

Fellow Shareholders:



As many of you know first hand, 2015 was a tale of two halves: the first half of the year featured a strong operating environment, but headwinds emerged, particularly during the second half, and these headwinds persisted into early 2016.

The first two quarters of 2015 were marked by heightened demand from our corporate clients for strategic advice and financings, strong client activity across our Equities franchise and growing demand from our Investment Management clients for our products and services. These factors culminated in record first-half results in Investment Banking and Investment Management, as well as the best first-half performance for Equities in six years.

As the year progressed, increasing concerns about China, the first rate hike from the U.S. Federal Reserve in nearly a decade, slowing global growth and falling commodity prices — especially in oil — began to emerge. We faced these headwinds, and lower client activity across many of our businesses suggested that our clients and peers also faced their share of challenges.

In addition to the impact of the operating environment, our 2015 financial performance was negatively affected by the resolution of our most significant outstanding legal exposure relating to our securitization, underwriting and sale of residential mortgage-backed securities (RMBS) from 2005 to 2007. In January 2016, we announced an agreement in principle with the RMBS Working Group,*

under which we will pay a \$2.39 billion civil monetary penalty, make \$875 million in cash payments and provide \$1.80 billion in consumer relief.

Despite these factors, our strong and diversified client franchise allowed us to produce relatively stable net revenues in 2015. The firm generated net revenues of \$33.82 billion, marking our fourth consecutive year of roughly \$34 billion in net revenues. Net earnings were \$6.08 billion and diluted earnings per common share were \$12.14. Return on average common shareholders' equity (ROE) was 7.4 percent for 2015, which would have been 3.8 percentage points higher excluding the provisions we recorded during the year related to the RMBS Working Group settlement.

* On January 14, 2016, the firm announced an agreement in principle, subject to the negotiation of definitive documentation, to resolve the ongoing investigation of the Residential Mortgage-Backed Securities Working Group of the U.S. Financial Fraud Enforcement Task Force (RMBS Working Group). The agreement in principle will resolve actual and potential civil claims by the U.S. Department of Justice, the New York and Illinois Attorneys General, the National Credit Union Administration (as conservator for several failed credit unions) and the Federal Home Loan Banks of Chicago and Seattle, relating to the firm's securitization, underwriting and sale of residential mortgage-backed securities from 2005 to 2007. For additional information, see the firm's Form 8-K filed with the U.S. Securities and Exchange Commission on January 14, 2016.



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

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

In this year's letter to our shareholders, we cover a wide array of topics, including an overview of our financial profile, a review of our strong and diverse client franchise, as well as our thoughts on the forward outlook, particularly how we are thinking about navigating these uncertain times.

Financial Profile

As we manage our financial profile, our strategy is predicated on carefully delineating between structural and cyclical factors affecting our businesses. Accordingly, in 2015, we continued to adjust our franchise to address structural changes in the regulatory environment, and we will continue to do so as needed. From a cyclical perspective, it certainly feels like the cycle has been prolonged, particularly as interest rates in many parts of the world remain at — or even below — zero, and growth and deflation concerns, among other worries, have persisted.

It is important to remember that cycles do turn, even if the timing of such inflections may be difficult to predict. As we look to deliver value to our shareholders over the

long term, our focus continues to be on managing to both the structural and cyclical forces we see at play, while remaining flexible enough to capture future growth opportunities.

Our efforts in this regard have yielded solid results. Over the past four years, we have diversified our franchise while holding net revenues steady. We have increased our capital and liquidity, decreased our risk, and have stayed focused on efficiently and prudently managing our resources — all while helping our clients to execute their long-term goals and strategic objectives. Over the same four-year period, we returned approximately \$25 billion in capital to our shareholders, increased dividends per common share by 44 percent and reduced our basic share count by 14 percent.

In response to structural changes resulting from new regulations, since the end of 2007, we have reduced our balance sheet by approximately one-quarter, while nearly doubling common shareholders' equity — cutting gross leverage by more than 60 percent — and tripling our liquidity position to almost \$200 billion. These measures have strengthened our long-term financial safety and soundness.

Also as a result of structural changes, we have embraced opportunities to sell businesses and investments that were not core to our client franchise and were no longer the best use of shareholder capital relative to the returns. The loss in net revenues due to these sales has been offset by growth in our Investment Banking and Investment Management businesses. Last year, these two businesses accounted for 39 percent of our net revenues, compared to only 30 percent in 2012. Investment Banking was approximately one-half the size of Fixed Income, Currency and Commodities Client Execution (FICC) four years ago; today, our business mix is more balanced.

This does not mean we are moving away from FICC. Rather, we remain committed to meeting the needs of our clients, while managing to structural and cyclical headwinds. For example, we have reduced risk-weighted assets within FICC significantly over the past four years, largely in response to structural changes resulting from new regulations.

On the cost side, we have continued to find ways to improve our operating efficiency. Headcount across the firm is up 11 percent over the last four years, largely to meet regulatory compliance needs. However, through a combination of shifting to a greater percentage of junior employees and relocating some of our footprint to lower-cost locations, we have managed our expenses well.

More specifically, we have increased the number of analysts, associates and vice presidents at the firm by 17 percent since the beginning of 2012, while our partner and managing director populations have decreased by two percent. Approximately 25 percent of our total staff is now in lower-cost locations such as Salt Lake City, Dallas, Irving, Warsaw, Singapore and Bengaluru. As a result, while total staff levels are up over the four-year period, overall compensation and benefits expenses have declined by approximately \$270 million.

Looking ahead, we will continue to pursue ways to be more cost effective by assessing our expense structure

while ensuring we meet the needs of our clients. Whether we are adjusting to structural or cyclical dynamics, we will carefully balance our expense management efforts against our ability to capture future market share and growth opportunities.

Investment Banking

Our leading Investment Banking franchise allowed us to capture significant market share in 2015. The business achieved its second-highest net revenues in 2015, driven by a strong environment for mergers and acquisitions (M&A). Industry-wide volumes for announced M&A transactions increased by more than 45 percent in 2015, while the firm's volumes increased by approximately 80 percent. We ended the year ranked first in global announced and completed M&A, with completed M&A volumes that were more than \$350 billion higher than our next-closest competitor — a record gap since the firm went public.

By most measures, 2015 was a robust year for M&A. However, volumes as a percentage of market capitalization are still below prior-cycle peak levels. We see this as a sign that there is still some room to run for M&A activity, particularly when equity markets show signs of sustained stabilization. We also see consolidation opportunities in sectors such as industrials, energy, mining, food, media and telecommunications.

While total underwriting revenues declined in 2015, we performed relatively well in the context of softer equity and debt markets in the second half of the year. We finished 2015 ranked first in global equity and equity-related and common stock offerings. Similar to the dynamics we see in the M&A market, we believe there may be pent-up demand among our corporate clients to tap into public equity markets when conditions improve, particularly given that private financing conditions have generally tightened. A decline in debt underwriting net revenues in 2015 was largely due to a drop in leveraged finance activity.

Institutional Client Services

In the wake of balance sheet restructurings in the U.S. and elsewhere, we remain one of the few financial institutions with leading global franchises in both FICC and Equities. We view this as critical to the long-term success of our Institutional Client Services business. We expect our ability to offer our clients a broad suite of services to be a key competitive advantage in the years ahead.

Over the course of 2015, within FICC, lower levels of client activity in credit and mortgage products were partly offset by stronger client activity and a more favorable backdrop for macro products, particularly in interest rates and currencies.

Equities benefitted from a better market environment, posting solid results for the year. Clients continued to place significant value on the integration of our various services across Equities — electronic, cash, derivatives and prime brokerage — as well as our global footprint, all of which was reflected in our performance in these areas.

Moving forward, addressing structural changes in our Institutional Client Services businesses, such as risk-based capital rules, will remain a central focus for our management team. At the same time, we will look for ways to advance our franchise in the evolving landscape. Competitor retrenchments in the wake of structural developments should provide an opportunity for us to capture market share over the longer term.

As it pertains to cyclical trends in Institutional Client Services, we continue to carefully scale our business relative to the environment, but have also chosen to remain targeted in our efforts. Our business is highly correlated to economic growth, and when a better opportunity set eventually presents itself — and it will — our strong, deep and broad client franchise should position us well to respond.

Investing & Lending

Our Investing & Lending business enhances and expands our client relationships. It creates synergies for our broader client franchise because it enables us to extend credit or to invest alongside our clients. From a broader perspective, by participating in Investing & Lending in a disciplined manner, we engage in the capital allocation process, which allows corporates and individuals to put capital to work to generate broader economic growth.

Over the past several years, the composition of Investing & Lending has changed significantly. Since the beginning of 2012, we have seen lending increase threefold, primarily to private wealth management and corporate clients. Our corporate loan portfolio is well diversified, with no one sector representing more than one-quarter of the portfolio. Our private equity portfolio similarly reflects the diversity of our global client franchise, comprising more than 800 different investments globally across a broad spectrum of industries. In some cases, we invest in private companies alongside our clients. In other cases, we invest in public equity or in real estate, or we deploy capital to seed new funds.

While the nature of our investing may change over time due to regulatory changes, and net revenues can fluctuate from quarter to quarter based on price movements, we evaluate the performance of our Investing & Lending portfolio over many years. On that basis, these activities have been strong contributors to returns over the last four years.

Investment Management

Our Investment Management business is one of only a few such franchises globally that can meet the needs of a broad spectrum of clients across many products and regions. We serve investors of all types, including retirees in need of mutual funds, entrepreneurs who have sold their companies and pension fund managers who need help with asset allocation. With this in mind, we built

our business to be global, broad and deep, and to focus on delivering consistent returns over time. We believe that our emphasis on providing the best possible advice, products and services will help us outperform the industry over time.

Executing on this strategy, we have experienced significant growth in our business over the past several years. We ended 2015 with a record \$1.25 trillion in assets under supervision, up from \$895 billion at the start of 2012. This growth has been the direct result of robust net inflows, driven in part from market share gains, as clients place increasing value on asset managers like us that offer a broad array of products and services. In 2015, our \$53 billion in organic, long-term net inflows outperformed our largest active management peers. In some areas of asset management, we are still small relative to the market leader. As we look ahead, this means we see opportunity to grow substantially — both by continuing to gain market share in our incumbent businesses and by expanding into new ones.

Our growth in assets under supervision has also come from new products and several strategic acquisitions. We have launched a handful of new products that have added more than \$50 billion to our assets under supervision over the past four years. Our Active Beta, Unconstrained Fixed Income and Income Oriented Strategies funds, for example, offer our clients compelling new opportunities.

What's more, eight acquisitions since the beginning of 2012 have driven more than \$70 billion in inflows. These acquisitions have added important new capabilities, filled gaps in our asset management offering and added scale to our current business. For example, in 2015, we acquired Imprint Capital Advisors, a dedicated environmental, social and governance investment advisor, strengthening our ability to help our clients address these considerations in their portfolios. Looking to build upon these efforts, we will continue

to evaluate targeted strategic acquisition opportunities as they arise.

Impact Investing

Our firm is committed to fostering meaningful change in the global economy, and in the communities in which we live and work, both through our core businesses, and by engaging in other activities that leverage our expertise to promote economic progress. This means, among other things, helping new enterprises succeed and grow by investing in entrepreneurs, and helping to finance different types of projects across the globe, such as those that can improve living standards within traditionally underserved communities. It also means being mindful of the environment's importance, not only to society as a whole, but also to economic growth, and driving that core belief through our work with our clients and within the management of our own operations.

Urban Investment Group

We have a long history of innovative impact investing through our Urban Investment Group (UIG). Since 2001, UIG has committed more than \$4.9 billion to underserved U.S. communities, facilitating the creation and preservation of over 20,000 housing units — the majority of which are affordable for low- to middle-income families — as well as more than 1.9 million square feet of community space and over 6 million square feet of commercial, retail and industrial facilities. We work with local stakeholders from the nonprofit, for-profit and public sectors, focusing on community and economic development. We have also been a pioneer in the creation of “social impact bonds,” which are financial instruments that leverage private investments to support high-impact social programs. In fact, we were involved in four of the eight social impact bond financings that have been launched in the U.S.

Environmental Impact

We were among the first global financial institutions to acknowledge the scale and urgency of the challenges posed by climate change when we established our Environmental Policy Framework in 2005. A decade later, we have continued to build on our commitment to environmental stewardship, making it a part of our core mission to deploy financial solutions and drive market opportunities that help to address climate change. Specifically, to facilitate the transition to a low-carbon economy, last year we updated our Environmental Policy Framework to include an increased target of \$150 billion in clean energy financings and investments by 2025, up from an earlier target of \$40 billion. Finally, we continue to be mindful of our own operational impact on the environment, pledging to be carbon neutral from 2015 onwards and to target 100 percent renewable power to meet our global electricity needs by 2020.

10,000 Women

Since its launch, this initiative has provided more than 10,000 women from across 56 countries — including Afghanistan, Egypt, Rwanda, Brazil, India and China — with business and management education, mentoring and networking, and access to capital. After completing the program, nearly 70 percent of surveyed graduates have increased their revenue, 60 percent have added new jobs and most have doubled the size of their workforces. What's also encouraging is the "multiplier effect": 90 percent of our graduates have "paid it forward" by mentoring and teaching business skills to other women in their communities.

In 2014, The Goldman Sachs Foundation and International Finance Corporation, a member of the World Bank Group, launched the first-ever global finance facility dedicated exclusively to women-owned small- and medium-sized enterprises. To date, the facility has made more than \$400 million in commitments to banks in 14 countries, enabling women from Kenya to China to Laos to access capital and grow their businesses. In

2015, President Obama announced a \$100 million commitment by the Overseas Private Investment Corporation, demonstrating how the facility is catalyzing new investments from both the public and private sectors in women-owned enterprises globally.

10,000 Small Businesses

Designed to help small businesses grow and create jobs by providing entrepreneurs with a practical business education and access to capital, *10,000 Small Businesses* has served more than 6,000 small business owners at 30 sites across the U.S. and the U.K. This includes our commitment of more than \$180 million to 28 capital partners that have lent over \$120 million to date, resulting in more than 750 loans to small businesses. The program has maintained a 99 percent graduation rate, with more than 75 percent of surveyed participants increasing their revenues, and nearly 60 percent generating new jobs within 18 months of graduation.

Focus on Technology

Technology underpins everything we do. In fact, approximately one quarter of our total staff works in technology, which demonstrates just how critical it has become to our strategy in several ways.

First and foremost, technology enhances the overall experience and quality of service we are able to provide to our clients. It allows us to execute transactions more quickly and seamlessly, to provide better market analytics, data and other information, and to communicate faster and more efficiently.

Second, technology helps us to operate more efficiently as a firm. For example, relying more on open source and cloud strategies has helped us reduce vendor expenses for our workplace application infrastructure products and market data sources.

Third, technology helps us meet new regulatory requirements, such as Dodd-Frank implementation and Basel III provisions. We have hired more technology

staff to build and adapt software and to automate such processes, which would have otherwise been highly manual and substantially more time intensive. Once we have fully embedded technology solutions for our regulatory needs, we should be able to reduce or redirect resources to support other areas of our firm.

Finally, the technology we create or develop inside of Goldman Sachs can be a stand-alone product. We have a successful track record in this regard, with Tradeweb, DirectEdge and Markit as examples of platforms we developed or participated in creating, and then monetized. Today, new platforms such as Symphony and Marquee are helping our clients communicate, manage risk and better analyze their investments. Symphony is an independent company built around core technology developed and contributed by Goldman Sachs. For Marquee, we built a common application development platform, allowing our businesses to create sophisticated tools that deliver cutting-edge capabilities to our institutional investing clients.

Our People

In a rapidly evolving and highly competitive industry like ours, technology is clearly a critical differentiator. Yet the quality of our talent remains a vital competitive advantage for us — if not *the* vital competitive advantage we maintain.

Ours is a business of relationships. This is the case not only in our work with clients, but also here within the firm. To that end, Goldman Sachs goes to great lengths to employ the best people with a wide range of experience and backgrounds. In 2015, we extended offers to 4 percent of applicants for open positions, and more than 80 percent of those offered roles chose to join the firm.

As we compete for talent not only with other financial firms, but also across other industries, particularly in technology, we strive to remain a place where top talent aspires to work. We believe our time-tested culture of

client service, teamwork and excellence sets us apart in this regard, and we find that people come to Goldman Sachs because the nature of our work is fundamentally consequential to the world around them. By helping to allocate capital, manage risk and provide products, services and advice to a broad array of clients, Goldman Sachs plays a vital role in the economy across industries and regions, something that is inherently appealing to people who want to affect positive outcomes.

With this in mind, we are proud that we were once again recognized as an employer of choice across a wide variety of metrics on Fortune magazine's "100 Best Companies to Work For" and "Most Admired Companies." We were also pleased to again be named as one of Working Mother magazine's "100 Best Companies" and "Best Companies for Multicultural Women."

Attracting and retaining the highest-caliber talent also means that we must invest in our people early on in their careers — the best of whom will become the next generation of leadership at the firm. Building off the learnings of our biennial People Survey, last year we unveiled a set of new initiatives designed to support junior employees, giving them more flexibility and greater exposure to our client franchise. In 2015, we also selected our newest class of managing directors. In addition to hailing from more than 40 countries, 40 percent of the class of 2015 started at the firm as analysts, a testament to our emphasis on talent development and retention for the long haul.

Looking Ahead

As we look ahead, the question that is top of mind not only to our clients, but also to Goldman Sachs, is: how do we think about navigating these uncertain times?

Since the second half of 2015, concerns about global economic growth, investor sentiment, and regulatory and monetary policy — in tandem with other

macroeconomic and geopolitical dynamics — have made for pervasive uncertainty. Slowing growth in China, a presidential election in the U.S., a referendum in the U.K. about its future in the European Union, volatility in the markets and regions consumed by conflict, to name a few, are examples of issues that are naturally generating unease. Other fundamental questions being raised — from whether technology is permanently displacing jobs to whether monetary policy has reached its limits in affecting economic outcomes — have gone from esoteric to mainstream.

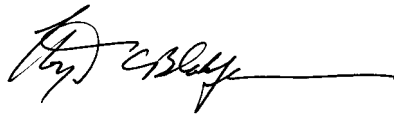
At Goldman Sachs, we grapple with these questions day in and day out. As managers of risk, we do our best to understand them, and to prepare our clients and our firm for even low-probability but highly consequential scenarios. This is why we worry about deflationary pressures, or liquidity problems in financial markets as a result of new regulations, or how China will manage its transition from an infrastructure-driven to a consumer-driven economy. It's why we keep a close eye on emerging markets, particularly those that lack diversification and are heavily exposed to commodity exports, where a prolonged supply overhang could negatively affect prices for some time to come.

When our clients confront these or other challenges, we use our institutional resources to help them navigate the choppy waters, and we regularly consider how these scenarios and other tail-risk events could directly affect our firm.

While we must consistently try to “see around corners” to anticipate problems, we also see plenty of reasons for optimism. We see the U.S. nearing full employment, signs of modest inflation and some stabilization in equity and commodity markets. We don't see how a world of zero or negative interest rates could possibly be the “new normal.” Moreover, we view China's slower rate of economic growth as still substantial, particularly given that it is now the world's second-largest economy. We

see room for continued fiscal policy expansion in some economies, and options for monetary policy if meaningful growth proves elusive.

We can't forecast every outcome, and we expect the near-term environment to prove challenging. This is why we focus on issues such as tight cost controls, and consistently assess our own strategic areas of focus. Yet we find ourselves generally optimistic about the longer term. By staying true to our strategic focus, while adapting quickly to structural and cyclical factors, and maintaining our focus on meeting the needs of new and existing clients, we strive to continue to deliver on our long history of providing our shareholders with best-in-class returns.



Lloyd C. Blankfein

Chairman and Chief Executive Officer



Gary D. Cohn

President and Chief Operating Officer