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Comments by Gary Cohn, President & COO

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Thanks Brad, good morning to everyone.

Over the past 3 years, we have operated in very challenging market conditions. While we've seen some signs of improvement, we continue to operate in a fragile environment. Market aftershocks are natural given the magnitude of the recent financial crisis. There is considerable uncertainty surrounding the potential response to these events by regulators, financial institutions, and market participants broadly.

As a result, it is not surprising that the potential impact of regulation on the structure of the capital markets and the implications to financial institutions looms large in investors' minds. This focus is appropriate and understandable. Many of the rules are not yet written and the implications are unclear.

However, to date, the market has principally focused on the negative consequences associated with regulatory reform. The goals of these reforms such as strengthening the industry's financial standing, reducing systemic risk, providing greater transparency, and thus limiting the probability and potential impact of another downturn – is in everyone's best interest. Given the important role that financial institutions play in facilitating the free flow of capital – a healthy, stable and profitable financial sector is critical.

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In the current environment, there appears to be a lack of appreciation for the fact that the financial services industry has always been a dynamic one. Success has historically been dependent upon the industry's ability to adapt to the evolving needs of its clients. An increasingly complex, global marketplace only accentuates the importance of adaptability.

Over the medium term, we believe there are several key themes underway within the broader marketplace – economic growth, capital markets expansion, increased regulation, and higher capital requirements. We feel that these themes present a diversified set of challenges and opportunities.

To address these developments, our firm will need to make difficult decisions allocating resources like human capital, risk capacity, balance sheet and financial capital.

As we have discussed with you in the past, we employ a rigorous and dynamic framework to analyze the decisions we make in serving our clients and our shareholders. Our allocation process determines whether we invest in growth versus developed markets, existing versus new business lines, or revenue production versus infrastructure.

While we do not know how market changes will ultimately be implemented, we believe our culture and history as early adapters will prove invaluable as we move forward.

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Our allocation process has helped the firm to successfully navigate significant changes in market structure over time. While no two markets will evolve in exactly the same way, our ability to adapt has remained consistent. Two recent examples are in the Equity and Foreign Exchange markets.

In the equity markets, a series of events began in the late 1990s with changes to Nasdaq order handling rules. This was followed by decimalization in 2000 and Reg NMS in 2005. Over time, commission rates and spreads declined and volumes rose significantly. We invested in technology to drive operating efficiencies and generate market share gains.

In addition, opportunities for new product innovation and tailored hedging solutions for clients are often a function of lower transaction costs for the underlying instruments. This technology also allowed us to reduce Equities headcount by more than 50% from peak levels of nearly 5,000 during the tech bubble.

We saw similar trends in the Foreign Exchange market, where more than 50% of our transaction flow is now electronic. The emergence of diverse execution venues, increased liquidity, and a more competitive market place have been the impetus for the rise of electronic foreign exchange trading.

Today, electronically traded volumes represent more than 50% of our total foreign exchange volumes and their share of our total volumes has more than doubled over the past 5 years. Since 2005, foreign exchange volumes have grown at a compounded rate of 20%, while electronic volumes are up more than 40%.

Despite a decline in bid/offer spreads, revenues have grown at an 11% rate and our technological investments have contributed to our margins, which have increased to more than 1.5x that of our 2005 margin.

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As we look forward, our industry faces multiple areas of regulatory change, including centralized clearing, price transparency and automation, business activity restrictions, and higher capital and liquidity requirements.

We believe these changes will reduce systemic risk and are working constructively with regulators to implement them. While a considerable amount of uncertainty remains, we believe that many of the changes provide both long term opportunities, as well as challenges, for the broader industry and Goldman Sachs specifically. In making an assessment of the potential long term impact on the industry’s prospects, it is important to consider both sides of the discussion.

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Centralized clearing proposals aim to move bilateral risk to central clearing platforms and will standardize credit terms across the industry. We strongly support these reforms as they should reduce systemic risk and improve transparency. However, we believe it is critical that clearing platforms are appropriately structured to prevent risk concentration.

Some observers are focused on the potential negative impact of narrowing margins on bank profitability. While this is important, we also believe a key consideration is the substantial free-up of counterparty credit capital as risk moves from bilateral arrangements to centralized clearing. We currently hold $11 billion of Basel III capital against this risk and would expect this capital requirement to be reduced as more trades become centrally cleared.

As one of the leading futures clearers and prime brokers globally, our best-in-class, cross-product clearing platforms will be a key competitive advantage.

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New regulations in the market will also drive greater transparency and automation which we believe will accrue significant benefits to our clients. As we have seen in the Equities and Foreign Exchange markets, increased price transparency and automation bolsters liquidity and enhances market participation, driving higher volumes. Automation also facilitates more efficient hedging as clients have broader, more liquid alternatives through which to manage risk.

Conventional wisdom suggests that greater transparency reduces profitability. However, it also suggests that barriers to entry are higher as technology becomes increasingly important. Historically, these developments have resulted in a consolidation of market share due to the size and range of technology investments required to effectively compete.

The businesses where we expect the highest impact from clearing, price transparency and automation are Credit and Rates, two of the five businesses within our FICC division. Although we cannot predict how these businesses will transition to the new market structure, we know from experience that increasing volumes and cost efficiency from technology can more than offset the top-line impact.

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Automation also promotes innovation and provides new business opportunities by creating liquid markets in which clients can more efficiently transact. For instance, decimalization of the equity markets in the early 2000's drove increasing market liquidity and was one factor which helped to pave the way for ETF development. As the need to risk manage and efficiently gain exposure across asset classes increased, ETF volumes grew at a compound annual rate of 48% from 2000 through 2010.

The rise in ETFs also bolstered cash equity volumes. Today, ETFs frequently comprise at least 5 of the top 10 most actively traded equities across all US exchanges. As automation and transparency move to other products, the potential for innovation and increased client access to products will likely follow.

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There has been considerable discussion regarding the potential impact of the Volcker rule on long term investing activities of financial institutions. While the rules have not been finalized, we believe there are certain business activities that will either be limited or restricted. We will not be able to invest more than 3% of our capital in private equity funds or hold more than a 3% stake in any individual fund. In addition, we can no longer engage in proprietary trading and we have already unwound our Principal Strategies and Global Macro Proprietary activities.

As proprietary activities and fund related investments are scaled back, volatility of reported results will likely decrease and capital requirements will decline.

Our Investing & Lending businesses currently include fund investments and other items such as loans and other longer-term on-balance sheet investments. While Investing & Lending activities are not a substantial driver of our results, contributing roughly 10% of our revenues from 1999 to 2010, they do require $9 billion of Basel III capital, some of which will be released as we sell down our investments.

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Moving to capital, there is no question that higher capital requirements will improve the credit-worthiness of the industry. But this will likely impact the availability of credit in the system and weigh on economic growth and industry-wide returns.

As we have discussed previously, we are well positioned for the new Basel III capital requirements, with an estimated Tier 1 Common Ratio of approximately 8%. We also have flexibility to more actively mitigate higher capital charges relative to our initial conservative assumptions once global risk weighted asset charges are finalized. In fact, under Basel III, our credit correlation and mortgage securitization positions represent $12 billion in market risk capital requirements even though revenues from these activities are not a significant contributor. Over time, the firm will look to actively manage these exposures, which could reduce our requirements.

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We strongly believe that higher liquidity requirements reduce systemic risk and that universal rules are prudent for the global financial system. While new regulations will undoubtedly increase the cost of doing business for global financial players, we feel well positioned. We are already in excess of the liquidity coverage ratio requirements. Our global liquidity pool averaged $168 billion during the first quarter of 2011 and represents nearly 20% of our total assets. We have maintained an excess liquidity position since the mid-90s, and have invested in proprietary models to allow us to quantify our liquidity needs.

Maintaining our excess liquidity is expensive, costing us over $2 billion of net revenues and reducing ROE by more than 200 basis points in 2010. But it is an insurance premium we are willing to pay to protect the franchise and we have consistently paid it for many years.

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Despite the current focus on the regulatory environment, there are a number of counterbalancing levers that are important inputs to formulating a view on the industry's prospects. For Goldman Sachs, the breadth of our businesses allows us to perform across products, regions and through economic cycles. And our investments in technology provide operating leverage as client demand and market structure changes.

In addition, our highly liquid balance sheet creates flexibility to allocate assets based on client needs and to the highest risk-adjusted opportunities.

We also see substantial growth opportunities in a number of our businesses. For example, our advisory business remains at cyclically depressed levels, which we expect will rebound as the economic recovery takes shape.

Global GDP growth will also drive higher revenues across our franchise as we continue to expand our footprint in growth markets.

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The geographic and product diversity of our franchise allow us to serve our clients' needs across various market environments.

For instance, our fixed income market making franchise has significant intra-segment diversity and includes our Credit, Rates, Foreign Exchange, Commodities and Mortgage businesses. These businesses include more than 40 product areas where opportunities are driven by the needs of our clients. This same client-driven diversification applies in our other businesses including Investment Banking, Equities and Investment Management.

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Our investment in technology remains a key competitive advantage that has allowed us to adapt to market structure shifts while optimizing our cost base.

Over the past ten years, in response to client demands, we've made significant investments in low-touch platforms designed to provide client access to markets and various asset classes around the world.

For example, in 2000, we introduced what is now REDI Trader, our electronic trading platform for equities, equity options and futures. As it has evolved to fit client needs, our platform has become a full-service, direct market access platform offering algorithms, order routing and analytics. At the request of our clients, we've also added capabilities for front-end FX connectivity.

We were a founding investor in Tradeweb in 1998. Since then, our support of the platform has been continuous, and we currently offer our clients access to products across fixed income, cash and derivatives. Through Tradeweb, clients looking for lower-touch services can trade: Money Markets, Treasuries, Agencies, Mortgages and Corporate Bonds. More recently, we have enabled our clients to access the interest rate and credit default swap markets.

We have a long track record of leveraging technology to adapt to shifting market structures. With each iteration, we learn more and can integrate our existing knowledge to specific market needs. And this institutional knowledge and continued investment provides operating leverage as the cost per incremental unit of volume declines.

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As I previously mentioned, our balance sheet is highly flexible with nearly 90% of our assets in liquid instruments. Since the beginning of 2007, more than 80% of our trading inventory turned over every 6 months.

Maintaining balance sheet liquidity is critical to our ability to respond rapidly to changing markets. In fact, from peak to trough in the midst of the crisis, we reduced our balance sheet by more than $300 billion to less than $900 billion. This reduction was focused on less liquid positions with our Level 3 assets declining 50%, demonstrating the liquidity of our balance sheet and our commitment to active risk management.

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Our advising and financing businesses are the front end of our franchise, providing incremental revenue opportunities in our market-making, investing and investment management businesses. Global advisory volumes have historically tracked market capitalization and levels of GDP growth. While these businesses remain near cyclical lows, our continued investment in people and strong client relationships position us well for a return to the trend line.

At the corporate client level, the story is also encouraging as corporate balance sheets are flush with cash and strategic activity continues to focus on providing global, cross-border opportunities.

As the economic cycle continues to mature, our advisory business should contribute a larger, fee-based revenue stream.

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Investment Management remains a key growth priority. We have doubled our assets under management twice over the 10 year period since our IPO and plan to double assets under management again over the next 5 years.

And while our broad product offering positions us as a top-tier franchise, we see substantial room for growth given our global footprint, position relative to other leading asset managers, and opportunities that we see in the market.

These opportunities are a function of secular global trends increasing fiscal stability, capital markets development, rising individual wealth, and large and growing pools of capital.

Our near-term goals remain focused on developing our third party and private wealth management channels, specifically in growth markets.

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We have often talked about the concept of “chasing GDP” or “being Goldman Sachs” in more places. Those statements reflect the fact that our firm’s long-term success is dependent on a growing, healthy economic environment. Looking at our revenues relative to GDP, one can see that our business has tended to grow at a multiple of nominal GDP. Our business has historically grown at 1.4x GDP growth in EMEA, 1.6x in the Americas, and 1.7x in Asia.

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In conclusion, the mindshare of investors in the financial services industry is dominated by the near term uncertainty surrounding global economic prospects and the implications of financial regulation. Despite this uncertainty, our clients’ demand for our services providing advice, liquidity to capital markets, execution, asset management, and co-investment opportunities remains unchanged.

This is an extremely important consideration, since a client’s decision to work with Goldman Sachs is the ultimate driver of our prospects. We see substantial opportunities across the franchise to invest for the future, and our ability to be nimble and effectively execute remains critical to our goal of providing best-in-class client service.

In the past, Goldman Sachs’ ability to outperform as a public company has been principally driven by the strength and breadth of our client franchise, the quality and commitment of our people, the diversity of our businesses, our culture of maintaining a conservative financial profile and finally, our focus on being a judicious allocator of financial and human capital.

At Goldman Sachs, we will continue to rely on these assets to meet the challenges presented by a changing world. And we will strive to serve our clients with the highest possible standards as we navigate the evolving marketplace.

With that, I would like to thank you for listening and I’d be happy to take your questions.