Goldman Sachs Presentation to

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Introduction

Good Morning everyone – it's great to be here.

Today I'd like to spend some time reviewing our Investing and Lending segment. The activities included in Investing and Lending are an important part of the value that we provide to our clients globally. Over the past several years, the composition of the segment has changed significantly and I thought it would be good to provide all of you with an update.

You'll recall at the beginning of 2011, we changed our financial disclosure and created a new reporting segment – "Investing and Lending" or I&L. The primary driver behind the change was to provide investors greater transparency and an improved understanding of the firm.

It's worth noting that the activities included in our Investing and Lending segment are not wholly unique to Goldman Sachs. Many of our peers have the same types of assets. They are often embedded within different segments, as opposed to being broken out separately, as we have chosen to do.

Today's discussion will cover three primary points. First, I'll describe our approach to these activities and their role in the context of the broader firm. Second, I'll outline the various components of the $91 billion of balance sheet currently devoted to these activities. And lastly, we'll discuss how these balance sheet commitments ultimately drive our global client franchise and revenues.

So let's get started.

Investing & Lending Segment – Slide 1

On this slide – in the pie chart in the upper left – we provide the average distribution of our revenues by segment since 2010. You can see the diversity of the firm's revenues. Investing and Lending represents 17% – which is roughly consistent with both Investment Banking and Investment Management.

However, the segment is fundamentally different than the other segments. Investing and Lending is managed by a group of the firm's senior leaders who are collectively responsible for the underlying businesses. I&L's activities span a variety of asset classes which often support our clients and enhance these relationships. As a result, it's synergistic with our client franchise.

For example, like all banks, we extend credit to our corporate clients, which is an important service in the context of our broader set of Advisory and Investment Banking businesses. Our number one position in global M&A and the associated fees are in part supported by our ability to provide financing to our clients when they need it. Another example, we also have capital invested alongside our clients in various funds. And through that activity we generate management and incentive fees. These fees are reflected in our Investment Management segment.

From a management perspective, our Investing and Lending activities utilize a disciplined, return-oriented approach. The magnitude and nature of our activities are ultimately dictated by our client needs and the returns available. When I was at this conference last year, I outlined our Return on Attributed Equity or ROAE framework. This was an important enhancement for the firm, and is a critical tool that helps inform our decision making. The framework supports our balance sheet and capital allocation, both across segments, and within them. It's also an important tool that should help us maintain our track record of producing superior returns for our shareholders.

Back to the slide, you can see in the chart on the bottom left a breakdown of the firm's entire balance sheet. Half of our aggregate balance sheet is comprised of cash and secured client financing. The next largest category is our Institutional Client Services business or ICS. The ICS balance sheet is primarily comprised of inventory that supports our client market making activities. This inventory is high velocity by nature, with the vast majority of our positions turning over every six months.

The actual Investing and Lending balance sheet is just 10% of firmwide assets. And, one principal difference relative to ICS is the longer term allocation of balance sheet, measured more often in years as opposed to days or months. So with that background, let's look at the I&L balance sheet in a little more detail.

Balance Sheet Evolution – Slide 2

Over the past several years we have seen steady growth of the Investing and Lending balance sheet. Since 2010, the balance sheet has increased 58% to $91.2 billion.

Over that time, there has been a significant change in the composition of the balance sheet. At the end of 2010, our lending activities were less than half of the I&L balance sheet. At the end of the third quarter, that percentage had grown to approximately 75%.

The shift in the portfolio reflects the growth of our lending activities with our private wealth management and corporate clients. The shift also reflects the evolution of risk adjusted returns across different asset classes over time. Our loans, like all banks, are largely accounted for as held-for-investment or HFI. While more than 70% of our loans are HFI, we continue to analyze and monitor the loan portfolio under both HFI and fair value accounting. The most important point is that our approach to risk management is the same.

Debt Securities & Loans – Slide 3

The following slide looks at our funded loans and debt securities. You can see in the top left pie chart that we have a $64 billion portfolio. The portfolio is dominated by funded loans, which represent 91% of the total. Corporate loans are the largest segment at 41% of the portfolio. Private wealth management loans: 31%. And real estate loans: 14%.

Looking at our corporate loan portfolio, you can see it's well diversified. Consumer/retail/healthcare and TMT are the largest industry sectors representing 44% of the portfolio. Industrials is the next largest at 15% followed by Real Estate, Natural Resources, and Financials.

PWM Lending – Slide 4

Now let's talk about our private wealth business. Since the end of 2012, we have increased our private wealth lending portfolio, growing from $6.2 billion to $19.6 billion at the end of the third quarter. The growth in this business allows us to meet an important client need and strengthen our relationships.

With an average client account size of more than $40 million, our private wealth clients are many of the most creditworthy borrowers in the world. Given the nature of our client base, our loans are largely collateralized, across a variety of assets including residential real estate, securities, and other assets.

Equity Portfolio – Slide 5

Let’s switch from lending to equity. Our total equity portfolio is $22.2 billion. It’s less than 3% of the firm’s balance sheet and roughly 25% of I&L.

When thinking about equity investing at Goldman Sachs, it’s important to recognize that this has been a very successful business for both our clients and our shareholders.

Our investment process focuses on producing returns well in excess of our cost of capital. Equity investment decision-making is similar to other capital allocation processes. Each capital deployment is evaluated to ensure it meets all of the firm’s return requirements. For example, for longer-term corporate equity we look to generate long-term returns in excess of 20%.

Let’s talk about the portfolio in more detail. In many cases, we’re invested in private companies alongside our clients. At the time when a company goes public, the investment is often subject to a lock-up. These public positions represent 15%, or just over $3 billion of the portfolio. The remaining roughly $19 billion of equity investments breaks down as follows: 74% of it is corporate equity. Real estate is the next largest category at roughly 18%. The remainder includes seed capital. For example, when we launch new funds within our Investment Management business, the firm may deploy capital to create an investment track record or invest alongside our clients.

Equity Portfolio Diversification – Slide 6

Now, let’s break down the private portfolio.

Our portfolio is diversified across regions and sectors. It is comprised of over 800 different investments. Geographically, the portfolio is weighted towards the Americas at 61%, EMEA 21%, Asia ex Japan 13% – that includes China at 6%, and 5% is in Japan. With respect to sectors, no category represents more than 22% of the portfolio. Real estate investments have increased recently, reflecting more attractive relative opportunities available within that sector and the demand for capital. To give a perspective on activity over the past two years, we have also made approximately $3.5 billion of new investments across a variety of sectors.

In summary, the diversity of the Equity investment portfolio reflects the diversity of our global franchise. And, our ability to provide capital to our clients enhances both our relationships and our returns.

Revenues – Slide 7

Now having reviewed the balance sheet in detail, let's go back and talk a bit about revenues. The chart on the left outlines our revenue trend for I&L, showing the breakdown between equity and debt over the past several years. When we discuss how revenues are generated in Investing and Lending, there are primarily five ways: event driven, non-event driven, public equity marks, net interest income and CIEs.

Let me take a moment to explain the different categories.

Event driven revenues are driven by gains or losses based on an event: for example a sale, a restructuring or a new financing.

Non-event driven revenues are gains or losses driven by other factors. For example, changes in a company's operating performance.

Revenues from public equity marks simply reflect changes in public equity prices.

Net interest income is the interest income from our funded loans net of funding costs.

And last, CIEs refers to operating income from investments consolidated on our balance sheet.

On the right side of the slide, you can see these five categories and the aggregate allocation of revenues to each. Since 2012, roughly 60% of revenues are split between the event driven and non-event driven categories, and the remainder is evenly split between public equity marks, net interest income, and CIEs.

Conclusion – Slide 8

In conclusion, I&L shouldn't be viewed as a standalone business, but rather as the portion of our businesses that involves the longer term deployment of balance sheet. While in any given quarter or year these revenues can fluctuate based on shorter term price movements, we naturally look at the performance over years. And on that basis, these activities have been a strong contributor to both returns and book value growth over the past five years.

Like all of our businesses, our success ultimately relies on being an effective risk manager and disciplined capital allocator. With respect to managing capital, we also remain flexible. If we can't generate strong returns, our philosophy is to reallocate to other business opportunities or return that capital to shareholders.

More broadly and most importantly, our Investing and Lending activities help support economic growth and at the same time expand our client relationships.

Thanks again for your attention and I am happy to answer any of your questions.