yen, and the Nikkei 225 Index decreased by 14% compared with the end of the second quarter of 2015. In China, real GDP growth declined slightly during the quarter. The People's Bank of China announced a cut in the reserve requirement ratio and took policy actions that led to a depreciation of the Chinese yuan. In equity markets, the Shanghai Composite Index and Hang Seng Index declined by 29% and 21%, respectively, during the quarter. In India, economic growth appeared to improve compared with the previous quarter. The U.S. dollar appreciated by 3% against the Indian rupee, and the BSE Sensex Index decreased by 6% compared with the end of the second quarter of 2015.

Critical Accounting Policies**Fair Value**

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

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

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

Management's Discussion and Analysis

Instruments categorized within level 3 of the fair value hierarchy are those which require one or more significant inputs that are not observable. As of September 2015, June 2015 and December 2014, level 3 financial assets represented 3.1%, 3.8% and 4.2%, respectively, of our total assets. See Notes 5 through 8 to the condensed consolidated financial statements for further information about level 3 financial assets, including changes in level 3 financial assets and related fair value measurements. Absent evidence to the contrary, instruments classified within level 3 of the fair value hierarchy are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequent to the transaction date, we use other methodologies to determine fair value, which vary based on the type of instrument. Estimating the fair value of level 3 financial instruments requires judgments to be made. These judgments include:

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

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

Controls Over Valuation of Financial Instruments.

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

Management's Discussion and Analysis

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

Review of Valuation Models. The firm's independent model risk management group (Model Risk Management), 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.

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 condensed consolidated financial statements for further information about our goodwill.

Management's Discussion and Analysis

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

Recent Accounting Developments

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

Use of Estimates

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

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

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

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

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

Management's Discussion and Analysis**Results of Operations**

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

Financial Overview

The table below presents an overview of our financial results.

<i>\$ in millions, except per share amounts</i>	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Net revenues	\$6,861	\$8,387	\$26,547	\$26,840
Pre-tax earnings	2,046	3,305	7,706	9,147
Net earnings	1,426	2,241	5,318	6,311
Net earnings applicable to common shareholders	1,330	2,143	4,994	6,045
Diluted earnings per common share	2.90	4.57	10.84	12.69
Annualized return on average common shareholders' equity ¹	7.0%	11.8%	8.8%	11.2%

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

<i>\$ in millions</i>	Average for the			
	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Total shareholders' equity	\$ 87,509	\$81,602	\$ 86,105	\$80,400
Preferred stock	(11,200)	(9,200)	(10,400)	(8,400)
Common shareholders' equity	\$ 76,309	\$72,402	\$ 75,705	\$72,000

The table below presents selected financial ratios.

	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Annualized net earnings to average assets	0.7%	1.0%	0.8%	0.9%
Annualized return on average total shareholders' equity ¹	6.5%	11.0%	8.2%	10.5%
Average total shareholders' equity to average assets	10.0%	9.4%	9.9%	8.9%
Dividend payout ratio ²	22.4%	12.0%	17.5%	13.0%

1. Annualized return on average total shareholders' equity is computed by dividing annualized 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 condensed consolidated statements of earnings.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Investment banking	\$1,556	\$1,464	\$ 5,480	\$ 5,024
Investment management	1,331	1,386	4,400	4,262
Commissions and fees	859	783	2,517	2,441
Market making	1,730	2,087	7,964	6,911
Other principal transactions	543	1,618	3,822	5,116
Total non-interest revenues	6,019	7,338	24,183	23,754
Interest income	2,119	2,297	6,304	7,470
Interest expense	1,277	1,248	3,940	4,384
Net interest income	842	1,049	2,364	3,086
Total net revenues	\$6,861	\$8,387	\$26,547	\$26,840

In the table above:

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

Management's Discussion and Analysis***Three Months Ended September 2015 versus September 2014***

Net revenues on the condensed consolidated statements of earnings were \$6.86 billion for the third quarter of 2015, 18% lower than the third quarter of 2014, due to significantly lower other principal transactions revenues and, to a lesser extent, lower market-making revenues and significantly lower net interest income. In addition, investment management revenues were slightly lower. These decreases were partially offset by higher investment banking revenues and commissions and fees compared with the third quarter of 2014.

During the third quarter of 2015, the operating environment for market-making activities was characterized by concerns related to macroeconomic developments, including the economic outlook in China and the United States, as well as uncertainty about the Federal Reserve's interest rate policy. These developments, along with significantly lower global equity prices, widening high-yield credit spreads and declining commodity prices, contributed to lower levels of client activity and more challenging market-making conditions compared with the second quarter of 2015. The decline in global equity prices also impacted investment management activities, resulting in depreciation in the value of client assets, and other principal transactions, particularly investments in public equities. The operating environment for investment banking activities was characterized by a significant decline in industry-wide activity in both equity and debt underwriting compared with the second quarter of 2015. However, industry-wide mergers and acquisitions activity remained strong. If macroeconomic concerns continue over the long term, and market-making activity levels continue to decline, or investment banking activity levels or assets under supervision 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 condensed consolidated statements of earnings were \$1.56 billion for the third quarter of 2015, 6% higher than the third quarter of 2014, due to significantly higher revenues in financial advisory, reflecting a significant increase in industry-wide completed mergers and acquisitions. Revenues in underwriting were lower compared with the third quarter of 2014, due to significantly lower revenues in equity underwriting, reflecting a significant decrease in industry-wide activity. This decrease was partially offset by significantly higher revenues in debt underwriting, reflecting higher revenues from investment-grade and leveraged finance activity.

Investment management revenues on the condensed consolidated statement of earnings were \$1.33 billion for the third quarter of 2015, 4% lower than the third quarter of 2014, due to lower incentive fees, partially offset by higher transaction revenues.

Commissions and fees on the condensed consolidated statements of earnings were \$859 million for the third quarter of 2015, 10% higher than the third quarter of 2014, primarily due to higher commissions and fees in the United States, reflecting an increase in client activity, consistent with higher listed cash equity volumes in this region.

Market-making revenues on the condensed consolidated statements of earnings were \$1.73 billion for the third quarter of 2015, 17% lower than the third quarter of 2014. Results for the third quarter of 2014 included a gain of \$270 million related to the extinguishment of certain of our junior subordinated debt. Excluding this gain, the decrease in market-making revenues compared with the third quarter of 2014 reflected significantly lower revenues in mortgages and lower revenues in equity derivatives. These decreases were partially offset by significantly higher revenues in equity cash products, as well as higher revenues in both credit products and interest rate products. Revenues in currencies and commodities were both essentially unchanged.

Other principal transactions revenues on the condensed consolidated statements of earnings were \$543 million for the third quarter of 2015, 66% lower than the third quarter of 2014, primarily due to a significant decrease in revenues from investments in equities, as revenues in public equities were negatively impacted by a significant decrease in global equity prices during the third quarter of 2015. In addition, revenues related to our consolidated investments were lower, primarily reflecting the sale of Metro International Trade Services (Metro) in the fourth quarter of 2014. Revenues in debt securities and loans were significantly lower compared with the third quarter of 2014, reflecting lower net gains from certain investments.

Management's Discussion and Analysis

Net Interest Income. Net interest income on the condensed consolidated statements of earnings was \$842 million for the third quarter of 2015, 20% lower than the third quarter of 2014, primarily due to lower interest income resulting from a reduction in total average financial instruments owned, at fair value, partially offset by an increase in total average loans receivable. See "Statistical Disclosures — Distribution of Assets, Liabilities and Shareholders' Equity" for further information about our sources of net interest income.

Nine Months Ended September 2015 versus September 2014

Net revenues on the condensed consolidated statements of earnings were \$26.55 billion for the first nine months of 2015, essentially unchanged compared with the first nine months of 2014, as significantly lower other principal transactions revenues and net interest income were offset by higher market-making revenues and investment banking revenues, as well as slightly higher investment management revenues and commissions and fees.

During the first nine months of 2015, the operating environment for market-making activities was positively impacted by diverging central bank monetary policies in the United States and the Euro area in the first quarter, as increased volatility levels contributed to strong client activity levels in currencies, interest rate products and equity products, and market-making conditions improved. However, during the second and third quarters, a shift in the macroeconomic backdrop, along with concerns about the debt situation in Greece and the economy in China and the United States, as well as uncertainty about the Federal Reserve's interest rate policy, negatively impacted client activity and market-making conditions. The operating environment for investment banking activities for the first nine months of 2015 was characterized by strong industry-wide mergers and acquisitions activity, while investment management reflected an environment of declines in equity and fixed income asset prices, resulting in depreciation in the value of client assets, particularly in the third quarter of 2015. Although other principal transactions for the first nine months of 2015 benefited from strong corporate performance and favorable company-specific events, a significant decrease in global equity prices during the third quarter reversed much of the net gains from our investments in public equities in the first half of the year. If macroeconomic concerns continue over the long term, and market-making activity levels, investment banking activity levels or assets under supervision 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 condensed consolidated statements of earnings were \$5.48 billion for the first nine months of 2015, 9% higher than the first nine months of 2014, due to significantly higher revenues in financial advisory, reflecting strong client activity, particularly in the United States. Industry-wide completed mergers and acquisitions increased significantly compared with the same prior year period. Revenues in underwriting were lower compared with a strong first nine months of 2014, primarily due to lower revenues in debt underwriting, reflecting significantly lower leveraged finance activity. In addition, revenues in equity underwriting were lower, reflecting significantly lower revenues from initial public offerings and convertible offerings, partially offset by significantly higher revenues from secondary offerings.

Investment management revenues on the condensed consolidated statement of earnings were \$4.40 billion for the first nine months of 2015, 3% higher than the first nine months of 2014, primarily reflecting slightly higher management and other fees, due to higher average assets under supervision, and higher transaction revenues.

Commissions and fees on the condensed consolidated statements of earnings were \$2.52 billion for the first nine months of 2015, 3% higher than the first nine months of 2014, due to an increase in commissions and fees from futures, reflecting an increase in client activity, consistent with higher global futures market volumes.

Market-making revenues on the condensed consolidated statements of earnings were \$7.96 billion for the first nine months of 2015, 15% higher than the first nine months of 2014. Results for the first nine months of 2014 included a gain of \$270 million related to the extinguishment of certain of our junior subordinated debt. Excluding this gain, the increase was due to significantly higher revenues in interest rate products, currencies, equity cash products and equity derivatives, partially offset by significantly lower revenues in mortgages, credit products and commodities.

Other principal transactions revenues on the condensed consolidated statements of earnings were \$3.82 billion for the first nine months of 2015, 25% lower than the first nine months of 2014, due to lower revenues from investments in equities and significantly lower revenues from debt securities and loans. The decrease in revenues from investments in equities was due to a decrease in net gains from investments in private equities, driven by lower results from company-specific events, as well as significantly lower revenues related to our consolidated investments, primarily reflecting the sale of Metro in the fourth quarter of 2014. The decrease in revenues from debt securities and loans was primarily driven by lower net gains from certain investments.

Management's Discussion and Analysis

Net Interest Income. Net interest income on the condensed consolidated statements of earnings was \$2.36 billion for the first nine months of 2015, 23% lower than the first nine months of 2014, primarily due to lower interest income resulting from a reduction in total average financial instruments owned, at fair value, partially offset by an increase in total average loans receivable. The decrease in interest income was partially offset by lower interest expense related to financial instruments sold, but not yet purchased, at fair value and other interest-bearing liabilities. See “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. Compensation and benefits includes salaries, estimated year-end discretionary compensation, amortization of equity awards and other items such as benefits. Discretionary compensation is significantly impacted by, among other factors, the level of net revenues, overall financial performance, prevailing labor markets, business mix, the structure of our share-based compensation programs and the external environment. In addition, see “Use of Estimates” for additional information about expenses that may arise from compensation and benefits, and litigation and regulatory proceedings.

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

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Compensation and benefits	\$ 2,351	\$ 2,801	\$10,619	\$10,736
Brokerage, clearing, exchange and distribution fees	665	624	1,950	1,832
Market development	123	129	409	408
Communications and technology	200	190	601	576
Depreciation and amortization	222	301	706	985
Occupancy	182	212	572	627
Professional fees	253	220	714	656
Other expenses	819	605	3,270	1,873
Total non-compensation expenses	2,464	2,281	8,222	6,957
Total operating expenses	\$ 4,815	\$ 5,082	\$18,841	\$17,693
Total staff at period-end	36,900	33,500		

Three Months Ended September 2015 versus September 2014. Operating expenses were \$4.82 billion for the third quarter of 2015, 5% lower than the third quarter of 2014. The accrual for compensation and benefits expenses on the condensed consolidated statements of earnings was \$2.35 billion for the third quarter of 2015, 16% lower than the third quarter of 2014, reflecting a decrease in net revenues. Total staff increased 6% during the third quarter of 2015, primarily reflecting the timing of campus hires.

Non-compensation expenses on the condensed consolidated statements of earnings were \$2.46 billion for the third quarter of 2015, 8% higher than the third quarter of 2014, reflecting an increase in other expenses, due to higher net provisions for litigation and regulatory proceedings, and an increase in brokerage, clearing, exchange and distributions fees, reflecting higher transaction volumes in Equities. These increases were partially offset by lower depreciation and amortization expenses, primarily due to impairment charges during the third quarter of 2014. Net provisions for litigation and regulatory proceedings for the third quarter of 2015 were \$416 million compared with \$194 million for the third quarter of 2014. The third quarter of 2015 also included a \$25 million charitable contribution to Goldman Sachs Gives, our donor-advised fund.

Nine Months Ended September 2015 versus September 2014. Operating expenses on the condensed consolidated statements of earnings were \$18.84 billion for the first nine months of 2015, 6% higher than the first nine months of 2014. The accrual for compensation and benefits expenses on the condensed consolidated statements of earnings was \$10.62 billion for the first nine months of 2015, essentially unchanged compared with the first nine months of 2014. The ratio of compensation and benefits to net revenues for the first nine months of 2015 was 40.0%, compared with 42.0% for the first half of 2015 and 40.0% for the first nine months of 2014. Total staff increased 9% during the first nine months of 2015, primarily due to activity levels in certain businesses and our continued investment in regulatory compliance.

Management's Discussion and Analysis

Non-compensation expenses on the condensed consolidated statements of earnings were \$8.22 billion for the first nine months of 2015, 18% higher than the first nine months of 2014, primarily due to significantly higher net provisions for mortgage-related litigation and regulatory matters, which are included in other expenses, and, to a lesser extent, higher brokerage, clearing, exchange and distribution fees. These increases were partially offset by significantly lower depreciation and amortization expenses, primarily reflecting lower impairment charges related to consolidated investments. The first nine months of 2015 included net provisions for litigation and regulatory proceedings of \$2.06 billion compared with \$593 million during the first nine months of 2014.

Provision for Taxes

The effective income tax rate for the first nine months of 2015 was 31.0%, essentially unchanged from 31.2% for the first half of 2015 and down slightly from the full year tax rate of 31.4% for 2014.

The rules related to the deferral of U.S. tax on certain non-repatriated active financing income expired effective December 31, 2014. This change did not have a material impact on our effective tax rate for the nine months ended September 2015, and we do not expect it will have a material impact on our effective tax rate for the remainder of 2015. This change may have a material impact on our effective tax rate for 2016 if the expired provisions are not re-enacted.

New York State enacted executive budget legislation for the 2015-2016 fiscal year which makes changes to the income taxation of corporations doing business in New York City. This change did not have a material impact on our effective tax rate for the nine months ended September 2015, and we do not expect this legislation will have a material impact on our effective tax rate for the remainder of 2015 or 2016.

In July 2015, the United Kingdom government announced a budget proposal which contained several changes that will impact our subsidiaries operating in the U.K., including: (i) an 8 percentage point surcharge on banking profits effective in 2016, (ii) a 1 percentage point reduction in corporate income tax rates effective in 2017, (iii) a further 1 percentage point reduction in corporate tax rates effective in 2020, and (iv) a phased-in reduction from 2016 through 2021 in the U.K. Bank Levy rate (for which the related expense is included in our non-compensation expenses). Upon enactment of the U.K. budget, which is anticipated in the fourth quarter of 2015, we expect to recognize a benefit related to the revaluation of deferred income tax assets. Beginning in 2016, the new legislation will increase our effective income tax rate and the impact will depend on the level and mix of our earnings.

Segment Operating Results

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

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Investment Banking				
Net revenues	\$1,556	\$1,464	\$ 5,480	\$ 5,024
Operating expenses	788	805	3,049	2,927
Pre-tax earnings	\$ 768	\$ 659	\$ 2,431	\$ 2,097
Institutional Client Services				
Net revenues	\$3,213	\$3,772	\$12,273	\$12,048
Operating expenses	2,522	2,585	10,101	8,724
Pre-tax earnings	\$ 691	\$1,187	\$ 2,172	\$ 3,324
Investing & Lending				
Net revenues	\$ 670	\$1,692	\$ 4,140	\$ 5,293
Operating expenses	358	591	1,948	2,482
Pre-tax earnings	\$ 312	\$1,101	\$ 2,192	\$ 2,811
Investment Management				
Net revenues	\$1,422	\$1,459	\$ 4,654	\$ 4,475
Operating expenses	1,122	1,101	3,718	3,560
Pre-tax earnings	\$ 300	\$ 358	\$ 936	\$ 915
Total net revenues	\$6,861	\$8,387	\$26,547	\$26,840
Total operating expenses ¹	4,815	5,082	18,841	17,693
Total pre-tax earnings	\$2,046	\$3,305	\$ 7,706	\$ 9,147

1. Includes charitable contributions that have not been allocated to our segments of \$25 million for the three and nine months ended September 2015. 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 condensed consolidated financial statements for further information about our business segments.

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

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Financial Advisory	\$ 809	\$ 594	\$2,591	\$1,782
Equity underwriting	190	426	1,318	1,408
Debt underwriting	557	444	1,571	1,834
Total Underwriting	747	870	2,889	3,242
Total net revenues	1,556	1,464	5,480	5,024
Operating expenses	788	805	3,049	2,927
Pre-tax earnings	\$ 768	\$ 659	\$2,431	\$2,097

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

<i>\$ in billions</i>	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Announced mergers and acquisitions	\$ 294	\$ 171	\$1,000	\$ 672
Completed mergers and acquisitions	330	147	901	485
Equity and equity-related offerings ²	11	17	59	62
Debt offerings ³	56	54	199	219

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.

Three Months Ended September 2015 versus September 2014. Net revenues in Investment Banking were \$1.56 billion for the third quarter of 2015, 6% higher than the third quarter of 2014.

Net revenues in Financial Advisory were \$809 million, 36% higher than the third quarter of 2014, reflecting a significant increase in industry-wide completed mergers and acquisitions. Net revenues in Underwriting were \$747 million, 14% lower than the third quarter of 2014, due to significantly lower net revenues in equity underwriting, reflecting a significant decrease in industry-wide activity. This decrease was partially offset by significantly higher net revenues in debt underwriting, reflecting higher net revenues from investment-grade and leveraged finance activity.

During the third quarter of 2015, Investment Banking operated in an environment characterized by a significant decline in industry-wide activity in both equity and debt underwriting compared with the second quarter of 2015. However, industry-wide mergers and acquisitions activity remained strong. In the future, if market conditions become less favorable and client activity levels in underwriting continue to decline, or client activity levels in mergers and acquisitions decline, net revenues in Investment Banking would likely be negatively impacted.

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

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

Management's Discussion and Analysis

Operating expenses were \$788 million for the third quarter of 2015, 2% lower than the third quarter of 2014. Pre-tax earnings were \$768 million in the third quarter of 2015, 17% higher than the third quarter of 2014.

Nine Months Ended September 2015 versus September 2014. Net revenues in Investment Banking were \$5.48 billion for the first nine months of 2015, 9% higher than the first nine months of 2014.

Net revenues in Financial Advisory were \$2.59 billion, 45% higher than the first nine months of 2014, reflecting strong client activity, particularly in the United States. Industry-wide completed mergers and acquisitions increased significantly compared with the same prior year period. Net revenues in Underwriting were \$2.89 billion, 11% lower than a strong first nine months of 2014, primarily due to lower net revenues in debt underwriting, reflecting significantly lower leveraged finance activity. In addition, net revenues in equity underwriting were lower, reflecting significantly lower net revenues from initial public offerings and convertible offerings, partially offset by significantly higher net revenues from secondary offerings.

During the first nine months of 2015, Investment Banking operated in an environment characterized by strong industry-wide mergers and acquisitions activity. Industry-wide activity in both debt and equity underwriting declined compared with the first nine months of 2014. In the future, if market conditions become less favorable and client activity levels in mergers and acquisitions decline, or client activity levels in underwriting continue to decline, net revenues in Investment Banking would likely be negatively impacted.

During the first nine months of 2015, our investment banking transaction backlog increased due to an increase in estimated net revenues from potential underwriting transactions. Estimated net revenues from potential debt underwriting transactions were significantly higher compared with the end of 2014, principally related to leveraged finance transactions, while estimated net revenues from potential equity underwriting transactions were higher, principally related to initial public offerings and private placements. These increases were partially offset by a decrease in estimated net revenues from potential advisory transactions. However, the backlog for advisory remained at a high level.

Operating expenses were \$3.05 billion for the first nine months of 2015, 4% higher than the first nine months of 2014, primarily due to increased compensation and benefits expenses, reflecting higher net revenues. Pre-tax earnings were \$2.43 billion in the first nine months of 2015, 16% higher than the first nine months of 2014.

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.

Management's Discussion and Analysis

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

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Fixed Income, Currency and Commodities Client Execution	\$1,461	\$2,170	\$ 6,199	\$ 7,243
Equities client execution	555	429	2,466	1,328
Commissions and fees	818	745	2,393	2,324
Securities services	379	428	1,215	1,153
Total Equities	1,752	1,602	6,074	4,805
Total net revenues	3,213	3,772	12,273	12,048
Operating expenses	2,522	2,585	10,101	8,724
Pre-tax earnings	\$ 691	\$1,187	\$ 2,172	\$ 3,324

Three Months Ended September 2015 versus September 2014. Net revenues in Institutional Client Services were \$3.21 billion for the third quarter of 2015, 15% lower than the third quarter of 2014. Results for the third quarter of 2014 included a gain of \$270 million related to the extinguishment of certain of our junior subordinated debt, of which \$157 million was included in Fixed Income, Currency and Commodities Client Execution and \$113 million in Equities (\$28 million and \$85 million included in equities client execution and securities services, respectively).

Net revenues in Fixed Income, Currency and Commodities Client Execution were \$1.46 billion for the third quarter of 2015, 33% lower than the third quarter of 2014. Excluding the gain related to the extinguishment of debt, net revenues in Fixed Income, Currency and Commodities Client Execution were 27% lower than the third quarter of 2014, due to significantly lower net revenues in mortgages and, to a lesser extent, currencies and interest rate products. In addition, net revenues in commodities were lower. These results reflected challenging market-making conditions during the third quarter of 2015. These decreases were partially offset by higher net revenues in credit products, although client activity remained low.

Net revenues in Equities were \$1.75 billion for the third quarter of 2015, 9% higher than the third quarter of 2014. Excluding the gain related to the extinguishment of debt, net revenues in Equities were 18% higher than the third quarter of 2014, primarily due to significantly higher net revenues in equities client execution, reflecting significantly higher net revenues in cash products, partially offset by lower net revenues in derivatives. In addition, commissions and fees were higher, primarily due to higher commissions and fees in the United States, reflecting an increase in client activity, consistent with higher listed cash equity volumes in this region. Excluding the gain related to the extinguishment of debt, securities services net revenues were higher, reflecting the impact of higher average customer balances.

The firm elects the fair value option for certain unsecured borrowings. The fair value net gain attributable to the impact of changes in our credit spreads on these borrowings was \$182 million (\$147 million and \$35 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for the third quarter of 2015, compared with a net gain of \$66 million (\$37 million and \$29 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for the third quarter of 2014.

During the third quarter of 2015, Institutional Client Services operated in an environment characterized by concerns related to macroeconomic developments, including the economic outlook in China and the United States, as well as uncertainty about the Federal Reserve's interest rate policy. These developments, along with significantly lower global equity prices, widening high-yield credit spreads and declining commodity prices, contributed to lower levels of client activity and more challenging market-making conditions compared with the second quarter of 2015. If macroeconomic concerns continue over the long term and activity levels continue to decline, net revenues in Fixed Income, Currency and Commodities Client Execution and Equities would likely continue to be negatively impacted.

Operating expenses were \$2.52 billion for the third quarter of 2015, 2% lower than the third quarter of 2014, due to decreased compensation and benefits expenses, reflecting lower net revenues, partially offset by increased net provisions for litigation and regulatory proceedings. Pre-tax earnings were \$691 million in the third quarter of 2015, 42% lower than the third quarter of 2014.

Management's Discussion and Analysis

Nine Months Ended September 2015 versus September 2014. Net revenues in Institutional Client Services were \$12.27 billion for the first nine months of 2015, 2% higher than the first nine months of 2014. Results for the first nine months of 2014 included a gain of \$270 million related to the extinguishment of certain of our junior subordinated debt, of which \$157 million was included in Fixed Income, Currency and Commodities Client Execution and \$113 million in Equities (\$28 million and \$85 million included in equities client execution and securities services, respectively).

Net revenues in Fixed Income, Currency and Commodities Client Execution were \$6.20 billion, 14% lower than the first nine months of 2014. Excluding the gain related to the extinguishment of debt, net revenues in Fixed Income, Currency and Commodities Client Execution were 13% lower than the first nine months of 2014, due to significantly lower net revenues in credit products, mortgages and commodities. The decreases in credit products and mortgages reflected challenging market-making conditions and generally low levels of activity during the first nine months of 2015. The decline in commodities primarily reflected less favorable market-making conditions compared with the first nine months of 2014, which included a strong first quarter of 2014. These decreases were partially offset by significantly higher net revenues in interest rate products and currencies compared with the first nine months of 2014, reflecting higher volatility levels which contributed to higher client activity levels, particularly during the first quarter of 2015.

Net revenues in Equities were \$6.07 billion for the first nine months of 2015, 26% higher than the first nine months of 2014. Excluding the gain related to the extinguishment of debt, net revenues in Equities were 29% higher than the first nine months of 2014, primarily due to significantly higher net revenues in equities client execution, reflecting significantly higher results in both derivatives and cash products, and higher net revenues in securities services, reflecting the impact of higher average customer balances. Commissions and fees were slightly higher compared with the first nine months of 2014, due to an increase in commissions and fees from futures, reflecting an increase in client activity, consistent with higher global futures market volumes.

The firm elects the fair value option for certain unsecured borrowings. The fair value net gain attributable to the impact of changes in our credit spreads on these borrowings was \$323 million (\$268 million and \$55 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for the first nine months of 2015, compared with a net gain of \$62 million (\$53 million and \$9 million related to Fixed Income, Currency and Commodities Client Execution and equities client execution, respectively) for the first nine months of 2014.

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

Operating expenses were \$10.10 billion for the first nine months of 2015, 16% higher than the first nine months of 2014, primarily due to significantly higher net provisions for mortgage-related litigation and regulatory matters. Pre-tax earnings were \$2.17 billion in the first nine months of 2015, 35% lower than the first nine months of 2014.

Investing & Lending

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

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

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Equity securities	\$370	\$1,058	\$2,784	\$3,412
Debt securities and loans	300	634	1,356	1,881
Total net revenues ¹	670	1,692	4,140	5,293
Operating expenses	358	591	1,948	2,482
Pre-tax earnings	\$312	\$1,101	\$2,192	\$2,811

1. Net revenues related to our consolidated investments, previously reported in other net revenues within Investing & Lending, are now reported in equity securities and debt securities and loans, as results from these activities (\$99 million and \$265 million for the three and nine months ended September 2015, respectively) are no longer significant due to the sale of Metro in the fourth quarter of 2014. Reclassifications have been made to previously reported amounts to conform to the current presentation.

Three Months Ended September 2015 versus September 2014. Net revenues in Investing & Lending were \$670 million for the third quarter of 2015, 60% lower than the third quarter of 2014, primarily due to a significant decrease in net revenues from investments in equities, as net revenues in public equities were negatively impacted by a significant decrease in global equity prices during the third quarter of 2015. In addition, net revenues related to our consolidated investments were lower, primarily reflecting the sale of Metro in the fourth quarter of 2014. Net revenues in debt securities and loans were significantly lower compared with the third quarter of 2014, reflecting lower net gains from certain investments.

During the third quarter of 2015, net revenues in Investing & Lending generally reflected lower results from our investments in public equities, resulting from a significant decrease in global equity prices. However, net revenues were positive overall due to the impact of favorable company-specific events on our investments in private equities. Concern about the outlook for the global economy continues to be a meaningful consideration for the global marketplace. If equity markets continue to decline or credit spreads widen further, net revenues in Investing & Lending would likely continue to be negatively impacted.

Operating expenses were \$358 million for the third quarter of 2015, 39% lower than the third quarter of 2014, due to decreased compensation and benefits expenses, reflecting lower net revenues, and lower operating expenses related to consolidated investments. Pre-tax earnings were \$312 million in the third quarter of 2015, 72% lower than the third quarter of 2014.

Nine Months Ended September 2015 versus September 2014. Net revenues in Investing & Lending were \$4.14 billion for the first nine months of 2015, 22% lower than the first nine months of 2014, due to lower net revenues from investments in equities and significantly lower net revenues from debt securities and loans. The decrease in net revenues from investments in equities was due to a decrease in net gains from investments in private equities, driven by lower results from company-specific events, as well as significantly lower net revenues related to our consolidated investments, primarily reflecting the sale of Metro in the fourth quarter of 2014. The decrease in net revenues from debt securities and loans was primarily driven by lower net gains from certain investments.

Although net revenues in Investing & Lending for the first nine months of 2015 benefited from strong corporate performance and favorable company-specific events, a significant decrease in global equity prices during the third quarter reversed much of the net gains from our investments in public equities in the first half of the year. Concern about the outlook for the global economy continues to be a meaningful consideration for the global marketplace. If equity markets continue to decline or credit spreads widen further, net revenues in Investing & Lending would likely continue to be negatively impacted.

Operating expenses were \$1.95 billion for the first nine months of 2015, 22% lower than the first nine months of 2014, primarily due to lower impairment charges and lower operating expenses related to consolidated investments. In addition, compensation and benefits expenses were lower, reflecting lower net revenues. Pre-tax earnings were \$2.19 billion in the first nine months of 2015, 22% lower than the first nine months of 2014.

Investment Management

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

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

Assets under supervision typically generate fees as a percentage of net asset value, which vary by asset class and 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 39 basis points and 40 basis points for the three months ended September 2015 and September 2014, respectively, and 39 basis points and 40 basis points for the nine months ended September 2015 and September 2014, respectively.

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

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

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Management and other fees	\$1,212	\$1,214	\$3,651	\$3,569
Incentive fees	73	133	590	576
Transaction revenues	137	112	413	330
Total net revenues	1,422	1,459	4,654	4,475
Operating expenses	1,122	1,101	3,718	3,560
Pre-tax earnings	\$ 300	\$ 358	\$ 936	\$ 915

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

<i>\$ in billions</i>	As of			
	September		December	
	2015	2014	2014	2013
Assets under management	\$1,019	\$1,008	\$1,027	\$ 919
Other client assets	169	142	151	123
Total AUS	\$1,188	\$1,150	\$1,178	\$1,042

Asset Class	2015	2014	2014	2013
Alternative investments ¹	\$ 146	\$ 146	\$ 143	\$ 142
Equity	237	232	236	208
Fixed income	547	517	516	446
Long-term AUS	930	895	895	796
Liquidity products	258	255	283	246
Total AUS	\$1,188	\$1,150	\$1,178	\$1,042

Distribution Channel	2015	2014	2014	2013
Directly distributed:				
Institutional	\$ 462	\$ 411	\$ 412	\$ 363
High-net-worth individuals	360	358	363	330
Third-party distributed:				
Institutional, high-net-worth individuals and retail	366	381	403	349
Total AUS	\$1,188	\$1,150	\$1,178	\$1,042

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

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

<i>\$ in billions</i>	Average for the			
	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Alternative investments	\$ 146	\$ 146	\$ 144	\$ 145
Equity	244	232	244	221
Fixed income	530	516	524	494
Long-term AUS	920	894	912	860
Liquidity products	267	248	268	242
Total AUS	\$1,187	\$1,142	\$1,180	\$1,102

Management's Discussion and Analysis

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

\$ in billions	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Balance, beginning of period	\$1,182	\$1,142	\$1,178	\$1,042
Net inflows/(outflows)				
Alternative investments	4	—	4	2
Equity	13	7	20	14
Fixed income	24	6	38	58
Long-term AUS net inflows/(outflows)	41 ¹	13	62 ¹	74
Liquidity products	(5)	7	(25)	9
Total AUS net inflows/(outflows)	36	20	37	83 ²
Net market appreciation/(depreciation)	(30)	(12)	(27)	25
Balance, end of period	\$1,188	\$1,150	\$1,188	\$1,150

1. Includes \$18 billion of fixed income, equity and alternative investments asset inflows in connection with our acquisition of Pacific Global Advisors' solutions business for the three and nine months ended September 2015.

2. Includes \$19 billion of fixed income asset inflows in connection with our acquisition of Deutsche Asset & Wealth Management's stable value business and \$6 billion of liquidity products inflows in connection with our acquisition of RBS Asset Management's money market funds for the nine months ended September 2014.

Three Months Ended September 2015 versus September 2014.

Net revenues in Investment Management were \$1.42 billion for the third quarter of 2015, 3% lower than the third quarter of 2014, due to lower incentive fees, partially offset by higher transaction revenues. During the quarter, total assets under supervision increased \$6 billion to \$1.19 trillion. Long-term assets under supervision increased \$11 billion, including net inflows of \$41 billion (which includes \$18 billion of asset inflows in connection with our acquisition of Pacific Global Advisors' solutions business), primarily reflecting net inflows in fixed income and equity assets, partially offset by net market depreciation of \$30 billion, primarily in equity assets. Liquidity products decreased \$5 billion.

During the third quarter of 2015, Investment Management operated in an environment generally characterized by declines in asset prices, particularly in equity assets, resulting in depreciation in the value of client assets. The mix of average assets under supervision shifted slightly from long-term assets under supervision to liquidity products compared with the second quarter of 2015. In the future, if asset prices continue to decline, or investors continue to favor asset classes that typically generate lower fees or investors withdraw their assets, net revenues in Investment Management would likely continue to be negatively impacted. In addition, concerns about the global economic outlook could result in downward pressure on assets under supervision.

Operating expenses were \$1.12 billion for the third quarter of 2015, 2% higher than the third quarter of 2014. Pre-tax earnings were \$300 million in the third quarter of 2015, 16% lower than the third quarter of 2014.

Nine Months Ended September 2015 versus September 2014.

Net revenues in Investment Management were \$4.65 billion for the first nine months of 2015, 4% higher than the first nine months of 2014, primarily reflecting slightly higher management and other fees, due to higher average assets under supervision, and higher transaction revenues. During the first nine months of 2015, total assets under supervision increased \$10 billion to \$1.19 trillion. Long-term assets under supervision increased \$35 billion, including net inflows of \$62 billion (which includes \$18 billion of asset inflows in connection with our acquisition of Pacific Global Advisors' solutions business) and net market depreciation of \$27 billion, both primarily in fixed income and equity assets. Liquidity products decreased \$25 billion.

During the first nine months of 2015, Investment Management operated in an environment generally characterized by declines in equity and fixed income asset prices, resulting in depreciation in the value of client assets, particularly in the third quarter of 2015. The mix of average assets under supervision shifted slightly from long-term assets under supervision to liquidity products compared with the first nine months of 2014. In the future, if asset prices continue to decline, or investors continue to 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 \$3.72 billion for the first nine months of 2015, 4% higher than the first nine months of 2014, due to increased compensation and benefits expenses, reflecting higher net revenues. Pre-tax earnings were \$936 million in the first nine months of 2015, 2% higher than the first nine months of 2014.

Geographic Data

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

Management's Discussion and Analysis

Balance Sheet and Funding Sources

Balance Sheet Management

One of our 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 quarter-end and year-end dates are generally not materially different from those occurring within our reporting periods.

In order to ensure appropriate risk management, we seek to maintain a 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 and approved by the Firmwide Finance Committee. See "Overview and Structure of Risk Management" for an overview of our risk management structure.

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

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

Management's Discussion and Analysis

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

Balance Sheet Allocation

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

The table below presents our balance sheet allocation.

<i>\$ in millions</i>	As of	
	September 2015	December 2014
Global Core Liquid Assets (GCLA)	\$192,511	\$182,947
Other cash	9,010	7,805
GCLA and cash	201,521	190,752
Secured client financing	235,774	210,641
Inventory	205,137	230,667
Secured financing agreements	68,604	74,767
Receivables	53,444	47,317
Institutional Client Services	327,185	352,751
Public equity	3,402	4,041
Private equity	18,805	17,979
Debt ¹	21,974	24,768
Loans receivable ²	42,189	28,938
Other	4,789	3,771
Investing & Lending	91,159	79,497
Total inventory and related assets	418,344	432,248
Other assets	24,920	22,201
Total assets	\$880,559	\$855,842

1. Includes \$16.15 billion and \$18.24 billion as of September 2015 and December 2014, 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 condensed 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). In addition to our GCLA, we maintain other operating cash balances, primarily for use in specific currencies, entities, or jurisdictions where we do not have immediate access to parent company liquidity.
- **Secured Client Financing.** We provide collateralized financing for client positions, including margin loans secured by client collateral, securities borrowed, and resale agreements primarily collateralized by government obligations. As a result of client activities, we are required to segregate cash and securities to satisfy regulatory requirements. Our secured client financing arrangements, which are generally short-term, are accounted for at fair value or at amounts that approximate fair value, and include daily margin requirements to mitigate counterparty credit risk.
- **Institutional Client Services.** In Institutional Client Services, we maintain inventory positions to facilitate market-making in fixed income, equity, currency and commodity products. Additionally, as part of market-making activities, we enter into resale or securities borrowing arrangements to obtain securities which we can use to cover transactions in which we or our clients have sold securities that have not yet been purchased. The receivables in Institutional Client Services primarily relate to securities transactions.
- **Investing & Lending.** In Investing & Lending, we make investments and originate loans to provide financing to clients. These investments and loans are typically longer-term in nature. We make investments, directly and indirectly through funds that we manage, in debt securities, loans, public and private equity securities, real estate entities and other investments.
- **Other Assets.** Other assets are generally less liquid, non-financial assets, including property, leasehold improvements and equipment, goodwill and identifiable intangible assets, income tax-related receivables, equity-method investments, assets classified as held for sale and miscellaneous receivables.

Management's Discussion and Analysis

The tables below present the reconciliation of this balance sheet allocation to our U.S. GAAP balance sheet. In the tables below:

- Total assets for Institutional Client Services and Investing & Lending represent inventory and related assets. These amounts differ from total assets by business segment disclosed in Note 25 to the condensed consolidated financial statements because total assets disclosed in Note 25 include allocations of our GCLA and cash, secured client financing and other assets.

- See “Balance Sheet Analysis and Metrics” for explanations on the changes in our balance sheet from December 2014 to September 2015.

<i>\$ in millions</i>	As of September 2015					Total Assets
	GCLA and Cash	Secured Client Financing	Institutional Client Services	Investing & Lending	Other Assets	
Cash and cash equivalents	\$ 65,575	\$ —	\$ —	\$ —	\$ —	\$ 65,575
Cash and securities segregated for regulatory and other purposes	—	58,168	—	—	—	58,168
Securities purchased under agreements to resell and federal funds sold	62,084	46,359	16,425	2,035	—	126,903
Securities borrowed	33,543	87,593	52,179	—	—	173,315
Receivables from brokers, dealers and clearing organizations	—	13,315	33,649	22	—	46,986
Receivables from customers and counterparties	—	30,339	19,795	1,882	—	52,016
Loans receivable	—	—	—	42,189	—	42,189
Financial instruments owned, at fair value	40,319	—	205,137	45,031	—	290,487
Other assets	—	—	—	—	24,920	24,920
Total assets	\$201,521	\$235,774	\$327,185	\$91,159	\$24,920	\$880,559

<i>\$ in millions</i>	As of December 2014					Total Assets
	GCLA and Cash	Secured Client Financing	Institutional Client Services	Investing & Lending	Other 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	—	—	—	—	22,201	22,201
Total assets	\$190,752	\$210,641	\$352,751	\$79,497	\$22,201	\$855,842

Management's Discussion and Analysis**Balance Sheet Analysis and Metrics**

As of September 2015, total assets on our condensed consolidated statements of financial condition were \$880.56 billion, an increase of \$24.72 billion from December 2014. This increase reflected increases in receivables from brokers, dealers and clearing organizations of \$16.32 billion, loans receivable of \$13.25 billion and securities borrowed of \$12.59 billion, partially offset by a decrease in financial instruments owned, at fair value of \$21.76 billion. During the first nine months of 2015, receivables from brokers, dealers and clearing organizations increased due to changes in client activity, loans receivable increased, reflecting lending activity with corporate and private wealth management clients, and securities borrowed increased due to firm-related activity. Financial instruments owned, at fair value decreased primarily reflecting the impact of lower market-making activity related to equities and convertible debentures, non-U.S. government and agency obligations and corporate debt securities, as well as the impact of movements in currency and interest rate markets on derivative valuations.

As of September 2015, total liabilities on our condensed consolidated statements of financial condition were \$792.86 billion, an increase of \$19.81 billion from December 2014. This increase reflected increases in payables to customers and counterparties of \$8.89 billion, deposits of \$8.58 billion and unsecured long-term borrowings of \$8.52 billion, partially offset by a decrease in financial instruments sold, but not yet purchased, at fair value of \$6.66 billion. During the first nine months of 2015, payables to customers and counterparties increased due to changes in client activity, deposits increased primarily in GS Bank and unsecured long-term borrowings increased due to net new issuances. Financial instruments sold, but not yet purchased, at fair value decreased primarily reflecting the impact of market-making activity on derivatives and non-U.S. government and agency obligations, partially offset by the impact of market-making activity related to equities and convertible debentures.

As of September 2015 and December 2014, our total securities sold under agreements to repurchase, accounted for as collateralized financings, were \$89.48 billion and \$88.22 billion, respectively, which were 7% higher and 3% lower, respectively, compared with the daily average amounts over the respective quarters. As of September 2015, the increase in our repurchase agreements relative to the daily average during the quarter resulted from an increase in firm financing and client activity at the end of the period. The level of our repurchase agreements fluctuates between and within periods, primarily due to providing clients with access to highly liquid collateral, such as U.S. government and federal agency, and investment-grade sovereign obligations through collateralized financing activities.

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

<i>\$ in millions</i>	As of	
	September 2015	December 2014
Total assets	\$880,559	\$855,842
Unsecured long-term borrowings	\$175,817	\$167,302
Total shareholders' equity	\$ 87,703	\$ 82,797
Leverage ratio	10.0x	10.3x
Debt to equity ratio	2.0x	2.0x

In the table above:

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

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

<i>\$ in millions, except per share amounts</i>	As of	
	September 2015	December 2014
Total shareholders' equity	\$ 87,703	\$ 82,797
Less: Preferred stock	(11,200)	(9,200)
Common shareholders' equity	76,503	73,597
Less: Goodwill and identifiable intangible assets	(4,168)	(4,160)
Tangible common shareholders' equity	\$ 72,335	\$ 69,437
Book value per common share	\$ 171.45	\$ 163.01
Tangible book value per common share	162.11	153.79

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.

Management's Discussion and Analysis

- 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 446.2 million and 451.5 million as of September 2015 and December 2014, 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 at the subsidiary level 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 condensed consolidated financial statements for further information about the classification of financial instruments in the fair value hierarchy and “— Unsecured Long-Term Borrowings” below for further information about the use of unsecured long-term borrowings as a source of funding.

The weighted average maturity of our secured funding, excluding funding collateralized by highly liquid securities eligible for inclusion in our GCLA, exceeded 120 days as of September 2015.

A majority of our secured funding for securities not eligible for inclusion in the GCLA is executed through term repurchase agreements and securities loaned contracts. We also raise financing through other types of collateralized financings, such as secured loans and notes. Goldman Sachs Bank USA (GS Bank USA) has access to funding from the Federal Home Loan Bank (FHLB). As of September 2015, our outstanding borrowings against the FHLB were \$1.50 billion. In October 2015, GS Bank USA borrowed an additional \$1.00 billion against the FHLB. 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 table below presents our quarterly unsecured long-term borrowings maturity profile as of September 2015.

<i>\$ in millions</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2016	\$ —	\$ —	\$ —	\$5,622	\$ 5,622
2017	12,319	4,380	5,863	2,042	24,604
2018	8,188	7,978	5,286	3,512	24,964
2019	6,174	663	2,223	6,935	15,995
2020	4,344	7,550	4,199	722	16,815
2021 - thereafter					87,817
Total					\$175,817

The weighted average maturity of our unsecured long-term borrowings as of September 2015 was approximately nine years. To mitigate refinancing risk, we seek to limit the principal amount of debt maturing on any one day or during any week or year. We enter into interest rate swaps to convert a majority of the amount of our unsecured long-term borrowings into floating-rate obligations in order to manage our exposure to interest rates. See Note 16 to the condensed consolidated financial statements for further information about our unsecured long-term borrowings.

Deposits. We raise deposits mainly through GS Bank USA and GSIB. The tables below present the types and sources of our deposits.

<i>\$ in millions</i>	Savings and Demand ¹	Time ²	Total
Private bank deposits ³	\$34,123	\$ 2,403	\$36,526
Certificates of deposit	—	33,006	33,006
Deposit sweep programs ⁴	16,183	—	16,183
Institutional	1	5,742	5,743
Total⁵	\$50,307	\$41,151	\$91,458

<i>\$ in millions</i>	Savings and Demand ¹	Time ²	Total
Private bank deposits ³	\$33,590	\$ 1,609	\$35,199
Certificates of deposit	—	25,780	25,780
Deposit sweep programs ⁴	15,691	—	15,691
Institutional	12	6,198	6,210
Total⁵	\$49,293	\$33,587	\$82,880

1. Represents deposits with no stated maturity.
2. Weighted average maturity of approximately three years as of both September 2015 and December 2014.
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 September 2015 and December 2014 were approximately \$53.27 billion and \$45.72 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. In light of regulatory developments, beginning in the third quarter of 2015, Group Inc. has determined that it generally will not issue debt with an original maturity of less than one year.

As of September 2015 and December 2014, our unsecured short-term borrowings, including the current portion of unsecured long-term borrowings, were \$41.33 billion and \$44.54 billion, respectively. See Note 15 to the condensed consolidated financial statements for further information about our unsecured short-term borrowings.

Management's Discussion and Analysis

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. We manage our capital requirements and the levels of our capital usage principally by setting limits on balance sheet assets and/or limits on risk, in each case at both the consolidated and business levels.

We principally manage the level and composition of our equity capital through issuances and repurchases of our common stock. We may also, from time to time, issue or repurchase our preferred stock, junior subordinated debt issued to trusts, and other subordinated debt or other forms of capital as business conditions warrant. Prior to any repurchases, we must receive confirmation that the Federal Reserve Board does not object to such capital actions. See Notes 16 and 19 to the condensed consolidated financial statements for further information about our preferred stock, junior subordinated debt issued to trusts and other subordinated debt.

Capital Planning and Stress Testing Process. 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 including market risk, credit risk and operational risk. We project sources and uses of capital given a range of business environments, including stressed conditions.

We also perform an internal risk-based capital assessment, attribute capital usage to each of our businesses and maintain a contingency capital plan that provides a framework for analyzing and responding to an actual or perceived capital shortfall. 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 "Available Information" below.
- **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.

Management's Discussion and Analysis

- **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 September 2015, approximately 75% of RWAs calculated in accordance with the Standardized Capital 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 Federal Reserve Board also conducts its own annual stress tests and publishes a summary of certain results.

We submitted our initial 2015 CCAR to the Federal Reserve Board in January 2015 and, based on the Federal Reserve Board feedback, we submitted revised capital actions in March 2015. 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 from the second quarter of 2015 through the second quarter of 2016. We published a summary of our annual DFAST results in March 2015. See "Available Information" below.

In July 2015, we submitted the results of our semi-annual DFAST to the Federal Reserve Board and published a summary of our internally developed severely adverse scenario results. See "Available Information" below.

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 2015 annual DFAST stress results to the Federal Reserve Board in January 2015 and published a summary of its results in March 2015. See "Available Information" below.

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

As of September 30, 2015, the remaining share authorization under the firm's existing repurchase program was 12.1 million shares. On October 14, 2015, the Board of Directors of Group Inc. (Board) authorized the repurchase of an additional 60.0 million shares of common stock pursuant to the firm's existing share repurchase program; however, we are only permitted to make repurchases to the extent that such repurchases have not been objected to by the Federal Reserve Board. See "Unregistered Sales of Equity Securities and Use of Proceeds" in Part II, Item 2 of the September 2015 Form 10-Q and Note 19 to the condensed consolidated financial statements for additional information about our share repurchase program and see above for information about our capital planning and stress testing process.

Management's Discussion and Analysis

Resolution and Recovery Plans

We are required by the Federal Reserve Board and the FDIC to submit an annual plan that describes our strategy for a rapid and orderly resolution in the event of material financial distress or failure (resolution plan). We are also required by the Federal Reserve Board to submit, on an annual basis, a global recovery plan that outlines the steps that management could take to reduce risk, maintain sufficient liquidity, and conserve capital in times of prolonged stress. 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. We submitted our 2015 resolution plan on June 30, 2015.

In addition, GS Bank USA is required by the FDIC to submit a resolution plan. GS Bank USA's 2015 resolution plan was submitted on September 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.) and GSI have been assigned long- and short-term issuer ratings by certain credit rating agencies. GS Bank USA and GSIB have also been assigned long- and short-term issuer ratings, as well as ratings on their long-term and short-term bank deposits. In addition, credit rating agencies have assigned ratings to debt obligations of certain other subsidiaries of Group Inc.

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

Consolidated Regulatory Capital

We are subject to the Federal Reserve Board's revised risk-based capital and leverage regulations, subject to certain transitional provisions (Revised Capital Framework). These regulations are largely based on the Basel Committee on Banking Supervision's (Basel Committee) 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.

As of September 2015, we calculated our Common Equity Tier 1 (CET1), Tier 1 capital and Total capital ratios in accordance with (i) the Standardized approach and market risk rules set out in the Revised Capital Framework (together, the Standardized Capital Rules) and (ii) the Advanced approach and market risk rules set out in the Revised Capital Framework (together, the Basel III Advanced Rules) as discussed in Note 20 to the condensed consolidated financial statements. The lower of each ratio calculated in (i) and (ii) is the ratio against which our compliance with minimum ratio requirements is assessed. Each of the ratios calculated in accordance with the Standardized Capital Rules was lower than that calculated in accordance with the Basel III Advanced Rules and therefore the Standardized Capital ratios were the ratios that applied to us as of September 2015.

As of December 2014, we calculated our CET1, Tier 1 capital and Total capital ratios using the Revised Capital Framework for regulatory capital, but RWAs were calculated in accordance with (i) the Basel I Capital Accord of the Basel Committee, incorporating the market risk requirements set out in the Revised Capital Framework, and adjusted for certain items related to capital deductions and for the phase-in of capital deductions (Hybrid Capital Rules), and (ii) the Basel III Advanced Rules. The lower of each ratio calculated in (i) and (ii) was the ratio against which our compliance with minimum ratio requirements was assessed. Each of the ratios calculated in accordance with the Basel III Advanced Rules was lower than that calculated in accordance with the Hybrid Capital Rules and therefore the Basel III Advanced ratios were the ratios that applied to us as of December 2014.

See Note 20 to the condensed consolidated financial statements for further information about our capital ratios as of September 2015 and December 2014, and for additional information about the Revised Capital Framework.

Minimum Capital Ratios and Capital Buffers

The table below presents our minimum required ratios as of September 2015, as well as the minimum ratios that we expect will apply at the end of the transitional provisions beginning January 2019.

	September 2015 Minimum Ratio ¹	January 2019 Minimum Ratio
CET1 ratio	4.5%	10.0% ⁴
Tier 1 capital ratio	6.0%	11.5% ⁴
Total capital ratio	8.0% ³	13.5% ⁴
Tier 1 leverage ratio ²	4.0%	4.0%

1. Does not reflect the capital conservation buffer or Global Systemically Important Banks (G-SIBs) surcharge discussed below.

2. Tier 1 leverage ratio is defined as Tier 1 capital divided by quarterly average adjusted total assets (which includes adjustments for goodwill and identifiable intangible assets, and certain investments in nonconsolidated financial institutions).

3. In order to meet the quantitative requirements for being "well-capitalized" under the Federal Reserve Board's regulations, we must meet a higher required minimum Total capital ratio of 10.0%.

4. Includes the capital conservation buffer of 2.5% and a G-SIB surcharge of 3.0% estimated by the Federal Reserve Board under the methodology discussed below.

Under the Revised Capital Framework, the minimum CET1, Tier 1 capital, and Total capital ratios will be supplemented by a 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.

In July 2015, the Federal Reserve Board approved a final rule establishing a capital surcharge for U.S. G-SIBs (generally higher than that required by the Basel Committee) to be implemented as an extension of the U.S. capital conservation buffer. This surcharge will be phased-in ratably, beginning in 2016, becoming fully effective on January 1, 2019, and must consist entirely of capital that qualifies as CET1. The surcharge must be calculated using two methodologies, the higher of which will be reflected in our minimum risk-based capital ratios. The first calculation is based upon the Basel Committee's methodology which, among other factors, relies upon measures of the size, activity and complexity of each G-SIB. The second calculation uses similar inputs, but it includes a measure of each firm's reliance on short-term wholesale funding. The Federal Reserve Board has indicated that its preliminary estimate of our G-SIB surcharge is 3.0%, based on the second of the two calculations. However, the surcharge will be updated annually and, because the current estimate is based on data that will change in the future, it may differ from the surcharge applicable to us when the rule becomes effective.

The Revised Capital Framework also provides a 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.

Our minimum required supplementary leverage ratio will be 5.0% on January 1, 2018. See "Supplementary Leverage Ratio" below for further information.

Management's Discussion and Analysis**Fully Phased-in Capital Ratios**

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

<i>\$ in millions</i>	As of	
	September 2015	December 2014
Common shareholders' equity	\$ 76,503	\$ 73,597
Deductions for goodwill and identifiable intangible assets, net of deferred tax liabilities	(3,136)	(3,196)
Deductions for investments in nonconsolidated financial institutions	(2,668)	(4,928)
Other adjustments	(1,594)	(1,213)
CET1	\$ 69,105	\$ 64,260
Standardized RWAs	\$591,842	\$627,444
Standardized CET1 ratio	11.7%	10.2%
Basel III Advanced RWAs	\$580,208	\$577,869
Basel III Advanced CET1 ratio	11.9%	11.1%

Although the fully phased-in capital ratios are not applicable until 2019, we believe that the ratios in the table above are meaningful because they are measures that we, our regulators and investors use to assess our ability to meet future regulatory capital requirements. The fully phased-in Standardized and Basel III Advanced CET1 ratios are non-GAAP measures as of both September 2015 and December 2014 and may not be comparable to similar non-GAAP measures used by other companies as of those dates. These ratios are based on our current interpretation, expectations and understanding of the Revised Capital Framework and may evolve as we discuss its interpretation and application with our regulators.

In the table above:

- The deductions for goodwill and identifiable intangible assets, net of deferred tax liabilities, include goodwill of \$3.65 billion as of both September 2015 and December 2014, and identifiable intangible assets of \$516 million and \$515 million as of September 2015 and December 2014, respectively, net of associated deferred tax liabilities of \$1.03 billion and \$964 million as of September 2015 and December 2014, respectively.
- The deductions for investments in nonconsolidated financial institutions represent the amount by which our investments in the capital of nonconsolidated financial institutions exceed certain prescribed thresholds. The decrease from December 2014 to September 2015 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.

See Note 20 to the condensed consolidated financial statements for information about our transitional capital ratios, which represent our applicable ratios.

Supplementary Leverage Ratio

The Revised Capital Framework introduces a 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.

As of September 2015 and December 2014, our supplementary leverage ratio was 5.8% and 5.0%, respectively, based on Tier 1 capital on a fully phased-in basis of \$79.74 billion and \$73.17 billion, respectively, divided by total leverage exposure of \$1.38 trillion (total quarterly average assets of \$874 billion plus adjustments of \$509 billion) and \$1.45 trillion (total quarterly average assets of \$873 billion plus adjustments of \$579 billion), respectively. Within leverage exposure, the adjustments to quarterly average assets in both periods were primarily comprised of off-balance-sheet exposure related to derivatives, secured financing transactions, commitments and guarantees.

The supplementary leverage ratio was not a required regulatory disclosure as of December 2014. Therefore, it was a non-GAAP measure as of December 2014 and may not be comparable to similar non-GAAP measures used by other companies as of that date.

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

Management's Discussion and Analysis

Subsidiary Capital Requirements

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

GS Bank USA. GS Bank USA is subject to regulatory capital requirements that are calculated in substantially the same manner as those applicable to bank holding companies and calculates its capital ratios in accordance with the risk-based capital and leverage requirements applicable to state member banks, which are based on the Revised Capital Framework. See Note 20 to the condensed consolidated financial statements for further information about the Revised Capital Framework as it relates to GS Bank USA, including GS Bank USA's capital ratios and required minimum ratios.

In addition, under Federal Reserve Board rules, commencing on January 1, 2018, in order to be considered a "well-capitalized" depository institution, GS Bank USA must have a supplementary leverage ratio of 6.0% or greater. The supplementary leverage ratio compares Tier 1 capital to a measure of leverage exposure, defined as the sum of GS Bank USA's quarterly average assets less certain deductions plus certain off-balance-sheet exposures, including a measure of derivatives exposures and commitments. As of September 2015, GS Bank USA's supplementary leverage ratio is 6.9%, based on Tier 1 capital on a fully phased-in basis of \$22.48 billion, divided by total leverage exposure of \$328 billion (total quarterly average assets of \$131 billion plus adjustments of \$197 billion). As of December 2014, GS Bank USA would also have met the "well-capitalized" minimum. These supplementary leverage ratios are based on our current interpretation and understanding of this rule and may evolve as we discuss their interpretation and application with our regulators.

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.

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). GSI is subject to capital regulations which are largely based on Basel III as implemented in the European Union (EU) through the Capital Requirements Directives.

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

As of September 2015, GSI had a CET1 ratio of 12.1%, a Tier 1 capital ratio of 12.1% and a Total capital ratio of 16.6%. Each of these ratios includes approximately 37 bps attributable to results for the three months ended September 2015. These ratios will be finalized upon the completion of GSI's September 2015 financial statements. As of December 2014, GSI had a CET1 ratio of 9.7%, a Tier 1 capital ratio of 9.7% and a Total capital ratio of 12.7%. The ratios for September 2015 and December 2014 both reflect the applicable transitional provisions. 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."

Management's Discussion and Analysis

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

Subsidiaries not subject to separate regulatory capital requirements may hold capital to satisfy local tax and legal guidelines, rating agency requirements (for entities with assigned credit ratings) or internal policies, including policies concerning the minimum amount of capital a subsidiary should hold based on its underlying level of risk. In certain instances, Group Inc. may be limited in its ability to access capital held at certain subsidiaries as a result of regulatory, tax or other constraints. As of September 2015 and December 2014, Group Inc.'s equity investment in subsidiaries was \$83.68 billion and \$79.70 billion, respectively, compared with its total shareholders' equity of \$87.70 billion and \$82.80 billion, respectively.

Our capital invested in non-U.S. subsidiaries is generally exposed to foreign exchange risk, substantially all of which is managed through a combination of derivatives and non-U.S. denominated debt. See Note 7 to the condensed consolidated financial statements for information about our net investment hedges, which are used to hedge this risk.

Guarantees of Subsidiaries. Group Inc. has guaranteed the payment obligations of GS&Co., GS Bank USA, and Goldman Sachs Execution & Clearing, L.P. (GSEC), in each case subject to certain exceptions. In November 2008, Group Inc. contributed subsidiaries into GS Bank USA, and 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 condensed consolidated financial statements for information about regulatory developments as they relate to our regulatory capital and leverage ratios.

Management's Discussion and Analysis

Volcker Rule

The provisions of the Dodd-Frank Act referred to as the "Volcker Rule," became effective in July 2015 (subject to a conformance period, as applicable). The Volcker Rule prohibits "proprietary trading," but permits activities such as underwriting, market making and risk-mitigation hedging, requires an extensive compliance program and includes additional reporting and record keeping requirements. The reporting requirements include calculating daily quantitative metrics on covered trading activities (as defined in the rule) and providing these metrics to regulators on a monthly basis. The initial implementation of these rules did not have a material impact on our financial condition, results of operations or cash flows. However, the rule is highly complex, and its impact may change as market practices further develop.

In addition to the prohibition on proprietary trading, the Volcker Rule limits the sponsorship of, and investment in, "covered funds" (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.

Beginning in July 2015, our investments in applicable covered funds purchased after December 2013 are required to be deducted from Tier 1 capital. Substantially all of these investments in covered funds were purchased in connection with our market-making activities. See Note 20 to the condensed consolidated financial statements for further information about our Tier 1 capital and the deduction for investments in covered funds.

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

Our current investment in funds that are measured at NAV is \$7.90 billion. In order to be compliant with the Volcker Rule, we will be required to reduce most of our interests in these funds by the end of the conformance period. See Note 6 to the condensed consolidated financial statements for further information about our investment in funds measured at NAV and the conformance period for covered funds.

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

Other Developments

The Basel Committee continues to consult on several potential changes to regulatory capital requirements that could impact our capital ratios in the future. In particular, the Basel Committee is considering changing the market risk capital requirements as described in the consultation papers on a "Fundamental Review of the Trading Book," the credit risk capital requirements applicable to credit valuation adjustments, and applying floors to internal-model based exposure requirements and revising the standardized credit risk rules.

In June 2015, the CFTC issued a proposed rule that would generally determine the circumstances in which non-bank swap dealers will be subject to the CFTC's rule for margin on uncleared swaps in cross-border transactions. Under this proposed rule, non-bank swap dealers may only in limited circumstances be permitted to comply with comparable rules of a foreign jurisdiction instead of CFTC rules.

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 September 2015 Form 10-Q. In addition, see Note 3 to the condensed consolidated financial statements for a discussion of our consolidation policies.

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

Contractual Obligations

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

Our obligations to make future cash payments also include certain off-balance-sheet contractual obligations such as purchase obligations, minimum rental payments under noncancelable leases and commitments and guarantees.

The table below presents our contractual obligations, commitments and guarantees as of September 2015.

<i>\$ in millions</i>	Remainder of 2015	2016 - 2017	2018 - 2019	2020 - Thereafter	Total
Amounts related to on-balance-sheet obligations					
Time deposits	\$ —	\$ 7,412	\$ 7,293	\$ 10,381	\$ 25,086
Secured long-term financings	—	6,179	3,352	1,511	11,042
Unsecured long-term borrowings	—	30,226	40,959	104,632	175,817
Contractual interest payments	1,409	12,804	9,534	36,228	59,975
Subordinated liabilities issued by consolidated VIEs	2	—	—	1,419	1,421
Amounts related to off-balance-sheet arrangements					
Commitments to extend credit	2,716	32,621	39,539	33,985	108,861
Contingent and forward starting resale and securities borrowing agreements	48,598	2,264	—	—	50,862
Forward starting repurchase and secured lending agreements	10,507	—	—	—	10,507
Letters of credit	50	166	13	4	233
Investment commitments ¹	2,207	2,822	17	1,092	6,138
Other commitments	5,798	138	53	56	6,045
Minimum rental payments	82	608	538	1,146	2,374
Derivative guarantees	236,939	463,674	77,022	85,045	862,680
Securities lending indemnifications	31,019	—	—	—	31,019
Other financial guarantees	285	1,169	1,043	1,882	4,379

1. \$2.46 billion of commitments to covered funds (as defined by the Volcker Rule) are included in the "Remainder of 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 holders are excluded as they are treated as short-term obligations.
- Obligations that are repayable prior to maturity at our option are reflected at their contractual maturity dates and obligations that are redeemable prior to maturity at the option of the holders are reflected at the earliest dates such options become exercisable.
- Amounts included in the table do not necessarily reflect the actual future cash flow requirements for these arrangements because commitments and guarantees represent notional amounts and may expire unused or be reduced or cancelled at the counterparty's request.
- Due to the uncertainty of the timing and amounts that will ultimately be paid, our liability for unrecognized tax benefits has been excluded. See Note 24 to the condensed consolidated financial statements for further information about our unrecognized tax benefits.
- Unsecured long-term borrowings includes \$9.31 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 \$227 million and \$814 million, respectively.
- Contractual interest payments represents estimated future interest payments related to unsecured long-term borrowings, secured long-term financings and time deposits based on applicable interest rates as of September 2015, and includes stated coupons, if any, on structured notes.

Management's Discussion and Analysis

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

As of September 2015, our unsecured long-term borrowings were \$175.82 billion, with maturities extending to 2061, and consisted principally of senior borrowings. See Note 16 to the condensed consolidated financial statements for further information about our unsecured long-term borrowings.

As of September 2015, our future minimum rental payments, net of minimum sublease rentals under noncancelable leases, were \$2.37 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 condensed consolidated financial statements for further information about our leases.

Our occupancy expenses include costs associated with office space held in excess of our current requirements. This excess space, the cost of which is charged to earnings as incurred, is being held for potential growth or to replace currently occupied space that we may exit in the future. We regularly evaluate our current and future space capacity in relation to current and projected staffing levels. During the three and nine months ended September 2015, 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 and Advisory department (Credit Risk Management), Human Capital Management, Legal, our Market Risk Management and Analysis department (Market Risk Management), Model Risk Management, Operations, our Operational Risk Management and Analysis 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 approval of limits at both firmwide and business levels by the Risk Committee of the Board. In addition, the Firmwide Risk Committee is responsible for approving limits, subject to the overall limits approved by the Risk Committee of the Board, at a variety of levels and monitoring these limits on a daily basis. Divisional risk committees are responsible for setting sub-limits, subject to the overall business-level limits approved by the Firmwide Risk Committee. Limits are typically set at levels that will be periodically exceeded, rather than at levels which reflect our maximum risk appetite. This fosters an ongoing dialogue on risk among revenue-producing units, independent control and support functions, committees and senior management, as well as rapid escalation of risk-related matters. See “Market Risk Management” and “Credit Risk Management” for further information about our risk limits.

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

Management's Discussion and Analysis

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

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

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

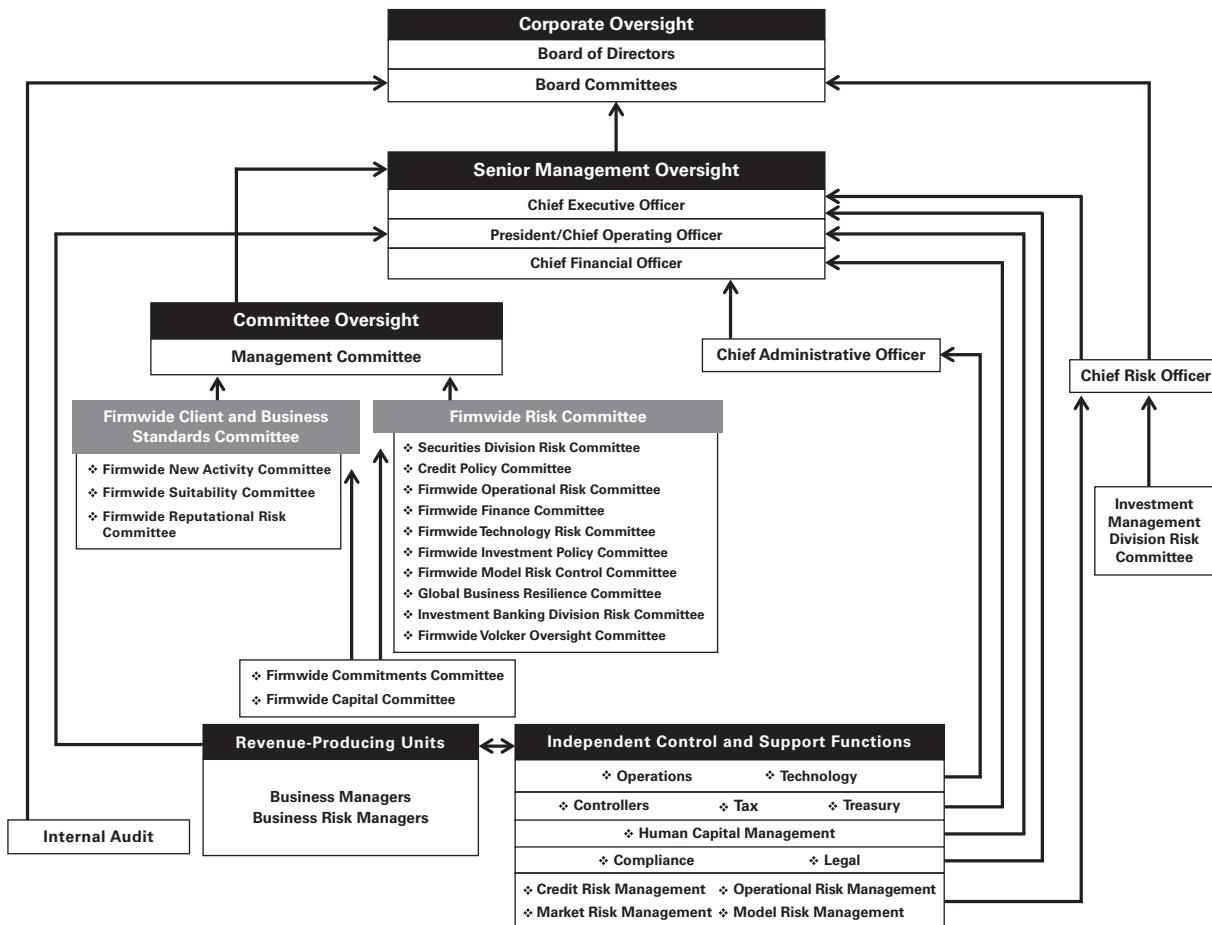
Structure

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

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

In addition, independent control and support functions, which report to the chief financial officer, the chief risk officer, the general counsel, the head of global compliance 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 chair of the Management Committee appoints the chairs of these committees. Most members of the Management Committee are also members of other firmwide, divisional and regional committees. The following are the committees that are principally involved in firmwide risk management.

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

Management's Discussion and Analysis

- **Firmwide New Activity Committee.** The Firmwide New Activity Committee is responsible for reviewing new activities and for establishing a process to identify and review previously approved activities that are significant and that have changed in complexity and/or structure or present different reputational and suitability concerns over time to consider whether these activities remain appropriate. This committee is co-chaired by the head of Operations and the chief administrative officer of our Investment Management Division, who are appointed as co-chairs by the chair of the Firmwide Client and Business Standards Committee.
- **Firmwide Suitability Committee.** The Firmwide Suitability Committee is responsible for setting standards and policies for product, transaction and client suitability and providing a forum for consistency across divisions, regions and products on suitability assessments. This committee also reviews suitability matters escalated from other committees. This committee is co-chaired by the deputy head of Compliance and the co-head of Fixed Income, Currency and Commodities Sales, who are appointed as co-chairs by the chair of the Firmwide Client and Business Standards Committee.
- **Firmwide Reputational Risk Committee.** The Firmwide Reputational Risk Committee is responsible for assessing reputational risks arising from transactions that have been identified and escalated by other firm committees as presenting heightened reputational risk, and other situations where the facts and circumstances warrant escalation. This committee is co-chaired by our president and chief operating officer, and the head of Compliance, who are appointed as co-chairs by the Firmwide Client and Business Standards Committee.
- **Securities Division Risk Committee.** The Securities Division Risk Committee sets market risk limits, subject to business-level risk limits approved by the Firmwide Risk Committee, for the Securities Division based on a number of risk measures, including but not limited to VaR, stress tests and scenario analyses. This committee is chaired by the chief risk officer of our Securities Division, who is appointed as chair by the co-chairs of the Firmwide Risk Committee.
- **Credit Policy Committee.** The Credit Policy Committee establishes and reviews broad firmwide credit policies and parameters that are implemented by Credit Risk Management. This committee is chaired by our co-deputy chief risk officer, who is appointed as chair by our chief risk 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 the head of Operational Risk Management, who are appointed as co-chairs by our chief risk officer.
- **Firmwide Finance Committee.** The Firmwide Finance Committee has oversight responsibility for liquidity risk, the size and composition of our balance sheet and capital base, and credit ratings. This committee regularly reviews our liquidity, balance sheet, funding position and capitalization, approves related policies, and makes recommendations as to any adjustments to be made in light of current events, risks, exposures and regulatory requirements. As a part of such oversight, among other things, this committee reviews and approves balance sheet limits and the size of our GCLA. This committee is co-chaired by our chief financial officer and our global treasurer, who are appointed as co-chairs by the Firmwide Risk Committee.

Firmwide 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 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:

Management's Discussion and Analysis

- **Firmwide Technology Risk Committee.** The Firmwide Technology Risk Committee reviews matters related to the design, development, deployment and use of technology. This committee oversees cyber security matters, as well as technology risk management frameworks and methodologies, and monitors their effectiveness. This committee is co-chaired by our chief information officer and the head of Global Investment Research, who are appointed as co-chairs by the Firmwide Risk Committee.
 - **Firmwide Investment Policy Committee.** The Firmwide Investment Policy Committee reviews, approves, sets policies, and provides oversight for certain illiquid principal investments, including review of risk management and controls for these types of investments. This committee is co-chaired by the head of our Merchant Banking Division and a co-head of our Securities Division, who are appointed as co-chairs by our president and chief operating officer and our chief financial officer.
 - **Firmwide Model Risk Control Committee.** The Firmwide Model Risk Control Committee is responsible for oversight of the development and implementation of model risk controls, which includes governance, policies and procedures related to our reliance on financial models. This committee is chaired by our co-deputy chief risk officer, who is appointed as chair by the Firmwide Risk Committee.
 - **Global Business Resilience Committee.** The Global Business Resilience Committee is responsible for oversight of business resilience initiatives, promoting increased levels of security and resilience, and reviewing certain operating risks related to business resilience. This committee is chaired by our chief administrative officer, who is appointed as chair by the Firmwide Risk Committee.
 - **Investment Banking Division Risk Committee.** The Investment Banking Division Risk Committee is responsible for the ongoing monitoring and control of financial risks for the Investment Banking Division, including setting risk limits, subject to business-level risk limits approved by the Firmwide Risk Committee, reviewing established risk limits and monitoring risk exposures. This committee is co-chaired by the co-head of the Global Financing Group in our Investment Banking Division and the head of Credit Risk Management for our Investment Banking Division and our Merchant Banking Division. The co-chairs of the Investment Banking Division Risk Committee are appointed by the co-chairs of the Firmwide Risk Committee.
 - **Firmwide Volcker Oversight Committee.** The Firmwide Volcker Oversight Committee is responsible for the oversight and periodic review of the implementation of our Volcker Rule compliance program, as approved by the Board, and other Volcker Rule-related matters. This committee is co-chaired by our chief risk officer and a deputy general counsel, who are appointed as co-chairs by the Firmwide Risk Committee.
- 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 the co-head of the Financial Institutions Group in our Investment Banking Division and an advisory director to the firm, who are appointed as co-chairs by the chair of the Firmwide Client and Business Standards Committee.
 - **Firmwide Capital Committee.** The Firmwide Capital Committee provides approval and oversight of debt-related transactions, including principal commitments of our capital. This committee aims to ensure that business and reputational standards for underwritings and capital commitments are maintained on a global basis. This committee is co-chaired by the head of Credit Risk Management for our Investment Banking Division and our Merchant Banking Division and the head of credit finance for Europe, Middle East and Africa (EMEA). The co-chairs of the Firmwide Capital Committee are appointed by the co-chairs of the Firmwide Risk Committee.
- 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 and reports to our chief risk officer. The head of risk management for the Investment Management Division is the chair of this committee, who is appointed as chair by our chief risk officer.

Management's Discussion and Analysis

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, Legal and Compliance, the Firmwide Client and Business Standards Committee, and other internal committees, formulates policies, standards and principles, and assists in making judgments regarding the appropriate resolution of particular conflicts. Resolving potential conflicts necessarily depends on the facts and circumstances of a particular situation and the application of experienced and informed judgment.

As a general matter, 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 Compliance to evaluate and address any actual or potential conflicts.

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

Liquidity Risk Management

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) 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 September 2015 and December 2014, the fair value of the securities and certain overnight cash deposits included in our GCLA totaled \$192.51 billion and \$182.95 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 September 2015 and December 2014 was appropriate.

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

<i>\$ in millions</i>	Average for the	
	Three Months Ended September 2015	Year Ended December 2014
U.S. dollar-denominated	\$135,077	\$134,223
Non-U.S. dollar-denominated	58,147	45,410
Total	\$193,224	\$179,633

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

Management's Discussion and Analysis

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

\$ in millions	Average for the	
	Three Months Ended September 2015	Year Ended December 2014
Overnight cash deposits	\$ 59,337	\$ 57,177
U.S. government obligations	73,005	62,838
U.S. federal agency obligations, including highly liquid U.S. federal agency mortgage- backed obligations	13,462	16,722
German, French, Japanese and United Kingdom government obligations	47,420	42,896
Total	\$193,224	\$179,633

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

\$ in millions	Average for the	
	Three Months Ended September 2015	Year Ended December 2014
Group Inc.	\$ 50,908	\$ 37,699
Major broker-dealer subsidiaries	86,363	89,549
Major bank subsidiaries	55,953	52,385
Total	\$193,224	\$179,633

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, applicable regulatory requirements 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 \$86.36 billion for the three months ended September 2015 and \$94.52 billion for the year ended December 2014. We do not consider these assets liquid enough to be eligible for our GCLA.

Management's Discussion and Analysis

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

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

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

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

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

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

Unsecured Funding

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

Deposits

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

Secured Funding

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

OTC Derivatives

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

Management's Discussion and Analysis**Exchange-Traded and OTC-cleared Derivatives**

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

Customer Cash and Securities

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

Firm Securities

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

Unfunded Commitments

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

Other

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

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

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

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

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

Asset-Liability Management

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

Our approach to asset-liability management includes:

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

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

Management's Discussion and Analysis

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

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

Group Inc. has provided substantial amounts of equity and subordinated indebtedness, directly or indirectly, to its regulated subsidiaries. For example, as of September 2015, Group Inc. had \$29.38 billion of equity and subordinated indebtedness invested in GS&Co., its principal U.S. registered broker-dealer; \$32.02 billion invested in GSI, a regulated U.K. broker-dealer; \$2.30 billion invested in GSEC, a U.S. registered broker-dealer; \$2.71 billion invested in Goldman Sachs Japan Co., Ltd. (GSJCL), a regulated Japanese broker-dealer; \$24.68 billion invested in GS Bank USA, a regulated New York State-chartered bank; and \$3.62 billion invested in GSIB, a regulated U.K. bank. Group Inc. also provided, directly or indirectly, \$88.45 billion of unsubordinated loans and \$8.38 billion of collateral to these entities, substantially all of which was to GS&Co., GSI, GSJCL and GS Bank USA, as of September 2015. In addition, as of September 2015, 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.

The final rules on minimum liquidity standards approved by the U.S. federal bank regulatory agencies are generally consistent with the Basel Committee's framework as described above, but include accelerated transition provisions, and more stringent requirements related to both the range of assets that qualify as 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 September 2015, 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.

Management's Discussion and Analysis

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. The Basel Committee's NSFR framework 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 and 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.

During the third quarter of 2015, Standard & Poor's Ratings Services (S&P) changed the outlook for GS Bank USA, GSIB, GS&Co. and GSI from stable to positive.

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

	As of September 2015				
	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	A3	A-	A+
Subordinated Debt	A	A-	Baa2	BBB+	A
Trust Preferred ²	A	BBB-	Baa3	BB	N/A
Preferred Stock ³	BBB (high)	BB+	Ba1	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 the APEX issued by Goldman Sachs Capital II and Goldman Sachs Capital III.

The table below presents the unsecured credit ratings and outlook of GS Bank USA, GSIB, GS&Co. and GSI, by Fitch, Moody's and S&P.

	As of September 2015		
	Fitch	Moody's	S&P
GS Bank USA			
Short-term Debt		F1	P-1
Long-term Debt		A+	A1
Short-term Bank Deposits		F1+	P-1
Long-term Bank Deposits		AA-	A1
Ratings Outlook	Stable	Stable	Positive
GSIB			
Short-term Debt		F1	P-1
Long-term Debt		A	A1
Short-term Bank Deposits		F1	P-1
Long-term Bank Deposits		A	A1
Ratings Outlook	Positive	Stable	Positive
GS&Co.			
Short-term Debt		F1	N/A
Long-term Debt		A+	N/A
Ratings Outlook	Stable	N/A	Positive
GSI			
Short-term Debt		F1	P-1
Long-term Debt		A	A1
Ratings Outlook	Positive	Stable	Positive

Management's Discussion and Analysis

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

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

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

<i>\$ in millions</i>	As of	
	September 2015	December 2014
Additional collateral or termination payments for a one-notch downgrade	\$1,092	\$1,072
Additional collateral or termination payments for a two-notch downgrade	2,787	2,815

Cash Flows

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

Nine Months Ended September 2015. Our cash and cash equivalents increased by \$7.98 billion to \$65.58 billion at the end of the third quarter of 2015. We used \$14.75 billion in net cash for investing activities, primarily due to funding of loans receivable. We generated \$22.72 billion in net cash from financing activities and operating activities primarily from net issuances of long-term borrowings, bank deposits, and issuances of preferred stock.

Nine Months Ended September 2014. Our cash and cash equivalents decreased by \$6.98 billion to \$54.15 billion at the end of the third quarter of 2014. We used net cash of \$23.18 billion for operating and investing activities. We generated \$16.20 billion in net cash from financing activities primarily from net issuances of unsecured long-term borrowings and preferred stock, and net deposits.

Management's Discussion and Analysis**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 process includes:

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

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 assets and liabilities included in VaR, see "— Financial Statement Linkages to Market Risk Measures." We typically employ a one-day time horizon with a 95% confidence level. We use a single VaR model which captures risks including interest rates, equity prices, currency rates and commodity prices. As such, VaR facilitates comparison across portfolios of different risk characteristics. VaR also captures the diversification of aggregated risk at the firmwide level.

Management's Discussion and Analysis

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

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

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

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

Our VaR measure does not include:

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

Stress Testing

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

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

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

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

Management's Discussion and Analysis

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

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

Limits

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

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

Our market risk limits are monitored daily by Market Risk Management, which is responsible for identifying and escalating, on a timely basis, instances where limits have been exceeded. The business-level limits that are set by the divisional risk committees 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

Model Risk Management reviews and validates our VaR and stress testing models. This review includes:

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

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 table below presents average daily VaR.

<i>\$ in millions</i>	Three Months Ended September		Nine Months Ended September	
	2015	2014	2015	2014
Risk Categories				
Interest rates	\$ 46	\$ 46	\$ 48	\$ 54
Equity prices	26	24	26	27
Currency rates	28	19	30	17
Commodity prices	17	20	21	21
Diversification effect	(43)	(43)	(48)	(44)
Total	\$ 74	\$ 66	\$ 77	\$ 75

Our average daily VaR increased to \$74 million for the third quarter of 2015 from \$66 million for the third quarter of 2014, primarily reflecting an increase in the currency rates category due to higher levels of volatility.

Our average daily VaR increased to \$77 million for the nine months ended September 2015 from \$75 million for the nine months ended September 2014, primarily reflecting an increase in the currency rates category principally due to higher levels of volatility. This increase was partially offset by a decrease in the interest rates category due to decreased exposures, and an increase in the diversification benefit across risk categories.

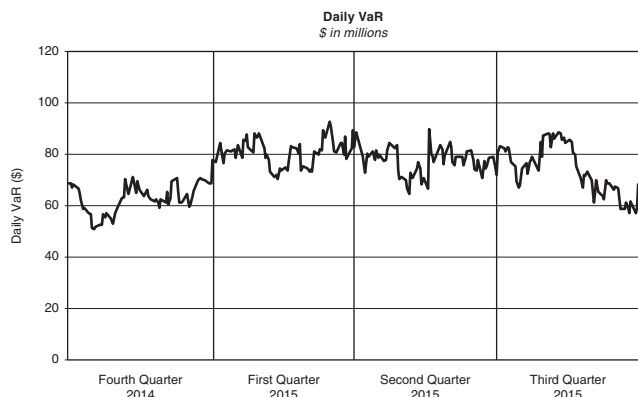
The table below presents quarter-end VaR, and high and low VaR.

<i>\$ in millions</i>	As of		Three Months Ended September 2015	
	September 2015	June 2015	High	Low
Risk Categories				
Interest rates	\$ 51	\$ 39	\$57	\$38
Equity prices	23	33	34	21
Currency rates	28	24	44	19
Commodity prices	16	19	21	14
Diversification effect	(50)	(41)		
Total	\$ 68	\$ 74	\$89	\$57

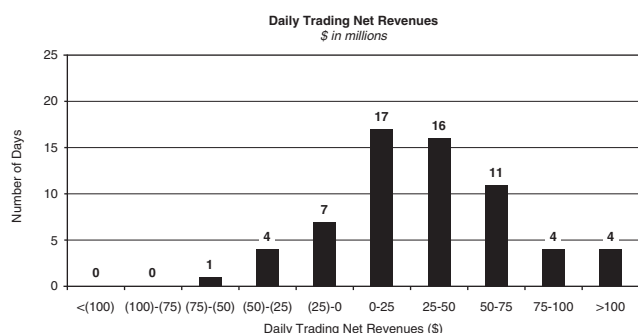
Our daily VaR decreased to \$68 million as of September 2015 from \$74 million as of June 2015, primarily reflecting a decrease in the equity prices category due to decreased exposures and an increase in the diversification benefit across risk categories. These decreases were partially offset by an increase in the interest rates category due to increased exposures.

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

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



The chart below presents the frequency distribution of our daily trading net revenues for substantially all positions included in VaR for the quarter ended September 2015.



Daily trading net revenues are compared with VaR calculated as of the end of the prior business day. Trading losses incurred on a single day did not exceed our 95% one-day VaR during the third quarter of 2015 (i.e., a VaR exception).

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

Sensitivity Measures

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

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

\$ in millions	As of	
	September 2015	June 2015
Asset Categories		
Equity	\$2,090	\$2,047
Debt	1,433	1,487
Total	\$3,523	\$3,534

Management's Discussion and Analysis

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 (including hedges) as of both September 2015 and June 2015. 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 \$16 million (including hedges) as of both September 2015 and June 2015. 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 September 2015 and June 2015 were \$42.19 billion and \$38.40 billion, respectively, substantially all of which had floating interest rates. As of September 2015 and June 2015, the estimated sensitivity to a 100 basis point increase in interest rates on such loans was \$366 million and \$338 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 condensed consolidated financial statements for further information about loans receivable.

Other Market Risk Considerations

In addition, as of September 2015 and June 2015, we had commitments and held loans for which we have obtained credit loss protection from Sumitomo Mitsui Financial Group, Inc. See Note 18 to the condensed consolidated financial statements for further information about such lending commitments.

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

Financial Statement Linkages to Market Risk Measures

We employ a variety of risk measures, each described in the respective sections above, to monitor market risk across the condensed consolidated statements of financial condition and condensed consolidated statements of earnings. The related gains and losses on these positions are included in “Market making,” “Other principal transactions,” “Interest income” and “Interest expense.”

The table below presents certain categories in our condensed consolidated statements of financial condition and the market risk measures used to assess those assets and liabilities. Certain categories on the condensed consolidated statements of financial condition are incorporated in more than one risk measure.

Categories on the Condensed Consolidated Statements of Financial Condition Included in Market Risk Measures	Market Risk Measures
Securities segregated for regulatory and other purposes, at fair value	• VaR
Collateralized agreements <ul style="list-style-type: none"> • Securities purchased under agreements to resell, at fair value • Securities borrowed, at fair value 	• VaR
Receivables <ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> • Securities sold under agreements to repurchase, at fair value • Securities loaned, at fair value • Other secured financings, at fair value 	• 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

Management's Discussion and Analysis**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.

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.

Management's Discussion and Analysis

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. The Risk Committee of the Board and the Firmwide Risk Committee approve credit risk limits at the firmwide and business levels. Credit Risk Management sets credit limits for individual counterparties. 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.

Stress Tests/Scenario Analysis

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

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

Management's Discussion and Analysis

Risk Mitigants

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

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

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

Credit Exposures

As of September 2015, our credit exposures increased as compared with December 2014, 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 as compared with December 2014, primarily reflecting an increase in loans and lending commitments. During the nine months ended September 2015, the number of counterparty defaults decreased as compared with the same prior year period, and such defaults primarily occurred within loans and lending commitments. The total number of counterparty defaults remained low, representing less than 0.5% of all counterparties. Estimated losses associated with counterparty defaults were lower compared with the same prior year period and were not material to the firm. Our credit exposures are described further below.

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

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

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 condensed consolidated financial statements. CVA is a function of the present value of expected exposure, the probability of counterparty default and the assumed recovery upon default.

Management's Discussion and Analysis

The tables below present the distribution of our exposure to OTC derivatives by tenor, based on expected duration for mortgage-related credit derivatives and generally on remaining contractual maturity for other derivatives, both before and after the effect of collateral and netting agreements. In the tables below:

- 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 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 September 2015

<i>\$ in millions</i>						OTC	Net Credit
Credit Rating Equivalent	Less than 1 Year	1 – 5 Years	Greater than 5 Years	Total	Netting	Derivative Assets	Exposure
AAA/Aaa	\$ 564	\$ 1,051	\$ 3,542	\$ 5,157	\$ (2,246)	\$ 2,911	\$ 2,602
AA/Aa2	6,829	10,748	42,417	59,994	(42,003)	17,991	11,321
A/A2	11,716	17,125	24,938	53,779	(41,638)	12,141	7,219
BBB/Baa2	5,781	7,522	20,647	33,950	(21,740)	12,210	7,699
BB/Ba2 or lower	4,549	6,205	5,581	16,335	(7,452)	8,883	7,206
Unrated	319	58	180	557	(38)	519	216
Total	\$29,758	\$42,709	\$ 97,305	\$169,772	\$(115,117)	\$54,655	\$36,263

As of December 2014

<i>\$ in millions</i>						OTC	Net Credit
Credit Rating Equivalent	Less than 1 Year	1 – 5 Years	Greater than 5 Years	Total	Netting	Derivative Assets	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

Management's Discussion and Analysis

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

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

• **Securities Financing Transactions.** We enter into securities financing transactions in order to, among other things, facilitate client activities, invest excess cash, acquire securities to cover short positions and finance certain firm activities. We bear credit risk related to resale agreements and securities borrowed only to the extent that cash advanced or the value of securities pledged or delivered to the counterparty exceeds the value of the collateral received. We also have credit exposure on repurchase agreements and securities loaned to the extent that the value of securities pledged or delivered to the counterparty for these transactions exceeds the amount of cash or collateral received. Securities collateral obtained for securities financing transactions primarily includes U.S. government and federal agency obligations and non-U.S. government and agency obligations. We had approximately \$25 billion and \$36 billion as of September 2015 and December 2014, respectively, of credit exposure related to securities financing transactions reflecting both netting agreements and collateral that management considers when determining credit risk. As of both September 2015 and December 2014, 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 \$35 billion and \$26 billion as of September 2015 and December 2014, 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 49% and 48% in the Americas, approximately 38% and 39% in EMEA, and approximately 13% and 13% in Asia as of September 2015 and December 2014, 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 \$22 billion and \$17 billion as of September 2015 and December 2014, 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 September 2015 and December 2014.

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES
Management's Discussion and Analysis

Credit Exposure by Industry, Region and Credit Quality

The tables below present our credit exposures related to cash, OTC derivatives, and loans and lending commitments (excluding credit exposures described above in “Securities

Financing Transactions” and “Other Credit Exposures”) broken down by industry, region and credit quality.

<i>\$ in millions</i>	Cash as of		OTC Derivatives as of		Loans and Lending Commitments as of	
	September 2015	December 2014	September 2015	December 2014	September 2015	December 2014
Credit Exposure by Industry						
Funds	\$ 182	\$ 96	\$12,686	\$13,114	\$ 1,920	\$ 1,706
Financial Institutions	13,511	12,469	14,897	15,051	15,957	11,316
Consumer, Retail & Healthcare	—	—	1,415	3,325	33,834	30,216
Sovereign	51,878	45,029	8,585	10,004	372	450
Municipalities & Nonprofit	—	—	4,397	4,303	728	541
Natural Resources & Utilities ¹	—	—	4,463	5,741	24,253	24,275
Real Estate	4	6	351	407	13,129	12,366
Technology, Media & Telecommunications	—	—	1,383	2,995	28,302	20,633
Diversified Industrials	—	—	5,189	4,321	17,367	16,392
Other	—	—	1,289	1,476	15,588	11,998
Total	\$65,575	\$57,600	\$54,655	\$60,737	\$151,450	\$129,893

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

<i>\$ in millions</i>	Cash as of		OTC Derivatives as of		Loans and Lending Commitments as of	
	September 2015	December 2014	September 2015	December 2014	September 2015	December 2014
Credit Exposure by Region						
Americas	\$45,811	\$45,599	\$18,335	\$22,032	\$110,458	\$ 91,378
EMEA	7,491	1,666	30,083	31,295	35,929	34,397
Asia	12,273	10,335	6,237	7,410	5,063	4,118
Total	\$65,575	\$57,600	\$54,655	\$60,737	\$151,450	\$129,893

<i>\$ in millions</i>	Cash as of		OTC Derivatives as of		Loans and Lending Commitments as of	
	September 2015	December 2014	September 2015	December 2014	September 2015	December 2014
Credit Exposure by Credit Quality (Credit Rating Equivalent)						
AAA/Aaa	\$44,331	\$38,778	\$ 2,911	\$ 3,354	\$ 4,156	\$ 3,969
AA/Aa2	4,560	4,598	17,991	18,372	8,192	8,097
A/A2	15,912	13,346	12,141	15,170	25,962	22,623
BBB/Baa2	702	730	12,210	13,573	41,833	35,706
BB/Ba2 or lower	70	148	8,883	9,783	70,949	58,670
Unrated	—	—	519	485	358	828
Total	\$65,575	\$57,600	\$54,655	\$60,737	\$151,450	\$129,893

Management's Discussion and Analysis**Selected Exposures**

The section below provides information about our credit and market exposure to certain jurisdictions and industries that have had heightened focus due to recent events and broad market concerns. Credit exposure represents the potential for loss due to the default or deterioration in credit quality of a counterparty or borrower. Market exposure represents the potential for loss in value of our long and short inventory due to changes in market prices. There is no overlap between the credit and market exposures in the amounts below. 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. The political situations in Iraq, Russia and Ukraine continue to negatively affect 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 Nigeria, and their sovereign debt. In addition, while Greece has taken meaningful steps towards resolving its debt-crisis, concerns remain about its long-term economic and financial stability.

As of September 2015, our total credit exposure to Russia was \$240 million and was substantially all with non-sovereign counterparties or borrowers. Such exposure was comprised of \$106 million (including the benefit of \$51 million of securities collateral) related to secured receivables and initial margin placed with clearing organizations, \$102 million related to loans and lending commitments and \$32 million (including the benefit of \$116 million of cash collateral) related to OTC derivatives. In addition, our total market exposure to Russia as of September 2015 was \$657 million, which was primarily with non-sovereign issuers or underliers. Such exposure was comprised of \$269 million related to credit derivatives, \$184 million related to debt and \$204 million related to equities. As of December 2014, our total credit exposure and market exposure to Russia was \$416 million and \$447 million, respectively.

As of September 2015, our total credit exposure to Greece was \$260 million and was substantially all with sovereign counterparties. Such exposure was comprised of \$256 million related to OTC derivatives (including the benefit of \$544 million of cash collateral) and \$4 million related to loans and lending commitments. In addition, our total market exposure to Greece as of September 2015 was \$(159) million, which was primarily with sovereign issuers or underliers. Such exposure was comprised of \$(125) million related to credit derivatives, \$(26) million related to debt and \$(8) million related to equities. As of December 2014, our total credit exposure and market exposure to Greece was \$1.0 billion and \$54 million, respectively.

Our total credit and market exposure to each of Argentina, Iraq, Ukraine and Venezuela as of both September 2015 and December 2014 was not material. Our total credit and market exposure to Nigeria as of September 2015 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 September 2015, the gross purchased and written credit derivative notionals for single-name and index credit default swaps (included in credit derivatives above) were \$17.5 billion and \$18.0 billion, respectively, related to Russia and \$1.9 billion and \$1.1 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 \$2.6 billion and \$3.3 billion, respectively, related to Russia and \$666 million and \$535 million, respectively, related to Greece as of September 2015. 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 condensed consolidated financial statements.

Management's Discussion and Analysis

Over the last few years, there have been 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 September 2015, our aggregate credit and market exposure to these four European countries was \$8.1 billion (\$8.6 billion of credit exposure and \$(491) million of market exposure), including \$3.5 billion to Ireland, \$2.7 billion to Italy, \$382 million to Portugal and \$1.5 billion to Spain. 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 September 2015, our credit exposure to oil and gas companies related to loans and lending commitments was \$10.3 billion (\$1.8 billion of loans and \$8.5 billion of lending commitments). Such exposure included \$4.4 billion of exposure to non-investment-grade counterparties (\$1.6 billion related to loans and \$2.8 billion related to lending commitments). In addition, we have exposure to our clients in the oil and gas industry arising from derivatives. As of September 2015, our credit exposure related to derivatives and receivables with oil and gas companies was \$1.9 billion, primarily with investment-grade counterparties. As of September 2015, our market exposure related to oil and gas companies was \$(243) million, which was primarily to investment-grade issuers or underliers. As of December 2014, our total credit exposure and market exposure to oil and gas companies was \$12.6 billion (including \$10.9 billion related to loans and lending commitments and \$1.7 billion related to derivatives and receivables) and \$805 million, respectively.

Management's Discussion and Analysis**Operational Risk Management****Overview**

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

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

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

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

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

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

Management's Discussion and Analysis

Risk Identification and Reporting

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

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

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

Risk Measurement

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

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

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

Risk Monitoring

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

Certain Risk Factors That May Affect Our Businesses

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

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

Management's Discussion and Analysis

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

Available Information

Our internet address is www.gs.com and the investor relations section of our web site is located at www.gs.com/shareholders. We make available free of charge through the investor relations section of our web site, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934 (Exchange Act), as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our web site, and available in print upon request of any shareholder to our Investor Relations Department, are our certificate of incorporation and by-laws, charters for our Audit Committee, Risk Committee, Compensation Committee, Corporate Governance and Nominating Committee, and Public Responsibilities Committee, our Policy Regarding Director Independence Determinations, our Policy on Reporting of Concerns Regarding Accounting and Other Matters, our Corporate Governance Guidelines and our Code of Business Conduct and Ethics governing our directors, officers and employees. Within the time period required by the SEC, we will post on our web site any amendment to the Code of Business Conduct and Ethics and any waiver applicable to any executive officer, director or senior financial officer.

In addition, our web site includes information concerning purchases and sales of our equity securities by our executive officers and directors, as well as disclosure relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast or by similar means from time to time. In addition, we make available on the Investor Relations section of our web site information regarding DFAST results and information on the firm's risk management practices and regulatory capital ratios, as required under the disclosure-related provisions of the Federal Reserve Board's market risk capital rules.

Our Investor Relations Department can be contacted at The Goldman Sachs Group, Inc., 200 West Street, 29th Floor, New York, New York 10282, Attn: Investor Relations, telephone: 212-902-0300, e-mail: gs-investor-relations@gs.com.

Management's Discussion and Analysis**Cautionary Statement Pursuant to the U.S. Private Securities Litigation Reform Act of 1995**

We have included or incorporated by reference in the September 2015 Form 10-Q, and from time to time our management may make, statements that may constitute “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts, but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. It is possible that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. For a discussion of some of the risks and important factors that could affect our future results and financial condition, see “Certain Risk Factors That May Affect Our Businesses” above, as well as “Risk Factors” in Part I, Item 1A of the 2014 Form 10-K.

Statements about our investment banking transaction backlog also may constitute forward-looking statements. Such statements are subject to the risk that the terms of these transactions may be modified or that they may not be completed at all; therefore, the net revenues, if any, that we actually earn from these transactions may differ, possibly materially, from those currently expected. Important factors that could result in a modification of the terms of a transaction or a transaction not being completed include, in the case of underwriting transactions, a decline or continued weakness in general economic conditions, outbreak of hostilities, volatility in the securities markets generally or an adverse development with respect to the issuer of the securities and, in the case of financial advisory transactions, a decline in the securities markets, an inability to obtain adequate financing, an adverse development with respect to a party to the transaction or a failure to obtain a required regulatory approval. For a discussion of other important factors that could adversely affect our investment banking transactions, see “Certain Risk Factors That May Affect Our Businesses” above, as well as “Risk Factors” in Part I, Item 1A of the 2014 Form 10-K.

The firm has provided in this filing information regarding the firm's capital ratios, including the CET1 ratios under the Standardized and Advanced approaches on a fully phased-in basis, as well as the LCR, and the supplementary leverage ratios for the firm and GS Bank USA. The statements with respect to these ratios are forward-looking statements, based on our current interpretation, expectations and understandings of the relevant regulatory rules and guidance, and reflect significant assumptions concerning the treatment of various assets and liabilities and the manner in which the ratios are calculated. As a result, the methods used to calculate these ratios may differ, possibly materially, from those used in calculating the firm's capital, liquidity and leverage ratios for any future disclosures. The ultimate methods of calculating the ratios will depend on, among other things, implementation guidance or further rulemaking from the U.S. federal bank regulatory agencies and the development of market practices and standards.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk are set forth under “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Market Risk Management” in Part I, Item 2 above.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by Goldman Sachs’ management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (Exchange Act)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during our most recent quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of our businesses. Many of these proceedings are in early stages, and many of these cases seek an indeterminate amount of damages. However, we believe, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on our financial condition, but may be material to our operating results for any particular period, depending, in part, upon the operating results for such period. Given the range of litigation and investigations presently under way, our litigation expenses can be expected to remain high. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Use of Estimates” in Part I, Item 2 of the September 2015 Form 10-Q. See Note 27 to the condensed consolidated financial statements in Part I, Item 1 of the September 2015 Form 10-Q for information about certain judicial, regulatory and legal proceedings.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below sets forth the information with respect to purchases made by or on behalf of The Goldman Sachs Group, Inc. (Group Inc.) or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of our common stock during the three months ended September 30, 2015.

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs ¹	Maximum number of shares that may yet be purchased under the plans or programs ¹
Month #1 (July 1, 2015 to July 31, 2015)	1,214,647	\$208.83	1,214,647	16,209,356
Month #2 (August 1, 2015 to August 31, 2015)	2,570,845	196.80	2,570,845	13,638,511
Month #3 (September 1, 2015 to September 30, 2015)	1,572,542	184.78	1,572,542	12,065,969 ²
Total	5,358,034		5,358,034	

1. On March 21, 2000, we announced that the Board of Directors of Group Inc. (Board) had approved a repurchase program, pursuant to which up to 15 million shares of our common stock may be repurchased. This repurchase program was increased by an aggregate of 430 million shares by resolutions of our Board adopted from June 2001 through April 2013. 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 the firm’s current and projected capital position, but which may also be influenced by general market conditions and the prevailing price and trading volumes of our common stock. The repurchase program has no set expiration or termination date. Prior to repurchasing common stock, the firm must receive confirmation that the Board of Governors of the Federal Reserve System does not object to such capital actions.

2. On October 14, 2015, the Board authorized the repurchase of an additional 60.0 million shares of common stock pursuant to the firm’s existing share repurchase program.

Item 6. Exhibits

Exhibits

- 3.1 Amended and Restated By-Laws of The Goldman Sachs Group, Inc., amended as of October 23, 2015 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed on October 28, 2015).
- 12.1 Statement re: Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
- 15.1 Letter re: Unaudited Interim Financial Information.
- 31.1 Rule 13a-14(a) Certifications.
- 32.1 Section 1350 Certifications. *
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Statements of Earnings for the three and nine months ended September 30, 2015 and September 30, 2014, (ii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and September 30, 2014, (iii) the Condensed Consolidated Statements of Financial Condition as of September 30, 2015 and December 31, 2014, (iv) the Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2015 and year ended December 31, 2014, (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and September 30, 2014, and (vi) the notes to the Condensed Consolidated Financial Statements.

* This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE GOLDMAN SACHS GROUP, INC.

By: /s/ Harvey M. Schwartz

Name: Harvey M. Schwartz

Title: Chief Financial Officer

By: /s/ Sarah E. Smith

Name: Sarah E. Smith

Title: Principal Accounting Officer

Date: November 2, 2015

THE GOLDMAN SACHS GROUP, INC. AND SUBSIDIARIES
**COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES AND RATIOS OF EARNINGS
TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**

<i>\$ in millions</i>	Nine Months Ended September	Year Ended December				
	2015	2014	2013	2012	2011	2010
Net earnings	\$ 5,318	\$ 8,477	\$ 8,040	\$ 7,475	\$ 4,442	\$ 8,354
Add:						
Provision for taxes	2,388	3,880	3,697	3,732	1,727	4,538
Portion of rents representative of an interest factor	63	103	108	125	159	169
Interest expense on all indebtedness	3,940	5,557	6,668	7,501	7,982	6,806
Pre-tax earnings, as adjusted	\$11,709	\$18,017	\$18,513	\$18,833	\$14,310	\$19,867
Fixed charges ¹ :						
Portion of rents representative of an interest factor	\$ 63	\$ 103	\$ 108	\$ 125	\$ 159	\$ 169
Interest expense on all indebtedness	3,950	5,569	6,672	7,509	7,987	6,810
Total fixed charges	\$ 4,013	\$ 5,672	\$ 6,780	\$ 7,634	\$ 8,146	\$ 6,979
Preferred stock dividend requirements	470	583	458	274	2,683	989
Total combined fixed charges and preferred stock dividends	\$ 4,483	\$ 6,255	\$ 7,238	\$ 7,908	\$10,829	\$ 7,968
Ratio of earnings to fixed charges	2.92x	3.18x	2.73x	2.47x	1.76x	2.85x
Ratio of earnings to combined fixed charges and preferred stock dividends	2.61x	2.88x	2.56x	2.38x	1.32x	2.49x

1. Fixed charges include capitalized interest of \$10 million for the nine months ended September 2015, \$12 million for 2014, \$4 million for 2013, \$8 million for 2012, \$5 million for 2011 and \$4 million for 2010.

November 2, 2015

Securities and Exchange Commission
100 F Street N.E.
Washington, D.C. 20549

Re: The Goldman Sachs Group, Inc.
Registration Statements on Form S-8
(No. 333-80839)
(No. 333-42068)
(No. 333-106430)
(No. 333-120802)

Registration Statements on Form S-3
(No. 333-198735)

Commissioners:

We are aware that our report dated November 2, 2015 on our review of the condensed consolidated statement of financial condition of The Goldman Sachs Group, Inc. and subsidiaries (the "Company") as of September 30, 2015, the related condensed consolidated statements of earnings for the three and nine months ended September 30, 2015 and 2014, the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2015 and 2014, the condensed consolidated statement of changes in shareholders' equity for the nine months ended September 30, 2015, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2015 and 2014 included in the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2015 is incorporated by reference in the registration statements referred to above. Pursuant to Rule 436(c) under the Securities Act of 1933 (the "Act"), such report should not be considered a part of such registration statements, and is not a report within the meaning of Sections 7 and 11 of the Act.

Very truly yours,

/s/ PRICEWATERHOUSECOOPERS LLP

CERTIFICATIONS

I, Lloyd C. Blankfein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 of The Goldman Sachs Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2015

/s/ Lloyd C. Blankfein
Name: Lloyd C. Blankfein
Title: Chief Executive Officer

CERTIFICATIONS

I, Harvey M. Schwartz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 of The Goldman Sachs Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2015

/s/ Harvey M. Schwartz
Name: Harvey M. Schwartz
Title: Chief Financial Officer

CERTIFICATION

Pursuant to 18 U.S.C. § 1350, the undersigned officer of The Goldman Sachs Group, Inc. (the “Company”) hereby certifies that the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 2, 2015

/s/ Lloyd C. Blankfein

Name: Lloyd C. Blankfein

Title: Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION

Pursuant to 18 U.S.C. § 1350, the undersigned officer of The Goldman Sachs Group, Inc. (the “Company”) hereby certifies that the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 2, 2015

/s/ Harvey M. Schwartz

Name: Harvey M. Schwartz

Title: Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.