

## Fellow Shareholders:

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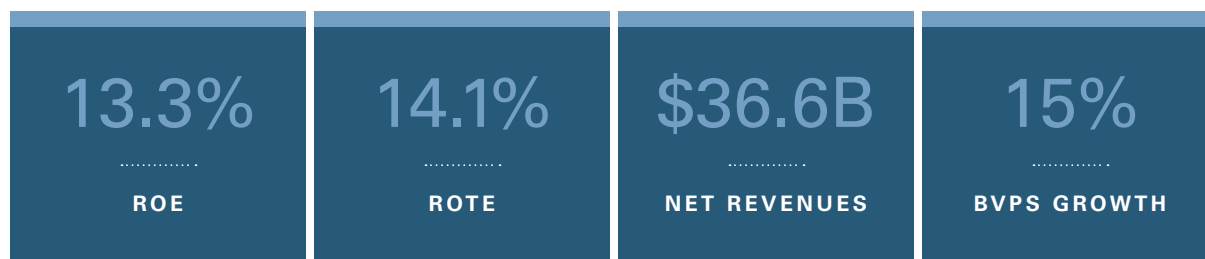
The opportunity to lead Goldman Sachs is extraordinarily humbling and exciting, made even more so as this year is the firm's 150th anniversary. Like each of my predecessors, my responsibility is to preserve the legacy of Goldman Sachs, while remaining open to the change and innovation that best meets the needs of our clients.

I am privileged to be surrounded by exceptionally talented people at all levels of our firm, including John Waldron, our President and Chief Operating Officer, and Stephen Scherr, our Chief Financial Officer, who are also intensely focused on ensuring that clients are at the center of everything we do — and in doing so, creating long-term value for our shareholders.

While much has changed over the course of our 150-year history, teamwork, integrity, adaptability and client service remain at the core of our culture.

The strength of our culture and client franchise was at the heart of our financial performance in 2018. We achieved record diluted earnings per common share, and attained our highest annual return on average common shareholders' equity and return on average tangible common shareholders' equity since 2009. Net revenues of \$36.62 billion and pre-tax earnings of \$12.48 billion were both 12 percent higher compared with 2017 and the highest since 2010. Book value per common share and tangible book value per common share increased by 15 percent during the year to \$207.36 and \$196.64, respectively.

### 2018 Financial Performance





(from left to right)

**Stephen M. Scherr**  
Chief Financial Officer

**David M. Solomon**  
Chairman and  
Chief Executive Officer

**John E. Waldron**  
President and  
Chief Operating Officer

## Our Strategy

This performance, alongside our strong levels of capital and liquidity, put Goldman Sachs on a solid foundation. As we look ahead, our focus is on delivering sustainable, long-term returns for our shareholders through a strategy that revolves around our clients.

Our strategy comprises three core priorities:

- Growing and strengthening our existing businesses by deepening our relationships with existing clients, and expanding our capabilities to serve new clients;
- Diversifying our business mix by increasing our fee-based or more recurring revenues, including by launching new products and services; and,

- Achieving greater operating efficiency across all areas of the firm, including expenses, funding costs and capital, without compromising the long-standing strength of our control and risk management functions.

Our strategy reflects the need to anticipate and adapt to the structural forces that shape economies and industries and how our clients operate within them. Markets, financial instruments and products and different client segments are converging and competing with one another at an unprecedented pace.

This requires us to simultaneously invest for growth and to create better efficiencies in the way we run certain businesses. I have advised companies for over three

decades and the ones I have admired most are those that have managed their resources to allow for both investment and shareholder return. This is particularly critical when you consider how technology is influencing the way institutions and consumers alike are transacting in various markets and products, including in our industry.

In that context, across a number of our businesses, particularly our market-making businesses, we have to achieve the scale necessary to execute transactions in the most effective way for our clients. That means investing in platforms and empowering those who build them. It means encouraging the innovative ideas of our people that take good products and make them great. And it means looking at the revenues and expenses of businesses “front-to-back” so that we have a clear-eyed view of where technology investments, the allocation of capital and other resources will be most critical to best delivering our advice, execution and risk management to our clients.

Since last fall, we have undertaken a review of each of our major businesses and the core activities within them. Each review has reinforced the fact that we benefit enormously from a strong client franchise around the world. At the same time, we see tremendous opportunities to expand our addressable market and grow new businesses. As we pursue these opportunities, our focus on strong risk management and controls will be central to our ability to meet the expectations of our clients and our shareholders.

Over the course of the year, I look forward to communicating more details on our strategic direction and priorities, which will include sharing certain financial metrics and targets to which my colleagues and I will be held accountable. I feel a sense of urgency and excitement about the opportunities we have identified, but, it is also important to be diligent and deliberate and not rush into long-term decision making.

While not exhaustive, I want to spend the bulk of this letter providing you with a sense of the opportunities and priorities we will be focused on in the months and years ahead.

## **Grow and Strengthen Our Existing Businesses**

Our first strategic priority is to expand our existing businesses and we are executing on a variety of growth initiatives to that end.

In Investment Banking, for example, we have embarked on a broad footprint expansion strategy that includes hiring new senior bankers, adding coverage for more than 1,000 new companies, and creating opportunities to help more clients access equity capital and debt financing. As of year end, we have made significant progress, having assigned coverage on approximately 95 percent of our targeted universe of new clients across the Americas and EMEA.

Across FICC and Equities, we have strong institutional wallet share, which has improved by 65 and 110 basis points, respectively, since 2016.<sup>1</sup> When I talk with many of our clients, it is clear that they value FICC’s deep risk intermediation capabilities and expertise. In addition to that focus, we continue to leverage platforms that integrate execution, analytics and content for our clients. In Equities, we are growing our electronic execution business through the development of low-touch platforms. And, we are working with more corporate clients in EMEA and Asia, particularly as it relates to our ability to deliver risk management solutions to them.

Over the past five years, Investment Management has generated organic, long-term fee-based net inflows of approximately \$215 billion. We see further potential in this business by growing our advisory and outsourced CIO services, as well as by expanding our product offering — notably, our Alternatives platform and ETFs. We are also expanding our world-class private wealth management business by adding new private wealth advisors and increasing our collateralized lending to clients.

Within Investing & Lending, our Merchant Banking business comprises a diversified portfolio across Corporate Private Equity and global Real Estate that is managed by hundreds of investment professionals and led by tenured senior leadership. Our strong track record, built over the course of several decades, positions us well to provide clients with additional attractive investing opportunities.

<sup>1</sup> Wallet share through first nine months of 2018 as full-year data not yet available. Source: Coalition

These various initiatives to strengthen and grow our existing businesses will be underscored by an emphasis on delivering the full value of *One Goldman Sachs* to our clients. An increasing number of institutions and companies interact with different parts of our firm. They don't view their relationship with Goldman Sachs through the prism of a product or division. Historically, we have tended to manage our client relationships through more of a divisional lens, which can sometimes limit a more holistic view of how best to identify and meet the needs of these clients who are global, complex and multifaceted.

One of my first priorities as CEO has been to ensure that the full range of our services and skill set is more accessible, comprehensive and efficiently delivered. In that vein, we have formed a cross-divisional client initiative, led by senior leaders in our Institutional Client Services, Investment Management and Investment Banking businesses to work with a pilot group of clients with multidimensional business needs.

Even at this early stage, I am encouraged by the feedback from our clients and what we have learned from them. Over time, we plan to expand this initiative to a broader group of clients with the simple goal of ensuring that we are orienting our client coverage around what is most important to our clients regardless of division or product area focus.

### **Diversify Our Business Mix with New Products and Services**

A second element of our strategy is a focus on more durable revenues through lending and deposit activities, cash management and wealth management. We have made considerable progress over the past five years, but there is more we can do in the years ahead.

In 2016, we established Marcus: by Goldman Sachs, our digital consumer financial services business. We are working to connect our growing customer base — and their growing wealth — to our broader suite of services as we develop a multitiered digital wealth

management offering. Over time, we expect this will grow to be another core capability of our client-centric multiproduct Marcus platform.

We are pleased with our early progress: we have more than 3 million total customers, \$36 billion in consumer deposits in the U.S. and the U.K., and nearly \$5 billion of consumer loans. We are cognizant of the risk profile of our nascent consumer lending business and will remain attentive to where we are in the cycle as we grow our business for the long term.

We are also developing a dynamic, digital cash management and payments platform for corporate clients. And, the potential for Goldman Sachs in this space is significant. The industry cash management wallet is larger than the global investment banking wallet we compete for today.

As the leading M&A advisor globally, companies already trust us to provide advice on their most significant transactions. We will build on these strong relationships and forge new ones by delivering new solutions that solve customer frustrations around outdated technology and limited customization and analytics.

We see a real opportunity to provide clients with a modern, global cash management platform that is both secure and flexible. We expect this business to be accretive to our return profile and to provide a number of benefits to adjacent businesses, including growing deposits and generating more client flows for our currencies franchise.

We are making tangible progress in building this platform and I expect that we will launch a cash management offering to clients next year.

### **Achieve Greater Operating Efficiency**

Our third strategic priority is to ensure we are maximizing operating efficiency by investing in automation and technology that will improve the client experience and drive expense savings across our businesses.

For instance, in FICC, we are a top-2 institutional provider and gained share in six of eight asset classes

**OUR STRATEGY**

**OBJECTIVES**

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OUR EXISTING  
BUSINESSES**

**DIVERSIFY OUR BUSINESS  
MIX WITH NEW PRODUCTS  
AND SERVICES**

**ACHIEVE  
GREATER OPERATING  
EFFICIENCY**

**KEY TENETS**

**Delivering  
“One Firm”  
to Our Clients**

**Pursuing  
Adjacencies  
for Growth**

**Expanding  
Addressable  
Market**

**Investing in  
Technology and  
Platforms**

**Enhancing  
Market  
Transparency**

**SUPERIOR LONG-TERM TOTAL SHAREHOLDER RETURNS**

in 2018,<sup>2</sup> but the opportunity set and the global FICC wallet has declined significantly over the past decade. To adapt, we have made important improvements in FICC's efficiency, reducing standardized risk-weighted assets by 40 percent and expenses by more than 20 percent, each compared to 2013. FICC will continue to be a valuable offering for our clients and we see attractive opportunities to build scale within FICC as the market structure continues to evolve. Part of building scale is through improving the client experience and that means operating more efficiently.

Positioning ourselves for growth across our businesses partially entails funding investments from realized operating leverage in our core businesses. To help enforce this, we are looking at our costs holistically and have improved our firmwide efficiency ratio to 64 percent in 2018, down nearly 2 percentage points over the past two years.

We also are identifying ways to manage our balance sheet more efficiently. We have identified deposits as a strategic focus to diversify our funding mix and lower our funding costs and have grown our deposit base by \$34 billion over the past two years to \$158 billion at the end of 2018.

### **A Culture of Risk Management**

As we grow and expand our business reach, bringing Goldman Sachs to more clients and customers, we are dedicated to maintaining the primacy of the control function at the firm and upholding the highest standards in risk and operational management.

There are always important lessons to be learned from difficult situations and as it relates to 1MDB, we have looked back and will continue to reflect on anything else the firm could have done better. It remains a priority for me that our culture of integrity, compliance and escalation only improves from this experience.

Effective risk management is demanding and difficult. It requires constant vigilance and we won't always get

it right. But an unwavering cultural commitment to it lies at the heart of an effective financial institution and we believe it is a core competence that helps define Goldman Sachs.

### **Our People**

I have been fortunate to have worked closely with Lloyd Blankfein over the years, who stepped down as Chairman and CEO last year. Throughout his 36 years of dedicated service to the firm, his keen understanding of markets and risk have been invaluable to keeping the firm both nimble and resolute in the face of constant change. And amidst the most turbulent days of the global financial crisis, it was Lloyd's fortitude and leadership that steadily navigated Goldman Sachs and its people through one of the most difficult episodes in our history. He has been a valued partner and colleague, and I am grateful for his mentorship, judgment and counsel.

In my travels and time with clients, one refrain I hear time and again is that Goldman Sachs is different because of the quality of our people. Our success in delivering for our clients and on our strategic priorities depends on attracting, retaining and developing talented people. Professionals want to be constantly learning, working on important problems that have broad significance to industries, economies and society, and to be surrounded by diverse colleagues.

In my short time as CEO, I've been vocal about the importance of advancing our firm's diversity, including with respect to gender, race, sexual orientation, disability or whatever contributes to who we are. Effectively serving a broad and diverse set of clients means having an appreciation and understanding of their different experiences, interests and values, and we are committed to building a team capable of that critical work. Over the years, the firm's diversity and inclusion efforts have evolved from raising broader awareness and delivering an array of programs to a more deliberate, data-driven and targeted strategy.



We have made progress in recent years and have more diverse representation on our Board of Directors. In addition, our most recent partner class had the highest percentage of women and black partners in our history and, we are nearly there on the campus analyst hiring goals we established last year. But, we have a longer path ahead of us as it relates to our broader diversity ambitions. We are working with our Global Diversity Committee to advance specific goals and objectives. We are undertaking new initiatives aimed at increasing the representation of diverse communities at all levels across the firm. This includes increasing the representation of our analyst and entry-level associate new joiners — which represents more than 70 percent of our annual hiring — to 50 percent women, 11 percent black professionals and 14 percent Hispanic/Latino professionals in the Americas, and 9 percent black professionals in the U.K.

Fundamental change takes time, but if we're rigorous in our execution of incremental change, we will make it happen. We simply do not have a choice but to strive to be one of the most diverse and inclusive institutions in the world. If we are not creative and do not take the right measures to embed a more diverse workforce across every facet of diversity, we put in jeopardy our relevance to our clients and the markets we serve.

### Sustainability

Managing the firm responsibly is core to our goal of driving superior long-term shareholder returns. We cannot be successful over the long term for our investors unless we think broadly about the impact we have on society and our communities — and then, orient ourselves toward ways we can allocate capital purposefully.

A dedication to service and a commitment to using our expertise and convening power to help address broader issues has long been a core element of our culture. Over the course of many years, we have developed innovative and meaningful philanthropic programs that have improved business education and provided access to capital for thousands of women entrepreneurs and small businesses.

Since the launch of our *10,000 Women* initiative in 2008, we have invested over \$150 million to help women entrepreneurs across 56 countries, providing practical business education, mentoring, networking and access to capital. Most recently, we have democratized access to business education on a global scale through the introduction of online business education courses. In addition, this past year, the Women Entrepreneurs Opportunity Facility — developed in partnership with the IFC as the first of its kind gender facility — surpassed \$1 billion in investments to financial institutions in 31 countries and is well on its way to providing capital to 100,000 women.

Through our *10,000 Small Businesses* program, launched in 2010, we have committed \$500 million to provide training and access to capital to small business owners looking to grow and create new jobs in their communities, with compelling results. To date, we have graduated 8,200 small business owners, with 78 percent of graduates reporting revenue increases and 57 percent adding jobs within 30 months of graduation.

We will continue our commitment to these extraordinary programs, but we see an increasing opportunity to focus on some of the other important issues that are facing society today — from the environment to health care to urban development.

For example, our Urban Investment Group (UIG) has been a major investor in community development projects, committing more than \$7 billion in underserved American markets since 2001. In 2018, UIG continued its long-term support of the Brooklyn Navy Yard by committing \$35 million to renovate Building 127, a 95,000-square-foot manufacturing center that will drive the creation of approximately 300 quality urban manufacturing jobs.

Last year, we announced *Launch With GS*, a \$500 million initiative to invest in women-led companies and investment managers. Through this effort, we are harnessing our deep investment expertise to narrow the gender investing gap in three ways: committing firm capital in women-founded, owned or led businesses, directing client capital to invest in women-centered



investing firms, and creating an ecosystem to help build future investment opportunities.

More broadly, we have seen fast-paced growth in our Environmental, Social and Governance (ESG) and impact investing platform, which reached \$17 billion in assets under supervision at the end of 2018. This includes the launch of an ESG-focused ETF that provides our clients with broad exposure to U.S. large cap companies that rank favorably based on values identified by the American public.

And as another example, at the end of 2018, we reached \$80 billion in our goal to finance or invest \$150 billion in clean energy by 2025.



We are a financial institution, operating in global markets, with a global client base — and we have a real opportunity through that work not only to lead by example in how we run our organization, but to drive sustainable outcomes for our clients and for our communities.

## Looking Ahead

Goldman Sachs of 2018 looks very different from the firm Marcus Goldman started a century and a half ago. Frankly, it looks different from when I started here nearly 20 years ago. One of the reasons that Goldman Sachs has succeeded for so long is that it reflects individuals who have been able to adapt with the changing times — from market professionals who see how the emergence of new

technologies will create new price setting mechanisms to control-side professionals who react quickly to financial and regulatory changes in an effort to always maintain the firm’s risk profile and operational integrity.

What initially attracted me to Goldman Sachs and what has kept me here over the years is our time-honored culture that values teamwork, excellence and problem-solving; it has allowed us not only to survive, but thrive in an industry that is cyclical by nature.

As we look to the future, we are building new businesses and reorienting the firm for a broader set of opportunities. We have a robust approach to risk management and a strong balance sheet with the talent to deploy and protect it. We are investing across our businesses to serve new and existing clients and build upon an extraordinary client franchise. That’s why I am very confident of Goldman Sachs’ ability to generate strong, industry-leading returns through the cycle.

**David M. Solomon**  
Chairman and  
Chief Executive Officer