GOLDMAN SACHS HISTORIC RESTRUCTURING SPEECH
LLOYD BLANKFEIN, CHAIRMAN AND CEO

Prepared by John Fullerton
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I come before you today to announce the most important decision in the history of Goldman Sachs. Before taking you through the specifics, I would like to share the historical context in which I have recommended this action to our board.

We are all fully aware of the unprecedented financial crisis that began in the summer of 2007, and is by no means over, despite all the talk of "green shoots". These two years have been challenging for all financial firms, including Goldman Sachs. I am proud of how we have performed to date, and remain cautiously optimistic about the future. We are all, no doubt, stronger, wiser, and more humble.

These two years have also been a time of great personal reflection for me, and I'm sure for all of my peers managing complex global financial enterprises. We must acknowledge that, collectively, our industry has created damage of unprecedented scale. The fiscal burden of this damage will be felt for generations when a multitude of other pressing needs for resources are only growing. It has and will continue to cause great suffering for literally billions of individuals around the globe. As I watch Goldman's stock rise back toward $150 per share, my fellow shareholders' investment, and my personal net worth, are well on the way to recovery. Not so for most victims of this financial collapse.

Let me say here today, with no caveats, *I am sorry*.

In *A Guide for the Perplexed*, E.F. Schumacher wisely observed that there are two kinds of problems in the world, those that converge, and those that diverge. Convergent problems are solvable with enough logic and brainpower thrown at them. We find convergent problems in fields such as math, physics and chemistry, and games such as chess. Divergent problems deal in the sphere of humanity, and consciousness. Examples are found in education, politics, and importantly, in economics. Of particular relevance to us today is the question, how to construct and manage the financial system.

With divergent problems, the more they are analyzed logically, the more the answers tend to contradict each other. For example, "freedom" and "order" are exact opposites. We have and will continue to debate the merits of free markets and regulated markets forever, as we have historically. Clearly there is a balance necessary. But that's not a solution. Frankly, simply stating that we need a better balance is a cop out. Society should expect more from the leaders of finance in addressing this calamity than to acknowledge the obvious need for getting the balance right. Furthermore, I know how hard it is, impossible really, to regulate our business intelligently, which is why so many of us in our industry resist regulation. That we need regulation is self-evident (I wont insult you by suggesting we will do better next time). Yet we acknowledge that intelligent regulation is impossible and warn about all the unintended consequences, to say nothing of the distraction of public resources.

Divergent problems cannot be solved by logic, yet life is filled with such problems. Growth versus decay, efficient versus resilient, public interest versus private interest, tradition versus innovation, justice versus mercy. Only wisdom can reconcile these types of problems. Schumacher's warning now sounds quite prescient: "A refusal to accept the divergency of divergent problems causes (wisdom) to remain dormant and to wither away, and when this happens, the 'clever animal' is more likely than not to destroy itself."

If only the damage was limited to "itself".

With a newfound humility, I have stretched my capacities for the wisdom needed in these historic times. This is the important work of financial statesmanship in our era. I put forth the following six conclusions for public consideration:

1. The financial collapse is first and foremost about a massive misallocation of capital. We all thought we could continue to grow short-term speculative returns on capital exponentially, aided by ever more clever abstractions of "financial engineering". It was a charade. Wall Street is supposed to allocate capital "efficiently". This function has been corrupted and is broken. We need to think deeply about the purpose of capital in a healthy and sustainable economy. The media, academics, and even regulators accepted our misguided notions.

2. As I have said before, scale matters. We missed the perspective of scale in our financial dealings, and society is paying a huge price. There is an appropriate scale for all things, including the scale of the financial industry and financial speculation, relative to the real economy and capital markets. We must define and restore appropriate scale. This ultimately is a critical role for government. It should be the first question for regulators. What scale.

3. If financial institutions are too big (and complex) to fail or to govern, which they are, they must shrink and simplify. Either private firms determine how best to do this for themselves, or government must, and will, I trust, do it for them. Since the crisis began, consolidation has only made for bigger and more complex firms. Without profound change, the stage is set for a larger collapse next time. This we simply cannot allow.

4. Wall Street has become overwhelmed with conflicts of interest. Despite only noble intentions of public service, it must be said that perceived conflicts now extend to Washington as well. While managing such conflicts has always been a part of financial intermediation, the temptation is now too great; the stakes are too high. The very survival of our firm was on the line as I observed such conflicts, real and perceived, at work this past year. Trust has been lost, and will not be regained until we eliminate, not "manage" such conflicts.

5. As we argued unsuccessfully in the past, the elimination of Glass-Steagall, aggressively promoted by the large commercial banks, was a mistake. It introduces unacceptable systemic risk into the system when FDIC insured deposit taking institutions (much less government agencies) are allowed to compete in the securities business. We support new legislation globally, to once again separate deposit-taking institutions that must retain the protection of deposit insurance from securities firms. The former must be highly capitalized and tightly regulated. Their returns on capital will be lower, consistent with their lower risk profile. The latter must be small enough and simple enough to fail, with enhanced restrictions imposed on them.

6. Finally, we should remember that public corporations with limited liability were invented to serve a public purpose. We must acknowledge that using public capital to pursue short term speculative trading in capital markets serves no public purpose beyond the liquidity provision associated with it. That liquidity function can be provided at much lower levels of risk to the industry and to society. It is therefore inappropriate that Goldman Sachs and other public companies have been so significantly transformed into large hedge funds with some advisory activities attached. The asymmetric payoff we in the industry have extracted from shareholders and, it turns out, from taxpayers and society is inappropriate. We now know it's unsustainable. It is, in fact, unethical.

I have discussed these conclusions with my partners and our board at length. While not universal, there is now strong consensus that they are correct. The implications for Goldman Sachs are profound and historic.

The changes I am about to announce will catapult Goldman to the front of a parade that is looking for leadership. They will secure for Goldman a stable and profitable future, free of endless well intentioned but ill-advised government intervention. For our public shareholders, these changes represent a practical response to reality, a return to integrity, and a premium. For our partners and employees, we return to our roots as a private securities firm, focused, highly profitable on an appropriate capital base, and with a new competitive advantage of independence to pursue our core purpose: serving our clients' needs in the real economy. For society, our most critical stakeholder and the one we have let down the most, we can assure you that you will never have to bail us out again.

The restructuring contains 6 key elements:

1. Goldman will give up its Bank Holding Company status. This was an emergency move in the midst of the crisis at a price (free) we could not refuse. We have no intention of being a bank and never have. It is inappropriate that we have access to the discount window and a dangerous precedent. Following our restructuring, it will no longer be necessary.

2. Goldman Sachs Asset Management, with all fiduciary funds management businesses, will be spun off to shareholders under the name GSAM, Inc. GSAM will be free of any perceptions of conflicts of interest to serve only one goal: the fiduciary management of client assets. I assure you, there will be no bonus payments to management triggered by this action.

3. A new global multi-strategy hedge fund is being spun out called GProp, LLC. It will be staffed by approximately 500 current Goldman professionals with offices in NY, London, Tokyo, Shanghai, Mumbai, and Sao Paulo. GProp will be capitalized at $7 billion, of which $1 billion represents a conversion of partner stock, $1 billion will be contributed by Berkshire Hathaway, and $5 billion will be contributed by private investors. GProp's novel stakeholder friendly charter includes a fee structure that aligns the interests of the partners with the long term returns of its limited partners and requires it to distribute all capital in excess of $10 billion within 90 days of the end of each year. Scale is capped.

4. A new global private equity firm will be spun out called GTechCap. GTech will not participate in the highly leveraged "financial engineering" that is so symptomatic of the misallocation of capital in recent years and I trust will be forever constrained by both banks and regulators. Instead, the focus will be on real investment in the most critical challenge facing the planet: venture and expansion stage "clean tech" and green infrastructure investments related to the critical transition to a low carbon, sustainable economy. Initially GTech will manage all of the existing private investments of the firm, and issue a GTech Participation Security representing those interests to Goldman Sachs shareholders as part of this restructuring. GTech Cap will be capitalized with $10 billion in addition to the legacy investments. This capital will be provided by the GTech partners and a group of private investors.

5. Goldman Sachs will continue as the premier global investment bank in the world, only it will return to its roots as a private partnership. The firm will be comprised of the existing Global Capital Markets businesses, the Global Advisory businesses, and the Global Wealth Management business. It will also retain a franchise fee annuity from the spun off businesses. The most significant change in this business will be the 60% reduction in our balance sheet and risk profile. Goldman Sachs, LP will have initial equity capital of $20 billion, comprised of $5 billion of partner capital, the conversion of Berkshire Hathaway's $5 billion of preferred stock into a new class of non-voting membership units, and $10 billion of redeemable, participating preferred partnership units issued to non-employee shareholders with an initial distribution yield of 8%. All partner stock, retired partner stock, and the stock of employees carrying on with Goldman Sachs will be converted into a class of partnership units in Goldman Sachs, LP.

6. Goldman Sachs, LP has entered into a novel Contingent Capital Underwriting Agreement with Berkshire Hathaway. Under this agreement, Goldman will have at its immediate disposal, access to $10 billion of contingent capital for

> underwriting opportunities that necessitate incremental capital. This arrangement will allow us to compete for all conceivable business and trades, yet without the burden of surplus capital driving us to increase risk on a daily basis. Under the terms of this Agreement, Berkshire Hathaway will effectively sell reinsurance to Goldman's capital intermediation business for a profit share on drawn capital.

In order to avoid any perceived conflicts of interest, the board of directors of Goldman Sachs has retained Greenhill and Co to advise on the transaction and provide a fairness opinion to our shareholders. Each of the new entities have hired their own advisors, with Goldman Sachs, LP advising itself. Greenhill values the total consideration being offered to GS shareholders at $170 per share, comprised of 30% cash, Goldman Sachs, LP redeemable partnership units, Goldman Sachs, LP debt (provisional rating by Moody's of A-), GTech Cap Participation securities, and GSAM, Inc. equity. All existing Goldman Sachs debt obligations will be either prepaid or assumed by Goldman Sachs, LP. Prior to the execution of this transaction, Goldman will repay in full its TARP funds. Goldman debt issues with a government guarantee will be refinanced as soon as practical, with a target by year-end.

This restructuring achieves multiple critical objectives. First and foremost, it places our businesses in distinct legal entities with their own governance and the proper scale to eliminate any "too big to fail" or "too complex to govern" risk to society. It does so on our timetable, while our competitors remain tied up in negotiations with their regulators for months and perhaps years to come. Second, it reduces the multitude of conflicts of interest that have hampered our firm since the days of the Whitehall scandal and before. Third, it positions all of our key businesses to thrive in the new, appropriately regulated operating environment. While the plan entails the redundancy of some 20% of our current employees, this reallocation of human capital to more productive uses in society is part of the tough medicine our industry is confronting.

There is one more element of this historic transition I am particularly pleased to announce. I have received many letters reflecting the anger of citizens, and the injustice of the banking industry bailout. The volume of discontent understandably is only rising. Many of these letters are balanced and fair, others understandably inflammatory. The truth is, collectively, Goldman Sachs shareholders have been bailed out to the tune of $85 billion. The good fortune to our bondholders and counterparties is far larger. This was not because we deserved it. We got lucky as government officials struggled to avoid total financial collapse. The circumstances surrounding the AIG bailout in particular raise legitimate questions. Current or former Goldman partners and employees benefiting from the bailout hold approximately thirty percent of Goldman Sachs' stock, typically representing the majority of their wealth. The single largest beneficiary of this bailout, perhaps the largest individual TARP beneficiary in the world, is me. My personal holdings of Goldman stock now exceed a quarter of a billion dollars. I have grown to see that value as now somewhat illegitimate, a gross injustice in relationship to the damage our industry, including Goldman Sachs, has created.

Today I am announcing that the current partners of Goldman Sachs have agreed to personally contribute $1 billion to the Goldman Sachs Foundation. This unprecedented gift represents (X)% of their personal Goldman holdings. I will be contributing 50% of my holdings and will become Co-Chairman of the Foundation, joining my esteemed predecessor John Whitehead.

The Foundation will soon be making two formal grants in direct response to the financial crisis. The first is a $250 million grant to a newly formed mortgage foreclosure prevention fund, to be managed by the Foundation. The second is a $100 million grant to the United Nations Millennium Project to support their work, now more critical than ever. Other significant announcements will be forthcoming in the months ahead. It is my belief that with this meaningful gesture, justice has been served. I hope you will agree.

Goldman Sachs, with its rich history at the pinnacle of finance, can now get on with the important work ahead of us. Restoring trust, serving clients and their financial needs, providing efficient capital intermediation that *serves* the end of a more just and sustainable economy. These are the cornerstones of rebuilding a robust and resilient financial system, which recognizes its place in serving the real economy.

All the newly defined Goldman entities face tremendous opportunity, now freed and re-energized by this moment of rebirth. I am confident we will continue to thrive, and meet the many challenges that lie ahead. We are grateful for a second chance.

Thank you.