Goldman Sachs Presentation to

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Comments by Lloyd C. Blankfein, Chairman & CEO

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Slide #1

Good morning. Today, many investors are naturally focused on returns, but the ability to project longer term remains difficult. As a firm, we have a long track record of delivering superior returns to our shareholders through the cycle. We demonstrated this before the financial crisis, during it, and after. If you look at our average return on equity since the onset of the financial crisis in 2007, we have outperformed each of our US competitors and produced a ROE of more than 4 times the peer average.

We remain focused on driving superior returns in what continues to be a challenging macroeconomic environment. At the same time, we want to protect our ability to provide significant upside to shareholders as the economic cycle turns.

With the cyclical headwinds and regulatory changes facing the financial services industry, strategy is a heavily discussed topic for every institution. And, we spend a lot of time considering, examining, and debating our own direction as a firm.

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Our approach to strategy is deeply rooted in our own circumstances. Strategic decision-making doesn't lend itself to a one-size-fits-all approach. The genesis of strategic change at many companies is the result of examining a few core questions.

First, what are the long-term demand trends for your products and services? Are they stable, growing or declining?

Second, what is the breadth of your franchise? Are there concentrations in certain products, businesses, regions or clients?

Third, what is the quality of your franchise? Is it industry leading, emerging, or lagging behind peers?

Fourth, what is your track record? Do you have a history of success or underperformance?

And last, but not least, what is your culture? Is there a cultural ability to adjust and adapt? Is there the institutional will to make difficult decisions? Or does change require some larger external force?

For companies with a weaker relative positioning on these issues, it is logical to embark on larger strategic change. However, for companies that are performing well across these dimensions – which we believe we are – the most appropriate response is not necessarily one of wholesale strategic change, but rather one of tactical execution.

Today, for us, good strategy is effective execution. This means investing in our core businesses through the cycle, attracting and retaining talented people, managing our resources efficiently and delivering outstanding service to our clients. These are the ingredients of strong returns.

This morning, I will discuss our approach and priorities for enhancing our returns to our shareholders. While we have generated good relative returns in the last five years, they are hardly aspirational. We are committed to improving them regardless of the challenges presented in the current environment. And, we believe these efforts in combination with a strong and deep global client franchise position Goldman Sachs to continue to produce returns at or near the top of our industry.

Let me begin by reviewing the state of our client franchise.

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Investment banking not only includes our advisory and financing services; it also serves as an important source of opportunities for other parts of the firm. For example, working with clients in our financing business often drives demand for hedging solutions, while our advisory franchise can create opportunities for co-investment with our business partners.

We continue to demonstrate outperformance in our advisory franchise, consistently ranking first in both announced and completed M&A. So far this year, Goldman Sachs has advised on four of the five biggest M&A transactions. Our equity underwriting franchise has been equally strong, ranking first in equity and equity-linked, common stock and IPOs year to date.

In recent years, we've ranked 7th in debt underwriting league tables. While we believe that we could modestly strengthen our position, we do not aim to be ranked first in this business. Despite our natural inclination to be ranked at the top of any league table, we believe achieving that position, in this case, would require a significant increase in lending at rates that would ultimately dilute long-term returns. Our approach could change to the extent that regulation drives more attractive pricing.

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In Institutional Client Services, our Equities franchise is built on the premise of providing a broad suite of services to our investing clients. This means having a state of the art electronic platform, comprehensive prime brokerage services, and the capacity to be an effective liquidity provider for our clients.

It also means leveraging our global technology platform to have a scalable "high touch" and "low touch" approach to meeting our clients' needs. It isn't sustainable to have only one approach if your goal is to serve a diverse set of clients and to produce strong returns. Clients determine how they engage the firm, and they are increasingly looking to transact electronically with us in both cash and derivative products. Since 2002, our "low touch" customer electronic volumes have more than doubled.

The long-term demand, however, for product innovation and "high touch" services remains. So, our ability to offer unique solutions across equities products continues to be important to our clients. This dual approach of "high touch" and "low touch" is a by-product of the many market structure and regulatory changes in the Equity market over the past fifteen years. Our ability to adjust to a changing regulatory environment was critical to maintaining a leadership position within our equities business.

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This is also true in FICC. We maintain a leading position across a broad range of products and geographies, with a focus on being responsive to our clients' needs. There is considerable discussion about the outlook for FICC given the numerous regulatory changes taking place and the lower client volumes. Difficult operating environments might lead management teams to overreact. However, when you have a strong franchise and a track record of superior returns, overreacting may be the most dangerous thing that you can do. We remain committed to all of our FICC businesses. Our commitment stems from the fact that our clients continue to place great value on the services that we provide. And our commitment has allowed our client franchise to grow. Since 2010, for example, the number of corporate and growth market relationships has grown by 29% and 34%, respectively.

Conversely, some of our competitors may elect to deemphasize or exit some FICC businesses, given their particular circumstances. That is likely to increase the value that clients place on the services provided by those who remain, especially as broader economic activity rebounds and the trading environment improves.

For our FICC businesses, providing liquidity to our investing clients requires us to take risk, and as a consequence, FICC is the largest consumer of capital. That's why we are keenly focused on managing that business for risk-adjusted returns. Unlike Investment Banking or Investment Management, chasing revenue market share within FICC businesses can lead to risk management lapses and inferior returns. Focusing on the right balance between risk, revenue and returns has been important to building a leading global franchise and consistently delivering strong returns for our shareholders.

New regulation is pushing the industry to be even more sensitive to risk adjusted returns, whether it is through higher capital requirements, the introduction of the supplementary leverage ratio or the application of stress tests. Over time, this should translate into greater pricing discipline across the entire industry, which we view as a positive development. As regulations are finalized, we are focused on providing our FICC professionals with best in class tools so they can better price the provision of liquidity to the marketplace, and better manage our capital usage. To that end, our capital efficiency efforts have resulted in roughly $70 billion of risk-weighted asset mitigation in FICC over the past 5 quarters.

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With total assets under supervision approaching a trillion dollars, our investment management business is one of the largest in the world. We have a strong position across a diverse set of products spanning all major asset classes and geographies. And despite the challenging market environment, we have been able to grow Long-Term "Assets under Supervision" by 30% since the beginning of 2007 through our focus on the institutional, third-party, and High Net Worth segments. Additionally, we have expanded our Defined Contribution business, adding $56bn in new assets from our acquisition of Dwight Asset Management and our pending acquisition of Deutsche Bank's stable value business.

Like our other businesses, success in investment management is a function of performing for our clients. We are focused on investment performance first and foremost. Our asset weighted mutual fund performance has been above the industry average for eight consecutive quarters. And, as performance has improved, so have asset inflows. This focus on performance has been a critical component in generating our highest year to date revenues since 2008.

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Let me switch gears to Investing and Lending, which includes Direct Investing, our investing through funds, as well as lending to both Corporates and High Net Worth clients. Our clients place a high value on our financing and investing activities and this group of businesses has generated significant book

value growth for our shareholders over time. Our investing activity, including co-investing with our clients, has established itself as an important complement to our other franchise businesses. We have a history of strong investment performance over the years, and that reputation, along with deep client relationships, have allowed us to invest in opportunities that are not available to others.

Breaking down the Investing and Lending segment, the "Other Revenue" line is driven by revenues from consolidated investment entities. These are direct investments generally held for 3 to 5 years.

Our Debt Investment line is driven by Senior Loan and Mezzanine investments, and our direct financing and lending businesses. Our Investing & Lending portfolio includes approximately $16 billion of corporate loans and roughly $8 billion of loans to High Net Worth individuals.

Our Equity investments include private equity funds, direct equity investments and hedge fund investments. Our current understanding is that the Volcker rule will limit our ability to invest in hedge funds and private equity through a fund structure. And, we have been winding down our hedge fund investments to be compliant. While we've been actively harvesting our private equity funds, solid asset price performance has kept balance sheet levels relatively flat.

Our Investing and Lending businesses are synergistic with our other activities and are valuable to our clients. We remain committed to these businesses and will adjust our participation and structure to be compliant with regulations as they evolve.

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We continue to operate in an environment with a more difficult macro backdrop constraining client confidence and risk appetite. Weaker global GDP growth, coupled with uncertainty around central bank policy, have impacted client conviction. Political uncertainty has also weighed on client volumes, as we were reminded during the recent debt ceiling debate in the US.

This confluence of factors has led to a pronounced decline in year-to-date client volumes across both equity and fixed income products. Given these headwinds, our focus remains on effectively managing expenses and capital.

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In this environment, as I mentioned earlier, strategy and execution occupy the same space. Our near term goal has been to put Goldman Sachs in a position to generate our cost of capital in a difficult operating environment, while positioning the firm to outperform in an improving environment. We are

focused on making incremental improvements in revenues, expenses and capital efficiency. By steadily advancing in each of these areas, we are building modest near term benefits, but also driving material operating leverage into the business.

Our performance in 2012 is an important example of the power of operating leverage in our business model. Last year, a 19% increase in revenues translated into an 82% increase in pre-tax income and a ROE expansion to 10.7%. Longer term, we expect a more robust environment to deliver even more operating leverage to our shareholders.

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One of the important capital management efforts that we've spoken about over time is refining our business mix in light of new capital requirements. Certain businesses like the Americas Reinsurance business no longer generated attractive returns under a Basel 3 lens.

Even with investments like ICBC, which was both strategic and financial, we elected to make adjustments given the new capital requirements.

Collectively, ICBC and our insurance businesses used 120 basis points of Basel 3 capital and consumed $39 billion of balance sheet.

While these were three larger, public examples, you should expect that we are making smaller, tactical risk adjusted return decisions across the firm every day.

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In recent years, we have significantly reduced our balance sheet leverage and built a strong capital base that is well-positioned for regulatory requirements. As of the third quarter, our estimated Basel 3 Tier 1 Common ratio was 9.8%, which is up approximately 180 basis points since year-end 2011. Since the end of 2007, our liquidity is up nearly 3 times, our common equity is 75% higher, and our Level 3 assets are down approximately 40%.

Our strong capital generation and focused balance sheet management have allowed us to grow our Basel 3 ratio while returning capital to shareholders. Since year-end 2010, we've repurchased over $15 billion of stock, which has reduced our share count by approximately 75 million shares or 14%. The next best of our peers reduced its share count by 4%, and the average for our US peers was actually an increase in share count of 9%. This approach drives shareholder value through both higher returns and growth in earnings per share.

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In addition to effective capital management, we are acutely focused on expense management as a mechanism for driving incremental shareholder returns. From 2009 through 2012, our average compensation ratio was approximately 850 basis points lower than pre-crisis levels.

As compensation is our largest expense, we remain committed to paying for performance. This is evident in the flexibility of our compensation expense, which is highly correlated to revenues in any given year. In down revenue years like 2008 and 2011, we demonstrated significant flexibility in our compensation expense. Importantly, in years with revenue growth, compensation generally increased at a lower rate than revenues, which drives operating leverage and enhances shareholder returns.

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The firm remains committed to operating efficiently for our shareholders, while providing world class service to our clients. Maintaining discipline around costs requires you to make tough decisions regarding staffing levels and compensation. We have strived to get the balance right, between the desire to improve shareholder returns and investing in our client franchise. We have leveraged technology, adjusted our allocation of resources, and managed both compensation and non-compensation expenses in response.

We announced an initial $1.2 billion expense initiative in the second quarter of 2011. The size of the initiative was subsequently increased twice, ultimately reaching $1.9 billion. Part of our expense initiatives included a geographic shift in our talent pool. Currently, we have approximately 8,000 staff, or roughly 25% of our workforce, located in Bangalore, Salt Lake City, Dallas and Singapore relative to 10% in 2007. Additionally, 38% of all campus and experienced hires since 2011 have been hired into those offices.

We were among the first global banks to embark on an expense initiative and although painful, the exercise was necessary. Being an early mover also allowed ongoing recognition of savings over the past two years and protected returns in what continues to be a challenging operating environment.

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The quality and breadth of our client franchise is a direct byproduct of our ability to attract and retain high caliber professionals. As an investment bank, our main asset is our people and the advice and solutions that they provide to our clients. Great people build great relationships. We have a diverse group of young people from around the world who continue to view Goldman Sachs as a great place to

begin and sustain their careers. This is demonstrated by our latest analyst class. More than 43,000 candidates applied for 1,900 positions. We accepted about two percent of those applicants and of those receiving offers, more than 80% accepted. We are also committed to developing our people once they arrive. Last year, 99% of our people participated in formal training programs.

Our culture of teamwork, client service, and excellence determines our long-term performance and shapes our value proposition.

Given the cyclical nature of our industry, experience matters. The average tenure on our 30 member Management Committee is 22 years. For our Divisional Operating Committees, it is an average of 18 years. The insight and perspective that is gained by living through several cycles is impossible to quantify, and having a group of professionals who have experienced those cycles together also carries an immeasurable benefit.

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We have a track record of adjusting and adapting to the dynamic nature of our industry. Our record is a function of having a leading client franchise across all of our businesses. It provides both breadth and balance to our opportunity set. In addition, we believe the long-term demand for our services remains unchanged.

There is no limit to clients' need for effective advice, financing, risk management solutions, or asset management services. In fact, all of these activities are critical to driving future economic growth. Our ability to perform for our clients and our investors is dependent on talented and committed people, deploying their skills through our core set of businesses. This requires a culture that embraces change and doesn't shy away from difficult decisions. A culture that is self-critical, with a healthy sense of paranoia. And, a culture that respects the cycle, but doesn't over-react to it. Fortunately, that culture is well ingrained in our firm, and will serve us well as economies and markets continue to evolve.

Thank you all for listening, and I'm happy to take your questions.