Fellow Shareholders:

When we wrote to you last, the global economy was experiencing macroeconomic strains, punctuated by concerns over potential sovereign defaults in Europe and struggling labor and housing markets in the U.S. These concerns weighed on markets and hindered a broad-based recovery. While 2012 presented its own challenges amidst rapidly shifting investor sentiment, we are pleased to report that Goldman Sachs performed relatively well, posting solid results. This performance was the result of a competitive position defined by our deep and global client franchise, a mix of core businesses to which we have demonstrated a longstanding commitment, a healthy and strong balance sheet and the focus and enduring commitment of our people to our client-centered culture.

For 2012, the firm produced net revenues of $34.2 billion, a 19 percent increase from $28.8 billion in the prior year. Net earnings of $7.5 billion increased by 68 percent from $4.4 billion in 2011. Diluted earnings per common share were $14.13, up more than three times from $4.51 in 2011. Our return on average common shareholders' equity was 10.7 percent. Book value per common share increased by 11 percent during 2012, and has grown from $20.94 at the end of our first year as a public company in 1999 to $144.67, a compounded annual growth rate of nearly 16 percent over this period. Our capital management in 2012 reflected a prudent approach, as our capital ratios improved significantly, despite returning $5.5 billion to common shareholders through share buybacks and dividends.

In this year's letter, we would like to review the economic and market environment in 2012 and discuss the steps we have taken to differentiate Goldman Sachs across the competitive landscape to ensure we are poised to seize upon new opportunities as they unfold. We then will address our response to structural changes reshaping the marketplace, including regulatory change, globalization and technology. Lastly, we will provide you with an update on the important work taking place across our corporate engagement initiatives that we believe are making a meaningful difference for many individuals and communities.

The Operating Environment in 2012

While the sovereign debt crisis in Europe and a weak recovery in the U.S. continued to persist throughout much of 2012, the deep uncertainty that permeated the recent past began to show signs of abating in the second half of the year.

Despite ongoing political ambiguity both in the U.S. and Europe, generally improving economic data coupled with continued strong central bank actions helped stabilize corporate and investor sentiment. The European Central Bank enhanced its Long-Term Refinancing Operations to provide term liquidity at the end of 2011, and affirmed its support for the Euro. It also expressed its willingness to make outright purchases in the secondary bond market. While the potential for instability remains, these actions reduced systemic risk across Europe. In the U.S., the Federal Reserve continued to take steps to support markets and economic growth, while the labor and housing markets produced encouraging signs of stability and even some improvement.

As corporate and investing clients digested these macroeconomic developments, activity levels increased in some areas and remained sluggish in others. For example, global debt issuance increased by 11 percent year over year, with high-yield issuance increasing by 38 percent. Conversely, global equity underwriting volumes were up only one percent and completed global mergers and acquisitions (M&A) volumes decreased by 18 percent and remained very low as a percentage of market capitalization.

Gary D. Cohn
President and
Chief Operating Officer

Lloyd C. Blankfein
Chairman and
Chief Executive Officer

Our Competitive Position

For Goldman Sachs, the past few years have been a period of both introspection and deliberate action, including a comprehensive examination of our business practices, a disciplined focus on costs and how we allocate capital and a renewed sense of the importance of identifying the difference between cyclical and secular trends. This last area is especially important to our overall strategic framework.

We never lose sight of the fact that we are stewards of an industry-leading franchise that was built over nearly 145 years. This means that while we have an obligation to meet the near-term demands of the current environment in which we operate, we need not completely surrender to them.

Nonetheless, the cyclical pressures facing our industry are real, and we have responded by reducing costs and proactively managing our capital. If the environment deteriorates further, we will take additional action. At the same time, we will continue our investment in and commitment to our broad set of institutionally focused businesses that have a track record of providing higher returns than many other businesses within financial services.

We believe that providing effective advice, financing significant transactions and providing liquidity, especially in difficult markets, will be no less important going forward.

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Our focused business model, global footprint and culture of teamwork-oriented professionals put us in a strong position to meet our clients' needs and generate superior returns for our shareholders. In addition, durable long-term trends, such as regulation, globalization and technology, will continue to have a profound effect on economies and markets. And, in these areas, we have protected our ability to be proactive.

As we have often stated, our businesses do not lend themselves to predictable earnings. However, over the long term, we are committed to the goal of providing our shareholders with returns on equity at the top of our industry, while continuing to grow book value and earnings per share.

Controlling Costs

A significant element of providing healthy returns is a disciplined focus on expenses. Our ability to achieve operating leverage was particularly important in 2012 when economic growth remained challenged.

Markets, by their construction, reflect the natural ebb and flow of economic activity, which means moving between periods of expansion and contraction. For this reason, it should not be surprising that in a period of contraction and uncertainty we would experience lower levels of corporate and investor activity and risk appetite.

Of course, we respect cycles, which can sometimes last a very long time. They can be so consequential that, if one does not react early enough, you not only forego the benefits of the cyclical upturn, but also risk the ability to recover at all.

With this in mind, we announced a $1.2 billion expense savings initiative with our second quarter 2011 earnings. We subsequently increased that to a run-rate of $1.9 billion in expense savings.

As part of our expense initiative, our overall headcount was down nine percent over the past six quarters. At the same time, we have increased the number of people in certain high value locations, including Bangalore, Salt Lake City, Dallas and Singapore. Since 2007, the number of our people in these locations has nearly doubled, and today represents 23 percent of the firm's population.

We also have focused on closing certain businesses that are not core, have lower returns and/or impose excessive capital charges. For example, we sold our hedge fund administration business, which provides various accounting and processing services to hedge funds. Many of the activities in that business were less central to the services we provide hedge funds through prime brokerage, an important business for the firm.

In another area related to expenses, we have demonstrated a strong commitment to aligning compensation with performance, establishing a very close relationship between the firm's revenue and compensation. In short, we compensate better in good years and have restricted pay in weaker ones.

For example, in 2011, our net revenues were down 26 percent. As a result, our compensation and benefits expenses were down 21 percent. In 2012, net revenues rose 19 percent from the previous year and compensation and benefits expenses increased by six percent.

Our approach to compensation flexibility is also demonstrated through our compensation ratio, which has averaged 39 percent over the past four years — more than six percentage points lower than our average ratio in the four years before the financial crisis. Last year, our compensation ratio was the second lowest since we became a public company.

Opportunities & Our Client Franchise

While tactical and strategic actions are always important, ultimately, our success begins and ends with our clients.

It is only through ongoing discussions with our clients that we gain a better understanding of emerging trends, the challenges and goals that are our clients' focus and the role we can play to help them. The opportunities we find most attractive are invariably rooted in our fundamental strategy of integrating capital with advice to help our clients meet their near-term needs and long-term objectives.

Like no other time in recent history, access to diversified sources of funding is becoming a strategic imperative and is driving the further development of capital markets in many parts of the world. Roughly 70 percent of all corporate funding in the U.S. comes from capital markets activity; in Europe, the situation is nearly the opposite, with the bulk of funding coming from bank loans.

In leveraged finance, however, 58 percent of the issuance in Europe since 2010 were bonds — compared to just 14 percent in the three years preceding the 2008 crisis. We expect that higher capital requirements, which we

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will discuss in greater detail, will mean less bank lending and more bond issuance. This presents a real opportunity for Goldman Sachs to engage with and help our clients to secure the funding they need to expand and prosper.

Clients call on us throughout their company's lifecycle when looking for funding, when they debut on a public exchange, when they face critical decisions, such as whether to buy or sell a business line, or when they are looking for a business partner that may be halfway around the world. In every instance, we look to develop the relationship based on the evolving needs of our clients, and understand that by focusing on their success, our own will follow.

We are pleased that in 2012 Goldman Sachs ranked first in worldwide announced and completed M&A as well as in global equity and equity-related offerings.

Providing liquidity and making markets for our clients has also grown in importance at a time when the industry's collective capacity to assume risk has decreased with the exit or downsizing of many of our competitors. We believe that our early and long-term investments in both technology and people have allowed us to maintain a first-tier institutional client platform that is being scaled efficiently for increased volumes and reduced transaction costs for our clients.

Secular Trends

While always mindful of cyclical conditions and potential outcomes, we have long been focused on the structural trends that will have long-term effects on economies and the underlying structure of markets. Regulation, globalization and technology are especially significant.

Regulation & Capital Management

New requirements expected under Basel 3 — a global regulatory standard on capital adequacy and liquidity risk — make the efficient use of capital more important than ever. Basel 3 will significantly impact the amount of capital attributed to certain businesses. Risk-weighted assets under Basel 3 are estimated to be roughly 40 percent higher for financial institutions in the U.S. than under Basel 1 as of the end of 2012.

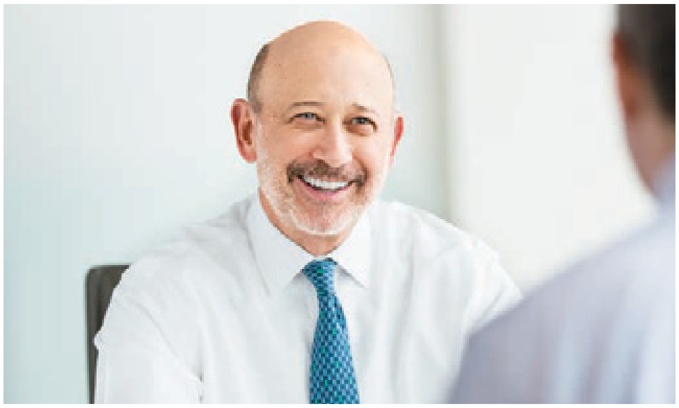
As the industry awaits greater clarity on the final rules, we are carefully managing our risk-adjusted capital levels. We have a long track record of allocating capital and other scarce resources based on risk-adjusted returns, providing greater balance sheet and resources to higher return businesses while downsizing or eliminating lower return businesses.

To assist us in making the right decisions as they relate to capital allocation, we have begun to roll out technology that enables us to see capital charges at a granular level — often by individual security. We use the software to run analyses when buying or selling securities in our sales and market-making businesses in order to understand the capital implications associated with different scenarios.

By understanding the key drivers of our risk positions, our securities professionals can more effectively deploy and manage our capital. It also helps us to serve clients better. Sales professionals can better understand how different clients consume capital through added exposure, risk weightings and other contributors to their overall profile.

Managing capital usage more precisely can translate into greater risk capacity for our clients and greater capital efficiency for the firm. This provides not only a basis from which to understand and improve returns, but also operating leverage when the opportunity set expands.

While Basel 3 capital rules are not final and not expected to be fully phased in until 2019, we expect that we will ultimately operate with a capital cushion of about 100 basis points above our regulatory requirement.



New Capital Requirements and Size & Complexity
The increase in the cost of capital has been joined by a corresponding rise in the cost associated with an institution's scale. For more than a decade, larger size and complexity were viewed entirely as synergistic and virtuous. However, as capital surcharges associated with size and complexity are introduced, the costs and barriers to entry in some businesses will be raised and institutions will be forced to be more disciplined about their resource allocation.

Although we have significant scale in each of our businesses, many of our investment banking competitors also have sizeable commercial and consumer businesses, which will cause them to hold additional capital against their entire balance sheet. Any synergy from housing multiple businesses together must be weighed against the requirements for more capital and liquidity. For the first time, it is clear that size and complexity come with a higher cost.

Globalization
One theme that we believe will continue to play an integral part in economic growth is globalization. Among other trends, it reflects the emergence of vital new markets across regions of the world, as well as the evolution and integration of these economies into the global financial system. We continue to expect many of these economies, notably the BRICs, to remain on a path to becoming important anchors for the global economy, as their financial systems mature.

Cross-border transactions represent roughly one-third of global volume, as companies with large exposure to developed markets continue to look beyond their borders for attractive acquisition targets to enhance growth.

In addition, emerging market companies and investors, particularly those in Asia and Latin America, are increasingly looking for value and opportunistic acquisitions in key developed markets. In 2012, transactions volumes within the BRICs represented nearly one-fifth of global M&A and IPOs.

More specifically, we anticipate further reforms in China's capital markets over the next five years, which will meaningfully increase the size of these markets, and by extension, the opportunity for Goldman Sachs to play a role in facilitating market activity on behalf of our clients.

Technology
Technology plays a crucial role in our response to regulatory change, as well as in optimizing operational efficiency, managing risk and serving our clients. The firm has long been a technological innovator, helping found Archipelago, ICE, TradeWeb, FXall and BrokerTec, among other leading-edge marketplaces.

Within our Equities business, a majority of shares are now traded through low-touch channels. We also are seeing a similar trend in the fixed income markets. In the cash fixed income markets, electronic execution is well developed, representing approximately 80 percent of the FX spot forward market and nearly 20 percent of the rates and credit cash markets. In derivatives, approximately 50 percent of the liquid credit index market trades electronically; in the FX options market, the number is ten percent.

To keep pace with the rapid evolution in electronic trading, it is critical that we continue to innovate and create greater operational efficiencies. In fact, the automation of our back-office processing has been a natural follow-on to more electronic trading.

One example is the migration of our low-touch equities flow to electronic processing. Of the flow that has moved over, failed trades have declined by more than 95 percent. We expect that, over time, all low-touch trades and a significant amount of high-touch trades will be processed digitally as well.

We also rely on technology to manage risk effectively. While judgment remains paramount, the speed, comprehensiveness and accuracy of information can materially enhance or hinder effective risk decision making. We mark to market approximately 6 million positions every day. And, we rely on our systems to run stress scenarios across multiple products and regions. In a single day, our systems use roughly 1 million computing hours for risk management calculations.

As a firm, our ability to adapt to regulatory change is enhanced from having all of our positions represented on one risk system, improving our efficiency and communication. Not having to manage and integrate different systems across our businesses will be critical to taking full advantage of the move to standardization, which benefits our clients and the financial system's transparency and resiliency.

A Legacy and New Additions to Our Board of Directors

After 32 years at Goldman Sachs and 12 years as chief financial officer, David Viniar retired from the firm at the end of January 2013. We are pleased that he has joined our Board of Directors as a non-independent director.

David helped transform the firm's risk control and operating infrastructure from the time we were a private company through a period of unprecedented market challenges and regulatory change. David represents the very best of Goldman Sachs, and will remain an example of rigor, work ethic, collegiality and decency for many years to come. We thank David for his remarkable service, and look forward to continuing to benefit from his judgment and experience as a member of our Board.

We are pleased that Harvey Schwartz is our new CFO. Harvey's risk management judgment and broad understanding of our businesses and our clients have defined his career and will be the basis of his strengths as an effective CFO.

In addition to David, we were pleased to announce two additions to our Board of Directors, Mark Tucker and Adebayo Ogunlesi.

Mark is the group chief executive and president of AIA Group Limited, the world's largest independent, publicly listed pan-Asian life insurance group. Mark brings broad and deep operating and strategic experience across Asia Pacific, Europe and North America. He has nearly three decades of leadership in the insurance and banking sectors and a proven understanding of effective risk management.

Adebayo is the managing partner and chairman of Global Infrastructure Partners, a private equity firm that invests worldwide in infrastructure assets in the energy, transport, and water and waste industry sectors. He brings over 20 years of experience in finance and the global capital markets to our Board of Directors. He has advised companies and institutions around the world and invested in many of the most important sectors in the global economy.

We know that our Board, our shareholders and our people will benefit from their strengths and perspectives.

Our People and Culture

The strength of our business has always been defined by the quality of our people and our performance-driven culture. Since the days of our founding, we have recognized that the quality of our people differentiates the firm and will serve as the cornerstone of our success. Over the past two years, we have received nearly 300,000 applications. We hired fewer than three percent of our applicants and nearly nine out of 10 people accepted the offer to join Goldman Sachs.

We are proud to report that, in 2012, Goldman Sachs was named one of *Fortune* magazine's "100 Best Companies to Work For," one of only 13 companies that have earned that distinction each year since the list's inception 16 years ago.

We were also recognized by *Working Mother*, which named us to its "100 Best Companies for Working Mothers" list. Further, our diversity efforts were noted by the Human Rights Campaign, which awarded us the Corporate Equality Award for the first time, and included us on its "Best Place to Work for LGBT Equality" list.

Corporate Engagement

Since 2008, Goldman Sachs has committed in excess of $1.6 billion to philanthropic endeavors, including *10,000 Women*, *10,000 Small Businesses* and *Goldman Sachs Gives*. While the amounts are significant, it is the quality and effect of these programs that matter the most.

In 2012, each of our initiatives was expanded to include new participants and partners, and today, *10,000 Women* and *10,000 Small Businesses* reach small business owners in more than 50 markets around the world, through a network of nearly 200 academic and non-profit partners.

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10,000 Women

10,000 Women is providing 10,000 underserved women entrepreneurs with a business and management education, access to mentors and networks and links to capital. Since its inception in 2008, the program has assisted nearly 7,500 women-owned businesses drawn from more than 40 countries, and is on track to reach its 10,000th woman in 2013. Delivered through a network of nearly 100 academic and non-profit partners, *10,000 Women* continues to yield promising results. An independent report reviewing program graduates in India published by the International Center for Research on Women found that nearly 80 percent of surveyed scholars have increased revenues and 66 percent have added new jobs within 18 months after graduation.

10,000 Small Businesses

In 2012, *10,000 Small Businesses* continued to expand its network of cities and partners to provide small businesses with the education, business services and capital they need to grow and create jobs. In the U.S., Salt Lake City and Cleveland joined the program, while the first cohort graduated in Chicago. By year's end, the program was operating in 14 markets in the U.S. and U.K. In 2012, the program also launched an access to capital initiative specifically targeted at rural regions in the U.S., such as those in Montana and eastern Kentucky. In all markets where *10,000 Small Businesses* operates, we continue to see a wide variety of business owners from all industries participate, as we convene local public, private and non-profit institutions to ensure the program addresses specific community needs.

Goldman Sachs Gives

Goldman Sachs Gives is a donor-advised fund through which participating managing directors of the firm can recommend grants to qualified non-profit organizations around the world. Since the beginning of 2010, the firm has contributed nearly $1.1 billion to *Goldman Sachs Gives*, and 10,000 grants totaling more than $575 million have been made to various organizations in 35 countries. Since the fund was created, more than $270 million has been granted to community organizations supporting veterans, poverty alleviation, medical research and other significant areas

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of need and in excess of $105 million has been granted to approximately 125 colleges and universities to support financial aid. In 2012, more generally, approximately $157 million was distributed through more than 4,500 individual grants.

In October 2012, the firm played a leading role in helping to respond to the destruction caused by Hurricane Sandy in the New York and New Jersey area. Goldman Sachs committed a total of $10 million to relief and recovery efforts, including $5 million in small business loans and $5 million in grants from *Goldman Sachs Gives*. These grants also helped fund long-term housing and small business reconstruction and recovery. Equally important, nearly 1,200 volunteers across the firm donated their time to help in the immediate and ongoing recovery efforts.

Looking Ahead

Each year as we look to the next, we also are prompted to consider our recent past. It has been a period of reflection as an organization, an opportunity to focus on improving wherever we could to make us a better firm, and a time to think about our future — where we can most help our clients and advance their interests to spur more economic growth and opportunity.

In 2008 and 2009, our focus was on stabilizing and fortifying the firm amidst the most turbulent days of the global financial crisis. In 2010 and 2011, we engaged in a rigorous and comprehensive review of our business practices, committed to self-prescribed changes and took aggressive steps to implement them. In 2012, while navigating constantly shifting economic and market sentiment, we remained true to our core businesses, investing in our client franchise and our people.

Heading into 2013, we remain cautious given the ever-present risks and challenges to the markets and global economy. At the same time, we are encouraged by early signs of broad-based improvement. When one considers many of the issues that still weigh on market sentiment — such as the Eurozone crisis, China’s growth trajectory and fiscal cliff concerns in the U.S. — most are not intractable and will be resolved.

We believe strongly that Goldman Sachs is well positioned to realize the opportunities presented by the emerging competitive landscape, hopefully more normalized economic growth trajectories and the expanded opportunity set that the confluence of these developments will provide.

We can achieve these goals by remaining focused on the needs of our clients, committed to prudent risk management, disciplined with our capital and expenses, focused on superior execution and intent on building on our market-leading positions. Our people and the culture they reflect put us in a position to meet these imperatives, and, in doing so, we have never been more confident in our ability to achieve attractive returns and create long-term value for our shareholders.

Lloyd C. Blankfein
Chairman and Chief Executive Officer

Gary D. Cohn
President and Chief Operating Officer