

Goldman Sachs Presentation to the Bank of America - Merrill Lynch Banking and Financial Services Conference Comments by Lloyd Blankfein, Chairman & CEO

November 16, 2010

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Thank you, Guy. Good morning.

It's been quite a year since last year's conference, especially for our firm. I have to keep reminding myself that it has only been 12 months. It has been a year of tremendous uncertainty – uncertainty about the outlook for the global economy, uncertainty about the future of regulation and uncertainty about the direction of our industry.

At the same time, we continue to see structural developments that remain unshaken. This includes technological advancement, certain macro-economic and demographic trends and the rise of the BRICs and other growth markets. There has also been a necessary and important focus on regulation, which will certainly affect the industry. At this point, however, it is impossible to say to what extent and with any degree of precision.

These four key developments – regulation, technology, macro-economic trends and the growth markets represent a lot of change. Some of it will be manageable. Some of it will be challenging. And, some of it will initiate opportunities that may not be clear to us today. In fact, what looks like overwhelming change now, could turn out to be a blessing in disguise.

But, we believe the core and durable elements of these four trends are beneficial and play to the institutional strengths of our firm. For instance, in the case of financial regulation, institutions will be required to hold more, high-quality capital. In considering the rise of the BRICs, rapid income growth and development will power the expansion of the global capital markets. Our strengths -- responding to change nimbly, making long-term investments in our global franchise and attracting and retaining talented people – give us the best foundation from which we can position the firm to realize the opportunities that will ultimately emerge.

This morning, I would like to discuss how the goals of new regulation, technology's impact on markets, macro-economic trends and the role of the BRICs and other growth markets may affect the broad set of business opportunities available to us. In addition, I will review how our firm is currently positioned to best help our clients manage through this period of change.

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The Dodd Frank legislation and new capital requirements under Basel III are two of the more significant by-products from the focus on regulation. Regulatory implementation is only just beginning so we don't know in detail how the new rules will ultimately impact the industry. The broad contours of new regulation, however, are clear: improve the safety and soundness of the global financial system, increase the transparency of derivatives markets, limit some investing activities, and reduce the consequences of a failure of a large financial institution.

Clearly, we will all benefit from increased safety and soundness. To meet this goal, institutions will be required to hold more capital. Basel III guidelines have focused on bolstering the capital and liquidity profiles of financial institutions to better respond to shocks.

There has also been a call for greater transparency, specifically with respect to the trading of OTC derivatives. We are very supportive of central clearing platforms because we believe they will improve the safety of the system. Importantly, for us, central clearing should level the playing field by standardizing credit terms since more exposures will be margined and run through a clearing house. In the midst of the crisis, our biggest fear was not our own exposures, but those of our counterparties.

In the US, the Volcker rule will restrict proprietary trading activities and fund investments. These businesses, historically, have not been a substantial driver of our results. In response to the Volcker Rule, we have already substantially liquidated Goldman Sachs Principal Strategies, our long / short hedge fund. With respect to our merchant bank, this activity will continue to be a key part of our strategy. As an investment bank, we are asked by our clients to be an advisor, financier and also a supplier of equity, mezzanine and debt capital. We can still meet this client need with investment funds under Volcker, but with less of our own money invested. Consequently, more of our returns will come from fees and overrides than from direct investments, and this may benefit our ROE over time.

We believe these businesses represent attractive long-term returns for our shareholders. But, certainly in the context of a mark-to-market firm, these activities have more volatile revenue streams and are subject to higher capital requirements than many of our other businesses. As a result, limiting these activities will likely reduce the firm's capital requirements and revenue volatility.

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As I previously mentioned, we're experiencing a global shift towards higher levels of capital and liquidity. We believe our conservative financial profile leaves us well positioned to meet new regulatory requirements. We have dramatically bolstered our Basel I Tier 1 common ratio over the past two years through earnings generation and capital raises. Over 90% of our total shareholder's equity is in common equity.

During our third quarter earnings conference call, we gave an estimate of our pro forma Basel III Tier 1 common ratio and the potential forward trajectory of that ratio in 2012. While these figures are based on a number of assumptions, we believe our pro forma Tier 1 common ratio of nearly 8% -- projected to increase to 11% by the end of 2012 -- is one of the best in our peer set. We will take advantage of our strong position to continue to invest in profitable growth opportunities and return any excess capital to shareholders as appropriate.

We also continue to maintain a very liquid balance sheet, with our global liquidity pool averaging more than \$170 billion as of the third quarter of 2010 or nearly 20% of our total assets. While the Basel Liquidity Coverage Ratio has yet to be finalized, we believe we are comfortably in excess of its minimum requirements.

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A second critical trend is technological innovation, which has had a lasting impact on the structure and efficiency of global capital markets. Technology is a core part of our product

offering and client experience. Our ability to respond quickly and effectively to address our clients' needs with the right systems, products and services helps differentiate the firm.

It is difficult to overstate the importance of investing in technology. Global Technology is our largest division with over 8,000 people or one-quarter of our total staff. And it has grown by a 12% annual rate from 2003 through 2009, nearly twice as fast as total headcount.

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While there is significant uncertainty about how new regulation will impact individual businesses or market structure more broadly, technology will play a central role. We will focus on leveraging our best in class systems and accelerate the transition of certain businesses to more bifurcated high touch and low touch operating models. One of our competitive advantages with technology is that we only have one central risk system, which is partially a byproduct of not having done multiple, major acquisitions.

The regulation of the OTC derivatives market will drive greater transparency and automation. Conventional wisdom suggests that greater transparency pressures margins and reduces profitability. While transparency can reduce margins, it also introduces new opportunities in the form of greater client participation and product innovation. Both of these trends ultimately drive increased volumes and revenues.

While no two markets will evolve in exactly the same way, we can draw parallels between the current OTC derivative markets and our past experiences in both Equities and Foreign Exchange. In the equity markets, a series of events began in the late 1990s with changes to Nasdaq order handling rules, 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. At the same time, our Equities headcount declined from peak levels of nearly 5,000 during the tech bubble to roughly 2,500 today. 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.

We saw similar trends in our FX business, where today 98% of interdealer spot FX is traded electronically across a diverse set of execution venues. And, over the past 5 years, our G10 franchise volumes and revenues have doubled while front office headcount is largely flat. As a result, pre-tax margins are two and a half times higher.

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Despite the significant upheavals caused by the financial crisis, the expansion of the global economy continues. Our research estimates that Global GDP will grow by 4% per annum over the next 10 years, principally driven by growth markets. The trend of urbanization also continues, with 400 million people projected to move into Chinese urban centers by 2050.

A growing global middle class will likely result in an increasing demand for commodities. Not surprisingly, there has been a significant expansion of commodity rich economies like the Middle East and Russia.

For Goldman Sachs, we have seen an increasing number of prospective clients in these markets. For instance, there are almost as many Chinese companies with a billion dollar plus

market capitalization as in the United States and Europe combined. And over the last five years, the number of billionaires in China has increased 30 times to nearly 200.

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We view the BRICs and other growth markets as one of the most significant opportunities for our global franchise. A lot of us can remember the sentiment right after the worst of the financial crisis passed. In questioning the fundamentals of long-term economic growth, commentators began to wonder if investors had put too much faith in growth markets, including China, to withstand more difficult economic conditions. In fact, some growth markets started to see significant outflows of capital.

Today, it is clear that the BRICs and other growth economies are anchors for the global economy. As tumultuous and significant as the financial crisis has been, we continue to believe that this will be the century of the BRICs and other growth markets. If anything, our view of the BRICs was validated by how well they performed during the financial crisis.

Over the last few years, we've generated approximately 50% of our revenues from the Americas, 30% from Europe, and 20% from Asia. We believe this revenue mix positions Goldman Sachs as one of the most diverse of our US peers. Another way to look at our revenue composition is to split it between "Developed Markets", like the US and Continental Europe, and "Growth Markets", such as China and Brazil. Since 2006, revenues in the growth markets have represented 12% of total firm-wide revenues. This reflects a higher contribution from growth markets in recent years, although we still, obviously, have a lot of room in which to grow.

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As you can see from this slide, we believe that both GDP growth and the relative fiscal stability of many growth countries are trends that could drive revenue opportunities across all of our businesses. In China and India for instance, income growth and rapid urbanization will drive significant infrastructure demand. This projected investment exceeds \$4 trillion in the next decade, and much of it can be financed domestically.

Companies in growth markets are also becoming more relevant global players. In China for instance, the volume of cross-border deals has grown almost 5 times since 2005 and we retain a 28% share of this activity in 2010.

We've seen an extraordinary increase in debt and equity underwriting volumes from growth markets in the past 10 years as clients seek out financing solutions to support their growth. Over the past five years, we've seen nearly 3 times the number of capital raisings in India than we saw in the previous ten. The need to fund growth in China has also created a booming local equity market. Market capitalization of Chinese companies has grown at a compound annual rate of 36% from 2002 through 2009, and its share of global market capitalization is expected to more than double to 28% over the next 20 years.

Stable and growing capital markets also drive opportunities for our sales and trading businesses. In Latin America, for example, the number of our trading clients has increased nearly 25 times over the last ten years.

Finally, growth markets contain large and growing pools of capital, with sovereign wealth funds managing more than \$3 trillion, and expected to grow to over \$10 trillion in the next decade.

Two hundred of the largest institutions in Asia manage \$12 trillion of assets, but only 15% are current Goldman Sachs clients. And growth markets present important opportunities for our Private Wealth Management business. In Latin America, for instance, there are over 10,000 families with investable assets in excess of \$30 million.

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Similar to developed markets, our success in growth markets has been contingent upon our ability to attract and retain strong talent. Since 2003, our headcount in growth markets has increased by a compound annual growth rate of 33%, while our firmwide headcount has grown by only 7%. Nearly 7,000 people, or roughly 20% of our headcount, are domiciled in growth markets. And our priority remains on developing onshore services, which is why we have ten times more Asia employees working onshore than offshore.

In 2010, we recruited from 114 universities in growth markets, and 31% of 2010 new hires are from these economies versus 8% just 5 years ago. We are gratified that Goldman Sachs continues to be an employer of choice.

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Our growth market strategy has several keys to successful execution, and a number of known risks. As I mentioned earlier, attracting local talent is crucial to developing staying power in these markets - Latin America is an important case study with 98% of our workforce domestically sourced.

One of the most significant challenges of building local teams is identifying and attracting senior leaders to manage those teams. In 2010 alone, we hired five senior partners and managing directors externally, and transferred 11 into the growth markets.

Another key is to operate effectively within the local regulatory environment. Whether it's building a local Asset Management franchise or developing on-shore fixed income trading capabilities, licensing is crucial to offering a comprehensive suite of products to local and global clients. In China, for example, we have received 9 licenses over the past 5 years.

Of course, there are a number of risks to consider as well. Experience tells us that these markets will not grow in a straight line. When shocks occurred, growth markets historically became highly correlated. A long-term horizon is critical, so we must scale our investment in such a way so that we can stay the course.

These attractive growth market dynamics are well understood in the marketplace, which means that we have fierce competition from both global and local players. This competition exists not only for our business, but also for our people.

Finally, we have to ensure that we have a strong culture of client service, risk management and compliance wherever we operate. In the same way, we need to orient the broader organization to nuances of business dealings in these new markets.

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We believe that GDP growth, relative fiscal stability, the development of capital markets, and increasing pools of capital will continue to drive client demand for our services and execution,

particularly in growth markets. As a result, one of our most important priorities continues to be expanding our client base in these markets.

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I want to conclude on a more general thought. As I think about our industry in the last 30 years, it has often fought change fearing it was revolution as opposed to evolution.

The world evolves, and for the financial services industry, the combination of economic forces, regulation and technology will mandate change producing more efficient markets, more competitive firms and more resilient economies. Some will fight change given the uncertainty that comes with it, but embracing change early has been fundamental to Goldman Sachs' success.

A couple of years ago, right after we became a Bank Holding Company, my presentation at this event focused on the extraordinary changes Goldman Sachs had responded to over the prior 10 years. We went from being an advisor to an integrated provider of advice, financing and co-investment; from a largely domestic firm to a global one; from a smaller, private firm to a public Fortune 50 company. Being nimble is a very large part of our culture and our success story. Staying close to our clients and listening to their evolving needs reinforces our willingness to accept and adapt to change.

Of course, it is impossible to predict the future. That's why our enduring commitment to our client franchise and the hard work, commitment and collaboration of our people will remain instrumental to our long-term success.

Thank you, and I'll be happy to take your questions.