A Culture of Excellence

Our firm has a rich, 200-year history of serving its clients and customers with integrity and establishing relationships based on trust. It is our responsibility to preserve and build upon the solid values on which this firm was founded. The tone we set as stewards of the firm is critical, and managing a culture of excellence, as well as integrity, requires us to have a sophisticated and comprehensive infrastructure.

The Chief Operating Office is central to delivering operational excellence. It is responsible for many of the firm’s corporate utilities, including Treasury, the Chief Investment Office, Global Technology, Operations, Oversight & Control, Compliance, Corporate Strategy, Global Real Estate, Global Security & Military Affairs and Regulatory Affairs, among others. In 2014, we focused a great deal on what it means to be a Global Systemically Important Bank (G-SIB) and how best to ensure we manage to the needs of our critical stakeholders – shareholders, clients, customers and employees – given our significance to worldwide markets and the global economy. We continue to respond to the changing regulatory landscape, including requirements for G-SIBs, and we are evaluating the businesses we manage and the products and services we offer in the context of these new requirements. As an example, we announced the firm is targeting up to a $100 billion reduction in non-operating wholesale deposits. At a minimum, we are committed to ensuring we remain safely within the 4.5% G-SIB capital surcharge bucket and are looking at additional actions to potentially reduce our surcharge by an incremental 50 basis points.

Last year, we published Business Principles, key themes around which we want to drive the firm. These principles are fundamental to our success and provide guidance for our identity as a company while informing our firmwide strategic priorities.

We distributed the principles to our employees and regulators and followed up with a more extensive “How We Do Business – The Report,” which is available on our public website.

We recently launched a firmwide Culture and Conduct Program to further reinforce the behavioral standards implicit in these Business Principles. The program is not about reinventing our culture but recommitting to it. It considers our culture, business models, tone from senior executives, governance and incentive structures; how they influence daily decision making at all levels; and the impact of those decisions on our clients, our reputation and the integrity of the markets. Our objective is to instill in our employees a strong sense of personal accountability through broad, deep integration of common standards across businesses and geographies. In 2015, we will develop a suite of metrics to enable management to keep a pulse on how we are doing in regard to our company culture and with respect to specific conduct risks. We have committed, in 2015, that each line of business and function will implement a Culture and Conduct Program aligned to the firmwide framework.

Execution against our principles requires us to be ever mindful of new opportunities to reduce complexity and improve efficiency. As part of our business simplification strategy, we spun off One Equity Partners, the firm’s private equity

Matt Zames
unit, which was completed in early January 2015. We realized significant savings through the reshaping of our workforce and consolidation of jobs in the right locations, creating efficiencies in labor and real estate costs and promoting consistency in our control culture. We are committed to managing expenses tightly, eliminating waste, and running the firm in a nimble and flexible manner.

We continue to look for additional opportunities to do business in smarter ways. For example, over the last few years, the firm made a significant investment in telecommunications and collaboration tools to facilitate alternatives to air travel. We have rationalized the population of vendors, in large part through the establishment of preferred vendors in categories such as information technology (IT), real estate services, printing, and marketing and advertising. In addition, we are in the process of rationalizing our population of law firms and physical security vendors.

We will not compromise on the control environment and, to that end, continue to tighten data controls for ourselves, as well as for our third parties. This involves fortifying our defenses to ensure all of our managers, employees and vendors are following the appropriate security and hygiene practices with regard to work email, password protection, data encryption, system entitlements and social media. We continue to carefully monitor third-party systems and to increase our oversight of all the vendors with whom we work to make sure their protections are adequate.

**Liquidity and interest rate risk management continue to be important**

Liquidity and interest rate risk management are fundamental to how we manage the firm and take on increasing importance for the firm as a G-SIB. As we advance our thinking in response to an evolving set of regulatory requirements, we are driving a coordinated approach to management of the firm’s balance sheet.

2014 featured final versions of important regulatory liquidity rules, notably the liquidity coverage ratio by U.S. banking regulators and Basel’s final rule on the net stable funding ratio, with which we are compliant. We devoted significant resources to understanding the potential liquidity impact of changing Fed monetary policy and rising rates, particularly the impact on our wholesale deposit base. As a direct result of this effort, we further refined and improved our internal stress framework. We continue to be in compliance with our internal measures.

We progressed our technology buildout to enable more flexible and timely liquidity stress testing for the enterprise and major legal entities. We further evolved the Liquidity Risk Oversight group, which provides independent assessment, measurement, monitoring and control of liquidity risk. We established a firmwide program to set up a best-in-class intraday liquidity management process and infrastructure in preparation for a changing market environment and emerging regulatory expectations.

We continue to actively manage our investment securities portfolio of over $340 billion, the primary vehicle used to offset the firm’s loan and deposit mismatch and moderate firmwide structural interest rate risk. In 2014, we further increased the proportion of investment securities that we intend to hold to maturity to nearly $50 billion, which will help to mitigate Basel III capital volatility in a rising rate environment. The average yield of our investment securities portfolio increased by 45 basis points from a yield of 2.32 in 2013 to 2.77 in 2014 despite generally lower interest rates, and we maintained an average portfolio rating of AA+.

**Cybersecurity remains a top priority**

In 2014, we experienced cyber threats of an unprecedented scale. This included a data breach we incurred last summer, which we voluntarily disclosed. We continue to discover and block new and unique malware, viruses and phishing attempts to obtain access to our data. Importantly, cyber attacks to date have not resulted in material harm to our clients or customers and have not had a material adverse impact on our results or operations.

To defend against these threats, we spent more than $250 million in 2014 on our cyber capabilities. We established three global Security Operations Centers to monitor, detect and defend the firm. We organized cyber defense exercises to test our capabilities and conducted an independent assessment of our cybersecurity program to identify actions for continual improvement. We doubled the number of cybersecurity personnel over the past two years and hired top-notch security experts.

Over the next two years, we will increase our cybersecurity spend by nearly 80% and enhance our cyber defense capabilities with robust testing, advanced analytics and
In 2015, approximately 50% of our technology investment spend will be in support of our strategic business priorities, including:

- **Digital:** End-to-end digital commerce across web, mobile and future channels and across our businesses.
- **Data & Analytics:** Leveraging of our firmwide data assets for operational stability, customer value, revenue generation, and risk and security.
- **Mobile, Unified Communications:** Communications channel integration into business applications to enrich interaction among employees, clients and customers.
- **Next Generation Cloud Infrastructure:** Increased cloud footprint to enhance cost efficiency and flexibility using highly elastic, on-demand, self-service infrastructure.
- **Next Generation Development:** Increased developer productivity, quality and pace of application delivery.
- **Security & Controls:** Framework to address the increasing volume, pace and sophistication of security threats.

In addition, we will continue to innovate in 2015 by improving branch automation and efficiency, extending our electronic trading platforms, launching an advisor workstation platform for Asset Management and implementing a new commercial real estate loan originations system.

**Our focus on the control agenda has become “business as usual”**

We have made substantial investments and transformative changes to strengthen our control environment. Since the creation of Oversight & Control in 2012 to embed greater focus and discipline on controls within each business, the group has successfully integrated into each business and function to make the control agenda a core strategy and priority.

Over the past few years, Oversight & Control has significantly enhanced the quality of, and standard requirements for, our business self-assessment process, designed to identify and assess key operating risks in each area. We introduced common control reporting on a range of metrics and, in 2015, will further develop capabilities to analyze trends and conduct impact analysis across businesses. Of the original 24 enterprise-wide programs established in 2013 to tackle top control issues, many now are complete, and the work has transitioned from projects to business-as-usual operations. We anticipate closing the lion’s share of the programs in 2015.

**The compliance agenda is continuously evolving**

Our firm’s compliance capabilities have improved significantly over the past year. 2014 was focused on execution across the foundational components of the compliance program. We enhanced standards and protocols across core practices, strengthened our employee compliance program, and continue to evolve and develop...
trade and e-communications surveillance programs. Building a world-class Anti-Money Laundering (AML) program remains a top priority, and a significant amount of work has been completed on the Bank Secrecy Act/AML and Sanctions programs, including a new, global set of Know Your Customer standards.

This year, Compliance will focus on enhancing standards for market conduct risk, fiduciary responsibilities, employee compliance and regulatory reporting. Ongoing strategic technology investments and process improvements will position us to continue delivering in a heightened regulatory environment.

Conclusion

We understand the importance of operational excellence, effective risk management across all risk categories, a fortress infrastructure, and a culture that is rooted in integrity, fairness and responsibility. We have addressed new challenges by applying lessons learned more effectively, and we are able to respond more quickly owing to the talent of our people and our investments in infrastructure and controls.

We continue to strengthen our client- and customer-centered culture and set high standards for performance as we invest in targeted growth opportunities and first-rate systems and operations, simplify our businesses and redouble expense management efforts. Our Business Principles will be our guidepost as we make decisions each step of the way. We are indebted to our predecessors for the solid foundation we inherited and will be vigilant in our commitment to maintaining the world-class reputation we have worked so hard to build. The company is well-positioned to help our clients and customers to the fullest, with integrity, and that is what we intend to do. To achieve our objectives, we must execute strategically and with urgency.

Matt Zames
Chief Operating Officer

2014 HIGHLIGHTS AND ACCOMPLISHMENTS

- Evaluated business activities in light of G-SIB; committed to operating at or below the 4.5% G-SIB capital surcharge bucket
- Targeted a $100 billion reduction in non-operating wholesale deposits
- Launched a firmwide Culture and Conduct Program to reinforce our Business Principles across all businesses and functions globally
- Met liquidity regulatory requirements; advanced our own internal framework, including technology capabilities and independent risk oversight
- Maintained AA+ average rating in our investment securities portfolio; improved the average yield of investment securities from 2.32 in 2013 to 2.77 in 2014 despite low rate environment
- Spun off One Equity Partners as part of ongoing business simplification efforts
- Managed expenses tightly through, among other things, creating economies of scale through consolidation of jobs in strategic locations and establishment of preferred vendors
- Matured our efforts to further strengthen controls, including transitioning many enterprise-wide programs to business-as-usual
- For the sixth consecutive year, invested 8%-9% of the firm’s annual revenue in global technology capabilities and digital innovation
- Processed an average of approximately $6 trillion in payments daily
- Spent more than $250 million in 2014 to protect the firm from cyber attacks and will increase cyber spend by nearly 80% over the next two years