Goldman Sachs Presentation to the
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Comments by David Viniar, CFO

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Thanks Howard, and good morning to everyone

The economic consequences of the financial crisis and the corresponding regulatory overhaul have understandably led many to question the future prospects for our industry. Some have taken the current depressed returns of many financial firms as an indication that the industry is forever changed.

There is no doubt that the industry has undergone and will continue to undergo significant changes. Regulation will undoubtedly bring about new ways in which the industry must manage its operations and deliver its services to clients.

However, in our view, the current return profile of our industry is principally driven by cyclical factors as opposed to regulations that haven't been finalized or implemented. Regardless of your view, it is clear that the current environment presents a series of challenges and opportunities, which must be effectively navigated in order to provide shareholders with acceptable returns.

Today I will discuss how we are responding to the macro challenges in the current operating environment, as well as the key opportunities in 2012 and beyond.

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There are several trends currently impacting the industry. Some are cyclical and some are secular or evolutionary. The cyclical headwinds include economic growth, corporate activity and risk appetite. There are several secular trends as well. Secular changes are not a new phenomenon for our industry. The financial services industry is in a constant state of evolution, whether it be with respect to market structure, technological advancements, or a changing regulatory landscape.

Ten years ago, we serviced our Equity clients in a largely voice brokered model. Today, the vast majority of our Equity client volumes are executed electronically. We have seen similar market structure changes related to market making in foreign exchange and US Treasuries. Our ability to quickly respond by adapting our products and services in this evolving market place has been critical to our track record of generating industry leading returns over the past decade.

Ultimately, client demand for our products and services drives our performance. In an uncertain macro economic environment with widespread risk aversion, our clients' demands for services tend to be cyclically lower. We also typically see less frequent use of higher margin structured products and specialized solutions. However, our clients still have the same general needs: advice, execution, liquidity, risk management and asset management. As the economic cycle improves, our clients' demand for these products and services, and thus our opportunity set, will increase correspondingly.

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Despite the confidence in our longer term prospects, we also have to manage our operations with a keen eye on the near-term challenges facing the firm and our industry. These challenges include reduced risk taking by our clients, increased regulation and overcapacity.

But with challenges come opportunities. While we may moderate the pace of our investment in growth markets, we continue to remain focused on expanding our footprint in these areas and believe these investments will be critical to our long-term success. We are starting to see market share expansion opportunities as several European peers are reducing their commitment to capital markets activities. And our investments in technology continue to provide leverage to improve efficiency and meet our clients' evolving needs.

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There were a variety of factors negatively impacting the operating environment in recent quarters. During 2011, Global GDP steadily declined, led by significant deterioration in Europe during the second half of the year.

We have closely watched the European sovereign debt crisis and its impact on Euro domiciled banks. While we believe the ECB's 3-year funding program has largely mitigated the risk of a significant tail event for banks in Europe, we remain focused on sovereigns' fiscal situations and the wave of refinancing scheduled for 2012.

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Capital requirements are increasing across a number of asset classes with Basel 1 charges rising between 1.5x and 2.5x under Basel 3. Interestingly, a handful of businesses represent a sizeable portion of the increase, particularly as it relates to private equity and tranched credit.

Importantly for Goldman Sachs, these areas have been relatively modest revenue contributors over time. We will optimize the use of our balance sheet, focusing on businesses which meet our clients' needs and generate adequate returns. If businesses do not meet return thresholds, we'll be rational and scale them back or shut them down.

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Another clear challenge of the current environment is the proposed Volcker Rule. The Volcker Rule eliminates short-term proprietary trading and limits our capital commitment to private equity and hedge funds. While there are many questions still outstanding, we have presented here a hypothetical analysis that removes contributions from our principal strategies business, global macro proprietary investing and merchant banking investment gains and losses. Interestingly, our ROE does not change materially but the range of outcomes is much narrower.

In addition to these restrictions, the market making portion of the Volcker Rule remains unclear and could significantly impact the capital markets. A harsh interpretation of the rule could lead to reduced market liquidity and higher transaction costs. Ultimately, it could lead to lower dealer inventory levels and could be ROE enhancing as we adapt to a less capital intensive business model.

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While the Rates, Credit, Currency and Equity businesses are deep and efficient across developed markets, increased competition has created overcapacity in many of these areas, which results in reduced bid/offer spreads. To put this in perspective, we have seen equity capital for our largest global peers increase by 30% over the past 5 years, even though indexed FICC and Equities revenues have declined 24% over that time period. This is clearly not a sustainable landscape, and we would expect our opportunity set to expand as capacity leaves the system.

Technology is the key to achieving scale and efficient operations in a reduced spread environment, and we continue to invest in our capabilities to cement a leading market position.

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Switching gears, the opportunities we are focused on include footprint expansion in growth markets, market share expansion opportunities, and technology advancements.

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Despite pressure in certain developed markets, the global economy is still growing. We remain focused on expanding our franchise in higher growth markets where our penetration is smaller.

Our success to date in growing our footprint is evidenced by counterparty growth statistics across our trading businesses. Over the past five years, we have expanded our counterparties in higher growth markets by 1.5x to 2.5x. This represents growth levels that are multiples higher than our expansion in developed markets.

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Goldman Sachs is actively responding to shifting competitive dynamics stemming from reduced risk capacity in Europe. While risk capacity typically expands and contracts with the cycle, the current change in the competitive landscape feels more permanent. Over the past six months, we have seen European peers announce plans to reduce headcount by nearly 12,000 people, reduce assets by up to $450 billion and exit certain businesses completely.

In addition to these changes, the significant deleveraging by European financial institutions will lead to reduced lending capacity, and should force greater disintermediation by the capital markets. This would lead to higher new issuances by European corporates, and greater secondary trading activity. Currently, loans represent nearly half of the funding for European corporates and bonds are only 9%. The US dynamic is the opposite with bonds representing 64% of funding for US corporates. We believe there is a potential for this gap to close.

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We leverage our technology to meet our clients' needs and create opportunities for the firm.

Our clients' technology needs are complex and ever changing and therefore delivering technological tools and solutions is critical to supporting our franchise.

Today our clients demand best in class execution. To provide these services, GS Electronic Trading provides our clients with direct market access, algorithmic trading strategies, and smart order routing.

Although we regularly talk about the expansion of our footprint as being GDP driven, our clients' desire for a strong worldwide counterpart is another impetus for our global presence. Interestingly, the firm's shift to a cloud model for the workplace, which utilizes offsite data centers, has enabled us to put people anywhere in the world who can be productive immediately. In fact, while it used to take approximately 6 months to set up a new office, our cloud technology has cut this down to several weeks.

Finally, many of our clients leverage the firm's technology expertise to improve their operations and receive advice on emerging technology. To meet these needs, the firm created a team that brings to bear the specific internal technology experts relevant to our clients. Over the past few years, this group has advised hundreds of clients.

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In order to optimize the performance of the firm in light of these challenges and opportunities, we have developed an action plan based on our risk profile, capital optimization plans and expense discipline.

To the extent that we remain in this difficult macroeconomic environment, we will evolve our plan along these pillars to optimize long-term returns for shareholders.

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We remain focused on prudently managing capital, liquidity and risk levels in what remains a difficult operating environment.

We have built a strong liquidity position relative to before the crisis, with our Global Core Excess at near record levels and comprising 28% of our adjusted assets.

Capital is also strong with an estimated pro-forma current Basel 3 Tier 1 Common ratio of nearly 8% and a roll forward of nearly 11% by the end of 2013. I would caveat that this doesn't mean we are targeting an 11%

capital ratio in the future. This is merely a calculation using consensus earnings and passive mitigation.

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In addition to maintaining strong levels of liquidity and capital, our risk remains near multi-year lows. VaR is down 50% from peak levels and less liquid assets have been cut in half. Level 3 assets are now approximately 5% of total assets.

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We understand the funding and liquidity risks associated with operating a financial institution, and actively work to mitigate those risks. The keys to conservative funding from our perspective are term, diversification, and excess funding capacity.

While we believe that we were well positioned heading into the crisis in 2008, we have continually worked to improve our positioning in recent years. Since the end of 2008, the size of our funding book excluding Global Core Excess collateral has declined by more than 20% as our inventory funding needs have declined meaningfully. We have also extended its weighted average maturity by more than 50% over that time period.

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Even in difficult operating conditions, the firm remains committed to paying for performance. In the past year, revenues were down 26% and compensation and benefits expense was down 21% with discretionary compensation down significantly more than revenues.

In light of the recent difficult operating environment, our average comp ratio over the past three years was 39%, nearly 600 basis points lower than our average ratio from 2005-2007 when shareholder returns were higher.

In addition to adhering to our pay for performance philosophy, we recently identified $1.4 billion of run-rate expense savings to operate more efficiently in the future.

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We strongly believe in optimizing returns for our shareholders and will allocate capital to the businesses we think have a better risk/reward under the future regulatory and macroeconomic environment. Based on current regulations, we would plan to reduce the size of our private equity fund investments and high capital charge products in the credit and mortgage businesses. However, these discussions are in significant flux, so we continue to monitor developments.

In addition to optimizing capital allocation and reducing our risk and expenses, we will mitigate risk-weighted assets in many businesses in which we operate. We currently estimate our Risk Weighted Assets under Basel 3 to be $774 billion. We would expect passive run-off of $89 billion by 2013, and another $45 billion by 2015.

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Many investors remind us that our 2011 revenues were more consistent with revenues that we generated six years ago, but our head count is higher and our profitability is lower.

That is factually correct. But it is misleading given that our footprint, and the corresponding opportunity set are significantly different. Our headcount outside the Americas is up by more than 50% and we are in new cities including Mumbai, Dubai, Riyadh, and Kuala Lumpur. We serve 4,000 more Investment Banking clients and 3,000 more customers within our Institutional Client Services businesses.

The work we have done to expand our footprint over recent years positions us extremely well to benefit as these markets develop and grow. We know the world will not grow in a straight line, but the breadth and depth of our client franchise is the true revenue engine.

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Many investors also express concern about the size and trajectory of FICC. This business is viewed as being the most impacted by regulation and represented 39% of revenues from 2009 to 2011.

It's important to keep in mind that this isn't the first time that investors have been concerned about the future of one of our largest franchises. In 2001, post the tech bubble, investors were concerned about our equity franchise, which at that time represented 43% of total revenues.

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Ultimately, equity revenues bottomed in 2003 and are still nearly double the trough level.

The macro trends driving the growth of the equity business were dismissed at the time and the benefits of our market leading position were similarly discounted.

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In 2001, the market also underestimated the opportunities available in other key businesses, such as FICC and Investment Management.

Revenues in both of these businesses have more than doubled over the past decade.

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And finally, many also underestimated the opportunity available to the firm by expanding its global franchise.

A prime example is Asia. Asia revenues have more than tripled over that period and increased from 9% to 16% of total revenues.

Although it's hard to predict what will happen to our FICC businesses, we think 2001 provides an interesting parallel for today's environment. Some remain skeptical, but we believe many of the current challenges are the result of a cyclically depressed operating environment and are not representative of the long-term potential for our firm.

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To conclude, the importance clients place on our core services is unchanged, although it will increase and decrease with the economic cycle. While the business has seen secular shifts in how we deliver products and services to our clients over time, we believe that a growing worldwide economy will provide an increasing set of opportunities.

We will continue to target unlocking opportunities in growth markets, focusing our resources and meticulously managing risks as we work through the current environment and look to generate industry leading long-term returns for our shareholders.

With that, I’d like to thank you for listening today and I’ll take any questions.