GOLDMAN SACHS BANK USA AND SUBSIDIARIES

Annual Report
for the year ended December 31, 2015

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Introduction

Goldman Sachs Bank USA, together with its consolidated subsidiaries (collectively, the Bank), is a New York State-chartered bank and a member of the Federal Reserve System. It is supervised by the Board of Governors of the Federal Reserve System (Federal Reserve Board), the New York State Department of Financial Services (NYSDFS) and the Consumer Financial Protection Bureau (CFPB) and is a member of the Federal Deposit Insurance Corporation (FDIC). The Bank's deposits are insured by the FDIC up to the maximum amount permitted by law. As a registered swap dealer, the Bank is also regulated by the U.S. Commodity Futures Trading Commission (CFTC). The Bank is also registered as a government securities dealer and is subject to the rules and regulations of the U.S. Department of the Treasury.

The Bank's principal office is located in New York, New York. The Bank operates one domestic branch located in Salt Lake City, Utah, which is regulated by the Utah Department of Financial Institutions. The Bank also operates a branch in London, United Kingdom (the London Branch), which is regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The Bank is a wholly-owned subsidiary of The Goldman Sachs Group, Inc. (Group Inc.), a bank holding company and a financial holding company regulated by the Federal Reserve Board under the Bank Holding Company Act of 1956 (BHC Act) and a financial holding company under the amendments to the BHC Act effected by the U.S. Gramm Leach Bliley Act of 1999.

References to "this Annual Report" are to the Annual Report of the Bank for the year ended December 31, 2015. All references to 2015 and 2014 refer to our years ended, or the dates, as the context requires, December 31, 2015 and December 31, 2014, respectively.

This Annual Report is dated April 26, 2016. All references in this document to the date of this Annual Report are to April 26, 2016. This Annual Report may be amended and/or supplemented from time to time, including by subsequent reports of the Bank.

In this Annual Report, when we use the terms "the Bank," "we," "us," and "our," we mean Goldman Sachs Bank USA and its consolidated subsidiaries. When we use the term "GS Group," we are referring to Group Inc. and its consolidated subsidiaries, including the Bank.

Cautionary Statement Regarding Forward-Looking Statements

In this Annual Report, we have included statements that may constitute "forward-looking statements." Forward-looking statements are not historical facts, but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. This information includes statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, among other things, and may also include statements about the effect of changes to the capital, leverage, liquidity, long-term debt and total loss-absorbing capacity rules applicable to banks and bank holding companies, the impact of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) on our business and operations, and mortgage-related contingencies or various legal proceedings as set forth in Notes 16 and 17, respectively, to the consolidated financial statements in Part III of this Annual Report, as well as statements about the results of our Dodd-Frank Act stress tests, statements about the objectives and effectiveness of our risk management and liquidity policies, statements about new business initiatives or trends in or growth opportunities and statements about our future status, activities or reporting under U.S. or non-U.S. banking and financial regulation.

By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those discussed under "Risk Factors" in this Annual Report.

We have provided in this Annual Report information regarding the Bank's capital ratios, including the Common Equity Tier 1 (CET1) ratios under the Advanced and Standardized approaches on a fully phased-in basis, as well as supplementary leverage ratios for the Bank. 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 Bank'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.

Available Information

This Annual Report is available at http://www.goldmansachs.com/investor-relations/financials/current/subsidiary-financial-info/gsbank-usa/index.html. We also make available the annual audited financial statements of the Bank for the years ended December 2011 through 2014, on our website at http://www.goldmansachs.com/investor-relations/financials/archived/subsidiary-financial-info/gsbank-usa/index.html. Information contained on such websites is not part of, nor is it incorporated by reference into, this report.

Business

The Bank's primary activities include lending to private wealth management clients of Goldman, Sachs & Co. (GS&Co.) and to institutional and corporate clients; entering into interest rate, credit, currency and other derivatives and related products for the purpose of market making and risk management; and the acceptance of client and brokered deposits. As of December 31, 2015, the Bank had total assets of $134.50 billion, total commitments to extend credit of $96.48 billion and total deposits of $88.28 billion.

Lending

As GS Group's primary lending entity, the Bank provides credit to individuals primarily through secured loans and to corporate clients through loan facilities. The Bank provides loans, including residential and commercial mortgage loans, to private wealth management clients. The Bank also provides loans and loan commitments to investment grade and non-investment grade borrowers. The Bank engages in other lending, including providing residential mortgage loans, commercial mortgage loans and other loans to clients and counterparties other than private wealth management clients.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Supplemental Financial Information — Selected Loan Data" in Part II of this Annual Report for information on amounts, maturities and interest rates of the Bank's loans.

Private Bank Lending. The Bank provides loans (primarily on a secured basis) to private wealth management clients. The Bank works with clients in order to finance private asset purchases and strategic investments, bridge cash flow timing gaps and leverage existing holdings to generate liquidity. The Bank also provides loans to GS Group employees as part of its private bank lending activities.

The Bank works closely with GS Group's private wealth management business to assess lending opportunities to its clients. The Bank underwrites, structures, and negotiates pricing for these loans based on the Bank's underwriting guidelines.

Corporate Lending. The Bank offers term loans, revolving lines of credit, letter of credit facilities and bridge loans to corporate institutional clients. These forms of lending are principally used by borrowers for operating, liquidity and general corporate purposes, or in connection with acquisitions. The Bank may elect to syndicate portions of these loans either directly or through its affiliates or retain the loans on its balance sheet.

The Bank is the primary lending entity within GS Group. Many of the Bank's lending opportunities arise from referrals made by its affiliates. Accordingly, the volume of corporate loans made by the Bank to corporate borrowers largely corresponds to levels of loan demand within GS Group. The loans are all subject to the Bank's underwriting criteria and the Bank compensates its affiliates for these referrals as it would a third party, consistent with applicable banking law and regulation. In addition, the Bank may be compensated by Group Inc. or its affiliates for participation in certain lending activities.

The type of corporate loan extended to a borrower varies and is dependent upon the borrower's needs and capital structure and the then-current state of the credit markets. In each case, the Bank underwrites the loan, however, the Bank may rely on services provided by employees of affiliates to assist in coordinating the underwriting process.

See Notes 8 and 9 to the consolidated financial statements in Part III of this Annual Report for further information about the Bank's lending activities.

The Bank also provides commitments to extend credit. These commitments are agreements to lend with fixed termination dates. The total commitment amount does not necessarily reflect actual future cash flows because the Bank 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.

See Note 16 to the consolidated financial statements in Part III of this Annual Report for further information about the Bank's commitments to extend credit.

Other Lending. The Bank also (i) originates and purchases commercial mortgage loans, (ii) purchases loans backed by residential real estate, which includes loans extended by the Bank to clients who warehouse assets that are directly or indirectly secured by residential real estate and (iii) lends to clients who warehouse assets that are directly or indirectly secured by consumer loans, including auto loans and private student loans, and other assets, including unsecured consumer receivables.

In the future, the Bank may expand its lending activities, including its direct consumer oriented lending activities. See "Risk Factors — The Bank faces enhanced risks as new business initiatives lead it and its affiliates to transact with a broader array of clients and counterparties and expose the Bank and its affiliates to new assets, activities and markets" for a discussion of how engaging in direct consumer oriented lending could impact the Bank.

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. Derivative transactions provide liquidity to clients and facilitate the active management of risk exposures, including market, credit and other risks. The Bank acts as a market maker in interest rate, credit, currency and other derivatives in order to facilitate customer transactions in such products and also uses derivatives to manage its own risk exposure as part of the Bank's risk management processes.

The Bank enters into various types of derivatives, including (i) swaps (which are agreements to exchange cash flows, such as currency or interest payment streams), (ii) options (contracts which provide the right but not the obligation to buy or sell a certain financial instrument, currency or commodity on a specified date in the future at a certain price) and (iii) futures and forwards (which are contracts to purchase or sell a financial instrument, currency or commodity in the future).

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

The Bank has entered into derivative transactions with both affiliates and unaffiliated third parties in relatively consistent notional amounts. Affiliated trades are marked to market on a daily basis and are fully collateralized. These trades are part of GS Group's centralized hedging and risk management processes and practices and are designed to encourage efficient liquidity and capital usage across GS Group, and manage counterparty and market risks effectively.

See Note 7 to the consolidated financial statements in Part III of this Annual Report for further information about the Bank's derivative products.

Deposit Taking

Deposits are the Bank's primary source of funding to support its revenue-generating assets. The Bank raises savings and demand deposits and through deposit sweep programs with affiliates and third-party broker-dealers. We also raise time deposits, primarily brokered certificates of deposit ("CDs") through third-party and affiliated brokers, substantially all of which are in FDIC-insurable amounts and distributed through third-party broker-dealers and GS&Co.

On April 15, 2016, the Bank acquired the online deposit platform of GE Capital Bank and assumed approximately $16 billion of deposits. The acquisition enables the Bank to offer CDs and online saving deposits directly to customers.

For additional information about the Bank's deposits, including the sources and types of the Bank's deposits, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Balance Sheet and Funding Sources — Funding Sources — Deposits" in Part II of this Annual Report and Note 13 to the consolidated financial statements in Part III of this Annual Report.

Other Activities

The Bank also engages in agency lending, securities financing transactions, and other trading and market making activities.

See Notes 10 and 16 to the consolidated financial statements in Part III of this Annual Report for further information about the Bank's securities financings and agency lending, respectively.

The Bank's Relationship with Group Inc. and its Affiliates

The Bank is a wholly-owned insured depository institution subsidiary of Group Inc. The Bank leverages business relationships, certain processes, support systems and infrastructure and financial support of Group Inc. and its subsidiaries.

The Bank also benefits from its affiliates' access to third-party vendors, experience and knowledge, and services provided to the Bank by employees of affiliates under a Master Services Agreement supplemented by Service Level Agreements (collectively, the Master Services Agreement). See "Risk Factors — The Bank is a wholly-owned subsidiary of Group Inc. and is dependent on Group Inc. and certain of its affiliates for client business, various services and capital" and Note 19 to the consolidated financial statements in Part III of this Annual Report.

Business Relationships. Affiliates of the Bank are sources of business for the Bank's lending and other business activities and often are counterparties to derivatives transactions with the Bank. See " — Lending — Private Bank Lending," " — Lending — Corporate Lending" and "Derivative Activities" for additional information.

Support Services. The Bank receives operational, technical and administrative support from Group Inc. and its affiliates pursuant to a Master Services Agreement. All operational, technical and administrative support services the Bank receives from its affiliates are overseen by Bank employees. Support services include trade execution, loan origination and servicing, operational, infrastructure and technical services, control and other support services.

Funding Sources. The Bank raises certain deposit funding through its affiliates. A portion of the Bank's deposits are overnight deposit sweeps sourced from GS&Co. and are comprised of deposits from private wealth management clients. In addition, certain affiliates place cash on deposit with the Bank.

The Bank has access to funding facilities from Group Inc. See Note 14 to the consolidated financial statements in Part III of this Annual Report for further information about funding facilities from Group Inc.

The Bank also receives secured funding from its affiliates. In particular, it enters into collateralized financings, such as repurchase agreements, with Group Inc. and its affiliates. See "Other Activities" above. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations — Balance Sheet and Funding Sources — Funding Sources" in Part II of this Annual Report and Note 10 to the consolidated financial statements in Part III of this Annual Report.

Group Inc. Guarantee. In November 2008, Group Inc. executed a reorganization of the Bank involving the transfer of certain assets and operations to the Bank. As a condition of the Bank's reorganization, Group Inc. agreed to guarantee certain losses, including credit-related losses, relating to assets contributed by Group Inc. on the date of the reorganization (the Guarantee). Pursuant to the Guarantee, Group Inc. agreed to (i) purchase from the Bank certain transferred assets or reimburse the Bank for certain losses relating to those assets; (ii) reimburse the Bank for credit-related losses from assets transferred to the Bank; and (iii) protect the Bank or reimburse it for certain losses arising from derivatives and mortgage servicing rights transferred to the Bank. As of and following November 28, 2013, the provisions of the Guarantee relating to derivatives transferred into the Bank were no longer in effect. The other provisions of the Guarantee were still in effect as of December 2015.

In December 2008, Group Inc. agreed to generally guarantee the payment obligations of the Bank (the General Guarantee Agreement), subject to certain limitations. The General Guarantee Agreement was amended and restated as of November 21, 2011. Subject to the terms and conditions of the General Guarantee Agreement, Group Inc. unconditionally and irrevocably guarantees complete payment of all payment obligations of the Bank when due, other than non-recourse payment obligations and payment obligations arising in connection with any Bank CD (unless applicable governing documents of the certificate of deposit expressly state otherwise). In the future, certain of the Bank's other debt holders may be deemed to have waived and may not be entitled to the benefit of the General Guarantee Agreement.

Furthermore, the Dodd-Frank Act requires Group Inc., as a bank holding company, to act as a source of strength to the Bank, as its bank subsidiary, and to commit capital and financial resources to support the Bank.

All of the Bank's relationships and transactions with affiliates are closely monitored in accordance with applicable laws and regulations, including, without limitation, Sections 23A and 23B of the Federal Reserve Act and the Federal Reserve Board's Regulation W. See Note 19 to the consolidated financial statements in Part III of this Annual Report for further information about the Bank's transactions with related parties.

Employees

As of December 2015, the Bank had 429 direct employees and 245 dual employees who perform services for both the Bank and its affiliates. Employees of affiliates also provide services to the Bank under the Master Services Agreement, as described above.

Competition

The financial services industry is intensely competitive. The Bank's competitors are other institutions that provide deposit and client execution services; originate bank and mortgage loans; enter into interest rate, credit, currency, commodity and equity derivatives; and engage in leveraged and structured finance and agency lending, as well as institutions that make markets in derivatives, loans and other financial assets. The Bank competes with institutions on a regional and product basis. The Bank's competition is based on a number of factors, including transaction execution, products and services, innovation, reputation and price.

Regulation

The Bank, an FDIC-insured, New York State-chartered bank, member of the Federal Reserve System and registered swap dealer and government securities dealer, is supervised and regulated by the Federal Reserve Board, the FDIC, the NYSDFS and the CFPB and is regulated by the CFTC and the Department of the Treasury. Bank branches and other offices are subject to local regulation, including filing requirements.

As a participant in the banking industry, the Bank is subject to extensive regulation of, among other things, its lending activities, investing activities, capital adequacy, liquidity, funding, inter-affiliate transactions, the establishment of new businesses and implementation of new activities and the formation of new subsidiaries by both federal and state regulators and by foreign regulators in jurisdictions in which the Bank operates. The NYSDFS and the Federal Reserve Board possess significant discretion in connection with their supervisory, enforcement and examination policies. Any change in such policies, whether by the NYSDFS or the Federal Reserve Board, or through legislation, could have a material adverse impact on the business, financial condition and operations of the Bank.

All banks have been subject to increasing regulation and supervision in the United States and the Bank expects this trend to continue in the future. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Developments" in Part II of this Annual Report for additional information about regulatory developments impacting the Bank.

Stress Tests. The Bank is required to conduct stress tests on an annual basis, to submit the results to the Federal Reserve Board, and to make a summary of those results public. The rules require that the board of directors of the Bank, among other things, consider the results of the stress tests in the normal course of the Bank's business, including, but not limited to, its capital planning, assessment of capital adequacy and risk management practices.

Prompt Corrective Action. The U.S. Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, requires the federal bank regulatory agencies to take "prompt corrective action" in respect of depository institutions that do not meet specified capital requirements. FDICIA establishes five capital categories for FDIC-insured banks: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

An institution may be downgraded to, or deemed to be in, a capital category that is lower than is indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, as the capital category of an institution declines. Failure to meet the capital requirements could also require a depository institution to raise capital. An institution also is prohibited from accepting, renewing or rolling over deposits by or through a "deposit broker" (as defined in the FDICIA) unless the institution is well-capitalized. The FDIC may waive this prohibition if the institution is adequately capitalized; however, the prohibition cannot be waived if the institution is undercapitalized.

An institution also is restricted with respect to the deposit interest rates it may offer if the institution is not well capitalized. Ultimately, critically undercapitalized institutions are subject to the appointment of a receiver or conservator, as described under "Insolvency of an Insured Depository Institution" below.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Equity Capital Management and Regulatory Capital" in Part II of this Annual Report and Note 18 to the consolidated financial statements in Part III of this Annual Report for information on the quantitative requirements for a depository institution to be considered "well-capitalized."

Dividends. Federal and state laws impose limitations on the payment of dividends by the Bank to Group Inc. In general, the amount of dividends that may be paid by the Bank is limited to the lesser of the amounts calculated under a "recent earnings" test and an "undivided profits" test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared by the entity in any calendar year is in excess of the current year's net income combined with the retained net income of the two preceding years, unless the entity obtains prior regulatory approval. Under the undivided profits test, a dividend may not be paid in excess of the entity's "undivided profits" (generally, accumulated net profits that have not been paid out as dividends or transferred to surplus).

The banking regulators have authority to prohibit or limit the payment of dividends if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization. The Bank is required to include any payment of dividends in its capital plan. Any dividends in the capital plan are subject to non-objection from the Federal Reserve Board.

Insolvency of an Insured Depository Institution. Under the Federal Deposit Insurance Act of 1950 (FDI Act), if the FDIC is appointed as conservator or receiver for an insured depository institution such as the Bank, upon its insolvency or in certain other events, the FDIC has broad powers, including the power:

- To transfer any of the depository institution's assets and liabilities to a new obligor, including a newly formed "bridge" bank, without the approval of the depository institution's creditors;
- To enforce the depository institution's contracts pursuant to their terms without regard to any provisions triggered by the appointment of the FDIC in that capacity; or
- To repudiate or disaffirm any contract or lease to which the depository institution is a party, the performance of which is determined by the FDIC to be burdensome and the disaffirmance or repudiation of which is determined by the FDIC to promote the orderly administration of the depository institution.

In addition, under federal law, the claims of holders of domestic deposit liabilities and certain claims for administrative expenses against an insured depository institution would be afforded a priority over other general unsecured claims, including claims of debt holders of the institution, in the "liquidation or other resolution" of such an institution by any receiver.

As a result, whether or not the FDIC ever sought to repudiate any debt obligations of the Bank, the debt holders (other than depositors) would be treated differently from, and could receive, if anything, substantially less than, the depositors of the Bank.

In November 2015, Group Inc. and certain of its subsidiaries (including the Bank), along with a number of other major global banking organizations, adhered to an updated version of the International Swaps and Derivatives Association Resolution Stay Protocol (the ISDA Protocol) that was developed in coordination with the Financial Stability Board. The ISDA Protocol imposes a stay on certain cross-default and early termination rights within standard ISDA derivatives contracts and securities financing transactions between adhering parties in the event that one of them is subject to resolution in its home jurisdiction, including a resolution under the orderly liquidation authority or the FDI Act in the United States. The initial version, which addressed ISDA derivatives contracts, took effect in January 2015, and the updated version, which was revised to also cover securities financing transactions, took effect in January 2016. The ISDA Protocol is expected to be adopted more broadly in the future, following the adoption of regulations by banking regulators, and expanded to include instances where a U.S. financial holding company becomes subject to proceedings under the U.S. bankruptcy code.

Capital, Leverage and Liquidity Requirements. The Bank is subject to consolidated regulatory capital and leverage requirements set forth by the Federal Reserve Board. Under these requirements, the Bank must meet specific regulatory capital requirements that involve quantitative measures of assets, liabilities and certain off-balance-sheet items. The sufficiency of the Bank's capital levels is also subject to qualitative judgments by regulators. The Bank is also subject to liquidity requirements established by the Federal Reserve Board that require it to meet specified ratios.

Capital Ratios. The Bank computes its Common Equity Tier 1 (CET1) capital, Tier 1 capital, Total capital and Tier 1 leverage ratios in accordance with the revised risk-based capital and leverage ratio regulations, inclusive of certain transitional provisions (Revised Capital Framework). These regulations are largely based on the Basel Committee's final capital framework for strengthening international capital standards (Basel III), and also implement certain provisions of the Dodd-Frank Act. Under the Revised Capital Framework, the Bank is an "Advanced approach" banking organization.

The Revised Capital Framework provides for capital buffers (both buffers consisting entirely of CET1) that phase in over time, including a capital conservation buffer, as well as, potentially, a counter-cyclical capital buffer. As applicable to the Bank, the capital conservation buffer will equal 2.5% when fully phased-in as of January 1, 2019. The counter-cyclical buffer which is currently 0% but potentially could equal up to 2.5%, may be imposed in the event that national supervisors deem it necessary in order to counteract excessive credit growth. The Federal Reserve Board could change the buffer applicable to the Bank in the future and, as a result, the minimum ratios the Bank is subject to could increase.

The Basel Committee has published final guidelines for calculating incremental capital requirements for domestic systemically important banking institutions (D-SIBs). These guidelines are complementary to the framework adopted for U.S. global systemically important banks (G-SIBs) (which applies to Group Inc.), but are more principles-based in order to provide an appropriate degree of national discretion. The impact of these guidelines and the potential incremental D-SIB capital requirements on the Bank will depend on how they are implemented by the banking regulators in the United States.

In January 2016, the Basel Committee finalized a revised framework for calculating minimum capital requirements for market risk, which is expected to increase market risk capital requirements for most banking organizations. The revised framework, among other things: modifies the boundary between the trading book and banking book; replaces value at risk (VaR) and stressed VaR measurements in the internal models approach with an expected shortfall measure that is intended to reflect tail and liquidity risks not captured by VaR; revises the model review and approval process; limits the capital-reducing effects of hedging and portfolio diversification in the internal models approach; provides that securitization exposures will be measured using only the Standardized approach; and makes significant revisions to the methodology for capital requirements under the Standardized approach. The effective date for first reporting under the revised framework is December 31, 2019. The U.S. federal bank regulatory agencies have not yet proposed regulations implementing the revised requirements for U.S. banking organizations.

The Basel Committee has issued a series of updates which propose other changes to capital regulations. In particular, it has finalized a revised standard approach for calculating RWAs for counterparty credit risk on derivatives exposures ("Standardized Approach for measuring Counterparty Credit Risk exposures," known as "SA-CCR"). In addition, it has published guidelines for measuring and controlling large exposures ("Supervisory Framework for measuring and controlling Large Exposures") and issued an updated framework for regulatory capital treatment of banking book securitizations.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Equity Capital Management and Regulatory Capital" and Note 18 to the consolidated financial statements in Part III of this Annual Report for the aspects of the Revised Capital Framework that are most relevant to the Bank as an Advanced approach banking organization, including information about the Bank's CET1, CET1 ratio, Tier 1 capital, Tier 1 capital ratio, Total capital, Total capital ratio, risk-weighted assets (RWAs), and for information about minimum required ratios, as well as applicable capital buffers.

Leverage Ratios. Under the Revised Capital Framework, the Bank is subject to Tier 1 leverage requirements established by the Federal Reserve Board. The Revised Capital Framework also introduced a supplementary leverage ratio for Advanced approach banking organizations effective January 1, 2018.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Equity Capital Management and Regulatory Capital" and Note 18 to the Bank's consolidated financial statements in Part III of this Annual Report for information about the Bank's Tier 1 leverage ratio and supplementary leverage ratio.

Liquidity Ratios. The Basel Committee's international framework for liquidity risk measurement, standards and monitoring requires banking organizations to measure their liquidity against two specific liquidity tests.

The liquidity coverage ratio (LCR) is designed to ensure that the entity maintains an adequate level of unencumbered high-quality liquid assets based on expected net cash outflows under an acute short-term liquidity stress scenario. The U.S. federal bank regulatory agencies' rules implementing the LCR for Advanced approach banking organizations are generally consistent with the Basel Committee's framework, but include accelerated transitional 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, including the Bank, must have an 80% and 90% minimum ratio in 2015 and 2016, respectively, and a 100% minimum ratio commencing in 2017. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management — Liquidity Risk Management — Liquidity Regulatory Framework" in Part II of this Annual Report.

The net stable funding ratio (NSFR) is designed to promote more medium- and long-term stable funding of the assets and off-balance-sheet activities of banking organizations over a one-year time horizon. Under the Basel Committee framework, the NSFR will be effective on January 1, 2018. The U.S. federal bank regulatory agencies have not yet proposed rules implementing the NSFR for U.S. banks and bank holding companies.

Transactions between Affiliates. Transactions between the Bank or its subsidiaries, on the one hand, and Group Inc. or its other subsidiaries and affiliates, on the other hand, are regulated by the Federal Reserve Board. These regulations generally limit the types and amounts of transactions (including credit extensions from the Bank or its subsidiaries to Group Inc. or its other subsidiaries and affiliates) that may take place and generally require those transactions to be on market terms or better to the Bank or its subsidiaries. These regulations generally do not apply to transactions between the Bank and its subsidiaries.

The Dodd-Frank Act expanded the coverage and scope of these regulations, including by applying them to the credit exposure arising under derivative transactions, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions.

Resolution. Each insured depository institution with $50 billion or more in assets, such as the Bank, is required to submit an annual plan for its rapid and orderly resolution in the event of material financial distress or failure (resolution plan) to the FDIC. The guidance applicable to covered insured depository institutions, including the Bank, requires that the Bank prepare and include in its resolution plan two strategies for its resolution, a multiple acquirer strategy and a liquidation strategy, and compare these to a straight liquidation and deposit payoff.

In addition, each bank holding company with over $50 billion in assets (including Group Inc.) and each designated systemically important financial institution is required by the Federal Reserve Board and the FDIC to provide an annual resolution plan. The regulators' joint rule applicable to Group Inc. sets specific standards for the resolution plans, including analyses of the company's material entities, interconnections and interdependencies, among other elements. The Bank is a material operating entity of Group Inc. and as a result is included within Group Inc.'s resolution plan. If the regulators jointly determine that Group Inc. has failed to cure identified shortcomings in its resolution plan and that its resolution plan, after any permitted resubmission, is not credible, the regulators may jointly impose more stringent capital, leverage or liquidity requirements or restrictions on growth, activities or operations or may jointly order Group Inc. to divest assets or operations in order to facilitate orderly resolution in the event of failure, any of which may impact the Bank.

FDIC Insurance. The Bank accepts deposits, and those deposits have the benefit of FDIC insurance up to the applicable limits. The FDIC's Deposit Insurance Fund is funded by assessments on insured depository institutions, such as the Bank. The amounts of these assessments for larger depository institutions (generally those that have $10 billion in assets or more), such as the Bank, are currently based on the average total consolidated assets less the average tangible equity of the insured depository institution during the assessment period, the supervisory ratings of the insured depository institution and specified forward-looking financial measures used to calculate the assessment rate. The assessment rate is subject to adjustment by the FDIC.

On March 15, 2016, the FDIC approved a final rule that will, over time, increase the reserve ratio for the Deposit Insurance Fund to 1.35% of total insured deposits. The final rule imposes a surcharge on the assessments of larger depository institutions. If the Deposit Insurance Fund reserve ratio reaches 1.15% before July 1, 2016, the surcharge will begin on July 1, 2016, and otherwise, the surcharge will begin the quarter after the reserve ratio first reaches or exceeds 1.15%. The surcharge will continue through the earlier of the quarter that the reserve ratio first reaches or exceeds 1.35% and December 31, 2018. Under the final rule, if the reserve ratio does not reach 1.35% by December 31, 2018, the FDIC will impose a shortfall assessment on March 31, 2019, on larger depository institutions, including the Bank, which will be collected on June 30, 2019.

The surcharge, when fully implemented, will increase the Bank's FDIC insurance assessments.

Lending and Credit Limits. New York State banking law imposes lending limits (which take into account credit exposure from derivative transactions, and securities financing transactions of securities representing debt obligations) and other requirements that could impact the manner and scope of the Bank's activities.

The Bank is also subject to limits under state and federal law that restrict the type and amount of investments it can make.

In addition, single-counterparty credit limits have been proposed but are still under consideration by the Federal Reserve Board. The limits, as proposed, impose more stringent requirements for credit exposure among major financial institutions and apply in the aggregate to Group Inc. and its subsidiaries on a consolidated basis. Accordingly, although not applicable to the Bank on a standalone basis, the proposed limits could have the effect of constraining the Bank's management of its credit exposures because of the consolidated application of the limits, including with respect to hedges. The proposed rule implements part of the Dodd-Frank Act and seeks to promote global consistency by generally following the Basel Committee's Supervisory Framework for measuring and controlling Large Exposures.

During the past several years, the U.S. federal bank regulatory agencies have raised concerns over origination and other practices in leveraged lending markets. The agencies have issued guidance that focuses on transaction structures and risk management frameworks and outlines high-level principles for safe-and-sound leveraged lending, including underwriting standards, valuation and stress testing. The agencies have also recently noted concerns relating to underwriting standards and general risk management practices in the area of commercial real estate lending and have issued guidance stressing the need for prudent risk management practices by financial institutions engaging in commercial real estate lending activity.

Community Reinvestment Act (CRA). The Bank is subject to the provisions of the CRA. Under the terms of the CRA, the Bank has a continuing and affirmative obligation, consistent with safe and sound operation, to help meet the credit needs of its communities, including providing credit to individuals residing in low- and moderate-income neighborhoods.

The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, so long as they are consistent with the CRA. The CRA requires each appropriate federal bank regulatory agency, in connection with its examination of a depository institution, to assess such institution's record in assessing and meeting the credit needs of the community served by that institution, including low- and moderate-income neighborhoods.

The assessment also is part of the Federal Reserve Board's consideration of applications to acquire, merge or consolidate with another banking institution or its holding company, to assume deposits of or acquire assets from another depository institution, to establish a new branch office that will accept deposits or to relocate an office. In the case of a bank holding company applying for approval to acquire a bank or other bank holding company, the Federal Reserve Board will assess the records of each subsidiary depository institution of the applicant bank holding company, and such records may be the basis for denying the application.

The Bank is also subject to provisions of the New York Banking Law that impose continuing and affirmative obligations upon a New York State-chartered bank to serve the credit needs of its local community (the NYCRA). Such obligations are substantially similar to those imposed by the CRA. The NYCRA requires the NYSDFS to make a periodic written assessment of an institution's compliance with the NYCRA, utilizing a four-tiered rating system, and to make such assessment available to the public. The NYCRA also requires the Superintendent to consider the NYCRA rating when reviewing an application to engage in certain transactions, including mergers, asset purchases and the establishment of branch offices, and provides that such assessment may serve as a basis for the denial of any such application.

The Federal Reserve Board, the federal regulator responsible for monitoring the Bank's CRA compliance, approved the designation of the Bank as a "wholesale bank." A wholesale bank generally is a bank that is not in the business of extending home mortgage, small business, small farm or consumer loans to retail customers and for which a designation as a wholesale bank is in effect. As a result of this designation, the Bank fulfills its CRA obligations through community development lending, qualified investments or community development services, rather than retail CRA loans. In the event that the Bank materially changes its lending activities or expands its businesses in the future, the Bank may lose its designation as a wholesale bank and therefore may be required to satisfy CRA obligations through different or expanded activities. See "Risk Factors — The Bank faces enhanced risks as new business initiatives lead it and its affiliates to transact with a broader array of clients and counterparties and expose the Bank and its affiliates to new assets, activities and markets" for a discussion of how new business initiatives could impact the Bank's CRA ratings.

The regulatory agencies' assessment of the institution's record is made available to the public. The Bank received "Outstanding" CRA ratings from the Federal Reserve Board and the NYSDFS in its last completed examinations in 2012. The Bank's examiners began a new CRA public evaluation of the Bank in 2015, which is not yet complete.

Consumer Protection Laws. The Bank is subject to a number of federal and state consumer protection laws, including laws designed to protect customers and promote lending to various sectors of the economy and population. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Flood Disaster Protection Act, the Military Lending Act, the Servicemembers Civil Relief Act, and their respective state law counterparts.

The Dodd-Frank Act created a new, independent federal agency, the CFPB, which was granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the laws referenced above, fair lending laws and certain other statutes. The Bank is supervised by the CFPB, and is also subject to oversight by the Federal Reserve Board and the New York State Department of Financial Services, with respect to the foregoing laws and activities.

In connection with the Bank's assumption of retail deposits from GE Capital Bank, which closed in April 2016, the Bank is subject to enhanced legal and regulatory requirements, in particular, consumer protection laws and regulation, including regulation relating to Truth in Savings, Electronic Funds Transfer, Expedited Funds Availability and the Electronic Signatures in Global and National Commerce Act. The Bank is in the process of enhancing, as appropriate, its existing regulatory and legal compliance programs, policies, procedures and processes to cover the activities, products and customers associated with this transaction.

Swaps, Derivatives and Commodities Regulation. The commodity futures, commodity options and swaps industry in the United States is subject to regulation under the U.S. Commodity Exchange Act (CEA). The CFTC is the federal agency charged with the administration of the CEA. In addition, the SEC is the federal agency charged with the regulation of security-based swaps.

The Bank and its subsidiary Goldman Sachs Mitsui Marine Derivative Products, L.P. are registered swap dealers with the CFTC and are subject to CFTC regulations. The rules and regulations of various self-regulatory organizations, such as CFTC-registered clearinghouses and the Chicago Board of Trade and the Chicago Mercantile Exchange, other futures exchanges and the National Futures Association, also govern the commodity futures, commodity options and swaps activities of these entities.

The Dodd-Frank Act provides for significantly increased regulation of, and restrictions on, derivative markets and transactions. In particular, the Dodd-Frank Act imposes the following requirements relating to swaps and security-based swaps:

- Real-time public and regulatory reporting of trade information for swaps and security-based swaps and large trader reporting for swaps;
- Registration of swap dealers and major swap participants with the CFTC and of security-based swap dealers and major security-based swap participants with the SEC;
- Position limits, aggregated across commonly-controlled accounts and commonly-controlled affiliates, that cap exposure to derivatives on certain physical commodities;
- Mandated clearing through central counterparties and execution through regulated exchanges or electronic facilities for certain swaps and security-based swaps;
- New business conduct standards and other requirements for swap dealers, major swap participants, security-based swap dealers and major security-based swap participants, covering their relationships with counterparties, internal oversight and compliance structures, conflict of interest rules, internal information barriers, general and trade-specific record-keeping and risk management;
- Margin requirements for trades that are not cleared through a central counterparty; and
- Entity-level capital requirements for swap dealers, major swap participants, security-based swap dealers, and major security-based swap participants.

In addition, the "swap push-out" provisions of Section 716 of the Dodd-Frank Act restrict the ability of an insured depository institution, such as the Bank, to enter into structured finance swaps, or swaps referencing asset-backed securities, when such swaps are not entered into for hedging or other risk mitigation purposes. An insured depository institution that fails to comply with Section 716 could face restrictions on the institution's access to the Federal Reserve's discount window or FDIC deposit insurance or guarantees.

The terms "swaps" and "security-based swaps" are generally defined broadly for purposes of these requirements, and can include a wide variety of derivative instruments in addition to those conventionally called swaps.

The definition includes certain forward contracts, options, and certain loan participations, subject to certain exceptions, and requires compliance with certain aspects of the rules in connection with guarantees of swaps. The definition relates to a wide variety of underlying assets or obligations, including currencies, commodities, interest or other monetary rates, yields, indices, securities, credit events, loans and other financial obligations.

The CFTC is responsible for issuing rules relating to swaps, swap dealers and major swap participants, and the SEC is responsible for issuing rules relating to security-based swaps, security-based swap dealers and major security-based swap participants. The U.S. federal bank regulatory agencies (acting jointly) adopted final rules in October 2015 and the CFTC adopted final margin rules for uncleared swaps in December 2015 that will phase in variation margin requirements from September 1, 2016 through March 1, 2017 and initial margin requirements from September 1, 2016 through September 1, 2020, depending on the level of swaps and foreign exchange forward activity of the swap dealer and the relevant counterparty. The final rules of the U.S. federal bank regulatory agencies would generally apply to inter-affiliate transactions, with limited relief available from the initial margin requirements for affiliates that have registered with the CFTC as swap dealers. Under the CFTC final rules, inter-affiliate transactions would be exempt from initial margin requirements with certain exceptions, but variation margin requirements would still apply. The Bank expects the SEC to adopt margin regulations as well.

The CFTC has not yet finalized its capital regulations for swap dealers. However, many of the requirements, including registration of swap dealers, mandatory clearing and execution of certain swaps, business conduct standards and real-time public trade reporting, have taken effect already under CFTC rules, and the SEC and the CFTC have finalized the definitions of a number of key terms. Finally, the CFTC is deciding which swaps must be cleared through central counterparties and executed on swap execution facilities or exchanges. In particular, certain interest rate swaps and credit default swaps are now subject to these clearing and trade-execution requirements. Both the CFTC and exchanges are expected to continue making such determinations during 2016.

The SEC has adopted rules relating to trade reporting and real-time reporting requirements for security-based swap dealers and major security-based swap participants, compliance with which is not currently required.

The SEC has also adopted final rules relating to the registration of security-based swap dealers, but such registration is not currently required. The SEC has proposed, but not yet finalized, rules to impose margin, capital, segregation and business conduct requirements for security-based swap dealers and major security-based swap participants.

The SEC has also proposed rules that would govern the design of new trading venues for security-based swaps and establish the process for determining which products must be traded on these venues. The Bank currently engages in transactions involving security-based swaps, and, accordingly, the SEC's rules will impact its business and may do so adversely.

Similar regulations have been proposed or adopted in jurisdictions outside the United States, including the adoption of standardized execution and clearing, margining and reporting requirements for OTC derivatives. For instance, the European Union (EU) has established regulatory requirements for OTC derivatives activities under the European Market Infrastructure Regulation, including requirements relating to portfolio reconciliation and reporting, which have already taken effect, as well as requirements relating to clearing and margining for uncleared derivatives, which are currently expected to be finalized during 2016.

The CFTC has provided guidance and timing on the cross-border regulation of swaps and announced that it has reached an understanding with the European Commission regarding requirements for central clearing counterparties and the common goals underlying their respective regulations. The CFTC also approved certain comparability determinations that would permit substituted compliance with non-U.S. regulatory regimes for certain swap regulations related to certain business conduct requirements, including chief compliance officer duties, conflict of interest rules, monitoring of position limits, record-keeping and risk management. The SEC issued rules and guidance on cross-border security-based swap activities and the CFTC issued proposed rules that would determine the circumstances under which registered swap dealers would be subject to the CFTC's rules regarding margin in connection with uncleared swaps in cross-border transactions. See "Risk Factors — The Bank's business, and the businesses of its clients, are subject to extensive and pervasive regulation" for a discussion of how derivatives regulation could impact the Bank's business.

Compensation Practices. The compensation practices of the Bank, as a subsidiary of Group Inc., are subject to oversight by the Federal Reserve Board and other financial regulatory bodies worldwide. The scope and content of compensation regulation in the financial industry are continuing to develop, and the Bank expects that these regulations and resulting market practices will evolve over a number of years.

The U.S. federal bank regulatory agencies have provided guidance designed to ensure that incentive compensation arrangements at banking organizations take into account risk and are consistent with safe and sound practices. The guidance sets forth the following three key principles with respect to incentive compensation arrangements: (i) the arrangements should provide employees with incentives that appropriately balance risk and financial results in a manner that does not encourage employees to expose their organizations to imprudent risk; (ii) the arrangements should be compatible with effective controls and risk management; and (iii) the arrangements should be supported by strong corporate governance. The guidance provides that supervisory findings with respect to incentive compensation will be incorporated, as appropriate, into the organization's supervisory ratings, which can affect its ability to make acquisitions or perform other actions.

The guidance also provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk management, control or governance processes pose a risk to the organization's safety and soundness.

The Dodd-Frank Act requires the U.S. financial regulators, including the Federal Reserve Board, to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities having at least $1 billion in total assets (which would include Group Inc. and the Bank) that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The initial version of these regulations was proposed by the U.S. financial regulators in early 2011 but the regulations have not yet been finalized.

The proposed regulations incorporate the three key principles from the regulatory guidance described above. If the regulations are adopted in the form proposed, they may restrict GS Group's flexibility with respect to the manner in which it structures compensation.

Anti-Money Laundering and Anti-Bribery Rules and Regulations. The U.S. Bank Secrecy Act (BSA), as amended by the USA PATRIOT Act of 2001 (PATRIOT Act), contains anti-money laundering and financial transparency laws and mandated the implementation of various regulations applicable to all financial institutions, including standards for verifying client identification at account opening, and obligations to monitor client transactions and report suspicious activities. Through these and other provisions, the BSA and the PATRIOT Act seek to promote the identification of parties that may be involved in terrorism, money laundering or other suspicious activities. Anti-money laundering laws outside the United States contain some similar provisions.

In addition, the Bank is subject to laws and regulations worldwide, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, relating to corrupt and illegal payments to, and hiring practices with regard to, government officials and others. The obligation of a financial institution, including the Bank, to identify its clients, to monitor for and report suspicious transactions, to monitor direct and indirect payments to government officials, to respond to requests for information by regulatory authorities and law enforcement agencies, and to share information with other financial institutions, has required the implementation and maintenance of internal practices, procedures and controls.

Volcker Rule. The provisions of the Dodd-Frank Act referred to as the "Volcker Rule" became effective in July 2015. The Volcker Rule prohibits "proprietary trading," but permits activities such as market making and risk-mitigation hedging, which the Bank currently engages and will continue to engage in, and 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 at the bank holding company level.

In addition, 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 (including the Bank). Collateralized loan obligations and other vehicles in which the Bank invests, subject to certain exclusions, including an exclusion for certain loan securitizations, may be considered "covered funds" under the rule. The rule also limits certain types of transactions between the Bank and covered funds sponsored by Group Inc. and its subsidiaries, similar to the limitations on transactions between depository institutions and their affiliates. The limitation on investments in covered funds requires Group Inc. and its subsidiaries, including the Bank, to reduce their investments in each such fund to 3% or less of the fund's net asset value, and to reduce their aggregate investments in all such funds to 3% or less of the GS Group's Tier 1 capital.

In December 2014, the Federal Reserve Board extended the conformance period through July 2016 for investments in, and relationships with, covered funds that were in place prior to December 31, 2013, and indicated that it intends to further extend the conformance period through July 2017.

Other Regulation. The U.S. and non-U.S. government agencies, regulatory bodies and self-regulatory organizations, as well as state securities commissions and other state regulators in the United States, are empowered to conduct administrative proceedings that can result in censure, fine, the issuance of cease-and-desist orders, or the suspension or expulsion of a regulated entity or its directors, officers or employees. In addition, a number of the Bank's other activities, including its cross-border lending and derivative activities, require it to obtain licenses, adhere to applicable regulations and be subject to the oversight of various regulators in the jurisdictions in which it conducts these activities.

Securitizations. The Bank is also subject to rules adopted by federal agencies pursuant to the Dodd-Frank Act that require any person who organizes or initiates an asset-backed security transaction to retain a portion (generally, at least five percent) of any credit risk that the person conveys to a third party. The new EU capital rules set out in the Capital Requirements Regulation also provide that no credit institution may be exposed to a securitization position unless the issuer retains a material net economic interest of at least five percent, which impacts the Bank in the context of its cross-border transactions.

Securitizations would also be affected by rules proposed by the SEC to implement the Dodd-Frank Act's prohibition against securitization participants engaging in any transaction that would involve or result in any material conflict of interest with an investor in a securitization transaction. The proposed rules would exempt bona fide market-making activities and risk-mitigating hedging activities in connection with securitization activities from the general prohibition.

Total Loss-Absorbing Capacity. In October 2015, the Federal Reserve Board issued a proposed rule that would establish loss-absorbency and related requirements for U.S. bank holding companies that are G-SIBs, such as Group Inc. The proposed rule would address U.S. implementation of the Financial Stability Board's total loss-absorbing capacity (TLAC) principles and term sheet. Although it does not apply to depository institutions, as proposed, the rule would impact aspects of the operations of depository institutions that are subsidiaries of U.S. G-SIBs, including the Bank as a subsidiary of Group Inc. For example, it would prohibit Group Inc. from (i) guaranteeing obligations of the Bank if an insolvency or receivership of Group Inc. could give the counterparty the right to exercise a default right (for example, early termination) against the Bank and (ii) entering into qualified financial contracts with any person that is not a subsidiary of Group Inc. (potentially increasing the number of such contracts that Group Inc. enters into with its subsidiaries, which may include the Bank, which could then enter into offsetting contracts with third parties). Moreover, in the supplementary information accompanying the proposed rule, the Federal Reserve Board indicated that it is considering imposing through future rulemakings TLAC requirements on material operating subsidiaries of U.S. G-SIBs, which may include the Bank.

Financial Privacy. Certain of the Bank's activities are subject to laws and regulations enacted by U.S. federal and state governments or other jurisdictions and/or enacted by various regulatory organizations or exchanges relating to the privacy of the information of clients, employees or others.

Risk Factors

The Bank faces a variety of risks that are substantial and inherent in its business, including liquidity, market, credit, operational, model, legal, regulatory and reputational risks. The following are some of the more important factors that could affect the Bank's business.

The Bank's business has been and may continue to be adversely affected by conditions in the global financial markets and economic conditions generally.

The Bank's business, by its nature, does not produce predictable earnings. The Bank generates a substantial amount of its revenue and earnings from transactions in financial instruments, including in connection with its market-making activities in interest rate and other derivatives and related products, and interest it charges on its lending portfolio.

The Bank's financial performance is highly dependent on the environment in which it operates. A favorable business environment is generally characterized by, among other factors, high global gross domestic product growth, regulatory and market conditions which result in transparent, liquid and efficient capital markets, low inflation, high business and investor confidence, stable geopolitical conditions, clear regulations and strong business earnings.

Unfavorable or uncertain economic and market conditions can be caused by: concerns about sovereign defaults; uncertainty in U.S. federal fiscal or monetary policy, the U.S. federal debt ceiling and the continued funding of the U.S. government; the extent of and uncertainty about the timing and nature of regulatory reforms; declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; illiquid markets; increases in inflation, interest rates, exchange rate or basic commodity price volatility or default rates; outbreaks of hostilities or other geopolitical instability; corporate, political or other scandals that reduce investor confidence in capital markets; extreme weather events or other natural disasters or pandemics; or a combination of these or other factors.

In 2008 and through early 2009, the financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity.

The Bank's revenues and profitability and those of its competitors have been and will continue to be impacted by current and future requirements relating to capital, leverage, minimum liquidity and long-term funding levels, requirements related to resolution and recovery planning, derivatives clearing and margin rules and levels of regulatory oversight, as well as limitations on whether and how certain business activities may be carried out by financial institutions. Although interest rates are at or near historically low levels, financial institution returns have also been negatively impacted by increased funding costs due in part to the withdrawal of perceived government support of such institutions in the event of future financial crises. In addition, liquidity in the financial markets has also been negatively impacted as market participants and market practices and structures adjust to new regulations.

The degree to which these and other changes resulting from the financial crisis will have a long-term impact on the profitability of financial institutions will depend on the final interpretation and implementation of new regulations, the manner in which markets, market participants and financial institutions adapt to the new landscape, and the prevailing economic and financial market conditions. However, there is a significant risk that such changes will, at least in the near term, continue to negatively impact the absolute level of revenues and profitability at the Bank, GS Group and other financial institutions.

Since 2011, concerns about European sovereign debt risk and its impact on the European banking system, and about changes in interest rates and other market conditions or actual changes in interest rates and other market conditions, including market conditions in China, have resulted, at times, in significant volatility while negatively impacting the levels of activity of the Bank's clients.

In addition, a significant portion of the Bank's business involves transactions with, through, arising from, involving, or otherwise related to other GS Group entities, and any adverse change in the businesses or activity levels of GS Group more broadly can have an adverse impact on the Bank. Accordingly, the Bank is materially affected by conditions in the global financial markets and economic conditions generally, both directly and through their impact on business levels at the Bank and its affiliates. These conditions can change suddenly and negatively.

General uncertainty about economic, political and market activities, and the scope, timing and final implementation of regulatory reform, as well as weak consumer, investor and CEO confidence resulting in large part from such uncertainty, continues to negatively impact activity of GS Group's clients, which adversely affects the Bank's business. Periods of low volatility and periods of high volatility combined with a lack of liquidity, have at times had an unfavorable impact on the Bank's market-making business.

The Bank's business, and the businesses of its clients, are subject to extensive and pervasive regulation.

As an FDIC-insured New York State-chartered bank, member of the Federal Reserve System, regulated swap dealer and subsidiary of a systemically important financial institution, the Bank is subject to extensive regulation. Among other things, as a result of regulators or private parties challenging the Bank's compliance with existing laws and regulations, the Bank could be fined, prohibited from engaging in some of its activities, prevented from engaging in new activities, subjected to limitations or conditions on its activities or subjected to new or substantially higher taxes or other governmental charges in connection with the conduct of its business or with respect to its employees. Such limitations or conditions may negatively impact the Bank's profitability.

Separate and apart from the impact on the scope and profitability of the Bank's business activities, day-to-day compliance with existing laws and regulations has involved and will continue to involve significant amounts of time, including that of the Bank's senior leaders and that of an increasing number of dedicated compliance and other reporting, technology-focused and operational personnel, all of which may negatively impact the Bank's profitability.

If there are new laws or regulations or changes in the enforcement of existing laws or regulations applicable to the Bank specifically, GS Group generally, or the business activities of either of their clients, including capital, liquidity, leverage and margin requirements, restrictions on leveraged lending or other business practices, reporting requirements, requirements relating to recovery and resolution planning, higher FDIC deposit insurance assessments, tax burdens and compensation restrictions, that are imposed on a limited subset of financial institutions (either based on size, activities, geography or other criteria), compliance with these new laws or regulations, or changes in the enforcement of existing laws or regulations, could adversely affect the Bank's or GS Group's ability to compete effectively with other institutions that are not affected in the same way. In addition, regulation imposed on financial institutions or market participants generally, such as taxes on financial transactions, could adversely impact levels of market activity more broadly, and thus impact the Bank's business.

The Bank is also subject to regulations based on its derivatives activities. The application of new derivatives rules across different national and regulatory jurisdictions has not yet been fully established and specific determinations of the extent to which regulators in each of the relevant jurisdictions will defer to regulations in other jurisdictions have not yet been completed. The full impact of the various U.S. and non-U.S. regulatory developments in this area will not be known with certainty until all the rules are finalized and implemented and market practices and structures develop under the final rules. However, in general, the imposition of these various regulatory schemes could adversely affect the Bank's derivatives business by increasing costs, reducing counterparty demand for derivative products, and reducing general market liquidity, which could in turn lead to greater volatility. These factors could make it more difficult or more costly to establish and maintain hedging or trading strategies and could increase the risk, and reduce the profitability, of the Bank's derivatives business.

U.S. and non-U.S. regulatory developments, in particular the Dodd-Frank Act and Basel III, have significantly altered the regulatory framework within which the Bank operates and may adversely affect its competitive position and profitability.

Among the aspects of the Dodd-Frank Act that have affected or may in the future affect the Bank are increased capital, liquidity and reporting requirements; limitations on activities in which the Bank may engage; increased regulation of and restrictions on OTC derivatives markets and transactions; limitations on incentive compensation; limitations on affiliate transactions; limitations on credit exposure to any unaffiliated company; requirements to reorganize or limit activities in connection with recovery and resolution planning; and increased deposit insurance assessments. The implementation of higher capital requirements, the liquidity coverage ratio and the net stable funding ratio, requirements relating to the prohibition on proprietary trading and lending to covered funds by the Volcker Rule may adversely affect the Bank's profitability and competitive position, particularly if these requirements do not apply, or do not apply equally, to the Bank's and GS Group's competitors or are not implemented uniformly across jurisdictions. Such requirements could reduce the amount of funds available to meet the Bank's obligations, including debt obligations.

The requirements for the Bank to develop and submit resolution plans to the FDIC, and the incorporation of feedback received from the FDIC, may require the Bank to increase capital or liquidity levels at the Bank or otherwise incur additional costs, and may reduce its ability to raise additional debt. Resolution planning may also impair GS Group's ability to structure its intercompany and external activities in a manner that it may otherwise deem most operationally efficient, which may affect the business of the Bank.

The Bank is also subject to laws and regulations relating to the privacy of the information of clients, employees or others, and any failure to comply with these regulations could expose the Bank to liability and/or reputational damage. In addition, the Bank's business is increasingly subject to laws and regulations relating to surveillance and encryption. Compliance with these and other laws and regulations may require the Bank to change its policies, procedures and technology for information security, which could, among other things, make the Bank more vulnerable to cyber attacks and misappropriation, corruption or loss of information or technology.

The Bank has acquired GE Capital Bank's online deposit platform and assumed approximately $16 billion of deposits. In connection with this acquisition of retail deposits, the Bank is subject to enhanced legal and regulatory requirements, in particular, consumer protection laws and regulation, including regulation relating to Truth in Savings, Electronic Funds Transfer, Expedited Funds Availability and the Electronic Signatures in Global and National Commerce Act. The Bank is in the process of enhancing, as appropriate, its existing regulatory and legal compliance programs, policies, procedures and processes to cover the activities, products and customers associated with this acquisition. Any failure to implement or maintain these enhancements or to comply with these laws and regulations could expose the Bank to liability and/or reputational damage. See also "— The Bank faces enhanced risks as new business initiatives lead it and its affiliates to transact with a broader array of clients and counterparties and expose it and its affiliates to new assets, activities and markets."

Increasingly, regulators and courts have sought to hold financial institutions liable for the misconduct of their clients where such regulators and courts have determined that the financial institution should have detected that the client was engaged in wrongdoing, even though the financial institution had no direct knowledge of the activities engaged in by its client. Regulators and courts continue to seek to establish "fiduciary" obligations to counterparties to which no such duty had been assumed to exist. To the extent that such efforts are successful, the cost of, and liabilities associated with, engaging in market-making and other similar activities could increase significantly. Any such wrongdoing by the Bank's clients could have materially negative legal, regulatory and reputational consequences.

For information about the extensive regulation to which the Bank's business is subject, see "Business — Regulation."

The Bank is a wholly-owned subsidiary of Group Inc. and is dependent on Group Inc. and certain of its affiliates for client business, various services and capital.

The Bank is a wholly-owned subsidiary of Group Inc. As a wholly-owned subsidiary, the Bank relies on various business relationships of GS Group generally, the ability to receive various services provided by affiliates, as well as, in part, the capital and liquidity of the Bank's parent, Group Inc. Although the Bank has taken steps to reduce its interconnectedness with its affiliates, the Bank remains an operating subsidiary of a larger organization and therefore its interconnectedness within, and dependence on, the organization will continue. Because the Bank's business relies upon Group Inc. and other GS Group entities to a significant extent, risks that could affect GS Group could also have a significant impact on the Bank.

The Bank makes loans in its role as the primary lender of GS Group, and many of the individuals and institutions to which the Bank lends become clients of the Bank based on their other relationships with the Bank's affiliates. Similarly, clients of the Bank's affiliates, as well as the affiliates themselves, often serve as the Bank's counterparties to derivative transactions.

Furthermore, the Bank relies upon certain of its affiliates for various support services, including, but not limited to, trade execution, relationship management, loan origination, settlement and clearing, loan servicing, risk management and other administrative services. Such services are provided to the Bank pursuant to the Master Services Agreement. Such services are provided to the Bank pursuant to the Master Services Agreement and underlying Service Level Agreements, which are generally terminable upon mutual agreement of Group Inc. and its affiliates, subject to certain exceptions, including material breach of the agreement or insolvency. For example, Group Inc. provides foreign exchange services to the Bank. If Group Inc. were to cease to provide such services, the Bank would be required to seek alternative sources, which could be difficult to obtain on the same terms or result in increased foreign exchange rates paid by the Bank.

As a consequence of the foregoing, in the event the Bank's relationships with its affiliates are not maintained, for any reason, the Bank's interest and non-interest revenues may decline, the cost of operating and funding its business may increase and its business, financial condition and earnings may be materially and adversely affected.

As of December 2015, approximately 38% of the Bank's total deposits consisted of deposits from private wealth management clients of GS&Co. If clients terminate their relationships with GS&Co. or such relationships become impaired, the Bank would expect to lose the funding benefits of such relationships as well. Furthermore, the Bank receives a portion of its funding in the form of unsecured funding from Group Inc. and collateralized financings from other affiliates. To the extent such funding is not available to the Bank, the Bank's growth could be constrained and/or its cost of funding could increase. See also "— The Bank's liquidity, profitability and business may be adversely affected by an inability to obtain funding or to sell assets or by a reduction in the credit ratings of the Bank or Group Inc. or by an increase in the credit spreads of the Bank and Group Inc."

A failure by Group Inc. to guarantee certain obligations of the Bank could adversely affect the Bank's financial condition.

Group Inc. has guaranteed the payment obligations of the Bank, other than non-recourse payment obligations and payment obligations arising in connection with brokered CDs issued by the Bank (unless the applicable governing documents of the CD expressly state otherwise). Certain of the Bank's other debt holders may be deemed to have waived and may not be entitled to the benefit of this guarantee. If Group Inc. terminates the guarantee, the Bank may have difficulty entering into future contractual arrangements with other counterparties who may request or require such guarantees.

The Bank has been and may be adversely affected by declining asset values. This is particularly true for those activities in which the Bank has net "long" positions or receives or posts collateral.

The Bank has net "long" positions in loans, derivative instruments, mortgages and other asset classes, including U.S. government and federal agency obligations, and may in the future take net long positions in other asset classes. These include positions the Bank takes when it commits capital to its clients as part of the Bank's lending activities or when it acts as a principal to facilitate the activities of its clients or counterparties (including GS Group affiliates) through the Bank's market-making activities relating to interest rate derivatives and other derivatives and related products. Because the Bank's market-making positions are marked-to-market on a daily basis, declines in asset values directly and immediately impact its earnings, unless the Bank has effectively "hedged" its exposures to such declines. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies" in Part II of this Annual Report and Notes 5 through 8 to the consolidated financial statements in Part III of this Annual Report for further information about fair value measurements.

In certain circumstances (particularly in the case of credit products, including leveraged loans or other securities that are not freely tradable or lack established and liquid trading markets), it may not be possible or economic to hedge such exposures and to the extent that the Bank does so, the hedge may be ineffective or may greatly reduce the Bank's ability to profit from increases in the values of the assets.

Sudden declines and significant volatility in the prices of assets may substantially curtail or eliminate the trading markets for certain assets, which may make it difficult to sell, hedge or value such assets. The inability to sell or effectively hedge assets reduces the Bank's ability to limit losses in such positions and the difficulty in valuing assets may negatively affect the Bank's capital, liquidity or leverage ratios, increase the Bank's funding costs and generally require the Bank to maintain additional capital.

The Bank posts collateral to support its obligations and receives collateral to support the obligations of its clients and counterparties in connection with its derivatives activities. When the value of the assets posted as collateral or the credit ratings of the party posting collateral decline, the party posting the collateral may need to provide additional collateral or, if possible, reduce its position. Therefore, declines in the value of asset classes used as collateral mean that either the cost of funding positions is increased or the size of positions is decreased. If the Bank is the party providing collateral, this can increase the Bank's costs and reduce its profitability. If the Bank is the party receiving collateral, this can also reduce the Bank's profitability by reducing the level of business done with its clients and counterparties. In its capacity as an agency lender, the Bank indemnifies all 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, and, therefore, declines in the value of collateral can subject the Bank to additional costs. In addition, volatile or less liquid markets increase the difficulty of valuing assets which can lead to costly and time-consuming disputes over asset values and the level of required collateral, as well as increased credit risk to the recipient of the collateral due to delays in receiving adequate collateral.

The Bank's market-making activities have been and may be affected by changes in the levels of market volatility.

Certain of the Bank's market-making activities depend on market volatility to provide trading and arbitrage opportunities to its clients, and decreases in volatility may reduce these opportunities and adversely affect the results of these activities. On the other hand, increased volatility, while it can increase trading volumes and spreads, also increases risk as measured by Value-at-Risk (VaR) and may expose the Bank to increased risks in connection with its market-making activities or cause the Bank to reduce its market-making positions in order to avoid increasing its VaR. Limiting the size of the Bank's market-making positions can adversely affect its profitability. In periods when volatility is increasing, but asset values are declining significantly, it may not be possible to sell assets at all or it may only be possible to do so at steep discounts. In such circumstances the Bank may be forced to either take on additional risk or to realize losses in order to decrease its VaR. In addition, increases in volatility increase the level of the Bank's risk weighted assets, which increases its capital requirements.

The Bank's business, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, third parties who owe the Bank money, securities or other assets or whose securities or obligations the Bank holds.

A number of the Bank's products expose it to credit risk, including loans, lending commitments and derivative instruments. The Bank is exposed to the risk that third parties that owe it money, securities or other assets will not perform on their obligations. These parties may default on their obligations to the Bank due to bankruptcy, lack of liquidity, operational failure or other reasons. A failure of a significant market participant, or even concerns about a default by such an institution, could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect the Bank.

The Bank is also subject to the risk that its rights against third parties may not be enforceable in all circumstances. In addition, deterioration in the credit quality of third parties whose securities or obligations the Bank holds, including a deterioration in the value of collateral posted by third parties to secure their obligations to the Bank under derivatives contracts and loan agreements, could result in losses and/or adversely affect the Bank's ability to rehypothecate or otherwise use those securities or obligations for liquidity purposes. A significant downgrade in the credit ratings of the Bank's counterparties could also have a negative impact on the Bank's results.

While in many cases the Bank is permitted to require additional collateral from counterparties that experience financial difficulty, disputes may arise as to the amount of collateral the Bank is entitled to receive and the value of pledged assets. The termination of contracts and the foreclosure on collateral may subject the Bank to claims for the improper exercise of its rights. Default rates, downgrades and disputes with counterparties as to the valuation of collateral increase significantly in times of market stress and illiquidity.

Although the Bank regularly reviews credit exposures to specific clients and counterparties and to specific industries, countries and regions that the Bank believes may present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee.

Concentration of risk increases the potential for significant losses in the Bank's lending, market-making and other activities.

Concentration of risk increases the potential for significant losses in the Bank's lending, market-making and other activities. The number and size of such transactions may affect the Bank's results of operations in a given period. In particular, the Bank extends large commitments as part of its credit activities. Because of concentration of risk, the Bank may suffer losses even when economic and market conditions are generally favorable for its competitors. Disruptions in the credit markets can make it difficult to hedge these credit exposures effectively or economically.

Rules adopted under the Dodd-Frank Act, as well as non-U.S. regulation, require issuers of asset-backed securities and any person who organizes and initiates an asset-backed securities transaction to retain economic exposure to the asset, which is likely to significantly increase the cost to the Bank of engaging in securitization activities.

The Bank's inability to reduce its credit risk by selling, syndicating or securitizing these positions, including during periods of market stress, could negatively affect its results of operations due to a decrease in the fair value of the positions, including due to the insolvency or bankruptcy of the borrower, as well as the loss of revenues associated with selling such securities or loans.

In the ordinary course of business, the Bank may be subject to a concentration of credit risk to a particular counterparty, borrower, issuer, including sovereign issuers, clearing house or exchange, geographic area or group of related countries, such as the EU, or industry. A failure or downgrade of, or default by, an entity to which the Bank has a concentration of credit risk could negatively impact its business, perhaps materially, and the systems by which the Bank sets limits and monitors the level of its credit exposure to individual entities, industries and countries may not function as the Bank has anticipated.

While the Bank's activities expose it to many different industries, counterparties and countries, the Bank routinely executes a high volume of transactions with counterparties engaged in financial services activities, including asset managers, investment funds, commercial banks, brokers and dealers, clearing houses and exchanges. This has resulted in significant credit concentration with respect to these counterparties.

Provisions of the Dodd-Frank Act have led to increased centralization of trading activity through particular clearing houses, central agents or exchanges, which has significantly increased the Bank's concentration of risk with respect to these entities.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management — Credit Risk Management — Credit Exposure by Industry, Region and Credit Quality" in Part II of this Annual Report for additional information about the Bank's credit concentration and exposure.

Changes in market interest rates could adversely affect the Bank's revenues and expenses, the value of assets and obligations, and the availability and cost of funding.

As a result of the Bank's lending and deposit-taking activities, the Bank has exposure to market interest rate movements. In addition to the impact on the general economy, changes in interest rates could directly impact the Bank in one or more of the following ways:

- The yield on interest-earning assets, primarily on the Bank's loan portfolio, and rates paid on interest-bearing liabilities, primarily the Bank's deposit-taking activities, may change in disproportionate ways;
- The value of certain balance sheet and off-balance sheet financial instruments that the Bank holds could decline; or
- The cost of funding from affiliates or third parties may increase and the ability to raise funding could become more difficult.

The Bank might underestimate the credit losses inherent in its loan portfolio and have credit losses in excess of the amount reserved.

The credit quality of the Bank's loan portfolio can have a significant impact on its earnings. The Bank estimates and establishes reserves for credit risks and credit losses inherent in its credit exposure (including unfunded lending commitments). This process requires difficult, subjective and complex judgments of loan collectability. As is the case with any such assessments, there is always the chance that the Bank will fail to identify the proper factors or that the Bank will fail to accurately estimate the impacts of factors that the Bank does identify.

The Bank might underestimate the credit losses inherent in its loan portfolio and have credit losses in excess of the amount reserved. While management uses the best information available to determine this estimate, the Bank may make future adjustments to the allowance based on, among other things, changes in the economic environment or variances between actual results and the original assumptions used.

The Bank may incur losses as a result of ineffective risk management processes and strategies.

The Bank seeks to monitor and control its risk exposure through a risk and control framework encompassing a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems, internal controls, management review processes and other mechanisms that cover risks associated with the Bank's own activities as well as activities conducted through third-party relationships. In doing so, the Bank leverages the risk management processes of GS Group. The Bank's risk management process seeks to balance its ability to profit from lending, market-making or other positions with its exposure to potential losses. While the Bank employs a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. Thus, the Bank may, in the course of its activities, incur losses. Market conditions in recent years have involved unprecedented dislocations and highlight the limitations inherent in using historical data to manage risk.

The models that the Bank uses to assess and control its risk exposures reflect assumptions about the degrees of correlation or lack thereof among prices of various asset classes or other market indicators. In times of market stress or other unforeseen circumstances, such as those that occurred during 2008 and early 2009, and to some extent since 2011, previously uncorrelated indicators may become correlated, or conversely previously correlated indicators may move in different directions. These types of market movements have at times limited the effectiveness of our hedging strategies and have caused us to incur significant losses, and they may do so in the future.

These changes in correlation can be exacerbated where other market participants are using models with assumptions or algorithms that are similar to ours. In these and other cases, it may be difficult to reduce the Bank's risk positions due to the activity of other market participants or widespread market dislocations, including circumstances where asset values are declining significantly or no market exists for certain assets.

To the extent that the Bank has positions through its lending, market-making or other activities that do not have an established liquid trading market or are otherwise subject to restrictions on sale or hedging, the Bank may not be able to reduce its positions and therefore reduce its risk associated with such positions.

Prudent risk management, as well as regulatory restrictions, may cause the Bank to limit its exposure to counterparties, geographic areas or markets, which may limit its business opportunities and increase the cost of its funding or hedging activities.

For further information about the Bank's risk management structure and processes, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management — Overview and Structure of Risk Management" in Part II of this Annual Report.

Loss of deposits could increase the Bank's funding costs and adversely affect the Bank's liquidity and ability to grow its business.

The Bank relies primarily on deposits to be a low cost and stable source of funding for the loans it makes and the financial transactions in which it engages. The Bank accepts deposits from private wealth management clients of GS&Co., issues CDs, accepts deposits through deposit sweep agreements with third-party broker-dealers and accepts deposits from the Bank's affiliates. Some of the deposit accounts, such as deposits from private wealth management clients that are deposit sweeps and the third-party deposit sweeps, do not have significant restrictions on withdrawal, and clients can generally withdraw some or all of the funds in their accounts with little or no notice. Furthermore, the Bank competes with banks and other financial services companies for deposits. Competitors may raise the rates they pay on deposits and the Bank may be required to raise its rates to avoid losing deposits.

If the Bank experiences significant withdrawals, for any reason, or raises the rates it pays on deposits, the Bank's funding costs may increase. If the Bank is required to fund its operations at a higher cost, these conditions may require the Bank to curtail its activities which also could reduce its profitability.

All of the Bank's deposits held under external deposit sweep program agreements are placed through one third-party vendor. As of December 2015, those programs accounted for approximately 18% of the Bank's total deposits. That vendor may not unilaterally terminate the currently-existing sweep agreements, however, it could determine not to engage in additional sweep agreements with the Bank in the future. The termination of this vendor relationship could result in a significant decrease in deposits and adversely affect the Bank's liquidity if the Bank is unable to form direct relationships with the third-party brokers.

The FDI Act prohibits an insured bank from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in the bank's normal market area or nationally (depending upon where the deposits are solicited), unless it is "well-capitalized" for Prompt Corrective Action purposes or it is "adequately-capitalized" and receives a waiver from the FDIC. A bank that is "adequately-capitalized" and accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposit in excess of 75 basis points over certain prevailing market rates. There are no such restrictions under the FDI Act on a bank that is "well-capitalized" and for the year ended December 2015, the Bank met or exceeded all applicable requirements to be deemed "well-capitalized" for purposes of the FDI Act. However, there can be no assurance that the Bank will continue to meet all applicable requirements. In the event that the Bank does not continue to meet those requirements in the future, the Bank may be prohibited from accepting brokered deposits pursuant to its deposit sweep agreements. Restrictions or limitations on the Bank's ability to accept brokered deposits for any reason (including regulatory limitations on the amount of brokered deposits in total or as a percentage of total assets) in the future could materially and adversely impact the Bank's funding costs and liquidity because a substantial portion of the Bank's deposits are "brokered deposits" for prompt corrective action purposes.

Any limitation on the interest rates the Bank can pay on deposits could competitively disadvantage it in attracting and retaining deposits and have a material adverse effect on its business.

The Bank's business has been and may be adversely affected by disruptions in the credit markets, including reduced access to credit and higher costs of obtaining credit.

Widening credit spreads for the Bank or Group Inc., as well as significant declines in the availability of credit, may adversely affect the Bank's ability to borrow. The Bank obtains a portion of its funding from Group Inc., which funds itself on an unsecured basis by issuing debt and a variety of financial instruments, or by obtaining bank loans or lines of credit. The Bank also seeks to finance certain of its assets on a secured basis. Any disruptions in the credit markets may make it harder and more expensive for the Bank to obtain secured funding, whether from third-parties or affiliates.

If the Bank's available funding is limited or the Bank is forced to fund its operations at a higher cost, these conditions may require the Bank to curtail its activities and increase its cost of funding, both of which could reduce its profitability, particularly with respect to its activities that involve lending and market making.

The Bank may also syndicate credit transactions to other financial institutions. Market volatility, a lack of available credit or an increased cost of credit can negatively impact the Bank's ability to syndicate financing, and, as a result, can adversely affect the Bank's business.

The Bank's liquidity, profitability and business may be adversely affected by an inability to obtain funding or to sell assets or by a reduction in the credit ratings of the Bank or Group Inc. or by an increase in the credit spreads of the Bank and Group Inc.

Liquidity is essential to the Bank's business. The Bank's liquidity may be impaired by an inability to obtain or maintain sufficient funding — whether through deposits or funding from its affiliates, access to the debt capital markets, sales of assets or access to Federal Home Loan Bank advances — or by unforeseen outflows of cash or collateral.

Any such constraints on liquidity may arise due to circumstances that the Bank may be unable to control, such as a general market disruption or an operational problem that affects third parties or the Bank, or GS Group more broadly, or even by the perception among market participants that the Bank, or other market participants, are experiencing greater liquidity risk.

The Bank employs structured products to benefit its clients and hedge its own risks and risks incurred by the Bank's affiliates. The financial instruments that the Bank holds and the contracts to which the Bank is a party are often complex, and these complex structured products often do not have readily available markets to access in times of liquidity stress. In addition, the Bank's lending activities may lead to situations where the holdings from these activities represent a significant portion of specific markets, which could restrict liquidity for the Bank's positions.

Further, the Bank's ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time, as is likely to occur in a liquidity or other market crisis or in response to changes to rules or regulations. In addition, financial institutions with which the Bank interacts may exercise set-off rights or the right to require additional collateral, including in difficult market conditions, which could further impair the Bank's access to liquidity.

The Bank's credit ratings, as well as the credit ratings of Group Inc. (as described further below), are important to the Bank's liquidity. A reduction in the Bank's or Group Inc.'s credit ratings could adversely affect the Bank's liquidity and competitive position, increase its borrowing costs (including borrowing from its affiliates), limit its access to the capital markets or trigger its obligations under certain provisions in some of its derivatives or collateralized financing contracts. Under these provisions, counterparties could be permitted to terminate contracts with the Bank or require it to post additional collateral or make termination payments. Termination of the Bank's derivatives and collateralized financing contracts could cause the Bank to sustain losses and impair its liquidity by requiring it to find other sources of financing or to make significant cash payments or securities movements.

A downgrade by any one rating agency, depending on the agency's relative ratings of the Bank or Group Inc. at the time of the downgrade, may have an impact which is comparable to the impact of a downgrade by all rating agencies. For further information about the Bank's credit ratings, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management — Liquidity Risk Management — Credit Ratings" in Part II of this Annual Report.

As noted above, Group Inc.'s credit ratings also are important to the Bank's liquidity. Group Inc. generally guarantees all of the Bank's payment obligations, subject to certain limitations. Group Inc. generally raises the majority of non-deposit unsecured funding of GS Group and then lends to subsidiaries, including the Bank, to meet subsidiaries' funding needs, any increase in Group Inc.'s borrowing costs may require the Bank to seek alternative sources of funding, which could result in an increase in borrowing costs for the Bank.

The Bank's cost of obtaining long-term unsecured funding is directly related to the Bank's credit spreads (the amount in excess of the interest rate of U.S. Treasury securities (or other benchmark securities) of the same maturity that the Bank needs to pay to respective debt investors). Increases in the Bank's credit spreads can significantly increase the cost of this funding. Changes in credit spreads are continuous, market-driven, and subject at times to unpredictable and highly volatile movements. The Bank's credit spreads are also influenced by market perceptions of its creditworthiness. In addition, the Bank's credit spreads may be influenced by movements in the costs to purchasers of credit default swaps referenced to the Bank's long-term debt. The market for credit default swaps has proven to be extremely volatile and at times has lacked a high degree of transparency or liquidity. Increases in Group Inc.'s credit spreads and negative market perceptions of Group Inc.'s creditworthiness could also impact the Bank's ability to obtain long-term unsecured funding, and Group Inc.'s inability to obtain long-term unsecured funding could negatively impact the Bank's operations.

Regulatory changes relating to liquidity may also negatively impact the Bank's results of operations and competitive position. Recently, numerous regulations have been adopted or proposed, and additional regulations are under consideration, to introduce more stringent liquidity requirements for large financial institutions, such as the Bank or Group Inc. These regulations and others being considered address, among other matters, liquidity stress testing, minimum liquidity requirements, wholesale funding, limitations on the issuance of short-term debt and structured notes and prohibitions on parent guarantees that are subject to cross-defaults. Such regulations may overlap with, and be impacted by, other regulatory changes, which could result in unintended cumulative effects, and their full impact will remain uncertain until implementation of post-financial crisis regulatory reform is complete.

A failure to appropriately identify and address potential conflicts of interest could adversely affect the Bank's business.

Due to the broad scope of GS Group's businesses and client base, the Bank regularly addresses potential conflicts of interest within the organization, including situations where the Bank's products or services to a particular client or GS Group's investments or other interests conflict, or are perceived to conflict, with the interests of another client, as well as situations where one or more of GS Group's businesses have access to material non-public information that may not be shared within GS Group and situations where the Bank may be a creditor of an entity with which the Bank or an affiliate thereof also has an advisory or other relationship.

In addition, in certain areas the Bank may act as a fiduciary which could give rise to a conflict if we also act as a principal in the same business.

The Bank has extensive procedures and controls that are designed to identify and address conflicts of interest, including those designed to prevent the improper sharing of information among the Bank and its affiliates. However, appropriately identifying and dealing with conflicts of interest is complex and difficult, particularly as the Bank expands its activities, and the Bank's reputation, which is one of its most important assets, could be damaged and the willingness of clients to enter into transactions with the Bank may be affected if it or its affiliates fail, or appear to fail, to identify, disclose and deal appropriately with conflicts of interest. In addition, potential or perceived conflicts could give rise to litigation or regulatory enforcement actions.

A failure in the Bank's or its affiliates' operational systems or infrastructure, or those of third parties, as well as human error, could impair the Bank's liquidity, disrupt its business, result in the disclosure of confidential information, damage its reputation and cause losses.

The Bank's business is highly dependent on its ability to process and monitor, on a daily basis, a large number of transactions, many of which are highly complex and occur at high volumes and frequencies, across numerous and diverse markets in many currencies. These transactions, as well as the information technology services the Bank provides to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards.

Many rules and regulations govern the Bank's obligations to report transactions to regulators and exchanges. Compliance with these legal and reporting requirements can be challenging, and financial institutions, including GS Group, have been subject to regulatory fines and penalties for failing to report timely, accurate and complete information. As reporting requirements expand, compliance with these rules and regulations has become more challenging.

As the Bank's client base expands, and the volume, speed, frequency and complexity of transactions, especially electronic transactions (as well as the requirements to report such transactions on a real-time basis to clients, regulators and exchanges) increases, developing and maintaining the Bank's operational systems and infrastructure becomes more challenging, and the risk of systems or human error in connection with such transactions increases, as well as the potential consequences of such errors due to the speed and volume of transactions involved and the potential difficulty associated with discovering such errors quickly enough to limit the resulting consequences.

The Bank's financial, accounting, data processing or other operational systems and facilities, or operational systems or facilities of affiliates on which it depends, may fail to operate properly or become disabled as a result of events that are wholly or partially beyond the Bank's control, such as a spike in transaction volume, adversely affecting the Bank's ability to process these transactions or provide these services.

These systems must be continuously updated to support the Bank's operations and growth and to respond to changes in regulations and markets. The Bank and its affiliates invest heavily in systemic controls and training to ensure that such transactions do not violate applicable rules and regulations or, due to errors in processing such transactions, adversely affect markets, the Bank's clients and counterparties or the Bank.

Systems enhancements and updates, as well as the requisite training, including in connection with the integration of new businesses, entail significant costs and create risks associated with implementing new systems and integrating them with existing ones. Notwithstanding the proliferation of technology and technology-based risk and control systems, the Bank's business ultimately relies on human beings as the Bank's greatest resource and, from time-to-time, they make mistakes that are not always caught immediately by the Bank's technological processes or by its other procedures which are intended to prevent and detect such errors. These can include calculation errors, mistakes in addressing emails, errors in software development or implementation, or simple errors in judgment. The Bank strives to eliminate such human errors through training, supervision, technology and by redundant processes and controls. Human errors, even if promptly discovered and remediated, can result in material losses and liabilities.

In addition, the Bank faces the risk of operational failure, termination or capacity constraints of any of the clearing agents, exchanges, clearing houses or other financial intermediaries the Bank uses to facilitate its derivatives transactions, and as the Bank's interconnectivity with its clients grows, the Bank increasingly faces the risk of operational failure with respect to its clients' systems.

In recent years, there has been significant consolidation among clearing agents, exchanges and clearing houses and an increasing number of derivative transactions are now, or in the near future will be, cleared on exchanges, which has increased the Bank's exposure to operational failure, termination or capacity constraints of the particular financial intermediaries that the Bank uses and could affect its ability to find adequate and cost-effective alternatives in the event of any such failure, termination or constraint. Industry consolidation, whether among market participants or financial intermediaries, increases the risk of operational failure as disparate complex systems need to be integrated, often on an accelerated basis.

Furthermore, the interconnectivity of multiple financial institutions with central agents, exchanges and clearing houses, and the increased centrality of these entities, increases the risk that an operational failure at one institution or entity may cause an industry-wide operational failure that could materially impact the Bank's ability to conduct business. Any such failure, termination or constraint could adversely affect the Bank's ability to effect transactions, service its clients, manage its exposure to risk or expand its business or result in financial loss or liability to its clients, impairment of its liquidity, disruption of its business, regulatory intervention or reputational damage.

The Bank also relies on third-party vendors and is ultimately responsible for activities conducted by any third-party service provider and adverse regulatory consequences. Although the Bank takes actions to manage the risks associated with activities conducted through third-party relationships, any problems caused by a third-party service provider could adversely affect the Bank's ability to deliver products and services to its customers and to conduct its business.

Despite the resiliency plans and facilities the Bank has in place, the Bank's ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports its business and the communities in which it is located. This may include a disruption involving electrical, satellite, undersea cable or other communications, internet, transportation or other services facilities used by the Bank or third parties with which it conducts business, including cloud service providers. These disruptions may occur as a result of events that affect only GS Group's buildings or systems or those of such third parties, or as a result of events with a broader impact globally, regionally or in the cities where those buildings or systems are located, including, but not limited to, natural disasters, war, civil unrest, terrorism, economic or political developments, pandemics and weather events.

Many of the Bank's employees, including employees it shares with its affiliates, work in close proximity to one another in GS Group's facilities in New York and New Jersey. Notwithstanding GS Group's efforts to maintain business continuity, given that GS Group's headquarters and most of its employees are in the New York metropolitan area, and GS Group's two principal office buildings in the New York area both are located on the waterfront of the Hudson River, depending on the intensity and longevity of the event, a catastrophic event impacting the New York metropolitan area offices, including a terrorist attack, extreme weather event or other hostile or catastrophic event, could negatively affect the Bank's business. If a disruption occurs in one location and the Bank's employees in that location are unable to occupy the offices or communicate with or travel to other locations, the Bank's ability to service and interact with its clients may suffer, and GS Group may not be able to successfully implement contingency plans that depend on communication or travel.

A failure to protect the Bank's computer systems, networks and information, and the Bank's clients' information, against cyber attacks and similar threats could impair the Bank's ability to conduct its business, result in the disclosure, theft or destruction of confidential information, damage its reputation and cause losses.

The Bank's operations rely on the secure processing, storage and transmission of confidential and other information in GS Group's computer systems and networks, and the Bank's technology risk function leverages the processes and resources of the GS Group technology risk function. There have been several highly publicized cases involving financial services and consumer-based companies reporting the unauthorized disclosure of client or customer information in recent years, as well as cyber attacks involving the dissemination, theft and destruction of corporate information or other assets, as a result of failure to follow procedures by employees or contractors or as a result of actions by third-parties, including actions by foreign governments.

The Bank and its affiliates are regularly the targets of attempted cyber attacks, including denial-of-service attacks, and must continuously monitor and develop systems to protect technology infrastructure and data from misappropriation or corruption. In addition, due to the Bank's interconnectivity with other GS Group entities, third-party vendors, central agents, exchanges, clearing houses and other financial institutions, the Bank could be adversely impacted if any of them is subject to a successful cyber attack or other information security event.

Despite efforts to ensure the integrity of its systems and information, the Bank and its affiliates may not be able to anticipate, detect or implement effective preventive measures against all cyber threats, especially because the techniques used are increasingly sophisticated, change frequently and are often not recognized until launched. Cyber attacks can originate from a variety of sources, including third parties who are affiliated with foreign governments or are involved with organized crime or terrorist organizations. Third parties may also attempt to place individuals within GS Group or induce employees, clients or other users of GS Group's systems to disclose sensitive information or provide access to GS Group's data or that of GS Group's clients, and these types of risks may be difficult to detect or prevent.

Although the Bank and GS Group take protective measures and endeavor to modify them as circumstances warrant, their computer systems, software and networks may be vulnerable to unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize GS Group's or its clients' or counterparties' confidential and other information processed and stored in, and transmitted through, its computer systems and networks, or otherwise cause interruptions or malfunctions in GS Group's, its clients', its counterparties' or third parties' operations, which could impact their ability to transact with the Bank or otherwise result in significant losses or reputational damage.

The increased use of mobile and cloud technologies can heighten these and other operational risks. GS Group expects to expend significant additional resources on an ongoing basis to modify its protective measures and to investigate and remediate vulnerabilities or other exposures, but these measures may be ineffective and GS Group, including the Bank, may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance that it maintains. Certain aspects of the security of such technologies are unpredictable or beyond GS Group's control, and the failure by mobile technology and cloud service providers to adequately safeguard their systems and prevent cyber attacks could disrupt GS Group's operations and result in misappropriation, corruption or loss of confidential and other information. In addition, there is a risk that encryption and other protective measures, despite their sophistication, may be defeated, particularly to the extent that new computing technologies vastly increase the speed and computing power available.

In addition, the issue of cyber security has been the subject of heightened regulatory scrutiny. Recently, the NYSDFS published a proposal to undertake robust regulatory action in the cyber security space that would require covered entities, including the Bank, to, among other things, implement and maintain written cyber security policies and procedures covering a wide range of areas, including ensuring the security of sensitive data or systems accessible to third-party service providers, and provide notice to the NYSDFS of certain material cyber security incidents.

The Bank routinely transmits and receives personal, confidential and proprietary information by email and other electronic means. GS Group has discussed and worked with clients, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and protect against cyber attacks, but it does not have, and may not be unable to put in place, secure capabilities with all of its clients, vendors, service providers, counterparties and other third parties and GS Group may not be able to ensure that these third parties have appropriate controls in place to protect the confidentiality of the information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a client, vendor, service provider, counterparty or other third party could result in legal liability, regulatory action and reputational harm to the Bank.

The application of regulatory strategies and requirements to facilitate the orderly resolution of large financial institutions could negatively affect the Bank and create risk of loss for the Bank's security holders.

As described further in "Business — Regulation — Insolvency of an Insured Depository Institution" above if the FDIC is appointed as receiver of the Bank under the FDI Act, the rights of the Bank's creditors would be determined under the FDI Act, and the claims of the Bank's creditors (other than its depositors) generally will be subordinated in right of payment to the claims of deposit holders.

In addition, rules adopted by the Federal Reserve Board and the FDIC under the Dodd-Frank Act require the Bank, as well as Group Inc., to submit annual resolution plans. If the FDIC finds the Bank's resolution plan not credible, the FDIC will notify the Bank in writing, and the Bank then has 90 days to submit a revised resolution plan that corrects the deficiencies identified by the FDIC.

If the Federal Reserve Board and the FDIC find Group Inc.'s resolution plan not credible they may require Group Inc. to hold more capital, change its business structure or dispose of businesses, any of which could have a negative impact on the Bank's financial condition, results of operations or competitive position.

The financial services industry is both highly competitive and interrelated.

The financial services industry and the Bank's activities are intensely competitive, and the Bank expects them to remain so. The Bank competes on the basis of a number of factors, including its products and services, innovation, reputation, creditworthiness and price. To the extent the Bank expands its activities, it will face competitors with more experience and more established relationships with clients, regulators and industry participants in the relevant market, which could adversely affect the Bank's ability to expand further.

Governments and regulators have recently adopted regulations, imposed taxes, adopted compensation restrictions or otherwise put forward various proposals that have or may impact the Bank's ability to conduct certain of its activities in a cost-effective manner or at all in certain or all jurisdictions, including proposals relating to restrictions on the type of activities in which financial institutions are permitted to engage. These or other similar rules, many of which do not apply to all of the Bank's U.S. or non-U.S. competitors, could impact the Bank's ability to compete effectively.

Pricing and other competitive pressures in the Bank's business have continued to increase, particularly in situations where some of the Bank's competitors may seek to increase market share by reducing prices. For example, the Bank has experienced pressure to extend and price credit at levels that may not always fully compensate it for the risks it takes.

The financial services industry is highly interrelated in that a significant volume of transactions occur among a limited number of members of that industry. Many of the Bank's, and GS Group's, transactions are syndicated to other financial institutions and financial institutions are often counterparties in transactions. This has led to claims by other market participants and regulators that financial institutions have colluded in order to manipulate markets or market prices, including allegations that antitrust laws have been violated. While GS Group has extensive procedures and controls that are designed to identify and prevent such activities, allegations of such activities, particularly by regulators, can have a negative reputational impact and can subject the Bank to large fines and settlements, and potentially significant penalties, including treble damages. See " — Substantial legal liability or significant regulatory action against the Bank or its affiliates could have material adverse financial effects or cause the Bank significant reputational harm, which in turn could seriously harm the Bank's business prospects."

The Bank faces enhanced risks as new business initiatives lead it and its affiliates to transact with a broader array of clients and counterparties and expose the Bank and its affiliates to new assets, activities and markets.

A number of the Bank's recent and planned business initiatives and expansions may bring the Bank into contact, directly or indirectly, with individuals and entities that are not within the Bank's traditional client and counterparty base and expose the Bank to new assets, activities and markets. The Bank also continues to lend and transact business in new regions, including a wide range of emerging and growth markets.

The Bank is expanding its direct consumer-oriented activities, including by increasing its direct consumer-oriented deposit-taking activities, through the GE Capital Bank deposit acquisition, and its direct consumer lending activities. To the extent the Bank engages in such activities or similar consumer-oriented activities, the Bank could face additional compliance, legal and regulatory risk, increased reputational risk and increased operational risk due to, among other things, higher transaction volumes, significantly increased retention and transmission of customer and client information and increased regulatory compliance obligations.

In addition, the Bank's expansion into direct consumer-oriented activities could result in a change in or expansion of the Bank's activities for CRA examination purposes. Any failure to comply with different or expanded CRA requirements could negatively impact the Bank's CRA ratings and result in limits on the Bank's ability to make future acquisitions or further expand its activities. See "Business — Regulation — Community Reinvestment Act (CRA)."

New business initiatives expose the Bank to new and enhanced risks, including risks associated with dealing with governmental entities, reputational concerns arising from dealing with less sophisticated counterparties, clients and customers, greater regulatory scrutiny of these activities, increased credit-related, compliance, fraud, market, sovereign and operational risks, risks arising from accidents or acts of terrorism, and reputational concerns with the manner in which the Bank engages in these activities, interacts with these counterparties or addresses the product or service requirements of these new types of clients.

Derivative transactions and delayed settlements may expose the Bank to unexpected risk and potential losses.

The Bank is party to a large number of derivative transactions, including interest rate, credit, currency and other derivatives. Many of these derivative instruments are individually negotiated and non-standardized, which can make exiting, transferring or settling positions difficult. Many credit derivatives require that the Bank deliver to the counterparty the underlying security, loan or other obligation in order to receive payment. In a number of cases, the Bank does not hold the underlying security, loan or other obligation and may not be able to obtain the underlying security, loan or other obligation. This could cause the Bank to forfeit the payments due to it under these contracts or result in settlement delays with the attendant credit and operational risk as well as increased costs.

Derivative transactions may also involve the risk that documentation has not been properly executed, that executed agreements may not be enforceable against the counterparty, or that obligations under such agreements may not be able to be "netted" against other obligations with such counterparty. In addition, counterparties may claim that such transactions were not appropriate or authorized.

As a signatory to the International Swaps and Derivatives Association Resolution Stay Protocol (ISDA Protocol), the Bank may not be able to exercise remedies against counterparties and, as this new regime has not yet been tested, the Bank may suffer risks or losses that it would not have expected to suffer if the Bank could immediately close out transactions upon a termination event. The ISDA Protocol contemplates adoption of implementing regulations by various U.S. and non-U.S. regulators, and the ISDA Protocol's impact will depend on, among other things, how it is implemented.

Derivative contracts and other transactions, including secondary bank loan purchases and sales, entered into with third parties are not always confirmed by the counterparties or settled on a timely basis. While the transaction remains unconfirmed or during any delay in settlement, the Bank is subject to heightened credit and operational risk and in the event of a default, the Bank may find it more difficult to enforce its rights.

In addition, as new complex derivative products are created, covering a wider array of underlying credit and other instruments, disputes about the terms of the underlying contracts could arise, which could impair the Bank's ability to effectively manage its risk exposures from these products and subject the Bank to increased costs. The provisions of the Dodd-Frank Act requiring central clearing of credit derivatives and other OTC derivatives, or a market shift toward standardized derivatives, could reduce the risk associated with such transactions, but under certain circumstances could also limit the Bank's ability to develop derivatives that best suit the needs of its clients and to hedge its own risks, and could adversely affect the Bank's profitability and increase its credit exposure to such clearing platforms.

The Bank's business may be adversely affected if it is unable to hire and retain qualified employees.

The Bank's performance is largely dependent on the talents and efforts of highly skilled individuals; therefore, the Bank's continued ability to compete effectively in its business, to manage its business effectively and to expand into new lines of business depends on the ability of the Bank, and GS Group, to attract new talented and diverse employees and to retain and motivate existing employees.

Factors that affect the Bank's and GS Group's ability to attract and retain such employees include compensation and benefits, and GS Group's reputation as a successful business with a culture of fairly hiring, training and promoting qualified employees. As a significant portion of the compensation that GS Group pays to its employees is paid in the form of year-end discretionary compensation, a significant portion of which is in the form of deferred equity-related awards, declines in GS Group's profitability, or in the outlook for its future profitability, as well as regulatory limitations on compensation levels and terms, can negatively impact the Bank's and GS Group's ability to hire and retain highly qualified employees. Although the Bank has its own employees, employees of affiliates also provide services to the Bank under a Master Services Agreement. Accordingly, negative impacts on GS Group's general ability to hire and retain qualified employees can adversely impact the Bank both directly and indirectly.

Competition from within the financial services industry and from businesses outside the financial services industry for qualified employees has often been intense. Recently, GS Group, including the Bank, has experienced increased competition in hiring and retaining employees to address the demands of new regulatory requirements.

Changes in law or regulation in jurisdictions in which the Bank's operations are located that affect taxes on its employees' income, or the amount or composition of compensation, may also adversely affect the Bank's ability to hire and retain qualified employees in those jurisdictions.

As described further in "Business — Regulation — Compensation Practices" above, GS Group's compensation practices are subject to review by, and the standards of, the Federal Reserve Board. As a large global financial and banking institution, GS Group is subject to limitations on compensation practices (which may or may not affect GS Group's competitors) by the Federal Reserve Board, the Prudential Regulation Authority, the Financial Conduct Authority, the FDIC and other regulators worldwide. These limitations, including any imposed by or as a result of future legislation or regulation, may require GS Group to alter its compensation practices in ways that could adversely affect its ability to attract and retain talented employees, which in turn could adversely affect the Bank.

The ability-to-repay requirement for residential mortgage loans may limit the Bank's ability to sell certain of its mortgage loans and give borrowers potential claims against the Bank.

The Dodd-Frank Act amended the Truth in Lending Act to require that mortgage lenders show that they have verified the borrower's ability to repay a residential mortgage loan. Borrowers could possibly claim statutory damages against the Bank for violations of this requirement. Lenders of mortgages that meet a "qualified mortgage" standard have a safe harbor or a presumption of compliance with the requirement. Under final rules issued by the CFPB in January 2013 that became effective in January 2014, qualified mortgages cannot have negative amortization, interest-only payments, or balloon payments, terms over 30 years, or points and fees over certain thresholds. If institutional mortgage investors limit their mortgage purchases, demand for the Bank's non-qualifying mortgages in the secondary market may be significantly limited in the future. The Bank does not currently intend to discontinue originating non-qualifying mortgages, and it may be liable to borrowers under non-qualifying mortgages for violations of the ability-to-repay requirement. Moreover, the Bank does not yet know how the qualifying mortgage requirements will impact the secondary market for sales of such mortgage loans.

Demand for the Bank's non-qualifying mortgages in the secondary market may therefore decline significantly in the future, which would limit the amount of loans the Bank can originate and in turn limit its ability to create new relationships and cross-selling opportunities, manage its growth and earn revenue from loan sales and servicing, all of which could adversely affect the Bank's financial condition and net earnings.

Increases in FDIC insurance premiums may adversely affect the Bank's earnings.

The deposits of the Bank are insured by the FDIC to the extent provided by law and, accordingly, the Bank is subject to FDIC deposit insurance assessments. The Bank generally cannot control the amount of premiums it will be required to pay for FDIC insurance. High levels of bank failures over the past several years and increases in the statutory deposit insurance limits have increased resolution costs to the FDIC and put pressure on the Deposit Insurance Fund (DIF), resulting in increases by the FDIC to the required premiums to be paid by insured institutions. If there are additional financial institution failures, the Bank may be required to pay even higher FDIC premiums than the recently increased levels, or the FDIC may charge additional special assessments or require future prepayments. Further, the FDIC increased the DIF's long-term target reserve ratio to 2.0% of insured deposits following the Dodd-Frank Act's elimination of the 1.5% cap on the DIF's reserve ratio, and redefined the assessment base used to calculate deposit insurance premiums as the depository institution's average consolidated assets minus tangible equity, instead of the previous deposit-based assessment base.

The FDIC has recently approved a final rule to apply an annual surcharge of 4.5 basis points on all banks with at least $10 billion in assets as a method of increasing its DIF reserve ratio. The surcharge will apply equally to all institutions with $10 billion or more of assets, and will not differ based on the size or complexity of the institution, or the riskiness of its assets. The surcharge will apply for approximately two years.

Additional increases in the Bank's assessment rate may be required in the future to achieve this targeted reserve ratio. These increases in deposit assessments and any future increases, required prepayments or special assessments of FDIC insurance premiums may adversely affect the Bank's business, financial condition or results of operations.

The ultimate impact on the Bank of this proposal will depend on a number of factors, including the timing of the implementation of the surcharge and the existence and/or size of any shortfall assessment. See "Business — Regulation — FDIC Insurance."

The Bank may be adversely affected by increased governmental and regulatory scrutiny or negative publicity.

Governmental scrutiny from regulators, legislative bodies and law enforcement agencies with respect to matters relating to the Bank's or GS Group's business practices, past actions, compensation and other matters has increased dramatically in the past several years. The financial crisis and the current political and public sentiment regarding financial institutions has resulted in a significant amount of adverse press coverage, as well as adverse statements or charges by regulators or other government officials. Press coverage and other public statements that assert some form of wrongdoing often result in some type of investigation by regulators, legislators and law enforcement officials or in lawsuits.

Responding to these investigations and lawsuits, regardless of the ultimate outcome of the proceeding, is time-consuming and expensive and can divert the time and effort of the Bank's senior management from its business. Penalties and fines sought by regulatory authorities have increased substantially over the last several years, and certain regulators have been more likely in recent years to commence enforcement actions or to advance or support legislation targeted at the financial services industry.

Adverse publicity, governmental scrutiny and legal and enforcement proceedings can also have a negative impact on the Bank's reputation and on the morale and performance of its employees, which could adversely affect the Bank's business and results of operations.

Substantial legal liability or significant regulatory action against the Bank or its affiliates could have material adverse financial effects or cause the Bank significant reputational harm, which in turn could seriously harm the Bank's business prospects.

The Bank is involved in a number of judicial, regulatory and other proceedings concerning matters arising in connection with the conduct of the Bank's business. See Note 16 to the consolidated financial statements in Part III of this Annual Report for information regarding certain mortgage-related contingencies and Note 17 to the consolidated financial statements in Part III of this Annual Report for information about certain legal proceedings that impact the Bank.

The Bank faces the risk of investigations and proceedings by governmental and self-regulatory organizations in all jurisdictions in which it conducts its business. Interventions by authorities may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. In addition to the monetary consequences, these measures could, for example, impact the Bank's ability to engage in, or impose limitations on, certain aspects of its business. Litigation or regulatory action at the level of other GS Group entities may also have an impact on the Bank, including limitations on activities and reputational harm. The number of these investigations and proceedings, as well as the amount of penalties and fines sought, has increased substantially in recent years with regard to many firms in the financial services industry, including GS Group. The trend of large settlements with governmental entities may adversely affect the outcomes for other financial institutions in similar actions, especially where governmental officials have announced that the large settlements will be used as the basis or a template for other settlements. The uncertain regulatory enforcement environment makes it difficult to estimate probable liabilities, and settlements of matters therefore frequently exceed the amount of any reserve established.

Most liabilities arising from mortgage-related litigation or regulatory action should be covered by the Group Inc. guarantee; however, to the extent that Group Inc. does not fulfill its obligations, for any reason, those liabilities could adversely affect the Bank's financial condition, liquidity and results of operations.

In addition, the U.S. Department of Justice has announced a policy of requiring companies to provide investigators with all relevant facts relating to the individuals responsible for the alleged misconduct in order to qualify for any cooperation credit in civil and criminal investigations of corporate wrongdoing, which may result in the Bank incurring increased fines and penalties if the Department of Justice determines that the Bank has not provided sufficient information about applicable individuals in connection with an investigation, as well as increased costs in responding to Department of Justice investigations. Further, bank regulators have increasingly sought to hold individuals responsible for alleged misconduct, and it is possible that other governmental authorities will adopt similar policies.

The Bank is subject to risks related to the violation of bribery, corruption and anti-money laundering laws and potential employee misconduct.

The Bank is subject to rules and regulations relating to corrupt and illegal payments, hiring practices and money laundering, as well as laws relating to doing business with certain individuals, groups and countries, such as the U.S. Foreign Corrupt Practices Act, the PATRIOT Act and U.K. Bribery Act. While the Bank and GS Group have invested and continue to invest significant resources in training and in compliance monitoring, the geographical diversity of GS Group's operations, employees, clients and customers, as well as the vendors and other third parties that the Bank deals with, greatly increases the risk that the Bank may be found in violation of such rules or regulations and any such violation could subject the Bank to significant penalties or adversely affect its reputation.

In addition, there have been a number of highly publicized cases around the world, involving actual or alleged fraud or other misconduct by employees in the financial services industry in recent years, and the Bank is exposed to the risk that employee misconduct could occur. This misconduct has included and may include in the future the theft of proprietary information, including proprietary software. It is not always possible to deter or prevent employee misconduct and the precautions the Bank takes to prevent and detect this activity have not been and may not be effective in all cases.

The Bank 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.

The occurrence of unforeseen or catastrophic events, including the emergence of a pandemic, such as the Ebola or Zika viruses, or other widespread health emergency (or concerns over the possibility of such an emergency), terrorist attacks, extreme terrestrial or solar weather events or other natural disasters, could create economic and financial disruptions, and could lead to operational difficulties (including travel limitations) that could impair the Bank's ability to manage its business.

Part II. Management’s Discussion and Analysis of Financial Condition and Results of Operations

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Introduction

Goldman Sachs Bank USA, together with its consolidated subsidiaries (collectively, the Bank), is a New York State-chartered bank and a member of the Federal Reserve System. It is supervised by the Board of Governors of the Federal Reserve System (Federal Reserve Board), the New York State Department of Financial Services (NYSDFS) and the Consumer Financial Protection Bureau (CFPB) and is a member of the Federal Deposit Insurance Corporation (FDIC). The Bank's deposits are insured by the FDIC up to the maximum amount permitted by law. As a registered swap dealer, the Bank is also regulated by the U.S. Commodity Futures Trading Commission (CFTC). The Bank is also registered as a government securities dealer and is subject to the rules and regulations of the U.S. Department of the Treasury.

The Bank's principal office is located in New York, New York. The Bank operates one domestic branch located in Salt Lake City, Utah, which is regulated by the Utah Department of Financial Institutions. The Bank also operates a branch in London, United Kingdom (the London Branch), which is regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The Bank is a wholly-owned subsidiary of The Goldman Sachs Group, Inc. (Group Inc.), a bank holding company and a financial holding company regulated by the Federal Reserve Board under the Bank Holding Company Act of 1956 (BHC Act) and a financial holding company under the amendments to the BHC Act effected by the U.S. Gramm Leach Bliley Act of 1999.

The Bank's primary activities include lending to private wealth management clients of Goldman, Sachs & Co. (GS&Co.) and to institutional and corporate clients; entering into interest rate, credit, currency and other derivatives and related products for the purpose of market-making and risk management; and the acceptance of client and brokered deposits.

When we use the term "GS Group," or "firmwide" we are referring to Group Inc. and its consolidated subsidiaries.

When we use the terms "the Bank," "we," "us," and "our," we mean Goldman Sachs Bank USA and its consolidated subsidiaries. References to revenue-producing units and control and support functions include activities performed by the Bank's employees, dual employees (who are employees who perform services for both the Bank and another Group Inc. affiliate), and activities performed by affiliate employees under Bank supervision pursuant to a Master Services Agreement supplemented by service level agreements (collectively, "SLAs") between the Bank and its affiliates.

All references to 2015 and 2014 refer to our years ended, or the dates, as the context requires, December 31, 2015 and December 31, 2014, respectively. Any reference to a future year refers to a year ending on December 31 of that year.

All references to "this Annual Report," of which this Management's Discussion and Analysis forms a part, refers to the report dated April 26, 2016, as may be amended, and includes information relating to the Bank's business, the supervision and regulation to which it is subject, risk factors affecting its business, results of operations and financial condition, as well as the consolidated financial statements of the Bank.

In this discussion and analysis of our financial condition and results of operations, we have included information that may constitute "forward-looking statements." Forward-looking statements are not historical facts, but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. This information includes statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, among other things, and may also include statements about the effect of changes to the capital, leverage, liquidity, long-term debt and total loss-absorbing capacity rules applicable to banks and bank holding companies, the impact of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) on our business and operations, and mortgage-related contingencies or various legal proceedings as set forth in Notes 16 and 17, respectively, to the consolidated financial statements in Part III of this Annual Report.

Additionally, this information includes statements about the results of our Dodd-Frank Act and bank stress tests, statements about the objectives and effectiveness of our risk management and liquidity policies, statements about new business initiatives or trends in or growth opportunities for our business, and statements about our future status, activities or reporting under U.S. or non-U.S. banking and financial regulation.

By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in these forward-looking statements include, among others, those described in "Risk Factors" in Part I of this Annual Report.

Executive Overview

The Bank generated net earnings of $1.68 billion for 2015, an increase of 27% compared with $1.32 billion for 2014.

Net revenues, including net interest income, were $3.27 billion for 2015, an increase of 7% compared with $3.06 billion for 2014, reflecting higher net interest income driven by lending to corporate and private wealth management clients, partially offset by lower net gains from financial instruments. Net interest income was $1.40 billion for 2015, an increase of 35% compared with $1.04 billion for 2014, driven by growth in lending primarily to corporate and private wealth management clients and higher interest earned on other financial instruments, at fair value.

Operating expenses were $803 million for 2015, essentially unchanged compared with 2014, reflecting lower service charges, offset by an increase in compensation and benefits expenses and other expenses.

Total assets were $134.50 billion as of December 2015, an increase of 14% compared with $118.06 billion as of December 2014. This increase primarily reflected an increase in loans receivable, driven by growth in lending, and an increase in cash primarily due to an increase in our global core liquid assets (GCLA), which is comprised of unencumbered, highly liquid securities and cash.

Our GCLA was $59.33 billion as of December 2015, compared with $47.66 billion as of December 2014 driven by increases in cash deposits. See "Risk Management — Liquidity Risk Management — Liquidity Risk Management Principles — Global Core Liquid Assets" below for further information.

Net interest margin was 118 basis points for 2015, an increase of 17 basis points compared with 101 basis points for 2014, primarily driven by growth in our lending and higher interest earned on other financial instruments, at fair value, partially offset by higher interest expense on funding facilities from affiliates, and on increased average deposits and subordinated borrowings balances.

We continue to maintain strong capital ratios. As of December 2015, our Common Equity Tier 1 ratio as computed in accordance with the Standardized approach and the Basel III Advanced approach, in each case reflecting the applicable transitional provisions, was 11.4% and 17.6%, respectively. See Note 18 to the consolidated financial statements and "Equity Capital Management and Regulatory Capital" below for further information about our applicable capital ratios.

Business Environment

United States

In the United States, real gross domestic product (GDP) increased by 2.4% in both 2015 and 2014. Residential fixed investment growth and consumer expenditures growth both improved, while business fixed investment growth declined. Measures of consumer confidence improved on average compared with the prior year, while the unemployment rate declined. Housing starts and house sales increased in 2015, but house prices declined compared with the end of 2014. Measures of inflation were mixed, with headline measures lower alongside declining commodity prices, and core inflation metrics stable during 2015. The U.S. Federal Reserve raised its target rate for the federal funds rate at the December meeting to a range of 0.25% to 0.50%, ending a seven-year period at a range of zero to 0.25%. The yield on the 10-year U.S. Treasury note increased by 10 basis points during 2015 to 2.27%. In equity markets, the NASDAQ Composite Index increased by 6%, while the Dow Jones Industrial Average and the S&P 500 Index declined by 2% and 1%, respectively, during 2015.

Global

During 2015, real GDP growth appeared stable but subdued in most advanced economies and weaker in emerging market economies compared with 2014. In developed markets, growth was higher in the Euro area and Japan, while growth in the United Kingdom was lower and growth in the United States remained stable. In emerging markets, many economies suffered from lower commodity prices, and Latin America was particularly weak with negative aggregate growth in 2015. Monetary policy diverged in 2015, as the U.S. Federal Reserve increased its target interest rate, while policy remained accommodative in the Euro area and Japan. In addition, oil prices declined by 30%, and there were concerns about the debt situation in Greece earlier in the year and China's growth outlook later in the year.

Critical Accounting Policies

Loans Receivable

Loans receivable on the consolidated statements of financial condition 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, and
- Loans held for sale which are accounted for at the lower of cost or market.

The Bank assesses its loans for impairment on an ongoing basis through its credit review process. 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 Bank also assigns a regulatory risk rating to such loans based on the definitions provided by the U.S. federal bank regulatory agencies. Such loans are determined to be impaired when it is probable that the Bank 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, 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.

The Bank's allowance for loan losses is comprised of portfolio level reserves and specific loan-level reserves. Portfolio level reserves are determined on loans not deemed impaired by aggregating groups of loans with similar risk characteristics and estimating the probable loss inherent in the portfolio. Specific loan-level reserves are determined on loans that exhibit credit quality weakness and are therefore individually evaluated for impairment.

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

Fair Value

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

The 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 Bank or its affiliates' credit quality, funding risk, transfer restrictions, liquidity and bid/offer spreads.

Instruments categorized within level 3 of the fair value hierarchy are those which require one or more significant inputs that are not observable. As of December 2015 and December 2014, level 3 financial assets represented 1.8% and 3.5%, respectively, of our total assets. See Notes 5 through 8 to the consolidated financial statements for further information about level 3 financial assets, including changes in level 3 financial assets and related fair value measurements. 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

The Bank leverages GS Group's control infrastructure over valuation of financial instruments, which is described below. Market makers and investment professionals in revenue-producing units are responsible for pricing our financial instruments. GS Group's 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. 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 an independent price verification process. The objective of price verification is to have an informed and independent opinion with regard to the valuation of financial instruments under review. Instruments that have one or more significant inputs which cannot be corroborated by external market data are classified within level 3 of the fair value hierarchy. Price verification strategies utilized by our independent control and support functions include:

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

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

Review of Net Revenues

Independent control and support functions ensure adherence to GS Group's 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

A model risk management group (Model Risk Management), consisting of quantitative professionals who are separate from model developers, performs an independent model review and validation process of valuation models. 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. See "Risk Management — Model Risk Management" for further information about the review and validation of valuation models.

Recent Accounting Developments

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

Use of Estimates

The use of generally accepted accounting principles requires management to make certain estimates and assumptions. In addition to the estimates we make in connection with fair value measurements, the use of estimates and assumptions is also important in determining provisions for losses that may arise from the allowance for losses on loans and lending commitments held for investment, tax audits, litigation and regulatory proceedings. Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different.

We estimate and record an allowance for credit losses related to our loans receivable and lending commitments held for investment. Management's estimate of loan losses entails judgment about loan collectability at the reporting dates, and there are uncertainties inherent in those judgments. See Note 9 to the consolidated financial statements for further information about the allowance for losses on loans and lending commitments held for investment.

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 22 to the consolidated financial statements for further information about accounting for income taxes.

Our 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 whether such liabilities are covered by the Group Inc. guarantee, 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. See Note 19 to the consolidated financial statements for further information about the Group Inc. guarantee.

Results of Operations

The composition of our net revenues can vary over time as financial markets and the scope of our operations change. The composition of net revenues can also vary over the shorter term due to fluctuations in economic and market conditions. In addition to transactions entered into with third parties, the Bank also enters into transactions with affiliates in the normal course of business, primarily as part of its market-making activities and general operations. See "Risk Factors" in Part I of the Annual Report for further information about the impact of economic and market conditions on our results of operations.

Financial Overview

The table below presents an overview of our financial results.

	Year Ended December	
$ in millions	**2015**	2014
Net revenues	**$ 3,265**	$ 3,061
Pre-tax earnings	**2,462**	2,250
Net earnings	**1,682**	1,320

The table below presents selected financial ratios.

	Year Ended December	
	2015	2014
Net earnings to average assets	**1.3%**	1.1%
Return on average shareholder's equity [1]	**7.6%**	6.4%
Average equity to average assets	**16.7%**	17.8%

1. Return on average shareholder's equity is computed by dividing net earnings by average monthly shareholder's equity.

Net Revenues

The table below presents our net revenues by line item on the consolidated statements of earnings, as well as our net interest margin.

	Year Ended December	
$ in millions, except net interest margin	**2015**	2014
Interest income	**$ 2,049**	$ 1,454
Interest expense	**650**	414
Net interest income	**1,399**	1,040
Non-interest revenues	**1,866**	2,021
Net revenues, including net interest income	**$ 3,265**	$ 3,061
Net interest margin (basis points)	**118**	101

In the table above:

- "Interest income" is primarily generated from the Bank's lending portfolio, including corporate lending, private bank lending and other lending. Corporate lending interest income includes income from term loans, revolving lines of credit, letter of credit facilities and bridge loans (collectively, "bank loans"). Private bank lending interest income includes income from loans to private wealth management clients primarily on a secured basis and secured residential mortgages. Interest income is also earned from certain financial instruments owned, at fair value and securities purchased under agreements to resell. In addition, interest is earned on cash deposits held primarily at the Federal Reserve Bank of New York, and from collateral balances posted to counterparties.

- "Interest expense" includes the interest associated with deposit-taking activities, including accepting deposits directly from private wealth management clients, through deposit sweep agreements with third-party broker-dealers, and through the issuance of term certificates of deposit. The Bank applies hedge accounting for certain interest rate swaps used to manage the interest rate exposure of certain fixed-rate term certificates of deposit. For qualifying fair value hedges, gains and losses on derivatives are included in interest expense. See Note 7 to the consolidated financial statements for further information about hedge accounting.

  Interest expense also includes interest from certain financial instruments sold, but not yet purchased, at fair value, mainly cash instruments, collateralized financings, including interest on advances from the Federal Home Loan Bank of New York (FHLB), unsecured borrowings, including funding facilities primarily from affiliates and collateral balances received from counterparties.

- "Non-interest revenues" include net gains and losses from financial instruments that are generated from market-making and risk management activities in interest rate, currency, credit, and other derivatives and related products which are primarily accounted for at fair value. In addition, non-interest revenues primarily include fees earned from relationships with affiliates, loan syndication fees, provisions for credit loss and other fees.

2015 versus 2014

Net revenues on the consolidated statements of earnings were $3.27 billion for 2015, an increase of 7% compared with $3.06 billion for 2014. The increase in net revenues was primarily driven by higher net interest income on a larger lending portfolio, partially offset by lower net gains from financial instruments.

Net Interest Income. Net interest income on the consolidated statements of earnings was $1.40 billion for 2015, 35% higher than 2014. Net interest income was 43% of net revenues in 2015, compared with 34% in 2014.

Interest income on the consolidated statements of earnings was $2.05 billion for 2015, 41% higher than 2014, primarily reflecting higher interest income due to growth in our lending portfolio.

The table below presents our sources of interest income.

	Year Ended December	
$ in millions	**2015**	2014
Financial instruments owned, at fair value [1]	**$ 887**	$ 734
Loans receivable	**865**	512
Securities purchased under agreements to resell	**78**	25
Other [2]	**219**	183
Total interest income	**$ 2,049**	$ 1,454

1. Includes interest income from our loans accounted for at fair value. See Note 8 to the consolidated financial statements for further information about loans accounted for at fair value.
2. Primarily includes interest income from deposits at banks and loans accounted for as held for sale.

In the table above:

- Interest income from financial instruments owned, at fair value was $887 million for 2015, 21% higher than 2014, primarily due to higher average agency mortgage-backed securities during 2015.

- Interest income from loans receivable was $865 million for 2015, 69% higher than 2014, primarily due to growth in lending to corporate and private wealth management clients. See Note 9 to the consolidated financial statements for further information about loans receivable.

- Interest income from securities purchased under agreements to resell was $78 million for 2015, significantly higher than 2014, primarily due to higher average balances and interest rates during 2015.
- Other interest income was $219 million for 2015, 20% higher than 2014, primarily due to higher average loans accounted for as held for sale and collateral posted to counterparties.

Interest expense on the consolidated statements of earnings was $650 million for 2015, 57% higher than 2014, primarily reflecting higher interest expense on our interest-bearing deposits and subordinated debt during 2015.

The table below presents our sources of interest expense.

	Year Ended December	
$ in millions	**2015**	2014
Deposits	**$ 363**	$ 287
Borrowings	**56**	31
Financial instruments sold, but not yet purchased, at fair value	**44**	51
Other [1]	**187**	45
Total interest expense	**$ 650**	$ 414

1. Primarily includes interest expense on collateral balances received from counterparties and expense on funding facilities, primarily from affiliates.

In the table above:

- Interest expense from deposits was $363 million for 2015, 26% higher than 2014, primarily from higher average deposit balances.
- Interest expense from borrowings was $56 million for 2015, 81% higher than 2014, primarily from higher average subordinated borrowings.
- Interest expense from financial instruments sold, but not yet purchased, at fair value was $44 million for 2015, 14% lower than 2014, primarily from lower average balances.
- Other interest expense was $187 million for 2015, significantly higher compared with 2014, primarily from higher interest expense on funding facilities from affiliates.

Non-Interest Revenues. Non-interest revenues were $1.87 billion for 2015, 8% lower than 2014. The decrease was primarily due to lower net gains from financial instruments, reflecting lower revenues from currencies and credit products. These decreases were partially offset by an increase in revenues from interest rate products, driven by higher client activity.

Net Interest Margin. Net interest margin increased 17 basis points to 118 basis points for 2015, compared with 101 basis points for 2014, primarily driven by growth in our lending portfolio, as well as agency mortgage-backed securities, partially offset by higher interest expense on funding facilities from affiliates, and on increased average deposits and subordinated borrowings balances.

Operating Expenses

Our operating expenses are primarily influenced by levels of compensation, business activity and headcount. The principal component of our operating expenses is service charges, which represent the cost of services provided by affiliates to the Bank. Service charges include employment related costs of dual employees and employees of affiliates pursuant to SLAs. Compensation and benefits include salaries, discretionary compensation, amortization of equity awards and other items such as benefits. Compensation and benefits relate to direct Bank employees. Discretionary compensation is significantly impacted by, among other factors, overall financial performance, prevailing labor markets, business mix, the structure of our share-based compensation programs and the external environment.

The table below presents our operating expenses and total staff.

	Year Ended December	
$ in millions, except total staff	**2015**	2014
Compensation and benefits	**$ 162**	$ 140
Service charges	**442**	485
Other expenses	**199**	186
Total operating expenses	**$ 803**	$ 811
Total staff at period-end	**429**	353

In the table above:

- "Compensation and benefits" and "Service charges" include employee-related expenses. As noted above, "Compensation and benefits" are expenses of direct Bank employees. "Service charges" includes expenses related to dual employees and employees of affiliates who provide services to the Bank pursuant to SLAs.
- "Other expenses" include brokerage, clearing and exchange fees, professional fees, regulatory and agency fees and occupancy expenses.

2015 versus 2014. Operating expenses on the consolidated statements of earnings were $803 million for 2015, essentially unchanged compared with 2014. Service charges decreased, partially offset by an increase in compensation and benefits expenses and other expenses.

Compensation and benefits expenses on the consolidated statements of earnings were $162 million for 2015, 16% higher than 2014, reflecting an increase in total staff.

Service charges on the consolidated statements of earnings were $442 million for 2015, 9% lower than 2014, primarily reflecting the decrease in services required under SLAs as a result of the increase in total staff at the Bank.

Other expenses on the consolidated statements of earnings were $199 million for 2015, 7% higher than 2014, primarily reflecting an increase in regulatory and other fees.

Provision for Taxes

The effective income tax rate for 2015 was 31.7%, down from 41.3% for 2014. The decline compared with 2014 reflected reductions related to the impact of changes in tax law and settlements of tax audits.

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 had a material impact on our effective tax rate for 2015 and we expect this legislation will have a material impact on our effective tax rate for 2016.

Balance Sheet and Funding Sources

Balance Sheet Management

One of the most important risk management disciplines for a financial institution is its ability to manage the size and composition of its balance sheet. The Bank leverages the firmwide balance sheet management process. While the asset base of the Bank 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.

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

Quarterly Planning. GS Group prepares a quarterly balance sheet plan that combines projected total assets and composition of assets with its expected funding sources for the upcoming quarter, and considers which businesses operate within the Bank and availability of Bank-specific funding sources within this process.

The objectives of this quarterly planning process are:

- To develop 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 projected assets and forecasted maturities; and
- To allow GS Group's business risk managers and managers from independent control and support functions to objectively evaluate balance sheet limit requests from business managers in the context of GS Group's overall balance sheet constraints, including the Bank'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 maximum risk appetite.

As part of the firmwide process, the consolidated quarterly plan is reviewed and approved by the Firmwide Finance Committee, which includes Bank representatives, and is a sub-committee of the Firmwide Risk Committee of GS Group. The review includes the following:

- Balance sheet plans by businesses of GS Group, including planned activities in the Bank;
- Funding projections; and
- Projected key metrics.

The Bank's limits are reviewed and approved by the Bank Finance Committee. See "Risk Management — 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 of GS Group's businesses, which include activities of the Bank. 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 independent control and support functions on a routine basis. The Firmwide Finance Committee, as well as the Bank Finance Committee where applicable to the Bank, review and approve 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 metrics. Compliance with limits is monitored on a daily basis by business risk managers, as well as managers in independent control and support functions.

Monitoring of Key Metrics. Key balance sheet metrics are monitored daily as part of the GS Group process, both by businesses of GS Group, which include activities of the Bank, and on a consolidated basis including limit utilization and risk measures. This includes allocating assets to businesses and reviewing movements resulting from new business activity and market fluctuations.

Scenario Analyses. The Bank conducts scenario analyses as part of the Dodd-Frank Act Stress Tests (DFAST), our resolution planning, as well as for other regulatory and business planning purposes. 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 Bank-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 Analysis and Metrics

As of December 2015, total assets on the consolidated statements of financial condition were $134.50 billion, an increase of $16.45 billion from December 2014. This increase was primarily driven by an increase in loans receivable, reflecting growth in lending activity, and an increase in cash, primarily due to an increase in GCLA. These increases were partially offset by decreases in securities purchased under agreements to resell and financial instruments owned, at fair value, primarily from a decrease in our lending portfolio accounted for at fair value and other financial instruments at fair value.

As of December 2015, total liabilities on the consolidated statements of financial condition were $111.32 billion, an increase of $14.77 billion from December 2014. This increase was primarily due to an increase in deposits driven by growth in private wealth management deposits and net issuances of brokered CDs.

Funding Sources

Our primary sources of funding are deposits, collateralized financings, and unsecured borrowings from affiliates. We seek to maintain broad and diversified funding sources across products, programs, and creditors to avoid funding concentrations.

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

- Savings and demand deposits primarily through deposit sweep programs with affiliated and third-party broker-dealers;
- Time deposits which primarily consist of brokered certificates of deposit through third party and affiliated brokers;
- Collateralized financings, such as repurchase agreements and Federal Home Loan Bank advances; and
- Unsecured borrowings from affiliates.

Substantially all of our funding is raised in U.S. dollars. We generally distribute our funding products through third party distributions and private wealth advisors, to a creditor base in a variety of markets. We believe that our relationships with our creditors are critical to our liquidity. Our creditors include individuals, financial institutions, non-financial institutions, corporates and asset managers. We have imposed various internal guidelines to monitor creditor concentration across our funding programs.

Deposits. The tables below present the types and sources of our deposits. See Note 13 to the consolidated financial statements for further information about our deposits.

$ in millions	As of December 2015 Savings and Demand [1]	Time [2]	Total
Private bank deposits [3]	**$ 32,062**	**$ 1,660**	**$ 33,722**
Certificates of deposit	**–**	**32,567**	**32,567**
Deposit sweep programs [4]	**15,791**	**–**	**15,791**
Institutional [5]	**4,204**	**2,000**	**6,204**
Total [6]	**$ 52,057**	**$ 36,227**	**$ 88,284**

$ in millions	As of December 2014 Savings and Demand [1]	Time [2]	Total
Private bank deposits [3]	$ 28,329	$ 1,297	$ 29,626
Certificates of deposit	–	23,926	23,926
Deposit sweep programs [4]	15,691	–	15,691
Institutional [5]	1,125	2,754	3,879
Total [6]	$ 45,145	$ 27,977	$ 73,122

1. Represents deposits with no stated maturity.
2. Weighted average maturity of approximately three years as of both December 2015 and December 2014.
3. Substantially all were from overnight deposit sweep programs with GS&Co, 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. Pursuant to the external deposit sweep program agreements, each third party agrees, for a prescribed term to place a certain minimum amount of deposits from their clients with the Bank. Each individual client's deposit may be withdrawn at any time. As of December 2015, the Bank had eight external deposit sweep program contractual arrangements.
5. Primarily related to deposits from affiliates.
6. Deposits insured by the FDIC as of December 2015 and December 2014 were approximately $55.48 billion and $45.72 billion, respectively.

The average interest rate on the Bank's total deposits was 0.43% and 0.39% for 2015 and 2014, respectively. The table below presents the average interest rate on each type of deposit as of those same dates.

	Year Ended December 2015	2014
Savings and demand	**0.22%**	0.19%
Time	**0.76%**	0.79%

In April 2016, following regulatory approvals, the Bank acquired GE Capital Bank's online deposit platform and assumed approximately $16 billion of deposits.

See "Supplemental Financial Information — Distributions of Assets, Liabilities, and Shareholder's Equity" and Note 13 to our consolidated financial statements for further information about deposits.

Collateralized Financings. The Bank funds certain of its inventory on a secured basis by entering into collateralized financing agreements, such as bilateral repurchase agreements. In December 2014, the Bank received approval to become a member of the FHLB and as of December 2015, outstanding borrowings from the FHLB were $2.92 billion. As of December 2014, there were no borrowings outstanding from the FHLB. See Note 10 to our consolidated financial statements for further information about collateralized financings.

We also have 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 we periodically test the discount window borrowing procedures. The table below presents the Bank's collateralized financings on the consolidated statements of financial condition.

$ in millions	As of December 2015	2014
Securities sold under agreements to repurchase, at fair value	**$ 3,425**	$ 6,578
Secured long-term borrowings [1]	**2,524**	84
Secured short-term borrowings [1]	**502**	58
Total	**$ 6,451**	$ 6,720

1. Increase primarily driven by FHLB advances. See Note 10 to our consolidated financial statements for further information about FHLB advances.

Unsecured Borrowings. The Bank raises funding through unsecured borrowings primarily from Group Inc. Group Inc. raises non-deposit unsecured funding and lends to its consolidated subsidiaries, including the Bank, to meet their excess funding needs. This approach enhances the flexibility with which Group Inc. can meet the funding requirements of the Bank and other subsidiaries. See Note 14 to the consolidated financial statements for further information about our unsecured borrowings.

The table below presents the Bank's unsecured borrowings, substantially all of which are with Group. Inc.

$ in millions	As of December 2015	2014
Unsecured long-term borrowings[1]	**$ 2,059**	$ 2,059
Unsecured short-term borrowings	**100**	144
Total	**$ 2,159**	$ 2,203

1. Includes a $5.00 billion subordinated loan agreement with Group Inc. Outstanding subordinated borrowings under this agreement were $2.00 billion as of both December 2015 and December 2014. See Note 14 to the consolidated financial statements for further information about our subordinated borrowings.

Equity Capital Management and Regulatory Capital

Capital adequacy is of critical importance to us. We have in place a comprehensive capital management policy that provides a framework, defines objectives and establishes guidelines to assist us in maintaining the appropriate level and composition of capital in both business-as-usual and stressed conditions.

Equity Capital Management

We determine the appropriate level and composition of our equity capital by considering multiple factors including our current and future regulatory capital requirements, the results of our capital planning and stress testing process and other factors such as rating agency guidelines, the business environment and conditions in the financial markets. The Bank has established a comprehensive governance structure to manage and oversee its day-to-day capital management activities and to ensure compliance with the corresponding policies. Capital management activity is overseen by the Bank's Board of Directors (the Bank Board). In addition, the Bank Risk Committee oversees this activity with regular monitoring of capital management activity provided by the Bank Finance Committee. Levels of our capital usage principally are controlled by setting limits on Bank unsecured funding utilization and/or limits on risk at both the Bank and business levels.

Restrictions on Payments

Net assets of the Bank are restricted as to the payment of dividends to Group Inc. In addition to limitations on the payment of dividends imposed by federal and state laws, the Federal Reserve Board and the FDIC have authority to prohibit or limit the payment of dividends by the banking organizations they supervise if, in their opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization. During 2015 and 2014, the Bank did not pay any dividends. Under these regulatory rules, as of December 2015 and December 2014, the Bank could have declared dividends up to $2.39 billion and $2.15 billion, respectively, to Group Inc.

Capital Planning and Stress Testing Process. As part of capital planning, we project sources and uses of capital given a range of business environments, including stressed conditions. Our stress testing process is designed to identify and measure material risks associated with our business activities including market risk, credit risk and operational risk, as well as our ability to generate revenues.

The following is a description of our capital planning and stress testing process:

- **Capital Planning.** Our capital planning process incorporates an internal capital adequacy assessment with the objective of ensuring that the Bank is appropriately capitalized relative to the risks in our business. We incorporate stress scenarios into our capital planning process with a goal of holding 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.

  Our capital planning process also 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.

- **Stress Testing.** Our stress tests incorporate our internally designed stress scenarios, including our internally developed severely adverse scenario and those required under DFAST, and are designed to capture our specific vulnerabilities and risks. The rules adopted by the Federal Reserve Board under the Dodd-Frank Act require the Bank to conduct stress tests on an annual basis and publish a summary of certain results. The Bank 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. We submitted our 2016 DFAST results in April 2016.

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.

Resolution Plan

The Bank is required by 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). The Bank submitted its 2015 resolution plan to its regulators on September 1, 2015. GS Group is required by the Federal Reserve Board and the FDIC to submit an annual resolution plan and the Bank is considered a material entity in the GS Group plan. See "Business — Regulation" in this Annual Report and "Regulatory Developments" below for further information about the resolution plan of the Bank.

Rating Agency Guidelines

The credit rating agencies assign the Bank long- and short-term issuer ratings, as well as ratings on our long-term and short-term bank deposits. They also assign credit ratings to the obligations of Group Inc., which guarantees substantially all of the Bank's senior unsecured obligations and deposits, excluding most CDs, outstanding as of December 2015.

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 "Risk Management — Liquidity Risk Management — Credit Ratings" for further information about our credit ratings.

Consolidated Regulatory Capital

The Bank is subject to regulatory capital requirements 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 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 December 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 described in Note 18 to the 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 those calculated in accordance with the Basel III Advanced Rules and therefore the Standardized Capital ratios were the ratios that applied to us as of December 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 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 the Bank as of December 2014.

See Note 18 to the consolidated financial statements for further information about our capital ratios as of December 2015 and December 2014, and for additional information about the Revised Capital Framework.

Minimum Capital Ratios and Capital Buffers

The U.S. Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, requires the federal banking agencies to take "prompt corrective action" (PCA) in respect of depository institutions that do not meet specified capital requirements. FDICIA establishes five capital categories for FDIC-insured banks: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

Under the regulatory framework for prompt corrective action applicable to the Bank, in order to meet the quantitative requirements for being a "well-capitalized" depository institution, the Bank must meet higher minimum requirements than the minimum ratios in the table below.

The table below presents the minimum required ratios and "well-capitalized" minimum ratios in accordance with the Revised Capital Framework as of December 2015, as well as the minimum ratios that the Bank expects will apply at the end of the transitional period beginning January 2019.

	December 2015 Minimum Ratio	January 2019 Minimum Ratio	"Well-capitalized" Minimum Ratio [3]
CET1 ratio	4.5%	7.0% [2]	6.5%
Tier 1 capital ratio	6.0%	8.5% [2]	8.0%
Total capital ratio	8.0%	10.5% [2]	10.0%
Tier 1 leverage ratio [1]	4.0%	4.0%	5.0%

1. 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).
2. Includes the capital conservation buffer of 2.5%,
3. "Well-capitalized" minimum ratios are applicable for 2015 and forward.

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.

The Revised Capital Framework also provides a counter-cyclical capital buffer of up to 2.5% (and also consisting entirely of CET1) in order to counteract excessive credit growth. The Federal Reserve Board has not finalized all of the regulations with respect to this buffer and 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.

Domestic Systemically Important Banking Institutions (D-SIBs)

The Basel Committee published its final guidelines for calculating incremental capital requirements for domestic systemically important banking institutions (D-SIBs). The impact of these guidelines on the regulatory capital requirements of the Bank will depend on how they are implemented by the banking regulators in the United States.

Fully Phased-in Capital Ratios

The fully-phased-in CET1, Tier 1 Capital and Total Capital ratios under both the Standardized Capital Rules and the Basel III Advanced Rules are substantially the same as our transitional CET1, Tier 1 Capital and Total Capital ratios under the Standardized Capital Rules and Basel III Advanced Rules, respectively. See Note 18 to the consolidated financial statements for information about our transitional capital ratios.

Supplementary Leverage Ratio

The Revised Capital Framework includes a supplementary leverage ratio requirement 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 total daily average assets for the quarter less certain deductions plus certain off-balance-sheet exposures, including a measure of derivatives exposures and commitments. Under Federal Reserve Board rules, commencing on January 1, 2018, in order to be considered a "well-capitalized" depository institution, the Bank must have a supplementary leverage ratio of 6.0% or greater.

As of December 2015, our supplementary leverage ratio was 7.1%, based on Tier 1 capital on a fully phased-in basis of $23.02 billion, divided by total leverage exposure of $324 billion (total daily average assets for the quarter of $134 billion plus adjustments of $190 billion). As of December 2014, the Bank would have met the "well-capitalized" minimum. 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.

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 regulators and policy makers. 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, including our derivative 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 is increased regulation of, and restrictions on, our activities, including over-the-counter (OTC) derivatives markets and transactions, particularly related to swaps and security-based swaps. Importantly, the banking regulators adopted rules for margining of certain OTC derivatives that are not centrally cleared, which are applicable to the Bank as a registered swap dealer. Under these rules, the Bank will be required to collect and post both initial and variation margin from and to certain unaffiliated counterparties but will only be required to collect initial margin, although it must still exchange variation margin, with affiliated counterparties.

In January 2016, the Basel Committee finalized a revised framework for calculating minimum capital requirements for market risk. The revisions constitute a fundamental change to the calculation of both model-based and non-model-based components of market risk capital. The Basel Committee has set an effective date for first reporting under the revised framework of December 31, 2019. The U.S. federal bank regulatory agencies have not yet proposed rules implementing these revisions for U.S. banking organizations. We are currently evaluating the potential impact of the Basel Committee's revised framework.

The Basel Committee has issued a series of updates which propose other changes to capital regulations. In particular, it has finalized a revised standard approach for calculating RWAs for counterparty credit risk on derivatives exposures ("Standardized Approach for measuring Counterparty Credit Risk exposures," known as "SA-CCR"). In addition, it has published guidelines for measuring and controlling large exposures ("Supervisory Framework for measuring and controlling Large Exposures"), issued an updated framework for regulatory capital treatment of banking book securitizations, published a consultation paper proposing constraints on the use of internal model approaches in order to reduce variation in credit risk-weighted assets across institutions, and published a further consultation paper on revisions to the supplementary leverage ratio.

The Basel Committee has also issued consultation papers on, among other matters, revisions to the Basel Standardized approach for credit risk and operational risk capital.

In April 2016, the Federal Reserve Board and the FDIC provided feedback on the 2015 resolution plans of eight systemically important domestic banking institutions and provided guidance related to the 2017 resolution plan submissions. Group Inc.'s plan was not jointly found to be non-credible or to not facilitate an orderly resolution under the U.S. bankruptcy code. While the FDIC identified deficiencies and noted that it found that Group Inc.'s plan was not credible or would not facilitate an orderly resolution under the U.S. bankruptcy code, the Federal Reserve Board did not identify any such deficiencies. In response to the feedback received, Group Inc must (i) submit by October 1, 2016 a status report on its actions to address certain joint shortcomings identified by the agencies and a public section that explains, at a high level, the actions Group Inc. plans to take to address the joint shortcomings and (ii) submit Group Inc.'s resolution plan, due on July 1, 2017, addressing the joint shortcomings and taking into account the additional guidance. In addition, the Bank is required to submit a resolution plan to the FDIC and, accordingly, submitted its 2015 resolution plan on September 1, 2015. The Bank has not yet received supervisory feedback on its 2015 resolution plan.

See "Business — Regulation" in Part I of this Annual Report for further information about the supervision and regulation of the Bank.

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:

- Holding interests in special purpose entities such as mortgage-backed and other asset-backed securitization vehicles;
- Providing guarantees, indemnifications, loan commitments, and representations and warranties; and
- Entering into interest rate, foreign currency, equity, commodity and credit derivatives, including total return swaps.

We enter into these arrangements primarily in connection with our market-making and lending activities.

Our financial interests in, and derivative transactions with, nonconsolidated entities are generally accounted for at fair value, in the same manner as our other financial instruments.

The table below presents where information about our various off-balance-sheet arrangements may be found in this Annual Report. In addition, see Note 3 to the consolidated financial statements for information about our consolidation policies.

Type of Off-Balance-Sheet Arrangement	Disclosure in this Annual Report
Variable interests and other obligations, including contingent obligations, arising from variable interests in nonconsolidated VIEs	See Note 11 to the consolidated financial statements.
Lending and other commitments	See "Contractual Obligations" below and Note 16 to the consolidated financial statements.
Guarantees	See "Contractual Obligations" below and Note 16 to the consolidated financial statements.
Derivatives	See "Credit Risk Management — Credit Exposures — OTC Derivatives" below and Notes 4, 5, 7 and 16 to the consolidated financial statements.

Contractual Obligations

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

Our obligations to make future cash payments also include certain off-balance-sheet contractual obligations such as commitments and guarantees.

The table below presents our contractual obligations, commitments and guarantees by type.

	As of December	
$ in millions	**2015**	2014
Amounts related to on-balance-sheet obligations		
Time deposits	**$ 25,690**	$ 18,870
Secured long-term financings	**2,524**	84
Unsecured long-term borrowings	**2,059**	2,059
Contractual interest payments	**2,796**	2,087
Amounts related to off-balance-sheet arrangements		
Commitments to extend credit	**96,477**	83,622
Contingent and forward starting resale agreements	**709**	506
Forward starting repurchase agreements	**298**	677
Investment commitments	**708**	315
Other commitments	**307**	571
Derivative guarantees	**96,446**	75,610
Securities lending indemnifications	**37,256**	31,584
Other financial guarantees	**2,419**	2,435

The table below presents our contractual obligations, commitments and guarantees by period of expiration.

	Contractual Obligations, Commitments and Guarantees Amount by Period of Expiration as of December 2015			
$ in millions	2016	2017 - 2018	2019 - 2020	2021 - Thereafter
Amounts related to on-balance-sheet obligations				
Time deposits	$ –	$ 10,203	$ 7,228	$ 8,259
Secured long-term financings	–	2,029	495	–
Unsecured long-term borrowings	–	59	–	2,000
Contractual interest payments	536	523	438	1,299
Amounts related to off-balance-sheet arrangements				
Commitments to extend credit	19,734	21,390	47,780	7,573
Contingent and forward starting resale agreements	704	5	–	–
Forward starting repurchase agreements	298	–	–	–
Investment commitments	11	3	1	693
Other commitments	307	–	–	–
Derivative guarantees	49,816	22,817	18,978	4,835
Securities lending indemnifications	37,256	–	–	–
Other financial guarantees	124	976	663	656

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 22 to the consolidated financial statements for further information about our unrecognized tax benefits.
- Contractual interest payments represents estimated future interest payments related to unsecured long-term borrowings, secured long-term financings and time deposits based on applicable interest rates as of December 2015.

See Notes 14 and 16 to the consolidated financial statements for further information about our borrowings and our commitments, contingencies and guarantees, respectively.

Risk Management

Risks are inherent in our business and include liquidity, market, credit, operational, model, legal, regulatory and reputational risks. For further information about 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 further information about our areas of risk, see "— Liquidity Risk Management," "— Market Risk Management," "— Credit Risk Management," "— Operational Risk Management" and "— Model Risk Management" below, and "Risk Factors" in Part I of this Annual Report.

Certain risk management processes as described in the "— Liquidity Risk Management," "— Market Risk Management," "— Credit Risk Management," "— Operational Risk Management" and "— Model Risk Management" sections below are performed by GS Group at the level of its businesses, products, and revenue producing units which encompass all activities of the Bank. These processes are subject to Bank oversight, and either pursuant to an SLA or inclusive of Bank activities. All references in the sections below to businesses, products, and revenue producing units refer to those of GS Group.

Overview and Structure of Risk Management

Overview

We believe that effective risk management is of primary importance to the success of the Bank. 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, model, legal, regulatory and reputational risk exposures. Our risk management framework, consistent with GS Group, is built around three core components: governance, processes and people.

Governance. Risk management governance starts with the Bank's Board which plays an important role in reviewing and approving risk management policies and practices. The Bank Board also receives regular briefings on our risks, including market risk, liquidity risk, credit risk, operational risk and model risk from our independent control and support functions, including the Bank's chief risk officer and chief financial officer, and on matters impacting our reputation from the Bank's general counsel, a member of both the Bank's and GS Group's Client and Business Standards Committees. The Bank's chief risk officer, as part of the review of our risk portfolio, regularly advises the Bank Board of relevant risk metrics and material exposures.

Next, at the most senior levels of the Bank, our leaders are experienced risk managers, with a sophisticated and detailed understanding of the risks we take. Our senior management, and senior managers within revenue-producing units and independent control and support functions, lead and participate in risk-oriented committees, including the Bank Risk Committee. Independent control and support functions include Compliance, Controllers, Credit Risk Management and Advisory (Credit Risk Management), Legal, Market Risk Management and Analysis (Market Risk Management), Operations, Model Risk Management, Operational Risk Management and Analysis (Operational Risk Management), Tax, Technology, and Bank Finance working in conjunction with GS Group Treasury. Liquidity Risk Management and Analysis (Liquidity Risk Management) supports the Bank's activities through its role as an independent control and support function of GS Group.

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 our 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 the 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 GS Group divisions and functions, including the Bank.

Processes. We maintain various processes and procedures that are critical components of our risk management.

We apply a rigorous framework of limits to control risk across multiple transactions, products, businesses and markets. Bank-wide limits are set by the Bank Board with certain levels set by the Bank Risk Committee and monitored on a daily basis. Limits, other than regulatory and Bank Board-level 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, senior management, and the Bank Board, as well as rapid escalation of risk-related matters. See "Liquidity Risk Management," "Market Risk Management" and "Credit Risk Management" for further information about our risk limits.

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

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

People. Even the best technology serves only as a tool for helping to make informed decisions in real time about the risks we are taking. Ultimately, effective risk management requires our people to interpret our risk data on an ongoing and timely basis and adjust risk positions accordingly. In both the revenue-producing units, and 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 through firmwide training and development programs, inclusive of Bank, as well as the way we evaluate performance, and recognize and reward our people. The training and development programs, including certain sessions led by GS Group's most senior leaders, are focused on the importance of risk management, client relationships and reputational excellence. As part of the firmwide annual performance review process, we assess reputational excellence including how an employee exercises good risk management and reputational judgment, and adheres to the code of conduct and compliance policies. The Bank is included in GS Group's review and reward processes which 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.

Structure

Ultimate oversight of risk is the responsibility of the Bank Board. The Bank Board oversees risk both directly and through its Audit Committee. Bank Management has established committees for risk oversight and committee membership consists of senior managers from both revenue-producing units and 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 are described below. All chairs of Bank management-level committees are employees or dual employees of the Bank.

The Bank leverages firmwide and divisional committees, where appropriate, for advice on certain Bank activities. Members of such committees understand their responsibility to review any proposed products, transactions or activities of the Bank and to act in the interest of the Bank. In addition, both Bank committees and firmwide committees have responsibility for considering the impact of transactions and activities on the Bank's 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 Bank.

The Bank's independent control and support functions are responsible for day-to-day oversight or monitoring of risk, as described in greater detail in the following sections. The Bank's Internal Audit is accountable to the Audit Committee of the Bank Board. Internal Audit, which 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 Bank's risk management framework.

Our risk management governance structure includes the Bank Board, which has ultimate risk management oversight for the Bank, our key risk-related committees, which are described in further detail below, and the independence of our key control and support functions. The Bank operates as a subsidiary of GS Group and, when applicable, the Bank utilizes the structure and expertise of GS Group's firmwide, divisional and regional committees. In addition to its own Bank Committees, the Bank benefits from firmwide, regional and divisional committees for risk management, including the Firmwide Client and Business Standards Committee, Firmwide Risk Committee and Firmwide Capital Committee, and related sub-committees.

Committee Structure

The Bank's committee structure is described as follows:

Bank Management Committee. The Bank Management Committee oversees our activities, including our risk control 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 Bank Management Committee also serves as the Bank's Client and Business Standards Committee (Bank's CBSC). In its capacity as the Bank's CBSC, the Bank Management Committee also addresses client concerns and incidents, reviews Bank operational and reputational risks, including conflicts, and reviews business practices. The Bank's CBSC may escalate issues to the GS Group Client and Business Standards Committee as necessary.

The following are the committees that are principally involved in Bank's risk management:

Bank New Activity Committee. The Bank New Activity Committee (BNAC) is responsible for the review and approval of new activities proposed to be conducted in the Bank. BNAC will also 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. The review process may utilize the expertise of the Firmwide New Activity Committee and the Regional New Activity Committees.

Bank Risk Committee. The Bank Risk Committee is responsible for the ongoing monitoring and management of our market risk, credit risk, model risk, legal risk, operational risk and compliance with minimum regulatory capital ratios; internal capital adequacy assessment process; and Dodd-Frank Act stress testing procedures. The risk management methodologies of the Bank Risk Committee and its sub-committees are consistent with those of the Firmwide Risk Committee, as appropriate. The following are the primary committees that report to the Bank Risk Committee:

- **Bank Capital Committee.** The Bank Capital Committee approves extensions of credit that are intended to be held until repayment and are made for the purpose of achieving certain total economic returns on an individual or portfolio basis (transactions); reviews and approves proposed transactions of the Bank, determines risk tolerance, diversification or other metrics for such transactions; and provides oversight of any such transactions or portfolio of transactions. The Bank Capital Committee provides approval and oversight of debt-related transactions, including principal commitments of our capital.
- **Bank Finance Committee.** The Bank Finance Committee is responsible for the ongoing monitoring and review of the Bank's liquidity and funding risk, and investment portfolio risk; compliance with the minimum regulatory capital ratios; and internal capital adequacy assessment process.

Liquidity Risk Management

Overview

Liquidity risk is the risk that we will be unable to fund the Bank or meet our liquidity needs in the event of Bank-specific, firmwide, broader industry, or market liquidity stress events. Liquidity is of critical importance to us, as 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. Our principal objective is to be able to fund the Bank and to enable our core businesses to continue to serve clients and generate revenues, even under adverse circumstances.

Bank Finance, working in conjunction with GS Group Treasury, has the primary responsibility for assessing, monitoring and managing our liquidity and funding strategy. Bank Finance is independent of the revenue-producing units and reports to the Bank's chief financial officer.

Liquidity Risk Management is an independent risk management function responsible for control and oversight of GS Group's liquidity risk management framework, inclusive of the Bank's liquidity risk management framework, including stress testing and limit governance. Liquidity Risk Management is independent of the revenue-producing units, Bank Finance and GS Group Treasury, and reports to GS Group's chief risk officer.

Liquidity Risk Management Principles

We manage liquidity risk according to three principles: (i) hold sufficient excess liquidity in the form of Global Core Liquid Assets (GCLA) to cover outflows during a stressed period, (ii) maintain appropriate Asset-Liability Management and (iii) maintain a viable Contingency Funding Plan.

Global Core Liquid Assets. GCLA is liquidity that we maintain to meet a broad range of potential cash outflows and collateral needs in a stressed environment. 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.

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. 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 borrowings, certain deposits 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 or deposits may be withdrawn; and
- As a result of our policy to pre-fund liquidity that we estimate may be needed in a crisis, we hold more cash and unencumbered securities and have larger deposit and borrowings balances than we would otherwise require. We believe that our liquidity is stronger with greater balances of cash and 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.

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 and modeled tenor of deposits with no stated maturity.

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. We assess our funding requirements and our ability to liquidate assets in a stressed environment while appropriately managing risk. 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
- Raising deposits and obtaining other funding sources that have a long contractual or modeled 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.

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. Funding plans are reviewed and approved by the Bank Finance Committee and Firmwide Finance Committee on a quarterly basis. 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.

Contingency Funding Plan. The Bank maintains a contingency funding plan to provide a framework for analyzing and responding to a liquidity crisis situation or 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 the potential responses if our assessments indicate that we have entered a liquidity crisis, which include pre-funding for what we estimate will be the 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 Stress Tests

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, the results of our long-term stress testing models, applicable regulatory requirements and a qualitative assessment of the condition of the financial markets and GS Group (inclusive of the Bank). The results of the Modeled Liquidity Outflow, the Intraday Liquidity Model and the long-term stress testing models are reported to Bank management on a regular basis.

Modeled Liquidity Outflow. Our Modeled Liquidity Outflow is based on conducting multiple scenarios that include combinations of market-wide and GS Group (inclusive of the Bank) 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 GS Group 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 or Group Inc.'s long-term senior unsecured credit ratings;
- A combination of contractual outflows, such as upcoming maturities of unsecured borrowings, 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 borrowings;
- No support from additional government funding facilities. Although we have access to funding through the Federal Reserve Bank discount window, we do not assume reliance on additional sources of funding in a liquidity crisis; and
- No asset liquidation, other than the GCLA.

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

Unsecured Funding

- Contractual: All upcoming maturities of unsecured borrowings and other unsecured funding products. We assume that we will be unable to issue new unsecured borrowings or rollover any maturing borrowings.

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: Partial withdrawals of our 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 or Group Inc.'s credit ratings, and collateral that has not been called by counterparties, but is available to them.

Exchange-Traded and OTC-cleared Derivatives

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

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;
- Higher settlement volumes due to an increase in activity.

Long-Term Stress Testing. We utilize a longer-term stress test to take a forward view on our liquidity position through a prolonged stress period in which the Bank experiences a severe liquidity stress and recovers in an environment that continues to be challenging. We are focused on ensuring conservative asset-liability management to prepare for a prolonged period of potential stress, seeking to maintain a long-dated and diversified funding profile, taking into consideration the characteristics and liquidity profile of our assets.

We also run stress tests on a regular basis as part of our routine risk management processes and conduct tailored stress tests on an ad hoc or product-specific basis in response to market developments.

Model Review and Validation

GS Group Treasury regularly refines the Modeled Liquidity Outflow, Intraday Liquidity Model and the stress testing models to reflect changes in market or economic conditions and GS Group's business mix. Any changes, including model assumptions, are assessed and approved by Liquidity Risk Management.

Model Risk Management is responsible for the independent review and validation of our liquidity models. See "Model Risk Management" for further information about the review and validation of these models.

Limits

We use liquidity limits at various levels and across liquidity risk types to control the size of our liquidity exposures. Limits are measured relative to acceptable levels of risk given the liquidity risk tolerance of the Bank. The purpose of the limits is to assist senior management in monitoring and controlling our overall liquidity profile.

The Bank Risk Committee and the Bank Finance Committee approve liquidity risk limits for the Bank. Limits are reviewed frequently and amended, with required approvals, on a permanent and temporary basis, as appropriate, to reflect changing market or business conditions.

Our liquidity risk limits are monitored by Bank Finance, GS Group Treasury and Liquidity Risk Management. Bank Finance and GS Group Treasury are responsible for identifying and escalating, on a timely basis, instances where limits have been exceeded.

GCLA Metrics

Based on the results of our internal liquidity risk models, described above, 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 Bank, we believe our liquidity position as of both December 2015 and December 2014 was appropriate. As of December 2015 and December 2014, the fair value of certain overnight cash deposits and securities included in our GCLA totaled $59.33 billion and $47.66 billion, respectively, and the fair value of these assets averaged $57.74 billion for 2015 and $53.52 billion for 2014.

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

	Average for the Year Ended December	
$ in millions	**2015**	2014
Overnight cash deposits	**$ 47,793**	$ 51,140
U.S. government and federal agency obligations, including highly liquid U.S. federal agency mortgage-backed obligations	**9,844** [1]	2,380
German, French, Japanese and United Kingdom government obligations	**106**	–
Total	**$ 57,743**	$ 53,520

1. The increase in the average balance for December 2015 compared to December 2014 is primarily related to the purchase of U.S. government agency obligations in September 2014, which averaged $8.54 billion during the fourth quarter of 2014.

GCLA is composed of (i) certain overnight cash deposits, (ii) 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 (iii) certain-non U.S. government obligations. We strictly limit our GCLA to a 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.

We maintain our GCLA to enable us to meet current and potential liquidity requirements. Our Modeled Liquidity Outflow and Intraday Liquidity Model incorporate a consolidated requirement for the Bank. Liquidity held directly by the Bank is intended for use only by the Bank to meet its liquidity requirements and is assumed not to be available to its affiliates, including Group Inc., unless (i) legally provided for and (ii) there are no additional regulatory, tax or other restrictions.

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 banking organizations maintain an adequate level of unencumbered high-quality liquid assets (HQLA) 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, but include accelerated transition provisions and more stringent requirements related to both the range of assets that qualify as HQLA and cash outflow assumptions for certain types of funding and other liquidity risks. Our GCLA is substantially the same in composition as the assets that qualify as HQLA under these rules. 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.

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 banking organizations over a one-year time horizon. The Basel Committee's NSFR framework requires banking organizations 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. banks and bank holding companies. We are currently evaluating the impact of the Basel Committee's NSFR framework.

The implementation of these rules, and any amendments adopted by the applicable regulatory authorities, could impact our liquidity and funding requirements and practices in the future.

Credit Ratings

Credit ratings are important when we are competing in certain markets, such as OTC derivatives, and when we seek to engage in longer-term transactions. See "Risk Factors" in Part I of this Annual Report.

During the fourth quarter of 2015, Standard & Poor's Rating Services (S&P) changed the outlook of Bank from positive to watch positive.

The table below presents the unsecured credit ratings and outlook of the Bank by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's), and S&P.

	As of December 2015		
	Fitch	**Moody's**	**S&P**
Short-term Debt	**F1**	**P-1**	**A-1**
Long-term Debt	**A+**	**A1**	**A**
Short-term Bank Deposits	**F1+**	**P-1**	**N/A**
Long-term Bank Deposits	**AA-**	**A1**	**N/A**
Ratings Outlook	**Stable**	**Stable**	**Watch Positive**

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

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

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

	As of December	
$ in millions	**2015**	2014
Additional collateral or termination payments for a one-notch downgrade	**$ 485**	$ 580
Additional collateral or termination payments for a two-notch downgrade	**835**	1,031

Cash Flows

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

Year Ended December 2015. Our cash increased by $10.19 billion to $50.05 billion at the end of 2015. We generated $21.34 billion in net cash provided by operating and financing activities which primarily reflects an increase in bank deposits and proceeds from issuance of other secured financings and from the net repayment of bank and bridge loans at fair value. We used $11.15 billion in net cash for investing activities, which reflects an increase in loans receivable.

Year Ended December 2014. Our cash decreased by $11.27 billion to $39.86 billion at the end of 2014. We used $21.60 billion in net cash for operating and investing activities, which primarily reflects an increase in loans receivable and financial instruments owned at fair value, primarily related to the purchase of agency mortgage-backed securities. We generated $10.33 billion in net cash from financing activities primarily due to an increase in bank deposits and proceeds from subordinated borrowings.

Market Risk Management

Overview

Market risk is the risk of loss in the value of our positions, 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 positions primarily for market making for our clients and for our lending activities. Our positions therefore change based on client demands and our lending opportunities. 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;
- Currency rate risk: results from exposures to changes in spot prices, forward prices and volatilities of currency rates; and
- Equity price risk: results from exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices.

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.

Market Risk Management, which is independent of the revenue-producing units and reports to GS Group's chief risk officer, has primary responsibility for assessing, monitoring and managing market risk at GS Group and the Bank. The Bank makes use of an SLA with Market Risk Management. The Bank's chief risk officer ensures Market Risk Management is providing satisfactory service through evaluating key performance indicators. We monitor and control risks through strong Bank oversight and independent control and support functions across global businesses. The Bank Risk Committee approves the Bank's market risk policies.

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

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.

Risk Measures. Market Risk Management produces risk measures and monitors them against market risk limits set by the Bank Risk Committee. These measures reflect an extensive range of scenarios and the results are aggregated at product, business, GS Group and Bank 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. Risk reports detail key risks, drivers and changes for each desk and business, and are distributed daily to senior management of both the revenue-producing units and the 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. 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 and currency rates. As such, VaR facilitates comparison across portfolios of different risk characteristics. VaR also captures the diversification of aggregated risk at the Bank level.

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

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

When calculating VaR, we use historical simulations with full valuation of approximately 70,000 market factors as applicable. 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.

We perform daily backtesting of the VaR model (i.e., comparing daily trading net revenues to the VaR measure calculated as of the prior business day) at the Bank level.

Stress Testing. Stress testing is a method of determining the effect of various hypothetical stress scenarios on the Bank. We use stress testing to examine risks of specific portfolios as well as the potential impact of significant risk exposures across the Bank. 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 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.

Scenario analysis is used to quantify the impact of a specified event, including how the event impacts multiple risk factors simultaneously. 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.

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

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

Limits. We use risk limits at various levels in the Bank (including Bank, business and product) to govern risk appetite by controlling the size of our exposures to market risk. Limits are set based on VaR sensitivity 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 Bank Risk Committee approves market risk limits at the Bank, business and product levels. The purpose of the limits is to assist senior management in controlling the Bank's overall risk profile.

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.

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 escalated to the Bank chief risk officer and Bank Risk Committee and remediated by an exposure reduction and/or a temporary or permanent increase to the risk limit.

Model Review and Validation

Our VaR and stress testing models are regularly reviewed by Market Risk Management 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. Model Risk Management is responsible for the independent review and validation of our VaR and stress testing models. Significant changes to our VaR and stress testing models are reviewed with GS Group's chief risk officer and GS Group's chief financial officer, and approved by GS Group Firmwide Risk Committee.

See "Model Risk Management" for further information about the review and validation of these models.

Systems

GS Group has 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 business or product type); and
- The ability to produce ad hoc analyses in a timely manner.

Metrics

We analyze VaR at the Bank 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 two risk categories. This effect arises because the two market risk categories are not perfectly correlated.

The table below presents average daily VaR.

$ in millions	Year Ended December	
Risk Categories	**2015**	2014
Interest rates	**$ 19**	$ 24
Currency rates	**4**	4
Diversification effect	**(4)**	(4)
Total	**$ 19**	$ 24

Our average daily VaR decreased to $19 million in 2015 from $24 million in 2014, reflecting a decrease in the interest rates category primarily due to decreased average exposure.

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

$ in millions	As of December		Year Ended December 2015	
Risk Categories	**2015**	2014	**High**	**Low**
Interest rates	**$ 26**	$ 14	**$ 26**	**$ 13**
Currency rates	**2**	6	**8**	**2**
Equity prices	**1**	–	**2**	**–**
Diversification effect	**(3)**	(6)		
Total	**$ 26**	$ 14	**$ 26**	**$ 14**

Our daily VaR increased to $26 million as of December 2015 from $14 million as of December 2014, primarily reflecting an increase in the interest rates category primarily due to higher levels of volatility and increased exposures.

During 2015, the Bank VaR risk limit was not exceeded, raised or reduced.

During 2014, the Bank VaR risk limit was not exceeded or raised, but was reduced on one occasion due to lower levels of volatility.

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 primarily relate to investments in qualified affordable housing projects which are included in "Financial instruments owned, at fair value." Debt positions include loans backed by commercial and residential real estate, corporate bank loans and other corporate debt. These debt positions are included in "Financial instruments owned, at fair value." See Note 6 to the consolidated financial statements for further information about cash instruments. These measures do not reflect diversification benefits across asset categories or across other market risk measures.

$ in millions	As of December	
Asset Categories	**2015**	2014
Equity	**$ 29**	$ 35
Debt	**708**	682
Total	**$ 737**	$ 717

Interest Rate Sensitivity. Loans receivable that are held for investment as of December 2015 and December 2014 were $36.38 billion and $25.29 billion, respectively, substantially all of which had floating interest rates. As of December 2015 and December 2014, the estimated sensitivity to a 100 basis point increase in interest rates on such loans was $343 million and $229 million, respectively, of additional interest income over a twelve-month period, which does not take into account the potential impact of an increase in costs to fund such loans. See Note 9 to the consolidated financial statements for further information about loans receivable that are held for investment.

Other Market Risk Considerations

As of December 2015 and December 2014, we had commitments and held loans for which GS Group has obtained credit loss protection from Sumitomo Mitsui Financial Group, Inc. See Note 16 to the consolidated financial statements for further information about such lending commitments.

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 loans and lending commitments and OTC derivatives. Credit risk also comes from cash placed with banks, securities financing transactions (i.e., resale and repurchase agreements) and receivables from brokers, dealers, clearing organizations, customers and counterparties.

Credit Risk Management, which is independent of the revenue-producing units and reports to GS Group's chief risk officer, has primary responsibility for assessing, monitoring and managing credit risk at GS Group and the Bank. The Bank makes use of an SLA with Credit Risk Management. The Bank's chief risk officer ensures Credit Risk Management is providing satisfactory service through evaluating key performance indicators. In addition to Credit Risk Management approval, all loans to which the Bank commits that are in excess of defined thresholds must also be approved by a Bank risk officer. The Bank Risk Committee approves the Bank's credit policies. 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 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, which includes the establishment and continuous review and refinement of underwriting standards in connection with our lending activities;

- Measuring our current and potential credit exposure and losses resulting from counterparty default;
- Reporting of credit exposures to Bank senior management, the Bank 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. The Bank employs well-defined underwriting standards and policies, which seek to mitigate credit risk through analysis of a borrowers credit history, financial information, cash flow, sustainability of liquidity and collateral quality adequacy, if applicable. For substantially all of our credit exposures, the core of our process is an annual counterparty credit review. A credit review is an independent analysis of the capacity and willingness of a counterparty to meet its financial obligations, resulting in an internal credit rating. The determination of internal credit ratings also incorporates assumptions with respect to the nature of and outlook for the counterparty's industry, and the economic environment. Senior personnel within Credit Risk Management, with expertise in specific industries, inspect and approve credit reviews and internal credit ratings.

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

Risk Measures and Limits

We measure our credit risk based on the potential loss in the event of non-payment by a counterparty using current and potential exposures. For loans and lending commitments, the primary measure is a function of the notional amount of the position. For derivatives and securities financing transactions, current exposure represents the amount presently owed to us after taking into account applicable netting and collateral arrangements while potential exposure represents 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 also takes into account netting and collateral arrangements.

We use credit limits at various levels (counterparty including affiliates, 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 GS Group Risk Committee of the Board and the Firmwide Risk Committee approves credit risk limits at the firmwide and business levels, inclusive of Bank. Credit Risk Management sets credit limits for individual counterparties (including affiliates), economic groups, industries and countries. Policies authorized by the Firmwide Risk Committee and the GS Group 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

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, credit spreads, 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. 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.

Model Review and Validation

Our potential credit exposure and stress testing models, and any changes to such models or assumptions, are reviewed by Model Risk Management. See "Model Risk Management" for further information about the review and validation of these models.

Risk Mitigants

To reduce our credit exposures on 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.

For 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.

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 December 2015, our credit exposures increased as compared with December 2014, primarily reflecting increases in loans and lending commitments and cash balances. 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 2015, the number of counterparty defaults remained unchanged compared with 2014, 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 prior year and were not material to the Bank. Our credit exposures are described further below.

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

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

Derivatives are reported on a net-by-counterparty basis (i.e., the net payable or receivable for derivative assets and liabilities for a given counterparty) when a legal right of setoff exists under an enforceable netting agreement. Derivatives are accounted for at fair value, net of cash collateral received or posted under enforceable credit support agreements. We generally enter into OTC derivatives transactions under bilateral collateral arrangements with daily exchange of collateral. As credit risk is an essential component of fair value, we include a credit valuation adjustment (CVA) in the fair value of derivatives to reflect counterparty credit risk, as described in Note 7 to the consolidated financial statements. CVA is a function of the present value of expected exposure, the probability of counterparty default and the assumed recovery upon default.

The table below presents the distribution of our exposure to OTC derivatives by tenor, both before and after the effect of collateral and netting agreements. In the table below:

- Tenor is based on expected duration for mortgage-related credit derivatives and generally on remaining contractual maturity for other derivatives.
- 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.

$ in millions	Investment-Grade	Non-Investment-Grade / Unrated	Total
As of December 2015			
Less than 1 year	**$ 5,053**	**$ 126**	**$ 5,179**
1 - 5 years	**18,020**	**551**	**18,571**
Greater than 5 years	**50,720**	**540**	**51,260**
Total	**73,793**	**1,217**	**75,010**
Netting	**(64,299)**	**(199)**	**(64,498)**
OTC derivative assets	**$ 9,494**	**$ 1,018**	**$ 10,512**
Net credit exposure	**$ 7,314**	**$ 861**	**$ 8,175**
As of December 2014			
Less than 1 year	$ 9,210	$ 313	$ 9,523
1 - 5 years	18,783	616	19,399
Greater than 5 years	54,744	529	55,273
Total	82,737	1,458	84,195
Netting	(73,065)	(149)	(73,214)
OTC derivative assets	$ 9,672	$ 1,309	$ 10,981
Net credit exposure	$ 7,889	$ 1,198	$ 9,087

The tables below present the distribution of our exposure to OTC derivatives by tenor and our internally determined public rating agency equivalents.

	Investment-Grade				
$ in millions	AAA/ Aaa	AA/ Aa2	A/ A2	BBB/ Baa2	Total
As of December 2015					
Less than 1 year	**$ 54**	**$ 1,023**	**$ 3,556**	**$ 420**	**$ 5,053**
1 - 5 years	**646**	**5,785**	**10,021**	**1,568**	**18,020**
Greater than 5 years	**1,056**	**25,206**	**13,837**	**10,621**	**50,720**
Total	**1,756**	**32,014**	**27,414**	**12,609**	**73,793**
Netting	**(386)**	**(29,158)**	**(22,567)**	**(12,188)**	**(64,299)**
OTC derivative assets	**$ 1,370**	**$ 2,856**	**$ 4,847**	**$ 421**	**$ 9,494**
Net credit exposure	**$ 1,370**	**$ 2,250**	**$ 3,342**	**$ 352**	**$ 7,314**
As of December 2014					
Less than 1 year	$ 61	$ 2,153	$ 5,667	$ 1,329	$ 9,210
1 - 5 years	342	8,752	8,388	1,301	18,783
Greater than 5 years	1,101	22,055	17,972	13,616	54,744
Total	1,504	32,960	32,027	16,246	82,737
Netting	(156)	(29,325)	(28,023)	(15,561)	(73,065)
OTC derivative assets	$ 1,348	$ 3,635	$ 4,004	$ 685	$ 9,672
Net credit exposure	$ 1,344	$ 3,064	$ 2,853	$ 628	$ 7,889

	Non-Investment-Grade / Unrated		
$ in millions	BB/Ba2 or lower	Unrated	Total
As of December 2015			
Less than 1 year	**$ 124**	**$ 2**	**$ 126**
1 - 5 years	**543**	**8**	**551**
Greater than 5 years	**540**	**–**	**540**
Total	**1,207**	**10**	**1,217**
Netting	**(189)**	**(10)**	**(199)**
OTC derivative assets	**$ 1,018**	**$ –**	**$ 1,018**
Net credit exposure	**$ 861**	**$ –**	**861**
As of December 2014			
Less than 1 year	$ 313	$ –	313
1 - 5 years	615	1	616
Greater than 5 years	529	–	529
Total	1,457	1	1,458
Netting	(148)	(1)	(149)
OTC derivative assets	$ 1,309	$ –	$ 1,309
Net credit exposure	$ 1,198	$ –	$ 1,198

Lending and Financing Activities. We manage our lending and financing activities using the credit risk process (including adherence to product underwriting standards), 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 and acquire securities to cover short positions. We bear credit risk related to resale agreements 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 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. We had approximately $227 million and $226 million as of December 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.
- **Other Credit Exposures.** We are exposed to credit risk from our receivables from customers and counterparties, brokers, dealers and clearing organizations. These receivables are primarily comprised of initial cash margin placed with clearing organizations and receivables related to sales of loans which have traded, but not yet settled. These receivables generally have minimal credit risk due to the short-term nature of receivables related to loan settlements and the low probability of clearing organization default. Our net credit exposure related to these activities was approximately $2.42 billion and $1.42 billion as of December 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 substantially all in EMEA as of both December 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. We also purchase loans backed by residential real estate and consumer loans. The gross exposure related to such loans and lending commitments was approximately $21.28 billion and $17.47 billion as of December 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 generally exceeded the gross exposure as of both December 2015 and December 2014.

Credit Exposure by Industry, Region and Credit Quality

The tables below present our credit exposure 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.

	Cash as of December	
$ in millions	**2015**	2014
Credit Exposure by Industry		
Financial Institutions	**$ 538**	$ 987
Sovereign [1]	**49,507**	38,869
Total	**$ 50,045**	$ 39,856
Credit Exposure by Region		
Americas [1]	**$ 49,884**	$ 39,781
EMEA	**37**	21
Asia	**124**	54
Total	**$ 50,045**	$ 39,856
Credit Exposure by Credit Quality (Credit Rating Equivalent)		
AAA/Aaa [1]	**$ 49,519**	$ 38,868
AA/Aa2	**100**	309
A/A2	**415**	670
BBB/Baa2	**11**	9
Total	**$ 50,045**	$ 39,856

1. Primarily consists of cash held at the Federal Reserve Bank.

	OTC Derivatives as of December	
$ in millions	**2015**	2014
Credit Exposure by Industry		
Funds	**$ 678**	$ 1,074
Financial Institutions	**4,119**	3,463
Consumer, Retail & Healthcare	**65**	180
Sovereign	**748**	917
Municipalities & Nonprofit	**3,024**	3,293
Natural Resources & Utilities	**586**	541
Real Estate	**31**	121
Technology, Media & Telecommunications	**159**	229
Diversified Industrials	**513**	634
Other	**589**	529
Total	**$ 10,512**	$ 10,981
Credit Exposure by Region		
Americas	**$ 7,003**	$ 6,412
EMEA	**2,247**	3,424
Asia	**1,262**	1,145
Total	**$ 10,512**	$ 10,981
Credit Exposure by Credit Quality (Credit Rating Equivalent)		
AAA/Aaa	**$ 1,370**	$ 1,348
AA/Aa2	**2,856**	3,635
A/A2	**4,847**	4,004
BBB/Baa2	**421**	685
BB/Ba2 or lower	**1,018**	1,309
Total	**$ 10,512**	$ 10,981

	Loans and Lending Commitments as of December	
$ in millions	**2015**	2014
Credit Exposure by Industry		
Funds	**$ 2,268**	$ 1,543
Financial Institutions	**12,420**	9,909
Consumer, Retail & Healthcare	**27,421**	26,781
Sovereign	**43**	70
Municipalities & Nonprofit	**628**	541
Natural Resources & Utilities	**19,856**	20,432
Real Estate	**11,163**	9,632
Technology, Media & Telecommunications	**23,102**	16,201
Diversified Industrials	**15,517**	11,338
Other	**10,323**	7,116
Total	**$ 122,741**	$ 103,563
Credit Exposure by Region		
Americas	**$ 100,290**	$ 80,423
EMEA	**20,739**	21,840
Asia	**1,712**	1,300
Total	**$ 122,741**	$ 103,563
Credit Exposure by Credit Quality (Credit Rating Equivalent)		
AAA/Aaa	**$ 4,148**	$ 3,969
AA/Aa2	**7,297**	7,668
A/A2	**24,622**	21,120
BBB/Baa2	**38,254**	31,051
BB/Ba2 or lower	**48,127**	39,565
Unrated	**293**	190
Total	**$ 122,741**	$ 103,563

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 or legal and regulatory matters. 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;
- Internal fraud; and
- External fraud.

We maintain a comprehensive control framework designed to provide a well-controlled environment to minimize operational risks. Operational Risk Management is a risk management function independent of the revenue-producing units and reports to GS Group's chief risk officer. Operational Risk Management has primary responsibility for developing and implementing policies, methodologies and a formalized framework for operational risk management. The Bank makes use of an SLA with Operational Risk Management. The Bank's chief risk officer ensures Operational Risk Management is providing satisfactory service through evaluating key performance indicators.

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 Bank;
- Independent control and support functions that monitor operational risk on a daily basis, and implementation of extensive policies and procedures, and controls designed to prevent the occurrence of operational risk events;
- Proactive communication between revenue-producing units and independent control and support functions; and
- A network of systems throughout the Bank 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, senior management assesses Bank and business-level operational risk profiles. From a bottom-up perspective, revenue-producing units and independent control and support functions at the Bank 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.

Risk Identification and Reporting

The core of our operational risk management framework is risk identification and reporting. We have a comprehensive data collection process, that is in line with GS Group's policies and procedures, for operational risk events.

The Bank adheres to GS Group's policies that require managers in revenue-producing units and independent control and support functions to escalate operational risk events. When operational risk events are identified, the 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.

We have established thresholds to monitor the impact of an operational risk event, including single loss events and cumulative losses over a twelve-month period, as well as escalation protocols. We also provide periodic operational risk reports which include incidents that breach escalation thresholds to senior management and the Bank Risk Committee.

In addition, 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 Bank 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 business. Operational risk measurement incorporates qualitative and quantitative assessments of factors including:

- Internal and external operational risk event data;
- Assessments of internal controls;
- Evaluations of the complexity of business activities;
- The degree of and potential for automation in 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 Bank and its businesses, including changes in business mix or jurisdictions in which we operate, by monitoring the factors noted above at a Bank 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.

Model Review and Validation

The statistical models utilized by Operational Risk Management are subject to independent review and validation by Model Risk Management. See "Model Risk Management" for further information about the review and validation of these models.

Model Risk Management

Overview

Model risk is the potential for adverse consequences from decisions made based on model outputs that may be incorrect or used inappropriately. We rely on quantitative models across our business activities primarily to value certain financial assets and liabilities, to monitor and manage our risk, and to measure and monitor our regulatory capital.

The Bank's framework for managing model risk is consistent with and part of GS Group's framework. GS Group's model risk management framework is managed through a governance structure and risk management controls, which encompass standards designed to ensure we maintain a comprehensive model inventory, including risk assessment and classification, sound model development practices, independent review and model-specific usage controls. The GS Group Firmwide Risk Committee and the GS Group Firmwide Model Risk Control Committee oversee our model risk management framework. Model Risk Management, which is independent of model developers, model owners and model users, reports to GS Group's chief risk officer. Model Risk Management has primary responsibility for identifying and reporting significant risks associated with models. The Bank makes use of an SLA with Model Risk Management. The Bank's chief risk officer ensures Model Risk Management is providing satisfactory service through evaluating key performance indicators. Model Risk Management provides periodic updates to senior management, risk committees, including the Bank Risk Committee and the GS Group Risk Committee of the Board.

Model Review and Validation

Model Risk Management consists of quantitative professionals who perform an independent review, validation and approval of models. This review includes an analysis of the model documentation, independent testing, an assessment of the appropriateness of the methodology used, and verification of compliance with model development and implementation standards. Model Risk Management reviews all existing models on an annual basis, as well as new models or significant changes to models.

The model validation process incorporates a review of models and trade and risk parameters across a broad range of scenarios (including extreme conditions) in order to critically evaluate and verify:

- The model's conceptual soundness, including the reasonableness of model assumptions, and suitability for intended use;
- The testing strategy utilized by the model developers to ensure that the models function as intended;
- The suitability of the calculation techniques incorporated in the model;
- The model's accuracy in reflecting the characteristics of the related product and its significant risks;
- The model's consistency with models for similar products; and
- The model's sensitivity to input parameters and assumptions.

See "Critical Accounting Policies — Fair Value — Review of Valuation Models," "Liquidity Risk Management," "Market Risk Management," "Credit Risk Management" and "Operational Risk Management" for further information about our use of models within these areas.

Supplemental Financial Information

Distribution of Assets, Liabilities and Shareholder's Equity

The table below presents a summary of consolidated average balances and interest rates.

	Year Ended December					
	2015			2014		
$ in millions	**Average Balance**	**Interest**	**Average Rate**	Average Balance	Interest	Average Rate
Assets						
Deposits with banks [1]	**$ 48,066**	**$ 128**	**0.27%**	$ 51,528	$ 130	0.25%
Securities purchased under agreements to resell [2]	**4,116**	**78**	**1.90%**	2,774	25	0.90%
Financial instruments owned, at fair value [3]	**27,902**	**887**	**3.18%**	23,293	734	3.15%
Loans receivable [4]	**31,563**	**865**	**2.74%**	18,890	512	2.71%
Other interest-earning assets [5]	**7,245**	**91**	**1.26%**	6,833	53	0.78%
Total interest-earnings assets	**$ 118,892**	**$ 2,049**	**1.72%**	$ 103,318	$ 1,454	1.41%
Cash and due from banks	**575**			292		
Other non-interest earnings assets [6]	**13,530**			12,613		
Total assets	**$ 132,997**			$ 116,223		
Liabilities						
Interest-bearing deposits [7]	**$ 84,679**	**$ 363**	**0.43%**	$ 73,036	$ 287	0.39%
Securities sold under agreements to repurchase, at fair value [2]	**6,255**	**1**	**0.02%**	6,339	1	0.02%
Financial instruments sold, but not yet purchased, at fair value [3]	**1,892**	**44**	**2.33%**	2,780	51	1.83%
Borrowings [8]	**4,156**	**56**	**1.35%**	1,418	31	2.19%
Other interest-bearing liabilities [5]	**3,821**	**186**	**4.87%**	3,556	44	1.24%
Total interest-bearing liabilities	**$ 100,803**	**$ 650**	**0.64%**	$ 87,129	$ 414	0.48%
Non-interest-bearing deposits	**1,237**			681		
Other non-interest-bearing liabilities [6]	**8,765**			7,692		
Total liabilities	**$ 110,805**			$ 95,502		
Shareholder's equity	**22,192**			20,721		
Total liabilities and shareholder's equity	**$ 132,997**			$ 116,223		

1. See "Results of Operations" for further information about deposits with banks and related interest.
2. See Note 10 to the consolidated financial statements and "Results of Operations" for further information about securities purchased under agreements to resell and securities sold under agreements to repurchase and related interest.
3. See Notes 4 through 8 to the consolidated financial statements and "Results of Operations" for further information about financial instruments owned and financial instruments sold, but not yet purchased and related interest. Derivative instruments are included in other non-interest-earning assets and other non-interest-bearing liabilities.
4. See Note 9 to the consolidated financial statements and "Results of Operations" for further information about loans receivable and related interest.
5. See Note 20 to the consolidated financial statements and "Results of Operations" for further information about other interest income and expense.
6. Primarily consists of certain receivables and payables from customers and counterparties. Derivative instruments are included in other non-interest-earning assets and other non-interest-bearing liabilities.
7. See Note 13 to the consolidated financial statements and "Results of Operations" for further information about deposits and related interest.
8. Includes subordinated borrowings and other secured financings on the consolidated statements of financial condition. See Notes 10 and 14 to the consolidated financial statements and "Balance Sheet Analysis and Metrics" for further information about short-term and long-term borrowings and related interest.

Changes in Net Interest Income, Volume and Rate Analysis

The table below presents an analysis of the effect on net interest income of volume and rate changes. In this analysis, changes due to volume/rate variance have been allocated to volume.

	Year Ended December 2015 versus December 2014		
	Increase (decrease) due to change in:		
$ in millions	Volume	Rate	Net Change
Interest-earning assets			
Deposits with banks	$ (9)	$ 7	$ (2)
Securities purchased under agreements to resell	25	28	53
Financial instruments owned, at fair value	147	6	153
Loans receivable	347	6	353
Other interest-earning assets	5	33	38
Change in interest income	515	80	595
Interest-bearing liabilities			
Interest-bearing deposits	50	26	76
Securities sold under agreements to repurchase, at fair value	–	–	–
Financial instruments sold, but not yet purchased, at fair value	(21)	14	(7)
Borrowings	37	(12)	25
Other interest-bearing liabilities	13	129	142
Change in interest expense	79	157	236
Change in net interest income	$ 436	$ (77)	$ 359

Selected Loan Data

The table below presents a summary of the Bank's lending portfolio.

	As of December 2015				
$ in millions	**Loans Receivable[1]**	**Loans at fair value**	**Total**	**% of Total Portfolio**	**Average Loan size**
Corporate loans [2,5]	**$ 16,903**	**$ 2,614**	**19,517**	**40%**	**$ 16**
Loans to private wealth management clients [3,5]	**12,823**	**6,168**	**18,991**	**39%**	**4**
Loans backed by commercial real estate	**3,614**	**1,478**	**5,092**	**11%**	**43**
Loans backed by residential real estate [4]	**1,325**	**43**	**1,368**	**3%**	**2**
Other loans	**3,398**	**51**	**3,449**	**7%**	**101**
Total [6]	**38,063**	**10,354**	**48,417**		

	As of December 2014				
$ in millions	Loans Receivable[1]	Loans at fair value	Total	% of Total Portfolio	Average Loan size
Corporate loans [2,5]	$ 11,852	$ 4,606	16,458	43%	$ 18
Loans to private wealth management clients [3,5]	10,986	4,877	15,863	42%	4
Loans backed by commercial real estate	1,799	2,605	4,404	11%	11
Loans backed by residential real estate [4]	229	143	372	1%	N.M.
Other loans	821	268	1,089	3%	64
Total [6]	25,687	12,499	38,186		

1. Loans receivable includes loans held for investment and held for sale.
2. Corporate loans primarily had maturities between one and five years as of December 2015, and two and seven years as of December 2014.
3. As of December 2015, 40% of these loans were demand loans and the remaining were residential mortgages with 27 to 30 year maturities or term loans/revolvers with one to two year maturities. As of December 2014, 52% of these loans were demand loans and the remaining were residential mortgages with 27 to 30 year maturities or term loans/revolvers with one to three year maturities.
4. As of December 2015 average loan size of $2 million primarily relates to warehouse loans. As of December 2014 average loan size is not meaningful.
5. As of December 2015 and 2014, the majority of loans carried a floating interest rate.
6. Loans receivable are gross of allowance for loan losses of $(189) million and $(137) million for December 2015 and 2014, respectively.

Part III. Financial Statements

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Goldman Sachs

Management Report

April 26, 2016

To the Federal Deposit Insurance Corporation, Federal Reserve Bank of New York, New York State Department of Financial Services and the Audit Committee of the Board of Directors of Goldman Sachs Bank USA (the "Bank")

Management's Assessment of Internal Control over Financial Reporting

The management of the Bank is responsible for (i) preparing the Bank's annual financial statements in accordance with generally accepted accounting principles, and (ii) establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Call Report.

The Bank's internal control over financial reporting is a process designed under the supervision of the Bank's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles and the instructions for the Call Report, and financial statements for regulatory reporting purposes.

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

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

Management assessed the effectiveness of the Bank's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with U.S. generally accepted accounting principles and the instructions for the Call Report, as of December 31, 2015, based

on the framework established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based upon its assessment, management has concluded that, as of December 31, 2015, the Bank's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with U.S. generally accepted accounting principles and the instructions for the Call Report, is effective based on the criteria established in Internal Control – Integrated Framework.

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Call Report, as of December 31, 2015, has been audited by PricewaterhouseCoopers LLP, an independent public accounting firm, as stated in their report dated April 26, 2015.

Management's Assessment of Compliance with Designated Laws and Regulations

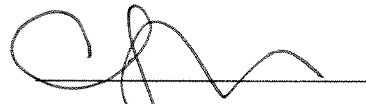
The management of the Bank is responsible for complying with Federal laws and regulations pertaining to insider loans and Federal and State laws and regulations pertaining to dividend restrictions.

The management of the Bank has assessed the Bank's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2015. Based upon such assessment, management has concluded that the Bank has complied, in all material respects, with the Federal laws and regulations pertaining to insider loans and the Federal and State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2015.

Chief Executive Officer

Esta Stecher

Goldman Sachs Bank USA



Chief Financial Officer

Carey Halio

Goldman Sachs Bank USA

Independent Auditor's Report

To the Board of Directors and Shareholder of Goldman Sachs Bank USA

We have audited the accompanying consolidated financial statements of Goldman Sachs Bank USA and its subsidiaries (the "Bank"), which comprise the consolidated statements of financial condition as of December 31, 2015 and 2014, and the related consolidated statements of earnings, changes in shareholder's equity and cash flows for the years then ended. We also have audited the Bank's internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to error or fraud. Management is also responsible for its assertion about the effectiveness of internal control over financial reporting, included under the heading "Management's Assessment of Internal Control over Financial Reporting" in the accompanying Management Report.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements and an opinion on the Bank's internal control over financial reporting based on our audits. We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. An audit of internal control over financial reporting involves obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and

evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinions.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Bank's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the Federal Financial Institutions Examination Council *Instructions for Consolidated Reports of Condition and Income*. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

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

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

Other Matter

We have not examined management's assertion regarding its compliance with laws and regulations concerning loans to insiders and federal and state laws and regulations concerning dividend restrictions.

PricewaterhouseCoopers LLP

April 26, 2016

Consolidated Statements of Earnings

	Year Ended December	
$ in millions	**2015**	2014
Revenues		
Interest income	**$ 2,049**	$ 1,454
Interest expense	**650**	414
Net interest income	**1,399**	1,040
Gains and losses from financial instruments, net	**1,803**	1,918
Other revenues	**177**	190
Provision for credit losses	**(114)**	(87)
Total non-interest revenues	**1,866**	2,021
Net revenues, including net interest income	**3,265**	3,061
Operating expenses		
Compensation and benefits	**162**	140
Service charges	**442**	485
Other expenses	**199**	186
Total operating expenses	**803**	811
Pre-tax earnings	**2,462**	2,250
Provision for taxes	**780**	930
Net earnings	**$ 1,682**	$ 1,320

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

Consolidated Statements of Financial Condition

	As of December	
$ in millions, except per share amounts	**2015**	2014
Assets		
Cash	**$ 50,045**	$ 39,856
Collateralized agreements:		
Securities purchased under agreements to resell (including $1,025 and $4,232 at fair value as of December 2015 and December 2014, respectively)	**2,481**	5,510
Receivables:		
Loans receivable	**37,874**	25,550
Customers and counterparties, brokers, dealers and clearing organizations	**6,085**	6,401
Financial instruments owned, at fair value (includes $5,358 and $4,976 pledged as collateral as of December 2015 and December 2014, respectively)	**36,601**	39,363
Other assets	**1,416**	1,375
Total assets	**$ 134,502**	$ 118,055
Liabilities and shareholder's equity		
Deposits (includes $6,150 and $5,874 at fair value as of December 2015 and December 2014, respectively)	**$ 88,284**	$ 73,122
Collateralized financings:		
Securities sold under agreements to repurchase, at fair value	**3,425**	6,578
Other secured financings (includes $2,919 and $78 at fair value as of December 2015 and December 2014, respectively)	**3,026**	142
Payables to customers and counterparties, brokers, dealers and clearing organizations	**3,495**	3,511
Financial instruments sold, but not yet purchased, at fair value	**8,510**	8,488
Unsecured borrowings (includes $98 and $143 at fair value as of December 2015 and December 2014, respectively)	**2,159**	2,203
Other liabilities and accrued expenses	**2,419**	2,509
Total liabilities	**111,318**	96,553
Commitments, contingencies and guarantees		
Shareholder's equity		
Shareholder's equity (includes common stock, par value $100 per share; 80,000,000 shares authorized, issued and outstanding)	**23,184**	21,502
Total liabilities and shareholder's equity	**$ 134,502**	$ 118,055

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

Consolidated Statements of Changes in Shareholder's Equity

	Year Ended December	
$ in millions	**2015**	2014
Shareholder's equity		
Shareholder's equity, beginning of year	**$ 21,502**	$ 20,051
Net earnings	**1,682**	1,320
Capital contributions from The Goldman Sachs Group, Inc.[1]	**–**	131
Shareholder's equity, end of year	**$ 23,184**	$ 21,502

1. Capital contributions for 2014 were non-cash. See Note 19 for further information.

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

GOLDMAN SACHS BANK USA AND SUBSIDIARIES

Consolidated Statements of Changes in Cash Flows

$ in millions	Year Ended December 2015	2014
Cash flows from operating activities		
Net earnings	**$ 1,682**	$ 1,320
Adjustments to reconcile net earnings to net cash provided by/(used for) operating activities		
Depreciation and amortization	**2**	2
Deferred income taxes	**79**	(74)
Share-based compensation	**20**	18
Provision for credit losses	**114**	87
Changes in operating assets and liabilities		
Loans held for sale, net	**(1,224)**	347
Receivables and payables (excluding loans receivable), net	**300**	1,254
Collateralized transactions	**(124)**	(3,590)
Financial instruments owned, at fair value	**2,762**	(7,624)
Financial instruments sold, but not yet purchased, at fair value	**22**	(746)
Other, net	**(438)**	769
Net cash provided by/(used for) operating activities	**3,195**	(8,237)
Cash flows from investing activities		
Loans receivable, net (excluding loans held for sale)	**(11,152)**	(13,362)
Net cash used for investing activities	**(11,152)**	(13,362)
Cash flows from financing activities		
Deposits, net	**15,263**	8,558
Proceeds from issuance of other secured financings	**2,927**	–
Proceeds from issuance of subordinated borrowings	**–**	2,000
Other, net	**(44)**	(227)
Net cash provided by financing activities	**18,146**	10,331
Net increase/(decrease) in cash	**10,189**	(11,268)
Cash, beginning of year	**39,856**	51,124
Cash, end of year	**$ 50,045**	$ 39,856

SUPPLEMENTAL DISCLOSURES:

Cash payments for interest were $615 million and $383 million for 2015 and 2014, respectively.

Cash payments for income taxes, net of refunds, were $837 million and $357 million for 2015 and 2014, respectively.

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

Note 1.
Description of Business

Goldman Sachs Bank USA, together with its consolidated subsidiaries (collectively, the Bank), is a New York State-chartered bank and a member of the Federal Reserve System. It is supervised by the Board of Governors of the Federal Reserve System (Federal Reserve Board), the New York State Department of Financial Services (NYSDFS) and the Consumer Financial Protection Bureau (CFPB) and is a member of the Federal Deposit Insurance Corporation (FDIC). The Bank's deposits are insured by the FDIC up to the maximum amount permitted by law. As a registered swap dealer, the Bank is also regulated by the U.S. Commodity Futures Trading Commission (CFTC). The Bank is also registered as a government securities dealer and is subject to the rules and regulations of the U.S. Department of the Treasury.

The Bank's principal office is located in New York, New York. The Bank operates one domestic branch located in Salt Lake City, Utah, which is regulated by the Utah Department of Financial Institutions. The Bank also operates a branch in London, United Kingdom (the London Branch), which is regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The Bank is a wholly-owned subsidiary of The Goldman Sachs Group, Inc. (Group Inc.), a bank holding company and a financial holding company regulated by the Federal Reserve Board under the Bank Holding Company Act of 1956 (BHC Act) and a financial holding company under the amendments to the BHC Act effected by the U.S. Gramm Leach Bliley Act of 1999.

The Bank's primary activities include lending to private wealth management clients of Goldman, Sachs & Co. (GS&Co.) and to institutional and corporate clients; entering into interest rate, credit, currency and other derivatives and related products for the purpose of market making and risk management; and the acceptance of client and brokered deposits.

The following activities are conducted in the Bank's significant operating subsidiaries:

Goldman Sachs Mitsui Marine Derivative Products, L.P. (MMDP), a Delaware limited partnership, acts as an intermediary in transactions involving derivative contracts. MMDP is able to provide credit rating enhancement to derivative products due to its partnership with an external party, Mitsui Sumitomo Insurance Co., Ltd. (Mitsui Sumitomo).

Goldman Sachs Mortgage Company, a New York limited partnership, originates commercial mortgage loans and purchases commercial and residential mortgage loans and other consumer loan assets for securitization and market-making. It also provides warehouse financing to third parties.

All subsidiaries of the Bank are wholly-owned by the Bank, with the exception of MMDP, in which Mitsui Sumitomo has a 50% interest.

As a condition of the Bank's reorganization in November 2008, Group Inc. agreed to guarantee certain losses, including credit-related losses, relating to assets contributed by Group Inc. on the date of the reorganization (the Guarantee). See Note 19 for further discussion of the Guarantee and other transactions with affiliates.

Note 2.
Basis of Presentation

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

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

Note 3.
Significant Accounting Policies

The Bank's significant accounting policies include when and how to measure the fair value of assets and liabilities, accounting for loans at amortized cost net of allowance for loan losses, accounting for deposits and when to consolidate an entity. See Notes 5 through 8 for policies on fair value measurements, Note 9 for policies on accounting for loans receivable, Note 13 for policies on deposits, and below and Note 11 for policies on consolidation accounting. All other significant accounting policies are either described 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
Variable Interest Entities	Note 11
Other Assets	Note 12
Deposits	Note 13
Unsecured Borrowings	Note 14
Other Liabilities and Accrued Expenses	Note 15
Commitments, Contingencies and Guarantees	Note 16
Legal Proceedings	Note 17
Regulation and Capital Adequacy	Note 18
Transactions with Related Parties	Note 19
Interest Income and Interest Expense	Note 20
Employee Incentive Plans and Employee Benefit Plans	Note 21
Income Taxes	Note 22
Credit Concentrations	Note 23

Consolidation

The Bank consolidates entities in which the Bank has a controlling financial interest. The Bank 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 Bank 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 Bank has a controlling financial interest in a VIE when the Bank 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 11 for further information about VIEs.

Use of Estimates

Preparation of these consolidated financial statements requires management to make certain estimates and assumptions, the most important of which relate to fair value measurements, the allowance for losses on loans and lending commitments held for investment 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 Bank 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 included in "Gains and losses from financial instruments, net." See Notes 5 through 8 for further information about fair value measurements. In addition, the Bank recognizes income related to the syndication of loans and lending commitments and other fees from affiliates in "Gains and losses from financial instruments, net."

Transfers of Assets

Transfers of assets are accounted for as sales when the Bank has relinquished control over the assets transferred. For transfers of assets accounted for as sales, any gains or losses are recognized in "Gains and losses from financial instruments, net." Assets or liabilities that arise from the Bank'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" or "Loans receivable" 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.

Securitization Activities

The Bank transfers portfolios of commercial mortgages to its affiliates for purposes of securitization. The Bank accounts for the transfer as a sale when it has relinquished control over the transferred assets. The Bank accounts for assets pending transfer primarily at fair value and therefore does not typically recognize significant gains or losses upon the transfer of assets. The Bank generally receives cash in exchange for the transferred assets. As of December 2015 and December 2014, the Bank had no continuing involvement with transferred assets.

Cash

Cash is comprised of highly liquid overnight deposits held in the ordinary course of business. As of December 2015 and December 2014, cash included $49.62 billion and $39.24 billion, respectively, of interest-bearing deposits with banks. Of these amounts, $49.36 billion and $38.68 billion was held at the Federal Reserve Bank of New York, which exceeded regulatory reserve requirements of $110 million and $111 million as of December 2015 and December 2014, respectively. As of December 2015 and December 2014, cash included $125 million and $173 million, respectively, of restricted cash from cash collateral which the Bank does not have the right to deliver or repledge.

Receivables from Customers and Counterparties, Brokers, Dealers and Clearing Organizations

Receivables from customers and counterparties, brokers, dealers and clearing organizations are primarily comprised of collateral posted in connection with certain derivative transactions and receivables related to pending unsettled trades. Receivables from customers and counterparties, brokers, dealers and clearing organizations are accounted for at amortized cost net of estimated uncollectible amounts, which generally approximates fair value. While these receivables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the Bank's fair value hierarchy in Notes 6 through 8. Had these receivables been included in the Bank's fair value hierarchy, substantially all would have been classified in level 2 as of December 2015 and December 2014. Interest on receivables from customers and counterparties, brokers, dealers and clearing organizations is recognized over the life of the transaction and included in "Interest income."

Payables to Customers and Counterparties, Brokers, Dealers and Clearing Organizations

Payables to customers and counterparties, brokers, dealers and clearing organizations primarily consist of collateralized payables related to client transactions including collateral received in connection with certain derivative transactions. Payables to customers and counterparties, brokers, dealers and clearing organizations 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 Bank's fair value hierarchy in Notes 6 through 8. Had these payables been carried at fair value and included in the Bank's fair value hierarchy, substantially all would have been classified in level 2 as of December 2015 and December 2014. Interest on payables to customers and counterparties, brokers, dealers and clearing organizations is recognized over the life of the transaction and included in "Interest expense."

Offsetting Assets and Liabilities

To reduce credit exposures on derivatives and securities financing transactions, the Bank 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 Bank 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 Bank's right of setoff under netting and credit support agreements, the Bank evaluates various factors including applicable bankruptcy laws, local statutes and regulatory provisions in the jurisdiction of the parties to the agreement.

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

In the consolidated statements of financial condition, derivatives are reported net of cash collateral received and posted under enforceable credit support agreements, when transacted under an enforceable netting agreement. In the consolidated statements of financial condition, resale and repurchase agreements are not reported net of the related cash and securities received or posted as collateral. In addition, certain other receivables and payables with affiliate broker dealers that meet the criteria of offsetting are reported on a net basis in the consolidated statements of financial condition. See Note 10 for further information about collateral received and pledged, including rights to deliver or repledge collateral. See Notes 7 and 10 for further information about offsetting.

Foreign Currency Translation

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the date of the consolidated statements of financial condition and revenues and expenses are translated at average rates of exchange for the period. Foreign currency remeasurement gains or losses on transactions in nonfunctional currencies are recognized in earnings.

Recent Accounting Developments

Revenue from Contracts with Customers (ASC 606). In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." 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, as amended by ASU No. 2015-14, ASU No.2016-08 and ASU No. 2016-10, is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. The Bank 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 Bank's financial condition, results of operations, or cash flows.

Amendments to the Consolidation Analysis (ASC 810). In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810) — Amendments to the Consolidation Analysis." ASU No. 2015-02 eliminates the deferral of the requirements of ASU No. 2009-17, "Consolidations (Topic 810) — Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities" for certain interests in investment funds and provides a scope exception from Topic 810 for certain investments in money market funds. The ASU also makes several modifications to the consolidation guidance for VIEs and general partners' investments in limited partnerships, as well as modifications to the evaluation of whether limited partnerships are VIEs or voting interest entities. ASU No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. ASU No. 2015-02 is required to be adopted under a modified retrospective approach or retrospectively to all periods presented. Early adoption was permitted. The Bank adopted ASU No. 2015-02 effective January 1, 2016, using a modified retrospective approach. The impact of adoption was not material to the Bank's statement of financial condition.

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 was permitted. The Bank early adopted ASU No. 2015-03 in September 2015 and upon adoption the impact was a reduction to both total assets and total liabilities of $158 million. In accordance with ASU No. 2015-03, previously reported amounts have been conformed to the current presentation, as reflected in Notes 12 and 13. The impact as of December 2014 was a reduction to both total assets and total liabilities of $128 million.

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 was permitted. The Bank early adopted ASU No. 2015-07 in June 2015 and adoption did not materially affect the Bank's financial condition, results of operations, or cash flows. See Notes 4 through 6 for the disclosure 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 was effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Adoption of ASU No. 2015-16 in the first quarter of 2016 did not materially affect the Bank's financial condition, results of operations, or cash flows.

Recognition and Measurement of Financial Assets and Financial Liabilities (ASC 825). In January 2016, the FASB issued ASU No. 2016-01 "Financial Instruments (Topic 825) — Recognition and Measurement of Financial Assets and Financial Liabilities." ASU No. 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance includes a requirement to present separately in other comprehensive income changes in fair value attributable to a Bank's own credit spreads (debt valuation adjustments or DVA), net of tax, on financial liabilities for which the fair value option was elected. ASU No. 2016-01 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted under a modified retrospective approach for the requirements related to DVA. Adoption of ASU No. 2016-01 as of January 1, 2016 did not materially affect the Bank'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.

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

	As of December 2015	
$ in millions	**Financial Instruments Owned**	**Financial Instruments Sold, But Not Yet Purchased**
U.S. government and federal agency obligations	**$ 14,707**	**$ 2,232**
Non-U.S. government and agency obligations	**234**	**6**
Loans and securities backed by commercial real estate	**1,510**	**1**
Loans and securities backed by residential real estate	**5,990**	**2**
Bank loans and bridge loans	**2,828**	**270**
Other	**501** [1]	**22**
Investments in funds measured at NAV	**17**	**–**
Subtotal	**25,787**	**2,533**
Derivatives	**10,814**	**5,977**
Total	**$ 36,601**	**$ 8,510**

	As of December 2014	
$ in millions	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
U.S. government and federal agency obligations	$ 13,573	$ 2,195
Non-U.S. government and agency obligations	685	64
Loans and securities backed by commercial real estate	2,656	–
Loans and securities backed by residential real estate	4,693	–
Bank loans and bridge loans	4,978	346
Other	1,590 [1]	21
Investments in funds measured at NAV	17	–
Subtotal	28,192	2,626
Derivatives	11,171	5,862
Total	$ 39,363	$ 8,488

1. Primarily consists of other debt obligations and equity investments.

Gains and Losses from Financial Instruments, Net

The table below presents "Gains and losses from financial instruments, net." These gains/(losses) include both realized and unrealized gains and losses, and are primarily related to the Bank'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, and the syndication of loans and lending commitments. These gains/(losses) exclude related interest income and interest expense. See Note 20 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 Bank manages its business activities because many of the Bank's market-making, lending and other activities 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, many of the Bank's interest rate derivatives are sensitive to changes in foreign currency exchange rates and may be economically hedged with foreign currency contracts.

$ in millions	Year Ended December	
Product Type	**2015**	2014
Interest rates	**$ (1,994)**	$ (3,805)
Currencies	**2,370**	4,278
Credit	**1,324**	1,429
Other	**103**	16
Total	**$ 1,803**	$ 1,918

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 Bank 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 Bank 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 Bank'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 Bank or its affiliates' 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.

	As of December	
$ in millions	**2015**	2014
Total level 1 financial assets	**$ 5,268**	$ 5,088
Total level 2 financial assets	**82,266**	96,966
Total level 3 financial assets	**2,430**	4,134
Investments in funds measured at NAV	**17**	17
Counterparty and cash collateral netting	**(52,355)**	(62,610)
Total financial assets at fair value	**$ 37,626**	$ 43,595
Total assets	**$ 134,502**	$ 118,055
Total level 3 financial assets as a percentage of total assets	**1.8%**	3.5%
Total level 3 financial assets as a percentage of total financial assets at fair value	**6.5%**	9.5%
Total level 1 financial liabilities	**$ 2,233**	$ 2,254
Total level 2 financial liabilities	**45,831**	47,197
Total level 3 financial liabilities	**3,307**	2,027
Counterparty and cash collateral netting	**(30,269)**	(30,317)
Total financial liabilities at fair value	**$ 21,102**	$ 21,161
Total level 3 financial liabilities as a percentage of total financial liabilities at fair value	**15.7%**	9.6%

Note 6.
Cash Instruments

Cash instruments include U.S. government and federal agency obligations, non-U.S. government and agency obligations, mortgage-backed loans and securities, bank loans and bridge loans 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 Bank's fair value measurement policies.

Level 1 Cash Instruments

Level 1 cash instruments include certain U.S. government and federal agency obligations and most non-U.S. government and agency obligations. These instruments are valued using quoted prices for identical unrestricted instruments in active markets.

The Bank 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 certain U.S. government and federal agency obligations, certain non-U.S. government and agency obligations, most mortgage-backed loans and securities, certain bank loans and bridge loans 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 Bank 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.

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 instruments.

Level 3 Cash Instruments	Valuation Techniques and Significant Inputs
Loans and securities backed by commercial real estate • Directly or indirectly 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: • 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 • Directly or indirectly 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: • 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: • 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 Bank uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation • Duration
Other debt obligations	Valuation techniques vary by instrument, but are generally based on discounted cash flow techniques. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include: • Market yields implied by transactions of similar or related assets and/or current levels and trends of market indices such as CDX and LCDX • Current performance and recovery assumptions and, where the Bank uses credit default swaps to value the related cash instrument, the cost of borrowing the underlying reference obligation • Duration
Equities[1]	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: • Transactions in similar instruments • Discounted cash flow techniques The Bank also considers changes in the outlook for the relevant industry and financial performance of the issuer as compared to projected performance. Significant inputs include: • 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

1. Primarily relates to equity investments made as part of the Bank's Community Reinvestment Act (CRA) activities.

Significant Unobservable Inputs

The table below presents the ranges and weighted averages of significant unobservable inputs used to value the Bank'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.
- Increases in yield, discount rate, duration or cumulative loss rate used in the valuation of the Bank's level 3 cash instruments would result in a lower fair value measurement, while an increase in recovery rate would result in a higher fair value measurement. Due to the distinctive nature of each of the Bank's level 3 cash instruments, the interrelationship of inputs is not necessarily uniform within each product type.
- 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 recovery rate presented in the tables below for bank loans and bridge loans is appropriate for valuing a specific loan but may not be appropriate for valuing any other bank loans or bridge loans. Accordingly, the ranges of inputs presented below do not represent uncertainty in, or possible ranges of, fair value measurements of the Bank's level 3 cash instruments. Significant unobservable input types which are only relevant to a single instrument have been excluded and are therefore not meaningful.

Level 3 Cash Instruments	Valuation Techniques and Significant Unobservable Inputs	Range of Significant Unobservable Inputs (Weighted Average)	
		As of December 2015	As of December 2014
Loans and securities backed by commercial real estate • Directly or indirectly collateralized by a single commercial real estate property or a portfolio of properties • May include tranches of varying levels of subordination *($140 million and $584 million of level 3 assets as of December 2015 and December 2014, respectively)*	Discounted cash flows: • Yield • Duration (years)	 3.5% to 9.6% (5.4%) N.M.	 3.2% to 10.1% (7.1%) 0.4 to 2.4 (1.4)
Loans and securities backed by residential real estate • Directly or indirectly collateralized by portfolios of residential real estate • May include tranches of varying levels of subordination *($35 million and $47 million of level 3 assets as of December 2015 and December 2014, respectively)*	Discounted cash flows: • Yield • Cumulative loss rate • Duration (years)	 N.M. N.M. N.M.	 4.5% to 9.0% (8.2%) 10.4% to 11.2% (11.1%) 1.8 to 5.4 (2.4)
Bank loans and bridge loans *($457 million and $2.17 billion of level 3 assets as of December 2015 and December 2014, respectively)*	Discounted cash flows: • Yield • Recovery rate • Duration (years)	 1.9% to 36.6% (5.7%) 40.0% to 75.0 % (61.7%) 0.7 to 3.4 (2.3)	 1.4% to 17.6% (5.6%) 40.0% to 85.0% (62.0%) 1.1 to 5.0 (2.4)
Other [1] *($196 million and $295 million of level 3 assets as of December 2015 and December 2014, respectively)*	Discounted cash flows: • Yield/Discount rate • Duration (years)	 5.7% to 16.3% (10.7%) N.M.	 2.6% to 13.6% (5.1%) 2.9 to 3.5 (3.4)

1. Primarily consists of other debt obligations and equity investments.

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. In the tables below:

- 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 are shown as positive amounts and cash instrument liabilities are shown as negative amounts.
- Other cash instrument assets primarily consist of other debt obligations and equity investments.

	Cash Instruments at Fair Value as of December 2015			
$ in millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
U.S. government and federal agency obligations	**$ 5,086**	**$ 9,621**	**$ –**	**$ 14,707**
Non-U.S. government and agency obligations	**182**	**52**	**–**	**234**
Loans and securities backed by commercial real estate	**–**	**1,370**	**140**	**1,510**
Loans and securities backed by residential real estate	**–**	**5,955**	**35**	**5,990**
Bank loans and bridge loans	**–**	**2,371**	**457**	**2,828**
Other	**–**	**305**	**196**	**501**
Subtotal	**$ 5,268**	**$ 19,674**	**$ 828**	**$ 25,770**
Investments in funds measured at NAV				**17**
Total cash instrument assets				**$ 25,787**
Liabilities				
U.S. government and federal agency obligations	**$ (2,232)**	**$ –**	**$ –**	**$ (2,232)**
Non-U.S. government and agency obligations	**(1)**	**(5)**	**–**	**(6)**
Loans and securities backed by commercial real estate	**–**	**(1)**	**–**	**(1)**
Loans and securities backed by residential real estate	**–**	**(2)**	**–**	**(2)**
Bank loans and bridge loans	**–**	**(173)**	**(97)**	**(270)**
Other	**–**	**(22)**	**–**	**(22)**
Total cash instrument liabilities	**$ (2,233)**	**$ (203)**	**$ (97)**	**$ (2,533)**

	Cash Instruments at Fair Value as of December 2014			
$ in millions	Level 1	Level 2	Level 3	Total
Assets				
U.S. government and federal agency obligations	$ 4,403	$ 9,170	$ –	$ 13,573
Non-U.S. government and agency obligations	685	–	–	685
Loans and securities backed by commercial real estate	–	2,072	584	2,656
Loans and securities backed by residential real estate	–	4,646	47	4,693
Bank loans and bridge loans	–	2,813	2,165	4,978
Other	–	1,295	295	1,590
Subtotal	$ 5,088	$ 19,996	$ 3,091	$ 28,175
Investments in funds measured at NAV				17
Total cash instrument assets				$ 28,192
Liabilities				
U.S. government and federal agency obligations	$ (2,195)	$ –	$ –	$ (2,195)
Non-U.S. government and agency obligations	(59)	(5)	–	(64)
Bank loans and bridge loans	–	(224)	(122)	(346)
Other	–	(20)	(1)	(21)
Total cash instrument liabilities	$ (2,254)	$ (249)	$ (123)	$ (2,626)

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 2015 and 2014 there were no transfers between level 1 and level 2 cash instrument assets or liabilities. See level 3 rollforward below for information about transfers between level 2 and level 3.

Level 3 Rollforward

The table below presents changes in fair value for all cash instrument assets and liabilities categorized as level 3 as of the end of the year. In the table 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.
- 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 Bank's results of operations, liquidity or capital resources.
- Purchases include both originations and secondary market purchases.
- Net unrealized gains/(losses) relate to instruments that were still held at year-end.
- For the year ended December 2015, the net realized and unrealized gains on level 3 cash instrument assets of $48 million (reflecting $53 million of realized gains and $5 million of unrealized losses) were reported in "Gains and losses from financial instruments, net."
- For the year ended December 2014, the net realized and unrealized gains on level 3 cash instrument assets of $29 million (reflecting $89 million of realized gains and $60 million of unrealized losses) were reported in "Gains and losses from financial instruments, net."
- 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 out of level 3.

	Level 3 Cash Instrument Assets and Liabilities at Fair Value								
$ in millions	Balance, beginning of year	Net realized gains	Net unrealized gains/ (losses)	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year
Year Ended December 2015									
Loans and securities backed by commercial real estate	**$ 584**	**$ 5**	**$ 2**	**$ 111**	**$ (179)**	**$ (365)**	**$ –**	**$ (18)**	**$ 140**
Loans and securities backed by residential real estate	**47**	**3**	**3**	**1**	**(4)**	**(6)**	**–**	**(9)**	**35**
Bank loans and bridge loans	**2,165**	**43**	**(5)**	**139**	**(575)**	**(794)**	**55**	**(571)**	**457**
Other[1]	**295**	**2**	**(5)**	**133**	**(3)**	**(115)**	**12**	**(123)**	**196**
Total cash instrument assets	**$ 3,091**	**$ 53**	**$ (5)**	**$ 384**	**$ (761)**	**$ (1,280)**	**$ 67**	**$ (721)**	**$ 828**
Total cash instrument liabilities	**$ (123)**	**$ –**	**$ (34)**	**$ 36**	**$ (4)**	**$ (3)**	**$ (1)**	**$ 32**	**$ (97)**
Year Ended December 2014									
Loans and securities backed by commercial real estate	$ 760	$ 16	$ 14	$ 254	$ (59)	$ (244)	$ –	$ (157)	$ 584
Loans and securities backed by residential real estate	63	5	8	19	(19)	(29)	–	–	47
Bank loans and bridge loans	2,105	64	(75)	1,499	(239)	(1,021)	7	(175)	2,165
Other [1]	291	4	(7)	134	–	(40)	–	(87)	295
Total cash instrument assets	$ 3,219	$ 89	$ (60)	$ 1,906	$ (317)	$ (1,334)	$ 7	$ (419)	$ 3,091
Total cash instrument liabilities	$ (196)	$ 4	$ (4)	$ 145	$ (48)	$ (17)	$ (8)	$ 1	$ (123)

1. Primarily consists of other debt obligations and equity investments.

Level 3 Rollforward Commentary

Year Ended December 2015. The net unrealized loss on level 3 cash instruments of $39 million (reflecting a $5 million loss on cash instrument assets and a $34 million loss on cash instrument liabilities) for 2015 primarily reflected losses on unfunded bank and bridge loan commitments, primarily due to the impact of widening credit spreads.

Transfers out of level 3 during 2015 primarily reflected 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.

Year Ended December 2014. The net unrealized loss on level 3 cash instruments of $64 million (reflecting a $60 million loss on cash instrument assets and a $4 million loss on cash instrument liabilities) for 2014 primarily reflected losses on bank loans and bridge loans, primarily due to the impact of widening credit spreads.

Transfers out of level 3 during 2014 primarily reflected transfers of certain bank loans and bridge loans and loans and securities backed by commercial real estate to level 2 principally due to increased price transparency as a result of market evidence, including market transactions in these or similar instruments.

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 Bank'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 Bank enters into derivative transactions to provide liquidity to clients and to facilitate the transfer and hedging of their risks. In this capacity, the Bank 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 Bank also enters into derivatives to actively manage risk exposures that arise from its market-making and lending activities in derivative and cash instruments. The Bank'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. In addition, the Bank may enter into derivatives designated as hedges under U.S. GAAP. These derivatives are used to manage interest rate exposure in certain fixed-rate deposits.

The Bank enters into various types of derivatives, including:

- **Futures and Forwards.** Contracts that commit counterparties to purchase or sell financial instruments 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, 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 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 "Gains and losses from financial instruments, net" in Note 4.

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 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 Bank's exposure.
- Where the Bank 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 Bank's derivative activity and do not represent anticipated losses.

	As of December 2015			As of December 2014		
$ in millions	**Derivative Assets**	**Derivative Liabilities**	**Notional Amount**	Derivative Assets	Derivative Liabilities	Notional Amount
Derivatives not accounted for as hedges						
Exchange-traded	**$ 302**	**$ 262**	**$ 3,918,183**	$ 190	$ 202	$ 2,633,627
OTC-cleared	**150,879**	**129,689**	**13,074,682**	227,251	205,159	13,575,347
Bilateral OTC	**514,507**	**506,378**	**21,927,828**	633,100	621,495	28,076,819
Total interest rates	**665,688**	**636,329**	**38,920,693**	860,541	826,856	44,285,793
Currencies – Bilateral OTC	**57,839**	**61,645**	**2,058,533**	63,822	60,564	2,205,614
Credit – Bilateral OTC	**3,422**	**2,661**	**164,005**	4,594	4,419	225,898
Equities – Bilateral OTC	**960**	**709**	**75,110**	796	676	36,382
Commodities – Bilateral OTC	**153**	**150**	**7,128**	266	263	7,972
Subtotal	**728,062**	**701,494**	**41,225,469**	930,019	892,778	46,761,659
Derivatives accounted for as hedges						
OTC-cleared	**205**	**21**	**22,585**	84	6	8,325
Bilateral OTC	**173**	**2**	**3,981**	300	17	11,815
Total interest rates	**378**	**23**	**26,566**	384	23	20,140
Total gross fair value/notional amount of derivatives	**$ 728,440** [1]	**$ 701,517** [1]	**$ 41,252,035**	$ 930,403 [1]	$ 892,801 [1]	$ 46,781,799
Amounts that have been offset in the consolidated statements of financial condition						
OTC-cleared	**$ (126,875)**	**$ (126,875)**		$ (204,424)	$ (204,424)	
Bilateral OTC	**(539,394)**	**(539,394)**		(652,981)	(652,981)	
Total counterparty netting	**(666,269)**	**(666,269)**		(857,405)	(857,405)	
OTC-cleared	**(24,108)**	**(2,741)**		(22,902)	(726)	
Bilateral OTC	**(27,249)**	**(26,530)**		(38,925)	(28,808)	
Total cash collateral netting	**(51,357)**	**(29,271)**		(61,827)	(29,534)	
Total counterparty and cash collateral netting	**(717,626)**	**(695,540)**		(919,232)	(886,939)	
Amounts included in the consolidated statements of financial condition						
Exchange-traded	**$ 302**	**$ 262**		$ 190	$ 202	
OTC-cleared	**101**	**94**		9	15	
Bilateral OTC	**10,411**	**5,621**		10,972	5,645	
Total amounts included in the consolidated statements of financial condition	**$ 10,814**	**$ 5,977**		$ 11,171	$ 5,862	
Amounts that have not been offset in the consolidated statements of financial condition						
Cash collateral received/posted	**$ (362)**	**$ (781)**		$ (239)	$ (698)	
Securities collateral received/posted	**(1,726)**	**(614)**		(1,535)	(752)	
Total	**$ 8,726**	**$ 4,582**		$ 9,397	$ 4,412	

1. Includes derivative assets and derivative liabilities of $4.11 billion and $1.71 billion, respectively, as of December 2015, and derivative assets and derivative liabilities of $5.43 billion and $2.83 billion, respectively, as of December 2014, which are not subject to an enforceable netting agreement or are subject to a netting agreement that the Bank has not yet determined to be enforceable.

Valuation Techniques for Derivatives

The Bank'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, as described below.

- **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.
- **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.
- **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.
- **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 Bank'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. As of both December 2015 and December 2014, the Bank had no level 1 derivatives.

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 Bank considers, among other factors, a portfolio's net risk exposure to that input.

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

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

Level 3 Derivatives

Level 3 derivatives are valued using models which utilize observable level 1 and/or level 2 inputs, as well as unobservable level 3 inputs. The significant unobservable inputs used to value the Bank's level 3 derivatives are described below.

- For the majority of the Bank'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, which are unique to specific reference obligations and reference entities.
- For level 3 equity derivatives, significant unobservable inputs generally include 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.

Subsequent to the initial valuation of a level 3 derivative, the Bank 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 Bank 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 Bank also makes funding valuation adjustments to collateralized derivatives where the terms of the agreement do not permit the Bank 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 Bank makes model or exit price adjustments to account for the valuation uncertainty present in the transaction.

Significant Unobservable Inputs

The table below presents the ranges, averages and medians of significant unobservable inputs used to value substantially all of the Bank'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 Bank'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 December 2015	As of December 2014
Interest rates *($632 million and $224 million of net level 3 liabilities as of December 2015 and December 2014, respectively)*	Option pricing models and discounted cash flow models: • Correlation • Volatility	(25)% to 92% (53% / 55%) 31 basis points per annum (bpa) to 152 bpa (84 bpa / 57 bpa) [1]	(16)% to 84% (37% / 40%) 36 basis points per annum (bpa) to 156 bpa (100 bpa / 115 bpa)
Currencies *($235 million of net level 3 assets and $41 million of net level 3 liabilities as of December 2015 and December 2014, respectively)*	Option pricing models: • Correlation (including cross-product correlation)	25% to 70% (50% / 51%)	55% to 80% (69% / 73%)
Credit *($760 million and $360 million of net level 3 assets as of December 2015 and December 2014, respectively)*	Option pricing models, correlation models and discounted cash flow models: • Credit spreads	39 bps to 1,019 bps (223 bps / 142 bps) [1]	34 bps to 473 bps (171 bps / 134 bps) [1]
Equities *($248 million and $107 million of net level 3 assets as of December 2015 and December 2014, respectively)*	Option pricing models: • Correlation (including cross-product correlation)	27% to 88% (50% / 50%)	30% to 82% (49% / 50%)

1. 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.

Range of Significant Unobservable Inputs

The following is information about the ranges of significant unobservable inputs used to value the Bank's level 3 derivative instruments:

- **Correlation.** Ranges for correlation cover a variety of underliers both within one market (e.g., foreign exchange rates) and across markets (e.g., correlation of an interest rate and a foreign exchange rate), as well as across regions. Generally, cross-product 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.
- **Credit spreads.** The ranges for credit spreads cover a variety of underliers (index and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade). The broad range of this population gives rise to the width of the ranges of significant unobservable inputs.

Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

The following is a description of the directional sensitivity of the Bank's level 3 fair value measurements to changes in significant unobservable inputs, in isolation:

- **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, and foreign exchange rates), 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.** In general, the fair value of purchased credit protection increases as credit spreads increase. Credit spreads 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.

Due to the distinctive nature of each of the Bank's level 3 derivatives, the interrelationship of inputs is not necessarily uniform within each product type.

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 Bank'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 are shown as positive amounts and derivative liabilities are shown as negative amounts.

	Derivatives at Fair Value as of December 2015			
$ in millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Interest rates	$ –	$ 665,659	$ 407	$ 666,066
Currencies	–	57,452	387	57,839
Credit	–	1,905	1,517	3,422
Equities	–	709	251	960
Commodities	–	136	17	153
Gross fair value of derivative assets	–	725,861	2,579	728,440
Counterparty netting within levels	–	(664,294)	(977)	(665,271)
Subtotal	–	61,567	1,602	63,169
Cross-level counterparty netting				(998)
Cash collateral netting				(51,357)
Fair value included in financial instruments owned				**$ 10,814**
Liabilities				
Interest rates	$ –	$ (635,313)	$ (1,039)	$ (636,352)
Currencies	–	(61,493)	(152)	(61,645)
Credit	–	(1,904)	(757)	(2,661)
Equities	–	(706)	(3)	(709)
Commodities	–	(135)	(15)	(150)
Gross fair value of derivative liabilities	–	(699,551)	(1,966)	(701,517)
Counterparty netting within levels	–	664,294	977	665,271
Subtotal	–	(35,257)	(989)	(36,246)
Cross-level counterparty netting				998
Cash collateral netting				29,271
Fair value included in financial instruments sold, but not yet purchased				**$ (5,977)**

	Derivatives at Fair Value as of December 2014			
$ in millions	Level 1	Level 2	Level 3	Total
Assets				
Interest rates	$ –	$ 860,555	$ 370	$ 860,925
Currencies	–	63,639	183	63,822
Credit	–	3,632	962	4,594
Equities	–	685	111	796
Commodities	–	263	3	266
Gross fair value of derivative assets	–	928,774	1,629	930,403
Counterparty netting within levels	–	(856,036)	(586)	(856,622)
Subtotal	–	72,738	1,043	73,781
Cross-level counterparty netting				(783)
Cash collateral netting				(61,827)
Fair value included in financial instruments owned				$ 11,171
Liabilities				
Interest rates	$ –	$ (826,285)	$ (594)	$ (826,879)
Currencies	–	(60,340)	(224)	(60,564)
Credit	–	(3,817)	(602)	(4,419)
Equities	–	(672)	(4)	(676)
Commodities	–	(262)	(1)	(263)
Gross fair value of derivative liabilities	–	(891,376)	(1,425)	(892,801)
Counterparty netting within levels	–	856,036	586	856,622
Subtotal	–	(35,340)	(839)	(36,179)
Cross-level counterparty netting				783
Cash collateral netting				29,534
Fair value included in financial instruments sold, but not yet purchased				$ (5,862)

Level 3 Rollforward

The table below presents changes in fair value for all derivatives categorized as level 3 as of the end of the year. 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 Bank's results of operations, liquidity or capital resources.
- Net unrealized gains/(losses) relate to instruments that were still held at year-end.
- For the year ended December 2015, the net realized and unrealized gains on level 3 derivative assets and liabilities of $234 million (reflecting $158 million of realized losses and $392 million of unrealized gains) were reported in "Gains and losses from financial instruments, net."
- For the year ended December 2014, the net realized and unrealized losses on level 3 derivative assets and liabilities of $325 million (reflecting $161 million of realized losses and $164 million of unrealized losses) were reported in "Gains and losses from financial instruments, net."
- 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 out of level 3.

	Level 3 Derivative Assets and Liabilities at Fair Value								
$ in millions	Asset/ (liability) balance, beginning of year	Net realized gains/ (losses)	Net unrealized gains/ (losses)	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Asset/ (liability) balance, end of year
Year Ended December 2015									
Interest rates – net	**$ (224)**	**$ (54)**	**$ (47)**	**$ 7**	**$ (4)**	**$ 49**	**$ (369)**	**$ 10**	**$ (632)**
Currencies – net	**(41)**	**(70)**	**251**	**59**	**(10)**	**43**	**8**	**(5)**	**235**
Credit – net	**360**	**(42)**	**272**	**27**	**(47)**	**57**	**109**	**24**	**760**
Equities – net	**107**	**8**	**(84)**	**204**	**(1)**	**(13)**	**31**	**(4)**	**248**
Commodities – net	**2**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2**
Total derivatives – net	**$ 204**	**$ (158)**	**$ 392**	**$ 297**	**$ (62)**	**$ 136**	**$ (221)**	**$ 25**	**$ 613**
Year Ended December 2014									
Interest rates – net	$ 33	$ (58)	$ (136)	$ 4	$ (1)	$ 9	$ –	$ (75)	$ (224)
Currencies – net	47	(97)	(50)	19	(9)	44	–	5	(41)
Credit – net	407	(10)	11	10	(15)	(3)	(44)	4	360
Equities – net	23	5	10	63	(1)	(6)	14	(1)	107
Commodities – net	–	(1)	1	2	–	–	–	–	2
Total derivatives – net	$ 510	$ (161)	$ (164)	$ 98	$ (26)	$ 44	$ (30)	$ (67)	$ 204

Level 3 Rollforward Commentary

Year Ended December 2015. The net unrealized gain on level 3 derivatives of $392 million for 2015 was primarily attributable to gains on certain currency derivatives, reflecting the impact of changes in foreign exchange rates and gains on certain credit derivatives, reflecting the impact of wider credit spreads.

Transfers into level 3 derivatives during 2015 primarily reflected transfers of certain interest rate derivative liabilities from level 2, primarily due to certain unobservable inputs becoming significant to the valuation of these derivatives, and transfer of certain credit derivative assets from level 2, primarily due to unobservable credit spread inputs becoming significant to the valuation of these derivatives.

Year Ended December 2014. The net unrealized loss on level 3 derivatives of $164 million for 2014 was primarily attributable to the impact of changes in interest rates on certain interest rate derivatives and the impact of changes in foreign exchange rates on certain currency derivatives.

Transfers into level 3 derivatives during 2014 primarily reflected transfers from level 2 of certain credit derivative liabilities, principally due to unobservable credit spread inputs becoming significant to the valuation of these derivatives.

Transfers out of level 3 derivatives during 2014 primarily reflected transfers of certain interest rate derivative assets to level 2, principally due to increased transparency of unobservable interest rate inputs used to value these derivatives.

Credit Derivatives

The Bank 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 its businesses.

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 Bank 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 Bank economically hedges its exposure to written credit derivatives primarily by entering into offsetting purchased credit derivatives with identical underliers. Substantially all of the Bank'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 Bank may take possession of the reference obligations underlying a particular written credit derivative, and consequently may, upon liquidation of the reference obligations, recover amounts on the underlying reference obligations in the event of default.

As of December 2015, written and purchased credit derivatives had total gross notional amounts of $70.52 billion and $93.49 billion, respectively, for total net notional purchased protection of $22.97 billion. As of December 2014, written and purchased credit derivatives had total gross notional amounts of $101.79 billion and $124.11 billion, respectively, for total net notional purchased protection of $22.32 billion. Substantially all of the Bank's written and purchased credit derivatives are credit default swaps.

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 Bank'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 Bank 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 December 2015				
	Credit Spread on Underlier (basis points)				
$ in millions	**0 -250**	**251 - 500**	**501 - 1,000**	**Greater than 1,000**	**Total**
Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor					
Less than 1 year	**$ 23,503**	**$ 298**	**$ 407**	**$ 355**	**$ 24,563**
1 – 5 years	**33,089**	**1,970**	**1,068**	**1,554**	**37,681**
Greater than 5 years	**7,597**	**564**	**67**	**47**	**8,275**
Total	**$ 64,189**	**$ 2,832**	**$ 1,542**	**$ 1,956**	**$ 70,519**
Maximum Payout/Notional Amount of Purchased Credit Derivatives					
Offsetting	**$ 53,060**	**$ 2,615**	**$ 1,464**	**$ 1,926**	**$ 59,065**
Other	**31,335**	**2,175**	**356**	**555**	**34,421**
Fair Value of Written Credit Derivatives					
Asset	**$ 1,023**	**$ 49**	**$ 26**	**$ 37**	**$ 1,135**
Liability	**691**	**78**	**81**	**307**	**1,157**
Net asset/(liability)	**$ 332**	**$ (29)**	**$ (55)**	**$ (270)**	**$ (22)**

	As of December 2014				
	Credit Spread on Underlier (basis points)				
$ in millions	0 -250	251 - 500	501 - 1,000	Greater than 1,000	Total
Maximum Payout/Notional Amount of Written Credit Derivatives by Tenor					
Less than 1 year	$ 26,681	$ 372	$ 1,165	$ 2,278	$ 30,496
1 – 5 years	58,376	3,046	859	2,627	64,908
Greater than 5 years	6,161	190	–	37	6,388
Total	$ 91,218	$ 3,608	$ 2,024	$ 4,942	$ 101,792
Maximum Payout/Notional Amount of Purchased Credit Derivatives					
Offsetting	$ 81,071	$ 3,296	$ 1,993	$ 4,691	$ 91,051
Other	31,395	1,146	200	314	33,055
Fair Value of Written Credit Derivatives					
Asset	$ 2,295	$ 108	$ 26	$ 86	$ 2,515
Liability	435	131	86	767	1,419
Net asset/(liability)	$ 1,860	$ (23)	$ (60)	$ (681)	$ 1,096

Impact of Credit Spreads on Derivatives

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

The net gain, including hedges, attributable to the impact of changes in credit exposure and credit spreads (of the Bank's counterparties as well as of the Bank or its affiliates) on derivatives was $75 million and $24 million for 2015 and 2014, respectively.

Derivatives with Credit-Related Contingent Features

Certain of the Bank's derivatives have been transacted under bilateral agreements with counterparties who may require the Bank to post collateral or terminate the transactions based on changes in the credit ratings of the Bank or its affiliates. Typically, such requirements are based on the credit ratings of GS Group. The Bank 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 Bank or its affiliates 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 credit ratings of the Bank or its affiliates.

	As of December	
$ in millions	**2015**	2014
Net derivative liabilities under bilateral agreements	**$ 5,448**	$ 6,883
Collateral posted	**4,631**	5,685
Additional collateral or termination payments for a one-notch downgrade	**485**	580
Additional collateral or termination payments for a two-notch downgrade	**835**	1,031

Hedge Accounting

The Bank applies hedge accounting for certain interest rate swaps used to manage the interest rate exposure of certain fixed-rate certificates of deposit.

To qualify for hedge accounting, the hedging instrument must be highly effective at reducing the risk from the exposure being hedged. Additionally, the Bank 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 Bank 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 Bank 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 20 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 Bank deposits, and the hedge ineffectiveness on these derivatives, which primarily consists of amortization of prepaid credit spreads resulting from the passage of time.

	Year Ended December	
$ in millions	**2015**	2014
Interest rate hedges	**$ (23)**	$ 83
Hedged deposits	**(5)**	(116)
Hedge ineffectiveness	**$ (28)**	$ (33)

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 Bank accounts for certain of its other financial assets and financial liabilities at fair value primarily under the fair value option. The primary reasons for electing the fair value option are to:

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

Hybrid financial instruments are instruments that contain bifurcatable embedded derivatives and do not require settlement by physical delivery of non-financial assets (e.g., physical commodities). The Bank does not bifurcate hybrid financial instruments and accounts for the entire hybrid financial instrument 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 certain resale agreements;
- Certain other secured financings, consisting of advances from the Federal Home Loan Bank of New York (FHLB) and transfers of assets accounted for as financings rather than sales;
- Certain unsecured borrowings and;
- Certain time deposits (deposits with no stated maturity are not eligible for a fair value option election), including structured certificates of deposit, which are hybrid financial instruments.

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 Bank'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 Bank's level 3 other financial assets and financial liabilities.

Resale and Repurchase Agreements. The significant inputs to the valuation of resale and repurchase agreements are funding spreads, the amount and timing of expected future cash flows and interest rates. As of both December 2015 and December 2014 the Bank had no level 3 resale or repurchase agreements. See Note 10 for further information about collateralized agreements and financings.

Other Secured Financings. The significant inputs to the valuation of other secured financings at fair value are the amount and timing of expected future cash flows, interest rates, funding spreads, the fair value of the collateral delivered by the Bank (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. As of both December 2015 and December 2014, there were no level 3 other secured financings.

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 Bank's other derivative instruments. See Note 7 for further information about derivatives. See Note 13 for further information about deposits.

The Bank'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 Bank's derivative disclosures related to unobservable inputs in Note 7.

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, other financial assets are shown as positive amounts and other financial liabilities are shown as negative amounts.

	Other Financial Assets and Liabilities at Fair Value as of December 2015			
$ in millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Securities purchased under agreements to resell	**$ –**	**$ 1,025**	**$ –**	**$ 1,025**
Total	**$ –**	**$ 1,025**	**$ –**	**$ 1,025**
Liabilities				
Deposits	**$ –**	**$ (3,929)**	**$ (2,221)**	**$ (6,150)**
Securities sold under agreements to repurchase	**–**	**(3,425)**	**–**	**(3,425)**
Other secured financings	**–**	**(2,919)**	**–**	**(2,919)**
Unsecured borrowings	**–**	**(98)**	**–**	**(98)**
Total	**$ –**	**$ (10,371)**	**$ (2,221)**	**$ (12,592)**

	Other Financial Assets and Liabilities at Fair Value as of December 2014			
$ in millions	Level 1	Level 2	Level 3	Total
Assets				
Securities purchased under agreements to resell	$ –	$ 4,232	$ –	$ 4,232
Total	$ –	$ 4,232	$ –	$ 4,232
Liabilities				
Deposits	$ –	$ (4,809)	$ (1,065)	$ (5,874)
Securities sold under agreements to repurchase	–	(6,578)	–	(6,578)
Other secured financings	–	(78)	–	(78)
Unsecured borrowings	–	(143)	–	(143)
Total	$ –	$ (11,608)	$ (1,065)	$ (12,673)

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 2015 or 2014. The table below presents information about transfers between level 2 and level 3.

Level 3 Rollforward

The table below presents changes in fair value for other financial assets and financial liabilities accounted for at fair value categorized as level 3 as of the end of the year. In the table 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 Bank's results of operations, liquidity or capital resources.
- Net unrealized gains/(losses) relate to instruments that were still held at year-end.
- For the year ended December 2015, the net realized and unrealized gains on level 3 other financial liabilities of $41 million (reflecting $9 million of realized losses and $50 million of unrealized gains) include gains and losses reported in "Gains and losses from financial instruments, net."
- For the year ended December 2014, the net unrealized losses on level 3 other financial liabilities of $21 million is reported in "Gains and losses from financial instruments, net."
- See "Level 3 Rollforward Commentary" below for an explanation of the activity related to transfers into and out of level 3.

	Level 3 Other Financial Assets and Liabilities at Fair Value									
$ in millions	Balance, beginning of year	Net realized losses	Net unrealized gains/(losses)	Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of year
Year Ended December 2015										
Deposits	**$ (1,065)**	**$ (9)**	**$ 50**	**$ –**	**$ –**	**$ (1,251)**	**$ 54**	**$ –**	**$ –**	**$ (2,221)**
Total other financial liabilities	**$ (1,065)**	**$ (9)**	**$ 50**	**$ –**	**$ –**	**$ (1,251)**	**$ 54**	**$ –**	**$ –**	**$ (2,221)**
Year Ended December 2014										
Securities purchased under agreements to resell	$ 63	$ –	$ –	$ –	$ –	$ –	$ (63)	$ –	$ –	$ –
Total other financial assets	$ 63	$ –	$ –	$ –	$ –	$ –	$ (63)	$ –	$ –	$ –
Deposits	$ (385)	$ –	$ (21)	$ 5	$ –	$ (442)	$ 6	$ (280)	$ 52	$ (1,065)
Total other financial liabilities	$ (385)	$ –	$ (21)	$ 5	$ –	$ (442)	$ 6	$ (280)	$ 52	$ (1,065)

Level 3 Rollforward Commentary

Year Ended December 2015. There were no transfers into or out of level 3 of other financial liabilities during December 2015.

Year Ended December 2014. Transfers into level 3 of other financial liabilities during 2014 reflected transfers of certain deposits 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 2014 primarily reflected transfers of certain deposits to level 2, principally due to increased transparency of significant inputs used to value these instruments.

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 Bank electing to apply the fair value option to certain financial assets and financial liabilities. These gains and losses are included in "Gains and losses from financial instruments, net." The table below also includes gains and losses on the embedded derivative component of hybrid financial instruments included in deposits. These gains and losses would have been recognized under other U.S. GAAP even if the Bank 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 20 for further information about interest income and interest expense.

	Gains/(Losses) on Financial Assets and Financial Liabilities at Fair Value Under the Fair Value Option	
	Year Ended December	
$ in millions	**2015**	2014
Deposits	**$ (18)**	$ (110)
Other [1]	**71**	20
Total	**$ 53**	$ (90)

1. Consists of $63 million and $20 million as of December 2015 and December 2014, respectively, related to unrealized gains on certain Unsecured borrowings. Consists of $8 million and $0 as of December 2015 and December 2014, respectively, related to unrealized gains on FHLB advances, included in "Other secured financings."

Excluding the gains and losses on the instruments accounted for under the fair value option described above, "Gains and losses from financial instruments, net" primarily represents gains and losses on "Financial instruments owned, at fair value," "Financial instruments sold, but not yet purchased, at fair value" and syndication fees.

Loans and Lending Commitments at Fair Value

The Bank originates loans to provide financing to clients. These loans are typically longer-term in nature. The Bank's lending activities include lending to investment-grade and non-investment-grade corporate borrowers. The Bank's lending activities also include extending loans to borrowers that are secured by commercial and residential real estate. In addition, the Bank extends loans and lending commitments to private wealth management clients that are primarily secured by residential real estate or other assets.

The Bank accounts for certain loans at fair value under the fair value option which are included in "Financial instruments owned, at fair value." See Note 6 for a discussion of the techniques and significant inputs used in the valuation of loans. See Note 9 for information about loans receivable not accounted for at fair value.

The table below presents details about loans at fair value. In the table below, loans to private wealth management clients includes $5.95 billion and $4.50 billion of loans secured by residential real estate and $31 million and $47 million of loans secured by commercial real estate as of December 2015 and December 2014, respectively.

	As of December	
$ in millions	**2015**	2014
Corporate loans	**$ 2,614**	$ 4,606
Loans to private wealth management clients	**6,168**	4,877
Loans backed by commercial real estate	**1,478**	2,605
Loans backed by residential real estate	**43**	143
Other loans	**51**	268
Total	**$ 10,354**	$ 12,499

The aggregate contractual principal amount of loans for which the fair value option was elected exceeded the related fair value by $105 million and $277 million as of December 2015 and December 2014, respectively. Included in these amounts are loans in non-accrual status (including loans more than 90 days past due) with a principal balance of $7 million and a fair value of $1 million as of 2015 and a principal balance of $5 million and a fair value of $3 million as of 2014.

As of December 2015 and December 2014, the fair value of unfunded lending commitments accounted for under the fair value option was a liability of $153 million and $253 million, respectively.

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 $293 million and $1.02 billion for 2015 and 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 Bank's loans and lending commitments are floating-rate.

Note 9.

Loans Receivable

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

The table below presents details about loans receivable. In the table below, loans to private wealth management clients includes $11.25 billion and $9.49 billion of loans secured by investments in real or financial assets, $1.50 billion and $1.35 billion of loans secured by commercial real estate and $75 million and $147 million of loans secured by residential real estate as of December 2015 and December 2014, respectively.

	As of December	
$ in millions	**2015**	2014
Corporate loans [1]	**$ 16,903**	$ 11,852
Loans to private wealth management clients	**12,823**	10,986
Loans backed by commercial real estate	**3,614**	1,799
Loans backed by residential real estate	**1,325**	229
Other loans	**3,398**	821
Total loans receivable, gross	**38,063**	25,687
Allowance for loan losses	**(189)**	(137)
Total loans receivable [2]	**$ 37,874**	$ 25,550

1. Includes loans made as part of the Bank's Community Reinvestment Act activities.
2. Consists of $36.38 billion and $25.29 billion of loans at amortized cost as of December 2015 and December 2014, respectively, and $1.49 billion and $265 million of loans held for sale as of December 2015 and December 2014, respectively.

As of December 2015 and December 2014, the fair value of loans held for investment was $36.09 billion and $25.17 billion, respectively. As of December 2015, had these loans been carried at fair value and included in the fair value hierarchy, $18.82 billion and $17.27 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, $12.83 billion and $12.34 billion would have been classified in level 2 and level 3, respectively.

The Bank also extends lending commitments that are held for investment and accounted for on an accrual basis. As of December 2015 and December 2014, such lending commitments were $77.98 billion and $60.35 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 $201 million and $2.78 billion, respectively, as of December 2015, and $157 million and $1.67 billion, respectively, as of December 2014. The carrying value included $122 million and $61 million as of December 2015 and December 2014, respectively, related to the allowance for losses on unfunded commitments. As these lending commitments 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 Bank's fair value hierarchy in Notes 6 through 8. Had these commitments been accounted for at fair value and included in the Bank's fair value hierarchy, they would have primarily been classified in level 3 as of both December 2015 and December 2014.

Included in loans receivable are loans held for sale which are accounted for at the lower of cost or market. The carrying value of such loans was $1.49 billion and $265 million as of December 2015 and December 2014, respectively. As of December 2015 and December 2014, the carrying value of loans held for sale generally approximated fair value. While these loans 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 Bank's fair value hierarchy in Notes 6 through 8. Had these items been included in the Bank's fair value hierarchy, most would have been classified in level 2 as of December 2015 and December 2014. In addition, as of December 2015 and December 2014, $7.01 billion and $2.57 billion, respectively, of the Bank's lending commitments were held for sale and were accounted for at the lower of cost or fair value.

The following 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.
- **Loans to Private Wealth Management Clients.** Loans to the Bank'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.
- **Loans Backed by Commercial Real Estate.** Loans backed by commercial real estate include loans extended by the Bank that are directly or indirectly secured by hotels, retail stores, multifamily housing complexes and commercial and industrial properties. Loans backed by commercial real estate also include loans purchased by the Bank.
- **Loans Backed by Residential Real Estate.** Loans backed by residential real estate include loans extended by the Bank to clients who warehouse assets that are directly or indirectly secured by residential real estate. Loans backed by residential real estate also include loans purchased by the Bank.
- **Other Loans.** Other loans primarily include loans extended to clients who warehouse assets that are directly or indirectly secured by consumer loans, including auto loans, and private student loans and other assets.

Credit Quality

The Bank's risk assessment process includes evaluating the credit quality of its loans receivable. The Bank 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 Bank also assigns a regulatory risk rating to such loans based on the definitions provided by the U.S. federal bank regulatory agencies. Such loans are determined to be impaired when it is probable that the Bank 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, all accrued but uncollected interest is reversed against interest income, and interest subsequently collected is recognized on a cash basis to the extent the loan balance is deemed collectible. Otherwise, all cash received is used to reduce the outstanding loan balance. As of December 2015 and December 2014, impaired loans receivable in non-accrual status were not material.

The table below presents gross loans receivable and related lending commitments by our internally determined public rating agency equivalent and by regulatory risk rating. Non-criticized/pass loans and lending commitments represent loans and lending commitments that are performing and/or do not demonstrate adverse characteristics that are likely to result in a credit loss. The table below includes loans and lending commitments held for investment and held for sale.

$ in millions	Loans	Lending Commitments	Total
Credit Rating Equivalent			
As of December 2015			
Investment-grade	**$ 18,323**	**$ 59,251**	**$ 77,574**
Non-investment-grade	**19,740**	**25,738**	**45,478**
Total	**$ 38,063**	**$ 84,989**	**$ 123,052**
As of December 2014			
Investment-grade	$ 7,293	$ 46,069	$ 53,362
Non-investment-grade	18,394	16,851	35,245
Total	$ 25,687	$ 62,920	$ 88,607
Regulatory Risk Rating			
As of December 2015			
Non-criticized/pass	**$ 36,633**	**$ 83,627**	**$ 120,260**
Criticized	**1,430**	**1,362**	**2,792**
Total	**$ 38,063**	**$ 84,989**	**$ 123,052**
As of December 2014			
Non-criticized/pass	$ 24,703	$ 61,815	$ 86,518
Criticized	984	1,105	2,089
Total	$ 25,687	$ 62,920	$ 88,607

Allowance for Losses on Loans and Lending Commitments

The Bank's allowance for loan losses is comprised of portfolio level reserves and specific loan-level reserves as described below:

- Portfolio level reserves are determined on loans not deemed impaired by aggregating groups of loans with similar risk characteristics and estimating the probable loss inherent in the portfolio.
- Specific loan-level reserves are determined on loans that exhibit credit quality weakness and are therefore individually evaluated for impairment.

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 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. As of December 2015 and December 2014, substantially all of the Bank's loans receivable were evaluated for impairment at the portfolio level.

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

The table below presents changes in the allowance for loan losses and the allowance for losses on lending commitments.

	Year Ended December	
$ in millions	**2015**	2014
Allowance for loan losses		
Balance, beginning of period	**$ 137**	$ 74
Charge-offs	**(1)**	(3)
Provision for loan losses	**53**	66
Balance, end of period[1]	**$ 189**	**$ 137**
Allowance for losses on lending commitments		
Balance, beginning of period	**$ 61**	$ 40
Provision for losses on lending commitments	**61**	21
Balance, end of period	**$ 122**	$ 61

1. Included within the allowance for loan losses was $18 million related to individually impaired loans with an unpaid principal balance of $57 million and $10 million related to individually impaired loans with an unpaid principal balance of $57 million as of December 2015 and December 2014, respectively.

As of December 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 and were primarily determined at the portfolio level.

Note 10.
Collateralized Agreements and Financings

Collateralized agreements are securities purchased under agreements to resell (resale agreements). Collateralized financings are securities sold under agreements to repurchase (repurchase agreements) and other secured financings. The Bank enters into these transactions in order to, among other things, facilitate client activities, invest excess cash, and finance certain Bank 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 20 for further information about interest income and interest expense.

The table below presents the carrying value of resale and repurchase agreements.

	As of December	
$ in millions	**2015**	2014
Securities purchased under agreements to resell [1]	**$ 2,481**	$ 5,510
Securities sold under agreements to repurchase [2]	**3,425**	6,578

1. As of December 2015 and December 2014, $1.03 billion and $4.23 billion of resale agreements were at fair value, respectively. See Note 8 for further information about the valuation techniques and significant inputs used to determine fair value.
2. 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.

Resale and Repurchase Agreements

A resale agreement is a transaction in which the Bank 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 Bank 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 primarily include U.S. government and federal agency obligations.

The Bank receives financial instruments purchased under resale agreements and makes delivery of financial instruments sold under repurchase agreements. To mitigate credit exposure, the Bank 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 Bank typically requires collateral with a fair value approximately equal to the carrying value of the relevant assets in the consolidated statements of financial condition.

Offsetting Arrangements

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

	As of December 2015	
	Assets	**Liabilities**
$ in millions	**Resale agreements**	**Repurchase agreements**
Amounts included in the consolidated statements of financial condition		
Gross carrying value	**$ 5,759**	**$ 6,703**
Counterparty netting	**(3,278)**	**(3,278)**
Total	**2,481**	**3,425**
Amounts not offset in the consolidated statements of financial condition		
Counterparty netting	**(131)**	**(131)**
Collateral	**(2,234)**	**(3,294)**
Total	**$ 116**	**$ –**

	As of December 2014	
	Assets	Liabilities
$ in millions	Resale agreements	Repurchase agreements
Amounts included in the consolidated statements of financial condition		
Gross carrying value	$ 5,510	$ 6,578
Counterparty netting	–	–
Total	5,510	6,578
Amounts not offset in the consolidated statements of financial condition		
Counterparty netting	(3,637)	(3,637)
Collateral	(1,864)	(2,725)
Total	$ 9	$ 216

In the tables above:

- The gross carrying values of these arrangements are primarily subject to enforceable netting agreements.
- Where the Bank 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

The table below presents the gross carrying value of repurchase agreements by class of collateral pledged.

	Repurchase agreements as of December	
$ in millions	**2015**	2014
U.S. government and federal agency obligations	**$ 6,336**	$ 5,894
Corporate debt securities	**92**	120
Other debt obligations	**275**	551
Equities and convertible debentures	**–**	13
Total	**$ 6,703**	$ 6,578

As of December 2015, all of the Bank's repurchase agreements were either overnight or had no stated maturity.

Other Secured Financings

In addition to repurchase agreements, the Bank 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 FHLB advances and transfers of financial assets accounted for as financings rather than sales (primarily collateralized by bank loans and mortgage whole loans included in "Financial instruments owned, at fair value.")

The Bank has elected to apply the fair value option to a portion of 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 Bank's fair value hierarchy in Notes 6 through 8. Had these financings been included in the Bank's fair value hierarchy, they would have been primarily classified in level 3 as of December 2015 and December 2014.

FHLB Advances. In December 2014, the Bank received approval to become a member of the FHLB. As a member of the FHLB, the Bank can draw on funding secured by eligible collateral. As of December 2015, outstanding borrowings from the FHLB were $2.92 billion and interest rates ranged from 3-month LIBOR plus 0.14% to 0.36% with a weighted average rate of 3-month LIBOR plus 0.23%. These borrowings are carried at fair value under the fair value option in the Bank fair value hierarchy. See Note 8 for further information about borrowings accounted for at fair value. As of December 2015, outstanding FHLB advances includes $502 million of short-term borrowings and $2.42 billion of long-term borrowings. As of December 2014 there were no outstanding FHLB advances.

Other. As of December 2015 and December 2014, other secured financings, excluding FHLB advances, were $107 million and $142 million, respectively. None of the amounts outstanding as of December 2015 had a contractual maturity of one year or less. Of the $142 million outstanding as of December 2014, $58 million had a contractual maturity of one year or less.

As December 2015 and December 2014, the aggregate contractual principal amount of other secured financings for which the fair value option was elected approximated their fair value.

Collateral Received and Pledged

The Bank receives cash and securities (e.g., U.S. government and federal agency, other sovereign and corporate obligations) as collateral, primarily in connection with resale agreements, derivative transactions and customer margin loans. The Bank 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 Bank is permitted to deliver or repledge financial instruments received as collateral when entering into repurchase agreements or collateralized derivative transactions.

The Bank also pledges certain financial instruments owned, at fair value and loans receivable in connection with repurchase agreements and other secured financings. These assets are pledged 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 Bank.

	As of December	
$ in millions	**2015**	2014
Collateral available to be delivered or repledged	**$ 6,622**	$ 5,971
Collateral that was delivered or repledged	**3,778**	4,635

The table below presents information about assets pledged.

	As of December	
$ in millions	**2015**	2014
Financial instruments owned, at fair value pledged to counterparties that:		
Had the right to deliver or repledge	**$ 5,358**	$ 4,976
Did not have the right to deliver or repledge	**4,456**	78
Other assets pledged to counterparties that:		
Did not have the right to deliver or repledge	**107**	65

Note 11.

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. See Note 3 for the Bank's consolidation policies, including the definition of a VIE.

The Bank enters into derivatives with certain mortgage-backed and corporate collateralized debt obligation (CDO) and sells loans to collateralized loan obligations (CLO) VIEs. The Bank also makes investments in and loans to VIEs that hold real estate and distressed loans. The Bank enters into basis swaps on assets held by other asset-backed VIEs. The Bank generally enters into derivatives with other counterparties to mitigate its risk from derivatives with these VIEs.

VIE Consolidation Analysis

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

The Bank's variable interests in VIEs include loan and lending commitments and derivatives that may include interest rate, foreign currency and/or credit risk.

The enterprise with a controlling financial interest in a VIE is known as the primary beneficiary and consolidates the VIE. The Bank 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 Bank reassesses its initial evaluation of whether an entity is a VIE when certain reconsideration events occur. The Bank 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 Bank holds variable interests.

	Nonconsolidated VIEs as of December	
$ in millions	**2015**	2014
Mortgage-Backed [1]		
Assets in VIEs	**$ 482**	$ 597
Carrying value of variable interests - assets	**12**	7
Carrying value of variable interests - liabilities	**1**	–
Maximum Exposure to Loss		
Derivatives	**454**	590
Total maximum exposure to loss	**454**	590
Corporate CDOs and CLOs		
Assets in VIEs	**595**	91
Carrying value of variable interests - assets	**246**	2
Carrying value of variable interests - liabilities	**1**	–
Maximum Exposure to Loss		
Commitments and guarantees	**647**	–
Derivatives	**117**	96
Loans and investments	**245**	–
Total maximum exposure to loss	**1,009**	96
Real estate, credit-related and other investing		
Assets in VIEs	**1,562**	1,252
Carrying value of variable interests - assets	**485**	456
Carrying value of variable interests - liabilities	**1**	2
Maximum Exposure to Loss		
Commitments and guarantees	**172**	246
Loans and investments	**485**	456
Total maximum exposure to loss	**657**	702
Other asset-backed		
Assets in VIE	**3,538**	2,659
Carrying value of variable interests - assets	**69**	47
Carrying value of variable interests - liabilities	**126**	–
Maximum Exposure to Loss		
Derivatives	**3,171**	2,617
Loans and investments	**35**	43
Total maximum exposure to loss	**3,206**	2,660
Total nonconsolidated VIEs		
Assets in VIEs	**6,177**	4,599
Carrying value of variable interests - assets	**812**	512
Carrying value of variable interests - liabilities	**129**	2
Maximum Exposure to Loss		
Commitments and guarantees	**819**	246
Derivatives	**3,742**	3,303
Loans and investments	**765**	499
Total maximum exposure to loss	**$ 5,326**	$ 4,048

1. Assets in VIEs and maximum exposure to loss include $223 million and $395 million as of December 2015 and of December 2014, respectively, related to CDOs backed by mortgage obligations.

The Bank's exposure to the obligations of VIEs is generally limited to its interests in these entities. In certain instances, the Bank 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 Bank'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 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 value of all assets and liabilities held by the Bank related to its variable interests in nonconsolidated VIEs are included in the consolidated statement of financial condition in "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value."

Consolidated VIEs

As of both December 2015 and December 2014, the Bank had no consolidated VIEs.

Note 12.

Other Assets

Other assets are generally less liquid assets. The table below presents other assets by type.

	As of December	
$ in millions	**2015**	2014
Receivables from affiliates	**$ 399**	$ 469
Federal Reserve Board shares	**412**	412
Income tax-related assets	**191**	265
Federal Home Loan Bank Shares	**160**	11
Other[1]	**254**	218
Total	**$ 1,416**	$ 1,375

1. Includes $229 million and $209 million related to investments in qualified affordable housing projects as of December 2015 and December 2014, respectively.

Note 13.

Deposits

The table below presents the Bank's deposits by type.

	As of December	
$ in millions	**2015**	2014
Savings	**$ 51,450**	$ 44,732
Time	**36,227**	27,977
Demand	**607**	413
Total [1]	**$ 88,284**	$ 73,122

1. Substantially all of the Bank's deposits were held in the U.S.

Savings accounts are comprised of money market deposit accounts (MMDA) and negotiable order of withdrawal accounts (NOW). MMDA and NOW are interest-bearing accounts that have no stated maturity or expiration date. The depositor may be required by the Bank to give written notice of intended withdrawals not less than seven days before such withdrawals are made.

Time deposits consist primarily of brokered certificates of deposit which have stipulated maturity dates and rates of interest. Early withdrawals of time deposits are generally prohibited.

Demand deposit accounts are accounts that may be interest-bearing, have no stated maturity or expiration date and are not subject to restrictions with respect to the timing and number of transactions that deposit holders may execute.

Savings and demand deposits are recorded based on the amount of cash received plus accrued interest, which approximates fair value. In addition, the Bank designates certain derivatives as fair value hedges to convert a majority 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 approximates fair value as of December 2015 and December 2014. While these savings, demand and most 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 Bank's fair value hierarchy in Notes 6 through 8. Had these deposits been included in the Bank's fair value hierarchy, they would have been classified in level 2 as of December 2015 and December 2014.

The table below presents the Bank's time deposits by contractual maturity.

$ in millions	As of December 2015
2016	$ 10,537
2017	6,219
2018	3,984
2019	4,010
2020	3,218
2021 - thereafter	8,259
Total[1]	**$ 36,227**

1. Includes $3.92 billion greater than $100,000, of which $741 million matures within three months, $730 million matures within three to six months, $2.33 billion matures within six to twelve months, and $127 million matures after twelve months.

The table below presents time deposits accounted for under the fair value option by tenor.

	As of December			
$ in millions	2015		2014	
	Principal	Fair Value	Principal	Fair Value
Maturity < 1 year	$ 2,020	$ 2,021	$ 2,970	$ 2,987
Maturity > 1 year	4,247	4,129	2,957	2,887
Total	**$ 6,267**	**$ 6,150**	$ 5,927	$ 5,874

Note 14.
Unsecured Borrowings

The table below presents details about the Bank's unsecured borrowings.

	As of December	
$ in millions	2015	2014
Unsecured long-term borrowings	$ 2,059	$ 2,059
Unsecured short-term borrowings[1]	100	144
Total	**$ 2,159**	$ 2,203

1. Primarily consists of hybrid financial instruments.

Subordinated Borrowings

The Bank has a $5.00 billion revolving subordinated loan agreement with Group Inc., which matures in 2039. As of both December 2015 and December 2014, outstanding subordinated borrowings were $2.00 billion. The carrying value of the subordinated borrowings generally approximates fair value. Amounts borrowed under this agreement bear interest at the federal funds open rate plus 1.85% per annum. Any amounts payable under the agreement would be subordinate to the claims of certain other creditors of the Bank, including depositors and regulatory agencies.

Senior Unsecured Borrowings

The Bank has an $8.50 billion committed senior unsecured credit line with Group Inc., which matures in 2017. As of both December 2015 and December 2014, the outstanding amount was $59 million.

The Bank has a senior debt facility consisting of an uncommitted term unsecured line of credit with Group Inc., which matures in 2019. As of both December 2015 and December 2014, there were no outstanding borrowings under this facility.

Hybrid Financial Instruments

The Bank accounts for hybrid financial instruments at fair value under the fair value option. See Note 8 for further information about hybrid financial instruments that are accounted for at fair value.

Note 15.
Other Liabilities and Accrued Expenses

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

	As of December	
$ in millions	2015	2014
Income tax-related liabilities	$ 953	$ 1,113
Payables to affiliates	959	897
Accrued expenses	507	499
Total	**$ 2,419**	$ 2,509

Note 16.
Commitments, Contingencies and Guarantees

Commitments

The table below presents the Bank's commitments by type.

	As of December	
$ in millions	2015	2014
Commitments to extend credit		
Commercial lending:		
Investment-grade	$ 65,259	$ 57,990
Non-investment-grade	28,028	22,986
Warehouse financing	3,190	2,646
Total commitments to extend credit	96,477	83,622
Contingent and forward starting resale agreements	709	506
Forward starting repurchase agreements	298	677
Investment commitments	708	315
Other	307	571
Total commitments	**$ 98,499**	$ 85,691

The table below presents the Bank's commitments by period of expiration.

	Commitment Amount by Period of Expiration as of December 2015			
$ in millions	2016	2017 - 2018	2019 - 2020	2021 - Thereafter
Commitments to extend credit				
Commercial lending:				
Investment-grade	$ 15,596	$ 12,996	$ 34,093	$ 2,574
Non-investment-grade	3,839	6,580	13,610	3,999
Warehouse financing	299	1,814	77	1,000
Total commitments to extend credit	19,734	21,390	47,780	7,573
Contingent and forward resale agreements	704	5	–	–
Forward starting lending agreements	298	–	–	–
Investment commitments	11	3	1	693
Other	307	–	–	–
Total commitments	**$ 21,054**	**$ 21,398**	**$ 47,781**	**$ 8,266**

Commitments to Extend Credit

The Bank'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 Bank may syndicate all or substantial additional portions of these commitments. In addition, commitments can expire unused or be reduced or cancelled at the counterparty's request.

As of December 2015 and December 2014, $77.98 billion and $60.35 billion, respectively, of the Bank's lending commitments were held for investment and were accounted for on an accrual basis. In addition, as of December 2015 and December 2014, $7.01 billion and $2.57 billion, respectively, of the Bank's lending commitments were held for sale and were accounted for at the lower of cost or fair value. See Note 9 for further information about such commitments.

The Bank accounts for the remaining commitments to extend credit at fair value. Losses, if any, are generally recorded, net of any fees in "Gains and losses from financial instruments, net."

Commercial Lending. The Bank'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 Bank 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.

Sumitomo Mitsui Financial Group, Inc. (SMFG) provides the Bank and its affiliates with credit loss protection on certain approved loan commitments (primarily investment-grade commercial lending commitments). The notional amount of such loan commitments was $25.06 billion and $25.45 billion as of December 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 Bank and its affiliates realize on such commitments, up to a maximum of approximately $950 million. In addition, subject to the satisfaction of certain conditions, upon the Bank'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 December 2015 and December 2014. The Bank 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 Bank 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 Agreements/Forward Starting Repurchase Agreements

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

Investment Commitments

The Bank's investment commitments consist of commitments to invest in securities, real estate and other assets.

Contingencies

Legal Proceedings. See below and Note 17 for information about legal proceedings.

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.** Substantially all of the activity described below, with respect to representations and warranties, occurred prior to the November 2008 reorganization of the Bank. Any losses incurred within the entities contributed during the reorganization are thus reimbursed under the Guarantee (see Notes 1 and 19 for additional information about the Guarantee). As such, there will not be an impact to the continuing operations or results of the Bank with respect to these matters.

  The Bank has not been a significant originator of residential mortgage loans. The Bank did purchase loans originated by others and generally received loan-level representations. During the period 2005 through 2008, the Bank sold approximately $10 billion of loans to government-sponsored enterprises and approximately $11 billion of loans to other third parties. In addition, the Bank transferred loans to trusts and other mortgage securitization vehicles. In connection with both sales of loans and securitizations, the Bank provided loan-level representations and/or assigned the loan-level representations from the party from whom the Bank purchased the loans.

  The Bank's exposure to claims for repurchase of residential mortgage loans based on alleged breaches of representations will depend on a number of factors such as 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 Bank has entered into with trustees representing trusts.

  Based upon the large number of defaults in residential mortgages, including those sold or securitized by the Bank, there is a potential for repurchase claims. However, the Bank is not in a position to make a meaningful estimate of that exposure at this time.

Guarantees

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

	As of December 2015		
$ in millions	**Derivatives**	**Securities lending indemnifications**	**Other financial guarantees**
Carrying Value of Net Liability	**$ 1,363**	**$ –**	**$ 1**
Maximum Payout/Notional Amount by Period of Expiration			
2016	**$ 49,816**	**$ 37,256**	**$ 124**
2017 - 2018	**22,817**	**–**	**976**
2019 - 2020	**18,978**	**–**	**663**
2021 - Thereafter	**4,835**	**–**	**656**
Total	**$ 96,446**	**$ 37,256**	**$ 2,419**

	As of December 2014		
$ in millions	Derivatives	Securities lending indemnifications	Other financial guarantees
Carrying Value of Net Liability	$ 1,118	$ –	$ 14
Maximum Payout/Notional Amount by Period of Expiration			
2015	$ 34,010	$ 31,584	$ 145
2016 - 2017	12,146	–	377
2018 - 2019	19,702	–	1,229
2020 - Thereafter	9,752	–	684
Total	$ 75,610	$ 31,584	$ 2,435

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 tables in "Commitments" above for a summary of the Bank's commitments.

Derivative Guarantees. The Bank enters into various derivatives that meet the definition of a guarantee under U.S. GAAP, including 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 Bank's overall risk related to its derivative activities. Disclosures about derivatives are not required if they may be cash settled and the Bank has no basis to conclude it is probable that the counterparties held the underlying instruments at inception of the contract.

The Bank 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 Bank 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 Bank, 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 $38.27 billion and $32.46 billion as of December 2015 and December 2014, respectively. Because the contractual nature of these arrangements requires the Bank 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 Bank 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). 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.

Other Representations, Warranties and Indemnifications. The Bank 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 Bank 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 borrowings or derivatives.

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

Note 17.
Legal Proceedings

The Bank is involved in a number of judicial, regulatory and other proceedings (including those described below) concerning matters arising in connection with the conduct of the Bank's businesses. Many of these proceedings are in early stages, and many of these cases seek an indeterminate amount of damages. For certain proceedings, however, the Bank expects that it would receive reimbursement from Group Inc. under the Guarantee agreement (see Notes 1 and 19).

With respect to the matters described below, management is unable to estimate a range of reasonably possible loss for matters in which the Bank is involved due to various factors, including (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) the 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.

Management does not believe, based on currently available information, that the outcomes of any matters will have a material adverse effect on the Bank's financial condition, though the outcomes could be material to the Bank's operating results for any particular period, depending, in part, upon the operating results for such period. Matters that the Bank is involved in include but are not limited to the following:

- **Interest Rate Swap Antitrust Litigation.** The Bank and certain affiliates of the Bank (including Group Inc.) are among the defendants named in putative antitrust class actions relating to the trading of interest rate swaps, filed beginning in November 2015 in the U.S. District Courts for the Southern District of New York and the Northern District of Illinois. The complaint generally alleges a conspiracy among the dealers and brokers since at least January 1, 2007 to preclude exchange trading of interest rate swaps. The complaint seeks declaratory and injunctive relief as well as treble damages in an unspecified amount. On February 25, 2016, certain plaintiffs in the New York court filed an amended complaint, and moved to consolidate all pending actions in that court.

- **Regulatory Investigations and Reviews and Related Litigation**. The Bank and certain of its affiliates (including Group Inc.) are subject to a number of 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 such matters in each case relating to the Bank's businesses and operations, including, but not limited to residential mortgage lending and compliance with related consumer laws; the sales, trading, execution and clearance of derivatives, currencies and other financial products and related communications and activities, including trading activities and communications in connection with the establishment of benchmark rates in both currency and interest rate swap markets and activities in U.S. Treasury securities. The Bank is cooperating with all such regulatory investigations and reviews.

In addition, investigations, reviews and litigation involving the Bank's affiliates and such affiliates' businesses and operations, including various matters referred to above but also other matters, may have an impact on the Bank's businesses and operations.

Note 18.
Regulation and Capital Adequacy

The Bank is regulated as described in Note 1, and is subject to consolidated regulatory capital requirements as described below. For purposes of assessing the adequacy of its capital, the Bank calculates its capital requirements in accordance with the revised risk-based capital and leverage regulations applicable to state member banks.

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 Bank's regulators. The Bank's capital levels are also subject to qualitative judgments by the regulators about components of capital, risk weightings and other factors.

Capital Framework

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

As of December 2015, the Bank 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 Bank'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 Bank as of December 2015.

The capital ratios that apply to the Bank can change in future reporting periods as a result of these regulatory requirements.

As of December 2014, the Bank 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 Bank'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 Rules were the ratios that applied to the Bank as of December 2014.

Regulatory Capital and Capital Ratios. The U.S. Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, requires the federal bank regulatory agencies to take "prompt corrective action" (PCA) in respect of depository institutions that do not meet specified capital requirements. FDICIA establishes five capital categories for FDIC-insured banks: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

Under the regulatory framework for prompt corrective action applicable to the Bank, in order to meet the quantitative requirements for being a "well-capitalized" depository institution, the Bank 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 the Bank as of December 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 [1]	4.0%	5.0%

1. 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).

The Bank was in compliance with its minimum capital requirements and the "well capitalized" minimum ratios as of December 2015 and December 2014. The Bank's capital levels and prompt corrective action classification are also subject to qualitative judgements 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 the Bank's regulators.

Certain aspects of the Revised Capital Framework's requirements phase in over time (transitional provisions). These include the introduction of capital buffers (including surcharges). The minimum CET1, Tier 1 and Total capital ratios that apply to the Bank will increase as the transitional provisions phase in and capital buffers (including surcharges) are introduced.

Definition of Risk-Weighted Assets. As of December 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.

Regulatory Capital Ratios and RWAs. As of December 2015, each of the CET1, Tier 1 capital and Total capital 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 Bank as of December 2015.

As of December 2014, each of the CET1, Tier 1 capital and Total capital 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 the Bank as of December 2014.

The table below presents the ratios for the Bank calculated in accordance with both the Standardized and Basel III Advanced Rules as of both December 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.

	As of December	
$ in millions	**2015**	2014
Standardized		
Common Equity Tier 1	**$ 23,017**	$ 21,293
Tier 1 capital	**23,017**	21,293
Tier 2 capital	**2,311**	2,182
Total capital	**$ 25,328**	$ 23,475
RWAs	**$ 202,197**	$ 200,605
CET1 ratio	**11.4%**	10.6%
Tier 1 capital ratio	**11.4%**	10.6%
Total capital ratio	**12.5%**	11.7%
Basel III Advanced		
Common Equity Tier 1	**$ 23,017**	$ 21,293
Tier 1 capital	**23,017**	21,293
Standardized Tier 2 capital	**$ 2,311**	$ 2,182
Allowance for losses on loans and lending commitments	**(311)**	(182)
Tier 2 capital	**2,000**	2,000
Total capital	**$ 25,017**	$ 23,293
RWAs	**$ 131,059**	$ 141,978
CET1 ratio	**17.6%**	15.0%
Tier 1 capital ratio	**17.6%**	15.0%
Total capital ratio	**19.1%**	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	**16.4%**	17.3%

Required Reserves

The deposits of the Bank are insured by the FDIC to the extent provided by law. The Federal Reserve Board requires that the Bank maintain cash reserves with the Federal Reserve Bank of New York. The amount deposited by the Bank held at the Federal Reserve Bank of New York was $49.36 billion and $38.68 billion as of December 2015 and December 2014, respectively, which exceeded required reserve amounts by $49.25 billion and $38.57 billion as of December 2015 and December 2014, respectively.

Note 19.
Transactions with Related Parties

Transactions between the Bank and Group Inc. and its subsidiaries and affiliates are regulated by the Federal Reserve Board. These regulations generally limit the types and amounts of transactions (including credit extensions from the Bank) that may take place and generally require those transactions to be on terms that are at least as favorable to the Bank as prevailing terms for comparable transactions with non-affiliates. These regulations generally do not apply to transactions between the Bank and its subsidiaries.

The table below presents amounts outstanding to/from affiliates, as defined by U.S. GAAP.

	As of December	
$ in millions	**2015**	2014
Assets		
Cash	**$ 30**	$ 25
Securities purchased under agreements to resell, at fair value	**200**	3,646
Receivables from customers and counterparties, brokers, dealers and clearing organizations	**2,154**	1,330
Financial instruments owned, at fair value	**1,132**	461
Other assets	**399**	469
Total	**$ 3,915**	$ 5,931
Liabilities		
Deposits due to affiliates	**$ 6,215**	$ 3,145
Securities sold under agreements to repurchase, at fair value	**3,421**	6,578
Payables to customers and counterparties, brokers, dealers and clearing organizations	**336**	276
Financial instruments sold, but not yet purchased at fair value	**1,376**	605
Unsecured borrowings (includes $37 at fair value as of both December 2015 and December	**2,098**	2,098
Other liabilities and accrued expenses	**970**	918
Total	**$ 14,416**	$ 13,620

Group Inc. Guarantee Agreement

In November 2008, Group Inc. executed a reorganization of the Bank which involved the transfer of assets and operations to the Bank. In connection with this transfer, Group Inc. entered into the Guarantee (see Note 1) with the Bank whereby Group Inc. agreed to (i) purchase from the Bank certain transferred assets or reimburse the Bank for certain losses relating to those assets; (ii) reimburse the Bank for credit-related losses from assets transferred to the Bank; and (iii) protect the Bank or reimburse it for certain losses arising from derivatives and mortgage servicing rights transferred to the Bank.

Beginning November 28, 2013, the provisions of the Guarantee relating to derivatives transferred into the Bank were no longer in effect. The other provisions of the Guarantee were still in effect as of December 2015.

The Bank accounts for certain portions of the Guarantee as a derivative contract under U.S. GAAP; other components are accounted for as a receivable from affiliate.

As of both December 2015 and December 2014, the amount of the guarantee recorded as a receivable in “Financial instruments owned, at fair value” was immaterial.

As of December 2015 and December 2014, the Bank recorded $1 million and $36 million, respectively, in “Other assets” with respect to reimbursement for losses associated with representations and warranties made by the Bank prior to the date of the Bank’s reorganization. See Note 16 for further discussion of contingencies associated with such representations and warranties.

The Bank recorded net gains of $4 million and $3 million for 2015 and 2014, respectively, in “Gains and losses from financial instruments, net” with respect to the Guarantee.

Interest Income and Expense

The Bank recognizes interest income and interest expense in connection with various affiliated transactions. These transactions include securities purchased under agreements to resell, securities sold under agreements to repurchase, deposits due to affiliates, other liabilities and accrued expenses, and subordinated borrowings. The Bank recognized net interest expense from affiliates of $89 million for 2015 and net interest income of $55 million for 2014.

Other Transactions

The Bank enters into various activities with affiliated entities and allocates revenues to, and receives revenues from, such affiliates for their participation. The Bank allocated net revenues to affiliates of $737 million for 2015 and $358 million for 2014. These amounts are included in “Gains and losses from financial instruments, net.”

The Bank is subject to service charges from affiliates. The Bank reimbursed affiliates $442 million for 2015 and $485 million for 2014 for services rendered. These amounts are included in “Service charges.”

The Bank enters into derivative contracts with Group Inc. and its affiliates in the normal course of business. As of December 2015 and December 2014, the net outstanding derivative contracts with Group Inc. and affiliates totaled $1.13 billion and $461 million, respectively, in “Financial instruments owned, at fair value,” and $1.37 billion and $605 million, respectively, in “Financial instruments sold, but not yet purchased, at fair value.”

In connection with its partnership interest in MMDP, the Bank has provided to Mitsui Sumitomo additional protection in the form of assets held in a VIE which could be liquidated for the benefit of Mitsui Sumitomo under certain circumstances.

Equity Transactions

There were no capital contributions during 2015. During 2014, the Bank recorded $131 million in non-cash capital contributions. The contributions recorded for 2014 were related to the transfer of Group Inc.-owned subsidiaries to the Bank.

During 2015 and 2014, the Bank did not pay dividends to Group Inc.

Note 20.

Interest Income and Interest Expense

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

	Year Ended December	
$ in millions	**2015**	2014
Interest income		
Deposits with banks	**$ 128**	$ 130
Securities purchased under agreements to resell	**78**	25
Financial instruments owned, at fair value	**887**	734
Loans receivable	**865**	512
Other interest [1]	**91**	53
Total interest income	**2,049**	1,454
Interest expense		
Deposits	**363**	287
Securities sold under agreement to repurchase	**1**	1
Financial instruments sold, but not yet purchased, at fair value	**44**	51
Borrowings [2]	**56**	31
Other interest [3]	**186**	44
Total interest expense	**650**	414
Net interest income	**$ 1,399**	$ 1,040

1. Consists of interest income on collateral balances posted to counterparties, loans accounted for as held for sale and other interest-earning assets.
2. Primarily relates to net interest incurred on the Bank's affiliate borrowing from Group Inc. and other secured financings.
3. Consists of interest expense on collateral balances received from counterparties and on funding facilities, primarily from affiliates.

Note 21.

Employee Incentive Plans and Employee Benefit Plans

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

Stock Incentive Plan

Group Inc. sponsors a stock incentive plan, The Goldman Sachs Amended and Restated Stock Incentive Plan (2015) (2015 SIP), which provides for grants of RSUs, restricted stock, dividend equivalent rights, incentive stock options, nonqualified stock options, stock appreciation rights, and other share-based awards, each of which may be subject to performance conditions. On May 21, 2015, the 2015 SIP was approved by Group Inc.'s shareholders. The 2015 SIP replaced the Amended and Restated Stock Incentive Plan (2013) (2013 SIP) previously in effect, and applies to awards granted on or after the date of approval.

Restricted Stock Units

Group Inc. grants RSUs to employees under the 2015 SIP, which are valued based on the closing price of the underlying shares on the date of grant after taking into account a liquidity discount for any applicable post-vesting and delivery transfer restrictions. RSUs generally vest and underlying shares of common stock deliver as outlined in the applicable award agreements. Employee award agreements generally provide that vesting is accelerated in certain circumstances, such as on retirement, death, disability and conflicted employment. The amortization of the cost of these RSUs is allocated to the Bank by Group Inc. Delivery of the underlying shares of common stock is conditioned on the grantees satisfying certain vesting and other requirements outlined in the award agreements.

The table below presents the activity related to Group Inc. RSUs granted to the Bank employees.

	Restricted Stock Units Outstanding		Weighted Average Grant-Date Fair Value of Restricted Stock Units Outstanding	
	Future Service Required	No Future Service Required	Future Service Required	No Future Service Required
Outstanding, December 2014	64,437	138,935	$ 149.21	$ 134.17
Granted [1, 2]	**68,766**	**77,902**	**170.07**	**156.82**
Forfeited	**(1,275)**	**(508)**	**151.29**	**145.60**
Delivered	**–**	**(91,627)**	**–**	**130.65**
Vested [2]	**(50,419)**	**50,419**	**146.88**	**146.88**
Transfers	**7,409**	**–**	**164.66**	**–**
Outstanding, December 2015	**88,918**	**175,121**	**163.31**	**149.71**

1. The weighted average grant-date fair value of RSUs granted during 2015 and 2014 was $163.03 and $155.63, respectively. The fair value of RSUs granted during 2015 and 2014 includes a liquidity discount of 8.4% and 12.2%, respectively, to reflect post-vesting and delivery transfer restrictions of up to 4 years.
2. The aggregate fair value of awards that vested during 2015 and 2014 was $21 million and $14 million, respectively.

Stock Options

Stock options generally vest as outlined in the applicable stock option agreement. In general, options expire on the tenth anniversary of the grant date, although they may be subject to earlier termination or cancellation under certain circumstances in accordance with the terms of the applicable stock option agreement and the SIP in effect at the time of grant.

The table below presents the activity related to outstanding Group Inc. stock options granted to the Bank employees.

	Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value (*$ in millions*)	Weighted Average Remaining Life (years)
Outstanding, December 2014	24,413	$ 78.78	$ 3	4.00
Exercised	–	–	–	–
Outstanding, December 2015	**24,413**	**78.78**	**2**	**3.00**
Exercisable, December 2015	**24,413**	**78.78**	**2**	**3.00**

The total intrinsic value of options exercised during 2015 and 2014 was $0 and $17 million, respectively.

The table below presents options outstanding.

Exercise Price	**Options Outstanding**	**Weighted Average Exercise Price**	**Weighted Average Remaining Life (years)**
$ 75.00 - $ 89.99	**24,413**	**$ 78.78**	**3.00**
Outstanding, December 2015	**24,413**	**78.78**	**3.00**

Total employee share-based compensation expense, net of forfeitures, was $20 million and $14 million for 2015 and 2014, respectively.

As of December 2015, there was $8 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements. This cost is expected to be recognized over a weighted average period of 1.64 years.

Defined Benefit Pension Plans

Group Inc. maintains a defined benefit pension plan for substantially all U.S. employees hired prior to November 1, 2003. As of November 2004, this plan was closed to new participants and frozen for existing participants. Group Inc. also maintains unfunded postretirement benefit plans that provide medical and life insurance for eligible retirees and their dependents covered under these programs. The Bank's contribution to these plans did not have a material impact on the Bank's consolidated results of operations.

Defined Contribution Plans

The Bank contributes to Group Inc. employer-sponsored defined contribution plans.

Note 22.

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 Bank reports interest expense related to income tax matters in "Provision for taxes" and income tax penalties in "Other expenses."

The Bank's results of operations are included in the consolidated federal and certain state tax returns of GS Group. The Bank computes its tax liability as if it was filing a tax return on a modified separate company basis and settles such liability with Group Inc. pursuant to a tax sharing agreement. To the extent the Bank generates tax benefits from losses, it will be reimbursed by Group Inc. pursuant to a tax sharing agreement at such time as GS Group would have been able to utilize such losses. As of December 2015, the Bank recorded a net tax payable of $953 million in "Other liabilities and accrued expenses" and net deferred tax assets of $191 million in "Other assets." As of December 2014, the Bank recorded a net tax payable of $1.11 billion recorded in "Other liabilities and accrued expenses" and deferred tax assets of $265 million in "Other assets."

For 2015 and 2014, differences between the Bank's statutory tax rate and effective tax rate primarily related to state income taxes, settlement of tax audits, and tax credits.

The table below presents the components of the provision for taxes.

	Year Ended December	
$ in millions	**2015**	2014
Current Taxes		
U.S. federal	**$ 814**	$ 721
State and local	**(113)** [1]	281
Non-U.S.	**–**	2
Total current tax expense	**701**	1,004
Deferred taxes		
U.S. federal	**59**	(74)
State and local	**20**	–
Total deferred tax expense/(benefit)	**79**	(74)
Provision for taxes	**$ 780**	$ 930

1. Includes the impact of a settlement of state and local examinations.

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. As of December 2015 and December 2014, the Bank did not record a valuation allowance. Tax assets and liabilities are presented as a component of "Other assets" and "Other liabilities and accrued expenses," respectively.

The table below presents the components of deferred tax assets and liabilities.

	As of December	
$ in millions	**2015**	2014
Deferred tax assets		
ASC 740 assets related to unrecognized tax benefits	**$ 54**	$ 130
Reserves	**120**	95
Unrealized losses	**64**	23
Compensation and benefits	**19**	17
Total deferred tax assets	**$ 257**	$ 265
Deferred tax liabilities		
Unrealized gain	**66**	–
Total deferred tax liabilities	**$ 66**	$ –

Unrecognized Tax Benefits

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

As of December 2015 and December 2014, the Bank recorded a net liability for uncertain tax positions of $98 million and $234 million, respectively. As of December 2015 and December 2014, the accrued liability for interest expense related to income tax matters and income tax penalties was $26 million and $59 million, respectively. It is reasonably possible that unrecognized tax benefits could change significantly during the twelve months subsequent to December 2015 due to potential audit settlements. However, at this time it is not possible to estimate any potential change.

Regulatory Tax Examinations

The Bank is subject to examination by the U.S. Internal Revenue Service (IRS) and other taxing authorities in jurisdictions where the Bank has significant business operations, such as New York State and City. The tax years under examination vary by jurisdiction.

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.

GS Group has been accepted into the Compliance Assurance Process program by the IRS for the 2013, 2014, 2015 and 2016 tax years. This program allows GS Group. 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 2013 and 2014 remain subject to post-filing review.

During the fourth quarter of 2015, GS Group reached settlements with New York State and City with respect to the portion of these examinations relating to the Bank for fiscal 2008 through 2010.

New York State and City examinations of 2011 through 2014 began in 2015.

All years including and subsequent to 2007 for all states in which the Bank is included in a combined tax filing remain open to examination by the taxing authorities. The Bank believes that the liability for unrecognized tax benefits it has established is adequate in relation to the potential for additional assessments.

Note 23.
Credit Concentrations

Credit concentrations may arise from the Bank's lending, market-making and other activities and may be impacted by changes in economic, industry or political factors. The Bank seeks to mitigate credit risk by actively monitoring exposures and obtaining collateral from counterparties as deemed appropriate.

While the Bank's activities expose it to many different industries and counterparties, the Bank 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 Bank 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.

As of December 2015 and December 2014, the Bank had exposure of $14.71 billion or 10.9% of total assets, and $13.57 billion or 11.5% of total assets, respectively, related to U.S. government and federal agency obligations. These are included in "Financial instruments owned, at fair value." As of December 2015 and December 2014, the Bank did not have credit exposure to any other counterparty that exceeded 2% of total assets.

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

The Bank had $3.23 billion and $3.47 billion of U.S. government and federal agency obligations that collateralize resale agreements as of December 2015 and December 2014, respectively. Because the Bank's primary credit exposure on such transactions is to the counterparty to the transaction, the Bank would be exposed to the collateral issuer only in the event of counterparty default.

Note 24.
Subsequent Events

The Bank evaluated subsequent events through April 26, 2016, the date the consolidated financial statements were issued, and determined that there were no material events or transactions that would require recognition or disclosure in these consolidated financial statements, except as described below.

In April 2016, following regulatory approvals, the Bank acquired GE Capital Bank's online deposit platform and assumed approximately $16 billion of deposits.