No. 20-222

In the Supreme Court of the United States

GOLDMAN SACHS GROUP, INC., ET AL., PETITIONERS

v.

ARKANSAS TEACHER RETIREMENT SYSTEM, ET AL.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

SUPPLEMENTAL JOINT APPENDIX
(VOLUME 3; PAGES 805-998)

KANNON K. SHANMUGAM
PAUL, WEISS, RIFKIND,
WHARTON & GARRISON LLP
2001 K Street, N.W.
Washington, DC 20006
(202) 223-7300
kshanmugam@paulweiss.com

Counsel of Record
for Petitioners

THOMAS C. GOLDSTEIN
GOLDSTEIN & RUSSELL, P.C.
7475 Wisconsin Avenue
Suite 850
Bethesda, MD 20814
(202) 362-0636
tg@goldsteinrussell.com

Counsel of Record
for Respondents

PETITION FOR A WRIT OF CERTIORARI FILED: AUGUST 21, 2020
CERTIORARI GRANTED: DECEMBER 11, 2020

TABLE OF CONTENTS

Page

Page

Page

Page

<u>VOLUME 3</u> (Supplemental Joint Appendix)

The following opinions and orders have been omitted in printing the joint appendix because they appear as appendices to the petition for certiorari as follows:

Appendix A:	Court of appeals opinion, April 7, 2020
Appendix B:	District court opinion, August 14, 2018
Appendix C:	Court of appeals opinion, January 12, 2018
Appendix D:	District court opinion, September 24, 2015
Appendix E:	Court of appeals order denying rehearing, June 15, 2020

CIBC World Markets

Equity Research
Earnings Update

January 29, 2007

Brokers/Large-Cap Brokers

Goldman Sachs Group

Highlights from Meeting with Goldman Sachs CFO David Viniar

Stock Rating:
Sector Outperformer

Sector Weighting:
Overweight

12-18 mo. Price Target	$250.00
GS-NYSE (1/29/07)	$211.04
Key Indices:	S&P 500, BarraVal, NYSE, S&P 100
3-5-Yr. EPS Gr. Rate (E)	25.0%
52-week Range	$136.90-$220.51
Shares Outstanding	471.0M
Float	379.6M Shrs
Avg. Daily Trading Vol.	5,144,350
Market Capitalization	$99,399.8M
Dividend/Div Yield	$1.40 / 0.7%
Fiscal Year Ends	November
Book Value	$72.62 per Shr
2007 ROE (E)	27.2%
LT Debt	$129.3B
Preferred	$3,100.00M
Common Equity	$35.8B
Convertible Available	No

Earnings per Share	Prev	Current
2006		$19.69A
2007	$23.00E	$22.60E
2008		$26.25E
P/E		
2006		10.7x
2007	9.2x	9.3x
2008		8.0x

EXHIBIT
PENGAD 800-631-6989
Porten 9
5/1/15 TD

Company Description
Goldman Sachs Group, Inc. and its subsidiaries provide investment banking, securities, and investment management services worldwide.

www.gs.com

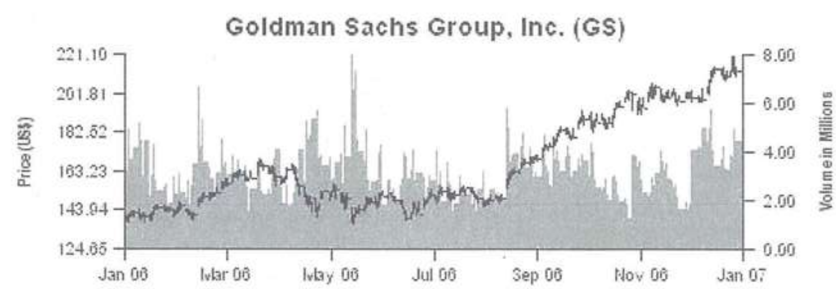
- We met with David Viniar, CFO of Goldman Sachs, almost a year after he made the now famous pronouncement that he'd never seen a better operating environment in 25 years. Our takeaway from yesterday's meeting is that his sentiment now has extended into 26 years.

- Liquidity is rich and deals are increasingly more global in nature. China continues to be GS's key growth market, but alternative energy and infrastructure look robust. Asset and wealth management will also be prime areas of growth and focus.

- We are slightly trimming our well above consensus first-quarter estimates due to lower expected incentive fees in asset management ($0.10-$0.15 per share by our estimates) and what now looks like our admittedly too high trading revenues (remember very tough 1Q06 comparison).

- Our outlook on GS is as bullish today as it was a year ago. GS is involved in 1 in 3 deals globally, a fact that few could boast of in any industry, let alone a fast-growing industry. Further, GS is simply the fastest growing in the fastest growth businesses within global capital markets.

Stock Price Performance



Source: Reuters
All figures in US dollars, unless otherwise stated.

07-71039 © 2007

CIBC World Markets does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.

See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Meredith Whitney
(212) 667-6897
Meredith.Whitney@us.cibc.com

Gary Lee
(212) 667-7128
Gary.Lee@us.cibc.com

We met with Goldman Sachs CFO David Viniar, almost a year after he made the now famous pronouncement that he'd never seen a better operating environment in 25 years. Our takeaway from yesterday's meeting is that his sentiment now extends into 26 years. Overall, Viniar remained optimistic that the global environment today is good as economic growth continues to be strong, capital is plentiful, and activity levels are high. Notably, he emphasized that Goldman's biggest growth opportunities are in China, in the infrastructure business, and in alternative energy investments.

Our outlook on Goldman Sachs is as bullish today as it was a year ago, even in the face of its impressive stock price rise over the same time period. Goldman is not only the dominant force in the global M&A market, which grew to its highest level in history and 2007, is poised even higher; GS is literally in ONE OF EVERY THREE deals. There are few, if any, companies worldwide that can boast of similar market share dominance in any industry, let alone in a growing industry. Further, Goldman is growing the fastest in the fastest-growing markets. With roughly 50% of revenues coming from outside the US, Goldman is growing the most in China, Japan, and Europe.

We continue to rate GS Sector Outperformer with a $250 price target, as we remain bullish on the continued robust growth of the capital markets and on GS's consistent ability to grow its EPS with a solid ROE. The firm generates the highest revenue growth vs. its peers, possesses dominant market share in the highest margin businesses, has an impressive presence in Japan/China, and in our opinion will continue to record earnings upside from its private investment gains.

Several key takeaways from our meeting:

- **China represents Goldman's biggest growth opportunity.** Goldman is singly the best-positioned foreign investment bank within China. Last year, the company got the highly coveted role of investor/advisor to ICBC as well as underwrote the Bank of China deal. Goldman has had a presence in China for a long time and seems to have a very good reputation, hence resulting in the firm doing most of the biggest China deals. Furthermore, Viniar emphasized that Goldman and UBS were the only two major brokers that had securities licenses in China and in this capacity China was the only region where Goldman did not have to compete with the rest of the world. In fact, China was no longer offering these licenses for the time being. With this license, Goldman is allowed to underwrite 'A' shares and participate in domestic M&A, bond underwriting, and wealth management. We believe Goldman's competitive lead is vast in China as well as in greater Asia. In its "statesmanship commitment" to the development of capital markets, we believe GS employees go above and beyond the typical role of investment bank to provide guidance and counseling to soon to be public and public companies as to best practices in dealing with public investors. Goldman continues to advise ICBC on a myriad of on going capital markets issues.

- **The infrastructure business will be a major area of investment and advisory focus.** Viniar believes that the infrastructure business will become very large in the US as municipalities will see the clear benefit of leveraging currently unlevered assets, freeing up capital, and perhaps ultimately delivering best execution for its municipal services. He thinks that the volumes within the US will be in the multi-billions and will be a major source of deal flow over the coming years.

- **Commodities remain a solid growth revenue source.** Active in commodities since 1981, commodities trading and operation have been a cornerstone to the GS trading platform long before the recent "multi-year bull market in commodities." When questioned whether GS had a more difficult time generating outsized profits in a declining oil and gas price trending market, Viniar cited its recent success in the rates and currency markets in the face of 17 rate hikes and reasonable volatility. Provided there is somewhat of a trend and client activity remains high, profits should remain solid.

- **The trading business is a significant part of the GS franchise and will continue to grow.** Viniar indicated that the firm had very stringent risk controls and noted that the biggest risk to trading was not necessarily the incurred trading losses but rather a general slowdown in business. Furthermore, while trading revenues are very volatile quarterly, on an annual basis it's a consistently growing business.

- **Viniar's top 3 fears of what will hinder economic growth are:** 1. *Credit*—credit spreads may widen and lead to defaults. However, Viniar did note that GM was downgraded but only negatively impacted credit markets for one month. 2. *Protectionism*—anything that hinders the free flow of capital around the world and hence globalization. 3. *Inflation.*

Other Odds and Ends From the Meeting

- **The pool for buyers of everything, including risk, is so far broader today, which may mean the emergence of a different market than US-centric and demand-concentrated markets of the past.** Specifically, according to Viniar, derivatives have been very good for the financial markets as they allow risk to be sliced and redistributed to those who want it.

- **Overall, opportunities in the mortgage business are strong; the weak link is subprime.** Viniar noted that the mortgage business should be viewed in two separate ways, commercial and residential. According to him, the commercial mortgage business is terrific (i.e. Equity Office Properties Trust), as there exists a lot of money for financing while the residential mortgage business is solid but less buoyant. Within residential mortgages, the weak link is subprime. Viniar believes that the subprime lending business will worsen before it gets better as the market normalizes, forcing more subprime lenders to exit this business.

- **One of Goldman's main advantages is its ability to offer a comprehensive package of services and products, which allows it to consistently participate in the largest deals.** According to Viniar, the firm is capable of participating in all facets of a deal including capital, advice, hedging, etc., which provides it with a significant advantage and breadth in securing the most notable and complex global deals.

- **An extremely high percentage of deals for principal investing originate from internal referrals.** Goldman's consistently ability to actively invest in and harvest its principal investments stems from the fact that many of the firm's other segments constantly refer deals to the principal investing segment. According to Viniar, Goldman is very careful about the conflicts or perceived conflicts that emerge, and actually has a full time partner monitoring these conflicts.

- **Goldman's global investments have begun to bear significant fruit and are one of its main near-term growth drivers.** Viniar noted that while Japan is now an earnings contributor it used to be a breakeven business for 13 years. He stated that Goldman's leading global footprint vs. its peers will allow it to profit from the fastest growing economies, particularly in the BRIC (Brazil, Russia, India, and China) countries.

Exhibit 1. Goldman Sachs Revenues Per Employee Are Greater Than 2X Its Closest Peers

Revenues/Employee ($ in Thousands)

Company Name	2002	2003	2004	2005	2006	4-Year CAGR
Bear Stearns	$485	$569	$622	$626	$680	-
YoY % Change	*3.3%*	*17.4%*	*9.2%*	*0.7%*	*8.7%*	8.8%
Goldman Sachs	$709	$823	$992	$1,050	$1,406	-
YoY % Change	*1.6%*	*16.1%*	*20.5%*	*5.9%*	*33.9%*	18.7%
Lehman Brothers	$499	$534	$591	$638	$678	-
YoY % Change	-3.1%	7.1%	10.7%	8.0%	6.2%	8.0%
Merrill Lynch	$360	$414	$435	$476	$617	-
YoY % Change	*-5.2%*	*15.0%*	*5.2%*	*9.4%*	*29.5%*	14.4%
Morgan Stanley	$366	$426	$445	$503	$612	-
YoY % Change	*-3.1%*	*16.4%*	*4.5%*	*13.0%*	*21.6%*	13.7%
Average	*-1.3%*	*14.4%*	*10.0%*	*7.4%*	*20.0%*	*12.7%*

Source: Company reports and CIBC World Markets Corp.

From a year ago, Goldman Sachs has grown its revenues per employee by 33.9%, which was the highest YoY growth rate amongst its key US peers, to $1.4 million, which is greater than 2x its closest peers. Following was Merrill Lynch with 29.5% and Morgan Stanley with 21.6%. Overall, Goldman Sachs' 4-year CAGR was 18.7%, which was significantly above those of its key peers.

Earnings Outlook

We are trimming our well above consensus 1Q07 estimate due to lower expected incentive fees in asset management ($0.10-$0.15 per share by our estimates) and what now looks like our admittedly too high trading revenues (remember very tough 1Q06 comparisons). Our 1Q07 and 2007 estimates are now $5.60 (from $6.00) and $22.60 (from $23.00), respectively.

Exhibit 2. Our Estimates for 1Q07 and 2007 Are On Average 19% Above the Consensus Mean

EPS Estimates (CIBC vs. Consensus)

Source	1Q07	2007
CIBC	**$5.60**	**$22.60**
% diff. from mean	18.9%	18.5%
% diff. from low	39.3%	37.0%
% diff. from high	0%	0%
Consensus		
Mean	$4.71	$19.07
Low	$4.02	$16.50
High	$5.60	$22.60

Source: Company reports and CIBC World Markets Corp.

Our 1Q07 estimate of $5.60 is the highest estimate on the Street, 19% above the mean and 39% above the lowest estimate. Our 2007 estimate of $22.60 is also the highest estimate on the Street, 19% above the mean and 37% above the lowest estimate.

Price Target Calculation

Our price target on Goldman Sachs is $250 based upon a 2.7X multiple of our projected 12-month forward book value estimate of about $94 per share. Since going public in 1999, Goldman has traded in a range of 2.0X to 3.6X book value; therefore, we believe our 2.7X multiple is reasonable. Admittedly, since 2002 Goldman has traded more towards the low end of the range along with its brokerage group peers; however, if we are correct on our thesis that 2006 will be a barnburner year within global capital markets, we believe the group at large will experience multiple expansion. For the past three years, Goldman has grown earnings by over 25% per annum despite a flattening yield curve and unfavorable equity markets. We believe the wind is truly at Goldman's back this year and that 2006 will mark the company's fourth year of 25% plus earnings per share growth.

Key Risks to Price Target

Market Risk: Brokerage earnings are highly correlated to strength/weakness in the overall capital markets.

Credit Risk: Brokerage earnings may be vulnerable to losses from their credit exposure related to trading, lending, and other business activities.

Liquidity Risk: An extended interruption in liquidity will have a materially adverse impact on earnings.

Litigation Risk: Legal proceedings could adversely affect brokerage earnings, capital levels, and potentially impact credit ratings.

Regulatory Risk: Most brokerage businesses are highly regulated and could be materially impacted by regulatory and/or legislative initiatives globally.

Case 1:10-cv-03461-PAC Document 201-5 Filed 04/27/18 Page 7 of 15

Exhibit 3. Income Statement

CIBC Large-Cap Brokers
GOLDMAN SACHS
Income Statement

$ in Millions, Except Per Share Data	2005A	2006A	2007E	2008E	1Q05	2Q05	3Q05	4Q05	1Q06A	2Q06A	3Q06A	4Q06A	1Q07E	2Q07E	3Q07E	4Q07E
					2005A				2006				2007			
Diluted Core EPS	$11.21	$19.69	$22.60	$26.25	$2.94	$1.71	$3.25	$3.35	$5.08	$4.78	$3.26	$6.59	$5.60	$5.76	$5.00	$6.25
Annual EPS Growth	*25.7%*	*75.5%*	*14.8%*	*16.2%*	*17.4%*	*-26.1%*	*86.9%*	*41.9%*	*72.9%*	*179.7%*	*0.1%*	*97.0%*	*10.3%*	*20.4%*	*53.6%*	*-5.3%*
OPERATING RATIOS																
As a X of Trading and Principal Investments																
Interest Income	1.4	1.5	1.6	1.5	1.0	1.9	1.2	1.7	1.1	1.2	2.1	1.6	1.6	1.6	1.6	1.6
Interest Expense as % of Interest Income	85%	90%	89%	90%	83%	83%	86%	89%	90%	91%	90%	89%	89%	89%	89%	89%
As a % of Assets Under Supervision																
Asset Management and Securities	0.63%	0.74%	0.60%	0.73%	0.66%	0.60%	0.61%	0.62%	1.13%	0.70%	0.64%	0.60%	0.70%	0.66%	0.60%	0.60%
As a % of Net Revenues																
Compensation and Benefits Expense	47%	44%	47%	47%	50%	50%	50%	39%	51%	50%	47%	27%	51%	50%	49%	39%
Non-Comp. Expense	19%	17%	16%	18%	17%	24%	17%	22%	13%	15%	21%	20%	13%	15%	17%	20%
Pre-Tax Margin	33%	39%	36%	35%	33%	26%	33%	39%	36%	35%	32%	54%	36%	35%	34%	41%
Profit Margin	23%	25%	24%	23%	24%	18%	22%	26%	24%	23%	21%	33%	24%	23%	22%	27%
Tax Rate	32%	34%	33%	33%	30%	30%	33%	34%	33%	34%	33%	37%	33%	33%	33%	33%
INCOME STATEMENT																
REVENUES																
Interest Income	21,250	35,186	46,031	51,292	4,176	4,867	5,721	6,486	7,535	8,544	9,351	9,756	11,513	12,462	10,922	11,134
Interest Expense	18,153	31,688	41,013	46,163	3,449	4,022	4,940	5,742	6,813	7,761	8,395	8,719	10,281	11,092	9,732	9,909
Net Interest Income (NII)	3,097	3,498	5,018	5,129	727	845	781	744	722	783	956	1,037	1,232	1,371	1,191	1,225
Trading and Principal Investments	15,452	24,027	28,765	34,195	4,141	2,562	4,842	3,907	6,687	6,921	4,368	6,051	7,196	7,741	6,826	7,002
NII + Trading and Principal Investments	18,549	27,525	33,783	39,324	4,868	3,407	5,623	4,651	7,409	7,704	5,324	7,088	8,428	9,112	8,017	8,227
Investment Banking	3,599	5,613	6,158	7,407	873	796	998	932	1,470	1,521	1,265	1,337	1,568	1,557	1,490	1,543
Asset Management and Securities	3,090	4,527	4,618	7,071	774	724	772	820	1,554	1,016	975	982	1,191	1,152	1,100	1,175
Other	(456)	(461)	(400)	(400)	(110)	(121)	(108)	(117)	(98)	(144)	(121)	(98)	(100)	(100)	(100)	(100)
Total Net Revenues	**24,782**	**37,204**	**44,159**	**53,402**	**6,405**	**4,806**	**7,285**	**6,286**	**10,335**	**10,097**	**7,463**	**9,309**	**11,087**	**11,721**	**10,506**	**10,845**

Source: Company reports and CIBC World Markets Corp.

Exhibit 4. Income Statement

CIBC Large-Cap Brokers
GOLDMAN SACHS
Income Statement

$ In Millions, Except Per Share Data	2005A	2006A	2007E	2008E	2005A 1Q05	2Q05	3Q05	4Q05	2006 1Q06A	2Q06A	3Q06A	4Q06A	2007 1Q07E	2Q07E	3Q07E	4Q07E
Diluted Core EPS	$11.21	$19.69	$22.60	$26.25	$2.94	$1.71	$3.25	$3.35	$5.08	$4.78	$3.26	$6.59	$5.60	$5.76	$5.00	$6.25
Annual EPS Growth	25.7%	75.5%	14.8%	16.2%	17.4%	-26.1%	86.9%	41.9%	72.9%	179.7%	0.1%	97.0%	10.3%	20.4%	53.6%	-5.3%
EXPENSES																
Operating Expenses																
Brokerage, Clearing and Exchange	1,109	1,779			252	274	271	312	351	403	454	571				
Market Development	378	492			82	94	92	110	100	121	117	154				
Communications and Technology	490	544			118	'23	124	125	124	131	141	148				
Depreciation and Amortization	501	521			118	'26	125	130	125	127	126	143				
Occupancy	728	850			148	'86	200	194	193	199	221	237				
Goodwill/Intangibles Amortization	124	173			31	31	31	31	34	44	50	45				
Professional Services and Other	1,491	1,883			308	323	395	465	418	462	482	521				
Employee IPO and Acq Award	-	-			-	-	-	-	-	-	-					
Non-Compensation Operating Expenses	4,821	6,242	7,154	9,602	1,057	1,159	1,238	1,367	1,345	1,487	1,591	1,819	1,441	1,758	1,786	2,169
Operating Income Before Compensation Expenses	19,961	30,962	37,004	43,801	5,348	3,647	6,047	4,919	8,990	8,610	5,872	7,490	9,646	9,963	8,720	8,676
Compensation and Benefits	11,688	16,402	20,892	25,099	3,203	2,403	3,642	2,440	5,301	5,086	3,510	2,505	5,654	5,860	5,148	4,229
Income before Taxes	8,273	14,560	'6,112	18,702	2,145	1,244	2,405	2,479	3,689	3,524	2,362	4,985	3,991	4,102	3,572	4,446
Provision for Taxes	2,647	5,023	5,317	6,171	633	379	788	847	1,210	1,212	768	1,833	1,317	1,354	1,179	1,467
Net Operating Income	5,626	9,537	'0,795	12,530	1,512	865	1,617	1,632	2,479	2,312	1,594	3,152	2,674	2,748	2,393	2,979
Preferred Stock Dividend	17	139	156	120	-	-	9	8	26	26	39	48	39	39	39	39
Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	5,609	9,398	10,639	12,410	1,512	865	1,608	1,624	2,453	2,286	1,555	3,104	2,635	2,709	2,354	2,940
Basic Shares Outstanding	490	449	440	435	494	485	473	459	457	450	449	440	440	440	440	440
Diluted Shares Outstanding	500	477	471	473	515	506	494	485	483	478	477	471	471	471	471	471
EOP Shares Outstanding																
Dilution	88	114	124	93	21	21	21	26	26	29	28	31	31	31	31	31
Dividend	$1.00	$1.30	$1.40	$1.50	$0.25	$0.25	$0.25	$0.25	$0.25	$0.35	$0.35	$0.35	$0.35	$0.35	$0.35	$0.35
Book Value	$57.02	$72.62	$93.82	$'18.58	$53.15	$53.46	$55.39	$57.02	$60.42	$64.92	$67.87	$72.62	$77.87	$83.27	$87.93	$93.82
Avg. Book Value	$53.90	$64.82	$83.22	$'06.20	$50.62	$53.31	$54.43	$56.21	$58.72	$62.67	$66.40	$70.25	$75.24	$80.57	$85.60	$90.87
Total Equity																
ROE - Calculated	20.8%	30.4%	27.2%	24.7%	23.0%	12.7%	23.7%	23.6%	35.1%	30.9%	19.5%	37.2%	29.5%	28.3%	23.2%	27.3%
ROE - Reported	21.8%	32.8%			23.5%	13.4%	25.1%	25.2%	36.4%	32.5%	20.9%	41.5%				
ROTE - Reported	27.6%	39.8%			29.6%	18.5%	32.0%	31.7%	44.0%	39.0%	24.9%	50.0%				
Days per Quarter					90	92	92	91	90	92	92	91	90	92	92	91
Number of Employees	23,623	26,467			21,606	21,800	23,195	23,623	23,641	24,013	25,647	26,467				
Pretax Margin	33.4%	39.1%	36.5%	35.0%	33.5%	25.9%	33.0%	39.4%	35.7%	34.9%	31.6%	53.6%	36.0%	35.0%	34.0%	41.0%
Cost Income Ratio	66.6%	60.9%	63.5%	65.0%	66.5%	74.1%	67.0%	60.6%	64.3%	65.1%	68.4%	46.4%	64.0%			

Source: Company reports and CIBC World Markets Corp.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2006 Current	$5.08A	$4.78A	$3.26A	$6.59A	$19.69A
2007 Prior	$6.00E	$5.91E	$4.86E	$6.23E	$23.00E
2007 Current	$5.60E	$5.76E	$5.00E	$6.25E	$22.60E
2008 Current	--	--	--	--	$26.25E

IMPORTANT DISCLOSURES:

Analyst Certification: Each CIBC World Markets research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the recommendations and opinions expressed herein accurately reflect such research analyst's personal views about the company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

Potential Conflicts of Interest: Equity research analysts employed by CIBC World Markets are compensated from revenues generated by various CIBC World Markets businesses, including the CIBC World Markets Investment Banking Department within the Corporate and Leveraged Finance Division. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. CIBC World Markets generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, CIBC World Markets generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers.

In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, CIBC World Markets may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon.

Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

Important Disclosure Footnotes for Goldman Sachs Group, Inc. (GS)

2a Goldman Sachs Group, Inc. is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.

2e CIBC World Markets Inc. has received compensation for investment banking services from Goldman Sachs Group, Inc. in the past 12 months.

3a Goldman Sachs Group, Inc. is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.

3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from Goldman Sachs Group, Inc. in the past 12 months.

Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets:

Stock Prices as of 01/29/2007:
Bear Stearns Companies (3a, 3b) (BSC-NYSE, $162.05, Sector Outperformer)
Lehman Brothers Holdings Inc. (3a, 3b, 5a) (LEH-NYSE, $80.68, Sector Outperformer)
Merrill Lynch & Co. (3a, 3b) (MER-NYSE, $92.39, Sector Performer)
Morgan Stanley (3a, 3b) (MS-NYSE, $81.12, Sector Outperformer)
UBS AG (3a, 3b) (UBS-NYSE, $61.64, Sector Outperformer)

Companies Mentioned in this Report that Are Not Covered by CIBC World Markets:

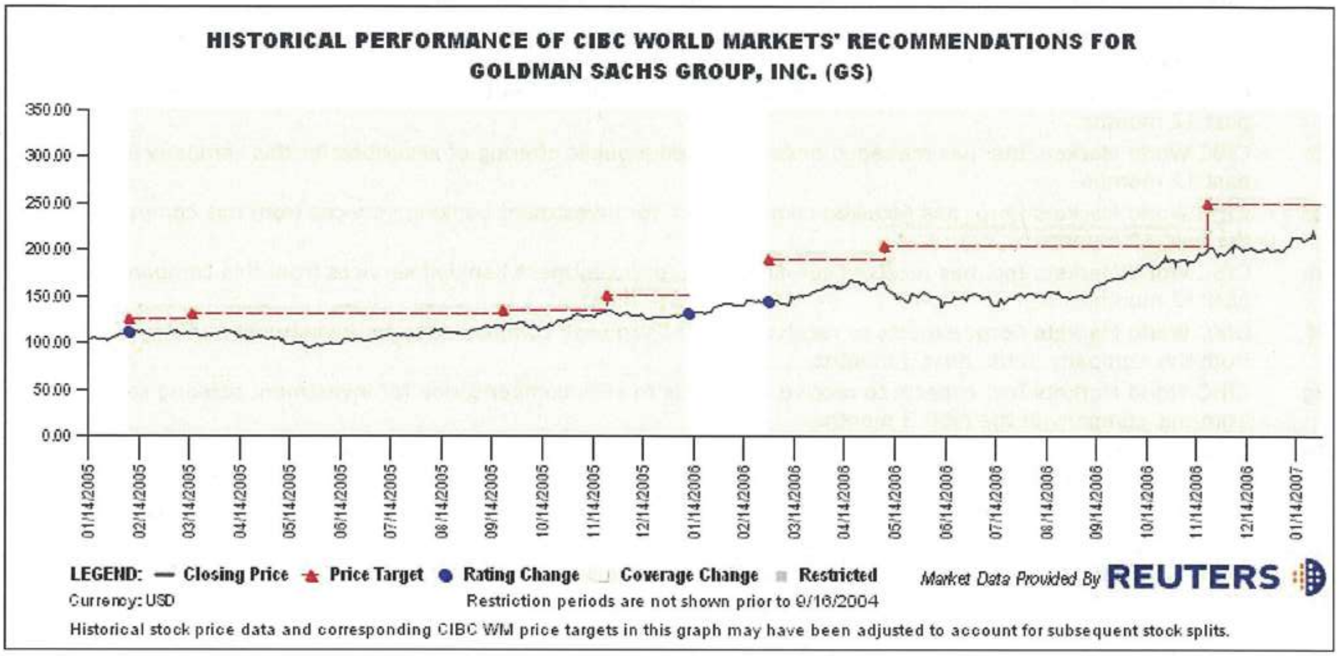
Stock Prices as of 01/29/2007:
Bank of China (3988-HK, [HKD]3.90, Not Rated)

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

Key to Important Disclosure Footnotes:

1	CIBC World Markets Corp. makes a market in the securities of this company.
2a	This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
2b	CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.
2c	CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
2d	CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
2e	CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
2f	CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
2g	CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
3a	This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.
3b	CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
3c	CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
4a	This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.
4b	CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
4c	CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
5a	The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.
5b	A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
6a	The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.
6b	A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.
7	CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.
8	A partner, director or officer of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.
9	A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.
10	Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
11	The equity securities of this company are restricted voting shares.
12	The equity securities of this company are subordinate voting shares.
13	The equity securities of this company are non-voting shares.
14	The equity securities of this company are limited voting shares.

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR GOLDMAN SACHS GROUP, INC. (GS)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
02/08/2005		111.55	SO	126.00	Ken Worthington, CFA
03/17/2005		110.04	SO	131.00	Ken Worthington, CFA
09/20/2005		118.05	SO	135.00	Ken Worthington, CFA
11/22/2005		132.60	SO	151.00	Ken Worthington, CFA
01/10/2006		132.03	NR	None	CIBC World Markets Corp.
03/01/2006		143.15	SO	190.00	Meredith Whitney
05/09/2006		165.75	SO	205.00	Meredith Whitney
11/20/2006		197.45	SO	250.00	Meredith Whitney

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.
"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.
***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 29 Jan 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	328	38.8%	Sector Outperformer (Buy)	174	53.0%
Sector Performer (Hold/Neutral)	415	49.1%	Sector Performer (Hold/Neutral)	214	51.6%
Sector Underperformer (Sell)	72	8.5%	Sector Underperformer (Sell)	35	48.6%
Restricted	18	2.1%	Restricted	18	100.0%

Ratings Distribution: Brokers Coverage Universe

(as of 29 Jan 2007)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	5	83.3%	Sector Outperformer (Buy)	1	20.0%
Sector Performer (Hold/Neutral)	1	16.7%	Sector Performer (Hold/Neutral)	0	0.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Brokers Sector includes the following tickers: BSC, GS, LEH, MER, MS, UBS.

*Although the investment recommendations within the three-tiered, relative stock rating system utilized by CIBC World Markets do not correlate to buy, hold and sell recommendations, for the purposes of complying with NYSE and NASD rules, CIBC World Markets has assigned buy ratings to securities rated Sector Outperformer, hold ratings to securities rated Sector Performer, and sell ratings to securities rated Sector Underperformer without taking into consideration the analyst's sector weighting.

Legal Disclaimer

This report is issued and approved for distribution by (i) in the United States, CIBC World Markets Corp., a member of the New York Stock Exchange ("NYSE"), NASD and SIPC, (ii) in Canada, CIBC World Markets Inc., a member of the Investment Dealers Association ("IDA"), the Toronto Stock Exchange, the TSX Venture Exchange and CIPF, (iii) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority ("FSA"), and (iv) in Australia, CIBC World Markets Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets"). This report is provided, for informational purposes only, to institutional investor clients of CIBC World Markets in the United States and Canada and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of clients of CIBC World Markets Australia Limited.

The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets suggests that, prior to acting on any of the recommendations herein, Canadian retail clients of CIBC World Markets contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Non-client recipients of this report who are not institutional investor clients of CIBC World Markets should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC World Markets will not treat non-client recipients as its clients solely by virtue of their receiving this report.

Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. CIBC World Markets accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to CIBC World Markets.

Information, opinions and statistical data contained in this report were obtained or derived from sources believed to be reliable, but CIBC World Markets does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by CIBC World Markets or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice.

Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC World Markets has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

© 2007 CIBC World Markets Corp. and CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets is prohibited by law and may result in prosecution.

 CIBC World Markets

Goldman Sachs Group

Management meetings: ever more confident

Company Update **NEUTRAL**

Equity | United States | Securities Broker/Dealer
13 March 2007

Merrill Lynch

Guy Moszkowski, CFA +1 212 449 7800
Research Analyst
MLPF&S
guy_moszkowski@ml.com

M. Patrick Davitt +1 212 449 1216
Research Analyst
MLPF&S
mpatrick_davitt@ml.com

Maureen Chang +1 212 449 6274
Research Analyst
MLPF&S
maureen_chang@ml.com

We met with GS Pres. and co-COO Jon Winkelried, CFO David Viniar, and Peter Kraus, co-head of Asset Mgmt.

Sub-prime small for GS, and maybe an opportunity

Management noted that sub-prime is not a large enough business for GS to pose any significant threat to earnings. However, breaking with previous caution, the firm is building a small origination effort. Recent turmoil will likely present distressed-mortgage opportunities for GS, we think.

GS comfortable with risk; sees less potential for relative revenue decline

The Co. has managed credit exposures carefully, so exposure is largely that of a credit trading revenue fall-off. GS' economically sensitive business mix has historically led to relatively steep declines in earnings from peak-to-trough, but management seems more confident than in the past that GS can out-earn peers throughout the cycle.

Focus is global, especially Emerging Markets

Unique positioning in China just beginning to gain traction and expected to drive meaningful revenue near-term; Russia franchise build on-track; India, Brazil seen as longer-term opportunities. Other Int'l opportunities seen in Middle East (flush with liquidity, and GS has considerable brand power) and Japan (activity picking up).

Franchise solid across-the-board; expansion continues

GS franchise remains the market leader with top market share in key businesses. Mgmt. believes GS can still improve positioning in markets like equity derivatives, structured products via better "connectivity" with the IB. Management anticipates most future growth will come organically.

Estimates (Nov)

(US$)	2005A	2006A	2007E	2008E	2009E
EPS	11.21	19.69	17.98	18.28	20.39
GAAP EPS	11.21	19.69	17.98	18.28	20.39
EPS Change (YoY)	25.7%	75.6%	-8.7%	1.7%	11.5%
Consensus EPS (First Call: 08-mar-2007)			19.25	20.52	NA
Dividend Rate	1.00	1.30	1.40	1.40	1.40

Valuation (Nov)

	2005A	2006A	2007E	2008E	2009E
P/E	18.1x	10.3x	11.3x	11.1x	9.9x
GAAP P/E	18.1x	10.3x	11.3x	11.1x	9.9x
Dividend Yield	0.5%	0.6%	0.7%	0.7%	0.7%

Stock Data

Price	US$202.60
Investment Opinion	B-2-7
Volatility Risk	MEDIUM
52-Week Range	US$136.79-222.75
Mrkt Val / Shares Out (mn)	US$89,103 / 439.8
ML Symbol / Exchange	GS / NYS
Bloomberg / Reuters	GS US / GS.N
ROE (2007E)	20.1%
Leverage (2006A)	85.8%
Est. 5-Yr EPS / DPS Growth	10.0% / 0%

Quarterly Earnings Estimates

	2006	2007
Q1	5.08A	5.07E
Q2	4.78A	4.39E
Q3	3.26A	3.51E
Q4	6.59A	5.01E

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of Merrill Lynch in the US can receive independent, third-party research on companies covered in this report, at no cost to them, if such research is available. Customers can access this independent research at http://www.ml.com/independentresearch or can call 1-800-637-7455 to request a copy of this research.
Refer to important disclosures on page 15 to 16. Analyst Certification on page 14. 11595456

EXHIBIT
PENGAD 800-631-6989
Porten 7
5/1/15 TD

Merrill Lynch

13 March 2007

Goldman Sachs Group

iQprofile[SM] Goldman Sachs Group

Income Statement Data (Nov)

(US$ Millions)	2005A	2006A	2007E	2008E	2009E
Net Revenues	25,238	37,681	37,212	37,815	40,597
Compensation & Benefits	(11,758)	(15,620)	(16,353)	(16,714)	(17,863)
% of Net Revenue	46.6	42.0	43.9	44.2	44.0
Non-Compensation Expenses	(4,821)	(6,879)	(7,405)	(7,722)	(8,054)
Net Income to Ordinary Shareholders	5,995	9,820	8,736	8,701	9,554
Adjusted Net Income (Operating)	5,995	9,820	8,736	8,701	9,554

Balance Sheet Data (Nov)

(US$ Millions)	2005A	2006A	2007E	2008E	2009E
Total Assets	706,804	838,201	955,937	1,099,328	1,209,261
Total Shareholders' Equity	28,002	35,786	51,198	45,550	51,198
Net Assets	534,447	631,972	NA	NA	NA
Tangible Shareholders' Equity	NA	NA	NA	NA	NA
BVPS (Stated Equity)	57.02	72.62	83.93	96.22	109.16
% growth	12.3	27.4	15.6	14.6	13.5

Trading (Nov)

(US$ Millions)	2005A	2006A	2007E	2008E	2009E
Net Trading Rev (Princ Trans+Net Int)	12,935	19,830	21,362	21,580	23,548
% growth	18.8	53.3	7.7	1.0	9.1
ROA (Net Trad Rev/Ave Bal Sht Assts)	2.07%	2.47%	2.35%	2.10%	2.04%
Value-at-Risk	70	101	NA	NA	NA
VaR as a % of Total Equity	0.25%	0.28%	NA	NA	NA

Investment Banking (Nov)

(US$ Millions)	2005A	2006A	2007E	2008E	2009E
Financial Advisory Revenues	1,905	2,580	2,865	1,553	1,608
Equity Underwriting Revenues	704	1,365	1,320	1,826	1,917
Debt Underwriting Revenues	1,062	1,684	1,825	2,050	2,193
Total Investment Banking Revenue	3,671	5,629	6,010	5,428	5,718
% growth	8.8	53.3	6.8	-9.7	5.3

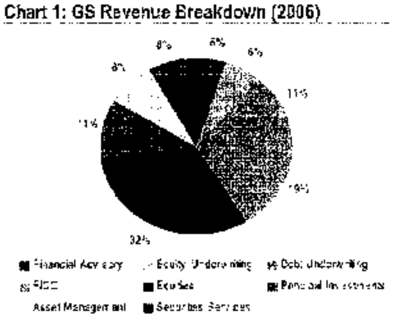
Performance Metrics (Nov)

(US$ Millions)	2005A	2006A	2007E	2008E	2009E
ROE (Stated Equity)	22.6%	30.8%	20.1%	16.3%	19.7%
Operating Margin	34.3%	39.8%	36.2%	35.4%	36.2%
Pre-Tax Profit Margin	34.3%	39.8%	36.2%	35.4%	36.2%
Net Profit Margin	23.8%	26.1%	23.5%	23.0%	23.5%
Comp Expense/Revenue	46.6%	42.0%	43.9%	44.2%	44.0%
Non-Comp Expense / Revenue	19.1%	18.3%	19.9%	20.4%	19.8%
Net Revenue Growth	20.5%	49.3%	-1.2%	1.5%	7.4%
Operating Expense Growth	19.2%	36.9%	4.7%	2.3%	6.1%
Operating Income / Average Assets	4.0%	4.7%	4.1%	3.7%	3.5%
Trading-Related Revenue / Net Revenue	51.3%	52.6%	57.4%	57.1%	58.0%
Asset Management & Fee Rev / Net Rev	12.6%	11.4%	12.2%	14.2%	14.0%
Total Employees (Actual)	23,623	26,467	NA	NA	NA

Company Description

Goldman Sachs is a consistent top-tier global player in key high-margin lines of business such as Equity Underwriting and M&A. It is one of two dominant Prime Brokers to the fast-growing hedge fund industry. The asset mgmt unit has been among the industry's fastest growing. Much of recent growth has been in trading revenues, which are considered less predictable, but which have generated around 2% or more of avg. balance sheet assets each year.

Chart 1: GS Revenue Breakdown (2006)



Source: Company reports and Merrill Lynch

Stock Data

Average Daily Volume	7,386,715
Brokers Covered (FirstCall)	19

CONFIDENTIAL

PORTEN-00012283

New Management Team

The new management team

It has now been about 9 months since the new senior management team coalesced around Chairman and CEO Lloyd Blankfein following the departure of Hank Paulson to become US Secretary of the Treasury, with Jon Winkelried and Gary Cohn, named as Presidents and COO's. Winkelried, who spent much of his career managing aspects of Goldman's FICC businesses before moving into the Investment Bank, spends most of his time now with the IB and the Private Equity/ Merchant banking businesses, while Cohn oversees Sales & Trading and Asset Management. While it is clear that all three of the senior-most members of the management team have their roots primarily in the markets businesses, Winkelried's "embeddedness" in the IB, along with Goldman's collaborative culture of low silo barriers, ensures that the units continue to work together as seamlessly as anywhere in the industry, and probably more so.

Consistent record of innovation

The firm has been at the forefront of recognizing industry change and navigating through it. Examples include

- the successful restructuring of the Equities business in the face of declining commissions;
- the decision to maintain strength in Commodities over many years, and then to build on it in a timely way ahead of the recent boom; and
- the anticipation of credit disintermediation, employing "disruptive technology" to create a large business in an area that had largely been the purview of the banks.

Goldman was not alone in each of these moves, but we think it's fair to say it was an early mover in each and the only firm in our coverage to get all of them about right (among other things).

Opportunity seen in sub-prime assets

Sub-prime: good business over cycle, though relatively small for GS

Mortgages generally are a much smaller part of GS' business than at some other firms such as Lehman and Bear Stearns, but are nonetheless an important asset class in which the firm actively participates. Sub prime is a part of the mortgage business which, while experiencing a meaningful downturn in part because of a 2006 collapse in lending standards, is nonetheless quite attractive over the full cycle.

Building small origination effort

Interestingly, while GS has previously expressed concern over potential reputation issues in this arena, Viniar noted that the firm is cautiously building a small origination effort. While exposure is not at this point meaningful for GS, the fact that the firm is dipping a toe in sends a positive signal about recovery potential, in our view, though it is only a small effort and Viniar (like others) believes the mess could worsen near-term.

We would not rule out a small acquisition at a fire-sale price. GS' warehouse and other exposures in and Alt-A are very small and manageable, and while the firm is certainly observing distress in the sector, assets are still trading, and pre-'06 vintages are in good shape. Warehouse exposures are being treated like securities lending: careful and timely risk management via mark-to-market, margin calls, position close-outs, etc. The firm also believes it will have distressed-mortgage opportunities ahead.

Risk Management: comfortable with market risk

GS keeps "dry powder" to exploit market dislocation

Given the degree to which many markets have been priced for perfection, the question arose as to when, over the past few years, has the firm taken risk levels down materially. Viniar said that, in the post-2002 period, it really only happened in 3Q06, as the firm saw fewer opportunities in a period of heightened uncertainty. This was the collective result of many individual decisions around the firm, rather than a top-down choice. The general philosophy is to increase "dry powder" as markets become choppier/less certain so as to have the ability to take advantage of valuation opportunities, but again this is cultural, rather than by edict. (We should note that this was shortly before the recent pickup in market volatility). The firm has proven itself, we think, exceptionally nimble in navigating the financial cross-currents and being positioned not just to deal with risk but to profit from managing its own, and its clients' risks.

In order to mitigate "long-tail", multiple-standard-deviation risks, the firm spends a considerable amount of "insurance" money on protective positions such as deep-out-of-the-money puts, CDS indices, etc., even though to date, these have mostly been useless. The firm also keeps enormous amounts of liquid, unencumbered assets, to ease its passage through any periods of illiquidity that could arise.

Careful on Credit; exposure mainly to a flow-business revenue decline

While credit risk as a percentage of the total balance sheet, or total VaR, has grown, the firm is still more comfortable with market risk than credit risk, so the credit exposures are managed exceptionally carefully. Therefore, the company feels that it is more exposed to the risk of a simple decline in revenue from credit trading than to default risk. While it accepts that bridge commitments are today a key part of the "franchise" M&A business, Goldman believes that mitigation of these risks is best achieved through rapid sale of the exposure, and approaches every transaction in this way, even though credit derivatives may be used to an extent. Since it views lending on a stand-alone basis as a relatively low-return business, the emphasis is definitely on quick turnover. However, knowing that some deals will get "hung" on the balance sheet, Goldman is stringent on its credit analysis and on its insistence on the quality of the companies it lends to.

GS expects to out-earn rivals across the cycle... and at the bottom

Given its business mix and willingness to be somewhat more aggressive in risk-taking than its peers, we have generally thought of GS as likely to out-earn its peer group in ROE terms at the top of the cycle and over the full cycle; but this implies the possibility of a greater peak-to-trough decline in ROE than the peer group. Winkelried believes "strongly" that this is not the case today (though we'd point out it has been in the past), and that the company can out-earn peers at each point in the cycle. The implication is that between better risk management, the capital management exercise of the past couple of years that has taken out excess capital, and the richer business mix, GS has achieved a consistently higher-earning franchise; Winkelried believes that the gap between Goldman and its competitors has widened "dramatically" since the 2000-2002 slump. Other elements include the highly diversified business mix, and the build-out of what are expected to be counter-cyclical businesses such as distressed assets and restructuring. Clearly only time will tell, but the fact that a top-management executive would state this so confidently is at least worth noting. Also, the materially higher P/B ratio that GS commands in the stock market would indicate at least in part that the market believes this is the case.

Capital management

Viniar expects capital management to proceed as it has over the past couple of years: striking a balance between producing ample book value growth, and keeping capital levels at a level upon which an acceptable ROE can be produced without taking excessive risk. This of course implies that fairly robust buybacks can be expected if the environment remains anything like it has been, helping GS produce ROEs well in excess of 20%.

International business increasingly important

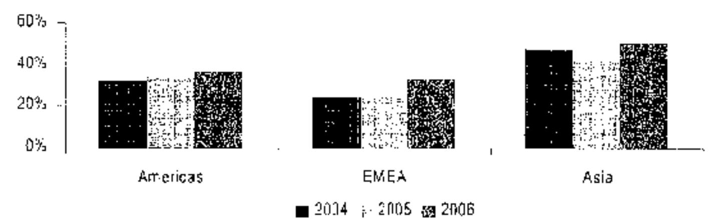
GS continues to view growth as likely to be faster outside the US, and thus that its non-US business will continue to grow as a share of the total; this remains a principal building block of the firm's strategy. In 2006, Americas pretax earnings were 52% of total, down from nearly 60% in 2004; net revenues were 54% Americas, vs. 59% 2 years earlier. Over this period, the most significant contributor to growth of revenues and earnings, regionally, has been Asia, whose revenue contribution rose from 17% to 21% and whose pretax earnings contribution rose from 25% to 28%. This indicates that not only is Asia's margin considerably higher than the others, but that it is improving.

Table 1: Net revenue and pre-tax earnings by region

	2004	2005	2006
Net Revenues			
Americas	12,312	14,639	20,361
EMEA	5,107	6,063	9,354
Asia	3,532	4,536	7,950
Total Net Revenues	20,951	25,238	37,665
Pre-tax earnings			
Americas	3,976	4,977	7,515
EMEA	1,212	1,457	3,075
Asia	1,872	1,876	4,015
Corporate	(184)	(37)	(45)
Total pre-tax earnings	6,875	8,273	14,560

Source: Company reports and Merrill Lynch

Chart 2: Pre-tax margin by region



Source: Company reports and Merrill Lynch

PE gain contribution to global revenue drives noticeably higher margin

This said, it's important to note that over the past several years, Private Equity gains (notably Sumitomo over the whole period, ICBC and Accordia last year) have contributed heavily to Asia earnings, and we believe the margin associated with these revenues is higher than the average. If the PE contribution to Asian (and overall global) revenue declines materially, it could have a noticeable margin impact, we believe.

Emerging mkts. expansion continues: BRIC and Beyond

Brazil, Russia, India and China will be focus of GS int'l investment

Still, with the company just beginning to exploit its particularly advantageous China positioning (only UBS has been granted comparable licensing/control over its local-markets China business), prospects in that country look exceptional. Goldman is working on its first domestic deal, for Ping An insurance (one of its own former Private Equity portfolio companies). Considerable privatization activity still lies ahead, and Chinese companies are increasingly looking beyond their borders at mergers and other opportunities. Meanwhile, the Chinese securities authority (CSRC) is now requiring that companies seeking a foreign listing (i.e., Hong Kong) also have a domestic listing. Given the current state of licensing, only GS and UBS are positioned to handle both transactions for these Chinese corporates. The firm believes that China will be a meaningful revenue market in the very near future, across numerous key product lines – Equity underwriting, Private Equity, and others. Notwithstanding the recent bout of stock-market volatility, the market has performed well, and with a significant buildup of liquid wealth in China, people are interested in becoming investors. Not too many years ago, most China talk from financial companies was on the order of "big long-term payoff but many years away", so this is a decidedly different take. Indeed, though some opportunities may emerge faster than others, there are no important regions at this point that are not profitable for Goldman, and the development of global capital markets has been so rapid in recent years that revenue opportunities are emerging sooner than might have been expected. After the Europe buildout was begun in the 80's, it took 15 years for London to become profitable; China reached profitability much faster.

In Russia, the firm is cautious because of potential reputational issues and concerns over property rights, so business selection issues are crucial; but given the growing importance of the market and its companies, and with the expectation that some of the world's largest deals will be there in the near future, GS is proceeding with its franchise build. Large Russian companies are increasingly outward-focused, trying to establish global footholds in industries as diverse as mining, forest products, steel, and automotive. In addition to serving Russian clients, Goldman needs to understand the dynamics to the extent that they also will affect the firm's other clients globally. As with China, GS anticipates significant revenue to emerge from this market in relatively short order.

India and Brazil opportunity more long-term

India's fast-growing economy is also one where there is considerable IB and markets opportunity, although it is more competitive than China, and Goldman in particular does not have the degree of early-mover advantage it has in China. Nonetheless, GS continues to grow its investment in the market and as has been previously reported, dissolved a longstanding joint venture in order to have full control of its India business. The view on this market is that it will take somewhat longer to develop into a meaningful contributor.

Brazil is a market where Goldman was unable to make an acquisition that it sought at what it felt was the right price (the property, Banco Pactual, ultimately went to UBS), but GS has the licenses it needs now and will proceed on its own. As with India, this is seen as a relatively longer-term opportunity.

Middle East and Japan present significant opportunities, as well

The Middle East is flush with liquidity that is seeking global opportunities, and the Goldman brand franchise is very strong there. Goldman's initial strategy in many regions has often been to joint-venture, and in February, it signed a Memo of Understanding to form a venture with National Commercial Bank of Saudi Arabia, in addition to having established new offices in the Emirates last year.

Goldman is continuing to see considerable activity in Japan, across a number of product sets: equities, debt underwriting, and a relatively new phenomenon for the market, hostile takeovers.

Private Equity market strong

GS generates attractive economics by distributing 3rd party funds...

Overall conditions in the Private equity market remain very strong, Winkelried observed, with no recent changes in the pace of investment. He continues to see an upswing though in the number of opportunities, and the ability to execute on them, outside the US. Demand to invest in funds remains reasonably strong. One new dynamic is the degree to which Goldman is involved in raising funds for private pools (in contrast to IPOs of Private Equity general partners or of specific funds, an activity in which GS has also participated recently). Given the reach of its ultra-high-net-worth private client group, GS has been able to raise meaningful amounts of capital for some of these firms with longer-than-normal lockups, which of course the sponsors find very appealing. What is particularly notable is that the perceived value-added of GS' efforts, and of its imprimatur, is significant enough that Goldman appears to be able, in some cases, to share significantly in the GP's fee structure on the funds raised – i.e., it can receive what we believe is a substantial portion of both the management fee and the carried interest.

... while raising its own new mega-fund

Meanwhile, GS is in the process of raising its latest general fund, which according to press reports is in the range of $19bn, nearly double its original target (and a number which we believe is substantially correct). We estimate about 30% of this will be subscribed internally, by GS for its own account and by employees; and that the remainder will be taken up by a combination of high-net-worth and institutional clients. Winkelried indicated, responding to a question about the degree to which opportunities still exist given how much private equity money is now out chasing deals, that there is already a backlog of ideas for the new fund that could use about ¼ of its capital.

Fund focus has turned to big-ticket transactions, allowing GS to make smaller on-balance-sheet investments

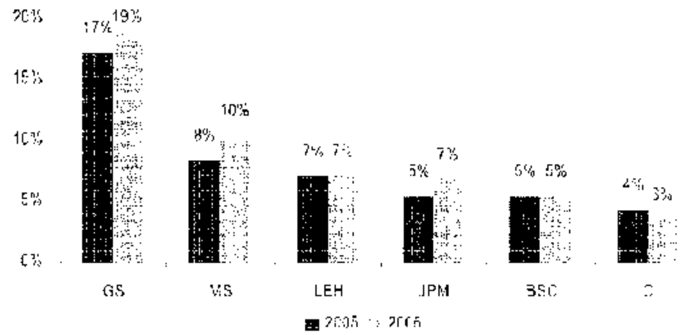
With the firm's funds now very large, their focus is on very big-ticket transactions; transactions under $100mn are generally not on their radar screen. This creates an opportunity for the firm to invest its own assets in $25 -100 million transactions, and given the IB's expanded scope into more middle-market clientele, there may be considerable opportunity here as well. Current policy requires that any deal of $180 million + be shown to the new fund, GS VI; the range of transaction targets for the firm's own account may therefore be expanded to $25-180 million.

Infrastructure, as the firm has alluded to in every meeting with us over the past year, is quickly becoming a major private-equity focus for Goldman (and others) because of the scale of the opportunity, as public sector entities look to free up capital and long-term investors seek opportunities to match investments with their long-tail liabilities like pensions.

The firm has had an important Real Estate private equity effort for many years, but Winkelried sees increasing convergence between this area and corporate Private Equity. The resources in place are being reassessed, and it appears that, in conjunction with the IB, a financing capability akin to corporate Leveraged Finance will be put in place.

Overall, GS has produced more PE-related revenue (fund management, carried interests, gains, and related IB revenues) than peers. We have attempted to quantify this by identifying revenue from all the above though admittedly we may have missed some elements. Even so, the analysis indicates significantly stronger PE-related revenues as a percentage of Net Revenues, when compared to the peer group (see Chart 3).

Chart 3: Percentage of Private Equity Revenue Contribution to Net Revenues



Source: Company reports and Merrill Lynch

Conflict Management skill maximizes franchise value

As always, discussion of Private Equity gives rise to concerns over conflicts, and there are always plenty of complaints that Goldman walks a very fine line between its clients' interests and its own. But the consistency with which the firm has avoided crossing the line and damaging its reputation is such that it must be doing something right. The conflict management process is clearly taken extremely seriously at the firm, since it is viewed as not just a by-product but a key pillar of the firm's franchise business. Though the process is highly structured and rigorous, 20% of the conflicts end up at the top of the firm.

Goldman manages conflicts, rather than simply avoiding them, in order to maximize the value of its franchise, and as an institution, it sees far more principal investing opportunities as a result of that franchise than it would without it. The ICBC investment in China is a great example.

Market's risk appetite remains healthy

GS believes market risk appetite remains healthy

We have recently been concerned about a global "attitude adjustment" that may be developing with respect to risk tolerance and risk pricing. Our meeting was held just prior to the recent market turmoil, but at that time, at least, GS was not seeing any meaningful shift, with the financing markets robust and liquid; and indeed, recently, Texas Pacific and TXU were able, for example, to line up considerable financing for their deal, including substantial "equity bridges" from Wall St. Still, Winkelried is clearly aware that one of the most significant potential negative changes would be if this liquidity dried up. And of course, to the extent that Wall Street firms are increasingly providing bridges, the risk of being caught with "hung deals", if liquidity contracts, is rising.

Where does the firm see issues that could result in a cyclical break? Winkelried expressed some concern that the housing finance woes could bleed into other areas of the markets, such as Alt-A (indeed there is evidence that this is happening), prime mortgages, other consumer finance, and/or commercial real estate. He noted, although the housing-finance issues seem quite contained now, and investor liquidity is massive, that events and perceptions can turn quickly. If a highly visible buyout were to fall apart due to an inability to arrange financing, Winkelried observed this might trigger a re-evaluation of credit spreads and deal activity in the M&A and equity markets. Finally, the markets have put geopolitical risk concerns on the back burner for the past few years, but they are clearly still there.

Franchise competitive position solid

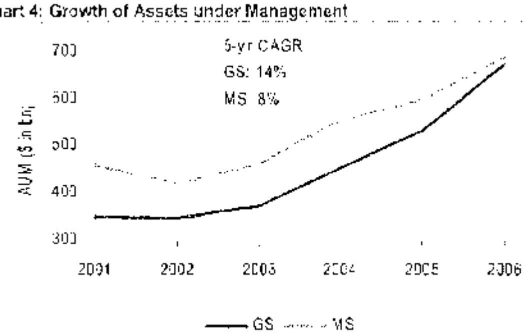
As always, Goldman believes strongly that, notwithstanding opinions to the contrary, its "franchise" customer businesses, such as Investment Banking/ Advisory, are highly interconnected with its principal investing activities, such as Private Equity. As has long been the case, the company remained #1 in M&A globally last year, and management believes this is important on many levels. This said, it's clear that numerous other players covet this standing, and Goldman is nothing if not rational. The implication is that if one or another firm feels it is worth "buying" league table position via uneconomic devices such as writing free fairness opinions, so be it, and advisory fess are generally under some pressure, as has been the case for some time. In any one quarter, a combination of events, such as GS finding itself "conflicted out" of large deals, plus unusual competitiveness via ancillary assignments such as fairness opinions and financing, could certainly take GS out of the top position. Also, the geographical mix of activity can affect the firm's relative position in any one period, notwithstanding that GS seems to lead in all major regions during most periods. Still, based on first quarter IB results, Winkelried seemed very pleased with the firm's position, and unconcerned that GS would fall below its traditional leading position in generating actual M&A fee dollars. And he did not seem to feel that any one firm posed an immediate threat to GS' #1 status in M&A.

Beyond M&A, the firm is working on continuing to build better product capability in markets areas like derivatives, believing for example that Equity derivatives should be twice the size for GS that it actually is; and Structured Products. It is also continuing to improve "connectivity" between these product areas and the IB, even though GS is arguably better at this already than most of its competitors.

GSAM momentum continues

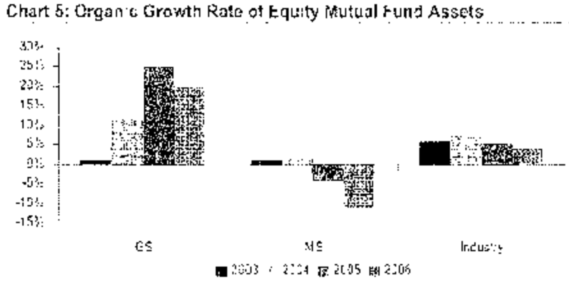
GSAM has posted industry-leading total and organic growth rates of total Assets under Management for several years (organic growth is defined as that coming from net new inflows of customer assets, net of any growth via market returns).

Chart 4: Growth of Assets under Management



Source: Company reports and Merrill Lynch

Chart 5: Organic Growth Rate of Equity Mutual Fund Assets



Source: Simfund

Focus on alternative products has helped GSAM create a modern asset management brand

We believe one driver has been the fact that, with GS really only beginning its focused buildout in the business around 1995, it has been able to create an investment management business in the modern image (i.e. serious attention to Alternatives, and to international distribution). This said, Alternative assets only accounted, as of year-end, for 21% of AUM, so clearly there's more to it than that.

Kraus believes that the firm's rapid growth comes from a combination of:

- product breadth,
- having the right products for the market, and
- effective distribution and global product and market reach.

In terms of alternatives, GS is very large where others aren't; an example is quant products, rather than long/short or credit-oriented funds (where his comment seemed to imply Goldman sees overcapacity and commoditization in the market). He also noted the firm's large presence in the Fund-of-Funds marketplace, stemming from the acquisition in the 90s of Commodity Corp., and now encompassing externally-managed Hedge, Private Equity, and more traditional long-only products.

He also attributes the rapid growth in recent years to the fact that, in numerous key product areas, the firm has put together good, saleable track records, yet is still quite small relative to key competitors: in Fixed Income, for example, GSAM is 1/3 the size of Blackrock, and just 1/4 the size of Pimco. In Quantitative Equity, GSAM is considerably smaller than BGI (Barclays), and most of its active-equity products are still smaller than major competitors. This said, it should be borne in mind that GSAM, in aggregate, is now of world-class size, with nearly $700 billion in AUM as of 11/06, so it's not quite the fast-growing upstart it once was.

GSAM has also done portfolio-team lift-outs to bring in fund-management talent and customer assets.

Distribution strength across key global markets is also one of the hallmarks Kraus mentioned as key. The firm has invested heavily over the past decade to build distribution in Europe, Asia, and Latin America in addition to North America, across customer types: institutional, high-net-worth, and third-party. The ultra-HNW channel in particular is one in which Goldman has a differentiated franchise and which has been particularly active in distribution of high-margin alternative, fund-of-funds, and structured products. Goldman is also generally recognized as working the linkages among its various businesses more seamlessly to "blanket" clients than any other firm on Wall Street, and we think this very much applies with respect to GSAM Private Client and its co-operation with Investment Banking. When IB is present at a wealth-creating event for a corporate management team, the bankers have done, in our view, a good job making sure that GSAM is there to pitch its wealth management capabilities.

Internationally, GSAM has a significant position across a number of segments in Japan, and has started a business in China, where it is licensed as a Qualified Foreign Investor (QFII) and benefits strongly, we believe, from Goldman's highly advantaged position in terms of its brokerage and banking licenses. GSAM began to focus on developing a presence in China around 3-4 years ago, after many years of firm franchise-building efforts and as it became clear the opportunity was beginning to ripen. The QFII license meant that a research capability could be developed on the ground in Shanghai, that investors could be solicited outside China for a China product, and that a track record in China equities could begin to be developed. In the intervening period, that track record has, fortunately, developed well, with a solid mid-cap core equity product with 10 percentage points of alpha (vs an index that is admittedly not very efficient). Eventually, it may become possible to sell the China products within the market, to domestic buyers.

GSAM has also assembled a portfolio management team in India, and expects both China and India to become very meaningful over time. As with other country-focused teams, they also support the broader Global and Emerging Markets businesses.

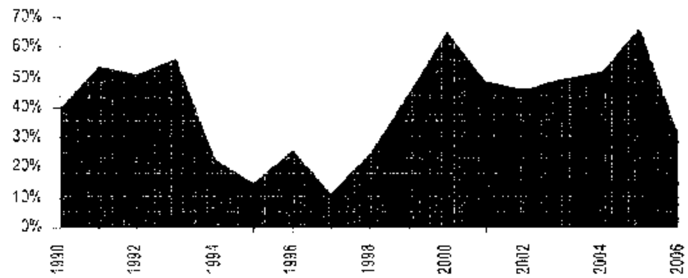
Positive operating leverage emerging, but aggressive investment continues to hold back margins, we think.

From an overall profitability point of view, Kraus noted that, after 12 years of steady re-investment, GSAM is now starting to see some of the benefits of its scale in positive operating leverage. This said, it's clear that a great deal of investment in growth is still taking place in Emerging Markets, and that these markets are thus unlikely to become "cash cows" for a long time to come. The overall margin level for the combined "Asset Management and Securities Services" business segment has been 35%-plus in recent years (38% in 2006) but the segment definition is too broad to be really useful in assessing GSAM; Securities Services (fundamentally, prime brokerage & clearing) is quite a large business for GS and very different from GSAM. We believe GSAM at this point produces an industry-like margin (around 30%), or perhaps still slightly below due to significant reinvestment. Because he expects continued rapid growth of the firm's other businesses, Kraus does not anticipate that Asset Management revenues will grow quickly as a percent of GS' total going forward. Businesses such as FICC risk meaningful amounts of the firm's capital, do well over time and thus generate more capital, which they will largely re-invest if opportunities permit, perpetuating their growth in a way that's different from less capital-intensive businesses such as GSAM.

Relative performance of Institutional products is hard to track

Rapid growth as we have seen at GSAM is generally also at least in good measure a response to strong performance. This said, GS is primarily an institutional and high-net-worth player, with only 20% of AUM in US mutual funds, whose performance can be easily tracked (10% of GS fixed-income AUM, and 15% of its equity AUM are in US mutuals). Thus it is hard to gauge how performance is tracking and when a significant reversal in relative performance may have occurred. So, though the long-term growth record should make one cautious about betting against GSAM's ability to continue growing quickly, the risk of a slowdown can't be ruled out, and if it happens, it will be hard to see coming from the outside. Kraus did allow that GSAM's Active Equity products were somewhat challenged in 2006, with most products "average" performers, in line with what we saw happening in the industry general – it became much harder than it has been for most active managers to beat the index.

Chart 6: % of Equity Mutual Fund Managers Outperforming the S&P



Source: SimFund

Actually, though, despite the apparent difficulty in beating US benchmarks, Kraus indicated that the most difficult area has been non-US developed-markets equity, where he is clearly dissatisfied with performance and thus with the size of the business, and where new leadership has thus recently been brought in. This product area will now, it appears, become more research/ analytically driven. In contrast, Emerging Markets equity products have done well, with "billions of dollars" of net asset inflows.

Alternatives still growing; Global Alpha revenue fall-off will be offset

Considerable publicity has surrounded the apparent underperformance last year of the multi-billion-dollar "Global Alpha" hedge fund, and the consequent decline in performance fees to be expected in 1Q07 vs. year-ago. Kraus conceded that HF product's performance has been less strong than desired but believes there are no fundamental issues with product design or investment strategy; no significant changes in management are being made. In terms of the decline in fees, we'd note that GSAM asset growth overall has been so strong that the rise in standard management fees vs. year-ago should go a long way toward offsetting what we estimate as about a $400+ million decline in incentive fees. Goldman views performance fees as an option and is trying to develop a broad portfolio of them, which should stabilize revenue – not all that different, in a sense, from the approach (and reality) of the firm's trading businesses, e.g. FICC.

As to the eternal question of whether too many funds are chasing the available opportunities in both Hedge Funds and Private Equity, Kraus's view is that this depends on the specific asset class, but overall he believes that, even if returns are less than they have been in previous years, they will still be adequate and that the diversifying effect on overall portfolios will keep investors involved. In general, it is clear that he is very happy with GSAM's position in Alternatives (the Private Equity funds as well as the Hedge Fund products are carried within GSAM) and that he far prefers GS' history of largely organic growth to the risks of cobbling together a business by buying stakes in the general partners managing the funds.

Private client expanding into slightly lower "high-net-worth" tiers, and internationally

While GS has historically been associated, on the private-client side, with the "Ultra-HNW" segment, the firm is developing a suite of services for the next tier down, to include a number of quantitative strategies, third-party-distributed products, and more of an outreach to emerging-wealth markets such as India, China, and Korea. Both proprietary fund management products and funds of funds/manager of managers products are featured in the Emerging Markets.

Beyond Emerging Markets, GSAM is also expanding its high net worth/Private banking footprint in developed markets of Europe, seeing opportunity in France, Scandinavia, Germany, and Italy; and is building a Middle-East focused offshore private banking business, encompassing 20 or more professionals in London and GS' Swiss private bank.

This initiative will probably drive continued growth in the number of private bankers at GSAM, now around 500-600 globally, we believe; though clearly finding, recruiting, and retaining quality personnel is challenging (an issue across many businesses within the emerging markets). Overall, though, the firm expects to accelerate its private-client sales-force growth from high-single-digits to 10-12%; the expense impact will continue to hold back margins for some time from what they could be but the investment is clearly viewed as worth being patient about. While acquisitions can be attractive, and GS is clearly very pleased with its Ayco acquisition a few years ago, there is very little available, so most growth will be organic.

Table 2: GS Income Statement ($ in mn)

	1Q06 end 2/06	2Q06 end 5/06	3Q06 end 8/06	4Q06 end 11/06	1Q07E end 2/07	2005 end 11/05	2006 end 11/06	2007E end 11/07	2008E end 11/08
REVENUES									
Commissions	842	936	844	896	941	2,975	3,518	3,861	4,078
Net Interest	721	778	953	1,030	1,350	3,025	3,496	4,500	4,500
Trading	5,150	5,692	3,094	3,756	5,545	10,249	17,692	16,862	17,080
Investments/Private Equity/Merchant Bank	695	293	430	1,399	295	2,228	2,817	1,045	1,000
Principal Transactions	5,845	5,985	3,524	5,155	5,840	12,477	20,509	17,907	18,080
Financial Advisory	736	608	609	627	775	1,905	2,580	2,865	1,553
Underwriting	735	918	679	717	805	1,766	3,049	3,145	3,875
Investment Banking	1,47?	1,526	1,288	1,344	1,580	3,671	5,629	6,010	5,428
Asset Management & Fees	1,489	954	918	933	1,265	3,178	4,294	4,551	5,368
Other Revenues	65	62	57	49	90	(88)	233	360	360
Net Revenues	**10,433**	**10,241**	**7,584**	**9,407**	**10,766**	**25,238**	**37,665**	**37,212**	**37,815**
Net Trading Revenues	*5,871*	*5,626*	*4,047*	*4,286*	*6,595*	*12,935*	*19,630*	*21,302*	*21,580*
EXPENSES									
Comp/Net Revenues	*48.7%*	*48.5%*	*44.8%*	*25.3%*	*47.5%*	*46.6%*	*42.0%*	*43.9%*	*44.2%*
Compensation & Benefits	5,077	4,970	3,397	2,376	5,114	11,758	15,820	16,353	16,714
Amortization of IPO Awards/123R Charges	237	136	133	129	NA	NA	637	NA	NA
Communications/ Technology	124	13?	141	148	150	490	544	615	633
Office/ Equip./ Depr./ Amort.	318	326	347	380	375	1,229	1,37?	1,515	1,576
Professional Services (1)	418	462	413	521	500	1,400	1,814	1,990	2,090
Advertising/ Business Development	100	12?	117	154	170	378	492	675	689
Brokerage, Clearing & Exchange Fees	351	403	523	571	600	1,200	1,848	2,430	2,552
Cost of Power Generation	85	122	101	98	100	NA	406	400	400
Intangibles Amortization	34	44	50	45	45	124	173	180	184
Non-Compensation Expense	*1,430*	*1,609*	*1,692*	*1,917*	*1,940*	*5,207*	*6,648*	*7,805*	*8,122*
Total Operating Expenses	**6,744**	**6,717**	**5,222**	**4,422**	**7,054**	**16,965**	**23,105**	**24,158**	**24,837**
Income (Loss) Before Inc. Taxes & Other	3,689	3,524	2,362	4,985	3,712	8,273	14,560	13,055	12,979
Income Taxes (Benefit)	1,210	1,212	768	1,833	1,295	2,647	5,023	4,519	4,478
Tax Rate	*32.8%*	*34.4%*	*32.5%*	*36.8%*	*34.9%*	*32.0%*	*34.5%*	*34.6%*	*34.5%*
NET INCOME (LOSS)	2,479	2,312	1,594	3,152	2,416	5,626	9,537	8,536	8,501
INCOME FOR COMMON	2,453	2,266	1,555	3,104	2,366	5,609	9,398	8,336	8,301
Average Shares									
Basic	457.3	449.7	449.4	439.8	445.0	478.1	451.7	437.8	428.3
Diluted	483.3	478.3	477.4	470.7	466.5	500.2	477.4	463.5	454.0
EARNINGS PER SHARE									
Basic	$5.36	$5.08	$3.46	$7.06	$5.32	$11.73	$20.81	$19.04	$19.38
Diluted	$5.08	$4.78	$3.26	$6.59	$5.07	$11.21	$19.69	$17.98	$18.28

Source: Company reports and Merrill Lynch

Analyst Certification

I, Guy Moszkowski, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

*iQmethod*SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

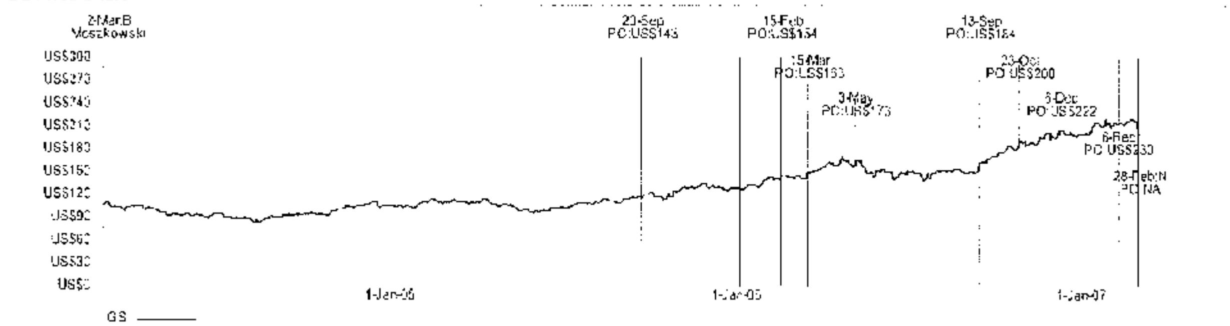
*iQmethod*SM is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

*iQprofile*SM, *iQmethod*SM are service marks of Merrill Lynch & Co., Inc. *iQdatabase*® is a registered service mark of Merrill Lynch & Co., Inc.

Important Disclosures

GS Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of February 25, 2007 or such later date as indicated.

Investment Rating Distribution: Financial Services Group (as of 31 Dec 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	93	38.11%	Buy	47	50.54%
Neutral	140	57.38%	Neutral	69	49.29%
Sell	11	4.51%	Sell	4	36.36%

Investment Rating Distribution: Global Group (as of 31 Dec 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1306	42.74%	Buy	406	31.09%
Neutral	1509	49.38%	Neutral	446	29.56%
Sell	241	7.89%	Sell	53	21.99%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium, and C - High. INVESTMENT RATINGS, indicators of expected total return (price appreciation plus yield) within the 12-month period from the date of the initial rating, are: 1 - Buy (10% or more for Low and Medium Volatility Risk Securities - 20% or more for High Volatility Risk securities); 2 - Neutral (0-10% for Low and Medium Volatility Risk securities - 0-20% for High Volatility Risk securities); 3 - Sell (negative return); and 6 - No Rating. INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure); 8 - same/lower (dividend not considered to be secure); and 9 - pays no cash dividend.

MLPF&S or one of its affiliates acts as a market maker for the securities recommended in the report: Goldman Sachs.

The company is or was, within the last 12 months, an investment banking client of MLPF&S and/or one or more of its affiliates: Goldman Sachs.

MLPF&S or an affiliate has received compensation from the company for non-investment banking services or products within the past 12 months: Goldman Sachs.

The company is or was, within the last 12 months, a non-securities business client of MLPF&S and/or one or more of its affiliates: Goldman Sachs.

MLPF&S or an affiliate has received compensation for investment banking services from this company within the past 12 months: Goldman Sachs.

MLPF&S or an affiliate expects to receive or intends to seek compensation for investment banking services from this company within the next three months: Goldman Sachs.

MLPF&S or one of its affiliates is willing to sell to, or buy from, clients the common equity of the company on a principal basis: Goldman Sachs.

The company is or was, within the last 12 months, a securities business client (non-investment banking) of MLPF&S and/or one or more of its affiliates: Goldman Sachs.

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

Other Important Disclosures

UK readers: MLPF&S or an affiliate is a liquidity provider for the securities discussed in this report.

MLPF&S or one of its affiliates has a significant financial interest in the fixed income instruments of the issuer. If this report was issued on or after the 10th day of a month, it reflects a significant financial interest on the last day of the previous month. Reports issued before the 10th day of a month reflect a significant financial interest at the end of the second month preceding the date of the report: Goldman Sachs.

Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):

MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co. Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Global (Taiwan) Limited; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.: Merrill Lynch (Malaysia): Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-U.S. affiliates. MLPF&S is the distributor of this research report in the U.S. and accepts full responsibility for research reports of its non-U.S. affiliates distributed in the U.S. Any U.S. person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co. Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; is issued and distributed in Taiwan by Merrill Lynch Global (Taiwan) Ltd or Merrill Lynch, Pierce, Fenner & Smith Limited (Taiwan Branch); is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

Copyright, User Agreement and other general information related to this report:

Copyright 2007 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites eligible to receive such research prior to any public dissemination by Merrill Lynch of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) prior to Merrill Lynch's public disclosure of such information. The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. Merrill Lynch makes no representations or warranties whatsoever as to the data and information provided in any third party referenced website and shall have no liability or responsibility arising out of or in connection with any such referenced website.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at http://www.ml.com/media/43347.pdf.

iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

THE BUCKINGHAM RESEARCH GROUP

EQUITY RESEARCH

Important disclosure information (relative to NASD Rule 2711) about The Buckingham Research Group's rating system, risks, and potential conflicts of interest appear at the end of this material (or contact your investment representative). This report should be used as only a single factor in making investment decisions.

GOLDMAN SACHS (GS) — STRONG BUY

2Q08: Another Strong Quarter; Bumping Up '08 Estimate — *June 17, 2008*

James Mitchell 212-922-5534 — *jmitchell@buckresearch.com*
John Grassano 212-922-2019 — *jgrassano@buckresearch.com*

- *GS reported 2Q08 EPS of $4.58, well ahead of consensus of $3.42 and our estimate of $3.43. Book value grew more than 5% sequentially and the company's ROE was 20.4%. These results also include $750m ($0.54 per share) in write-downs/hedging losses related to leveraged loans, as well as a lower than expected tax rate (adding $0.35 per share vs. our forecast).*
- *The majority of the upside was driven by better than expected revenues in investment banking, private equity, and prime brokerage (trading revenues were basically in line). In fact, total revenues were 10% above our forecast. Also contributing to the upside was solid expense discipline, with non-comp expenses falling 6% sequentially vs. our expectation of flat expenses.*
- *Raising 2008 EPS to $16.20 from $16.00 to partially reflect the sizable "beat" this quarter. We believe the estimate is conservative given the continued evidence of stabilizing credit markets over the past three months and the potential for market share gains as many peers "retrench."*
- *In terms of the stock, while GS trades at a substantial premium to its peers, we believe it is warranted given its diversified franchise, strong brand, higher ROE profile, and peerless risk management. And at 1.9x current book value and 1.7x '08E book value, the stock trades well below fair value when considering a 20% ROE profile. Consequently, we reaffirm our Strong Buy rating, although we continue to see more upside in the likes of MS at 1.3x book.*

Target	$250.00
Price (06/17/2008)	$179.44
52-Week Price Range	$251-$140
Shares Out. (mil.)	427.9
Market Capitalization (mil.)	$76,782.4
Float	349.5
Avg. Daily Vol. (mil.)	12.0
Dividend/Yield	$1.40/0.7%
Book Value (05/31/2008)	$97.49
Debt/Capital (05/31/2008)	78.6%
2 Yr. Growth Rate	NM
ROE (2008E)	17.9%

EARNINGS PER SHARE ESTIMATES

FYE Nov	Q1	Q2	Q3	Q4	Fiscal Yr	FY P/E
2007E	$6.67A	$4.93A	$6.13A	$7.01A	$24.73A	7.3x
2008E	$3.23A	$4.58A	$3.60E	$4.79E	$16.20E	11.1x
prior	--	--	*$3.76E*	*$5.58E*	*$16.00E*	
2009E	--	--	--	--	$21.00E	8.5x

Company Description - Growth Drivers - Risks: *Goldman Sachs is a leading global investment bank engaged in three principal segments: Investment Banking (16% of revenue in 2007); Trading & Principal Investments (68% of revenue) and Asset Management & Securities Services (16% of revenue). Growth drivers: increased client activity associated with stronger economic and market performance; broadening client relationships; and international expansion. Risk factors: Market, economic, and competitive risks.*

INVESTMENT SUMMARY

Goldman Sachs reported 2Q08 EPS of $4.58, well ahead of consensus of $3.42 and our estimate of $3.43. Book value grew 5% sequentially and the company's ROE was 20.4%. These results also include $750m ($0.54 per share) in write-downs/hedging losses related to leveraged loans. While a lower than expected tax rate contributed to the upside (adding $0.35 per share vs. our forecast), the majority of the upside was driven by better than expected revenues in investment banking, private equity, and prime brokerage (trading revenues were basically in line). In fact, total revenues were 10% above our forecast. Also contributing to the upside was solid expense discipline, with non-comp expenses falling 6% sequentially vs. our expectation of flat expenses.

In terms our EPS estimates, given the sizable "beat" this quarter, we are increasing our FY08 EPS estimate to $16.20 from $16.00. While this increase is meaningfully less than the 2Q08 upside (implying a reduction in 2H08 EPS estimates), this simply reflects a more conservative forecast for both private equity and fixed income trading given the still uncertain macro environment. That said, we are certainly biased to the upside on our estimates given the continued evidence of stabilizing credit markets over the past three months. Moreover, the potential for market share gains across many of its businesses (which was particularly evident in prime brokerage this quarter) as many of its competitors "retrench" also gives us a positive bias to our EPS estimates going forward.

In terms of the stock, while GS trades at a substantial premium to its peers, we believe it is warranted given its diversified franchise, its strong brand (which enables market share gains during challenging market environments), higher ROE profile, and peerless risk management. More specifically, GS trades at 1.87x 2Q08 book value, a 34% premium to the 1.4x average for MS and MER. However, considering GS's faster book value growth from its higher ROE, that premium falls to 30% based on end of year book value and falls to 25% when looking at 2009 book value estimates. But that said, given this premium, we do see more upside in names like MS and LEH. However, on an absolute basis, its current book value multiple seems low given a 20%+ ROE profile, which historically has translated into a P/B multiple well north of 2.0x. Consequently, we reaffirm our Strong Buy rating and $250 price target.

2Q08 Highlights:

- **Investment banking revenues exceeded our forecast by 23%.** While debt underwriting revenues were below our forecast, we saw upside in both advisory revenues and equity underwriting. In advisory fees, revenues rose 21% sequentially and 13% YOY, helped by non M&A related advisory assignments (i.e. advising on capital structure issues). Equity underwriting revenue was the biggest surprise, up more than threefold sequentially and the highest quarter in 8 years, reflecting market share gains, its top role in the Visa IPO, and a large number of recapitalizations of financial institutions. Looking ahead, management noted that the pipeline was down somewhat sequentially, with an increased pipeline in equity underwriting partially offsetting a decline in the M&A pipeline.

- **FICC revenues were slightly below our forecast, down 25% sequentially.** Included in FICC this quarter was $750 million in losses related to leveraged loans -- $500 million of which were losses on hedges. FICC also included approximately $200 million in negative marks related to its liabilities. Normalizing for these items, we calculate that FICC revenues were basically flat YOY – not a bad result considering the weak trading environment in March. That said, run rate revenues were down meaningfully on a sequential basis, reflecting again the weak results in March and fewer higher margin structured derivatives trades given the more volatile market environment. Looking ahead, we expect write-downs to continue to diminish given sizable reductions in risky assets. For instance, "legacy" leveraged loan positions are down to $11bn (combined with $8bn of "new" leveraged loans, brings GS's total leveraged loan exposure to $19bn). On the mortgage side, residential mortgage exposure fell to $15bn from $19bn, while commercial real estate exposure fell to $17bn from $19bn. GS had immaterial losses on these positions in the quarter, and we would expect limited write-downs in future quarters. Consequently, with exposures down and credit markets improving, we could see FICC revenues start to show some improvement in coming quarters.

- **Equities trading was modestly above our forecast and essentially flat YOY.** Commissions were flat sequentially and up 14% YOY, reflecting solid YOY volume growth globally. On the principal side, strong results in cash equities and derivatives were offset by very weak results in GS's proprietary trading business. Looking ahead, we don't expect to see a material ramp up in its proprietary business given the volatile and uncertain environment – which will keep GS from putting large amounts of capital to work. However, the cash and derivatives business should continue to grow solidly given global growth and market share gains.

- **Private equity also was well ahead of our forecast,** with revenues of $725m vs. our forecast of $200m. While gains on ICBC shares were essentially in line with our forecast of $200m, GS was able to generate additional investment gains outside of this holding, reflecting the positive move in global equity markets during the quarter (with most of the gains unrealized and related to market appreciation). This revenue line is certainly volatile and the gains here need to be discounted to some extent, but longer term, this business should drive solid returns. However, given the still volatile equity markets, we did reduce our forecast for private equity gains for the remainder of this year.

- **Prime brokerage revenues rose 30% YOY** and were 10% above our forecast. The upside was driven by market share gains and improved pricing power in the industry. Given the strength this quarter and expectations of further pricing power and market share gains, we did increase our forecast for revenues in 2H08 and into 2009.

- **In terms of expenses,** the compensation ratio was in line with expectations at 48%. However, non-comp expenses fell nearly 6% sequentially given lower volume related expenses and a continued focus on reigning in expenses given the environment. In fact, GS is still less than halfway through its target of generating $500m of annualized cost savings in non comp expenses. Consequently, we would expect non comp expenses to be flat to down from 2Q08 levels (excluding the impact from volume related expenses such as clearing).

- **Book value grew to $97.49 per share, up 5% sequentially and ahead of our forecast of $95.34.** The stronger than expected earnings drove the upside, with book value rising 20% YOY.

- **Management noted that GS's Tier 1 ratio is 10.8% in 2Q08,** well above minimum requirements of 6.0% and most commercial banks that are at 8%. In terms of leverage, management noted that its balance sheet declined from $1.2 trillion in 1Q08 to closer to $1.1 trillion in 2Q08. Along with strong growth in common equity via retained earnings (common equity grew 5.5% sequentially and book value per share rose 20% YOY), this pushed gross leverage down to 24.3x from 27.9x in 1Q08 and net leverage down to 14.7x from 18.6x in 1Q08. Given GS's high ROE profile, we expect to see continued strong growth in equity (given limited buybacks in this environment). Combined with more limited balance sheet growth, we would expect leverage to continue to fall.

James Mitchell 212-922-5534
John Grassano 212-922-2019

Goldman Sachs -- Earnings Results and Forecasts FYE-November

($ in millions, except share and per share amount	FY 2007	% Chg	1Q08	% Chg	2Q08	% Chg	3Q08E	% Chg	4Q08E	% Chg	FY 2008E	% Chg	FY 2009E	% Chg
Revenues														
Investment banking	$ 7,555	34.6%	$ 1,166	-32.1%	$ 1,685	-2.0%	$ 1,124	-47.6%	$ 1,325	-32.9%	$ 5,301	-29.8%	$ 5,380	1.5%
Trading and principal investments	29,714	23.7%	4,877	-46.2%	5,239	-16.1%	4,965	-34.5%	5,439	-20.3%	20,520	-30.9%	25,720	25.3%
Asset management and securities services	4,731	4.5%	1,341	18.4%	1,221	10.3%	1,371	7.8%	1,355	11.2%	5,288	11.8%	6,325	19.6%
Net interest income	3,987	14.0%	951	17.7%	1,277	14.7%	1,052	-21.6%	1,053	45.2%	4,333	8.7%	4,400	1.5%
Net revenues	45,987	22.1%	8,335	-34.5%	9,422	-7.5%	8,512	-31.0%	9,173	-14.6%	35,442	-22.9%	41,825	18.0%
Cash expenses														
Comp and benefits, excluding employee ipo awa	20,190	22.7%	4,001	-34.5%	4,522	-7.5%	4,085	-31.0%	3,853	17.7%	16,461	-18.5%	19,030	15.6%
Brokerage, clearing and exch fees	2,758	38.9%	790	43.4%	741	16.1%	755	-5.0%	785	1.4%	3,071	11.3%	3,390	10.4%
Marketing development	601	22.2%	144	9.1%	126	-12.5%	140	-5.4%	175	-1.1%	585	-2.7%	635	8.5%
Communications and technology	665	22.2%	187	23.8%	192	19.3%	195	15.4%	205	11.4%	779	17.1%	825	5.9%
Occupancy and equipment	975	14.7%	236	15.7%	234	11.4%	237	8.7%	245	-28.6%	952	-2.4%	990	4.0%
Professional fees	714	31.0%	178	10.6%	185	14.9%	190	1.1%	202	-1.0%	755	5.7%	800	6.0%
Other	1,326	17.1%	402	36.7%	370	32.6%	395	12.5%	460	14.4%	1,627	22.7%	1,715	5.4%
Total non-compensation expenses	7,374	23.8%	1,937	22.8%	1,848	10.4%	1,912	-2.3%	2,072	-4.3%	7,769	5.4%	8,355	7.5%
Total cash expenses	27,564	23.0%	5,938	-22.8%	6,370	-2.9%	5,997	-23.9%	5,925	8.9%	24,230	-12.1%	27,385	13.0%
Non-cash expenses														
Depreciation and amortization	624	19.9%	170	28.8%	183	30.7%	190	31.0%	195	-5.8%	738	18.3%	738	0.0%
Amortization of intangibles	195	13.0%	84	64.7%	37	-26.0%	40	-24.5%	40	-2.4%	201	3.1%	201	0.0%
Total expenses	28,383	22.8%	6,192	-21.3%	6,590	-2.4%	6,227	-22.9%	6,160	8.3%	25,169	-11.3%	28,324	12.5%
Net income before taxes	17,604	20.9%	2,143	-55.9%	2,832	-17.5%	2,285	-46.4%	3,013	-40.4%	10,273	-41.6%	13,501	31.4%
Effective tax rate	34%		29%		26%		28%		28%		28%		31%	
Provision/(benefit) for taxes	6,005	19.6%	632	-62.0%	745	-32.1%	640	-54.5%	847	-54.0%	2,863	-52.3%	4,118	43.8%
Net income	$ 11,599	21.6%	$ 1,511	-52.7%	$ 2,087	-10.5%	$ 1,645	-42.4%	$ 2,167	-32.6%	$ 7,410	-36.1%	$ 9,383	26.6%
Preferred dividends	192	38.1%	44	-10.2%	36	-21.7%	36	-25.0%	36	-26.5%	152	-20.8%	144	-5.3%
Net income avail to common	**$ 11,407**	21.4%	**$ 1,467**	-53.4%	**$ 2,051**	-10.3%	**$ 1,609**	-42.7%	**$ 2,131**	-32.7%	**$ 7,258**	-36.4%	**$ 9,239**	27.3%
Per-Share Amounts														
Net income, diluted	$ 24.71	25.5%	$ 3.23	-51.5%	$ 4.58	-7.0%	$ 3.60	-41.2%	$ 4.79	-31.7%	$ 16.20	-34.4%	$ 21.00	29.7%
Operating earnings, diluted	**24.73**	25.6%	**3.23**	-51.5%	**4.58**	-7.0%	**3.60**	-41.2%	**4.79**	-31.7%	**16.20**	-34.5%	**21.00**	29.7%
Common dividend	1.40	7.7%	0.35	0.0%	0.35	0.0%	0.35	0.0%	0.35	0.0%	1.40	0.0%	1.52	8.6%
Book value	90.43	24.5%	92.44	19.9%	97.49	19.9%	100.43	18.6%	107.84	19.2%	107.84	19.2%	124.58	15.5%
Tangible book value	78.88	28.3%	80.28	22.1%	85.16	21.7%	88.10	20.5%	95.61	21.2%	95.61	21.2%	112.53	17.7%
Avg. shares outstanding (diluted)	461.3	-3.4%	453.5	-3.9%	447.4	-3.6%	446.4	-2.4%	444.9	-1.5%	448.1	-2.9%	439.9	-1.8%
Avg. shares outstanding (basic)	433.1	-3.6%	432.8	-2.6%	427.5	-1.9%	426.4	-0.6%	424.9	0.5%	427.9	-1.2%	409.9	-4.2%
Period end shares outstanding	439.0	-2.5%	427.6	-2.4%	427.9	-1.6%	424.9	-0.1%	424.9	-3.2%	424.9	-3.2%	414.9	-2.4%
Return Statistics (Operating)														
Return on average assets	1.26%		0.58%		0.80%		0.60%		0.76%		0.64%		0.79%	
Return on common equity	33.7%		15.7%		20.9%		15.8%		19.9%		17.9%		19.4%	
Return on tangible equity	38.5%		18.6%		24.9%		19.0%		23.0%		19.3%		21.2%	
Productivity Statistics														
Expenses to net revenues	61%		73%		70%		73%		67%		70%		67%	
Compensation and benefits to net revenues	43.9%		48.0%		48.0%		48.0%		42.0%		46.4%		45.5%	
Non-int expense ex comp & bnfts to net revs	17%		25%		22%		25%		25%		24%		22%	
Pre-tax operating margin	38%		26%		30%		27%		33%		29%		32%	
Employees	30,522	15.3%	31,874	18.2%	31,495	12.4%	31,750	6.2%	31,750	4.0%	31,750	4.0%	33,000	3.9%
Net revenues per employee	$ 1.51	5.9%	$ 1.05	-44.6%	$ 1.20	-17.7%	$ 1.07	-35.0%	$ 1.16	-17.9%	$ 1.12	-25.9%	$ 1.27	13.5%
Cash expenses per employee	$ 0.90	6.7%	$ 0.75	-34.7%	$ 0.81	-13.6%	$ 0.76	-28.3%	$ 0.75	4.7%	$ 0.76	-15.5%	$ 0.83	8.7%
Contribution as % of net revenues														
Financial advisory	9.2%		8.0%		8.5%		7.1%		7.1%		7.7%		5.9%	
Equity underwriting	3.0%		2.1%		6.5%		3.2%		3.8%		4.0%		3.6%	
Debt underwriting	4.2%		4.0%		2.9%		3.5%		4.1%		3.6%		3.9%	
Investment banking	**16.4%**		**14.1%**		**17.9%**		**13.8%**		**15.0%**		**15.3%**		**13.4%**	
FICC	35.2%		37.7%		25.2%		31.7%		30.5%		31.1%		33.5%	
Equities	24.6%		30.2%		26.4%		26.7%		28.6%		27.9%		27.3%	
Principal investments	8.2%		-6.4%		7.7%		2.3%		2.5%		1.7%		2.9%	
Trading and principal investments	**67.9%**		**61.5%**		**59.3%**		**60.8%**		**61.6%**		**60.8%**		**63.6%**	
Wealth management	9.8%		15.8%		12.3%		14.6%		14.4%		14.2%		13.7%	
Securites services	5.9%		8.7%		10.5%		10.8%		8.9%		9.7%		9.3%	
Asset mgmt. and securities services	**15.7%**		**24.5%**		**22.8%**		**25.4%**		**23.4%**		**24.0%**		**23.0%**	

Source: Company reports and Buckingham Research estimates.

James Mitchell 212-922-5534
John Grassano 212-922-2019

IMPORTANT DISCLOSURES

ANALYST CERTIFICATION

The above-named analyst hereby certifies that the views expressed in this research report accurately reflect his/her personal views about the subject company and its securities. The analyst also certifies that he/she has not been, does not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation in this report.

Company	Disclosure
Goldman Sachs	

RESEARCH DISCLOSURE LEGEND

1) The Buckingham Research Group makes a market in the securities of the subject company.
2) The Buckingham Research Group or associated companies own 1% or more of any class of common equity securities, warrants or options of the subject company.
3) Analyst, associate or a member of household have a financial interest in any class of common equity securities, warrants or options of the subject company.
4) Analyst, associate or a member of household is an officer, director, or advisory board member of the subject company.
5) Other.

Neither the Buckingham Research Group nor its employees perform investment banking services for stocks under coverage.

RATINGS of Stocks Under Coverage at The Buckingham Research Group: Buys 46%; Neutral 52%; Underperform/Not Rated 2%.
The Buckingham Research Group's rating categories are as follows
STRONG BUY -- We expect the stock to appreciate 25% or more within the next 6-12 months. There is good visibility and nearer-term earnings or events catalysts are expected.
ACCUMULATE -- We expect 15% or more appreciation over the next 6-12 months and the stock is attractively valued; however, near-term catalysts are lacking.
NEUTRAL -- The stock's current price reflects our intermediate-term price objectives, and positions may be reduced.
UNDERPERFORM -- There appears to be more risk than reward in this stock at current levels. We expect the stock to underperform over the next 6-12 months.
NOT RATED -- We are not carrying a rating on this stock for the time being. Rating & estimates under review.

STATEMENT OF RISK: Risks associated with attaining the target set for this stock include, but are not limited to, traditional economic and competitive pressures, effective execution of corporate strategies and stock market volatility. Additionally, the company may be subject to government regulation as well as corporate litigation, patent litigation and expirations.

COMPENSATION: Analysts' compensation is based upon activities and services intended to benefit the clients of The Buckingham Research Group and its affiliates ("the firm"). Like all firm employees, analysts receive performance-based compensation that is impacted by the individual analyst's contribution and overall firm profitability, which includes revenues from institutional equities sales and the money management subsidiary. The analysts may also have funds managed by this subsidiary and make recommendations to this unit consistent with their public recommendations.

This report is based upon information available to the public. No representation is made that it is accurate or complete. The Buckingham Research Group and its subsidiaries may have positions in, and may effect transactions in securities of the companies mentioned herein independently of and not necessarily in accordance with the recommendation. The disclosures contained in this report are accurate as of the date of this report.

PRICE CHARTS

James Mitchell 212-922-5534
John Grassano 212-922-2019

Goldman Sachs Group

Positioned for opportunity amidst chaos

Company Update **BUY**

Equity | United States | Securities Broker/Dealer
28 July 2008

Merrill Lynch

Guy Moszkowski, CFA +1 212 449 7800
Research Analyst
MLPF&S
guy_moszkowski@ml.com

M. Patrick Davitt +1 212 449 1216
Research Analyst
MLPF&S
mpatrick_davitt@ml.com

Senior mgt cautious, but seeing investment, mkt share opportunities from crisis

Still cautious, but GS seeing solid activity in customer franchise businesses, strong market share gains. Relatively unscathed by credit debacle, GS is more outwardly focused than peers, able to commit balance sheet flexibly as needed. Clearly GS is one of less than a handful of relative winners from the crunch.

Cyclical-bottom ROE prospects better now than in'02

GS believes it can out-earn ROE produced at bottom of last cycle (11% in '02) due to greater global diversity of its revenues, rising returns available as many peers pull back, and growing market share as above. GS feeling less pressure to de-leverage than peers, but does hold more capital than it believes is ideal at this point (10.8% Tier-1 vs. "normal" seen as 9.5-10%). If proposed consolidation of securitized balances goes forward, though, the current capital could be needed.

Liquidity is job one: Likelihood rising that GS buys a bank

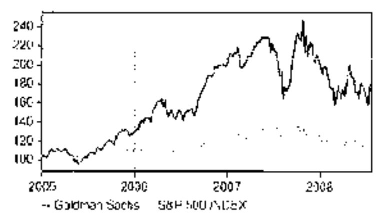
Key lesson of current crisis is one GS has always known: importance of liquidity and availability of "sticky" funding. We believe GS would not look entirely askance at prospect of buying a depository, a significant change. We still would not ascribe very high probability, but if a bank with excess deposits were available at right price, with no need for GS to exit existing businesses, we'd no longer rule it out.

Big distressed-mortgage opportunity seen, but maybe not just yet

GS' largest single revenue opportunity over the next couple of years: mortgages. To prepare, GS bought Litton (sub-prime servicer) earlier this year, and strengthened its team with a key hire from the late Bear Stearns. Timing unclear because many assets still hard to price given falling house prices, rising delinquencies, but opportunity expected to be large.

Stock Data

Price	US$178.66
Price Objective	US$212.00
Date Established	18-Jun-2008
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	US$140.27-250.70
Mrkt Val / Shares Out (mn)	US$76,377 / 427.5
ML Symbol / Exchange	GS / NYS
Bloomberg / Reuters	GS US / GS N
ROE (2008E)	18.8%
Leverage (2007A)	91.4%
Est. 5-Yr EPS / DPS Growth	10.0% / 0%



Quarterly Earnings Estimates

	2007	2008
Q1	6.67A	3.23A
Q2	4.93A	4.58A
Q3	6.13A	4.28E
Q4	7.01A	5.61E

Estimates (Nov)

(US$)	2006A	2007A	2008E	2009E	2010E
EPS	19.72	24.73	17.71	20.92	25.66
GAAP EPS	19.72	24.73	17.71	20.92	25.66
EPS Change (YoY)	75.9%	25.4%	-28.4%	18.1%	22.7%
Consensus EPS (Bloomberg)			16.93	19.83	21.55
Dividend Rate	1.30	1.40	1.40	1.40	1.40

Valuation (Nov)

	2006A	2007A	2008E	2009E	2010E
P/E	9.1x	7.2x	10.1x	8.5x	7.0x
GAAP P/E	9.1x	7.2x	10.1x	8.5x	7.0x
Dividend Yield	0.7%	0.8%	0.8%	0.8%	0.8%

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of Merrill Lynch in the US can receive independent, third-party research on companies covered in this report, at no cost to them, if such research is available. Customers can access this independent research at http://www.ml.com/independentresearch or can call 1-800-637-7455 to request a copy of this research.
Refer to important disclosures on page 11 to 12. Analyst Certification on Page 9. Price Objective Basis/Risk on page 8. 10750552

EXHIBIT
PENGAD 800-631-6989
Porten 8
5/1/15 TD

iQprofile℠ Goldman Sachs Group

Income Statement Data (Nov)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Net Revenues	37,681	45,987	37,173	43,563	50,204
Compensation & Benefits	(15,820)	(20,190)	(17,049)	(19,603)	(22,592)
% of Net Revenue	42.0	43.9	45.9	45.0	45.0
Non-Compensation Expenses	(7,285)	(8,193)	(8,574)	(8,352)	(9,352)
Net Income to Ordinary Shareholders	9,414	11,407	8,042	9,694	11,761
Adjusted Net Income (Operating)	9,414	11,407	8,042	9,694	11,761

Balance Sheet Data (Nov)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Total Assets	838,201	1,119,796	1,143,530	1,315,060	1,512,319
Total Shareholders' Equity	35,786	42,800	49,037	56,759	64,461
Net Assets	631,972	NA	NA	NA	NA
Tangible Shareholders' Equity	NA	NA	NA	NA	NA
BVPS (Stated Equity)	72.62	90.43	107.45	123.30	146.79
% growth	27.4	24.5	18.8	14.7	19.0

Trading (Nov)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Net Trading Rev (Princ Trans+Net Int)	19,840	25,364	20,781	26,799	31,808
% growth	53.4	27.8	-18.1	29.0	18.7
ROA (Net Trad Rev/Ave Bal Sht Asts)	2.54%	2.55%	1.84%	2.13%	2.25%
Value-at-Risk	101	138	NA	NA	NA
VaR as a % of Total Equity	0.28%	0.32%	NA	NA	NA

Investment Banking (Nov)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Financial Advisory Revenues	2,580	4,222	2,838	2,161	2,594
Equity Underwriting Revenues	1,365	1,382	1,498	1,188	1,425
Debt Underwriting Revenues	1,684	1,951	1,261	1,399	1,679
Total Investment Banking Revenue	5,629	7,555	5,597	4,748	5,698
% growth	53.3	34.2	-25.9	-15.2	20.0

Performance Metrics (Nov)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
ROE (Stated Equity)	32.8%	32.7%	18.8%	19.5%	20.1%
Operating Margin	38.7%	38.3%	31.1%	34.4%	35.4%
Pre-Tax Profit Margin	38.7%	38.3%	31.1%	34.4%	36.4%
Net Profit Margin	25.0%	24.8%	21.6%	22.3%	23.4%
Comp Expense/Revenue	42.0%	43.9%	45.9%	45.0%	45.0%
Non-Comp Expense / Revenue	19.3%	17.8%	23.1%	20.6%	18.6%
Net Revenue Growth	49.3%	22.0%	-19.2%	17.2%	15.2%
Operating Expense Growth	36.2%	22.8%	-9.7%	11.5%	11.8%
Operating Income / Average Assets	4.8%	4.6%	3.3%	3.5%	3.6%
Trading-Related Revenue / Net Revenue	52.7%	55.2%	55.9%	61.5%	63.4%
Asset Management & Fee Rev / Net Rev	11.4%	9.8%	13.5%	13.8%	12.3%
Total Employees (Actual)	26,467	30,522	NA	NA	NA

Company Description

Goldman Sachs is a consistent top-tier global player in key high-margin lines of business such as Equity Underwriting and M&A. It is one of two dominant Prime Brokers to the fast-growing hedge fund industry. The asset mgmt unit has been among the industry's fastest growing. Much of recent growth has been in trading revenues, which are considered less predictable, but which have generated around 2% or more of avg. balance sheet assets each year.

Investment Thesis

GS is arguably the most well-respected inv. bank, especially after deftly navigating the 07 credit crisis. We view GS as the best-diversified, most global franchise in the industry, with ample intl. growth prospects. Given continued cyclical industry weakness, competitive position seems largely priced in, with book value growth driving the value proposition.

Stock Data

Average Daily Volume	14,413,452

Cyclical backdrop remains pressured, but macro products doing well and GS is a "go-to"

We met last week with Co-Pres. Jon Winkelried, CFO David Viniar, and David Heller and Harvey Schwartz, responsible for Equities and FICC, respectively, in the US.

Clearly GS remains cautious about the broader economic and public policy backdrop, given the magnitude of the mortgage and consumer-credit meltdown and the consequent destabilization of major financial institutions. The big swings in market sentiment can unleash waves of activity but when confidence erodes, clients move to the sidelines, staying liquid and relatively inactive. The most liquid-markets oriented businesses (rates, FX, high-grade corporates) have been busy, but activity has been more sporadic as one moves up the risk curve. GS is benefiting from having maintained its reputation and its balance-sheet capacity at a time when others have had to retrench.

Less balance sheet constrained than the peer group, which supports both Franchise and Principal businesses

To date the firm's read of the likely changes in the regulatory environment is that the fallout will be manageable, and while cyclically earnings power is under pressure, in many ways GS is, we believe, a beneficiary rather than a victim of the current backdrop. The firm is not finding that it is facing any particularly binding constraints on profitability as a result of the de-leveraging trend. In any event, GS is not pressured to de-leverage as have firms that have had losses and run into capital issues. To the extent that its leverage has come down, this is more than anything else a response to the uncertainty in markets broadly and the fact that risk reduction has been the appropriate response. The cost of capital overall has not changed much for GS but it has made risk-based adjustments to capital charges for certain businesses or exposure classes and this has of course in some cases forced down exposure.

As always, GS remains "constructively paranoid" about risk management. The firm believes that at a time like this it is best to be in a position of great flexibility regarding the use of capital, implying a desire to be very tactical as conditions change. The expectation is that major opportunities to make principal investments will arise at a time of stress for many institutions and investors, but at the same time, clients of the "franchise businesses" (i.e., traditional trading and Investment Banking) will be in need of support from the firm's balance sheet and this is as always a critical concern. Despite the fairly constant undertone of criticism over the firm's embrace of principal activities, we believe that Goldman has actually tended its customer-oriented businesses carefully, which explains why at the end of the day, the world tends to come to Goldman, and the absence of major conflict problems.

More market share? It seems to be happening

GS continues to view its share-gain opportunity as very strong, something we have flagged since last autumn; GS is one of less than a handful of capital-markets firms that have (at least to date) weathered the downturn with capital intact and, if anything, enhanced reputation. We believe GS has seen market share gains in numerous key business lines, as many competitors have pulled back because of a need to shrink balance sheets, distractions that have made the firms more inward-looking, stress-induced trepidation, or all of the above. Meanwhile, Goldman has been open for business, with less balance sheet constraints, and a less shell-shocked attitude. Goldman believes, based on client comments and the order flow it is seeing, that it is considerably more engaged as a market-maker than most of its key competitors. Macro areas such as rate products and FX have been very busy, though the mortgage market remains moribund.

Even in Prime Brokerage, a business in which GS has disproportionate share, it has been seeing gains because of the fate of Bear and the growing sensitivity among clients to counterparty risk. We would expect that, with the BSC business in the safe hands of JP Morgan, plenty of that business will find its way back; but it doesn't seem to be happening quickly. As an aside, GS made it clear that it would be careful about taking up stock-borrow rates in the context of the changed SEC shorting regs, since it wants to avoid the appearance of being inappropriately opportunistic.

Confident they can "out-earn" the '02 cyclical bottom

Although conditions have weakened cyclically, GS continues to believe that it is most likely able to out-earn its ROE at the last cyclical bottom, 2002, because of the greater diversity of its business mix by geography and business lines, as well as discernible improvement in relative market position / share, and improving spreads due to greater scarcity value of committed risk capital. This does not mean we can rule out the possibility of a weak quarter or two along the way (we have certainly seen this a couple of times, but it has not been sustained).

Crisis has reinforced GS' key tenets

What did GS learn from the credit crisis? Mostly a reinforcement of things it had always clung to.

- **Liquidity is king.** GS always said so, but the recent crisis confirmed it. Two words sum up the thoughts with regard to access to cash/ funding: "More", and "Longer" Goldman paid up over the last few years to term out its funding, and looks smart to have done so.
- **Nothing new ever happens until it happens.** Destruction lurks in the tails of the distribution; because unexpectedly extreme outcomes can and do happen, scenario-test creatively and size positions appropriately.
- **Size matters.** Having a large, broad, highly diversified franchise adds an important degree of robustness.
- **Discipline is critical:** Making commitments to serve clients or build pipelines of assets for distribution is the heart of many parts of the business, but allowing the assets to build up on the balance sheet can be deadly. Having the discipline to distribute the assets quickly, and slow down origination when the market is signaling faltering appetite, is essential.
- **Risk management must be respected and independent; communication is essential:** Senior management needs to be highly focused on risk and how it is changing as markets deteriorate. To do this, it needs real-time information, which means excellent risk-modeling systems and capabilities but also a timely, open communication flow with a completely independent risk organization, as well as with trading desks. And, within the firm, the risk managers need to have comparable stature to the revenue producers.

Goldman Sachs Bank & Trust? Don't rule it out

Since GS is more convinced than ever that its longstanding liquidity obsession is well-founded, it would appear this thought process has prompted a willingness to at least consider a bank acquisition. The opportunity could conceivably arise as a result of the damage done to some institutions and the fact that valuable, "sticky" deposit franchises may be available at attractive prices. Viniar noted that the firm had done extensive analysis on the degree to which it might be able to deploy excess deposits to fund core businesses; based on the willingness to even consider a transaction, it would seem GS has satisfied itself that core activities could conceivably be funded this way.

This said, the company made it clear that such a deal was unlikely to be pursued if it meant that other traditional, attractive GS businesses could not be continued, Commodities being the obvious example that comes to mind. However, regulators appear to have OK'd JPM's participation in physical Commodities via its acquisition of Bear Stearns, despite its Bank Holding Company status.

We noted that GS has no experience running branch systems or dealing with any but the highest-net-worth individuals, and has in the past expressed some trepidation about the potential for reputational and operational risk in mass-market businesses. It was clear that these issues still give the firm pause, and that a foray into traditional banking is not something that would be entered into lightly. On the whole, we would not ascribe a very high probability to GS acquiring a bank of any particularly large size. There is still the hurdle, under new accounting guidelines, that assets acquired would need to be marked to market and this could give rise to a new-capital need. And GS has shown it can manage through extremely trying conditions with its business model intact, so it is not forced to change its spots. This said, the bottom line here would appear to be: don't rule out a bank acquisition by GS. These are strange times indeed.

Distressed Mortgages: the next big thing

Although the Mortgage arena is weak, as noted, the next major opportunity GS sees is there, not surprisingly. It is likely to develop a range of earnings-generating "principaling" opportunities, on trading desks and in its Private Investing area. For the time being the company is not raising a fund to invest in distressed mortgage assets, because it does not want the funds burning a hole in its pocket and would prefer to proceed opportunistically. Nor does it appear to think that institutions holding assets have to date taken all the pain they will need to, meaning that it is probably too early to become heavily involved. The gulf between what potential distressed-mortgage buyers are willing to pay, and where holders have marked the assets, remains too wide. However, at some point, the market will begin to clear, probably as there starts to be greater visibility about when and at what level home prices, and consumer loan delinquency, level off.

When could this be? Hard to see it before early 2009 at the earliest, in our view, and maybe later next year, given market expectations of when home prices could bottom. It seems increasingly clear that a government-sponsored solution like the RTC of the late 1980s is unlikely, and that instead the private-market solution will be the key. Whenever this happens, GS will be ready to bid on significant portfolios, and when the scale of a package exceeds GS' comfort level, it expects to be able to round up co-investors quickly given its network of investor relationships. The firm's relative financial strength, and willingness to take principal positions, are well telegraphed, so it believes it is already seeing most of the potential deal flow, and will continue to do so.

In order to be prepared for these opportunities as they arise, GS has beefed up its distressed mortgage capability by bringing on a senior member of the former Bear Stearns team, Jeff Verchleiser, and by acquiring a subprime-mortgage servicer (Litton) earlier this year.

We briefly discussed the degree to which GS has been involved in the capital-raising wave for financial institutions. GS believes that the affected institutions are approaching what might be termed the "capitulation" stage of capital-raising, where this is accompanied by actual sales of the assets which created the losses, necessary to convince what is by now reluctant capital to jump in. GS' presence in the advisory and capital-raising effort will, in our view, give GS first look into many of the distressed-asset opportunities ahead.

Capital is stronger than GS thinks it needs to be, though accounting changes may lie ahead

Goldman's own capital position is strong, with its newly disclosed Tier 1/Risk Weighted Assets ratio at 10.8% as of May 31. It was below those of MS and LEH (12.4% and 13.5%, respectively) but GS doesn't view this as an "arms race" and in fact views its own core range as 9.5-10%, with around a percentage point of excess at this time because of the amount of nervousness in the market. Viniar does not believe there will be appreciable differences between Basel I and Basel II ratios for most firms (important because banks, such as JPM, Citi, and B of A are all still on Basel I for the time being).

We asked about the impact of changes in Fin 46 (R) / FAS 140 which may require consolidation of securitized assets starting in 2009. In the most draconian case, GS believes the impact would be to raise total assets by about $300bn. Pro-forma, this would, we estimate, drop the Tier 1 ratio from 10.8% now to about 8.5% (we simply assumed that the $300bn would convert to RWA in the same ratio as GS' current 1.1 trillion in assets convert to RWA of $400bn, which may well be too simplistic). In any event, given that the firm continues to generate considerable capital through earnings, and that it does not believe it needs more than around 10% Tier 1, it's not hard to see how any need engendered by the accounting change could be handled organically, without the need to raise capital, though buybacks might be constrained for a while longer.

Merrill Lynch

Goldman Sachs Group

26 July 2008

Table 1: GS Income Statement ($ mn)

	3Q07 end 8/07	4Q07 end 11/07	1Q08 end 2/08	2Q08 end 5/08	3Q08E end 8/08	2006 end 11/06	2007 end 11/07	2008E end 11/08	2009E end 11/09
REVENUES									
Commissions	1,330	1,243	1,238	1,234	1,222	3,518	4,579	4,940	5,211
Net Interest	1,341	725	951	1,277	1,100	3,498	3,967	4,328	3,700
Trading	6,034	4,544	4,171	3,280	4,342	17,592	21,377	16,453	23,099
Investments/Private Equity/Merchant Bank	211	1,036	-532	725	185	2,317	3,757	628	580
Principal Transactions	6,245	5,580	3,639	4,005	4,527	20,509	25,134	17,081	23,679
Financial Advisory	1,412	1,240	663	800	675	2,580	4,222	2,838	2,161
Underwriting	733	733	509	885	675	3,049	3,333	2,759	2,587
Investment Banking	2,145	1,973	1,166	1,685	1,350	5,629	7,555	5,597	4,748
Asset Management & Fees	1,198	1,165	1,317	1,169	1,270	4,294	4,490	5,040	6,005
Other Revenues	75	54	24	52	55	233	242	186	220
Net Revenues	**12,334**	**10,740**	**8,335**	**9,422**	**9,523**	**37,680**	**45,987**	**37,173**	**43,563**
Net Trading Revenues	*7,375*	*5,269*	*5,122*	*4,557*	*5,442*	*19,940*	*25,364*	*20,781*	*26,799*
EXPENSES									
Comp/Net Revenues	*48.0%*	*30.5%*	*48.0%*	*48.0%*	*48.0%*	*42.0%*	*43.9%*	*45.9%*	*45.0%*
Compensation & Benefits	5,920	3,272	4,001	4,522	4,571	16,457	20,190	17,049	19,603
Communications/ Technology	169	184	187	192	200	544	665	789	813
Office/ Equip./ Depr./ Amort.	363	550	406	417	435	1,371	1,599	1,708	1,776
Professional Services (1)	539	688	589	555	550	1,814	2,122	2,235	2,347
Advertising/ Business Development	148	177	144	126	130	492	601	575	587
Brokerage, Clearing & Exchange Fees	795	774	790	741	750	1,848	2,758	3,056	3,224
Cost of Power Generation	88	0	0	0	0	406	253	0	0
Intangibles Amortization	53	41	34	37	45	173	195	211	215
Non-Compensation Expense	*2,155*	*2,414*	*2,191*	*2,068*	*2,110*	*6,648*	*8,193*	*8,574*	*8,962*
Total Operating Expenses	**8,075**	**5,686**	**6,192**	**6,590**	**6,681**	**23,105**	**28,383**	**25,623**	**28,565**
Income (Loss) Before Inc. Taxes & Other	4,259	5,054	2,143	2,832	2,842	14,575	17,604	11,550	14,998
Income Taxes (Benefit)	1,405	1,840	632	745	853	5,023	6,005	3,348	5,129
Tax Rate	*33.0%*	*36.4%*	*29.5%*	*26.3%*	*30.0%*	*34.5%*	*34.1%*	*29.0%*	*34.2%*
NET INCOME (LOSS)	2,854	3,214	1,511	2,087	1,990	9,552	11,599	8,202	9,869
INCOME FOR COMMON	2,806	3,165	1,467	2,051	1,950	9,413	11,407	8,042	9,604
Average Shares									
Basic	429.0	422.9	432.8	427.5	427.5	451.7	433.1	426.0	435.2
Diluted	457.4	451.7	453.5	447.4	456.6	477.4	461.3	454.2	465.4
EARNINGS PER SHARE									
Basic	$6.54	$7.48	$3.39	$4.80	$4.56	$20.34	$26.34	$18.88	$22.28
Diluted	$6.13	$7.01	$3.23	$4.58	$4.28	$19.72	$24.73	$17.71	$20.92

Source: Company Reports and Merrill Lynch

CONFIDENTIAL

PORTEN-00012304

Price objective basis & risk

Goldman Sachs (GS)

We believe GS shares are appropriately valued at about 1.9x given expectations of 18%+ ROE through '09E. This suggests a PO of $212 when applied to 2Q09E book value (with 5% discount to account for substantial near-term uncertainty). Risks to price objective: Earnings volatility remains an undeniable part of the GSs business: with GS registering ROE from low teens in trough conditions to high 30s in a peak market environment. Revenues can be very lumpy and subject to global market disruptions. In addition, GS derives a high proportion of revenue from trading and market-making activities. As with most brokers, GSs business is very balance-sheet intensive and employs high leverage. While one source of GS ROE advantage is that it is good at spotting value, pricing illiquid assets, and taking risk, this means GS holds sizeable balances of illiquid securities subject to negative valuation adjustments. Going forward, investment banks and their leverage ratios will likely face greater gov't scrutiny that could hinder returns in peak market environments, particularly if the Fed gains permanent oversight of leverage. More opaque, structured products are an important component of profitability at strong points in the cycle and will probably be out of favor for some time following the mortgage debacle and credit crunch, though we do not believe securitization will be permanently impaired.

Analyst Certification

I, Guy Moszkowski, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US-Mega Banks, Brokers and Asset Managers Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	Affiliated Mgrs.	AMG	AMG US	Cynthia Mayer
	AllianceBernstein	AB	AB US	Cynthia Mayer
	Allied Cap Corp	ALD	ALD US	Faye Elliott
	Ares Capital	ARCC	ARCC US	Faye Elliott
	Calamos	CLMS	CLMS US	Cynthia Mayer
	Eaton Vance	EV	EV US	Cynthia Mayer
	Federated Inv.	FII	FII US	Cynthia Mayer
	Franklin Re	BEN	BEN US	Cynthia Mayer
	Goldman Sachs	GS	GS US	Guy Moszkowski, CFA
	JMP Group Inc	JMP	JMP US	Guy Moszkowski, CFA
	Lazard	LAZ	LAZ US	Guy Moszkowski, CFA
	Morgan Stanley	MS	MS US	Guy Moszkowski, CFA
	Och-Ziff	OZM	OZM US	Cynthia Mayer
	T. Rowe Price	TROW	TROW US	Cynthia Mayer
	Waddell & Reed	WDR	WDR US	Cynthia Mayer
NEUTRAL				
	American Capital Strategies, Ltd.	ACAS	ACAS US	Faye Elliott
	Blackstone Group	BX	BX US	Guy Moszkowski, CFA
	Citigroup	C	C US	Guy Moszkowski, CFA
	Cowen Group Inc	COWN	COWN US	Guy Moszkowski, CFA
	Invesco	IVZ	IVZ US	Cynthia Mayer
	Janus Capital	JNS	JNS US	Cynthia Mayer
	JP Morgan Chase	JPM	JPM US	Guy Moszkowski, CFA
	Legg Mason	LM	LM US	Cynthia Mayer
	Lehman Brothers	LEH	LEH US	Guy Moszkowski, CFA
UNDERPERFORM				
	Boston Priv Fin	BPFH	BPFH US	Cynthia Mayer
	Cohen & Steers	CNS	CNS US	Cynthia Mayer
	GAMCO Investors	GBL	GBL US	Cynthia Mayer
	Jefferies Group	JEF	JEF US	Guy Moszkowski, CFA
	KBW Inc	KBW	KBW US	Guy Moszkowski, CFA
	Kohlberg Capital	KCAP	KCAP US	Faye Elliott
RESTRICTED				
	BlackRock, Inc.	BLK	BLK US	Cynthia Mayer

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

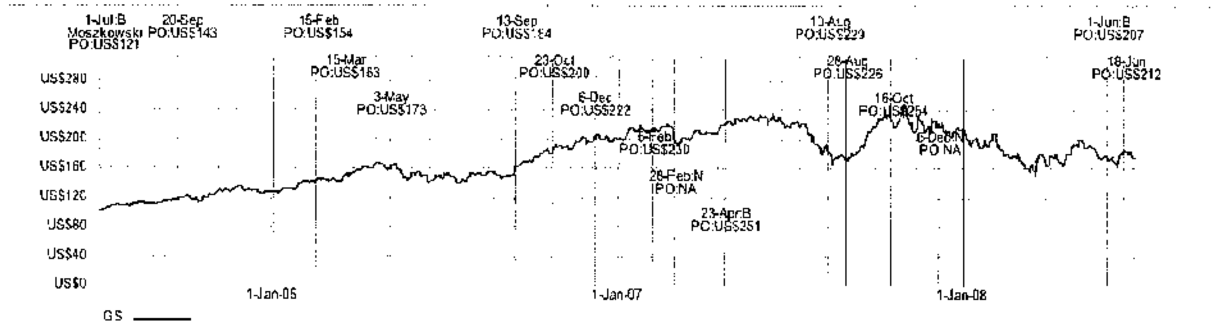
iQmethod SM is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

iQprofile SM, *iQmethod* SM are service marks of Merrill Lynch & Co., Inc. *iQdatabase*® is a registered service mark of Merrill Lynch & Co., Inc.

Important Disclosures

GS Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

Prior to June 30, 2008, the investment opinion system included Buy, Neutral and Sell. As of June 30, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of June 30, 2008 or such later date as indicated.

Investment Rating Distribution: Financial Services Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	130	44.07%	Buy	48	37.80%
Neutral	91	30.85%	Neutral	37	43.02%
Sell	74	25.08%	Sell	21	28.77%

Investment Rating Distribution: Global Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1664	47.42%	Buy	441	29.46%
Neutral	803	22.88%	Neutral	224	31.46%
Sell	1042	29.70%	Sell	217	22.84%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. *VOLATILITY RISK RATINGS*, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. *INVESTMENT RATINGS* reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

***INCOME RATINGS*, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend.** *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent Merrill Lynch Comment referencing the stock.

MLPF&S or one of its affiliates acts as a market maker for the securities recommended in the report: Goldman Sachs.
MLPF&S or an affiliate was a manager of a public offering of securities of this company within the last 12 months: Goldman Sachs.
The company is or was, within the last 12 months, an investment banking client of MLPF&S and/or one or more of its affiliates: Goldman Sachs.
MLPF&S or an affiliate has received compensation for investment banking services from this company within the past 12 months: Goldman Sachs.
MLPF&S or an affiliate expects to receive or intends to seek compensation for investment banking services from this company within the next three months: Goldman Sachs.
MLPF&S or one of its affiliates is willing to sell to, or buy from, clients the common equity of the company on a principal basis. Goldman Sachs.
The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

Other Important Disclosures

UK readers: MLPF&S or an affiliate is a liquidity provider for the securities discussed in this report.

MLPF&S or one of its affiliates has a significant financial interest in the fixed income instruments of the issuer. If this report was issued on or after the 10th day of a month, it reflects a significant financial interest on the last day of the previous month. Reports issued before the 10th day of a month reflect a significant financial interest at the end of the second month preceding the date of the report: Goldman Sachs.

Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):

MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Global (Taiwan) Limited; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.: Merrill Lynch (Malaysia); Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow; Merrill Lynch (Turkey): Merrill Lynch Yatirim Bankasi A.S.; Merrill Lynch (Dubai): Merrill Lynch International Bank Ltd, Dubai Branch; MLPF&S (Zürich rep. office): MLPF&S Incorporated Zürich representative office.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-U.S. affiliates. MLPF&S is the distributor of this research report in the U.S. and accepts full responsibility for research reports of its non-U.S. affiliates distributed in the U.S. Any U.S. person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co. Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; is issued and distributed in Taiwan by Merrill Lynch Global (Taiwan) Ltd or Merrill Lynch, Pierce, Fenner & Smith Limited (Taiwan Branch); is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; is issued and distributed in India by DSP Merrill Lynch Limited; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

Copyright, User Agreement and other general information related to this report:

Copyright 2008 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites eligible to receive such research prior to any public dissemination by Merrill Lynch of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) prior to Merrill Lynch's public disclosure of such information. The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. Merrill Lynch makes no representations or warranties whatsoever as to the data and information provided in any third party referenced website and shall have no liability or responsibility arising out of or in connection with any such referenced website.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at http://www.ml.com/media/43347.pdf.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.

iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc.

Macquarie (USA)
Equities Research
MACQUARIE
Incorporating FBK, the Global FIG Specialist

UNITED STATES

GS US Neutral

Price 16 Apr 10 US$160.81

12-month target	**US$**	**185.00**
12-month TSR	**%**	**+15.9**
Valuation	**US$**	
- Price To Book		
GICS sector	**Diversified Financials**	
Market cap	**US$m**	**84,731**
30-day avg turnover	**US$m**	**1,588.3**
Number shares on issue	**m**	**526.9**

Investment fundamentals

Year end 31 Dec		2009A	2010E	2011E	2012E
Adjusted profit	m	12,192	10,112	9,031	8,434
EPS adj	US$	22.16	17.30	19.32	21.22
PER adj	x	7.3	9.3	8.3	7.6
Total DPS	US$	1.40	1.40	1.40	1.40
Total div yield	%	0.9	0.9	0.9	0.9
ROE	%	21.8	14.8	13.5	14.4
P/BV	x	1.4	1.2	1.2	1.1

GS US vs S&P 500, & rec history

Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Capital (USA), April 2010
(all figures in USD unless noted)

EXHIBIT
PENGAD 800-631-6989
Porten 19
5/1/15 TA

David Trone
1 212 231 8051 david.trone@macquarie.com
Bimal Shah
1 212 231 8053 bimal.shah@macquarie.com

19 April 2010

Goldman Sachs Group

Our Thoughts on the SEC's Fraud Claim

Event

- On Friday, the SEC accused Goldman of fraud associated with a synthetic CDO. We believe equity investors (GS fell 13%), the media, Washington and many others rushed to judgement. GS appears blind-sided by the claim and has issued its side of the story, creating what we see as some doubt about the SEC's logic.

Impact

- After reviewing the allegations and Goldman's response, we are not yet willing to assign probabilities on the chance of a conviction. Proof of intent to deceive is key, and we are not convinced that the emails establish this. Also key is what the original long investors knew or didn't know about the selection process.
- Normally, firms settle with the SEC to avoid the risk of losing in court, which would tee-up huge class-action wins. However, in this case, the losses only total $1bn. Typically, reputational damage, particularly in the institutional context, is a paper tiger. However, in this case, the response by the media and Washington has been so severe, that we believe management will want their day in court to prove the firm's innocence. As a result, we may not see the typical settlement but a trial.
- As for the direct financial impact, the worst-case scenario is probably $1.10/sh or 6% of our 2010 estimate while there were no material expectations for synthetic CDO revenue in forward estimates. As for reputation, Goldman clients are "eyes-wide-open".
- The bigger issue may be the role a mortgage-related fraud claim would have on the financial reform process. On one hand, synthetic CDOs had no role in the housing bubble, since they do not create incremental demand for mortgages but are based on existing product. On the other hand, it could be another example of the CDS markets serving as a tool for manipulative schemes (many believe that certain investors sold short shares of Bear, Lehman, Merrill, et al and drove them down via a combination of CDS market manipulation and oral fear-mongering).
- As for read-across, the SEC is apparently looking for similar allegedly concocted selection arrangements set up by other firms. We doubt the SEC will be willing (mkts confidence) and able (manpower, time) to bring many more of these cases.

Earnings and target price revision

- We expect limited impact to operating EPS at the moment.

Price catalyst

- 12-month price target: US$185.00 based on a Price to Book methodology.Catalyst: Quarterly Earnings.

Action and recommendation

- Legal/regulatory trouble often results in short-term pressure, setting up the stock for a sharp recovery upon resolution (see Merrill/Spitzer late-'02-mid-'03). For now, GS is not yet cheap enough and the overhang period is just getting started.

Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

Valuation & Risks

After recovering from the November 2008 abyss, GS now trades at 1.5x TBV of $108 and 1.4x BV of $117. Goldman has only been public for a decade, or just two full boom-bust cycles, thus we can not reliably cite these multiples as low or high. On the other hand, GS trades at about 8.4x our 2011E, which is about normal for full-service firms through a longer historical trading pattern. Our price target is $185, based on 9.6x our 2011 EPS estimate. Goldman relies heavily on principal-driven activities, which naturally create direct risks. Bid-ask spreads in fixed income are the primary factor in short-term earnings, as even a sharp rebound in investment banking could not offset the effects of narrowing.

Case 1:10-cv-03461-PAC Document 201-12 Filed 04/27/18 Page 4 of 7

Fig 1 GS Financial Model

($ Mil.)	1Q09	SEQ Δ	2Q09	SEQ Δ	3Q09	SEQ Δ	4Q09	SEQ Δ	FY09	SEQ Δ	1Q10E	SEQ Δ	2Q10E	SEQ Δ	3Q10E	SEQ Δ	4Q10E	SEQ Δ	FY10E	SEQ Δ	FY11E	SEQ Δ
Revenues																						
Investment Banking	$ 823	-20%	$ 1,440	75%	$ 899	-38%	$ 1,635	82%	$ 4,797	-7%	$ 1,054	-36%	$ 1,434	36%	$ 1,371	-4%	$ 1,393	2%	$ 5,252	9%	$ 5,253	0%
Trading and principal investments	7,150		10,784	51%	10,027	-7%	6,412	-36%	34,373	279%	7,769	21%	8,443	9%	8,083	-4%	7,980	-1%	32,275	-6%	27,200	-16%
Asset management & securities services	1,452	-17%	1,537	6%	1,446	-6%	1,568	8%	6,003	-25%	1,507	-4%	1,562	4%	1,544	-1%	1,699	10%	6,311	5%	6,690	6%
Net Revenues	9,425		13,761	46%	12,372	-10%	9,615	-22%	45,173	103%	10,330	7%	11,439	11%	10,998	-4%	11,071	1%	43,838	-3%	39,143	-11%
Operating expenses																						
Compensation	$ 4,712		$ 6,649	41%	$ 5,351	-20%	$ (519)	-110%	$ 16,193	48%	$ 4,855	NM	$ 5,376	11%	$ 5,059	-6%	$ 4,096	-19%	$ 19,387	20%	$ 17,199	-11%
Amort. of IPO/Acq.Awards	-		-		-		-		-		-		-		-		-		-		-	
Brokerage, clearing, exchange fees	536	-27%	574	7%	580	1%	608	5%	2,298	-23%	547	-10%	558	2%	569	2%	581	2%	2,255	-2%	1,804	-20%
Market development	68	-29%	82	21%	84	2%	108	29%	342	-29%	89	-18%	91	3%	93	2%	84	-10%	357	4%	374	5%
Communications and tech	173	-8%	173	0%	194	12%	169	-13%	709	-7%	169	0%	171	1%	179	5%	179	0%	698	-2%	559	-20%
Depreciation and amortization	511	22%	426	-17%	367	-14%	392	7%	1,696	66%	372	-5%	372	0%	372	0%	372	0%	1,490	-12%	1,341	-10%
Amort. of identifiable intang. Assets	38	-46%	-	-100%	-		-		38	-84%	-		-		-		-		-	-100%	-	
Occupancy	241	-5%	242	0%	230	-5%	237	3%	950	-1%	237	0%	237	0%	237	0%	230	-3%	941	-1%	894	-5%
Other expenses	135	-46%	586	394%	772	32%	1,243	61%	2,736	251%	746	-40%	723	-3%	702	-3%	723	3%	2,894	6%	2,749	-5%
Power generation cost (upto 1Q09)	382	-24%	-	-100%	-		-		382		-		-		-		-		-		-	
Total Non-Comp Expenses	2,084	-17%	2,083	0%	2,227	7%	2,757	24%	9,151	2%	2,160	-22%	2,153	0%	2,153	0%	2,169	1%	8,634	-6%	7,721	-11%
Total Operating Expenses	6,796	236%	8,732	28%	7,578	-13%	2,238	-70%	25,344	27%	7,015	213%	7,529	7%	7,212	-4%	6,265	-13%	28,021	11%	24,920	-11%
Pre-Tax Income	2,629		5,029	91%	4,794	-5%	7,377	54%	19,829	749%	3,315	-55%	3,910	18%	3,786	-3%	4,806	27%	15,817	-20%	14,223	-10%
Provision for taxes	815		1,594	96%	1,606	1%	2,429	51%	6,444	45929%	1,061		1,251	18%	1,212	-3%	1,538	27%	5,061	-21%	4,551	
Preferred Dividends	155	-7%	717	363%	160	-78%	161	1%	1,193		161	0%	161	0%	161	0%	161	0%	644		640	-1%
Net earnings (GAAP)	1,659		2,718	64%	3,028	11%	4,787	58%	12,192	497%	2,093	-56%	2,498	19%	2,414	-3%	3,107	29%	10,112	-17%	9,031	-11%
Net earnings (operating)	$ 1,659		$ 3,179	92%	$ 3,028	-5%	$ 4,787	58%	$ 12,192	497%	$ 2,093	-56%	$ 2,498	19%	$ 2,414	-3%	$ 3,107	29%	$ 10,112	-17%	$ 9,031	-11%
FD EPS (GAAP)	$3.39		$4.93	45%	$5.25	6%	$8.20	56%	$ 21.77		$3.55	-57%	$4.24	20%	$4.14	-2%	$5.38	30%	$ 17.33		$ 19.32	12%
FD EPS (Operating)	$3.39		$5.77	70%	$5.25	-9%	$8.20	56%	$ 22.61	401%	$3.55	-57%	$4.24	20%	$4.14	-2%	$5.39	30%	$ 17.33	-23%	$ 18.32	12%
Avg. FD Shares	489	6%	551	13%	577	5%	584	1%	550	22%	590	1%	588	0%	582	-1%	577	-1%	584	6%	467	-20%
Dividend	$0.35	0%	$0.35	0%	$0.35	0%	$0.35	0%	$ 1.40	0%	$0.35	0%	$0.35	0%	$0.35	0%	$0.35	0%	$ 1.40	0%	$ 1.40	0%
Comp Ratio	50.0%		48.3%		43.3%		-5.4%		35.8%		47.0%		47.0%		46.0%		37.0%		44.2%		43.9%	
Non-Comp Ratio	22.1%		14.9%		17.7%		28.7%		20.3%		20.9%		18.6%		19.6%		19.6%		19.7%		19.7%	
PTOM	27.9%		36.8%		39.0%		76.7%		43.9%		32.1%		34.2%		34.4%		43.4%		36.1%		36.3%	
Effect. Tax Rate	31.0%		31.7%		33.5%		32.9%		32.5%		32.0%		32.0%		32.0%		32.0%		32.0%		32.0%	
Balance Sheet																						
ROE (GAAP)									21.7%		13.0%		15.1%		14.1%		17.5%		16.5%		13.5%	
EOP Book Value Per Share	$98.82		$108.41		111.27		117.48		$ 117.48		$120.48		$124.12		$127.57		$132.24		$ 132.24		$ 138.25	

Source: Company data, Macquarie Capital (USA), April 2010

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.55%	62.20%	42.25%	42.39%	62.16%	46.74%	(for US coverage by MCUSA, 6.53% of stocks covered are investment banking clients)
Neutral	36.63%	19.02%	47.89%	50.35%	31.89%	34.78%	(for US coverage by MCUSA, 9.82% of stocks covered are investment banking clients)
Underperform	12.82%	18.78%	9.86%	7.27%	5.95%	18.48%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

Company Specific Disclosures:

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Analyst Certification:
The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Macquarie Group Ltd ABN 94 122 169 279 (AFSL No. 318062) (MGL) and its related entities (the Macquarie Group) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

General Disclaimers:
Macquarie Securities (Australia) Ltd; Macquarie Capital (Europe) Ltd; Macquarie Capital Markets Canada Ltd; Macquarie Capital Markets North America Ltd; Macquarie Capital (USA) Inc; Macquarie Capital Securities Ltd and its Taiwan branch; Macquarie Capital Securities (Singapore) Pte Ltd; Macquarie Securities (NZ) Ltd; Macquarie First South Securities (Pty) Limited; Macquarie Capital Securities (India) Pvt Ltd; Macquarie Capital Securities (Malaysia) Sdn Bhd; and Macquarie Securities (Thailand) Ltd are not authorized deposit-taking institutions for the purposes of the Banking Act 1959 (Commonwealth of Australia), and their obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL) or MGL. MBL does not guarantee or otherwise provide assurance in respect of the obligations of any of the above mentioned entities. MGL provides a guarantee to the Monetary Authority of Singapore in respect of the obligations and liabilities of Macquarie Capital Securities (Singapore) Pte Ltd for up to SGD 35 million. This research has been prepared for the general use of the wholesale clients of the Macquarie Group and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this research in any way. If you received it in error, please tell us immediately by return e-mail and delete the document. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them by any other person. MGL has established and implemented a conflicts policy at group level (which may be revised and updated from time to time) (the "Conflicts Policy") pursuant to regulatory requirements (including the FSA Rules) which sets out how we must seek to identify and manage all material conflicts of interest. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any transaction. In preparing this research, we did not take into account your investment objectives, financial situation or particular needs. Before making an investment decision on the basis of this research, you need to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of your particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. This research is based on information obtained from sources believed to be reliable but we do not make any representation or warranty that it is accurate, complete or up to date. We accept no obligation to correct or update the information or opinions in it. Opinions expressed are subject to change without notice. No member of the Macquarie Group accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Clients should contact analysts at, and execute transactions through, a Macquarie Group entity in their home jurisdiction unless governing law permits otherwise.

Country-Specific Disclaimers:
Australia: In Australia, research is issued and distributed by Macquarie Securities (Australia) Ltd (AFSL No. 238947), a participating organisation of the Australian Securities Exchange. **New Zealand**: In New Zealand, research is issued and distributed by Macquarie Securities (NZ) Ltd, a NZX Firm. **Canada**: In Canada, research is prepared, approved and distributed by Macquarie Capital Markets Canada Ltd, a participating organisation of the Toronto Stock Exchange, TSX Venture Exchange & Montréal Exchange. Macquarie Capital Markets North America Ltd., which is a registered broker-dealer and member of FINRA, accepts responsibility for the contents of reports issued by Macquarie Capital Markets Canada Ltd in the United States and sent to US persons. Any person wishing to effect transactions in the securities described in the reports issued by Macquarie Capital Markets Canada Ltd should do so with Macquarie Capital Markets North America Ltd. The Research Distribution Policy of Macquarie Capital Markets Canada Ltd is to allow all clients that are entitled to have equal access to our research. **United Kingdom**: In the United Kingdom, research is issued and distributed by Macquarie Capital (Europe) Ltd, which is authorised and regulated by the Financial Services Authority (No. 193905). **Germany**: In Germany, research is issued and distributed by

Macquarie Capital (Europe) Ltd, Niederlassung Deutschland, which is authorised and regulated in the United Kingdom by the Financial Services Authority (No. 193905). **France**: In France, research is issued and distributed by Macquarie Capital (Europe) Ltd, which is authorised and regulated in the United Kingdom by the Financial Services Authority (No. 193905). **Hong Kong**: In Hong Kong, research is issued and distributed by Macquarie Capital Securities Ltd, which is licensed and regulated by the Securities and Futures Commission. **Japan**: In Japan, research is issued and distributed by Macquarie Capital Securities (Japan) Limited, a member of the Tokyo Stock Exchange, Inc., Osaka Securities Exchange Co. Ltd, and Jasdaq Securities Exchange, Inc. (Financial Instruments Firm, Kanto Financial Bureau (kin-sho) No. 231, a member of Japan Securities Dealers Association and Financial Futures Association of Japan). **India:** In India, research is issued and distributed by Macquarie Capital Securities (India) Pvt Ltd, which is a SEBI registered Stock Broker having membership with National Stock Exchange of India Limited (INB231246738) and Bombay Stock Exchange Limited (INB011246734). **Malaysia**: In Malaysia, research is issued and distributed by Macquarie Capital Securities (Malaysia) Sdn. Bhd. (Company registration number: 463469-W) which is a Participating Organisation of Bursa Malaysia Berhad and a holder of Capital Markets Services License issued by the Securities Commission. **Taiwan**: Information on securities/instruments that are traded in Taiwan is distributed by Macquarie Capital Securities Ltd, Taiwan Branch, which is licensed and regulated by the Financial Supervisory Commission. No portion of the report may be reproduced or quoted by the press or any other person without authorisation from Macquarie. **Thailand**: In Thailand, research is issued and distributed by Macquarie Securities (Thailand) Ltd, a licensed securities company that is authorized by the Ministry of Finance, regulated by the Securities and Exchange Commission of Thailand and is an exchange member no. 28 of the Stock Exchange of Thailand. The Thai Institute of Directors Association has disclosed the Corporate Governance Report of Thai Listed Companies made pursuant to the policy of the Securities and Exchange Commission of Thailand. Macquarie Securities (Thailand) Ltd does not endorse the result of the Corporate Governance Report of Thai Listed Companies but this Report can be accessed at:http://www.thai-iod.com/en/publications.asp?type=4. **South Africa**: In South Africa, research is issued and distributed by Macquarie First South Securities (Pty) Limited, a member of the JSE Limited. **Singapore**: In Singapore, research is issued and distributed by Macquarie Capital Securities (Singapore) Pte Ltd (Company Registration Number: 198702912C), a Capital Markets Services license holder under the Securities and Futures Act to deal in securities and provide custodial services in Singapore. Pursuant to the Financial Advisers (Amendment) Regulations 2005, Macquarie Capital Securities (Singapore) Pte Ltd is exempt from complying with sections 25, 27 and 36 of the Financial Advisers Act. All Singapore-based recipients of research produced by Macquarie Capital (Europe) Limited, Macquarie Capital Markets Canada Ltd, Macquarie First South Securities (Pty) Limited and Macquarie Capital (USA) Inc. represent and warrant that they are institutional investors as defined in the Securities and Futures Act. **United States**: In the United States, research is issued and distributed by Macquarie Capital (USA) Inc., which is a registered broker-dealer and member of FINRA. Macquarie Capital (USA) Inc, accepts responsibility for the content of each research report prepared by one of its non-US affiliates when the research report is distributed in the United States by Macquarie Capital (USA) Inc. Macquarie Capital (USA) Inc.'s affiliate's analysts are not registered as research analysts with FINRA, may not be associated persons of Macquarie Capital (USA) Inc., and therefore may not be subject to FINRA rule restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account. Any persons receiving this report directly from Macquarie Capital (USA) Inc. and wishing to effect a transaction in any security described herein should do so with Macquarie Capital (USA) Inc. Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures, or contact your registered representative at 1-888-MAC-STOCK, or write to the Supervisory Analysts, Research Department, Macquarie Securities, 125 W.55th Street, New York, NY 10019.

© Macquarie Group

Auckland Tel: (649) 377 6433	**Bangkok** Tel: (662) 694 7999	**Calgary** Tel: (1 403) 218 6650	**Hong Kong** Tel: (852) 2823 3588	**Jakarta** Tel: (62 21) 515 1818	**Johannesburg** Tel: (2711) 583 2000	**Kuala Lumpur** Tel: (60 3) 2059 8833
London Tel: (44 20) 3037 4400	**Manila** Tel: (63 2) 857 0888	**Melbourne** Tel: (613) 9635 8139	**Montreal** Tel: (1 514) 925 2850	**Mumbai** Tel: (91 22) 6653 3000	**Perth** Tel: (618) 9224 0888	**Seoul** Tel: (82 2) 3705 8500
Shanghai Tel: (86 21) 6841 3355	**Singapore** Tel: (65) 6231 1111	**Sydney** Tel: (612) 8232 9555	**Taipei** Tel: (886 2) 2734 7500	**Tokyo** Tel: (81 3) 3512 7900	**Toronto** Tel: (1 416) 848 3500	**New York** Tel: (1 212) 231 2500

Available to clients on the world wide web at www.macquarieresearch.com and through Thomson Financial, FactSet, Reuters, Bloomberg, CapitalIQ and TheMarkets.com.

Macquarie (USA) Equities Research

MACQUARIE

Research

Heads of Equity Research

John O'Connell (Global Co – Head)	(612) 8232 7544
David Rickards (Global Co – Head)	(44 20) 3037 4399
Mark Little (US)	(1 212) 231 2577
Stephen Harris (Canada)	(1 416) 848 3655

Consumer Discretionary

Gaming & Leisure

Joel Simkins (New York)	(1 212) 231 2635
Chad Beynon (New York)	(1 212) 231 2634

Retailing

David Pupo (Toronto)	(1 416) 848 3505

Homebuilding & Materials

Ken Zener (New York)	(1 212) 231 2479

Energy

Jason Gammel (New York)	(1 212) 231 2633
Chris Feltin (Calgary)	(1 403) 539 8544
Cristina Lopez (Calgary)	(1 403) 539 8542
Leon Knight (Calgary)	(1 403) 303 8655
Chris Theal (Calgary)	(1 403) 539 4349
David Popowich (Calgary)	(1 403) 539 8529
Scott Treadwell (Calgary)	(1 403) 539 8530
Waqar Syed (Denver)	(1 303) 952 2753
Joe Magner (Denver)	(1 303) 952 2751
Ryan McCormick (Denver)	(1 303) 952 2752

Alternative Energy

Kelly Dougherty (New York)	(1 212) 231 2493

Financials

Asset Managers/Financial Technology

Roger Smith (New York)	(1 212) 231 8016
William Broomall (New York)	(1 212) 231 8039

Banks/Trust Banks

David Trone (Head of US Commercial and Investment Banks Research)	(1 212) 231 8051
Andrew Marquardt (New York)	(1 212) 231 8037
Albert Savastano (New York)	(1 212) 231 8046
Adam Klauber (Chicago)	(1 312) 660 9187
John Pancari (New York)	(1 212) 231 8014
Thomas Alonso (New York)	(1 212) 231 8047
Jonathan Elmi (New York)	(1 212) 231 8065
Bill Young (New York)	(1 212) 231 8052
Sumit Malhotra (Toronto)	(1 416) 848 3687

Financial Strategies

Adam Klauber (Chicago)	(1 312) 660 9187

Investment Banks & Brokers

David Trone (New York)	(1 212) 231 8051
Steven Fu (New York)	(1 212) 231 8049
Bimal Shah (New York)	(1 212) 231 8053

Financials – cont

Life Insurance

Mark Finkelstein (Chicago)	(1 312) 660 9179

Market Structure

Edward Ditmire (New York)	(1 212) 231 8076

Mortgage & Consumer Finance

Bill Carcache (New York)	(1 212) 231 8034
Matthew Howlett (New York)	(1 212) 231 8063

Mortgage REITs

Matthew Howlett (New York)	(1 212) 231 8063

Property & Casualty Insurance

William Yankus (West Hartford)	(1 860) 380 2003
Matthew J Carletti (Chicago)	(1 312) 660 9134
Dan Farrell (New York)	(1 212) 231 8044
Amit Kumar (New York)	(1 212) 231 8013
Dan Schlemmer (Chicago)	(1 312) 660 9182

Industrials

Aerospace & Defense

Rob Stallard (New York)	(1 212) 231 2486
Rama Bondada (New York)	(1 212) 231 2481

Capital Goods

Steven Song (New York)	(1 212) 231 2455

Infrastructure Services

Avi Dalfen (Toronto)	(1 416) 628 3934

Construction and Engineering

Sameer Rathod (New York)	(1 212) 231 2474

Transportation & Logistics

Scott Flower (New York)	(1 212) 231 2537

Materials

Global Metals & Mining

Curt Woodworth (New York)	(1 212) 231 2482
Pierre Vaillancourt (Toronto)	(1 416) 848 3647
Duncan McKeen (Montréal)	(1 514) 925 2856

Real Estate

Property Trusts & Developers

Robert Stevenson (New York)	(1 212) 231 8068
Ki Bin Kim (New York)	(1 212) 231 6386
Michael Levy (New York)	(1 212) 231 2626
Dave Wigginton (New York)	(1 212) 231 6380
Michael Smith (Toronto)	(1 416) 848 3696

TMET

Telecommunications

Phil Cusick (New York)	(1 212) 231 6376
Glenn Jamieson (Toronto)	(416) 848 3658

Software

Brad Zelnick (New York)	(1 212) 231 2618

IT Hardware

Richard Choe (New York)	(1 212) 231 6370

Media

Ben Stretch (New York)	(1 212) 231 2574

Technology

Shawn Webster (New York)	(1 212) 231 2539
Glenn Jamieson (Toronto)	(416) 848 3658

Business Services

Kevin McVeigh (New York)	(1 212) 231 6191

Utilities

Angie Storozynski (New York)	(1 212) 231 2569
Matthew Akman (Toronto)	(1 416) 848 3510
Stephen Harris (Toronto)	(1 416) 848 3655

Commodities & Precious Metals

Metals & Mining

Jim Lennon (London)	(44 20) 3037 4271
Max Layton (London)	(44 20) 3037 4273
Kona Haque (London)	(44 20) 3037 4334

Oil & gas

Jan Stuart (New York)	(1 212) 231 2485

Emerging Leaders (Small/Mid Cap)

Al Kabili (New York)	(1 212) 231 2473
Jon Groberg (New York)	(1 212) 231 2612
Cooley May (New York)	(1 212) 231 2586

Economics and Strategy

Stephen Harris (Toronto)	(1 416) 848 3655
Jan Stuart (Global Oil Economist)	(1 212) 231 2485

Find our research at

Macquarie:	www.macquarie.com.au/research
Thomson:	www.thomson.com/financial
Reuters:	www.knowledge.reuters.com
Bloomberg:	MAC GO
Factset:	http://www.factset.com/home.aspx
CapitalIQ	www.capitaliq.com
TheMarkets.com	www.themarkets.com

Contact Gareth Warfield for access (612) 8232 3207

Email addresses

FirstName.Surname@macquarie.com

eg. David.Rickards@macquarie.com

Sales

Equities

Stevan Vrcelj (Head of Global Sales)	(612) 8232 5999
Alex Rothwell (Toronto)	(1 416) 848 3677

US Sales

Greg Coleman (New York)	(1 212) 231 2567

US Financial Specialist Sales

Scott Barishaw (New York)	(1 212) 231 8026

US Sales Trading

Austin Graham (New York)	(1 212) 231 2494

Canada Sales

Tim Sorensen (Toronto)	(1 416) 848 3623

Canada Trading

Perry Catellier (Toronto)	(1 416) 848 3619

EXHIBIT
PENGAD 800-631-6989
Porten 18
5/1/15 TD

April 19, 2010

WELLS FARGO SECURITIES

Equity Research

The Goldman Sachs Group, Inc.

GS: Reputational Risks Increased, But Valuation Still Attractive

Outperform / V

Sector: U.S. Banks
Market Weight

Company Note

EPS	2009A	2010E Curr.	2010E Prior	2011E Curr.	2011E Prior
Q1 (Mar.)	$3.39	$3.90	NC	$4.32	NC
Q2 (June)	4.93	4.21	NC	4.45	NC
Q3 (Sep.)	5.25	4.30	NC	4.59	NC
Q4 (Dec.)	8.20	5.60	NC	6.10	NC
FY	$22.13	$18.00	NC	$19.45	NC
CY	$22.13	$18.00		$19.45	
FY P/E	7.3x	8.9x		8.3x	
Rev.(MM)	$45,173	$47,134		$49,709	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful

Qs may not sum to annual figure due to share count changes or rounding differences.

Ticker	GS
Price (04/16/2010)	$160.70
52-Week Range:	$113-194
Shares Outstanding: (MM)	542.7
Market Cap.: (MM)	$87,211.9
S&P 500:	1,192.13
Avg. Daily Vol.:	8,629,880
Dividend/Yield:	$1.40/0.9%
LT Debt: (MM)	$189,724.0
LT Debt/Total Cap.:	73.0%
ROE:	32.0%
3-5 Yr. Est. Growth Rate:	12.0%
CY 2010 Est. P/E-to-Growth:	0.7x
Last Reporting Date:	01/21/2010 Before Open

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

- **We are maintaining our Outperform recommendation on GS.** We are maintaining our Outperform recommendation on GS in the wake of the SEC's civil lawsuit (filed April 16) due to: 1) manageable financial impact if GS loses the case - we estimate the cost would be about $1.18, 6% of our expected 2011 EPS; 2) GS' share price decline (13% on 4/16 vs S&P500 decline of 1.6%) appears outsized relative to the "likely worst case" financial cost, suggesting attractive return potential vs. its peers, 3) the possibility the case may be settled at a materially lower cost to GS in the nearer-term (by the end of 2011) given our expectations of a vigorous defense of its position, and 4) our belief that GS' business opportunities will not suffer meaningful detriment from the lawsuit. We have not adjusted our EPS estimates for 2010 or 2011.
- **GS has begun to tell its side of the story, possibility reducing the concerns surrounding the SEC's allegations.** Following the SEC's filing of its lawsuit, GS has issued public documents detailing its belief that its actions with respect to the ABACUS 2007-AC1 synthetic CDO were "entirely appropriate", and that it intends to defend itself vigorously. We believe GS' strong stance could be successful in reducing the fear surrounding the SEC's allegations - and also starts to rebuild the reputational damage from the recent headlines.
- **Headline risk returns with a vengeance for the large cap banks, likely dampening investors enthusiasm for the near-term.** The SEC's highly publicized legal action against GS is likely to make investors concerned that other underwriters of structured or complex securities could also face legal and headline risk. This is likely to dampen investor enthusiasm for the large-cap banks in the near-term, particularly those with material capital markets contributions to net income.
- **The lawsuit could also result in more stringent financial services reform legislation, in our view.** While the allegations against GS do not require additional regulation (fraudulent activity is already illegal), we believe those seeking greater regulation of the financial services sector - and the largest most diversified banks in particular - could use the SEC's allegations as a catalyst for more stringent regulation of the banks and capital markets activities. This could have a negative effect on future revenue generation capabilities for these institutions.

Valuation Range: $205.00 to $215.00

Our valuation range represents a 1.6x-1.7x price-to-tangible book multiple on our 2010 book value estimate of $128. Risks to achieving our valuation range include further deterioration in legacy assets, trading losses, the advent of more stringent government regulation, employee defections, and the extension of a challenged economic environment.

Investment Thesis:

GS's reduced competition, minimal consumer exposure, and superior risk control should allow the company to drive above average profit growth in the current uncertain environment, thereby resulting in premium valuation over time.

Matthew H. Burnell, Senior Analyst
(704) 374-7148 / matt.burnell@wachovia.com
Herman Chan, CFA, Associate Analyst
(212) 214-8037 / herman.chan@wachovia.com

Please see page 5 for rating definitions, important disclosures and required analyst certifications

Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

Together we'll go far

Company Description:

The Goldman Sachs Group, Inc. is a leading global banking, securities and investment management firm that provides a wide range of services worldwide to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals.

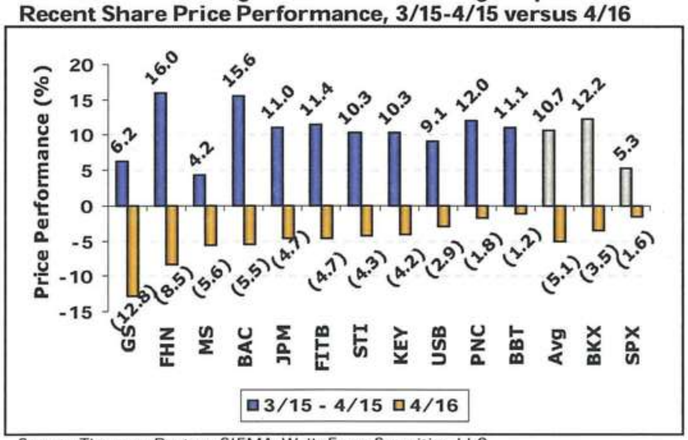
Valuation remains attractive for the intermediate to longer-term, in our view; maintaining our Outperform rating on GS shares. The drop in GS' share price on April 16 leaves it at an attractive level, in our opinion.

1) Our valuation range ($205-$215) is 1.6x-1.7x our estimated FYE 2010E tangible book value, a level well below GS' historical average allowing for a reduced multiple in the future as a result of greater regulation;
2) Our current valuation range based on our price/TBV multiple allows a 28%-34% upside from its current level;
3) GS currently trades at a price/normalized earnings ratio of 5.1x, a level less than half of the regional banks in our coverage universe.

While headline risk is likely to keep GS share price from outperforming in the near-term, we believe the market will come to better appreciate the manageable financial and reputational risks GS faces as well as the benefit of greater clarity on financial services regulatory reform. We believe this should allow GS to outperform its peers in the intermediate to long term. As a result, we have maintained our Outperform rating on GS shares.

Leading up to April 16, bank share price performance had been well ahead of the broader market indices. Given the rally in bank shares over the month from March 15 through April 15, our large cap bank coverage universe enjoyed an average share price improvement of 11% (an annualized return of approximately 128%). While outperforming the S&P 500 by 540 basis points, our coverage universe trailed the BKX Index by 150 bps.

Exhibit 1: Wells Fargo Securities LLC Large Cap Bank Recent Share Price Performance, 3/15-4/15 versus 4/16



Source: Thomson Reuters, SIFMA, Wells Fargo Securities, LLC

SEC's civil lawsuit against Goldman Sachs proved the catalyst for a sector-wide sell off on April 16, in our view. On April 16, however, our coverage universe fell by an average of 5.1%, underperforming both the BKX and the S&P 500. Leading the group lower was Goldman Sachs, who was the subject of a civil lawsuit announced by the SEC in the morning of April 16. The news gave investors a reason to reduce exposure to bank stocks – at least ahead of the weekend and the bulk of bank earnings announcements expected the week of April 19 – for the near-term while the fallout of the GS lawsuit and pending bank regulatory reform are better understood.

Financial risk appears manageable (6% of our 2011E EPS estimate of $19.45) and unlikely to occur in the near-term. Obviously, the primary risk for GS in this specific lawsuit is the risk it may lose the case. If this occurs, we believe the worst-case scenario for GS would be approximately $1.03B: the return of the $15MM in structuring fees received from the transaction, the return of other revenue GS received from transactions related to the CDO (which we estimate at $10MM, which we believe is conservative) plus potential restitution (in the form of fines) of the $1.0 billion that the SEC estimates investors lost on their investments in the transaction. Assuming that such a payment is tax deductible, we estimate this could reduce GS' net income by $677MM, or approximately $1.18 per share using our estimated 2011 estimated weighted average share count of 573MM shares. Given the length of a typical court case, we estimate that the cost would be unlikely to hit GS' results until at 2012 at the earliest.

GS issued a multi-part statement mounting its initial defense against the SEC's allegations – willing to go the distance to clear its name. GS released a document April 18 stating its position on the SEC's lawsuit, clarifying comments made in the aftermath of the SEC's announcement of the lawsuit. In sum, we believe GS' contentions suggest it is willing to take its chance in court, if necessary, to clear its name and attempt to revive its reputation. In its release, GS contends:

1) the fact that GS lost money (approximately $90MM by its count) suggests it did not intend to structure an instrument for the purposes of losing money for investors – of which GS was one;
2) GS noted that the two large investors (IKB and ACA Capital Management) were "provided extensive information" about the static pool of approximately 90 securities and that as "among the most sophisticated mortgage investors in the world, they understood that a synthetic CDO transaction requires a short interest for every corresponding long position."
3) As a market maker, GS did not disclose the name of the investor taking the short position to ACA as a part of normal business practice.
4) ACA's position as the largest investor in the security argues that they "had every incentive to select appropriate securities", and use their own models and analysis to choose every security in the collateral pool. As part of the transaction, GS said that ACA had discussions with IKB and Paulson and Co. about the collateral pool. According to GS, "ACA rejected numerous securities suggested by Paulson & Co., including more than half of its initial suggestions, and was paid a fee for its role as portfolio selection agent in analyzing and approving the underlying reference portfolio." According to the SEC's complaint, Paulson picked 123 securities for inclusion into the CDO, of which ACA approved 55.
5) GS noted that this transaction has been under investigation by the SEC for eighteen months (and Reuters said GS had received a Wells Notice six months ago). GS believes the firm's actions "were entirely appropriate" and expects to "take all steps necessary to defend the firm and its reputation by making all the true facts known."

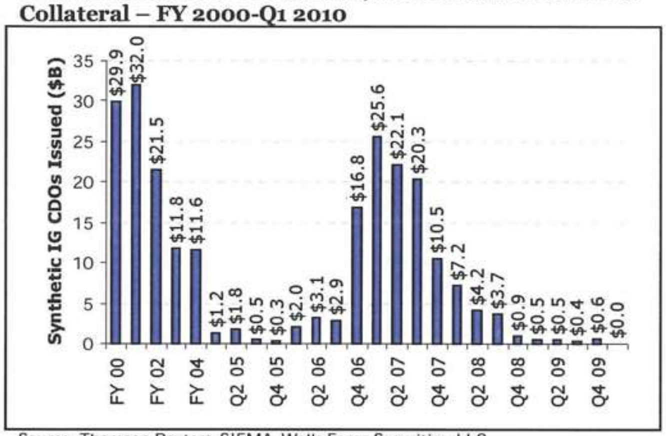
It seems unlikely clients will stop doing business with GS if SEC's suit is not the precursor to other GS-specific legal actions. The SEC's action could lead potential clients seek counterparties and agents other than GS as a means of protesting GS' alleged behavior. We do not consider this a material threat in the long-run, however, due to the following factors: 1) GS has long-held a reputation as a shrewd counterparty and advisor; 2) if clients feel GS has become somewhat chastened by the recent public scrutiny, some clients may believe that could work to their own advantage. We believe that if GS is not implicated in other, similar legal actions the "reputational damage" is manageable. Additional legal actions against the company could further harm its reputation and ability to gain business, in our view.

Charges have not been brought against senior GS management; if a senior executive leaves, we do not believe GS would be materially affected. In its complaint, the SEC has not charged any of GS senior management. Instead the complaint charged then-vice president Fabrice Tourre with fraudulent behavior in marketing the security. We believe that the lack of a senior GS official in the SEC's complaint suggests that it does not believe that GS' procedures and policies were improper, but the actions of selected employees. It also suggests the likelihood of a criminal suit against GS is not high, in our opinion. Nevertheless, we note that the financial crisis of the past two years has resulted in several CEOs relinquishing their seats. Though we believe Lloyd Blankfein and his senior management team continue to receive the support of the company's boards, we cannot completely rule out that a senior executive could leave the firm as a result of the SEC's case. If that were to occur, however, we believe GS' "management bench" is of impressive depth and high quality so that the company would be unlikely to face material negative consequences from such a scenario.

The SEC's lawsuit could embolden other regulators (and investors) to seek legal action against GS. We believe the nature of the SEC's lawsuit against GS in the current political environment across the globe could result in additional legal actions being taken against GS by other regulators. Over the weekend, Bloomberg News reported that both the U.K.'s Financial Service Authority (FSA) and Germany's financial regulator hove both been asked by their respective heads of state to review the SEC's complaint for possible legal action related to this transaction. GS is currently under investigation by the European Union for currency swaps it sold to Greece.

We expect lawmakers will use the allegations against GS as a means to push regulatory reform. At a time of widespread voter disenchantment with the banking system and the largest capital markets focused banks in particular, we believe politicians on both sides of the aisle are likely to attempt to use the SEC's allegations as a means for supporting more aggressive regulatory reform. However, if the SEC's allegations are proven correct, effectively they have proven GS mislead investors – such behavior has long been unlawful.

Exhibit 1: Global CDO Issuance, Investment Grade Bond Collateral – FY 2000-Q1 2010



Source: Thomson Reuters, SIFMA, Wells Fargo Securities, LLC

A reinvigorated "cop on the beat": SEC's action also sends a message to the Street – and investors – that additional legal actions may be announced. The SEC noted it expects to investigate other transactions, which could result in legal actions against other banks. In his comments to reporters following the filing of the SEC's complaint, Robert Khuzami – the newly named director of enforcement – suggested that the agency is looking at a broad range of transactions. We believe this comment suggested to the market that other capital markets participants could face future "headline" and legal risk from legal actions taken by the SEC. We believe this could include any of the major global investment banks as the SEC has made it clear from its legal action against GS that it is willing to take on any of the major firms if it believes a case has merit.

The broader the SEC casts its net, the less idiosyncratic reputational risk, in our view, but increases the risk of greater regulatory oversight. Interestingly, the broader the SEC's investigations and legal actions become, the less impactful on the reputation of any given firm they may be. Though such a course of action would be likely to maintain public (and possibly investor) perception at extremely low levels, dispersion of legal headline risk could reduce the negative effects on any specific firm. Still, it would also likely result in more aggressive regulatory oversight of the business, which could impede future profit growth.

Required Disclosures

	Date	Publication Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	4/17/2007		Sipkin			
	4/17/2007	NA	1	215.00	220.00	214.90
●	6/7/2007	NA	1	250.00	255.00	220.05
●	9/11/2007	183.61	1	202.00	205.00	183.50
●	9/20/2007	203.53	1	228.00	233.00	203.53
▼	11/8/2007	214.18	2	228.00	233.00	209.94
●	12/18/2007	202.16	2	205.00	210.00	201.51
▲●	3/18/2008	151.02	1	180.00	185.00	175.59
●	6/17/2008	179.44	1	194.00	196.00	179.44
▼	6/26/2008	183.65	2	194.00	196.00	176.26
●	9/12/2008	154.62	2	165.00	170.00	154.21
▲●	9/17/2008	133.01	1	155.00	160.00	114.50
●	12/16/2008	76.00	1	95.00	100.00	76.00
	2/2/2009		Hausner			
◆	2/2/2009	83.57	SR	NE	NE	83.57
	4/13/2009		Burnell			
◆	4/13/2009	130.15	1	138.00	141.00	130.15
●	6/17/2009	144.16	1	169.00	179.00	139.73
●	10/7/2009	186.98	1	209.00	220.00	190.48
●	1/11/2010	174.31	1	205.00	215.00	171.56

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- ◻ Split Adjustment

Rating Code Key
- 1 Outperform/Buy
- 2 Market Perform/Hold
- 3 Underperform/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

Additional Information Available Upon Request

I certify that:
1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

- Wells Fargo Securities, LLC or its affiliates managed or comanaged a public offering of securities for The Goldman Sachs Group, Inc. within the past 12 months.
- Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from The Goldman Sachs Group, Inc.
- Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from The Goldman Sachs Group, Inc. in the past 12 months.
- The Goldman Sachs Group, Inc. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided investment banking services to The Goldman Sachs Group, Inc.
- The Goldman Sachs Group, Inc. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided noninvestment banking securities-related services to The Goldman Sachs Group, Inc.
- Wells Fargo Securities, LLC received compensation for products or services other than investment banking services from The

Goldman Sachs Group, Inc. in the past 12 months.

GS: Risks to achieving our valuation range include further deterioration in legacy assets, trading losses, the advent of more stringent government regulation, employee defections, and the extension of a challenged economic environment.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

STOCK RATING

1=Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY
2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: April 19, 2010

45% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Outperform.	Wells Fargo Securities, LLC has provided investment banking services for 39% of its Equity Research Outperform-rated companies.
50% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Market Perform.	Wells Fargo Securities, LLC has provided investment banking services for 40% of its Equity Research Market Perform-rated companies.
5% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underperform.	Wells Fargo Securities, LLC has provided investment banking services for 42% of its Equity Research Underperform-rated companies.

Important Disclosure for International Clients

The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For certain non-U.S. institutional reader (including readers in the EEA), this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL a regulated person under the Act. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. This research is not intended for, and should not be relied upon, by retail clients.

Important Information for Australian Recipients

Wells Fargo Securities, LLC is exempt from the requirements to hold an Australian financial services license in respect of the financial services it provides to wholesale clients in Australia. Wells Fargo Securities, LLC is a registered broker-dealer registered with the U.S. Securities and Exchange Commission, and a member of the New York Stock Exchange, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC is regulated under U.S. laws which differ from Australian laws. Any offer or documentation provided to you by Wells Fargo Securities, LLC in the course of providing the financial services will be prepared in accordance with the laws of the United States and not Australian laws.

Important Information for Recipients in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong")

For recipients resident in Hong Kong, this research is issued and distributed in Hong Kong by Wells Fargo Securities Limited.
Wells Fargo Securities Limited is a Hong Kong incorporated investment firm licensed and regulated by the Securities and Futures Commission to carry on types 1, 4, 6 and 9 regulated activities (as defined in the Securities and Futures Ordinance [the "SFO"]). This research is not intended for, and should not be relied on by, any person other than professional investors (as defined in the SFO). The securities and related financial instruments described herein are not intended for sale nor will be sold to any person other than professional investors (as defined in the SFO). Any sale of any securities or related financial instruments described herein will be made in Hong Kong by Wells Fargo Securities Limited. Please consult your Wells Fargo Securities Limited sales representative or the Wells Fargo Securities Limited office in your area for additional information.

Important Information for Japanese Recipients

This material is distributed in Japan by Wells Fargo Securities (Japan) Co., Ltd., a foreign securities company registered with the Financial Services Agency in Japan.

Additional Disclosures

Wells Fargo Securities, LLC is a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the New York Stock Exchange, the Financial Industry Regulatory Authority and the Securities Investor Protection Corp. Wells Fargo Securities International Limited is a U.K. incorporated investment firm authorized and regulated by the Financial Services Authority.

This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal, or the entity that provided this report to them, if they desire further information. The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC, to be reliable, but Wells Fargo Securities, LLC, does not represent that thisinformation is accurate or complete. Any opinions or estimates contained in this report represent the judgment of Wells Fargo Securities, LLC, at this time, and are subject to change without notice. For the purposes of the U.K. Financial Services Authority's rules, this report constitutes impartial investment research. Each of Wells Fargo Securities, LLC, and Wells Fargo Securities International Limited is a separate legal entity and distinct from affiliated banks. Copyright © 2010 Wells Fargo Securities, LLC.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

citi

North America | United States
Investment Banking & Brokerage (GICS) | Banks (Citi)

Company

2 May 2010 | 16 pages

Equity ☑
Target price change ☑
Estimate change ☑

Goldman Sachs Group, Inc. (GS)

Reiterate Buy – Risks Are There, But Still See Significant Upside

- **Reiterate Buy, High Risk Rating** — Despite significant headwinds from regulatory reform and increased legal risks, we are maintaining our Buy (1H) rating on GS. While it's very challenging to pinpoint impacts of regulatory reform, we apply our best conservative estimates on Goldman's business model. In short, we are haircutting trading revenue by 20% to account for impact of OTC derivative reform, we see an additional $4 bil revenue hit from the Volker rule, with the only offsets: 1) estimated $8 bil of capital freed up (which we account for through share buybacks) and 2) lower comp ratio (est 41%). As a result, we reduce our long-term ROTE est from 19.5% to 16%, and reduce our target price to $200. Trading at $145 vs underlying book value of $123, we est market is implying a 12% ROTE, which we view as conservative, and thus creates an opportunity in the stock. Litigation remains a significant overhang on stock, but we continue to believe that GS has among the most robust risk mgmt processes on the street and are assigning a low probability of adverse outcome from lawsuits beyond a monetary fine in our target price.
- **Estimating Impact of Volker Rule and OTC Derivative Reform** — In our Jan 7 note, "Breaking Down the Fixed Income Trading Black Box" we estimated derivatives account for roughly 35% of FICC trading revenue, and in a conservative scenario we could see up to a 15% hit to FICC revenue, or 40-45% reduction in derivatives revenue from proposed derivatives reforms legislation at that time. With the introduction of the Lincoln legislation, there is potentially more downside risk due to tighter exemptions and more flow going to exchanges. Our 20% estimated hit to trading revenue for GS reflects our view that Goldman's revenue mix is more skewed to derivatives than peers. For the Volker rule, we lay out by business where we see revenue impacts and potential capital relief.
- **Updating Estimates, lowering target to $200** — Based on our updated regulatory analysis and 1Q results, we raise 2010 ests from $18.00 to $20.00 to account for 1Q beat, stronger trading revenues and lower est comp ratio (41%). 2011 remains unchanged at $19.50 and we trim 2012 from $22.50 to $21.35.

Buy/High Risk	1H
Price (30 Apr 10)	US$145.20
Target price	US$200.00
from US$240.00	
Expected share price return	37.7%
Expected dividend yield	1.0%
Expected total return	**38.7%**
Market Cap	US$76,499M

Price Performance (RIC: GS.N, BB: GS US)

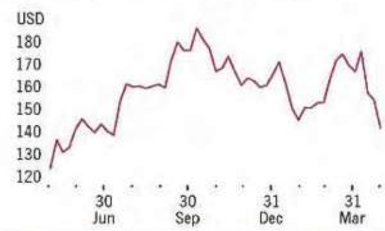


EXHIBIT
PENGAD 800-631-6989
Porten 21
5/1/15 JD

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	3.39A	4.93A	5.25A	8.20A	22.13A	22.13A
2010E	**5.59A**	**5.20E**	**4.70E**	**4.55E**	**20.00E**	**19.51E**
Previous	4.45E	4.40E	4.15E	4.95E	18.00E	na
2011E	**na**	**na**	**na**	**na**	**19.50E**	**20.85E**
Previous	na	na	na	na	19.50E	na
2012E	**na**	**na**	**na**	**na**	**21.35E**	**22.51E**
Previous	na	na	na	na	22.50E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Keith Horowitz, CFA
+1-212-816-3033
keith.horowitz@citi.com

Craig Singer, CFA
craig.singer@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Citi Investment Research & Analysis is a division of Citigroup Global Markets Inc. (the "Firm"), which does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

KENNETH CHRISTIAN 08/16/11 07:25:23 PM Reuters - Internal Employee ID's - 98

Fiscal year end 31-Dec	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	na	6.6	7.3	7.4	6.8
P/E reported (x)	na	6.6	7.2	7.4	6.8
P/BV (x)	na	1.2	1.1	1.0	0.9
P/Adjusted BV diluted (x)	na	na	na	na	na
Dividend yield (%)	na	1.0	1.0	1.4	1.4
Per Share Data (US$)					
EPS adjusted	na	22.13	20.00	19.50	21.35
EPS reported	na	22.13	20.06	19.58	21.35
BVPS	na	117.48	137.54	149.36	164.47
Tangible BVPS	na	108.42	126.47	135.81	148.63
Adjusted BVPS diluted	na	na	na	na	na
DPS	na	1.40	1.40	2.00	2.00
Profit & Loss (US$M)					
Net interest income	na	0	0	0	0
Fees and commissions	na	10,800	11,661	12,574	13,478
Other operating Income	na	34,373	35,812	31,854	30,362
Total operating income	**na**	**45,173**	**47,473**	**44,428**	**43,840**
Total operating expenses	na	-25,306	-28,639	-27,470	-27,890
Oper. profit bef. provisions	**na**	**19,867**	**18,834**	**16,958**	**15,950**
Bad debt provisions	na	0	0	0	0
Non-operating/exceptionals	na	-38	0	0	0
Pre-tax profit	**na**	**19,829**	**18,834**	**16,958**	**15,950**
Tax	na	-6,444	-6,314	-5,511	-5,184
Extraord./Min. Int./Pref. Div.	na	-1,193	-640	-640	-640
Attributable profit	**na**	**12,192**	**11,880**	**10,806**	**10,126**
Adjusted earnings	na	12,192	11,845	10,762	10,128
Growth Rates (%)					
EPS adjusted	na	na	-9.6	-2.5	9.5
Oper. profit bef. prov.	na	na	-5.2	-10.0	-5.9
Balance Sheet (US$M)					
Total assets	**na**	**848,942**	**948,741**	**1,047,232**	**996,771**
Avg interest earning assets	na	0	0	0	0
Customer loans	na	0	0	0	0
Gross NPLs	na	0	0	0	0
Liab. & shar. funds	**na**	**848,942**	**948,741**	**1,047,232**	**996,771**
Total customer deposits	na	39,418	0	0	0
Reserve for loan losses	na	0	0	0	0
Shareholders' equity	**na**	**70,714**	**81,299**	**72,899**	**65,189**
Profitability/Solvency Ratios (%)					
ROE adjusted	na	21.7	16.8	15.3	15.6
Net interest margin	na	na	na	na	na
Cost/income ratio	na	56.0	60.3	61.8	63.6
Cash cost/average assets	na	2.9	6.7	459.1	466.2
NPLs/customer loans	na	na	na	na	na
Reserve for loan losses/NPLs	na	na	na	na	na
Bad debt prov./avg. cust. loans	na	na	na	na	na
Loans/deposit ratio	na	0.0	na	na	na
Tier 1 capital ratio	na	15.0	15.8	15.6	17.7
Total capital ratio	na	na	na	na	na

For further data queries on Citi's full coverage universe please contact CIR Data Services Americas at CIRDataServicesAmericas@citi.com or +1-212-816-5336

Powered by: dataCentral

KENNETH CHRISTIAN 08/16/11 07:25:23 PM Reuters - Internal Employee ID's - 38

Section I: Volcker Rule

We estimate impact to Goldman from implementation of the Volcker rule could eliminate between ~$3.5-4.0 bil of annual revenue, however we would anticipate divestiture or sale of private equity and other businesses would free-up between $8-10 billion of capital, that could be redeployed to other opportunities, or returned to shareholder via buybacks. On a comprehensive basis, assuming theoretically GS could return the existing $8-10 bil estimated capital back to shareholders via stock buybacks, the net impact to our earnings estimate equates to $1.00/share. (Note this estimate strictly includes impact from private equity, "pure prop" trading and hedge fund activities, and excludes proprietary trading related to market making activities, which we interpret to be outside of the scope of the Volcker rules.)

Background – Sponsored by former Fed Chairman Paul Volcker, the so-called "Volcker Rule," which President Obama described as an integral component to financial reform in his April 22 speech in NY – seeks to prohibit banks from engaging in proprietary trading, or owning or sponsoring hedge funds and private equity funds. While the specifics of what counts as proprietary are highly debatable, below we step through a rough exercise using Goldman Sachs, likely the firm most affected by these rule. We try to estimate:

1) **How much revenue is at risk to be lost from elimination of prop trading, HF ownership, and private equity investing?**

2) **Which particular assets are likely to be affected?**

3) **How much regulatory capital currently allocated to these assets could be freed up for redeployment elsewhere or returned to shareholders?**

1) Revenues Impacted – GS management has offered a rough estimate that 10% plus-or-minus of the firm's revenue comes from proprietary investments including Goldman's walled-off proprietary fixed income and equity divisions (SSG and GSPS) as well as their private equity Principal Investments group. We note that management's 10% figure represents a rough average overtime, and is skewed upwards from significantly higher contributions during 2006 and 2007 vs much lower results in recent years.

- ***Principal Investing*: *est ~$2 bil of annual revenue at risk***: We estimate Goldman is likely to forgo ~$2 bil of annual revenue annually from its principal investment portfolio (assumed ~15% annual return on $14 bil portfolio), which consists primarily of co-investments in funds managed by Goldman's Principal Investment Area (PIA) and Real Estate Principal Investment Area (REPIA) which operate the GS Capital Partners Funds and the Whitehall Funds, among others.
  - ***Unclear if ICBC impacted*** – Note GS also holds a $3 bil restricted public common stock position in Industrial Commercial Bank of China (ICBC) which we estimate embeds an unamortized liquidity discount of $900 mil as of 3/31/10. Aside from release of this estimated embedded liquidity discount, we do not model any future revenues from ICBC.

KENNETH CHRISTIAN 08/16/11 07:25:25 PM Reuters - Internal Employee ID's - 98

- ***Prop Investments in FICC and Equity trading: est ~$1.0-1.5 bil of annual revenue at risk –*** Within Goldman's trading businesses we believe there are two segments that most likely impacted by the Volcker rule: the Special Situations Group within FICC, and GS Proprietary Strategies in Equities. While we do not believe there is necessarily a "normal" rate of annual revenue for these groups – as in 2006-2007 SSG posted significant gains from sales of several large concentrated positions while GSPS likely lost money in 2008, we estimate Goldman will forgo about $1.0-1.5 bil in average annual revenues from an exit of their SSG and GSPS activities. Our admittedly rough revenue estimate is based on the 10% sensitivity disclosure for risk positions shown in the 10-K, which shows that for a 10% change in value there would be a $431 million increase in revenues for debt positions and a $616 mil increase in equity positions -- for a cumulative impact of roughly $1 billion. Assuming an estimated return of 10-15% on underlying assets, we estimate revenue impact of $1-1.5 billion.

  – ***Note not all activities of SSG seem likely to be prohibited under Volcker –*** We view our $1.0-1.5 bil estimate as relatively conservative, given we believe a number of SSG activities investments relate to distressed loans backed by residential and commercial real estate assets, which may be deemed allowable (if deemed lending activities rather than proprietary investments).

  – ***We exclude market making prop-positions*** – Our estimate excludes proprietary/principal positions taken in market-making activities, which we interpret as outside the scope of the Volcker rule, although the impacts of the final rules are unclear.

- ***Hedge Fund sponsorship/management – est $300-400 mil of revenue at risk.*** In addition we estimate Goldman may be limited in some of its alternative asset management businesses – with instances where Goldman manages hedge funds and co-invests with clients appear most at risk. While the firm has $142 bil of alternative management strategies, we believe most of these strategies would *not* qualify as hedge fund or private equity funds under the Volcker rule. For example, several of Goldman's larger funds (e.g. the $20-30 bil in the Mezzanine Partners family) are likely to be viewed as pooled lending vehicles rather than private equity funds. The unit most likely to see impact in our view is GS Investment Partners, Goldman's long-short hedge fund that was spun out of its Principal Strategies group in late 2006, and which we estimate has between $5-10 bil of AUM.

  – Our $300-400 mil annual revenue estimate assumes 25% of Goldman's $142 bil alternative asset management assets would be impacted, or ~$35 bil of AUM, of which we assume GS will forego annual management fees of 1.0%, or ~$350 mil.

2) We Identify $30 bil of Assets on the Balance Sheet Impacted by Volcker – Below we itemize the most obvious assets on Goldman's balance sheet we estimate will most likely be impacted by the Volcker rule – direct principal investments discussed above, including Goldman's stake in ICBC, our estimate of the equity and debt assets held by Goldman's SSG and GSPS subsidiaries, based on Goldman's 10% sensitivity disclosure for risk positions not included in VAR. We also count other consolidated investments in private equity and hedge funds from Goldman's "difficult to fund" disclosure.

ELIZABETH CHRISTIAN 06/10/11 07:25:25 PM Reuters - Internal Employee ID's - 96

Figure 1. Impacted Assets from Potential "Volcker Rule" Implementation

1) Principal Investments	**19,684**
Private	11,195
Public	2,811
Other Consolid Pvt Equity	2,900
ICBC owned by GS	2,778
2) Proprietary Postions	**10,500**
Equity	6,200
SSG Est	3,720
GSPS Est	2,480
Debt (SSG Est)	4,300
3) Hedge funds / Alternative Asset Mgmt	0
Est Total B/S Assets Impacted	**30,184**

Source: CIRA and company reports as of 1Q10; Other consolidated private equity and pro

3) Capital relief from exiting these businesses – we estimate $8-10 bil of relief. – Based on assets identified above, we estimate that roughly $8-10 bil of capital is currently set aside for private equity/proprietary instruments shown above that potentially could be freed up if GS had to exit these businesses. Assuming a conservative $180 stock price for stock repurchases, would equate to 45-55 million share capacity to return capital to shareholders, or 8-10% of the current 539 mil shares outstanding. Note, our $8-10 bil capital estimate is based on the assumption that Goldman currently holds between capital at a rate of 24% for public investments and 32% for private.

4) Mitigation strategies exist, but can not be employed until final rules are known – We also note that GS may be able to undertake certain mitigating strategies to adjust its business practices so as to eliminate issues caused by the Volcker rule, such as instituting independent boards on some of the alternative asset management products it manages, selling its own co-investment interests in some of its funds, or other activities, which might help reduce the ultimate impact of the Volcker rule.

KENNETH CHRISTIAN 08/16/11 07:25:23 PM Reuters - Internal Employee ID's - 96

Section II: Derivatives Reform

Updating our estimates on negative impacts from derivative reform. In our January 7, 2010 note, *"Breaking Down the Fixed Income Trading Black Box"* we estimated that derivatives account for roughly 35% of fixed income trading, and that in a conservative scenario the industry could see up to a 15% hit to fixed income trading revenues, or 40-45% reduction in derivatives revenue based on our interpretations of rules under the House and Senate bills at that time.

- **We estimate Goldman will see a 20% negative hit to trading revenues from derivatives reforms...** Our 20% negative impact to trading revenue estimate for GS reflects our view that Goldman's revenue mix is more heavily weighted to derivatives than peers. Based on our understanding of equities revenues, we have assumed a similar 35/65% derivatives/cash revenue split in the equities business as we have in FICC and therefore use the simplifying assumption of a similar impact to revenues for Goldman.
- **...Note our 20% estimate does not include the more onerous interpretation of the Lincoln bill.** Note that the most conservative interpretation of the Lincoln bill (discussed below) implies US banks eligible to receive federal assistance would have to exit the "swaps business" entirely, which is not in our estimates.

Figure 2. Our Estimate of Industry Trading Revenue at Risk from Derivatives Regulation Reform

200-300 bps	Clearing Impact
500-800 bps	Exchange Impact
300-500 bps	Punitive Capital Rules
10-15%	**Total Potential Negative Impact**

Source: CIRA estimates

Given recent momentum towards new derivatives rules within the broader financial reform legislation and the recent introduction of provisions introduced by Senator Lincoln and the Senate Agriculture Committee legislation, we now see potentially greater downside risk due to our expectation that there might be fewer types of transactions eligible for exemptions from central clearing, and a greater proportion of trading flow pushed to third party exchanges.

The key assumptions in our 10-15% industry revenue hit estimate include: 1) On average 75% of trades are eligible to be centrally cleared (i.e. not with end-users). 2) Of these trades, ~80% of eligible trades are centrally cleared. 3) Dealers will see a 10% loss in volume in cleared business, and an incremental 5% impact to margins. 4) 70% of cleared volumes will also be forced to third party exchanges. 5) Exchange economics will force an incremental 70% hit to bid/ask margins. All combined we estimate this would produce a 7-11% negative impact on overall trading revenues. Lastly, for derivatives not centrally cleared, we estimate that higher funding costs, or the exit from certain types of derivatives business due to highly punitive capital rules, would cost another 3-5% of revenues. (For more details on our calculations and implications, please see our January report.)

KENNETH CHRISTIAN 06/16/11 07:25:23 PM Reuters - Internal Employee ID's - 96

Background on Recent Lincoln Bill on Derivatives

Next we summarize some background information on the recent Lincoln bill which updates prior proposed rules on derivatives reform.

Senator Dodd's revised bill on financial regulatory reform, as submitted to the Senate Banking Committee in March, sought centralized clearing for most derivatives and exchange trading for standardized derivatives. The bill did not restrict the ability of banks to engage in derivatives trading, and the Administration had not requested any such restriction, to our knowledge.

However, Senator Blanche Lincoln, chair of the Senate Agriculture Committee, made a far-reaching proposal that subsequently was included in the latest version of Senator Dodd's bill. Sen. Lincoln's Committee approved a bill that would prohibit Federal "bailouts of swap entities." The pertinent provision, section 106, states that no "swaps entity" (which is broadly defined) could receive any Federal assistance, including:

- Access to the Federal Reserve's discount window
- Advances from any Fed credit facility provided under its 13 (3) lender of last resort authority
- Any FDIC insurance or guarantees

Since FDIC insured deposits are the largest funding source for most banks and access to the Fed's emergency lending facilities could be important in a crisis, the practical impact of section 106 would be to force financial firms to move their derivative trading activities out of their bank subsidiaries.

The "Lincoln Amendment" moved swiftly through the legislative process. Sen. Lincoln proposed the general principles to the Agriculture Committee on April 16. The Committee received the text of the proposed bill on April 18 and approved it on April 21. The Agriculture Committee did not hold hearings on the proposal or conduct studies on the possible ramifications.

Sen. Dodd subsequently incorporated section 106 into the latest version of his bill, the "Restoring American Financial Stability Act of 2010", renumbering it as section 716. The scope of the prohibition on banks' trading derivatives is somewhat ambiguous, because of a related provision, section 1155, which concerns "Emergency Financial Stabilization". That section provides that the FDIC is to guarantee "obligations" of solvent banks and bank holding companies during times of economic stress. Under a broader interpretation, the two sections, in combination, might compel bank holding companies to spin off their derivative trading activities into a totally unrelated company, outside the banking group. (We consider the broader interpretation somewhat extreme but several other commentators have also noted the ambiguity regarding the scope of the bill).

The prospects for the passage of the Lincoln Amendment, or narrowing its scope, are not clear at the present. However, some Administration officials have voiced opposition to the proposal to move derivative trading out of banks. FDIC Chair Sheila Bair has sent a letter to Senators Dodd and Lincoln stating that if all derivative activities were moved out of banks, "most of the activity would no doubt continue but in less regulated and more highly leveraged venues.....I urge you to carefully consider the underlying premise of this provision—that the best way to protect the deposit insurance fund is to push higher risk activities into the so-called shadow sector." (Reuters, Swaps Desk Spin-off Not the Right Policy—FDIC, May 1, 2010).

In addition, John Dugan, Comptroller of the Currency, has said that limiting banks' participation in the swaps market was not the best policy and could cause capital to leave the lending part of banks, according to Reuters.

Section III: Legal Issues

Since news of the SEC's civil suit broke on April 16, Goldman Sachs stock has fallen 21% with the most recent leg down driven by press reports on of an ongoing concurrent criminal investigation by the US Attorney in Manhattan.

Our Buy, High Risk (1H) recommendation of GS shares embeds a very low probability of negative outcome from the criminal investigation – Given our view that Goldman Sachs has among the most robust risk management processes in the industry, our understanding of the relatively high burden of proof required in criminal cases, and based on the information available at this point, our buy recommendation of Goldman Sachs stock and $200 target price, embeds a very low probability of negative outcome from the criminal investigation.

Below we summarize: 1) important facts regarding the SEC civil suit, 2) differences between civil and criminal charges, 3) the recent news of a criminal investigation, 4) risks that might arise from an adverse outcome in criminal case, and 5) summarize Goldman's response to the SEC's civil charges.

1) SEC Civil Suit Against Goldman – The SEC alleges that Goldman structured a synthetic collateralized debt obligation (CDO) structure that was based on subprime mortgage securities that Goldman marketed as being selected by an independent manager (ACA Management LLC).

- **It appears the civil case against Goldman is focused on a single transaction and is based on disclosure issues and questions of misrepresentation** – The complaint alleges that Goldman failed to disclose to investors that a major hedge fund (Paulson & Co. Inc.) played a role in the portfolio selection process and had taken a short position against the bonds referenced in the CDO. Essentially saying, investors in the CDO sold protection on the referenced bonds (took the credit risk) through credit default swaps, while Goldman's client bought protection (shorted credit risk). Also, the SEC alleges that Goldman misled ACA into believing that Paulson was investing in the CDO equity and therefore shared a long interest with the CDO investors. The SEC alleges that Paulson paid Goldman $15 million to structure the CDO. According to the complaint, investors in the CDO lost about $1 billion while Paulson made a profit of about $1 billion. GS agrees that it was paid $15 mil in the deal, but said it lost over $100 mil on its own investment.

- **We believe some form of monetary settlement with the SEC is the most likely outcome of the civil suit** – While it is difficult to assess the likely size of any settlement with the SEC, given the strong incentives for Goldman to put an end to the negative publicity from this issue, we believe settlement and payment of a monetary penalty is the most likely outcome of the civil suit.

- **Additional lawsuits from other investors remains a risk** – In addition to risks from the ongoing civil suit and criminal investigations, recent heightened scrutiny of Goldman may increase the risk of new suits from other investors/ clients that may have lost money during the financial crisis.

- **Reputational risk could damage Goldman's franchise** – While we do not believe at this point Goldman's institutional client base has altered their business practices at this point, Goldman's reputation is one of the firm's greatest assets. To the extent clients lose faith and either reduce or eliminate their interactions with Goldman, it could have significant detrimental effect across all of the firm's businesses.

KENNETH CHRISTIAN 09/18/11 07:25:23 PM Reuters - Internal Employee ID's - 38

2) Distinguishing between Civil and Criminal Cases: In a civil case, the SEC enforcement attorneys must show that the preponderance of evidence demonstrates that a firm misled investors. The SEC does not have the authority to send individuals found guilty to jail, however it may levy fines and/or revoke securities licenses. In criminal cases, prosecuted by the Department of Justice, prosecutors must prove beyond a reasonable doubt that a firm or its employees intentionally committed fraud. According to the WSJ, "proving such intent to break the law typically is the toughest hurdle for prosecutors to clear."

3) Press Reports Indicate a Criminal Investigation of Goldman is underway – According to recent reports in the Wall Street Journal and Bloomberg, the US Attorney's Office in Manhattan is conducting a criminal investigation into Goldman's mortgage-related activities.

- **Criminal investigation is at an early stage apparently, and it seems too early to draw any conclusions** – According to the Bloomberg, referrals between SEC and Justice are "common" in high-profile cases, and given the intense scrutiny of Goldman, as reflected in the recent Congressional hearings, it is not entirely surprising that a further investigation is being conducted. Of note, the WSJ article said that many criminal investigations are launched without the government filing charges. Based on such press reports, it seems premature to draw any conclusions about whether the investigation will or will not result in charges being filed against the firm. In our opinion, GS has a track record of devoting substantial resources and attention to risk management and compliance matters.

4) Risks of potential implications from criminal charges or conviction are high – Given potential implications, the risk in the event of an adverse legal outcome to Goldman Sachs' securities business is high. While we are assigning a low probability of a negative outcome – given little information regarding the details of the investigation, no access to any evidence involved in the criminal investigation, and our lack of legal expertise – there is significant risk that investors must be aware of.

- **Potential implications to a securities dealer of criminal charges** – There are several potential implications of the filing of criminal charges against a securities dealer. Trading counterparties could pull back from the firm. Investment banking clients could also turn away from a firm, for fear of deals being tainted by reputation of the charged firm. From a liquidity perspective, the ability to issue commercial paper or fund via repurchase transactions could be disrupted by investor/counterparty concerns. Criminal charges could also prompt downgrades from bond ratings agencies, which could negatively impact funding capacity or costs.

- **Potential implications of criminal conviction for a securities firm are severe –** If a securities firm were convicted of criminal fraud, then it could lose its license as a primary treasury dealer; broker dealer licenses to sell securities could also be revoked.

- **There may be new evidence uncovered** – One detail we find concerning is that the WSJ reported the criminal investigation is "centered on different evidence than the SEC's civil case." Despite this point, the WSJ did not provide any details on this matter.

[ELIZABETH CHRISTIAN 08/16/11 07:25:25 PM Reuters - Internal Employee ID's - 30

The following portion of this note is excerpted from Citi Research & Analysis corporate bond analyst Ryan O'Connell's April 20, 2010 note "GS: Strong 1Q10 Earnings Overshadowed by SEC lawsuit".

5) **Goldman directly addressed the SEC's civil suit in its 1Q earnings conference call.** Greg Palm, co-General Counsel, summarized Goldman's reaction to the SEC's allegations. The litigation is at a very preliminary stage, and it would be premature to draw any conclusions as to the ultimate outcome of the action or the timing of any resolution. However, we think that Goldman has raised some important questions about the SEC's allegations and the underlying rationale for its lawsuit:

- **According to GS, there were only two institutional investors in the Abacus 2007-1 synthetic CDO structure** and both had substantial experience in investing in subprime mortgages. Furthermore, GS stressed that in synthetic CDO structures there must be both long and short investors. Since these were sophisticated investors in synthetic CDO deals, GS maintains, there was no need to disclose that a large hedge fund was taking the short side. GS pointed to the fact that it lost over $100 million on the deal, because it held a slice of the super senior tranche, as evidence that it did not have an incentive to structure a transaction that was designed to lose money. (Goldman was very circumspect on the call, but our impression was that Goldman would have preferred to sell that holding to other investors but was not able to do so.)

- **GS said that ACA was paid to select the reference bonds for the CDO structure and used its own proprietary models to do so.** ACA rejected numerous suggestions from Paulson, so that "way more than one half of the portfolio were ACA's suggestions", Palm said. According to GS, ACA knew that Paulson was deeply involved in suggesting reference bonds for the CDO and ACA was doing its own due diligence.

- (The complaint states that ACA had several meetings with Paulson & Co., as well as correspondence about which reference bonds would be used in the CDO structure, and that ACA rejected 55 out of Paulson's 123 suggestions.) The SEC has alleged that a Goldman vice president, Fabrice Tourre, misled ACA into thinking that Paulson would take an equity interest (a long position) in the CDO structure. Goldman said on the conference call that it had not made any representation to that effect. For investors who wish to delve into this issue in more detail, please see paragraphs 44-51 of the SEC's complaint, which can be found at www.sec.gov/news/press/2010/2010-59.htm.

- Goldman did not discuss the other investor, a German bank called IKB, in much detail during the conference call. IKB invested about $150 million in the deal, compared to $950 million for ACA, according to GS.

- The SEC alleges that in late 2006 IKB told GS that it was no longer comfortable investing in mortgage CDOs unless an independent portfolio manager selected the reference bonds for a CDO structure. If that allegation is accurate, then IKB might have relied on the representation that ACA (alone) picked the bonds.

- We do not know at this time whether or not the SEC might bring complaints regarding other GS CDO deals. However, we note that the SEC investigated GS' mortgage business for 18 months, according to GS, and it limited the complaint to one transaction.

[illegible] PM Reuters - Internal Employee ID's - [illegible]

Goldman Sachs Group, Inc.

Company description

Goldman Sachs Group, Inc. (GS) is a global investment banking, trading, and asset management company, with leading market shares across its businesses. Founded in 1869, it is one of the world's oldest and largest investment banking firms. Headquartered in New York, the firm maintains offices in London, Frankfurt, Tokyo, Hong Kong, and other major financial centers around the globe. Over the past five years ending 2009, Equities and M&A averaged 45% of net revenue, Fixed Income Trading, Debt Underwriting, and Commodity-related revenue comprised 40%, Asset Management and Prime Brokerage accounted for 12%, and Principal Investments accounted for 3%.

Investment strategy

We rate the shares of Goldman Sachs Group Buy/HighRisk (1H). We view Goldman Sachs as a well managed franchise and believe its strong capital base and leading global position in investment banking, capital markets, trading, private equity and asset management offer equity investors a unique opportunity to gain exposure to long-term global economic expansion. In recent months management has bolstered liquidity, actively de-leveraged the balance sheet and made solid progress reducing high risk legacy assets.

Despite the challenges facing the industry, we view Goldman's business model as sound and see the firm winning considerable market share as we exit the current down cycle. At current prices, we believe potential rewards from unique opportunities from distressed investments are likely to outweigh downside risks. We estimate Goldman can produce a double-digit growth rate in book value, and expect shares should see some multiple expansion. Long term, we see Goldman Sachs as among the best positioned to capitalize on global growth given its leadership position, and shares should command a premium valuation relative to peers.

Valuation

Our $200 target price is derived from our discounted residual income model, which values an enterprise based on its discounted excess returns over its cost of equity. The key inputs to the model are a CAPM-derived cost of equity of 11.5%. We also incorporate an estimated long-term ROTE of about 16% (vs management's 20% over-the-cycle target and historical median of 26% since 1999). Our model assumes a 20% dividend payout ratio and a 3% long-term growth rate. Our $200 target price for GS implies the stock should trade at 1.5x our 2010 TBV estimate of $137, or 1.8x current TBV of $111 (which is a the lower-end of Goldman's historical range over the past five years of 0.6-3.5x with an average of 2.8x).

KENNETH CHRISTIAN 08/16/11 07:25:23 PM Reuters - Internal Employee ID's - 96

Risks

We rate Goldman Sachs High Risk.

Company-specific negative risks:

- *Severe slowdown in investment banking and capital markets* – A prolonged and deep economic recession could significantly impair Goldman's cyclical investment banking revenue streams, causing earnings to underperform our estimates. Also, an environment with benign risk and relatively low levels of activity would also be a negative.
- *Significant investment and principal losses* – Our estimates for Goldman include significant private equity gains and assume equity market appreciation of 10-15%. If the equity market is significantly weaker than expected, there may be near term risk to our estimates. A severe decline in the equity, fixed income, real estate or commodities markets, and/or ineffective hedging strategies given Goldman's significant financial inventories and principal investments could produce larger-than-expected losses.
- *Regulatory risk* – Goldman operates several businesses including financial and physical commodity trading, private equity or derivatives that could face greater regulation, or in a severe case, require Goldman to divest some business units.
- *Litigation risk* – The SEC recently filed a civil suit against Goldman Sachs alleging fraud. This suit and/or other potential suits create reputational risk and the possibility of significant monetary penalties.
- *An expensive / poorly executed acquisition* - Although Goldman Sachs has a long history of organic growth, the current environment presents numerous acquisition opportunities, which could entail price and execution risk.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

KENNETH CHRISTIAN 06/16/11 07:25:23 PM Reuters - Internal Employee ID's - 96

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to an issuer or security that the research analyst covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. The research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this research report.

IMPORTANT DISCLOSURES

Goldman Sachs Group, Inc. (GS)

Ratings and Target Price History
Fundamental Research

Analyst: Keith Horowitz, CFA
Covered since April 9 2009

	Date	Rating	Target Price	Closing Price
1	14-Jun-07	2H	*230.00	225.75
2	19-Feb-08	2H	*205.00	173.80
3	15-Sep-08	*2S	*175.00	135.50
4	3-Oct-08	2S	*150.00	128.00
5	14-Oct-08	*1S	150.00	122.90
6	16-Nov-08	1S	*125.00	66.73
7	19-Nov-08	Coverage suspended		
8	9-Apr-09	*1M	*145.00	124.33
9	17-May-09	1M	*160.00	134.40
10	15-Jul-09	1M	*175.00	155.26
11	10-Sep-09	1M	*215.00	174.87
12	15-Oct-09	1M	*240.00	188.63
13	16-Apr-10	*1H	240.00	160.70

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of Goldman Sachs Group, Inc.. This position reflects information available as of the prior business day.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Goldman Sachs Group, Inc..

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Goldman Sachs Group, Inc..

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Goldman Sachs Group, Inc. in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): Goldman Sachs Group, Inc..

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: Goldman Sachs Group, Inc..

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: Goldman Sachs Group, Inc..

Rohini Malkani has in the past worked with the India government or its divisions in her personal capacity.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research & Analysis product ("the Product"), please contact Citi Investment Research & Analysis, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Investment Research & Analysis Ratings Distribution			
Data current as of 31 Mar 2010	**Buy**	**Hold**	**Sell**
Citi Investment Research & Analysis Global Fundamental Coverage	51%	36%	14%
% of companies in each rating category that are investment banking clients	48%	46%	39%

Guide to Citi Investment Research & Analysis (CIRA) Fundamental Research Investment Ratings:
CIRA's stock recommendations include a risk rating and an investment rating.
Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).
Investment ratings are a function of CIRA's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.

ENNETH CHRISTIAN PM Reuters - Internal Employee ID's

For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings are:Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

Guide to Citi Investment Research & Analysis (CIRA) Corporate Bond Research Credit Opinions and Investment Ratings: CIRA's corporate bond research issuer publications include a fundamental credit opinion of Improving, Stable or Deteriorating and a complementary risk rating of Low (L), Medium (M), High (H) or Speculative (S) regarding the credit risk of the company featured in the report. The fundamental credit opinion reflects the CIRA analyst's opinion of the direction of credit fundamentals of the issuer without respect to securities market vagaries. The fundamental credit opinion is not geared to, but should be viewed in the context of debt ratings issued by major public debt ratings companies such as Moody's Investors Service, Standard and Poor's, and Fitch Ratings. CBR risk ratings are approximately equivalent to the following matrix: Low Risk Triple A to Low Double A; Low to Medium Risk High Single A through High Triple B; Medium to High Risk Mid Triple B through High Double B; High to Speculative Risk Mid Double B and Below. The risk rating element illustrates the analyst's opinion of the relative likelihood of loss of principal when a fixed income security issued by a company is held to maturity, based upon both fundamental and market risk factors. Certain reports published by CIRA will also include investment ratings on specific issues of companies under coverage which have been assigned fundamental credit opinions and risk ratings. Investment ratings are a function of CIRA's expectations for total return, relative return (to publicly available Citigroup bond indices performance), and risk rating. These investment ratings are: Buy/Overweight the bond is expected to outperform the relevant Citigroup bond market sector index (Broad Investment Grade, High Yield Market or Emerging Market), performances of which are updated monthly and can be viewed at https://fidirect.citigroup.com/ using the "Indexes" tab; Hold/Neutral Weight the bond is expected to perform in line with the relevant Citigroup bond market sector index; or Sell/Underweight the bond is expected to underperform the relevant sector of the Citigroup indexes.

NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets Inc	Keith Horowitz, CFA,Craig Singer, CFA

OTHER DISCLOSURES

The subject company's share price set out on the front page of this Product is quoted as at 30 April 2010 04:00 PM on the issuer's primary market.

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to Goldman Sachs Group, Inc.. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citigroupgeo.com.)

Citigroup Global Markets Inc. or its affiliates beneficially owns 2% or more of any class of common equity securities of Goldman Sachs Group, Inc..

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research & Analysis (CIRA) does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of CIRA to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. Incorporated (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Investment Research & Analysis (CIRA) research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to CIRA research reports.

Important disclosure regarding the relationship between the companies that are the subject of this CIRA research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.
The required disclosures provided by Morgan Stanley and Citigroup Global Markets, Inc. on Morgan Stanley and CIRA research relate in part to the separate businesses of Citigroup Global Markets, Inc. and Morgan Stanley that now form Morgan Stanley Smith Barney LLC, rather than to Morgan Stanley Smith Barney LLC in its entirety. For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html.
This CIRA research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of CIRA. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in Australia through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in Brazil by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11° andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of Canada by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. The Product is made available in France by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product may not be distributed to private clients in Germany. The Product is distributed in Germany by Citigroup Global Markets Deutschland AG & Co. KGaA, which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). Frankfurt am Main, Reuterweg 16, 60323 Frankfurt am Main. If the Product is made available in Hong Kong by, or on behalf of, Citigroup Global Markets Asia Ltd., it is attributable to Citigroup Global Markets Asia Ltd., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Product is made available in Hong Kong by The Citigroup Private Bank to its clients, it is attributable to Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. The Citigroup Private Bank and Citibank N.A. is regulated by the Hong Kong Monetary Authority. The Product is made available in India by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in Indonesia through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in Italy by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Foro Buonaparte 16, Milan, 20121, Italy. The Product is made available in Japan by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by Nikko Cordial Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Global Equities Online (GEO) website. If you have questions regarding GEO, please call (81 3) 6270-3019 for help. The Product is made available in Korea by Citigroup Global Markets Korea Securities Ltd., which is regulated by Financial Services Commission and the Financial Supervisory Service. Hungkuk Life Insurance Building, 226 Shinmunno 1-GA, Jongno-Gu, Seoul, 110-061. The Product is made available in Malaysia by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in Mexico by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In New Zealand the Product is made available through Citigroup Global Markets New Zealand Ltd. (Company Number 604457), a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 Lambton Quay, Wellington. The Product is made available in Pakistan by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in Poland by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul. Chalubinskiego 8, 00-630 Warszawa. The Product is made available in the Russian Federation through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in Singapore through Citigroup Global Markets Singapore Pte. Ltd., a Capital Markets Services Licence holder, and regulated by Monetary Authority of Singapore. 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192. The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Citigroup Global Markets (Pty) Ltd. is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in Spain by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gasset, 4th Floor, Madrid, 28006, Spain. The Product is made available in Taiwan through Citigroup Global Markets Taiwan Securities Company Ltd., which is regulated by Securities & Futures Bureau. No portion of the report may be reproduced or quoted in Taiwan by the press or any other person. No. 1, Songzhi Road, Taipei 110, Taiwan. The Product is made available in Thailand through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in Turkey through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the U.A.E, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA" to Professional Clients and Market Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different CIRA ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in United Kingdom by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services

of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in United States by Citigroup Global Markets Inc, which is regulated by FINRA and the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority. Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to CIRA's Products can be found at www.citigroupgeo.com. Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations. The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted. Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

© 2010 Citigroup Global Markets Inc. Citi Investment Research & Analysis is a division and service mark of Citigroup Global Markets Inc. and its affiliates and is used and registered throughout the world. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc and its affiliates and are used and registered throughout the world. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure is prohibited by law and will result in prosecution. Where included in this report, MSCI sourced information is the exclusive property of Morgan Stanley Capital International Inc. (MSCI). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, redisseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI, Morgan Stanley Capital International and the MSCI indexes are services marks of MSCI and its affiliates. The information contained in the Product is intended solely for the recipient and may not be further distributed by the recipient. The Firm accepts no liability whatsoever for the actions of third parties. The Product may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the Product refers to website material of the Firm, the Firm has not reviewed the linked site. Equally, except to the extent to which the Product refers to website material of the Firm, the Firm takes no responsibility for, and makes no representations or warranties whatsoever as to, the data and information contained therein. Such address or hyperlink (including addresses or hyperlinks to website material of the Firm) is provided solely for your convenience and information and the content of the linked site does not in anyway form part of this document. Accessing such website or following such link through the Product or the website of the Firm shall be at your own risk and the Firm shall have no liability arising out of, or in connection with, any such referenced website.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

Case 1:10-cv-03461-PAC Document 201-15 Filed 04/27/18 Page 2 of 11

May 4, 2010

BERNSTEINRESEARCH

Brad Hintz (Senior Analyst) • brad.hintz@bernstein.com • +1-212 756 4590
Vincent M. Curotto • vincent curotto@bernstein.com • +1-212 756 1882
Luke Montgomery, CFA • lucas.montgomery@bernstein.com • +1-212-969-6714

EXHIBIT Starks 5 9/22/15 TD

Goldman Sachs: Management Speaks Frankly About the Future of the Firm

Ticker	Rating	CUR	5/3/2010 Closing Price	Target Price	TTM Rel. Perf.	EPS 2009A	EPS 2010E	EPS 2011E	P/E 2009A	P/E 2010E	P/E 2011E	Yield
GS	O	USD	149.50	210.00	-19.4%	22.13	18.08	18.01	6.8	8.3	8.3	1.0%
SPX			1202.26			61.70	83.20	98.56	19.5	14.5	12.2	1.8%

O – Outperform, M – Market-Perform, U – Underperform, N – Not Rated

Highlights

On Friday afternoon, Bernstein met with representatives of Goldman Sachs Senior Management: Gary Cohn, (President and Chief Operating Officer), David Viniar (CFO), David Solomon (Co-Head Investment Banking) and Harvey Schwartz and David Heller (Co-Heads of Securities Division). Much of the conversation was focused on the future of regulation. Though management believes they lack clear insight into how regulation will ultimately shake out, it is committed to keeping an open dialogue with regulators and has invested much of the firm's resource and focus into preparing the business for the eventual outcome.

- **The firm and clients respond to recent allegations:** For the last two weeks Goldman's most senior management has been visiting with clients worldwide to discuss any concerns they may have with the firm in the wake of the SEC announcement. According to Goldman, "*...through today, we have seen no degradation of business.*" Assignments that Goldman had anticipated winning have been won and trade flows remain in line with expectations. The firm's underwritings are being priced at market and the FICC and Institutional Equity are not having any difficulty placing GS client paper. In fact, management confirmed that the Monday following the announced SEC claim was the largest equity commission day of the year.
- **The outlook for regulation is unclear:** The impact of new regulation is still very difficult to quantify. The firm works constantly on "war gaming" different scenarios and outcomes of regulation so implementation is quick and seamless. According to the firm, the only proposal that seems nearly certain is the mandate of higher capital levels across the industry. Goldman reassured investors that "We are already running the firm as if things have already changed that capital uses is higher and higher levels of liquidity is needed."
- **Derivative Regulation Remains Unclear:** Admittedly, the outlook for derivatives is uncertain according to the firm. Bernstein notes that a regulated bank subsidiary of a bank holding company has higher credit ratings than the holding company. As a result, moving the derivatives book from the bank (higher ratings) to a new subsidiary guaranteed by the holding company (lower ratings) is unlikely to be popular with the current and prospective derivative counterparties of US banks, many of which are the constituencies of legislators. Goldman admitted that the firm is at a historic disadvantage with this vanilla OTC business as their credit terms are particularly onerous and given the firm has historically been less willing to compete on leverage by increasing the unsecured margin trigger point relative to competitors. Therefore, forcing standardized margin requirements on an exchange could effectively "level the playing field" for Goldman.

See Disclosure Appendix of this publication for important disclosures and analyst certifications.

Brad Hintz (Senior Analyst) • brad.hintz@bernstein.com • +1-212-756-4590

- **Positioning the firm for an unclear future:** Goldman is preemptively positioning its trading businesses for a changed business model of exchange listed products and higher capital charges - to succeed in the future, trading needs to be "nimble". Goldman wants to quickly take the skill that it has in its leading, individual trading products and transfer the intellectual property and technology to new products as market opportunities arise. As management stated, "we want to be fast and better than everyone else."
- There is substantial uncertainty about future regulation, civil litigation and client reputation concerning Goldman Sachs. These risks notwithstanding, Goldman Sachs is the leading investment bank and trading house in the world and strategically positioned and focused on taking market share from competitors no matter how regulation ultimately shakes out. We continue to believe the headlines that pressure the stock provide a buying opportunity for investors who are able to look past the near term headline risk. We rate GS Outperform.

Investment Conclusion

"There is the risk you cannot afford to take,

and there is the risk you cannot afford not to take."

Peter Drucker

Goldman Sachs shares plummeted on Friday on press reports that the US Justice Department was reviewing Goldman's MBS business in light of allegations made by the SEC concerning the ABACUS CDO deal.

Based on the information that has been publicly disclosed to date, a legal expert with whom Bernstein has consulted unequivocally stated that there is *"...no basis for a criminal prosecution."* Furthermore, he believes GS has strong defenses against the SEC lawsuit. With respect to the SEC case, we note that Tourre bolstered GS's position by testifying that he actually told ACA that Paulson would be buying credit protection against some of the tranches (i.e., that Paulson would be short, which is reportedly the same thing Paulson's employee Paolo Pellegrini has said he told the ACA deal team). This is potentially damaging to the SEC's civil case.

According to our legal advisor "*many informed lawyers agree that the SEC's lawsuit is just not very strong*" in the context of meeting the legal requirements for proving securities fraud under either of the SEC's two legal claims (section 17(a) of the 1933 Act and section 10(b) of the 1934 Act. To prove civil fraud, the SEC will have to show that a material fact was misstated or omitted and that misstatement or omission directly caused the loss to ACA.

Admittedly, Goldman Sachs has incurred reputation damage and may suffer client fallout due to this case - it is arguably difficult for a portfolio manager to buy or own GS in an ERISA portfolio, a separately managed account or in a mutual fund due to the current public outrage against the firm. However, Goldman Sachs remains the world's leading M&A house having closed 286 deals last year totaling $653 billion of deals, the second largest equity underwriter with 10% market share and the leading global fixed income franchise that we believe will continue to book solid trading performance through 2010. In addition, Goldman has the largest private equity portfolio of any large capitalization bank, and as confirmed by management, the company is entering the most favorable portion of the economic cycle when the revenues of its highest margin businesses – ECM and M&A - accelerate and its merchant banking business can "harvest" gains.

There is substantial uncertainty about future regulation, civil litigation and client reputation concerning this stock, but Goldman remains Goldman, the premier investment bank and trading house in the world. We continue to believe the headlines that pressure the stock provides a buying opportunity for investors. We rate GS Outperform.

Brad Hintz (Senior Analyst) • brad.hintz@bernstein.com • +1-212-756-4590

Details

Goldman Sachs shares fell on Friday based on press reports that the Department of Justice was considering a criminal investigation of Goldman's MBS business in light of the allegations made in the SEC's civil complaint against the bank concerning the ABACUS CDO. On Friday, Bernstein met with representatives of Goldman Sachs Senior Management: Gary Cohn, (President and Chief Operating Officer), David Viniar (CFO), David Solomon (Co-Head Investment Banking) as well as Harvey Schwartz and David Heller (Co-Heads of Securities Division). The meetings focused on the investigation, the client fallout of the SEC's civil litigation, new regulation and derivatives as well as the long-term outlook for the business.

The Investigation

Goldman stated that the firm initially found out about a prospective criminal investigation through press reports, but management was not surprised by Friday's news. With an SEC fraud investigation, management had been informed by their legal counsel that it was likely that the Department of Justice would either choose to investigate the firm or be asked by Congress to investigate. Goldman Sachs assured us that the firm has cooperated with all investigations and will cooperate with any new investigations but admitted that a criminal charge would indeed be severely negative for the company.

Management told us that this is not an SEC vs. Goldman Sachs issue it is a simple dispute relating to the facts of one case. "*We do not want to be in an adversarial relationship with regulators*". Management stated that this message is being delivered throughout the firm and that its top priority is to make sure they are on the same page as regulators.

For the last two weeks, Goldman's most senior management has been visiting with clients worldwide to discuss the SEC civil litigation and the ABACUS transaction details, reviewing client relationships and discussing clients' concerns. According to the firm, "*we are not just talking to the direct clients but also to the indirect clients such as board members.*" The clients keep asking. "*When is this going to stop.*" Unfortunately, this case may continue for quite a while. Goldman Sachs does not want to admit a violation that it did not believe it committed and the firm will certain attempt to avoid a "10b violation".

To date, Goldman employee morale remains good. The Goldman representatives stated that as a group they are very proud of the Goldman staff during this difficult period. According to GS their employees are pulling together like a team under pressure. Perhaps not surprising, the partnership has closed ranks too and at Goldman's April 20, 2010 Managing Directors Earnings Call, Lloyd Blankfein received a standing ovation from his partners.

Fallout from the ABACUS Civil Litigation

Management was cautiously optimistic about Q2 2010 performance. The investment banking business was clearly recovering and trading flows remains solid. According to Goldman, the client fallout from the CDO revelations has been small -- "*...though today, we have seen no degradation of business.*" Assignments that Goldman had anticipated winning are being won and trade flows are in line with expectations. The firm's underwritings are being priced at market and the sales FICC and Institutional Equity sales teams are able to place client paper just as before. In fact, the only sector that has experienced a negative impact, albeit minimally, has been the firm's municipal and government business. Goldman reportedly has relationships with over 80 governments around the world and the firm has lost 1 or 2 pieces of business in this client sector since the announcement of the ABACUS case.

While the revenue impact of the litigation to date remains small, Goldman made it clear that the firm is reviewing not just its 144 issuance standards but also many of its other operating procedures related to clients. According to the firm, "*Everything is on the table.*" Goldman is using this as an opportunity to review all of the firm's internal policies.

Brad Hintz (Senior Analyst) • brad.hintz@bernstein.com • +1-212-756-4590

Regulation and Capital

According to management, the impact of new regulation is still very difficult to quantify. Scenarios can be envisioned where performance declines and scenarios can be envisioned where markets become more illiquid and that bid offer spreads widen and offset the new rules. According to the Goldman CFO, "We are war gaming a bunch of scenarios and I doubt any will be [perfectly] right." The only thing certain according to Goldman is the mandate for the industry to retain higher capital levels than recent history. If there are no increased revenues to go along with it, then there is going to lower ROE. Goldman reassured investors that "We are already running the firm as if things have already changed that capital uses is higher and higher levels of liquidity is needed." However, capital constraints could be imposing for competitors under certain scenarios, resulting in competitors unable to earn above their costs of equity. Under certain scenarios:

- Every competitor stays in the business despite higher equity levels and the Street acts irrationally on product pricing. Consequently, margins collapse and trading ROE falls sharply.
- All competitors stay in the market and margins modestly narrow. ROE falls but not precipitously.
- Competitors drop out of the business, competition may weaken and margins may actually widen. In this case ROE remains strong
- Goldman repurchased $2.27 billion in capital last quarter despite the lack of clarity on where regulation will settle. On the firm's earnings conference call they assured that the repurchase was done with the approval of regulators. As capital continues to grow through earnings, the firm continues to hold plenty of capital, but the impetus of the recent buyback was to some extent offset capital offerings to employees in 2009. Though the firm has no more clarity than the market in terms of future regulation, they are comfortable with current levels given the firm's rate of capital growth and earnings.

The current draft of the Senate Bill will shift a large percentage of derivatives[1] onto the exchanges. According to GS' estimate, approximately 75% - 80% of notional derivatives will move onto exchanges. These "at-risk" products are characterized as the simple, vanilla OTC derivatives (i.e., fixed-floating swaps, simple FX swaps and simple equity index swaps). Goldman stated that this business yields "razor thin margin[2]". Goldman admitted that the firm is at a historic disadvantage with this vanilla OTC business as their credit terms are particularly onerous. Goldman management pointed out that every trading firm in the OTC market takes some limited, unsecured exposure. The vast majority of OTC derivative clients must post margin at some unsecured trigger level of exposure. In 2006, GS was willing to give $400 million in open credit exposure to AAA rated AIG. But GS has historically been less willing to compete on leverage by increasing the unsecured trigger point.

It is a common assumption that if a derivative product moves to an exchange, OTC bid offer spreads will narrow. However, GS management argued that this is not always the case and an exchange is not always a perfect solution to liquidity and pricing - markets may be narrow, trade volumes small and a contract strip may cease to trade beyond the first few contract dates. By way of example, Goldman pointed out that the introduction of the "Trace" system in the fixed income market led to fragmentation of the market and more frequent, albeit smaller, trades that did not generate significant trading costs savings.

[1] Bernstein estimates that Wall Street's OTC derivative revenues in fixed income makes up fifteen percent of total fixed income revenues. In Equities, OTC derivatives make up twenty percent of net revenues. Derivatives are a relatively higher margin business than cash trading with pretax margins of thirty to thirty five percent.

[2] Pricing ranges from sixteenths of one percent to thirty seconds and appears to be going to sixty fourths

Brad Hintz (Senior Analyst) • brad.hintz@bernstein.com • +1-212-756-4590

At this point, all that can be deduced is that the movement of derivatives to exchanges will set a standard initial margin[3] and impose daily variation margin - essentially new regulation will be a "Reg T" for derivatives. This action would place Goldman and its more leveraged OTC competitors on a "level playing field", which may prove positive for GS and other conservative banks[4]. In a world where leverage is standardized, derivatives desks will be forced to compete not on open, unsecured credit exposure, but on execution speed and liquidity. This is a market dynamic that GS feels that it can successfully use to take market share.

Goldman argues that the highly profitable, tailored segment of the derivative business is unable go on an exchange due to low volumes or pricing difficulty. Alternatively, these high margin OTC products will likely be cleared through a common settlement venue, and based on the current draft of the Senate Bill, would have to be originated outside the bank (Section 1065). This would force banks to move their fixed income derivatives books from the bank subsidiary (that is FDIC protected and has access to the Fed window) to a new separately capitalized (and lower rated) derivatives subsidiary that would likely be guaranteed by the bank holding company. Goldman already operates its OTC fixed income derivatives book out of such a subsidiary and would not have to use new capital to support this subsidiary.

Regulatory Uncertainty Threatens US Derivatives Market.

Admittedly, the outlook for derivatives is not certain according to the firm. Bernstein notes that regulated bank subsidiary of a bank holding company has higher credit ratings than the holding company. As a result, moving the derivatives book from the bank (higher ratings) to a new subsidiary guaranteed by the holding company (lower ratings) is unlikely to be popular with the current and prospective derivative counterparties of US banks.

One interpretation[6] of the current Senate bill is that the holding company cannot provide a guaranty to a derivatives subsidiary. Without a parent guaranty, some OTC counterparties will be reluctant to enter into OTC derivatives with a much lower rated derivative subsidiary.

Exacerbating this potential credit rating problem is the impact of the new regulatory authority proposed to allow for the "wind up" of systemically important institutions. This new authority could effectively subordinate the bondholders of the bank holding companies. As a result, the major credit rating agencies have warned that bank holding company ratings may be reduced if the "wind up" authority is too onerous.

Bernstein believes that the OTC derivatives activities of US banks could face market share pressure related to lower credit rating of their derivative offerings relative to those of the major European and Japanese banks which will be able to continue to trade derivatives with implied government supported within "too big to fail" commercial bank subsidiaries.

Trading Responds to Prospective Regulatory Changes

Goldman is preemptively positioning its trading businesses for a changed business model of exchange listed products and higher capital charges - to succeed in the future, trading needs to be "nimble". Goldman wants to quickly take the skill that it has in its leading, individual trading products and transfer the intellectual property and technology to new products as market opportunities arise. As management stated, "we want to be fast and better than everyone else." The firm has set its goal on providing the broadest list of top tier

[3] Goldman pointed out that the biggest new poster of margin would be the GSEs. This fact likely means that the US government will seek an exemption from the posting of margin for its outstanding OTC derivatives.

[4] Goldman did not name the less conservative banks.

[5] Section 106 requires that a bank move all the OTC derivatives out of a financial institutions 180 days from now all

[6] The interpretation depends on the law firm doing the review.

Brad Hintz (Senior Analyst) • brad.hintz@bernstein.com • +1-212-756-4590

trading products and capabilities. It wishes to be an efficient and effective competitor in high frequency trading, equities, fixed income and FX.

When asked about the firm's ability to adapt to new regulation in its trading business, management argued that the entire market will be able to respond and evolve to these new mandates. Goldman is convinced that it will have the technology and flexible organization to quickly change its business model and adjust to the new market conditions. They argue products that are transferred to a clearinghouse can trade more easily and over time trading volumes may pick up and parallel markets could be established that trade against the listed futures market. Goldman intends to be able to profit from this potential outcome.

The Key Regulatory Issues Facing the Industry

At this point, the industry is looking for certainty in new regulations. If a financial regulation bill is passed that gives broad authority to regulators to higher capital limits, establish sound business practices or constrain or ban certain business activities the industry would view it as a victory. However, Congress may not want to relegate interpretive responsibility to the bank regulators.

The industry is focusing on five large issues that could make statutory changes to the industry and cannot be easily changed: 1.) the Consumer Financial Protection Agency; 2.) Section 106 which bans OTC derivatives from depository bank; 3.) the Volcker rule which prohibit and limit proprietary trading and private equity; 4.) the requirement for a swap dealer to act as a fiduciary when dealing with endowments, pensions and trusts; and 5.) the Pre-determination and Pre-announcement of Profit on each Derivative Trade.

GS Business Outlook:

Sales & Trading

- Q1 2010 FICC revenues were up 86% sequentially from a cyclically slow Q4, 13% YoY. These FICC results were driven by solid performance for credit commodities and rates across all the major bond markets. The firm's revenue return on net assets (RRONA) was a strong 3.7%, well above its long-term average of 1.6%. Every business in trading is planning a *"fair amount of hiring"* for 2010.
- In equities, hedge funds have turned the corner from net redemptions to net subscriptions. Clients that wanted out of a hedge fund are now gone and new investors are committing new capital. Prime brokerage revenues are up, but the yield on balances is down. GS is cautiously optimistic that securities lending revenues will rise as rates increase.

Investment Banking

- From a broad cycle perspective, Goldman confirmed that the market is entering the early stage investment banking rebound as industry revenues are off the bottom of last summer, *"Admittedly regulatory uncertainty may* [negatively] *impact CEO confidence – and CEO confidence is a key factor in driving transaction activity but broadly speaking we are off the bottom*". CEOs are becoming more optimistic about the US economy and the dialogue is certainly improving despite the lack of marked improvement in announced deal volumes. Management teams are surprised by the resilience in the economy
- The management team also stated that the private equity market is getting more active. Historically a "great time" for PE to invest is coming out of an economic down cycle as pools invested at these points typically have favorable investment returns. Investment banking headcount is expected to grow by 9% in 2010

Brad Hintz (Senior Analyst) • brad.hintz@bernstein.com • +1-212-756-4590

Disclosure Appendix

Valuation Methodology

Bernstein has found that the major brokerage firms' common stocks trade on a price-to-tangible book basis. Bernstein believes that the tangible book value of a securities firm is a "hard number" for these companies reflecting the industry's mark-to-market accounting discipline and the rapid turnover of brokerage firm balance-sheets. By comparison, forecasting the highly cyclical earnings is problematic and therefore price-to-earnings valuation ratios are not accurate or stable. The price targets are based upon a valuation model that takes into account Return on Equity (ROE) versus Ke (the CAPM-based cost of equity), credit rating and a variable that differentiates between the 1999-2000 internet bubble period and all other periods of history. The formula is:

- **P/TB (Banks) = 1.35 x Forecasted Tangible ROE NTM / Bank Industry K_e – 0.2112**

Investors should note that this price-to-book valuation regression only explains 85% of the quarterly change in price-to-book of a bank or securities firm

Risks

As investors learned from the Lehman Brothers Holdings and the Drexel Burnham Lambert bankruptcies, the most significant risk to any major broker-dealer is a loss of confidence in its name, especially in the credit markets. The major broker-dealers rely upon the ability to roll over their debt at reasonable interest rates in order to fund their balance sheets at gross leverage ratios of 15 to 20x. The inability to meet debt obligations will result in the failure of a broker-dealer. In order to prevent a liquidity issue, a broker-dealer can sell assets to raise cash, but in the illiquid markets of a 'tail event' this may be impossible.

The liquidity facilities provided by the Federal Reserve have provided a lender of last resort to Morgan Stanley and Goldman Sachs – but nonetheless, a loss of confidence can also destroy a firm's franchise and morale. Counter-parties tend to limit exposure to firms whose credit ratings face downgrades and are perceived as being in risk. So, in a crisis of confidence, while a firm may avert a liquidity event, the firm's brand name and ongoing business will also come under threat. A prolonged loss of confidence in a firm's name would significantly reduce the ability of its stock to achieve our share price target. Other key risks include rising net charge-off rates, rising asset impairment write-downs, lowered ability to generate tax benefits, and the potential for increasing government regulation and taxation of financial institutions which may constrict asset and leverage levels.

But today, the greatest strategic challenge facing Goldman Sachs today is the uncertainty of new regulations. The Bank of England, the Swiss Central Bank, the Federal Reserve, the FDIC, the OCC, the CFTC, the SEC, both U.S. Brokerage Houses of Congress and the Basel Committee have proposed new regulations and laws that will raise capital charges, limit balance sheets, increase liquidity, prohibit or limit some businesses and constrain risk taking. These new rules generally will negatively impact GS' fixed income, equities and commodity trading business and constrain private equity. The more severe the regulations the lower the ROE and the slower the revenue growth rate of the effected businesses

SRO REQUIRED DISCLOSURES

- References to "Bernstein" relate to Sanford C. Bernstein & Co., LLC, Sanford C. Bernstein Limited, and Sanford C. Bernstein, a unit of AllianceBernstein Hong Kong Limited, collectively.
- Bernstein analysts are compensated based on aggregate contributions to the research franchise as measured by account penetration, productivity and proactivity of investment ideas. No analysts are compensated based on performance in, or contributions to, generating investment banking revenues.
- Bernstein rates stocks based on forecasts of relative performance for the next 6-12 months versus the S&P 500 for stocks listed on the U.S. and Canadian exchanges, versus the MSCI Pan Europe Index for stocks listed on the European exchanges (except for Russian companies), versus the MSCI Emerging Markets Index for Russian companies and stocks listed on emerging markets exchanges outside of the Asia Pacific region, and versus the MSCI Asia Pacific ex-Japan Index for stocks listed on the Asian (ex-Japan) exchanges - unless otherwise specified. We have three categories of ratings:

  Outperform: Stock will outpace the market index by more than 15 pp in the year ahead.

  Market-Perform: Stock will perform in line with the market index to within +/-15 pp in the year ahead.

  Underperform: Stock will trail the performance of the market index by more than 15 pp in the year ahead.

  Not Rated: The stock Rating, Target Price and estimates (if any) have been suspended temporarily.
- As of 05/03/2010, Bernstein's ratings were distributed as follows: Outperform - 46.6% (1.0% banking clients) ; Market-Perform - 46.9% (1.0% banking clients); Underperform - 6.5% (0.0% banking clients); Not Rated - 0.0% (0.0% banking clients). The numbers in parentheses represent the percentage of companies in each category to whom Bernstein provided investment banking services within the last twelve (12) months.
- Brad Hintz, as a former Managing Director at Morgan Stanley Group (MS), owns an equity position in MS that is held in a Morgan Stanley Group ESOP Trust at Mellon Bank as convertible preferred stock. These MS ESOP securities were awarded to him as compensation and are fully vested. Mr. Hintz is also an investor in Morgan Stanley Capital Partners III, LP — a merchant banking fund where Morgan Stanley maintains an equity interest as a limited partner. Mr. Hintz participates in the Morgan Stanley Pre Tax Investment Plan, which is a deferred compensation plan structured as a note to Mr. Hintz from Morgan Stanley with the return on the note tied to one of many alternative asset classes. In addition, as a result of the complete spin-off of Discover from Morgan Stanley on June 30, 2007, Mr. Hintz received a long position in Discover stock as a beneficiary of the Morgan Stanley ESOP. These shares of Discover will ultimately be distributed to Mr. Hintz by the ESOP trustee.
- Mr. Hintz maintains a long position in Chicago Mercantile Exchange Holdings Inc. (CME).
- Accounts over which Bernstein and/or their affiliates exercise investment discretion own more than 1% of the outstanding common stock of the following companies GS / Goldman Sachs.
- The following companies are or during the past twelve (12) months were clients of Bernstein, which provided non-investment banking-securities related services and received compensation for such services GS / Goldman Sachs.
- An affiliate of Bernstein received compensation for non-investment banking-securities related services from the following companies GS / Goldman Sachs.
- In the next three (3) months, Bernstein or an affiliate expects to receive or intends to seek compensation for investment banking services from GS / Goldman Sachs.

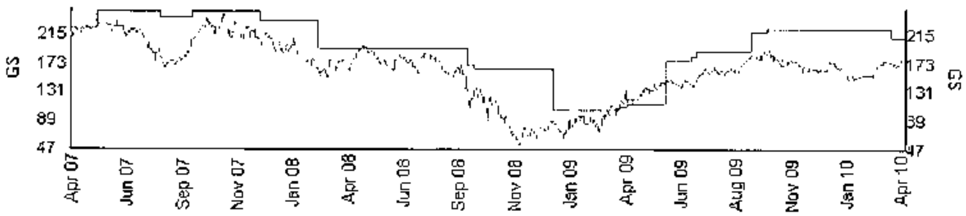
12-Month Rating History as of 05/03/2010

Ticker	Rating Changes	
GS	O (RC) 06/04/09	M (RC) 12/16/05

Rating Guide: O - Outperform, M - Market-Perform, U - Underperform, N - Not Rated
Rating Actions: IC - Initiated Coverage, DC - Dropped Coverage, RC - Rating Change

GS / Goldman Sachs

Date	Rating	Target(USD)
04/09/07	M	225.00
05/18/07	M	250.00
08/09/07	M	240.00
09/21/07	M	250.00
12/19/07	M	235.00
03/03/08	M	195.00
09/17/08	M	170.00
09/24/08	M	165.00
01/07/09	M	105.00
04/03/09	M	109.00
04/14/09	M	113.00
06/04/09	O	176.00
07/08/09	O	184.00
07/15/09	O	190.00
09/24/09	O	220.00
10/16/09	O	225.00
03/26/10	O	210.00



GS Target Price Source: Bernstein - As of 04/14/2010

O - Outperform M - Market-Perform U - Underperform N - Not Rated

OTHER DISCLOSURES

A price movement of a security which may be temporary will not necessarily trigger a recommendation change. Bernstein will advise as and when coverage of securities commences and ceases. Bernstein has no policy or standard as to the frequency of any updates or changes to its coverage policies. Although the definition and application of these methods are based on generally accepted industry practices and models, please note that there is a range of reasonable variations within these models. The application of models typically depends on forecasts of a range of economic variables, which may include, but not limited to, interest rates, exchange rates, earnings, cash flows and risk factors that are subject to uncertainty and also may change over time. Any valuation is dependent upon the subjective opinion of the analysts carrying out this valuation.

This document may not be passed on to any person in the United Kingdom (i) who is a retail client (ii) unless that person or entity qualifies as an authorised person or exempt person within the meaning of section 19 of the UK Financial Services and Markets Act 2000 (the "Act"), or qualifies as a person to whom the financial promotion restriction imposed by the Act does not apply by virtue of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or is a person classified as an "professional client" for the purposes of the Conduct of Business Rules of the Financial Services Authority.

To our readers in the United States: Sanford C. Bernstein & Co., LLC is distributing this publication in the United States and accepts responsibility for its contents. Any U.S. person receiving this publication and wishing to effect securities transactions in any security discussed herein should do so only through Sanford C. Bernstein & Co., LLC.

To our readers in the United Kingdom: This publication has been issued or approved for issue in the United Kingdom by Sanford C. Bernstein Limited, authorised and regulated by the Financial Services Authority and located at Devonshire House, 1 Mayfair Place, London W1J 8SB, +44 (0)20-7170-5000.

To our readers in member states of the EEA: This publication is being distributed in the EEA by Sanford C. Bernstein Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority and holds a passport under the Investment Services Directive.

To our readers in Hong Kong: This publication is being issued in Hong Kong by Sanford C. Bernstein, a unit of AllianceBernstein Hong Kong Limited. AllianceBernstein Hong Kong Limited is regulated by the Hong Kong Securities and Futures Commission.

To our readers in Australia: Sanford C. Bernstein & Co., LLC and Sanford C. Bernstein Limited are exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 in respect of the provision of the following financial services to wholesale clients:

- providing financial product advice;
- dealing in a financial product;
- making a market for a financial product; and
- providing a custodial or depository service.

Sanford C. Bernstein & Co., LLC, Sanford C. Bernstein Limited and AllianceBernstein Hong Kong Limited are regulated by, respectively, the Securities and Exchange Commission under U.S. laws, by the Financial Services Authority under U.K. laws, and by the Hong Kong Securities and Futures Commission under Hong Kong laws, all of which differ from Australian laws.

One or more of the officers, directors, or employees of Sanford C. Bernstein & Co., LLC, Sanford C. Bernstein Limited, Sanford C. Bernstein, a unit of AllianceBernstein Hong Kong Limited, and/or their affiliates may at any time hold, increase or decrease positions in securities of any company mentioned herein.

Bernstein or its affiliates may provide investment management or other services to the pension or profit sharing plans, or employees of any company mentioned herein, and may give advice to others as to investments in such companies. These entities may effect transactions that are similar to or different from those recommended herein.

Bernstein Research Publications are disseminated to our customers through posting on the firm's password protected website, www.bernsteinresearch.com. Additionally, Bernstein Research Publications are available through email, postal mail and commercial research portals. If you wish to alter your current distribution method, please contact your salesperson for details.

Bernstein and/or its affiliates do and seek to do business with companies covered in its research publications. As a result, investors should be aware that Bernstein and/or its affiliates may have a conflict of interest that could affect the objectivity of this publication. Investors should consider this publication as only a single factor in making their investment decisions.

This publication has been published and distributed in accordance with Bernstein's policy for management of conflicts of interest in investment research, a copy of which is available from Sanford C. Bernstein & Co., LLC, Director of Compliance, 1345 Avenue of the Americas, New York, N.Y. 10105, Sanford C. Bernstein Limited, Director of Compliance, Devonshire House, One Mayfair Place, LondonW1J 8SB, United Kingdom, or Sanford C. Bernstein, a unit of AllianceBernstein Hong Kong Limited, Director of Compliance, Suite 3401, 34th Floor, One IFC, One Harbour View Street, Central, Hong Kong.

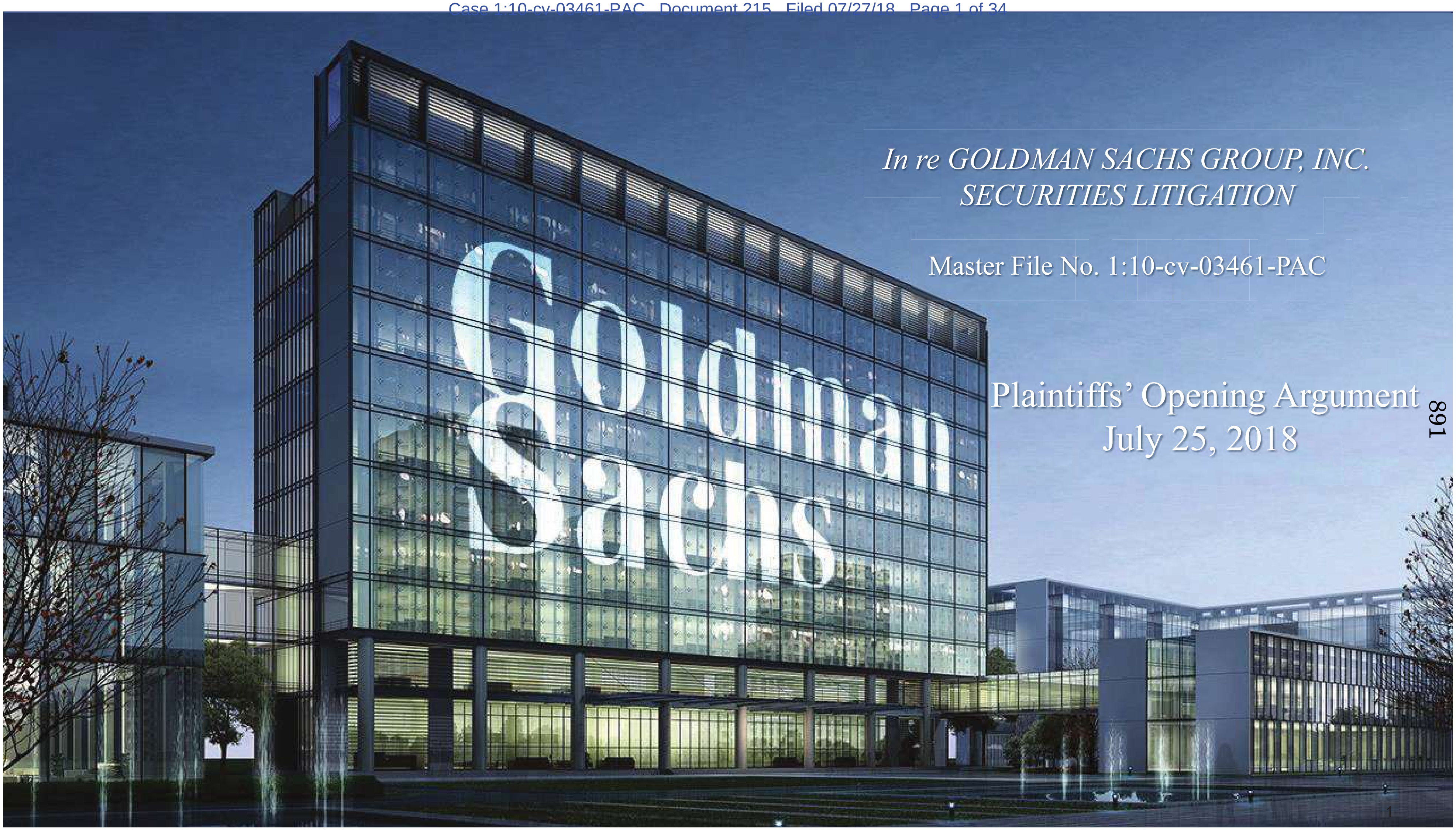
CERTIFICATIONS

- I/(we), Brad Hintz, Senior Analyst(s), certify that all of the views expressed in this publication accurately reflect my/(our) personal views about any and all of the subject securities or issuers and that no part of my/(our) compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views in this publication.

Approved By: NK

Copyright 2010, Sanford C. Bernstein & Co., LLC, Sanford C. Bernstein Limited, and AllianceBernstein Hong Kong Limited, subsidiaries of AllianceBernstein L.P. ~ 1345 Avenue of the Americas ~ NY, NY 10105 ~ 212/756-4400. All rights reserved.

This publication is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Bernstein or any of their subsidiaries or affiliates to any registration or licensing requirement within such jurisdiction. This publication is based upon public sources we believe to be reliable, but no representation is made by us that the publication is accurate or complete. We do not undertake to advise you of any change in the reported information or in the opinions herein. This publication was prepared and issued by Bernstein for distribution to eligible counterparties or professional clients. This publication is not an offer to buy or sell any security, and it does not constitute investment, legal or tax advice. The investments referred to herein may not be suitable for you. Investors must make their own investment decisions in consultation with their professional advisors in light of their specific circumstances. The value of investments may fluctuate, and investments that are denominated in foreign currencies may fluctuate in value as a result of exposure to exchange rate movements. Information about past performance of an investment is not necessarily a guide to, indicator of, or assurance of, future performance.


Goldman Sachs
In re GOLDMAN SACHS GROUP, INC.
SECURITIES LITIGATION
Master File No. 1:10-cv-03461-PAC
Plaintiffs' Opening Argument
July 25, 2018
1

Background Regarding Goldman's Fraudulent Misconduct

- Goldman's $550 million payment to the SEC – the largest fine in history as of that date;
- Goldman pays $5 billion to Justice Dept. to settle all mortgage behavior from 2005-2007;
- Goldman's admission in SEC Consent Decree that the Abacus marketing materials contained "incomplete" information by not fully disclosing Paulson's role;
- FINRA's finding that in Hudson "there were knowing and material omissions and misstatements in the marketing materials . . . that masked a significant conflict of interest with its clients," and a resulting $80 million penalty; and
- A federal jury verdict that Tourre aided and abetted Goldman's fraud in Abacus in violation of Rule 10b-5.

Standard

Defendants’ burden of persuasion by preponderance of the evidence that: there was **no** price impact from statement **or** its correction.

Waggoner v. Barclays, PLC 875 F.3d 79, 101,(2d Cir. 2017); *see also Halliburton Co. v. Erica P. John Fund, Inc.*, 134 S. Ct. 2398, 2417 (2004)

The Second Circuit Took No View on the "34 Dates" Evidence

Ark. Teachers Ret. Sys. v. Goldman Sachs Grp., Inc.

United States Court of Appeals for the Second Circuit

March 15, 2017, Argued; January 12, 2018, Decided

Docket No. 16-250

Reporter

879 F.3d 474 *; 2018 U.S. App. LEXIS 810 **; Fed. Sec. L. Rep. (CCH) P99,952; 105 Fed. R. Evid. Serv. (Callaghan) 499; 99 Fed. R. Serv. 3d (Callaghan) 932; 2018 WL 385215

ARKANSAS TEACHERS RETIREMENT SYSTEM, WEST VIRGINIA INVESTMENT MANAGEMENT BOARD, PLUMBERS AND PIPEFITTERS PENSION GROUP, ILENE RICHMAN, individually and on behalf of all others similarly situated, PABLO ELIZONDO, HOWARD SORKIN, individually and on behalf of all others similarly situated, TIVKA BOCHNER, EHSAN AFSHANI, LOUIS GOLD, THOMAS DRAFT, individually and on behalf of all others similarly situated, Plaintiffs-Appellees, v. GOLDMAN SACHS GROUP, INC., LLOYD C. BLANKFEIN, DAVID A. VINIAR, GARY D. COHN, Defendants-Appellants.*

Prior History: Defendants-Appellants Goldman Sachs Group, Inc., Lloyd Blankfein, David A. Viniar, and Gary D. Cohn, appeal from a September 24, 2015 order of the United States District Court for the Southern District of New York (Crotty, J.), certifying a class of plaintiffs who purchased shares of common stock in G Inc., between 2007 and 2010. Plaintiffs alleged that defendants made material misstateme efforts to avoid conflicts of interest, and that those misstatements caused the value of their establish the predominance of class-wide issues under *Federal Rule of Civil Procedure 23(b* the rebuttable presumption of reliance established in Basic Inc. v. Levinson, 485 U.S. 224, 10 2d 194 (1988). In light of this Court's recent pronouncement that defendants seeking to rebut t must do so by a preponderance of the evidence, see Waggoner v. Barclays PLC, 875 F.3d 7 and for the additional reasons stated herein, we VACATE the District Court's order and proceedings consistent with this opinion.

Core Terms

stock, misrepresentation, defendants', misstatements, class certification, market price, securiti shares, conflicting interest, stock price, predominance, transactions, investors, preponderance class action, company's, traded, buy, internal quotation marks, rebutting a presumption, burden of persuasion, class member, materiality, issues, fraud-on-the-market, plaintiffs', Securities, requirements, conclusive

Case Summary

Overview

HOLDINGS: [1]-Defendants s urities fraud claim must do so by a preponderance concluded its findings with its finding that defendants failed to rebut the Basic presumption because they did not conclusively prove a complete absence of price impact, it was unclear to the court whether the district court required more of defendants than a preponderance of the evidence; [2]-The district court erred in declining to consider defendants' evidence because, contrary to the district court's characterization of their evidence, defendants did not present a truth on the market defense.

"We espouse no views as to whether the evidence is sufficient to rebut the *Basic* presumption …."

Ark. Teachers Ret. Sys. v. Goldman Sachs Grp.,
879 F.3d 474, 485 (2d Cir. 2018)

How Can Defendants Rebut the Presumption?

- Not Statistically Significant
- Stock Decline Due Entirely to Non-Fraud Information
- No new information related to the fraud that corrected the misstatements
  - *Halliburton*–Asbestos verdict was new information related to the fraud that corrected the misstatements
  - Defendants could not show entire decline due to non-fraud *Halliburton* specific information

Erica P. John Fund, Inc. v. Halliburton Co., 309 F.R.D. 251 (N.D. Tex. 2015)

Defendants' Experts Admit that Goldman Suffered Statistically Significant Drops on the Three Corrective Disclosure Dates

4/16/2010	Abacus Lawsuit	Statistically Significant
4/30/2010	DOJ Investigation	Statistically Significant
6/10/2010	SEC Hudson Investigation	Statistically Significant

Presumption Not Rebutted

Defendants Cannot Rebut the Presumption Because New Information Caused Price Impact

- 22 pages of detail in 4/16/2010 SEC Complaint that Goldman was engaged in fraudulent conduct that violated its conflict of interest policies and its Business Principles.
- Numerous Goldman and ACA emails revealed for the first time that Goldman's previous denials were false, it was engaged in conflict of interests and not putting clients' interests first.
- Emails show Goldman affirmatively misled ACA (collateral manager that was also long the ABACUS deal) that Paulson was also long due to his purchase of the equity tranche.
- Emails show Goldman affirmatively misled investors IKB, ACA and ABN in ABACUS about Paulson's role in selecting assets – marketing materials said ACA was sole asset selector.
- Severity of misconduct led to SEC lawsuit, DOJ fraud investigation and SEC Hudson investigation.
- Market participants recognized that Goldman's misconduct violated its Business Principles and Conflict Policies.

New Internal Goldman Communications in the SEC Complaint Detailed Goldman's Fraudulent Conduct

1 **Jan. 23, 2007**

Email From Tourre to a friend :
"More and more leverage in the system, The whole building is about to collapse anytime now…Only potential survivor, the fabulous Fab[rice Tourre]… standing in the middle of all these complex, highly leveraged, exotic trades he created without necessarily understanding all of the implications of those monstruosities!!!"

2 **Feb. 11, 2007**

Email to Tourre from the head of the GS&Co structured product correlation trading desk:
"the cdo biz is dead we don't have a lot of time left."

3 **Jan. 8, 2007**

ACA email to GS&Co Sales Rep
Subject: "Paulson Meeting"
"I have no idea how it went – I wouldn't say it went poorly, not at all, but I think it didn't help that we didn't know exactly how they [Paulson] want to participate in the space. Can you get us some feedback?"

4 **Jan. 10, 2007**

Tourre email to ACA "Transaction Summary" with Paulson as the "Transaction Sponsor"
"The description of this [0]%–[9]% tranche at the bottom of the capital structure was consistent with the description of an equity tranche and ACA reasonably believed it to be a reference to the equity tranche."

New Internal Goldman Communications in the SEC Complaint Detailed Goldman's Fraudulent Conduct

5 Feb. 7, 2007

Tourre email:
"One thing that we need to make sure ACA understands is that we want their name on this transaction. This is a transaction for which they are acting as portfolio selection agent, this will be important that we can use ACA's branding to help distribute the bonds."

6 Mar. 12, 2007

Goldman MMC Memo:
"We expect to leverage ACA's credibility and franchise to help distribute this Transaction."

7 Feb. 2, 2007

Tourre and GS&Co, of course, were fully aware that Paulson's economic interests with respect to the quality of the reference portfolio were directly adverse to CDO investors. During the meeting, Tourre sent an email to another GS&Co employee stating: "I am at this aca paulson meeting, this is surreal."

8 Mar. 6, 2007

Email from GS&Co to IKB
"This is a portfolio selected by ACA . . . ."
Tourre internal Goldman email portfolio "selected by ACA/Paulson."

9 Mar. 6, 2007

Toure emails to ABN: ACA selected the portfolio

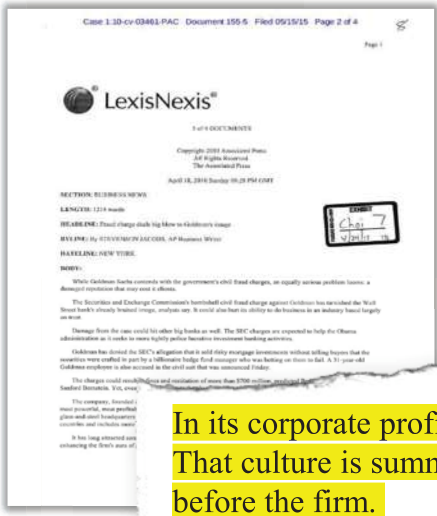
Defendants' Expert Dr. Gompers Admitted that the SEC Complaint Revealed New Information

It's my understanding that the first time it was revealed to have been alleged that Goldman Sachs misled ACA was in the complaint. So that is my understanding.

So my understanding is that particular piece of information is alleged and for the first time revealed in the complaint.

Gompers, Paul A. (Vol. 02) at 98:14-99:6

Market Participants Recognized that Goldman's Misconduct Violated Its Business Principles and Conflict Policies



April 18, 2010 Sunday 09:28 PM GMT

SECTION: BUSINESS NEWS

LENGTH: 1214 words

HEADLINE: Fraud charge deals big blow to Goldman's image

BYLINE: By STEVENSON JACOBS, AP Business Writer

901

In its corporate profile, the company says its culture distinguishes it from other firms and "helps to make us a magnet for talent." That culture is summed up in the firm's "14 Business Principles," which preach an almost militant philosophy of putting the client before the firm.

Now, it's that very philosophy that has been questioned by the government.

"Our clients' interests always come first," the company says on its website under the heading, "Goldman Sachs Business Principle No. 1."

Investors are already betting the legal troubles will hurt Goldman's finances. The company's shares plunged 13 percent after the charges . . . .

Choi Depo. Ex. 7
(ECF No. 155-5)

Market Participants Recognized that Goldman's Misconduct Violated Its Business Principles and Conflict Policies

LexisNexis®

1 of 1 DOCUMENT

Copyright 2010 Factiva ®, from Dow Jones
All Rights Reserved

FACTIVA

(Copyright (c) 2010, Dow Jones & Company, Inc.)

THE WALL STREET JOURNAL

The Wall Street Journal

April 21, 2010 Wednesday

SECTION: Pg. C2

LENGTH: 1391 words

HEADLINE: Common Sense: Where's the Goldman Sachs That I Used to Know?

BYLINE: By James B. Stewart SmartMoney

It's hard to imagine the damage that these developments have done already to Goldman Sachs's reputation. The company has always maintained a public position that the business of investment banking depends on trust, integrity and putting clients' interests first.

Whether those clients remain loyal to Goldman, and whether the firm can attract new ones, remain to be seen. Investors' reaction to the news was swift and negative: Goldman shares closed down 13% Friday after the SEC filed its suit.

Choi Depo. Ex. 9 / Gompers Depo. Ex. 5 (ECF No. 155-7)

Market Participants Recognized that Goldman's Misconduct Violated Its Business Principles and Conflict Policies

From: Libstag, Gwen (FIN 200W41)
Sent: Friday, May 21, 2010 2:47 PM
To: Cohn, Gary [EO]; Viniar, David;

How Goldman Gets Its Premium Back

CONFIDENTIAL GS-CDO-50019509

• May 21, 2010, 1:53 AM GMT

How Goldman Gets Its Premium Back

Top of Form 1

Search The Source

▪By Robert Armstrong and Gregory J. Milman

But there is another possibility: that the premium has dissolved because the market is worried, not about lawsuits or politics, but about Goldman's core business.

The Abacus affair has highlighted the conflicts intrinsic to the investment banking business. But historically Goldman has managed those conflicts well.

This territory is especially dangerous for Goldman because of the perception that it is an elite adviser and an elite trader that can do both simultaneously while managing the conflicts to the satisfaction of its clients. That's why its stock carries a premium to its peers in bull markets.

Conversely, evidence of poorly managed conflicts is especially dangerous to Goldman. Some damage has already been done.

Libstag Depo. Ex. 9
(ECF No. 201-11)

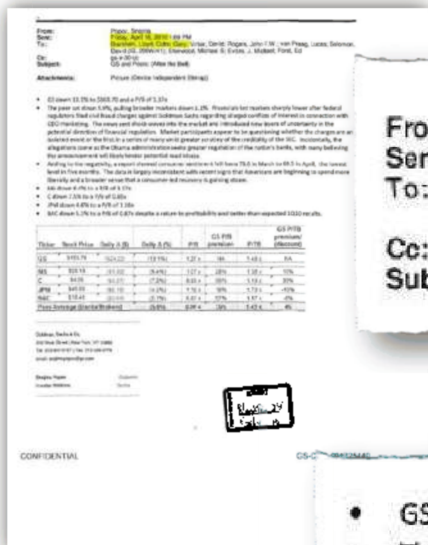
Market Participants Recognized that Goldman's Misconduct Violated Its Business Principles and Conflict Policies

4/16/2010 Decline:

Finnerty analyzed ***analyst commentary*** linking the SEC lawsuit to Goldman's conflicts of interest, improper business practices, and resulting damage to its ***reputation*** – the precise subjects of the alleged misrepresentations. *E.g.*:

- *Citi*, 4/16/2010: "[T]he SEC alleges that Goldman ***misled ACA*** . . . . ***Reputation*** risk is ***biggest issue*** in our view . . . ." 8/7/2015 Finnerty Report, ¶131
- *Bank of America Merrill Lynch,* 4/16/2010: "This is a serious charge . . . . [T]he ***reputational damage*** could be considerably greater . . . ." *Id.*
- *Macquarie*, 4/16/2010: "Typically, ***reputational damage*** . . . is a paper tiger. However, in this case, the response by the media and Washington has been ***so severe*** . . . . As for ***reputation***, Goldman ***clients*** are 'eyes-wide-open.'" *Id.*
- *Wells Fargo*, 4/19/2010: "The SEC's action could lead potential ***clients*** seek counterparties and agents other than GS as a means of protesting GS' alleged behavior . . . . Additional legal actions against the company could ***further harm its reputation and ability to gain business*** . . . ." *Id.*
- *Credit Suisse*, 4/20/2010: "More worrisome to us is the potential longer-term impact on the firm's ***client*** franchise, human capital and ***reputation***." *Id.*

Goldman Acknowledged Internally that its Conduct Caused the Stock Price Decline



From:	Popov, Snejina
Sent:	Friday, April 16, 2010 1:09 PM
To:	Blankfein, Lloyd; Cohn, Gary; Viniar, David; Rogers, John F.W.; van Praag, Lucas; Solomon, David (IB, 200W/41); Sherwood, Michael S; Evans, J. Michael; Forst, Ed
Cc:	gs-ir-30-cc
Subject:	GS and Peers: (After the Bell)

- GS down 13.1% to $160.70 and a P/B of 1.37x
- The peer set down 5.9%, pulling broader markets down 1.1%. Financials led markets sharply lower after federal regulators filed civil fraud charges against Goldman Sachs regarding alleged conflicts of interest in connection with CDO marketing. The news sent shock-waves into the market and introduced new layers of uncertainty in the

905

Blankfein Depo. Ex. 24
(ECF No. 197-8)

Market Participants Recognized that Goldman's Misconduct Violated its Business Principles and Conflict Policies

4/30/2010 Decline:

When *The Wall Street Journal* reported that the DOJ opened a criminal investigation into Goldman's mortgage trading practices based on "different evidence" and Goldman's stock fell 9.39% on 4/30/2010, market commentators reported:

- *Washington Post*, 4/30/2010: "The Justice Department's criminal investigation into Goldman Sachs ***goes beyond*** the financial transactions targeted by the [SEC] . . . . " 5/22/2015 Finnerty Report, ¶¶118-120
- *Fitch Ratings*, 5/5/2010: "The Rating Outlook ***revision to Negative*** incorporates recent legal developments and ongoing regulatory challenges that could adversely impact ***Goldman's reputation and revenue generating capacity***." 5/22/2015 Finnerty Report, ¶121
- *Bank of America Merrill Lynch*, 4/30/2010*:* "Our ***downgrade*** is prompted by news reports . . . including the Wall St. Journal indicating that federal prosecutors have opened an investigation of GS in connection with its trading activities . . . ." 5/22/2015 Finnerty Report, ¶126

Market Participants Recognized that Goldman's Misconduct Violated Its Business Principles and Conflict Policies

6/10/2010 Decline:

The market learned that Goldman, while shorting the Hudson 2006-1 CDO, was marketing Hudson by telling investors that "Goldman Sachs has aligned incentives with the Hudson program." Then, it was reported that Hudson was also the target of a probe by the SEC – and Goldman's stock fell 2.21% on 6/10/2010. Finnerty found that market commentators reported, *e.g.*:

– *Wells Fargo*, 6/10/2010: "[M]edia reports of a second SEC investigation into Goldman's CDO marketing practices, specifically the Hudson 2006-1 CDO, pushed Goldman shares down as much as 4% on [June 10, 2010]." 5/22/2015 Finnerty Report, ¶143

Defendants' Evidence Is Not "Unrebutted"

Dr. Finnerty's economic analysis and event study demonstrate price impact on the three corrective disclosure dates.

- Dr. Finnerty explained that Defendants' statements and omissions on the first day of the Class Period inflated Goldman's stock price – *i.e.*, kept the stock trading at a higher price than it would have been had the truth been known – and subsequent statements and omissions further inflated and maintained inflation. 5/15/2015 Finnerty Decl., ¶205; 8/7/2015 Finnerty Report, ¶¶ 3(b), 10-14.
- Dr. Finnerty concluded that the statistically significant price declines on the three corrective disclosure dates "establish price impact." 5/15/2015 Finnerty Decl., ¶¶202-205.
- Dr. Finnerty connected the stock declines to the alleged misrepresentations. 8/7/2015 Finnerty Report, ¶¶3(c), 38-42, 131-133; 5/22/2015 Finnerty Report, ¶¶11.a-c, 65-94, 108-147.

Analogous Case Law Rejects Defendants' Rebuttal

Lapin v. Goldman Sachs Grp., Inc., 506 F. Supp. 2d 221 (S.D.N.Y. 2006)
Lapin v. Goldman Sachs & Co., 254 F.R.D. 168 (S.D.N.Y. 2008)

- Goldman misrepresented its research analysts as "independent" and unbiased and failed to disclose the analysts' conflict of interest with Goldman's investment banking clients to help Goldman compete for IPO's and other future business.
- "The third category consists of statements noting Goldman's high ethical standards and its compliance with industry rules and regulations (e.g., '[w]e are dedicated to complying fully with the letter and spirit of the laws, rules and ethical principles that govern us,' SAC P 124)." – Exact Same Statement ¶154 Goldman Annual Report
- Goldman "argues that knowledge of the alleged fraud in this case was widespread among investors of GS stock, and thus the *Basic* presumption is rebutted."
- Articles, media interview and customer complaint–but Goldman denied misconduct.
- "[I]nvestors were also being fed reassuring statements by Goldman, implying that the criticisms discussed in the articles and the complaint did not apply to Goldman" and **defending the "independence and quality"** of GS research.
- Denials by Goldman – "was reinforced by Goldman in several announcements made both contemporaneously **with and post-dating** the news articles and the filing of the *Stefansky* complaint."

Analogous Case Law Rejects Defendants' Rebuttal

Lapin v. Goldman Sachs Grp., Inc., 506 F. Supp. 2d 221 (S.D.N.Y. 2006)
Lapin v. Goldman Sachs & Co., 254 F.R.D. 168 (S.D.N.Y. 2008)

Because the Court finds that GS has failed to show that the truth about the alleged conflicts at GS (and the result, if any, that those conflicts had on stock price) "credibly entered the market," *Basic*, 485 U.S. at 248-49, the Court finds that the reliance link is not severed, and the *Basic* presumption is not rebutted on these grounds.

Goldman's stock price declined "once its true research practices began to emerge" via announcements of a NY Attorney General investigation into Goldman, and two weeks later the announcement of investigations by the SEC and DOJ.

910

Waggoner v. Barclays PLC, 875 F.3d 79 (2d Cir. 2017)

New York Attorney General suit is fraud-related corrective disclosure. "[T]he regulatory action and any ensuing fines were a part of the alleged harm that Plaintiffs suffered."

Denials: 2007-2010

March 26, 2007	Forbes	"There is no conflict" snaps Goldman spokesman. (ECF No. 193-15)
Dec. 2, 2007	The New York Times	"The Goldman Sachs spokesman said that the company routinely shorts the securities it underwrites and said that this is disclosed." (ECF No. 193-19)
Dec. 6, 2007	FT FINANCIAL TIMES	"[T]here is no evidence that Goldman did [anything] wrong ... I do not believe Goldman broke insider trading laws. It would be stupid to risk its reputation … it 'brushes' off … accusations of conflicts of interest." (ECF No. 193-21)
Dec. 11, 2007	DOWJONES	Questions raised by the author about Goldman's disclosures – Goldman's previous denials. (ECF No. 193-22)

911

Denials: 2007-2010

Dec. 16, 2007	REUTERS	"'People believe they [at Goldman] haven't done anything wrong' … which many market sources and analysts call unfounded." (ECF No. 193-24)
Dec. 23, 2007	The New York Times	"Goldman asserts that it did nothing wrong …. Goldman emphatically says its short sales and similar trades were normal hedging operators." (ECF No. 193-25)
Dec. 27, 2007	DOWJONES	"No one suggests that Goldman Sachs violated any law by underwriting CDOs while also selling them short." (ECF No. 193-26)
Nov. 11, 2008	Los Angeles Times	"There is no evidence that the wall was breached in this case … fear of market manipulation was unfounded." (ECF No. 193-28)

912

Denials: 2007-2010

May 13, 2009	THE WALL STREET JOURNAL.	"Goldman said that its interests are aligned with those of Whitehall's investors …." (ECF No. 193-29)
July 9, 2009	Rolling Stone	"Goldman …. has denied wrongdoing …." (ECF No. 193-30)
July 16, 2009	The New York Times	Paul Krugman – "All of this was perfectly legal …." (ECF No. 193-31)
Aug. 4, 2009	INVESTOR'S BUSINESS DAILY	"You would be hard-pressed to find a company of any size that has done a better job of managing risk than Goldman Sachs." (ECF No. 193-33)

Denials: 2007-2010

Nov. 1, 2009 McCLATCHY

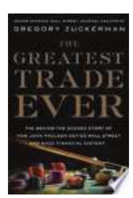
A Goldman spokesman claimed its practices were to "hedge" and "investors were fully informed."

Professor John Coffee – "the legality of Goldman's maneuvers depends on what its executives knew at the time."

"Asked whether Goldman's bond sellers knew about the contrary bets, spokesman Duvally said the company's mortgage business 'has extensive barriers designed to keep information within its proper confines.'" (ECF No. 193-36)

Oct. 30 –
Nov. 2/3, 2009

THE WALL STREET JOURNAL.



Mixed information- Paulson denials: "We didn't create any securities … it was a negotiation; we threw out some names, they threw out some names but the bankers ultimately picked the collateral." "But the deals weren't created for us, we just facilitated it . . . ." (ECF No. 193-37)

Denials: 2007-2010

Nov. 19, 2009 MarketWatch Goldman says: "We were just smart and have done nothing wrong." (ECF No. 193-38)

Dec. 6, 2009 The New York Times Book review: No new information in article that wasn't in book. (ECF No. 193-39)

Dec. 24, 2009 The New York Times No discussion of Paulson selection of assets – Only that he was one of many hedge funds and investment banks, short CDO's and made profits

"Goldman and other Wall Street firms maintain there is nothing improper about synthetic C.D.O.'s, saying that they typically employ many trading techniques to hedge investments and protect against losses."

"The Goldman salesman said that C.D.O. buyers were not misled because they were advised that Goldman was placing large bets against the securities."

"[H]e [Mr. Duvall] said that clients knew Goldman might be betting against mortgages linked to the securities . . . ." (ECF No. 193-40)

Denials: 2007-2010

Dec 24, 2009	BUSINESS INSIDER	"Goldman Blasts The New York Times's Hit Job" (Gompers 4/20/2015 Depo. Ex. 12)
Dec 29, 2009	The Telegraph	"Goldman Sachs denies betting against its clients on CDOs"
Dec. 29, 2009	The New York Times	"Goldman says that its clients knew that it might place contrary bets." (ECF No. 193-42)
Dec. 30, 2009	McCLATCHY	A Goldman spokesman "dismissed as 'untrue' any suggestion that the firm had misled" investors. (ECF No. 193-43)
Jan. 13, 2010	THE WALL STREET JOURNAL.	FCIC Testimony – Blankfein: "We sold what people wanted. Kids want candy you sell them candy. They should know what it does to their teeth . . . . We are 'market makers . . . .'" (ECF No. 193-47)

916

Denials: 2007-2010

Jan 14, 2010	Goldman Sachs	"Mr. Blankfein does not believe, nor did he say, that Goldman Sachs had behaved improperly in any way. In fact, his answer to the various statements explained the market making function and how our practices were entirely appropriate." (Blankfein Depo. Ex. 7)
Jan. 13, 2010	DOWJONES	"[Blankfein] replied that Goldman didn't have a legal obligation to disclose when it was betting against the securities it was selling." (ECF No. 193-48)
Feb. 7, 2010	The New York Times	"Viniar said that Goldman had done nothing wrong." (ECF No. 193-51)
Mar. 10, 2010	The New York Times	Goldman "said it saw no conflicts in its various roles." (ECF No. 193-54)

2007-2010 Goldman Reassured Investors that It Complied with Conflict Policies and Business Principles

Plaintiffs claim that Goldman's conduct in the Abacus, Hudson, Anderson and Timberwolf I CDO transactions made the following disclosures materially misleading:

- "[W]e increasingly have to address potential conflicts of interest, including situations where our services to a particular client or our own proprietary investments or other interests conflict, or are perceived to conflict, with the interest of another client . . . ." (Complaint, ¶134 (Form 10-K))
- "We have extensive procedures and controls that are designed to … address conflicts of interest . . . ." (Complaint, ¶¶134, 154 (Form 10-K))
- "Our clients' interests always come first. Our experience shows that if we serve our clients well, our own success will follow." (Complaint, ¶154 (Goldman Annual Report))
- "Integrity and honesty are at the heart of our business." (Complaint, ¶289 (Goldman Annual Report))
- "Most importantly, and the basic reason for our success, is our extraordinary focus on our clients." (Complaint, ¶154 (Viniar's Statements on Goldman's Investor Conference Call))
- "Our reputation is one of our most important assets." (Complaint, ¶154 (Form 10-K))
- "We are dedicated to complying fully with the letter and spirit of the laws, rules and ethical principles that govern us. Our continued success depends upon unswerving adherence to this standard." (Complaint, ¶154 (Goldman Annual Report))

918

SEC Fraud Lawsuit and News of Subsequent Investigations Reveal Goldman's Numerous and Repeated Denials No Longer Credible

New Information on 4/16/2010

- Internal Goldman emails show Goldman engaged in fraudulent conduct in violation of its conflict of interests and business principles
- Goldman lied to ACA, IKB and ABN Amro.

New Information on 4/30/2010

- Following disclosure of emails about GS misconduct in Timberwolf, Hudson and Anderson, DOJ investigation based on "different evidence" than SEC Abacus lawsuit – similar to *Lapin.*

New Information on 6/10/2010

- SEC investigation into Hudson – severity of conduct similar to *Lapin.*

Dr. Choi Fails to Demonstrate that the Entire Stock Decline on the Corrective Disclosure Dates Was Due Solely to Non-fraud-related Information

On its face, Dr. Choi's argument is misplaced because the SEC fraud lawsuit and the DOJ and SEC fraud investigations were clearly fraud-related and are evidence of price impact.

"the regulatory enforcement actions are direct consequences of, and intertwined with, Goldman's allegedly fraudulent conduct" in the four CDOs, the announcements of the actions "are not confounding news but are appropriately recognized as corrective disclosures" 8/7/2015 Finnerty Report, ¶73; *see also id.*, ¶¶46-47

"the regulatory action and any ensuing fines were a part of the alleged harm the Plaintiffs suffered, and the failure to disaggregate the action and fines did not preclude class certification" *Waggoner v. Barclays PLC*, 875 F.3d 79, 106 (2d Cir. 2017)

Court Previously Found Dr. Choi's Opinions Insufficient to Show Lack of Price Impact

Positive
As of: May 8, 2018 12:51 AM Z

In re Goldman Sachs Grp., Inc. Sec. Litig.

United States District Court for the Southern District of New York

September 24, 2015, Decided; September 24, 2015, Filed

Master File No. 10 Civ. 3461 (PAC)

Reporter
2015 U.S. Dist. LEXIS 128856 *; Fed. Sec. L. Rep. (CCH) P98,823; 2015 WL 5613150

IN re *GOLDMAN* SACHS GROUP, INC. SECURITIES LITIGATION. This Document Relates To: ALL ACTIONS

Subsequent History: Motion granted by *Ark. Teachers Ret. Sys. v. Goldman Sachs Grp., Inc., 2016 U.S. App. LEXIS 23694 (2d Cir., Jan. 26, 2016)*

Prior History: *Richman v. Goldman Sachs Group, Inc., 274 F.R.D. 473, 2011 U.S. Dist. LEXIS 64016 (S.D.N.Y., Mar. 25, 2011)*

Core Terms

stock price, disclosure, misstatements, damages, corrective, methodology, Reply, stock, misrepresentation, enforcement action, announcement, predominance, conflicting interest, class certification, investigations, requirements, Rebuttal, asserts, revelation, securities, appointed, inflation, abnormal, analyst, business practice, class period, common stock, certification, statistically, classwide

Counsel: [*1] For Pension Funds, Lead Plaintiff: Christopher J. Keller, LEAD ATTORNEY, Labaton

Blaydes, PLLC, Charleston, WVc; Robert R. Henssler, Jr., PRO HAC VICE, Robbins Geller Rudman & Dowd LLP, San Francisco,

For Plumbers and Pi
Plaintiff: Spencer A.
Robbins Geller Rudr
Brian E Cochran, PR
Rudman & Dowd LLI
Henssler, Jr., PRO H
& Dowd LLP, San Fr

For Ilene [*2] Richm
others similarly situa
Rudman, LEAD ATT
Robbins Geller Rudr
Catherine J. Kowale
David C. Walton, Robbins Geller Rudman & Dowd LLP (San Diego), San Diego, CA; Darren J. Robbins, Eric I. Niehaus, Jonah H. Goldstein, Robert R. Henssler, Jr., Spencer A. Burkholz, PRO HAC VICE, Robbins Geller Rudman & Dowd LLP (SANDIEGO), San Diego, CA; Kenneth A. Elan, Kenneth A. Elan, Esq, New York, NY; Mark W. Carbone, PRO HAC VICE, Carbone & Blaydes, PLLC, Charleston, WV.

For Pablo Elizondo, Plaintiff: Danielle Suzanne Myers,

Likewise, while Dr. Choi's report focuses on the fact that the announcements of enforcement actions would cause a level of decline, Dr. Choi fails to demonstrate that it would cause the entirety of the decline that occurred here.

Dr. Choi's Opinion Is Unsound and Based on Unreliable Methodology

- Same exact data set that the Court rejected at Class Certification
- Ignored the fraudulent conduct in 113 out of the 117 SEC Enforcement Actions in his dataset
- Cherry-picked three arbitrary "severity" factors unsupported by academic literature to support results
- Ignores market commentary linking SEC fraud lawsuit to Goldman policies and business principles
- Ignored his own previous research admitting that SEC Enforcement Actions convey information about the egregiousness of the underlying misconduct

Defendants Fail to Rebut Presumption

- Defendants' experts (and Dr. Finnerty) agree the stock price declines were statistically significant
- Defendants' experts (and Dr. Finnerty) agree that the SEC Fraud Complaint, DOJ fraud investigation, and additional SEC fraud investigation caused the stock price declines
- New information that corrected Defendants' prior statements
- To deny certification, Defendants ask the Court to hold that the SEC fraud lawsuit (and the fraud investigations) are not fraud related and had no impact on Goldman's stock price

AlixPartners
when it really matters

JULY 25 2018

In re Goldman Sachs Group, Inc. Securities Litigation

John D. Finnerty, Ph.D.
Professor of Finance, Fordham University
Academic Affiliate, AlixPartners, LLP

AlixPartners
when it really matters

1

Qualifications

Qualifications

Education

Ph.D. in Operations Research, Naval Postgraduate School	1977
B.A. and M.A. in Economics, Cambridge University	1973, 1977
A.B. in Mathematics, Williams College	1971

Academic Experience

Fordham University Gabelli School of Business, Professor of Finance and founding Director of the Master of Science in Quantitative Finance Program	1987-Present

Business Experience

AlixPartners, LLP, Academic Affiliate, Financial Advisory Services Group	2017-Present
AlixPartners, LLP, Managing Director, Financial Advisory Services Group	2013-2017
Finnerty Economic Consulting, LLC, Managing Principal	2003-2013
Analysis Group, Inc., Managing Principal	2001-2003
PricewaterhouseCoopers, LLP, Partner, Financial Advisory Services Group	1997-2001
Houlihan Lokey Howard & Zukin, Director	1995-1997
McFarland Dewey & Co, General Partner	1989-1995
College Savings Bank, Executive Vice President and Chief Financial Officer	1986-1989
Lazard Frères & Company, Vice President, Corporate Finance Department	1982-1986
Morgan Stanley & Co. Inc., Associate, Corporate Finance Department	1977-1982

Qualifications

Professional Associations

Chair of the Trustees, Eastern Finance Association (2009-2010), Trustee (2008-Present), President (2007-2008), and Director (2005-2008)

President, Fixed Income Analysts Society (2006-2007), and Director (2001-2009)

Director, Financial Management Association (1991-1999, 2005-2007, 2011-2013)

Editor, *Financial Management* (1993-1999)

Editor, *FMA Online* (2001-2010)

Awards

Marshall Scholar	1971
Gladys and Henry Crown Award for Faculty Excellence, Fordham Business School	1997
Best Investments Paper, Southern Finance Association	2001
Best Corporate Finance Paper, Southern Finance Association	2006
Bene Merenti Medal, Fordham University	2007
Fixed Income Analysts Society Hall of Fame	2011
Achievements in Excellence Team Award, AlixPartners, LLP	2014
Ashley Greater New York Community Service Award	2018

Qualifications

Selected Books and Publications

Douglas R. Emery, John D. Finnerty, and John D. Stowe, Corporate Financial Management, 5th ed. Wohl Publishing, Morristown, NJ, 2018.

John D. Finnerty, Shantaram P. Hegde, and Christopher B. Malone, "Fraud and Firm Performance: Keeping the Good Times (Apparently) Rolling," Managerial Finance (No. 2, 2016), pp. 151-172.

John D. Finnerty, "What Lessons Can We Learn from Recent Derivatives Litigation and Regulatory Enforcement Actions?" Securities Regulation Law Journal (Winter 2016), pp. 361-427.

John D. Finnerty, Cameron D. Miller, and Ren-Raw Chen, "The Impact of Credit Rating Announcements on Credit Default Swap Spreads," Journal of Banking and Finance (June 2013), pp. 2011-2030.

John D. Finnerty, Project Financing: Asset-Based Financial Engineering, 3rd ed. John Wiley & Sons, New York, 2013.

John D. Finnerty, "A Closer Look at Correction for False Discovery Bias When Making Multiple Comparisons," Journal of Forensic Economics (December 2009), pp. 55-62.

John D. Finnerty and Gautam Goswami, "Determinants of the Settlement Amount in Securities Fraud Class Action Litigation," Hastings Business Law Journal (Summer 2006), pp. 453-486.

John D. Finnerty and George M. Pushner, "An Improved Two-Trader Model for Measuring Damages in Securities Fraud Class Actions," Stanford Journal of Law, Business & Finance (Spring 2003), pp. 213-263.

John D. Finnerty and Douglas R. Emery, Debt Management, Harvard Business School Press, Boston, 2001.

Douglas R. Emery, John D. Finnerty, and John D. Stowe, Principles of Financial Management. Prentice Hall, Upper Saddle River, NJ, 1998.

928

Qualifications

Selected Expert Testimony Experience

In re American International Group, Inc. Securities Litigation	U.S. District Court for the Southern District of New York
In Re Par Pharmaceutical Securities Litigation	U.S. District Court for the District of New Jersey
In re STEC, Inc. Securities Litigation	U.S. District Court for the Central District of California Southern Division
In re The Bear Stearns Companies, Inc. Securities, Derivative, and ERISA Litigation	U.S. District Court for the Southern District of New York
Carpenters Pension Trust Fund of St. Louis, et al. v. Barclays plc, et al.	U.S. District Court for the Southern District of New York
U.S. Securities and Exchange Commission v. Stifel, Nicolaus & Co., Inc. and David W. Noack	U.S. District Court for the Eastern District of Wisconsin
Bruce S. Sherman v. Bear Stearns Companies Inc., et al.	U.S. District Court for the Southern District of New York
In re Amgen Inc., Securities Litigation	District of California Western Division
In re Petrobras Securities Litigation Discovery Global Citizens Master Fund, Ltd., et al. v. Petroleo Brasileiro S.A., et al.	U.S. District Court for the Southern District of New York
In re Facebook, Inc., IPO Securities and Derivative Litigation	U.S. District Court for the Southern District of New York
Broadway Gate Master Fund, Ltd., et al. v. Ocwen Financial Corporation, et al.	U.S. District Court for the Southern District of Florida

AlixPartners
when it really matters

2

Dr. Gompers' "34 Dates Evidence" (and Defendants' Additional Articles) Were Not Corrective Disclosures

Dr. Gompers' "34 Dates Evidence" (and Defendants' Additional Articles) Were Not Corrective Disclosures

- Flaws in Dr. Gompers' analysis include:
  - Most of the articles only raised **possibility of conflicts of interest**.
  - Dr. Gompers failed to consider **confounding information** in the articles. 8/7/15 Finnerty Report ¶¶15-37; 5/15/15 Finnerty Reb. Decl. ¶¶176-186, Ex. 6.
  - Almost all articles contained **denials by Goldman**. 8/7/15 Finnerty Report ¶¶15-37; 5/15/15 Finnerty Reb. Decl. ¶¶176-186, Ex. 6.
  - Almost all articles contained **market commentary that Goldman's conduct was legal and appropriate**. Finnerty Report ¶¶15-37; 5/15/15 Finnerty Reb. Decl. ¶¶176-186, Ex. 6.
  - The **SEC lawsuit (and investigations) revealed new information that Goldman violated its Business Principles and Conflict Policies** that had artificially inflated Goldman's stock price. 5/22/15 Finnerty Report ¶¶11(c), 65-94, 5/15/15 Finnerty Reb. Decl. ¶¶202-205; 8/7/15 Finnerty Report ¶3(b), 43-55.

Note: A complete analysis on the information released on each of the 34 dates is provided in Exhibit 6 of the Rebuttal Declaration of John D. Finnerty, dated May 15, 2015. The information released on two additional dates is discussed in the Rebuttal Expert Report of John D. Finnerty, dated August 7, 2015. The information released on two more additional dates was only submitted very recently by defendants' counsel.

Dr. Gompers' "34 Dates Evidence" (and Defendants' Additional Articles) Were Not Corrective Disclosures

Examples:

- 12/6/07, "Goldman's Glory May be Short-lived," *Financial Times*

> "Goldman has been more aggressive than any other bank in putting the three [advisory, securities, and investment businesses] together - it often advises a company on a transaction, finances it and invests its own money. That regularly puts Goldman in delicate spots. ... **It often faces accusations of conflicts of interest over its overlapping roles but it brushes them off by saying that its job is to 'manage conflicts'**."

  - Article did **not** disclose the fact that Goldman had failed to manage its conflicts of interest and had violated its business principles risking damage to its reputation.
  - Article merely raised **possibility** of conflicts of interest.
  - Goldman explicitly denied any wrongdoing.
  - The author did not believe Goldman did anything wrong.

> "**But there is no evidence that Goldman did wrong** by issuing Mr. Hatzius's research or conversing with Mr. Paulson about financial conditions, if it actually did the latter**. I do not believe that Goldman broke insider trading laws. It would be stupid to risk its reputation in this way and it is anything but stupid**."

Dr. Gompers' "34 Dates Evidence" (and Defendants' Additional Articles) Were Not Corrective Disclosures

Examples:

- 12/11/07, "13 Reasons Why Bush's Mortgage Bailout Won't Stop A Recession," *Dow Jones Business News*

> "New York Attorney General Andrew Cuomo has already subpoenaed Wall Street. Next: Congress, the SEC and other state regulators will demand answers, such as why was Goldman shorting the SIVs they were selling, many of which quickly went into default? What did they fail to disclose? **Sounds like** a massive conflict of interest with major liabilities."

  - Article did **not** disclose the fact that Goldman had failed to manage its conflicts of interest and had violated its business principles risking damage to its reputation.
  - Article merely raised **possibility** of conflicts of interest.
  - Goldman previously explicitly denied any wrongdoing in articles published on December 3, 2007, "The Long and Short of It at Goldman Sachs," *The New York Times*; December 5, 2007, "Market Insight: Goldman's Risk Control Offers Right Example of Governance," *Financial Times*; and December 6, 2007, "Goldman's Glory May be Short-lived," *Financial Times*.

Dr. Gompers' "34 Dates Evidence" (and Defendants' Additional Articles) Were Not Corrective Disclosures

Examples:

- 12/14/07, "How Goldman Won Big On Mortgage Meltdown," *The Wall Street Journal*

> "Goldman's success at wringing profits out of the subprime fiasco, however, **raises questions** about how the firm balances its responsibilities to its shareholders and to its clients. … Why did Goldman continue to peddle CDOs to customers early this year while its own traders were betting that CDO values would fall? ... **The structured-products trading group that executed the winning trades isn't involved in selling CDOs minted by Goldman, a task handled by others. Its principal job is to 'make a market' for Goldman clients** trading various financial instruments tied to mortgage-backed securities… If it spots opportunity, it can trade Goldman's own capital to make a profit. **And when it does, it doesn't necessarily have to share such information with clients, who may be making opposite bets.** This year, Goldman's traders did a brisk business handling trades for clients who were bullish on the subprime-mortgage-securities market. At the same time, they used Goldman's money to bet that that market would fall."

- Article did **not** disclose the fact that Goldman had failed to manage its conflicts of interest and had violated its business principles risking damage to its reputation.
- Article merely raised **possibility** of conflicts of interest.
- Article indicated that Goldman appropriately managed conflicts of interest.
- Goldman's previous denials that they disclosed everything, managed any potential conflicts, and did nothing wrong were already in the marketplace.

Dr. Gompers' "34 Dates Evidence" (and Defendants' Additional Articles) Were Not Corrective Disclosures

Examples:

- 11/2/09, Zuckerman (2009), The Greatest Trade Ever

> "For his part, Paulson says that investment banks like Bear Stearns didn't need to worry about including only risky debt for the CDO's because 'it was a negotiation; we threw out some names, they threw out some names, **but the bankers ultimately picked the collateral**. We didn't create any securities, **we never sold the securities to investors**... We always thought they were bad loans.' … 'We provided the collateral' for the CDOs, Paulson acknowledges. 'But the deals weren't created for us, we just facilitated it; we proposed recent vintages of mortgages' to the banks." "Other bankers, including…**Goldman Sachs, didn't see anything wrong with Paulson's request and agreed to work with his team.**"

  - Book did **not** disclose the fact that Goldman had failed to manage its conflicts of interest and had violated its business principles risking damage to its reputation.
  - Book contained mixed information – including Paulson's denials: "we didn't create any securities" and "it was a negotiation; we threw out some names, they threw out some, but **the bankers ultimately picked the collateral.**"
  - Author conveyed that Goldman denied any wrongdoing.
  - In two articles published on the same day ("Profiting From the Crash," *The Wall Street Journal*; and "How Goldman Secretly Bet on the U.S. Housing Crash," *McClatchy Washington Bureau*), **Goldman explicitly denied any wrongdoing**.
  - Excerpt suggested that the relevant trading by Goldman was done as a market maker supplying liquidity to the market.

935

Dr. Gompers' "34 Dates Evidence" (and Defendants' Additional Articles) Were Not Corrective Disclosures

Examples:

- 12/5/09, "Economy's Loss Was One Man's Gain," *The New York Times,* Book Review

> "Mr. Paulson persuaded Goldman Sachs and Deutsche Bank to put together securitized collateralized debt obligations (known as C.D.O.'s), which were filled with nasty mortgages that he could then short. Of course, nobody told the suckers -- er, investors -- who bought those C.D.O.'s that they were designed to help a man who wanted the most toxic mortgages imaginable so he could profit when they went sour."

  - Article did **not** disclose the fact that Goldman had failed to manage its conflicts of interest and had violated its business principles risking damage to its reputation.
  - No new information in article that was not in book – old news.
  - Article focused on Paulson, not Goldman, and contains no discussion of structuring of Abacus or what was misrepresented to Abacus investors.

Dr. Gompers' "34 Dates Evidence" (and Defendants' Additional Articles) Were Not Corrective Disclosures

Examples:

- 12/24/09, "Banks Bundled Bad Debt, Bet Against It and Won," *The New York Times*

Regarding preliminary investigations, "authorities **appear** to be looking at **whether** securities laws or rules of fair dealing were violated by firms that created and sold these mortgage-linked debt instruments and then bet against the clients who purchased them."

  - Article did **not** disclose the fact that Goldman had failed to manage its conflicts of interest and had violated its business principles risking damage to its reputation.
  - Article merely raised **possibility** of conflicts of interest.
  - Article indicated that Goldman appropriately managed potential conflicts of interest.
  - Article included direct denial by Goldman and mixed information.

"**Goldman and other Wall Street firms maintain there is nothing improper about synthetic C.D.O.'s**, saying that they typically employ many trading techniques to **hedge investments and protect against losses**." "Mr. DuVally said **many of the C.D.O.'s created by Wall Street were made to satisfy client demand** for such products……and that **clients knew Goldman might be betting against mortgages linked to the securities**…" "The Goldman salesman said that **C.D.O. buyers were not misled because they were advised that Goldman was placing large bets against the securities**. "We were very open with all the risks that we thought we sold."

Market Commentary Confirms that Dr. Gompers' "34 Dates Evidence" (and Defendants' Additional Articles) Did Not Disclose Goldman's Severe Conflicts and Did Not Have an Impact on Goldman's Reputation

- CIBC World Markets, Analyst Report January 29, 2007 (Ex. 19 (Porten Ex.9))

"According to Viniar, **Goldman was very careful about the conflicts or perceived conflicts that emerge**, and actually has **a full time partner monitoring these conflicts**."

- Merrill Lynch, Analyst Report March 13, 2007 (Ex. 20 (Porten Ex.7))

Conflict Management skill maximizes franchise value

The **consistency with which the firm has avoided crossing the line and damaging its reputation** is such that it must be doing something right. The conflict management process is clearly **taken extremely seriously** at the firm, since it is viewed as not just a by-product but a key pillar of the firm's franchise business. Though the **process is highly structured and rigorous, 20% of the conflicts end up at the top of the firm**.

Goldman manages conflicts, rather than simply avoiding them, in order to **maximize the value of its franchise…**

- Merrill Lynch, Analyst Report July 28, 2008 (Ex. 20 (Porten Ex.8))

Despite the fairly constant undertone of criticism over the firm's embrace of principal activities, we believe that **Goldman has actually tended its customer-oriented business carefully**, which explains why at the end of the day, the world tends to come to Goldman, and **the absence of major conflict problems**.

Effective Versus Ineffective Denials

- Goldman's denials prior to April 16, 2010 and its denial on April 16, 2010 are fundamentally different. **Before the SEC lawsuit**, Goldman's denials were **credible** and therefore believed by the market.
- News articles published prior to April 16 2010 that Dr. Gompers focused on did not disclose the fact that Goldman had actually failed to manage its conflicts of interest and had violated its business principles, which would necessarily result in subsequent harm to Goldman's reputation, its client relationships, and therefore its business.
- Therefore, whenever Goldman denied the allegations in the news articles discussing Goldman's potential conflicts, market participants were not able to determine that Goldman had (a) engaged in any fraudulent conduct by failing to manage its conflicts of interest effectively and (b) concealed this misconduct.
- In contrast, the announcement of the SEC enforcement action on April 16, 2010 revealed, contrary to Goldman's previous denials, the full details and severity of Goldman's mismanagement of its conflicts of interest and violation of its business principles as demonstrated by the Abacus 2007-AC1 CDO.
- Therefore, **Goldman's denials** in response to the SEC's enforcement action announced on April 16, 2010 **were no longer credible**.
- The April 30, 2010 disclosure of a DOJ criminal investigation and the June 10, 2010 disclosure of an SEC enforcement investigation further conveyed to the market the seriousness and severity of Goldman's mismanagement of its conflicts of interest and Goldman's violations of its business principles.
- These announcements further harmed Goldman's reputation and undermined the credibility of Goldman's previous denials.

939

AlixPartners
when it really matters

3

Dr. Choi Failed to Demonstrate that the Entire Stock Price Decline on the Corrective Disclosure Dates Was Due Solely to Non-Fraud-Related Information

Dr. Choi Failed to Demonstrate that the Entire Stock Price Decline on the Corrective Disclosure Dates Was Due Solely to Non-Fraud-Related Information

- The **statistically significant price declines** following the announcements of the SEC Abacus fraud lawsuit on 4/16/10, the DOJ criminal investigation on 4/29/10, and the SEC Hudson investigation on 6/9/10 **demonstrate stock price impact** from the misrepresentations. 8/7/15 Finnerty Report ¶3(b).

- Dr. Choi (and Dr. Gompers) mischaracterize the SEC complaint and DOJ and SEC investigations as confounding information (or non-allegation-related information).

- But my analysis demonstrates:
  - "[T]he description of Goldman's conduct embodied in those announcements is **inextricably tied** to the regulatory enforcement actions. This is the precise conduct that is the subject of the alleged misstatements and omissions regarding Goldman's Conflicts of Interest and its Business Principles." 8/7/15 Finnerty Report ¶¶45-47

  - "[T]he news concerning the regulatory enforcement actions on the Disclosure Dates cannot be characterized as "confounding news" but, instead, is directly related to the allegations in this matter, as stated in the Complaint." 8/7/15 Finnerty Report ¶3(c).

Dr. Choi Failed to Demonstrate that the Entire Stock Price Decline on the Corrective Disclosure Dates Was Due Solely to Non-Fraud-Related Information

- Dr. Choi's analysis is critically flawed for the following reasons:
  - The alleged misconduct in the four enforcement actions he cites is **not comparable** to Goldman's alleged misconduct that is the subject of the enforcement action announced on April 16, 2010.
  - In measuring abnormal returns, Dr. Choi did not perform proper event studies, because he **failed to check for confounding news** (and adjust for its impact on the company's stock price).
  - **The sample size of four is too small** to yield any meaningful conclusions. In particular, this very small sample has a very wide range of abnormal returns, which extends from -17% to -3%.

Defendant Name	Abnormal Return
Life Partners Holdings, Inc.	-17.09%
BankAtlantic Bancorp, Inc	-8.13%
Stifel, Nicolaus & Co.	-3.73%
Houston American Energy Corp	-3.34%

  - His two-sample t-test is improper; the -9.27% abnormal return is not a "sample," and it is improper to perform a two-sample t-test with such small samples and with a population that is not normal. But even if considering Dr. Choi's flawed 95% confidence interval, the result demonstrates that the 4/16/10 SEC lawsuit "in and of itself" **did not fully explain** Goldman's 9.27% stock drop.
  - Dr. Choi ignored his own prior research recognizing that the announcement of an enforcement action inherently conveys information about the underlying misconduct.
  - Dr. Choi **ignored market commentary** linking the SEC fraud lawsuit to the alleged false statements about conflict policies and business principles.

Additional Reasons Dr. Choi Fails to Show a Complete Lack of Price Impact

- Dr. Choi's qualitative analysis of the circumstances surrounding the announcements of the Goldman regulatory actions on the three corrective disclosure dates is speculative, unrooted in financial analysis, and contradicted by contemporaneous market commentary.

- Consequently, Dr. Choi's qualitative analysis of the April 16, 2010 disclosure does not demonstrate a complete lack of price impact.

- Dr. Choi fails to provide any statistical analysis of the abnormal returns on the April 30, 2010 and June 10, 2010 disclosure dates, and thus his qualitative analysis for these dates also cannot show a complete lack of price impact.

AlixPartners
when it really matters

4

Event Study and Economic Analysis Demonstrate Price Impact on the Three Corrective Disclosure Dates

Event Study and Economic Analysis Demonstrate Price Impact on the Three Corrective Disclosure Dates

- Defendants' misstatements and omissions on the first day of the Class Period inflated Goldman's stock price – i.e., kept the stock trading at a higher price than it would have been had the truth been known – and subsequent statements and omissions further inflated and maintained inflation. 5/25/15 Finnerty Reb. Decl., ¶205; 8/7/15 Finnerty Reb. Decl., ¶3(b), 10-14.

- The statistically significant stock price declines on the three corrective disclosure dates "establish price impact." 5/22/15 Finnerty Reb. Decl., ¶¶202-205.

- The statistically significant stock price declines are related to the alleged misrepresentations. 8/7/15 Finnerty Reb. Decl., ¶¶3(c), 38-42, 131-133; 5/22/15 Finnerty Rep ¶11.a-c, 65-94, 108-147.

Event Study and Economic Analysis Demonstrate Price Impact on the Three Corrective Disclosure Dates

Effective Disclosure Date	Information Disclosed	Actual Return	Abn. Return	Sig
April 16, 2010	• The SEC announced that it had filed a **complaint against Goldman charging Goldman with securities fraud** as demonstrated by Abacus 2007-AC1. The **22-page** SEC Complaint revealed various conflicts including that Paulson, with economic interests directly adverse to investors in the CDO, played a significant role in the portfolio selection process. • The new information revealed that **Goldman's marketing materials for Abacus 2007-AC1 misled investors** by failing to disclose Paulson's involvement in selecting the reference portfolio of the CDO and by misrepresenting that the reference portfolio was selected by ACA. • The new information also revealed that Goldman had **misled ACA** that ACA's and Paulson's interests were aligned by failing to disclose to ACA Paulson's massive short position. • The SEC's fraud charge provided **new information** regarding the **severity** of Goldman's conduct and revealed that Goldman had been engaged in undisclosed conflicts of interest and had violated its business principles.	-12.79%	-9.27%	***
April 26, 2010	• The Senate Subcommittee on Investigations announced the release of **four Goldman internal emails**, which indicated that it had made money shorting the mortgage market.	-3.41%	-1.68%	

Note: ***, **, * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Event Study and Economic Analysis Demonstrate Price Impact on the Three Corrective Disclosure Dates

Effective Disclosure Date	Information disclosed	Actual Return	Abn. Return	Sig
April 30, 2010	• The *Wall Street Journal* reported that the Department of Justice (**DOJ**) had opened a **criminal investigation** (centered on "different evidence" than the SEC's civil case). • In connection with Goldman's allegedly fraudulent conduct, the Senate Subcommittee on Investigations had **previously criticized the Abacus 2007-AC1, Hudson 2006-1, Timberwolf 1, and Anderson 2007-1** CDO transactions. • The *Wall Street Journal* article provided significant new information regarding the **severity** of Goldman's conflicts of interest and violations of its business principles in contrast to Goldman's allegedly false and misleading statements.	-9.39%	-7.75%	***
June 10, 2010	• Bloomberg reported on June 9 that the **Hudson 2006-1** CDO was also **being investigated by the SEC**. • The second SEC probe into a Goldman CDO transaction provided significant new information regarding the **severity** of Goldman's conduct and revealed that Goldman had been engaged in undisclosed conflicts of interest and violated its business principles in contrast to Goldman's allegedly false and misleading statements.	-2.21%	-4.52%	**

Note: ***, **, * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Market Commentary in Response to the April 16, 2010 Corrective Disclosure Supports Price Impact Analysis

- *Associated Press*, "Fraud Charge Deals Big Blow To Goldman's Image," April 18, 2010 (ECF No. 155-5)

> "In its corporate profile, the company says its culture distinguishes it from other firms and 'helps to make us a magnet for talent.' That culture is summed up in the firm's '14 Business Principles,' which preach an almost militant philosophy of putting the client before the firm. Now, it's that very philosophy that has been questioned by the government."
>
> "Our Clients' interests always come first" the company says on its website under the heading, "Goldman Sachs Business Principle No. 1."

- *Wall Street Journal*, "Common Sense: Where's the Goldman Sachs I Used to Know?," April 21, 2010 (ECF No. 155-7)

> "It's hard to imagine the damage that these developments have done already to Goldman Sachs's reputation. The company has always maintained a public position that the business of investment banking depends on trust, integrity and putting clients' interests first."

- *Wall Street Journal Blog*, "How Goldman Gets Its Premium Back," May 21, 2010 (ECF No. 201, Ex 25)

> "…the premium has dissolved because the market is worried, not about lawsuits or politics, but about Goldman's core business. The Abacus affair has highlighted the conflicts intrinsic to the investment banking business. But historically Goldman has managed those conflicts well."
>
> Conversely, evidence of poorly managed conflicts is especially dangerous to Goldman. Some damage has already been done.

Market Commentary in Response to the April 16, 2010 Corrective Disclosure Supports Price Impact Analysis

- John Coffee, a securities law professor at Columbia Law School, April 19, 2010

> "<u>These charges are far more severe than anyone had imagined</u>" and Goldman had teamed with "the leading short-seller in the industry to design a portfolio of securities that would crash."

- Citigroup Global Market, April 16, 2010

> "This is the first time the SEC has brought a complaint alleging fraud on the part of a broker dealer in marketing investments on subprime mortgages... the issue is whether this was an isolated incident or not. <u>Reputation risk is biggest issue in our view</u>, and we do not view this as a 'life threatening issue', but <u>clearly seems like a 'black eye' for Goldman.</u>"

- Bank of America Merrill Lynch, April 16, 2010

> "<u>This is clearly a serious charge</u>,… it's not clear whether there are more such cases; nor whether the SEC might refer the case to the DOJ for criminal charges; nor <u>how serious the reputational effects might be for GS</u> and for the industry more broadly."

- Moody's, April 19, 2010

> "<u>This development is a credit negative for Goldman Sachs given the potential franchise implications and direct financial costs</u>."

Market Commentary in Response to the April 29, 2010 Corrective Disclosure Supports Price Impact Analysis

950

- Fitch Ratings, May 5, 2010

> "The Rating Outlook revision to Negative incorporates recent legal developments and ongoing regulatory challenges that could adversely impact Goldman's reputation and revenue generating capacity…. And for financial services companies, particularly those dependent on the capital markets, reputation is critically important."

- Bank of America Merrill Lynch, April 30, 2010

> "We are lowering our rating on GS to Neutral from Buy and our price objective to $160 from $220. Our downgrade is prompted by news reports filed Thursday evening by the media including the Wall St. Journal indicating that federal prosecutors have opened an investigation of GS in connection with its trading activities, raising the possibility of criminal charges."

- Standard & Poor's Equity Research Group, April 30, 2010

> Cut its investment recommendation on Goldman's stock to Sell from Hold and lowered its price target by $40 to $140, stating that "we think the risk of a formal securities fraud charge, on top of the SEC fraud charge and pending legislation to reshape the financial industry, further muddies Goldman's outlook."

- Citigroup Global Market, May 2, 2010

> "Goldman's reputation is one of the firm's greatest assets. To the extent clients lose faith and either reduce or eliminate their transactions with Goldman, it could have significant detrimental effect across all of the firm's business."

- *The Washington Post*, April 30, 2010

> "The Justice Department's criminal investigation into Goldman Sachs goes beyond the financial transactions targeted by the Securities and Exchange Commission in the civil fraud suit brought against the firm last month… While prosecutors and investigators are focusing on some of the same mortgage-related transactions as the SEC,… the Justice Department cast a wider net."

Market Commentary in Response to the June 9, 2010 Corrective Disclosure Supports Price Impact Analysis

- Wells Fargo, June 10, 2010

> Near-term challenges for Goldman's stock were likely to persist, although it believed that a settlement with the SEC in the future would be positive for Goldman's stock. It noted that <u>media reports of a second SEC investigation into Goldman's CDO marketing practices, specifically the Hudson 2006-1 CDO, pushed Goldman shares down as much as 4% on June 10, 2010</u>.

Labaton Sucharow

Robbins Geller Rudman & Dowd LLP

In re Goldman Sachs Grp., Inc. Secs. Litig., No. 1:10-cv-03461-PAC

Lead Plaintiffs' Summary of Argument in Further Support of Class Certification

July 26, 2018

Alleged Misstatements Contained Omissions to Maintain the Goldman "Premium"

- Price maintenance
  - Courts have recognized that misstatements and omissions of material information cause price impact by keeping a company's stock price trading at a higher level than it would have traded had the truth been revealed
  - The Second Circuit affirmed this
    - *See In re Vivendi, S.A. Sec. Litig.*, 838 F.3d 223, 259 (2d Cir. 2016)

Alleged Misstatements Contained Omissions to Maintain the Goldman "Premium," Cont'd

- Professor Finnerty explained yesterday that this is a price maintenance case
  - What caused inflation in Goldman's stock price "was a ***failure to disclose*** the conflicts of interest and the failure to manage those conflicts of interest, the failure to adhere to the business principles and ***the failure to disclose*** the ***risk to Goldman's reputation*** associated with not managing its conflicts of interest." 7/25/18 Hearing Tr. at 196:13-17
  - Goldman's 14 misstatements and omissions between June 14, 2007 and April 16, 2010 ***maintained price inflation*** in Goldman's stock price *Id.* at 199:3-9

Alleged Misstatements Contained Omissions to Maintain the Goldman "Premium," Cont'd

- The ***premium*** that the market attached to Goldman's stock was maintained in the absence of corrective information
- ***Analysts recognized that Goldman's ability to manage conflicts was a key element driving the Goldman Sachs premium and was thereby reflected in the stock price:***
  - "***Conflict Management skill maximizes franchise value***: [T]he consistency with which [Goldman] has ***avoided*** crossing the line and ***damaging its reputation*** is such that it must be doing something right. The conflict management process is clearly taken extremely seriously at the firm, since it is viewed as not just a by-product but ***a key pillar of the firm's franchise business***. Though the process is highly structured and rigorous, 20% of the conflicts end up at the top of the firm. ***Goldman manages conflicts***, rather than simply avoiding them, in order to ***maximize the value of its franchise***"

    Merrill Lynch, March 13, 2007 (Pls' Ex. 20 (Porten Ex. 7))

Alleged Misstatements Contained Omissions to Maintain the Goldman "Premium," Cont'd

- "[W]hile ***[Goldman] trades at a substantial premium to its peers***, we believe it is warranted given its diversified franchise, ***strong brand***, higher ROE profile, and ***peerless risk management***" Buckingham Research Group, June 17, 2008
- "Investment Thesis: GS' deleveraging and slower global economic activity should drive lower absolute levels of profitability in 2009, but reduced competition, minimal consumer exposure, and ***GS' sterling reputation*** should allow the company to drive above-average profit growth, ***resulting in premium valuation*** over time" Wachovia, April 13, 2009 (Porten Ex. 14)

Alleged Misstatements Contained Omissions to Maintain the Goldman "Premium," Cont'd

- After the first two corrective disclosures, the premium largely "dissolved":
  - "***How Goldman Gets Its Premium Back***: "[T]here is another possibility [as to why investors are steering clear of Goldman stock]: that ***the premium has dissolved because the market is worried***, not about lawsuits or politics, but ***about Goldman's core business*** . . . . This territory [the specifics of the conflicts revealed by the SEC in connection with Abacus] is especially dangerous for Goldman because of the ***perception that it is an elite adviser and an elite trader that can do both simultaneously while managing the conflicts to the satisfaction of its clients***. ***That's why its stock carries a premium to its peers in bull markets***. ***Conversely, evidence of poorly managed conflicts is especially dangerous to Goldman***. Some damage has already been done . . . . To regain ***its valuation premium***, Goldman must steer back to the light side" *Wall Street Journal*, May 21, 2010 (Pls' Ex. 25 (Porten Ex. 19))

Introduction – Gompers

- Gompers's theory is that all information on 36 dates should have ***in fact*** revealed the false and misleading nature of alleged misstatements/omissions.
- He argues the fact that Goldman's stock did not decline on those dates shows there was ***no*** inflation introduced into the stock by those misstatements/omissions, i.e., no price impact.
- He needed to show that those 40+ articles were ***in fact*** corrective to prove that.
- He did not.

Defendants’ 36 Dates Evidence Fails to Meet Their Burden – Overview

Evidence fails to carry Defendants’ burden because:

1. Most of the 36 Dates articles included conflicting information that blunted any potential negative price reaction:
   a. ***Goldman’s denials*** of any wrongdoing and/or
   b. ***similar statements by the authors or others*** indicating Goldman’s conduct was ***not illegal or improper***

Defendants' 36 Dates Evidence Fails to Meet Their Burden – Overview, Cont'd

2. The 36 Dates articles were ***not corrective***

- These articles ***at most*** discussed Goldman's "***potential***" conflicts, consistent with the alleged misstatements
  - » *i.e.*, they suggested ***possible*** or ***theoretical*** conflicts
- They did not disclose that conflicts ***in fact arose*** or that Goldman ***actually*** failed to "address" them

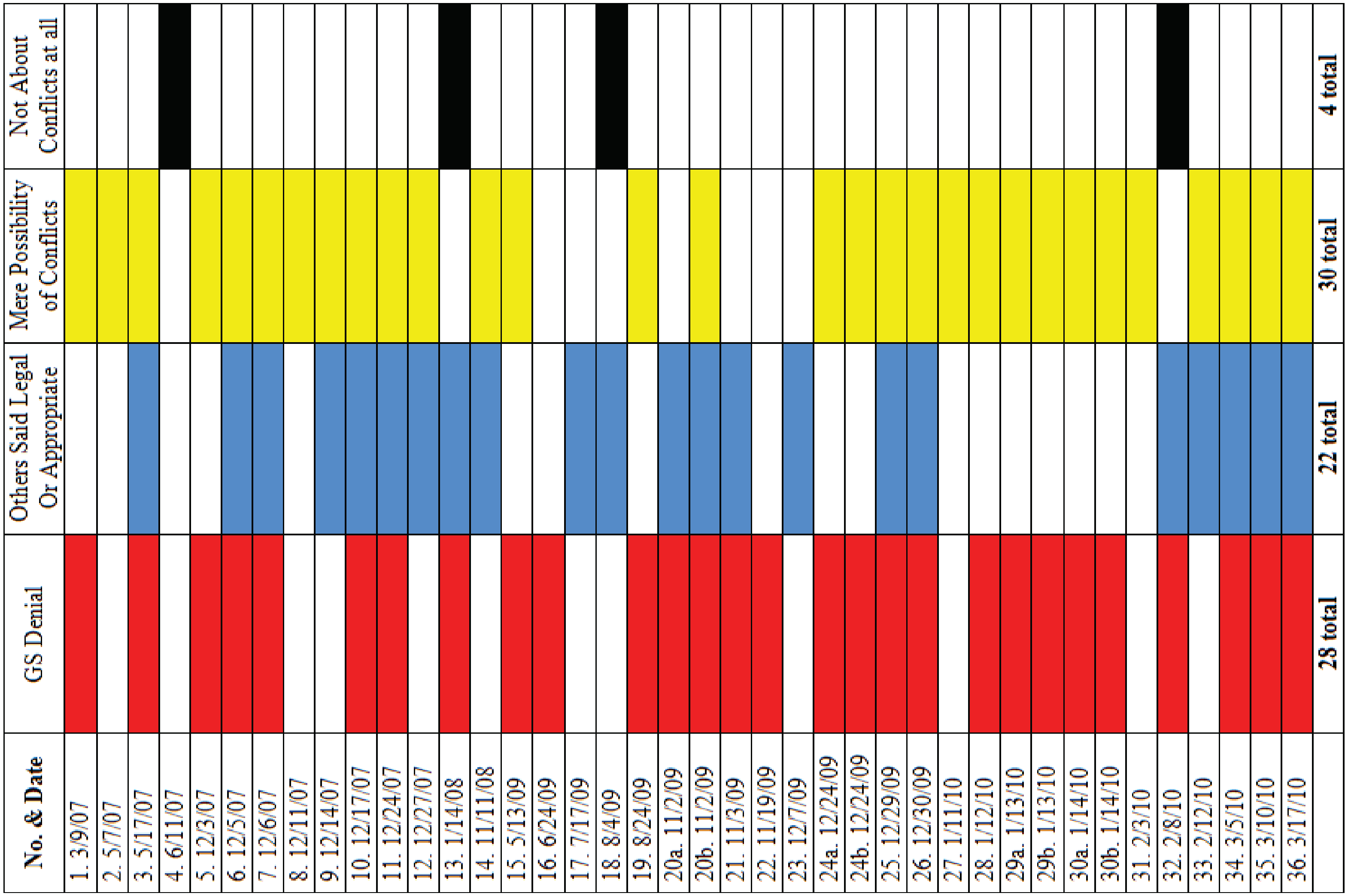
Defendants' 36 Dates Evidence Fails to Meet Their Burden – Overview, Cont'd

3. Some were ***not*** about ***conflicts at all***

Defendants' 36 Dates Evidence Fails to Meet Their Burden – Overview, Cont'd

- In total:
  - 28 contain Goldman ***denials***
    - 12 left
  - 22 characterized conduct as ***legal or appropriate***
    - 5 left (due to overlap)
  - 30 of the 40 merely raised the ***possibility*** of conflicts
    - 1 left
  - 4 of the 40 Articles are not about conflicts ***at all***
    - 0 left

The 36 Dates Articles Did Not Reveal the Falsity of the Alleged Misstatements



Goldman's Denials of Any Conflicts or Misconduct Blunted a Negative Price Reaction

- Defs' Ex. 3, which listed ***only 16*** articles with such denials ***understates***—by almost ***half***—the actual number *See* ECF No. 193-3
- Dr. Finnerty opined that such denials blunted any negative stock price reaction

December 6, 2007: "Goldman's Glory May be Short-lived," *Financial Times* (Defs' Ex. 21)

Defendants' Excerpts, *e.g.*:

- Goldman's "*leaders **astutely** decided to hedge its mortgage book.... Two commentators have now ... **accuse[d]** Goldman of behaving unethically and **perhaps** of breaking the law.... [It] often faces **accusations** of conflicts of interest … **but it brushes them off by saying its job is to 'manage conflicts'**" Defs' Ex. 21 at 4 (ECF No. 193-21)
  - ➢ Merely raised the ***possibility*** of conflicts

They Omit, *e.g.*:

- ***Repeats Goldman's denial***: "***Goldman bankers say it is impressed upon them that they must tell others of any concerns they have about clients***" *Id.* at 4
- **Conduct characterized by others as *legal or proper***: "[T]here is ***no evidence that Goldman did wrong***.... ***I do not believe that Goldman broke insider trading laws***. It would be stupid to risk its ***reputation*** in this way and it is anything but stupid." *Id.* at 4
  - ➢ Merely raised ***possible*** conflicts, while indicating they were ***appropriately managed***
- One of two articles the ***Second Circuit*** said this Court "should consider"

December 11, 2007: "13 Reasons Why Bush's Mortgage Bailout Won't Stop A Recession," *Dow Jones Business News* (Defs' Ex. 22)

Defendants' Excerpts, *e.g.*:

- "[R]egulators will demand answers, such as *why was Goldman shorting the SIVs they were selling, many of which quickly went into default? What did they fail to disclose?* ***Sounds like*** *a massive conflict of interest....*" Defs' Ex. 22 at 4 (ECF No. 193-22)
  - Merely raised the ***possibility*** of conflicts

Article conveyed ***opinions*** based on previously public info:

- Merely raised questions that "***demand[ed] answers***" – not facts showing actual conflicts, much less tying them to impact on Goldman's reputaiton
- Speculated that "regulators will demand answers" and posed ***questions***, not conclusions; conceded **"*hearings could drag on a long time*"** such that resolution of such questions was still distant (*id.*)
- One of two articles the ***Second Circuit*** said this Court "should consider"

December 24, 2009: "Banks Bundled Bad Debt, Bet Against It and Won," *New York Times* (Defs' Ex. 39)

Defendants' Excerpts, *e.g.*:

- "*Goldman kept a significant amount of the financial bets against securities in **Hudson**, so it would profit if they failed…. Congress [and] the [SEC] ... **appear to be** looking at **whether** securities laws or rules of fair dealing were violated.*" Defs Ex. 39 at 3

They Omit, *e.g.*,:

- Merely raised the ***possibility*** of conflicts: "the investigations are in the ***early phases***"
- ***Goldman's denials***:
  - "Goldman and other Wall Street firms maintain ***there is nothing improper about synthetic C.D.O.'s,*** saying that they typically employ many trading techniques to ***hedge investments and protect against losses***. *Id.* at 2
  - Goldman spokesman DuVally "said many of the C.D.O.'s ... were made ***to satisfy client demand*** for such products" and "said that ***clients knew Goldman might be betting against*** mortgages linked to the securities." *Id.* at 3
  - "The Goldman salesman said that ***[Hudson] C.D.O. buyers were not misled*** because they were ***advised that Goldman was placing large bets against the securities***. 'We were ***very open*** with all the risks….'" *Id.* at 3
- Goldman made more ***false denials*** in a press release ***the same day*** (ECF No. 196 at 11)
  - ➢ Cited as one of Defendants' top examples (Defs' Supp. Br. at 9 & 18)

Goldman's Denials Blunted a Negative Price Reaction, Cont'd

- At the evidentiary hearing, Dr. Gompers conceded: "***[P]ositive news can offset negative news***. Any day that you have ***confounding news, you have to try an[d] ascertain what each component*** is doing to the stock price" -7/25/18 Hearing Tr. at 83:23-84:4
- He also agreed that "***positive news can cancel out negative news***," stating: "hypothetically, if two identical pieces of news with the identical but opposite cash flow implications came to the market, ***they would exactly offset and would you have no stock price movement***" - *Id.* at 84:5-11

Goldman's Denials **Blunted a Negative Price Reaction, Cont'd**

- In response to whether Goldman's ***denials*** of wrongdoing on the 36 Dates was "positive or negative" news, Dr. Gompers further conceded that "[i]t is ***certainly not negative news***"
  - *Id.* at 84:12-25

– When asked whether such denials were "relevant information to investors," he also admitted that "***it is relevant about whether or not the investors thought that the actions were legal***"
  - *Id.* at 91:11-16

Goldman's Denials **Blunted a Negative Price Reaction, Cont'd**

- But Dr. Gompers also admitted that he ***did not consider Goldman's denials in conducting his event study.*** Specifically, he admitted that:
  - ***He did not search for Goldman's denials*** in looking for public "discussion of conflicts of interest at Goldman Sachs" for his event study. -*Id.* at 82:5-15
  - That Goldman's press releases denying the conflicts alleged in certain 36 Dates articles "***wouldn't have been picked up***" by his database search. -*Id.* at 90:5-91:8.
  - And, "***If it is not picked up then I wouldn't have looked at it***." -*Id.* at 90:25-91:1

Goldman's Denials Blunted a Negative Price Reaction, Cont'd

- Dr. Gompers also ***selectively excerpted*** his descriptions of the articles on the 36 Dates in his charts (Exs. 5 & 6 to his report) ***to omit Goldman's denials*** contained therein. He repeatedly testified, *e.g.*,:
  - "***The denial*** -- this portion of the article ***is not there*** [in Ex. 6]"
  - Such denials were ***"not included in what I excerpted in Exhibit 6"***
    - 7/25/18 Hearing Tr. at 85:17-90:18

Goldman's Denials **Blunted a Negative Price Reaction, Cont'd**

- Effect of denials is ***not*** a "speculative theory"

  (Defs' Supp. Br., ECF No. 192, at 14)

  – "[T]he *Basic* presumption" was ***not*** "rebutted" where public reports "during the class period . . . ***publicized the existence of conflicts of interest*" by Goldman** because "throughout the same time period, ***investors were also being fed reassuring statements by Goldman" denying conflicts*.** *Lapin v. Goldman Sachs & Co.*, 254 F.R.D. 168, 182-84 (S.D.N.Y. 2008)

    - *See also In re Moody's Corp. Sec. Litig.*, 274 F.R.D. 480, 490-92 (S.D.N.Y. 2011) (same where "the market was well aware of the ***potential*** for conflicts, ***but each time the [defendants] assured investors that the conflicts were either being managed or negligible***")

Defendants' 36 Dates Evidence Fails to Meet Their Burden, Cont'd

- For example, even after the first 13 of Gompers's articles were published, an analyst from Merrill Lynch observed on July 28, 2008:
  - "***[W]e believe that Goldman has actually tended its customer-oriented businesses carefully, which explains why at the end of the day, the world tends to come to Goldman, and the absence of major conflict problems***."
    - Pls' Ex. 21 (ECF No. 201-7)

Analysts Rebut Gompers During Time Period of 36 Articles

- Many analysts covered Goldman's conflicts policies and reputation ***positively***, showing that ***the market did not learn*** of its failure to adequately address conflicts from the 36 Dates articles. *E.g.*,:
  - On March 9, 2007 – the first of Gompers's 36 Dates, a *Forbes* article reported ***potential*** conflicts and contained this ***denial***: "'***There is no conflict***,' snaps Lucas van Praag, Goldman's Chief spokesman"
  - Four days later, Merrill Lynch issued the following analyst report: "***Conflict Management skill*** maximizes franchise value: … ***[T]he consistency with which the firm has avoided crossing the line and damaging its reputation is such that it must be doing something right. The conflict management process is clearly taken extremely seriously at the firm*** … ***Goldman manages conflicts, rather than simply avoiding them***, in order to maximize the value of its franchise…." Pls' Ex. 20 (3/13/2007 Merrill Lynch report, ECF No. 201-7)

Analysts Rebut Gompers, Cont'd

- Pls' Ex. 19 (1/29/2007 CIBC): "According to Viniar, ***Goldman is very careful about the conflicts or perceived conflicts*** that emerge, and actually ***has a full time partner monitoring these conflicts***."
- Pls' Ex. 21 (7/28/2008 Merrill Lynch): "***[W]e believe that Goldman has actually tended its customer-oriented businesses carefully***, which explains why at the end of the day, the world tends to come to Goldman, ***and the absence of major conflict problems***."

- 11/24/09 Bank of America Merrill Lynch: "***Goldman has always managed its conflicts effectively.*** … Goldman has often been viewed as having more than the average amount of ***potential conflict*** because of its principal activities (private equity and prop trading), though the scale and growth of its client trading and investment-banking franchise make it clear that ***these conflicts have overall been well managed***."
  - *Issued just 5 days after Defs' Ex. 37 ("GS a Short? And Five Reasons We Hate Goldman Sachs") and within a few weeks of *The Greatest Trade Ever* (Defs' Ex. 36, 11/3/09) and other 36 Dates articles (Defs' Exs. 34 & 35, 11/2/09)

Introduction – Choi

The Facts Don’t Matter

Introduction – Choi

- Choi's theory begins from the undisputed fact that there are three statistically significant stock drops on the revelation of information about Goldman's unmanaged conflicts of interest and related enforcement activity
- So he must explain it away 100%
- He has to prove that all of the decline was not due to revelation that Defendants' conflict management and Business Principles Statements were false.
- ***This is what he has failed to show***
- ***In fact***, the information disclosed on these three dates did affect Goldman's stock price

Defendants' *Burden* Under the Preponderance of the Evidence Standard Is Not Minimal, Cont'd

- "[M]erely suggesting that another factor ***also*** contributed to an impact on a security's price does not establish that the fraudulent conduct complained of did not also impact the price."
  - ***Barclays***, 875 F. 3d at 104-05 (emphasis in original)

Choi's Analysis Fails to Show No Price Impact

- Dr. Choi's evidence does not carry Defendants' burden

1) <u>**First Drop**</u>: His analysis is problematic for the reasons Finnerty explained:
   - His quantitative analysis is suspect
   - His qualitative analysis is undercut by the fact that he ignores news and stock analyst coverage

2) <u>**Second and Third Drops**</u>:
   - He did ***not*** conduct a ***quantitative*** analysis at all
   - **Second Drop:** At the evidentiary hearing, he testified that he ***did not do an "empirical analysis*** of the causes of the April 30 stock price decline"

     -7/25/18 Hearing Tr. at 116:19-117:9
   - **Third Drop:** Likewise, he testified that he did not did not do an "empirical analysis of the causes of the June 10 price decline"

     - *Id.* at 119:17-120:7

Choi's Analysis Fails to Show No Price Impact, Cont'd

- Choi's analysis was ***unreliable*** for several reasons:
  - Choi's use of his three "severity factors" that are purportedly indicative of the cost of an SEC action for his event study was arbitrary and not supported by academic literature
    - At the evidentiary hearing, he conceded that he was "***not aware of any [empirical studies] that used all three factors together***" and that he is "***the only person to ever have done this analysis***"
      - 7/25/18 Hearing Tr. at 142:6-143:11
- Choi applied those "severity factors" to 117 SEC enforcement actions
- Choi acknowledged that he did not review the complaints in those 117 SEC enforcement actions for substance:
  - Q. In 113 complaints out of 117, ***you did not look at the actual allegations*** that the SEC said was the basis for the enforcement action, actually go page by page ***or even skim them***, to say here is the charges that the SEC brought; right, sir?
  - A. ***That's correct***; for the reasons I give in my direct testimony.
    - 7/25/18 Hearing Tr. at 137:10-16

Choi's Analysis Fails to Show No Price Impact, Cont'd

- Choi ignored the fraudulent conduct in 113 of the 117 SEC enforcement actions
- Resulted in four cases with one obvious outlier

Defendant Name	Abnormal Return
Life Partners Holdings, Inc.	-17.09%
BankAtlantic Bancorp, Inc	-8.13%
Stifel, Nicolaus & Co.	-3.73%
Houston American Energy Corp	-3.34%

- Choi created a too-small sample size of only four other SEC complaints based on these three arbitrary "severity factors"
  - "A t-test is ***not appropriate*** for small samples drawn from a population that is not normal." Federal Judicial Center Reference Manual on Scientific Evidence, "Reference Guide on Statistics" 300 (3d. Ed. 2011)

Dr. Choi Failed to Demonstrate that the Entire Stock Price Decline on the Corrective Disclosure Dates Was Due Solely to Non-Fraud-Related Information

- Dr. Choi's analysis is critically flawed for the following reasons:
  - The alleged misconduct in the four enforcement actions he cites is **not comparable** to Goldman's alleged misconduct that is the subject of the enforcement action announced on April 16, 2010.
  - In measuring abnormal returns, Dr. Choi did not perform proper event studies, because he **failed to check for confounding news** (and adjust for its impact on the company's stock price).
  - **The sample size of four is too small** to yield any meaningful conclusions. In particular, this very small sample has a very wide range of abnormal returns, which extends from -17% to -3%.

Defendant Name	Abnormal Return
Life Partners Holdings, Inc.	-17.09%
BankAtlantic Bancorp, Inc	-8.13%
Stifel, Nicolaus & Co.	-3.73%
Houston American Energy Corp	-3.34%

  - His two-sample t-test is improper; the -9.27% abnormal return is not a "sample," and it is improper to perform a two-sample t-test with such small samples and with a population that is not normal. But even if considering Dr. Choi's flawed 95% confidence interval, the result demonstrates that the 4/16/10 SEC lawsuit "in and of itself" **did not fully explain** Goldman's 9.27% stock drop.
  - Dr. Choi ignored his own prior research recognizing that the announcement of an enforcement action inherently conveys information about the underlying misconduct.
  - Dr. Choi **ignored market commentary** linking the SEC fraud lawsuit to the alleged false statements about conflict policies and business principles.

0

SEC v. Life Partners Holdings, Inc. Complaint – Restatement Case

UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF TEXAS
WACO DIVISION

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

LIFE PARTNERS HOLDINGS, INC., BRIAN D. PARDO, R. SCOTT PEDEN, AND DAVID M. MARTIN,

Defendants.

Civil Action No.: 6: 12-cv-00002

COMPLAINT

Plaintiff Securities and Exchange Commission (the "Commission") alleges as follows:

SUMMARY

1. Since 2006, Defendants Life Partners Holdings, Inc. (referred to jointly with its wholly-owned subsidiary, Life Partners, Inc. as "Life Partners" or the "Company")—through senior officers Brian D. Pardo ("Pardo"), R. Scott Peden ("Peden"), and, since 2008, David Martin ("Martin")—engaged in a disclosure and accounting fraud that misled the Company's shareholders about the sustainability of Life Partners' revenues and profit margins, consumer demand for the life settlement investments that the Company brokers, and, since at least fiscal year 2007, the Company's net income. Pardo and Peden profited from the fraud by trading on inside information that Life Partners systematically uses life expectancy estimates that the Company knows to be materially short in brokering life settlements. Life Partners engaged in this practice to artificially inflate the Company's revenues and profit margins. Pardo and Peden knew the Company engaged in this practice, which Defendants concealed from shareholders, and took advantage of the non-public information to sell shares of Life Partners common stock at artificially inflated prices.

17. As a result of Life Partners' practice of prematurely recognizing revenue and failing to appropriately impair its own investments in life settlements, Defendants materially misstated net income from at least fiscal year 2007 through the third quarter of fiscal year 2011. On November 22, 2011, Life Partners restated its financial results for fiscal years 2007 through 2010, and for the first three quarters of fiscal year 2011, to correct errors related to revenue recognition, impairment of investments in owned policies, accrued liabilities, and the related tax impact, which the Company admitted had been previously "incorrectly accounted for under [GA

137. The table below is based upon the Restatement and indicates that Life Partners' misstatements of net income range from negative 29% to positive 11% for fiscal years 2007, 2008, 2009, and 2010. Similarly, the Company misstated net income for the first, second, and third quarters of fiscal year 2011 by 7%, 2%, and (78)% respectively. The misstatements of net income resulting from prematurely recognizing revenue prior to the Closing Date and inadequate impairment of investments in policies are material to Life Partners consolidated financial statements for fiscal years 2007, 2008, 2009, 2010 and for the first, second, and third quarters of fiscal year 2011.

	Increase (Decrease) Net Income (Dollars in millions)			
Nature of Restatement Adjustment	Year Ended 2/28/07	Year Ended 2/29/08	Year Ended 2/28/09	Year Ended 2/28/10
1.Revenue based on closing date	$ 0.4	$ (3.8)	$ 0.1	$ (2.1)
2.Impairment	--	(0.2)	(2.2)	(1.8)
3.Deferred policy monitoring costs	N/A	(1.9)	(0.7)	(0.4)
4.Other[1]	(0.2)	(0.3)	0.6	(0.1)
Subtotal, pretax	0.2	(6.2)	(2.2)	(4.4)
Federal and state taxes	0.2	2.0	0.6	1.1
Misstatement, after tax	0.4	(4.2)	(1.6)	(3.3)
Reported net income	3.4	18.8	27.1	29.4
Restated net income	$ 3.8	$ 14.6	$ 25.5	$ 26.1
% Misstatement, under (over) stated	11%	(29)%	(6)%	(13)%

[1] The Company's restatement of prior year financial statements includes correction of errors related to the timing of expensing executive bonuses, impairment of investments in securities, and certain other items.

983

Defendants Mischaracterize the Record – Plaintiffs Submitted Price Impact Evidence

- Dr. Finnerty found that there was price impact, and that Goldman's misrepresentations and omissions were incorporated into its stock price
- He further found that none of the 36 Dates articles were corrective, explaining why no stock drop would be expected before the corrective disclosures
  - Thus, he opined that Gompers's evidence of 36 dates did not negate the idea that Goldman's misrepresentations and omissions inflated its stock price

Defendants Mischaracterize the Record – Plaintiffs Submitted Price Impact Evidence

- Defendants claim Plaintiffs have submitted "***no evidence*** of price impact of ***any*** kind" (Defs' Supp. Br. at 11) and that their evidence was thus "***unrebutted***" (*id.* at 8, 22)
  - *See also* Defs' Reply at 1 (Plaintiffs "offer only speculation and criticism, ***not evidence***")
- Not so. They ignore ***Plaintiffs' evidence of price impact***:

1. Dr. Finnerty's ***event study*** showed statistically significant stock drops; and
2. ***Market commentary***, by reporters and stock analysts, connected the news to Goldman's alleged misstatements and ensuing reputational harm

Defendants Mischaracterize the Record – Plaintiffs Submitted Price Impact Evidence

1. ***Dr. Finnerty's event study*** found the 3 ***statistically significant*** stock drops on disclosures ***correcting prior misstatements re: Goldman's conflicts and business practices***—proving price impact *See* 1/30/15 Finnerty Decl. at ¶¶52-81 (ECF No. 137); 5/15/15 Finnerty Reb. Decl. at ¶¶202-206 (ECF No. 154)
   - Gompers ***agreed*** that these drops were statistically significant. 4/6/15 Gompers Decl. ¶¶ 64, 79, 89 (ECF No. 193-4).

Defendants Mischaracterize the Record – Plaintiffs Submitted Price Impact Evidence, Cont'd

1. Dr. Finnerty's event study (*cont'd*)

– This event study is "***direct evidence*** of price impact."
Barclays, 875 F.3d at 97-99

- *See also Pirnik v. Fiat Chrysler Automobiles NV*, 2018 WL 3130596 (S.D.N.Y. Jun. 26, 2018) (Furman, J.) (holding "Defendants did not carry their burden of demonstrating the absence of price impact" where, *inter alia*, plaintiff's expert's "event study ***does*** identify abnormal price movements in response to six allegedly corrective disclosures (as one would expect in a 'price maintenance' scenario)")
- *W. Palm Beach Police Pension Fund v. DFC Glob. Corp.,* 2016 WL 4138613, at *14 (E.D. Pa. Aug. 4, 2016) (defendants "failed to overcome the *Basic* presumption" where "***Plaintiffs produced evidence of price impact upon the disclosure*** of the misrepresentations [*i.e.* ***their expert's event study***], and Defendants have failed to provide a valid reason to discount that evidence")

Defendants Mischaracterize the Record – Plaintiffs Submitted Price Impact Evidence, Cont'd

2. **Finnerty** found ***market commentary*** attributing Goldman's stock drops on the corrective disclosure dates to the revealed misconduct that ***contradicted*** the alleged misrepresentations regarding its conflicts of interest and reputation. *E.g.*:

   a) ***First Drop:*** After the SEC filed its complaint on 4/16/10, Goldman's stock fell 12.79% and the press connected the news to Goldman's statements:

Defendants Mischaracterize the Record – Plaintiffs Submitted Price Impact Evidence, Cont'd

- *Reuters*, 4/19/10*:* "The greatest penalty for Goldman is not the financial damages . . . but the ***reputational damage***." 5/22/15 Finnerty Rep. ¶194 (ECF No. 170-10)

- *Wall Street Journal*, 4/21/10: "It's hard to imagine the ***damage*** that these developments have done already ***to Goldman Sachs's reputation***. The company has always maintained a public position that the business of investment banking depends on ***trust, integrity and putting clients' interests first***." 8/7/15 Finnerty Reb. Rep. ¶131 (ECF No. 170-11)

Defendants Mischaracterize the Record – Plaintiffs Submitted Price Impact Evidence, Cont'd

a) ***First Drop (Cont'd):*** **Finnerty** also analyzed ***analyst commentary***:

– *Citi*, 4/16/10: "[T]he SEC alleges that Goldman ***misled ACA*** . . . ***Reputation*** risk is ***biggest issue*** in our view." 8/7/15 Finnerty Reb. Rep. ¶131 (ECF No. 170-11)

– *Bank of America Merrill Lynch,* 4/16/10: "This is a serious charge . . . [T]he ***reputational damage*** could be considerably greater." *Id.*

Defendants Mischaracterize the Record – Plaintiffs Submitted Price Impact Evidence, Cont'd

- *Macquarie*, 4/19/10: "Typically, ***reputational damage*** . . . is a paper tiger. However, in this case, the response by the media and Washington has been ***so severe***. . . . As for ***reputation***, Goldman ***clients*** are 'eyes-wide-open.'" *Id.*
- *Wells Fargo*, 4/19/20: "The SEC's action could lead potential ***clients*** seek counterparties and agents other than GS as a means of protesting GS' alleged behavior. . . . Additional legal actions against the company could ***further harm its reputation and ability to gain business***. . . ." *Id.*
- Credit Suisse, 4/20/10: "More worrisome to us is the potential longer-term impact on the firm's ***client*** franchise, human capital and ***reputation***." *Id.*

Defendants Mischaracterize the Record – Plaintiffs Submitted Price Impact Evidence, Cont'd

b. ***Second Drop:*** When the *Wall Street Journal* reported that the DOJ opened a ***criminal*** investigation into Goldman's mortgage trading practices based on "***different evidence***" and Goldman's stock fell 9.39% on 4/30/10, market commentators reported:

– *Washington Post*, 4/30/10: "The Justice Department's criminal investigation into Goldman Sachs ***goes beyond*** the financial transactions targeted by the [SEC]. . . ."

Defendants Mischaracterize the Record – Plaintiffs Submitted Price Impact Evidence, Cont'd

- *Fitch Ratings*, 5/5/10: "The Rating Outlook ***revision to Negative*** incorporates recent legal developments and ongoing regulatory challenges that could adversely impact ***Goldman's reputation and revenue generating capacity***." 5/22/15 Finnerty Rep. ¶121
- *Bank of America Merrill Lynch*, 4/30/10*:* "Our ***downgrade*** is prompted by news reports . . . including the *Wall St. Journal* indicating that federal prosecutors have opened an investigation of GS in connection with its trading activities. . . ." 5/22/15 Finnerty Rep. ¶126

Defendants Mischaracterize the Record – Plaintiffs Submitted Price Impact Evidence, Cont'd

c. ***Third Drop:*** The market learned that Goldman, while shorting ***Hudson***, was marketing this CDO by telling investors ***for the first time*** that "***Goldman Sachs has aligned incentives with the Hudson program***." Then, it was reported that Hudson was also the target of a probe by the SEC – and Goldman's stock fell 2.21% on 6/10/10. Finnerty found that market commentators reported, *e.g.*:

- *Wells Fargo*, 6/10/10: "[M]edia reports of a second SEC investigation into Goldman's CDO marketing practices, specifically the ***Hudson*** 2006-1 CDO, pushed Goldman shares down as much as 4%" on June 10, 2010
- 5/22/15 Finnerty Rep. ¶143

Defendants Mischaracterize the Record – Plaintiffs Submitted Price Impact Evidence, Cont'd

- Courts have held that analysts' reactions to a corrective disclosure are evidence of price impact. *E.g.*:
  - *Halliburton II Remand*, 309 F.R.D. 251, 277 (N.D. Tex. 2015) ("[A] sufficient number of analysts viewed Halliburton's disclosure of the Baltimore verdict on December 7 as new news, and the cause of Halliburton's price decline. Thus, the analyst reports and commentary cited by [defendants] will not serve to refute what the parties agree was a statistically significant price reaction....");
  - *Wallace v. Intralinks*, 302 F.R.D. 310, 317 (S.D.N.Y. 2014) (Griesa, J.) (finding defendants failed to carry the burden of showing a lack of price impact in part because of "[a]mple evidence in the record suggest[ing] that analysts and market participants ... found it significant when they learned that FDIC was reducing its usage of IntraLinks. This undermines defendants' speculation that factors unrelated to the FDIC customer relationship exclusively cause the drop in IntraLink's share price....");
  - *Local 703, I.B. of T. Grocery & Food Emps. Welfare Fund v. Regions Fin. Corp.*, 2014 WL 6661918, at *7 (N.D. Ala. Nov. 19, 2014) (analyst reporting that announced goodwill impairment accounted for $8.66/share of the loss "is evidence of price impact")

Price Impact Has Been Proven Beyond a Preponderance of the Evidence

- The strongest evidence of ***price impact*** is ***Viniar's own description*** of the -12.89% stock drop on April 16, 2010
- At his deposition, he testified that "the SEC suit on the Abacus case" was an example of a breach of conflicts policy because **"*the world deemed us to have not managed [the] conflict well and the SEC deemed us not to,*"** which is "not good for your ***reputation***."
  - Pls' Ex. 9, ECF No. 197-9, at 15:16-16:8

Price Impact Has Been Proven Beyond a Preponderance of the Evidence, Cont'd

Page 15

VINIAR - CONFIDENTIAL

between Goldman and its customers, would that affect Goldman's reputation?

A. Yes, it would.

Q. Any examples you can recall of that happening?

A. I can recall more recent examples of people thinking that we had not handled a conflict particularly well. There was one with, I'm trying to remember the deal recently where an investment banker was representing a company and also owned stock in that company, and it was deemed to be, you know, a conflict.

Q. How about between Goldman Sachs and its clients or customers, any examples you recall of a breach of conflicts of interest policy that harmed Goldman's reputation?

A. Well, sure, there was the SEC suit on the Abacus case.

Q. And so you will agree that the SEC suit harmed Goldman's reputation?

A. Yes.

Page 16

VINIAR - CONFIDENTIAL

Q. Why?

A. Because there was a, you know, the world deemed us to have not managed conflict well and the SEC deemed us not to and we were sued by our primary regulator, and being sued by your primary regulator is not good for your reputation.

Q. All right, we will get back to that. Now, you mentioned other -- you said that the Firm-Wide Risk Committee set firm-wide risk limits. Can you explain what you meant by that?

A. Sure. There were market risk limits at the firm-wide level based on a variety of metrics, including VAR. I don't know if you know what VAR is.

Q. Value --

A. Value at risk, VAR. There were certain stress tests that we did and there were a whole variety of financial metrics on which the Firm-Wide Risk Committee would set limits.

Q. Financial metrics, you mean,

Summary of the 3 Corrective Disclosures

1. **April 16, 2010:** SEC complaint alleged Abacus was an ***actual*** conflict Goldman ***failed to manage***, supported by internal emails
   - ***12.79%*** stock drop, statistically significant
2. **April 29, 2010:** Press reported DOJ's criminal investigation "centered on ***different evidence*** than the SEC's" case two days after the Senate named ***Anderson***, ***Timberwolf***, and ***Hudson***
   - ***9.39%*** stock drop, statistically significant
3. **June 10, 2010:** Press reported that ***another*** SEC probe was targeting ***Hudson***
   - ***2.21%*** stock drop, statistically significant