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Comments by Lloyd Blankfein, Chairman & CEO

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Thanks Guy.

I'm pleased to be here this morning.

It's been more than three years since the onset of the financial crisis, and the global economy continues to struggle.

As a result, the financial services industry remains focused on managing risk, whether it is related to liquidity, credit, market or regulation.

Lower economic growth and subdued client activity across financial markets coupled with concerns about various regulatory developments have led some to suggest that the industry is undergoing radical secular change. More specifically, some question whether the model of providing advice, financing, market making, asset management, and co-investing is as relevant for the future given the perceived cross currents of change.

There is no doubt that economies, markets and industries change. But, at a time when there have been real concerns that the US may be close to a recession, that the sovereign debt crisis in Europe is impairing confidence, and that growth in China is soft, I don't think we can conclude that this slowdown is secular rather than cyclical change.

I don't dismiss the challenges our financial system and the industry face today, including those related to regulation. But, every day, I talk with our clients around the world and hear from them how the core, long-term trends of globalization and technology, as well as macroeconomic and demographic changes, are continuing to influence and shape their businesses.

Given the reality of these structural developments, what Goldman Sachs does for our clients is even more relevant and important to them. Each day, our clients seek advice and financing; they need someone to take the other side of a transaction in order to help them hedge risk; they need an asset manager to invest on their behalf, and a co-investor who will deploy debt or equity in growth opportunities.

These activities do not go out of style, no matter what stage of the economic cycle we are in.

And, as we have seen in recent weeks, economic sentiment can shift quickly.

That's why our strategy will continue to be guided by what our clients are seeking to accomplish through the capital markets.

Of course, we recognize that our industry and our businesses are dynamic.

As we move forward, we will make the decisions and investments that we believe are important and necessary to attract and retain the best people, meet the needs of our clients, control costs, and produce over-the-cycle returns consistent with our shareholders' expectations.

This morning, I'd like to review briefly how the firm is responding to still heightened market, credit and liquidity risks and -- through the themes and priorities we hear from our clients -- the long-term growth opportunities Goldman Sachs is focusing on.

<u>Slide #1</u>

Economies and markets, by their nature, are cyclical, and so is our industry.

During the last two quarters, the difficult macroeconomic environment weighed heavily on market sentiment.

While each economic downturn has its own set of unique characteristics, our industry has operated during significant economic contractions fairly recently -- in 1990-91, 2000-01, and 2008-09, when we saw more precipitous declines in US growth expectations relative to the 37% reduction we have seen so far in 2011.

Slide #2

Not surprisingly, weakness in broader economic conditions is driving a reduction in clients' strategic and financing activities, and, therefore, our Investment Banking volumes.

From a historical perspective, the fall in volumes is similar to the decline we experienced post the Internet Bubble in 2001.

M&A volumes have declined as CEO and corporate confidence remain under pressure and the weaker macro environment has led to heightened execution risk.

Debt and Equity Underwriting volumes have slowed significantly due to higher volatility across markets and lower asset prices.

Slide #3

Increased volatility and poor equity and credit market performance have also eroded investor conviction.

The asset price pressures were particularly acute in the third quarter with nearly 20% declines in many equity markets and significant weakness across credit indices.

For Goldman Sachs, this resulted in a quarterly loss in our Investing and Lending segment.

It's important to remember that these losses were marked-to-market and unrealized.

The ultimate assessment of the performance of this lending and investment activity is over years as opposed to any one quarter.

Slide #4

With a difficult and uncertain operating environment top of mind, our focus has been to prudently manage capital, liquidity and risk levels.

Our adjusted leverage today is down nearly 50% from the end of 2007.

We have built a strong liquidity position relative to pre-crisis levels with our global core excess at near record levels -- comprising 17% of our balance sheet -- up more than twofold from four years ago.

In addition to increasing our cash on hand, we have made a concerted effort to improve the liquidity profile of our assets.

Since the end of 2008, our Level 3 assets are down more than 30% and represent less than 5% of our balance sheet as of third quarter end.

In this environment, we have also been focused on keeping risk levels down.

Of course, underlying conditions will change, and, when they do, it will be important to re-calibrate our financial profile.

Our response will be measured and optimized to help our clients accomplish their goals.

Slide #5

At the same time, we have to be thoughtful about managing the firm's financial resources.

If client demand for risk capital remains muted and we don't see profitable opportunities to invest and generate attractive returns, we will reduce the capital intensive portions of our balance sheet and return excess capital to shareholders.

Since the beginning of 2010, we have repurchased more than $9 billion of common stock or roughly 15% of our capital base relative to 2009 year-end levels.

We have also bought back close to 70% of the share count that was issued during the height of the crisis.

We have done this while growing our book value per share by a compounded annual growth rate of 10% since the end of 2007. At the same time, we have also increased our common equity by nearly 70% over the same time frame, and maintained capital ratios near the top of our industry.

Slide #6

We are obviously operating in difficult economic conditions, and it is impossible to say how long growth will remain under pressure. However, history has shown that over time economies do stabilize and recover. When growth returns, our revenues tend to grow at a multiple of that growth.

Slide #7

As I indicated earlier, we believe certain long-term trends around the world remain very much intact.

While risk management is important throughout the cycle -- and especially now -- we see opportunities across a number of our businesses that merit focus and investment.

Where we allocate our resources is almost totally a function of our clients' priorities and objectives.

Our people place a huge premium on spending time with clients around the world.

In the last year, I spent more than half of my time outside of the office meeting with clients.

Through these discussions, I gain a better understanding of emerging trends, the challenges that our clients face, the critical objectives they are focused on, and the role we can play to help them.

These discussions, individually and taken as a whole, are often the best test of our strategy.

Slide #8

In previous presentations at this conference, we discussed our firm's efforts to chase GDP growth and operate in more places.

This focus has been confirmed by conversation after conversation with clients across every industry and region.

Over the past five years, international revenues for Dow Jones companies grew by 35% while domestic revenue grew only 15%. Additionally, the contribution of international revenues to Dow Jones companies rose by 6 percentage points to 48%.

FTSE 50 companies have seen a similar trend as international revenue grew by 36% compared to a 4% decrease in domestic revenue. International revenue as a percentage of total revenue increased 5 percentage points to 59% over the same period.

The trend is also evident in cross-border M&A.

In aggregate, volumes from 2007 to the present are up 56% relative to 2002-2006.

Since 2010, cross border volumes represent nearly 40% of overall M&A volumes.

Slide #9

As companies have become more global and higher growth economies have benefited from significant wealth creation, market cap in those countries has increased as well.

China's market capitalization has tripled as a percentage of world market cap since the beginning of the decade with the US' contribution shrinking to 65% of its 2002 levels.

Our clients seek "local" advice.

And, in order to provide it, we have increased our global footprint materially.

Over the past five years, we have hired more than 1,200 professionals into countries like Brazil, Russia, India, China, and Korea to help our clients as they navigate new markets and an increasingly globally competitive landscape.

As an aside, while there is much focus on the BRICs and higher growth opportunities, we see potential to more efficiently manage our business and costs, as well as source talent in developed markets.

For example in Salt Lake City, we now have more than 1,000 professionals working across many divisions.

Slide #10

A more global market has also resulted in an increasingly multi-faceted, and potentially more risky, business environment.

The quality and breadth of services that companies, institutions and governments require in order to operate has increased correspondingly.

Whether corporates, for example, need help hedging exposure to currency fluctuations, navigating integration issues across borders or managing the volatility of commodity prices, the set of challenges facing our clients is expanding and becoming increasingly complex.

To more effectively address these types of client needs, the firm established a strong partnership between our Investment Banking franchise and our Institutional Client Services businesses.

These risk management solutions often involve clients transferring risk to the firm for us to manage.

We believe strongly that the firm is well positioned to execute these types of transactions, and, as a result, we expect this business to continue to grow.

Slide #11

The market continues to analyze the potential regulatory impact on financial institutions, and we remain focused on working constructively with regulators to contribute to effective and realistic implementation. However, it's also important to highlight that, no matter their form, the new regulations will present challenges for our clients.

As a result, a significant portion of our regulatory focus is directed towards the potential impact on them.

In our conversations with clients, they have expressed several concerns on the impact to their businesses of new margin requirements, potentially lower market liquidity and wider spreads, as well as the consequences of making inventory more expensive to hold, and therefore, less available.

These and other factors will affect not only how our clients service their customers, but also their technological infrastructure, legal documentation and compliance.

It is important for Goldman Sachs to understand the numerous challenges confronting our clients and adapt our business to better serve them in the new regulatory environment.

As rules are finalized, we will increasingly allocate resources to the development of trading tools and clearing and settlement systems that will help our clients better address these challenges.

<u>Slide #12</u>

In addition to seeking advice and risk management solutions, a growing trend among clients is to outsource certain parts of their business which are non-core or sub-scale.

For example, we have seen a clear increase in the outsourcing of insurance asset management across the world.

This development has been accelerated by new capital regimes, the fallout from the financial crisis, and the ongoing low rate environment, which has made it more difficult to generate alpha.

This trend has fueled strong growth in outsourced assets, which more than doubled from $500 billion to over $1 trillion since 2004.

Goldman Sachs is investing in this opportunity. And, assets under management for the strategy have grown by $46bn since 2008, representing 20% compounded annual growth rates in assets and revenues.

Slide #13

As the economy remains challenging and credit is tight, companies continue to struggle with access to capital.

In order to meet our clients' financing needs, we provide various services throughout the organization.

Within our Investment Banking franchise, the firm remains a large global player in debt and equity financing.

Since 2009, we have helped our clients raise close to $900 billion, which has supported the growth of businesses in various sectors and regions.

Our share in these businesses remains strong. We have ranked #1 in worldwide equity and equity-related offerings, common stock offerings and initial public offerings year to date with a greater than 9% market share. This is up almost 2 percentage points year over year.

Our market share in other parts of Investment Banking are equally solid, with a #1 ranking in announced Global M&A for the year to date. No one should doubt our commitment to our client franchise, which is only sustained by serving our clients’ interests in a paramount and overriding manner.

Our ability to retain industry-leading market shares in strategic parts of the business, particularly during this period of the economic cycle, strongly positions the firm for when the economy inevitably improves.

We also provide financing through direct firm investments and investment funds managed by Goldman Sachs.

Our merchant banking business has provided a significant amount of investment capital to clients through equity and debt investments, and this business will continue to be important to the firm and to our clients.

Slide #14

To state the obvious, this is a human business, done person to person. A client relationship is only as strong as the Goldman Sachs professionals managing that relationship.

As a result, the single most important thing we can do to enhance the value of our business is to continue to hire the best and brightest people from around the world. And, once they get into Goldman Sachs, we want to do everything we can to ensure they have productive and stimulating careers.

Almost 300,000 individuals applied for full-time positions at Goldman Sachs for 2010 and 2011.

We hired fewer than 4% of that population, and, though most had multiple offers, nine out of ten people offered a job with us accepted.

Since 2001, we have hired more than 40,000 professionals to work at the firm.

The average tenure of a Managing Director and Vice President is about 12 years and 7 ½ years, respectively.

The average tenure for a partner is 15 ½ years.

Our commitment to attract talented professionals doesn’t end with recruiting; we commit significant resources to their continued development.

This year, we expect to provide 800,000 hours of training to our people, an average of 25 hours per person.

My confidence in our future is rooted in large part in our continued ability to recruit, train, and retain outstanding people.

When I think about the combination of talented, results-oriented individuals and a broad, deep and global client franchise, I am even more confident that when the economy turns – and it will – Goldman Sachs will be in a very strong position to create long-term value for our shareholders.

With that, I'm happy to take your questions.