Goldman Sachs

2013 Stock Incentive Plan

April 2013

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I. Goldman Sachs Compensation Overview

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Our Compensation

Goldman Sachs' Compensation Key Principles and Philosophy

Principles	Philosophy	Compensation Program Feature
Pay For Performance	■ Promote long-term sustainable performance ■ Compensation based primarily on the performance of the firm as a whole, followed by divisional, business unit and individual performance	■ High correlation between changes in Firmwide revenues and compensation ■ One-year guaranteed contracts are used only in exceptional circumstances, and multi-year guarantees should be avoided entirely
Alignment of Interests with Shareholders	■ Equity compensation encourages employees to think and act like long-term shareholders because the value of their compensation is tied to the firm's stock price performance	■ Retention requirements currently include five-year transfer restrictions from grant for equity-based awards ■ Pro-rated delivery of equity awards occurs over a three-year period ■ Our NEOs must retain 75% of after-tax shares received as compensation, while other Participating Managing Directors must retain at least 25% of such shares
Maintain Safety and Soundness	■ Approach compensation with an appreciation that effective risk management is core to our long-term success ■ Use equity compensation and associated restrictions to promote longer-term responsible behavior	■ Robust forfeiture and recapture provisions including the ability to claw-back awards due to inappropriate risk-taking ■ Individual compensation decisions take into account the risk profile of the employee's particular business and his or her management of risk ■ Management, including our Chief Risk Officer, regularly reviews our compensation programs to assess whether they meet our objectives, are appropriate for the current operating environment, and do not incentivize imprudent risk-taking
Attract and Retain Talent	■ Using equity as part of compensation improves retention as it ties a greater portion of an individual's wealth to shareholders' prospects ■ To the extent we generate strong relative shareholder value, our compensation structure will be viewed as more attractive for potential recruits	■ A wide range of employees participate in our equity programs, ranging from more junior staff to our senior executives ■ Proportion of equity compensation received as a percentage of variable compensation generally increases as compensation increases

Compensation and the Financial Services Industry

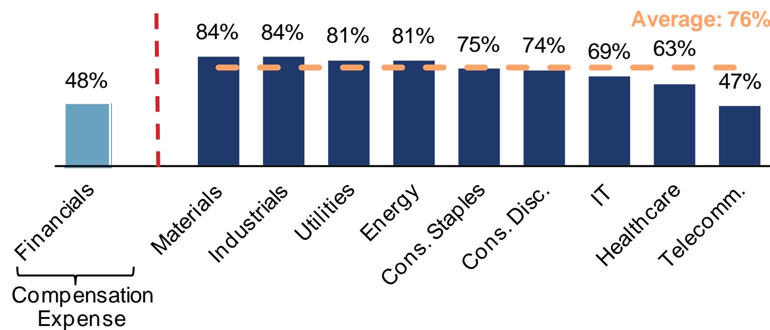
Overview

Compensation is the largest expense for financial services companies

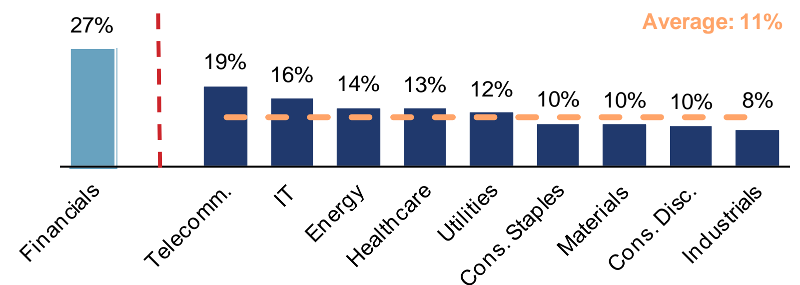
- Compensation & Benefits Expense (“Compensation Expense”) for institutional financial services companies is similar to other industries’ Cost of Goods Sold (“COGS”) and manufacturing costs
  - Attracting and retaining talent is fundamental to our long-term success as a firm because our people are our principal asset
- Compensation Expense comprises 48% of total expenses for diversified financial services firms in the Fortune 500, while COGS represents on average 76% of expenses for non-financial services companies
- Pre-tax margins represent the percentage of pre-tax profit earned per dollar of revenues generated, and are a consistent indicator of profitability across industries
  - **Since 2000, diversified financial firms’ pre-tax margins averaged 27%, substantially above that of any other industry, and more than double the Fortune 500 non-financial companies’ average of 11%**

2000-2011 Average by Fortune 500 Industry[1]

COGS as a % of Total Expenses



Pre-Tax Margin



[1] *Sourced from CapIQ. “Financials” within the Fortune 500 is based off of CapIQ classifications and includes financial services companies that disclose a Compensation & Benefits Expense line item; excludes the hybrid financials/IT companies MasterCard and Visa. Pre-tax margin is defined as pre-tax income divided by total net revenues; averages exclude negative pre-tax margins. Data is sourced from public filings through CapIQ for publicly-traded Fortune 500 companies for the calendar years 2000-2011 as of December 31, 2011.*

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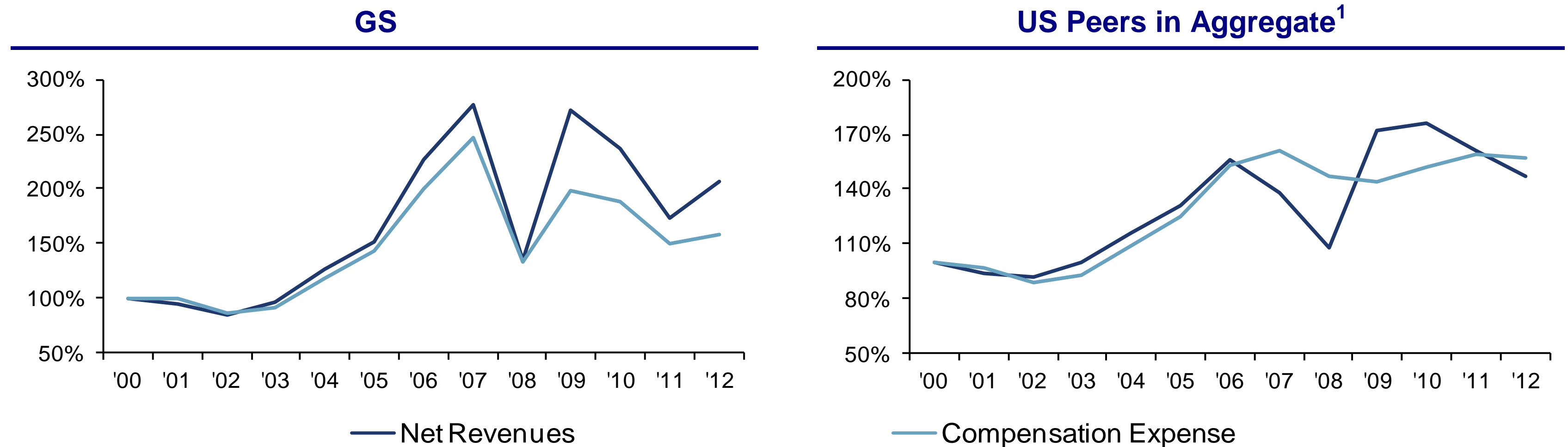
Compensation and the Financial Services Industry

Cyclical Nature of Financial Services



The financial services industry's net revenues and compensation fluctuate throughout the cycle

- Financial services' operational results are cyclical and affected by numerous macro factors, including the state of the global economy and geopolitical events, which have a significant impact on client activity, and appetite for risk-taking, investment, M&A and securities issuance
  - Equity compensation paired with deferred delivery, long-term retention requirements and claw-back features allows financial services companies to align employee interests with those of the firm and its shareholders throughout the cycle and discourages imprudent risk-taking
- **Goldman Sachs has demonstrated a commitment to aligning compensation with performance, evidenced by a historic correlation between the changes in our revenues and compensation expense of 94% since our IPO**

[1] *Data sourced from company filings. US Peers are JPM, MS, C, BAC, as well as BSC and MER for 2000-2008.*

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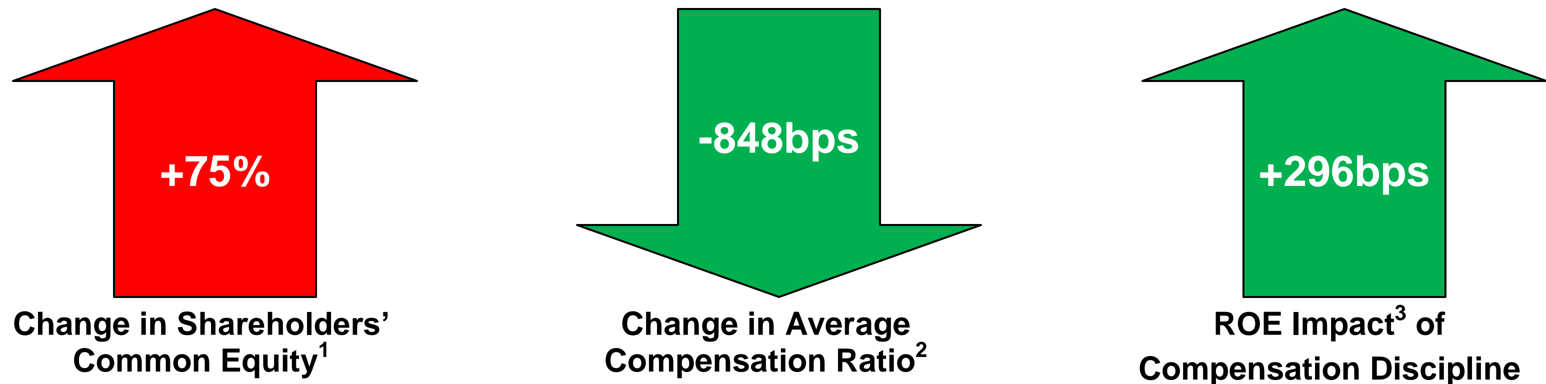
Our Compensation

Post-Crisis Approach

GS' Compensation Approach Post-Crisis



GS' compensation flexibility has partially offset the impact of increased capital levels on returns

- Over the past several years, the financial services industry has faced higher capital requirements resulting from a Post-Crisis (2009-2012) operating and regulatory environment. Consequently, since 2007, our common equity has grown by 75%
- To partially offset the increase in common equity and its impact on returns to shareholders, Goldman Sachs has reduced the portion of revenues paid to employees, as evidenced by our lower compensation ratio, which has averaged 39% over the past four years Post-Crisis, 848 basis points lower than our average ratio Pre-Crisis (2000-2007) when shareholder returns were generally higher
- The reduction in our compensation ratio over the past four years has partially offset the increased capital requirements; on average, our ROE is 296 basis points higher than returns that would have been generated using our 47% average Pre-Crisis compensation ratio

[1] Represents the change in 2012 fiscal year-end Shareholders' Common Equity versus 2007 fiscal year-end.
[2] Compensation Ratio is defined as Compensation Expense as a percentage of Total Net Revenues. Represents the Post-Crisis (2009-2012) average compensation ratio versus the average ratio Pre-Crisis (2000-2007). Compensation Expense includes employee initial public offering and acquisition award expenses, if any, except for nonrecurring employee initial public offering and acquisition expense in 2000 of $290mm.
[3] Represents the average ROE impact Post-Crisis (2009-2012) of using the 47% average compensation ratio Pre-Crisis (2000-2007) versus the reported ratios during the period.

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II. 2013 Stock Incentive Plan

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Stock Incentive Plan (“SIP”) Highlights

- Our new plan includes a variety of shareholder-friendly features
  - ✓ Eliminates the “evergreen” plan feature
  - ✓ Requests an authorization of shares that is expected to cover grants for up to 3 years
  - ✓ Prohibits the granting of below-market options and Stock Appreciation Rights (“SARs”)
  - ✓ Prohibits reducing the exercise price of Options/SARs after grant (no “repricing” of awards)
  - ✓ Requires satisfaction of relevant performance goals in order for dividend equivalents be paid with respect to performance-based awards
  - ✓ Commits to “double-trigger” requirement for acceleration of vesting and delivery upon change-in-control
  - ✓ Continues to contain 50% change-in-control and merger consummation triggers

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Investor Concerns and GS Responses

Compensation Practices, Dilution and Burn Rate

- Historically, when evaluating a company's equity compensation plan for approval, investors have focused on a company's historical compensation practices, dilution and burn rate

	Concerns	GS' Approach
Compensation Practices	Evaluate a company's compensation philosophy broadly, of which an equity plan is only one component	Use equity awards to implement our compensation philosophy and practices, including paying for performance, managing risk and aligning the incentives of employees with those of our shareholders
Dilution	The level of equity issuance is important to investors because it could reduce the value of their ownership	Our burn rate[1] and the dilution[2] from the SIP are high relative to peers and other industries for two primary reasons: — Broad-based participation (e.g. equity is granted to a larger percentage of employees and represents a larger percentage of Compensation Expense) — A strong track record of managing dilution through our share buyback program[3] Both of these factors are actually beneficial to shareholders, as they align our employees' interests and provide economic value. However, they also inflate the calculations associated with our burn rate and future dilution
Burn Rate	Focus lies on whether a company grants a significant number of shares relative to total shares outstanding on an annual basis	

We have addressed shareholders' key concerns through our historical compensation practices and managing dilution through industry-leading buybacks

[1] Generally speaking, the Burn Rate for a given year is defined as shares underlying equity awards granted during the year divided by the average basic common shares outstanding for that year.
[2] Generally speaking, Dilution is defined as the increase in common shares outstanding resulting from actions such as the issuance of equity awards and capital raises.
[3] Dilution management is afforded by our share buyback program, which is a key component of our active capital management.

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Compensation Practices

Broad Participation

Ownership Culture

- Beginning over 140 years ago, our partnership culture continues to foster a culture of collaboration and teamwork, and shared accountability
- Paying a portion of variable compensation to our employees in the form of equity-based awards supports this culture. In addition, it encourages a long-term, firmwide focus and further aligns the interests of our employees with those of our shareholders
  - Generally, granting a higher proportion of compensation in equity as an employee advances within the organization encourages increased accountability and ownership, as well as retention, particularly for our senior executives
- Broadening equity ownership among our employees remains a priority of the firm
  - The firm's Broad-Based Equity Program provides equity-based awards each year to employees who have not previously received equity-based awards
    - These are generally new and more junior employees

Named Executive Officers (NEOs)

- Five-year transfer restrictions currently apply to substantially all Shares at Risk delivered to NEOs under equity awards[1]
- NEOs must retain 75% of the after-tax shares received as compensation for as long as they hold a senior executive officer position

Participating Managing Directors (PMDs)

- PMDs must retain 25% of the after-tax shares received as compensation for as long as they remain PMDs

Firmwide Employees

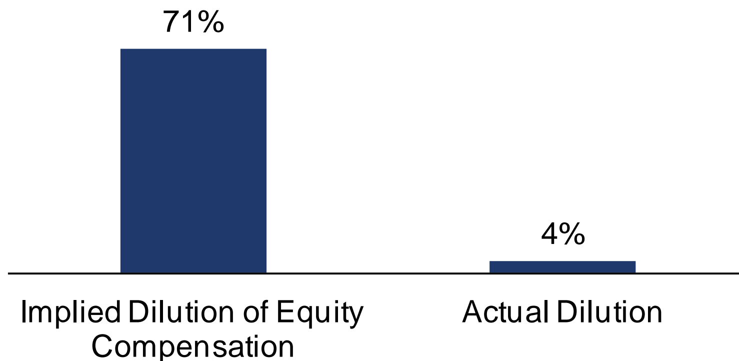
- For 2012, over 11,000 employees – more than one-third – received a portion of their variable compensation in equity
- In addition, on average approximately 4,000 employees receive shares under our Broad-Based Equity Program each year

[1] *These restrictions currently apply to 50% of the gross number of Shares at Risk, which is determined prior to tax withholding. The five-year restriction period begins at the date of grant.*

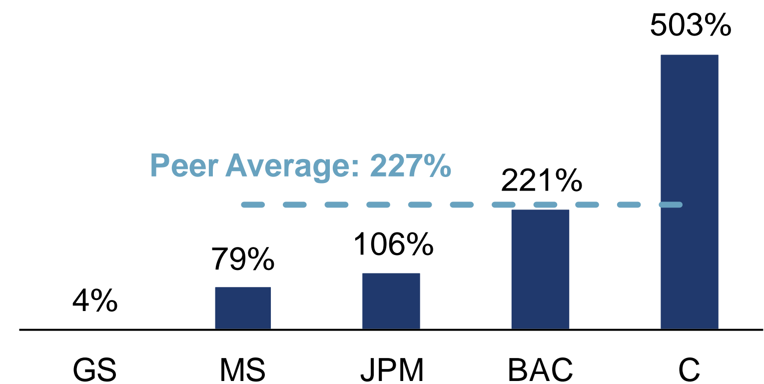
Dilution

Focus on our Buyback Program

Implied vs. Actual Dilution[1]



Change in Common Shares Outstanding Since 1999[2]



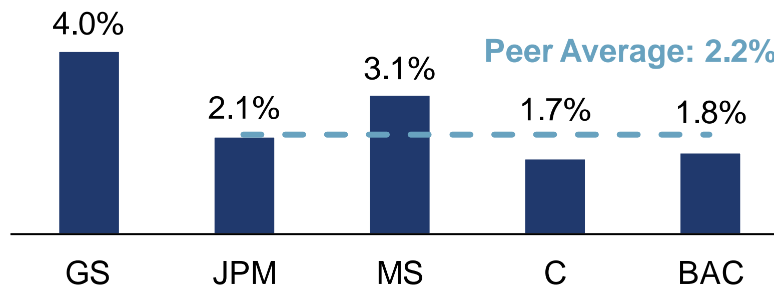
GS has managed dilution through our industry-leading share buyback program

- GS' buyback program has almost entirely offset dilution to date
  - The firm has a strong track record of managing dilution on both an absolute basis and relative to peers
- The awards granted through our equity compensation program from 2000-2012 suggest dilution of 71% based on our common shares outstanding at the end of 1999, the year we went public. However, primarily due to our buyback program, our common shares outstanding are up only 4%
  - Our common shares outstanding would actually be down 17% excluding shares issued in association with our capital raises in 2008 and 2009

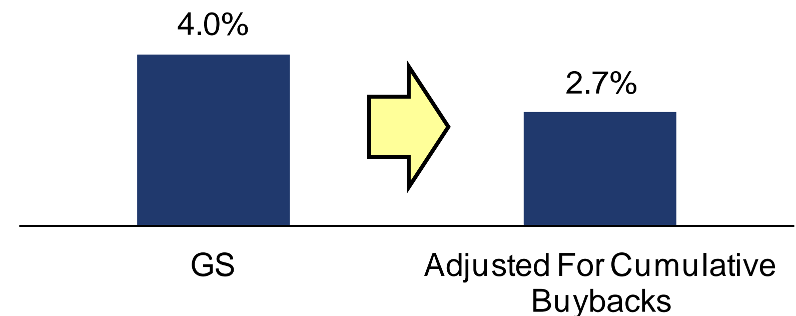
[1] Implied Dilution represents the change from 1999 common shares outstanding implied by awards granted through our equity compensation program from 2000-2012. Actual Dilution represents the change in common shares outstanding from 1999 to 2012. Data is based on public filings.
[2] US Peers are JPM, MS, C, and BAC. Data is based on public filings.

Burn Rate

Three Year Average Burn Rate[1]



Historic Buyback Impact on GS' Burn Rate[1,2]



Buybacks largely account for GS' higher relative burn rate

- While our share buyback program is favorable for shareholders as it significantly offsets dilution created by equity issuance, the program increases our burn rate
  - — Share repurchases increase a company's burn rate because repurchases reduce average basic common shares outstanding, which is the denominator of a burn rate calculation
- In addition, GS grants equity to a larger percentage of employees and equity represents a larger percentage of Compensation Expense than peers, which causes GS to average a higher burn rate than most peers at 4.0% over the past three years
- Excluding our cumulative buybacks since 2000, GS' average burn rate over the past three years falls more than 130bps to 2.7%

[1] Represents average for 2010-2012. The Burn Rate for a given year is defined as shares underlying equity awards granted during the year divided by the average basic common shares outstanding for that year. US Peers are JPM, MS, C, and BAC. Data is based on public filings.
[2] "Adjusted for Buybacks" excludes share buybacks from 2000-2012 cumulatively applied to each year, assuming repurchases occurring during 2010-2012 were evenly distributed throughout those years.

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SIP Approval Important on Several Fronts

Approval of our SIP is important given that equity awards help accomplish our goals of paying for performance and aligning our employees' interests with those of shareholders

- **Regulatory Expectations**
  - Our global regulators expect us to pay a significant portion of our compensation in equity-based awards
- **Shareholder Alignment and Risk Management**
  - Equity-based awards are an effective mechanism that aligns employees' interests with those of our shareholders and discourages imprudent risk taking
- **Unpredictable Compensation Costs**
  - If the SIP is not approved, and we pay compensation in the form of cash-settled equity awards, the cost of compensation would be unpredictable, fluctuating with our stock price