**Operator**

Good morning. My name is Dennis, and I will be your conference facilitator today. I would like to welcome everyone to the Goldman Sachs' Fourth Quarter 2011 Earnings Conference Call. [Operator Instructions] Also, this call is being recorded today, Wednesday, January 18, 2012. Thank you. Mr. Holmes, you may begin your conference.

**Dane Holmes**

Good morning. This is Dane Holmes, Director of Investor Relations at Goldman Sachs. Welcome to our fourth quarter earnings conference call.

Today's call may include forward-looking statements. These statements represent the firm's belief regarding future events that, by their nature, are uncertain and outside of the firm's control. The firm's actual results and financial condition may differ, possibly, materially from what is indicated in those forward-looking statements. For a discussion of some of the risks and factors that could affect the firm's future results, please see the description of risk factors in our current annual report on Form 10-K for fiscal year ended December 2010. I would also direct you to read the forward-looking disclaimers in our quarterly earnings release, particularly as it relates to our Investment Banking transaction backlog, capital ratios, risk-weighted assets and global core excess. And you should also read the information on the calculation of non-GAAP financial measures that is posted on the Investor Relations portion of our website at www.gs.com.



Our Chief Financial Officer, David Viniar, will now review the firm's results. David?

**David A. Viniar**

Thanks, Dane. I'd like to thank all of you for listening today. I'll give an overview of our fourth quarter and full year results and then take your questions.

Full year net revenues for 2011 were $28.8 billion. Net earnings were $4.4 billion. Earnings per diluted share were $4.51, and our return on common equity was 3.7%. Excluding the impact of a $1.6 billion preferred dividend associated with our repayment of the Berkshire Hathaway preferred stock, earnings per diluted share were $7.46 and our return on common equity is 5.9%. Fourth quarter net revenues were $6 billion. Net earnings were $1 billion, and earnings per diluted share were $1.84.

Over the course of 2011, the macroeconomic picture was clouded by several growing concerns. While the broader marketplace first began to evaluate the economic challenges facing the Euro zone in 2010, the market's focus and concern accelerated meaningfully during 2011 and persists into 2012. The discussion evolved from largely a regional consideration into a significant global issue, as market participants became increasingly worried about the secondary implications of a potential sovereign default. These underlying macroeconomic concerns have been exacerbated by growing skepticism regarding the willingness of the global political infrastructure to address the economic risk confronting the system, which was highlighted by the political debate within the United States on raising the debt ceiling.

In response to these dynamics, market volatility increased significantly over the course of the year. While the S&P 500 ended 2011 essentially flat, prices were volatile, with the index's valuation ranging from up 8% in the spring to down nearly 13% in the fall. Not surprisingly, the broader environment led our clients across a variety of businesses to be materially more risk averse. The firm's perspective on managing its risk exposures mirrored the sentiment of the broader market, and consequently, our risk exposures remained low in 2011. Ultimately, macroeconomic concerns, heightened market volatility, lower corporate activity and decreased risk appetite among our institutional clients translated into fundamentally lower level of revenue opportunities over the course of the year, hampering our returns. While we're disappointed in our results this year, we remain firmly committed to supporting our client franchise, helping clients navigate the challenges ahead and managing our firm with a long-term orientation.

I'll now review each of our businesses. Investment Banking produced fourth quarter net revenues of $857 million, up 10% from the third quarter, primarily due to an increase in underwriting revenues following a weak third quarter. For the full year, Investment Banking net revenues were $4.4 billion, down 9% from 2010, due to the more challenging macro backdrop. Within Investment Banking, fourth quarter Advisory revenues were $470 million, down 10% from the third quarter.

Goldman Sachs ranked first in worldwide announced M&A globally for 2011. We advised on a number of significant transactions that closed during the fourth quarter, including Foster's $12.3 billion sale to SABMiller, Global Crossing's $3.2 billion sale to Level 3 Communications and AGL Resources' $3.2 billion merger with Nicor. We also advised on a number of important transactions that were announced during the fourth quarter, including Entergy's $5.6 billion spinoff and subsequent merger of its electric transmission business with ITC Holdings, Statoil's $4.7 billion acquisition of Brigham Exploration Co. and Health Spring's $3.8 billion sale to Cigna.

Fourth quarter underwriting net revenues were $387 million, up 50% sequentially, as new issuance activity improved relative to a more challenging third quarter environment. Equity underwriting revenues of $191 million more than doubled from the third quarter, reflecting higher volumes and improved market share. Goldman Sachs was ranked first in global equity and equity-related common stock offerings and IPOs for 2011. Net underwriting revenues increased 17% to $196 million, reflecting an improvement in high-yield issuance compared to a particularly difficult third quarter.

During the fourth quarter, we participated in noteworthy underwriting transactions, including Chow Tai Fook's $2 billion initial public offering, Michael Kors' $1.1 billion initial public offering and UPC's $1.25 billion combination high-yield notes and term loan offering. Our Investment Banking backlog decreased compared with the end of the third quarter but was higher than year-end 2010.

Let me now turn to Institutional Client Services, which is comprised of FICC and Equities Client Execution, Commissions and Fees and Securities services. Net revenues were $3.1 billion in the fourth quarter, down 25% from the third quarter. Net revenue generation within FICC and Equities Client Execution declined as client activity was seasonally slower and macro concerns continue to weigh on sentiment. Full year net revenues of $17.3 billion for Institutional Client Services were down 21% relative to 2010, as a result of client risk aversion and difficult market-making conditions.

FICC Client Execution net revenues were $1.4 billion in the fourth quarter, down 21% sequentially. Commodities and foreign exchange revenues increased relative to the third quarter, although client activity levels within both businesses remained relatively muted. Our rates business decreased sequentially as macro trends remain in focus and client flows decreased into year end. Credit and mortgages remain challenging as activity levels declined across most products and a divergence between cash and derivative pricing impacted hedging and inventory management. For the full year, FICC Client Execution net revenues of $9 billion were down 34% from 2010, as the challenging European backdrop led to reduced client risk taking.

In Equities, which includes Equities Client Execution, Commissions and Fees and Security Services, net revenues for the fourth quarter were $1.7 billion, down 27% sequentially. Equities Client Execution revenues were down 42% to $526 million due to decreased client activity, particularly in derivative products. Commissions and Fees were $782 million, down 23% from the third quarter on lower market volumes. Security services' net revenues of $385 million were down 6% sequentially given seasonally lower activity levels. For the full year, Equities produced net revenues of $8.3 billion, up 2% from 2010.

Turning to Risk. Average daily value at Risk in the fourth quarter was $135 million, higher than the third quarter, due to significantly greater volatility in the interest rate category.

Now I'll review Investing & Lending, which produced revenues of $872 million in the fourth quarter. The firm's Investing & Lending activities across various asset classes, primarily including debt securities and loans and equities -- and equity securities are included in this segment. These activities include both direct investing and investing through funds as well as lending activities. Our investment in ICBC produced a $388 million gain in the quarter. Other equity investment generated a $384 million gain, largely reflecting gains on public equity investments. Losses from debt securities and loans were $221 million, driven by losses on relationship loans, including the effect of hedges. Other revenues of $321 million consist primarily of operating revenues from our consolidated investment entities. For the full year, Investing & Lending generated net revenues of $2.1 billion, driven by $1.1 billion in gains from other equity investments and $1.4 billion of revenues from other investments, which was partially offset by $517 million in losses from ICBC investment.

In Investment Management, we reported fourth quarter net revenues of $1.3 billion, up 3% from the third quarter, as a result of $141 million in incentive fees generated from the firm's alternative asset products. Management and other fees were 3% lower sequentially at $1 billion. For the full year, Investment Management net revenues were $5 billion, relatively flat from 2010 levels. During the fourth quarter, assets under management increased $7 billion to $828 billion, largely due to market appreciation equities. On a full year basis, assets under management declined by 1%.

Now let me turn to expenses. Compensation and benefits expense, which include salaries, bonuses, amortization of prior year equity awards and other items such as benefits, declined 21% to $12.2 billion for 2011 and translated into a compensation in net revenue ratio of approximately 42%. Within compensation and benefits expense, current year discretionary compensation declined significantly more than revenues.

Fourth quarter non-compensation expenses were $2.6 billion, 5% lower than the third quarter. Brokerage clearing and exchange fees declined on lower equity client volumes. In addition, we recognized the U.K. bank levy for the first 3 quarters of 2011 during the third quarter. These reductions were offset by approximately $170 million of impairments on consolidated investments within depreciation and amortization. We also made a $78 million donation to Goldman Sachs Gives, our donor-advised charitable fund. Compensation was reduced to fund this contribution. This amount is in addition to prior year contributions made to Goldman Sachs Gives. For the full year, non-compensation expenses were essentially flat.

Total staff at year-end was approximately 33,300, down 7% from year-end 2010. Our effective tax rate was 28% for 2011, down from 30.3% for the first 9 months. The decrease in tax rate was primarily due to an increase in permanent benefits as a percentage of earnings and the mix of earnings. During the quarter, we repurchased 9.2 million shares of common stock for a total cost of $908 million. For the full year, we repurchased 47 million shares for a total cost of approximately $6 billion.

The uncertain operating environment creates both challenges and opportunities for the firm. In the current environment, the strength of our financial and competitive positioning provides protection against potential tail events, as well as the flexibility to be proactive if opportunities arise. The challenges stemming from reduced market demand for risk capital requires a focused approach to our capital allocation process, and we continue to monitor the sizing of each of our businesses to ensure we're appropriately managing our resources.

The more muted operating environment has also intensified our focus on expenses. While it is not possible to cut expenses as a means to prosperity, we understand the benefits of a proactive and disciplined approach, particularly if the operating environment remains challenging. In the second quarter of 2011, we launched an internal initiative to identify areas where we can operate more efficiently and originally targeted $1.2 billion in savings. We're currently targeting $1.4 billion in savings, and we'll closely monitor our expense run rate and make further adjustments as necessary.

The uncertainty facing the macroeconomic environment and reduced opportunity set for the financial services industry has increased the importance placed on franchise strength from the perspective of the depth and diversity of our firm's businesses as well as its relative competitive positioning. We believe our franchise is incredibly strong and growing, particularly in its global scope. Our people remain a critical component in creating, maintaining and expanding our franchise and in our ability to create long-term shareholder value. The combination of our strong client franchise and our talented and dedicated global team favorably positions the firm to effectively navigate the current challenges.

Despite the difficult operating environment, we believe that significant opportunities exist through the continued expansion of our global footprint and responding to shifting competitive dynamics stemming from reduced risk capacity in Europe. In the near term, we remain committed to managing our capital expenses as efficiently as possible while maintaining our world-class franchise and our investment-critical initiatives. Over the longer term, we remain committed to driving shareholder value by providing our institutional client base with unparalleled advice and execution, coupled with the platform and the people to offer global, full-service solutions in an increasingly interconnected and complex world.

With that, I'd like to thank you again for listening today, and I'm now happy to take your questions.

**Question-and-Answer Session**

**Operator**

[Operator Instructions] And your first question is from the line of Guy Moszkowski with the Bank of America Merrill Lynch.

**Guy Moszkowski - BofA Merrill Lynch, Research Division**

So just to follow up on the comments that you made right at the end, and I'm totally respectful of the need to maintain a very strong platform, but clearly fit for you and for a lot of others is seeing a pretty sustained run of considerably lower revenue generation than when you put a lot of the infrastructure in place. And given some of the regulatory outlook, lot of it, granted, is still uncertain, but with Volcker and Basel III and everything coming in, I'm just wondering how you're thinking about balancing the infrastructure you have and where you might consider resizing.

**David A. Viniar**

Guy, that's the -- that's one of the most critical questions and very difficult one to answer. We've all been doing this for a long time and we've seen downturns before. Every time you're in one, it feels like it's never going end and that the world is different now. I wouldn't say, for example, that the environment feels worse than it felt in the fall of 2008 or necessarily after the tech bubble burst, or necessarily after the fall of 1998. So is it cyclical? Is it secular? That's a very difficult question to answer. As you saw, we try to be very disciplined on expenses. We cut headcount last year. We will continue to review the environment as we go forward. We'll continue to see where regulation openly comes out and what it will mean for the opportunities. And we'll try and balance exactly the things you said, the strength of the franchise and the global opportunity set with the current environment, and make sure we're sized appropriately. There's no scientific answer to it, though.

**Guy Moszkowski - BofA Merrill Lynch, Research Division**

I guess the follow-up to that, given some of the opportunities that might be bubbling up from the obvious weakness of competitors across the pond is what do you see happening there? And can you give us a little bit of color on whether you're seeing opportunities already, and what type of opportunities you're seeing?

**David A. Viniar**

Well, again, it's a little early to tell, largely because the opportunity set just isn't that great because of the macro uncertainties. Most of our clients are still very much in a wait-and-see mode, but we're starting to see some glimmers of opportunities. We're starting to see some assets being sold from troubled institutions. We're also starting to see a little bit less competition in the few transactions that are out there. So from a competitive position, it actually feels pretty good.

**Guy Moszkowski - BofA Merrill Lynch, Research Division**

And maybe that segues us into just any commentary you can give us, granted that it's very early going here in the first quarter, but how it's feeling in January to date, both relative to what we saw last quarter, but also comparable period last year?

**David A. Viniar**

Well, I mean, if you take as a given, like an hour of caveats, of it only being the first 2 weeks, of it being early, if things can change, I can go on and on and on, it's not a high bar. But first 2 weeks of January certainly feel a lot better than the December and November period.

**Guy Moszkowski - BofA Merrill Lynch, Research Division**

And versus the first couple of weeks of last year?

**David A. Viniar**

Probably kind of about the same as the beginning of last year.

**Guy Moszkowski - BofA Merrill Lynch, Research Division**

Okay, that helps. Just one final question. Can you give us an estimate of your Basel III-basis Tier 1 common?

**David A. Viniar**

Yes. Again, with a lot of caveats, rules not done, lots of estimates, all of that, if we did it at the end of the fourth quarter, it would be a little bit under 8%. And if we roll forward taking just the consensus estimates, which you guys do, and just passive roll-off of some of the correlation and other structure credit, you get to, by the end of 2013, a little bit below 11%.

**Operator**

Your next question comes from the line of Glenn Schorr with Nomura.

**Glenn Schorr - Nomura Securities Co. Ltd., Research Division**

So you won the buying back $6 billion of stock in the year, but net earnings pre the preferred dividend was $4.4 billion. How does that work -- and that doesn't include the Berkshire preferred buybacks. So just curious how that factors into CCAR and understanding the huge volatility that can happen in earnings for you guys.

**David A. Viniar**

I'm not sure I understood the question, Glenn. Sorry.

**Glenn Schorr - Nomura Securities Co. Ltd., Research Division**

I thought -- I apologize. I thought that there was a limitation on a payout of a combined basis on dividends and buybacks based on your forward earnings projections as part of CCAR. Do I understand that wrong?

**David A. Viniar**

We put in what we want to do for CCAR and if that tells us yes or no. I don't think you should expect that it will be a long-term sustainable way we do things of buying back more than earnings. I don't think you should expect that to happen a lot going forward.

**Glenn Schorr - Nomura Securities Co. Ltd., Research Division**

Okay. Then other small thing. Book was down a drop in the quarter, function of higher share count, even though you bought back. Is that a stock issuance thing, I would think?

**David A. Viniar**

It was divesting of previously issued shares.

**Glenn Schorr - Nomura Securities Co. Ltd., Research Division**

Okay. And you had mentioned the current year comp was down significantly more than the revenues, even though total comp wasn't. Is there any...

**David A. Viniar**

Total comp and benefits were.

**Glenn Schorr - Nomura Securities Co. Ltd., Research Division**

Correct.

**David A. Viniar**

Right.

**Glenn Schorr - Nomura Securities Co. Ltd., Research Division**

Is the prior period deferred becoming a larger piece of the GAAP number? And is there any point where that becomes a bigger issue? In other words, you're constantly buying back to dig out of the previous hole. It's something that I've seen at some other.

**David A. Viniar**

It's actually been about flat for the last couple of years.

**Glenn Schorr - Nomura Securities Co. Ltd., Research Division**

So no big change this year in the deferred vesting or percentages.

**David A. Viniar**

No. It was roughly flat year-over-year.

**Glenn Schorr - Nomura Securities Co. Ltd., Research Division**

Okay, cool. And then maybe one last one, David. Funding cost right now, I mean, you guys have been able to get off some reasonable deals all-in, especially some of the 50-year paper. But funding cost all-in for the industry are just a lot higher. How do you balance knowing what to issue now versus hanging out, and what happens if funding cost stay here as that rolls to the balance sheet? Is that a big impact?

**David A. Viniar**

Obviously, we'd rather have lower funding cost than higher funding cost. But as you also know, we've talked about it, we don't do a lot of characterizing. I mean, that's not where we make money. So while certainly, we're not happy with higher funding costs, it really has a more marginal impact on our returns because of the way we think about doing transactions. And I think we are -- we would -- we're, as you know, very conservative, and we'd probably continue funding at higher rates for quite a while if rates stay there.

**Glenn Schorr - Nomura Securities Co. Ltd., Research Division**

Okay. Last, last one. It's a quickie. E.U.-related concerns versus 3 months ago, better, worse, post-LTRO?

**David A. Viniar**

Boy. I'd say a tiny bit better, largely because of exactly what you mentioned. The LTRO showed a willingness to certainly, at least, make sure the banks are on solid footing. And a lot of work still to be done with the sovereign, so I'd say a tiny bit better.

**Operator**

Your next question comes from the line of Roger Freeman with Barclays Capital.

**Roger A. Freeman - Barclays Capital, Research Division**

Just back on headcount expense reduction. Do you have severance costs for the fourth quarter? It looks like there were 900 or so people came out, which was generally more than we were expecting. And I'm just curious to -- was there a mix weighting between the senior partners versus other employees?

**David A. Viniar**

So severance costs were -- for the full year, they were around $250 million, and for the fourth quarter, only around $50 million. So it wasn't that big -- it's why we didn't talk about it separately. It's just part of our comp expense. And as far as headcount reductions, it's really across-the-board, pretty much across the pyramid of the firm.

**Roger A. Freeman - Barclays Capital, Research Division**

And just to clarify on the $1.4 billion in targeted savings. Is that still -- did you achieve all that through the efforts in 2011, or is there still some to go?

**David A. Viniar**

We achieved most of it. There's a small amount left to go in 2012, but most of it was done by the end of 2011.

**Roger A. Freeman - Barclays Capital, Research Division**

Okay, all right. Then on Basel III, just following up there. One, do you think that active mitigation ultimately could bring that 11% number meaningfully higher? And second, how are you charging the debts for capital at this point? Is it on a Basel I basis or Basel III or some combination?

**David A. Viniar**

On your first question, I think active mitigation can bring the 11% higher. I'm not sure I can answer the question yet how meaningfully. We're still doing work on that. As far as how we're charging the debt, that's a little bit of a complicated question. And we're working through that now, and it -- there's no one-size-fits-all yet. And we have to be careful. As you know, Basel III does not kick in for quite a while. And quite a bit of what we do is very short dated. And so we don't want to charge debts on a Basel III basis, have them turn down profitable opportunities that would be long gone from our balance sheet, long before Basel III ever kicks in. So we're really taking into consideration the tenure of what we do and trying to figure out what capital regime we're going to be under. And it's still, I would say, we're going through a transition process here.

**Roger A. Freeman - Barclays Capital, Research Division**

Okay. And then lastly, just bigger picture. Do you think about expanding ROE longer term? How would you rank order the buckets that can get you there, top line, profitability and the balance sheet, stock buybacks, and maybe how big do you think each of them are relative to each other?

**David A. Viniar**

I think, in some ways, that's an easy question. I rank the top line growth as numbers 1 through 10, and then we can talk about everything else afterwards. And so, yes, we're going to be prudent in managing our capital. Yes, we're going to be prudent in managing our expenses, but our ROE growth is going to largely be driven by growing our revenues, expanding our footprint, expanding our client base and growing the firm. But we're not -- as I said in my remarks, we're not going to cut away the prosperity, but we will try and size the firm appropriately for the environment.

**Operator**

Our next question comes from the line of Howard Chen with Crédit Suisse.

**Howard Chen - Crédit Suisse AG, Research Division**

On relationship lending, there's been a debate about the mark-to-market versus held-to-maturity treatment. You've always been a champion of a good mark-to-market discipline. But I was just hoping to get your sense of, one, where we are in that debate; and two, how does that potential capital treatment impact your CCAR results for 2012.

**David A. Viniar**

Okay. So it's still something that we're considering. We're looking at the accounting treatment for just, what I would call, a portion of the relationship long commitments. As you mentioned, it won't affect the current submission of CCAR at all, but it is -- the consideration is being driven by the more owners capital treatment for the fact that the same assets held on mark-to-market versus a held-for-investment basis are different. I mean, it's much more onerous for mark-to-market. So that's what driving even our consideration. You should know, and I will use this word, we are still fanatical believers in mark-to-market. Substantially, all of our assets today are mark-to-market. Our risk is managed on a mark-to-market basis. And whatever we conclude on, what I'll call, a very small portion of assets, just relationship lending, those statements will still be true. Substantially, all of our assets will be mark-to-market, and we will manage all of our risk on a mark-to-market basis. So nothing will change there.

**Howard Chen - Crédit Suisse AG, Research Division**

Okay. And then separately on the Volcker Rule. As we come up on the end of this extended comment period, just hoping to get your view. What specifically would you like to see changed? And what would you deem to be a positive outcome as we come on to July and later in this year?

**David A. Viniar**

Look, Howard, that's, again, a very hard question to answer. As you know, the rule is written with 1,000 questions. So there's a lot that has to change before the rule is done. We want to make sure that the market-making rules are not written in such a way that they make it so onerous to -- for us, and not just us, but for all the firms, to continue our market-making function and that liquidity in the markets dries up and it hurts the growth in the capital markets. It hurts overall growth. It hurts our clients. It hurts liquidity. It cost more to do business that the compliance regime is so onerous, and those costs have to be passed on. We just -- we want to make sure that nothing prevents free flow of capital and the growth of the U.S. capital markets.

**Howard Chen - Crédit Suisse AG, Research Division**

And then final one for me. Over the past few years, you've been actively investing in the emerging markets franchise of the firm, getting a first-mover advantage. I mean, how much have you rein that back or thinking about reining that back as we head into just an uncertain 2012?

**David A. Viniar**

I guess, what I would say is just given the environment, we've moderated our pace of investment, but we're still investing. We continue to think that the growth markets are going to be a great place of growth for Goldman Sachs. As I said before, it's growth which is going to drive our ROE. While, clearly, it's not going to be a straight line up. We continue to -- we've talked before about that most important thing for us is growth in GDP, and we think the GDP growth in the growth markets is going to be stronger than the developed markets. That's not to say we're not investing in places like the United States. We are. But we're going to invest faster in the growth markets. But in this environment, a more moderated pace.

**Operator**

Your next question is from the line of Michael Carrier with Deutsche Bank.

**Michael Carrier - Deutsche Bank AG, Research Division**

David, maybe one follow-up on expenses. When we think about that $1.4 billion, obviously, it's tough when we think about year-over-year. But when we assume that revenues are flat in 2012, all else equal, should we be expecting the full expense base to be down that $1.4 billion? I guess, another way of saying it is just how much investment would be going on to offset that?

**David A. Viniar**

Well, again, it's going to be a hard number to track. That assumed no change in compensation. Obviously, it was a big change in compensation in 2011 as well. So obviously, expenses are down even more than that when you add in compensation, so that's going to be a big driver as well. But from a comp flat basis, that $1.4 billion is going to be there. What goes from there, we'll just have to wait and see.

**Michael Carrier - Deutsche Bank AG, Research Division**

Okay. And then just getting back to the top line. I think when you look across the businesses, whether it's cyclical or structural, it just feels like everything's fairly negative. Two things or 2 questions on that part. When you look at some of the firms pulling back in certain businesses, are you starting to see some market share opportunity or any changes in pricing? And then when you look across the capital market businesses, particularly in FICC, are there trends that you're seeing that are more structural growth versus what the current environment feels like, in one that comes up would be maybe in Europe into the shift from bank loans to maybe bonds in terms of funding or financing corporations? But any areas where you're still seeing some structural growth despite all the pressures.

**David A. Viniar**

Right. So on the first part, on the competitive situation, yes, we are seeing the effects of some of our competitors pulling away. But it's still very muted because there just aren't that many opportunities yet. And so have we seen change in pricing? I would say, even towards the end of last year, we saw a couple of blocked trades where I would tell you the pricing was a lot more reasonable than what you usually see in December when people are buying market share. But it was not enough examples for me to tell you pricing has changed. It was a couple of examples, but that's all that was out there. So the data points -- it was all the data points there were, but there weren't enough of them for me to reach a conclusion that pricing has changed. So that's kind of where that is. As far as trends and structural growth, again, things are so muted, have been so muted over the last half of last year that it's very hard to pick those out. I think when the world gets better, I think we'll probably see some of the things you're talking about. But it's hard to tell right now.

**Michael Carrier - Deutsche Bank AG, Research Division**

Okay. And then last one, just any update on European exposures. And then on the tax rate, just for the quarter, obviously low, and I think you mentioned mix. But just going forward, any changes there besides mix?

**David A. Viniar**

Our European exposure continues to be quite low. For the -- our total credit exposure for the 5 periphery countries on, what we'll call, a gross-funded basis with gross funded being total exposure less only U.S. Treasury and cash collateral that we hold. So that's the only offset. It's about -- total, about $3.9 billion as of year end. And net basis, which includes offsets for CDS hedges, only where the CDS is collateralized and only where the CDS is not from a bank in the same country it's hedging, then you get down to about $2.3 billion. So our exposure there continues to be extremely modest.

**Michael Carrier - Deutsche Bank AG, Research Division**

Okay. And anything on the tax rate?

**David A. Viniar**

Oh, I'm sorry, the tax rate. No. There's nothing particular there. Obviously, earnings were lower. The mix led to lower tax rate. I would not expect a 28% tax rate next year. I expect to see more in the -- more on the low 30s as it's been.

**Operator**

Your next question comes from the line of Kian Abouhossein with JPMorgan.

**Kian Abouhossein - JP Morgan Chase & Co, Research Division**

David, first question is regarding management changes. If you could just address the topic in terms of why these changes were introduced.

**David A. Viniar**

Sure. Look, I would tell you, and this is something that I've spoken with many of you about over the last year or so, I would call this normal progression at Goldman Sachs. As you know, fewer than normal partners have retired over the last 4 years. That was especially true at the senior ranks. I mean, people at Goldman Sachs are -- have been very loyal. And through both, what I call, a financial crisis and reputational issues, the senior people of Goldman Sachs did not leave. The normal tenure, average tenure of a partner in Goldman Sachs, as a partner, is about 8 years. You tend to find 15% to 20% of the partnership turning over every 2 years. It's been like that almost through our history, and you saw far less than that turning over, over the last 4 years. And I think what you're seeing now, as I said, normal progression. David Heller and Ed Eisler, the 2 co-heads of Securities Division, who both announced their retirement, are 2 fantastic people. They are as good as any 2 people in the industry, but we have equally good people behind them. You saw we announced that Isabelle Ealet will become a division head, and she's fantastic. And it's the natural progression of people retiring and a very, very strong bench moving up.

**Kian Abouhossein - JP Morgan Chase & Co, Research Division**

Okay, very clear. And the second question is relating to your earlier comment, and please correct me if I understood it wrongly, but you mentioned that first quarter year-to-date seems to have started similar to last year. And if I look at issuance volumes, it looks significantly lower globally. What would you say is driving the quarter? And then also volumes in some areas look lower as well.

**David A. Viniar**

Look, again, very -- and please, don't read anything into what I say about 2 weeks. I mean, we're literally 2 weeks in. Yes, I think issuance volume is low, but you've seen some clients come back and being a little more willing to take risks. You've also seen a reasonable rally in the equity markets, and so I think those things have been helpful.

**Kian Abouhossein - JP Morgan Chase & Co, Research Division**

And if I look at 2011, you could argue it was 2 different worlds, the first half versus the second half, especially in fixed income. And looking into 2012, how would you think about fixed income, more rolled off of the second half or more that kind of environment or more the first half?

**David A. Viniar**

Well, first of all, in 2011, I would actually -- I agree with you. It's 2 different worlds. But I would say it was almost the first quarter and the last 3 quarters as opposed to the first half and the last half. And as far as 2012, I wish I had a crystal ball. As you know, I'm very hesitant to predict and never claimed to be good at predicting. We just don't know. There's still a lot of macro headwinds out there, with the biggest one being Europe. And ultimately, what ends up happening in Europe and whether that some of those sovereign issues get resolved, I think is going to drive a lot. On the flip side, as you know, since -- probably since the summer, virtually all of the U.S. macro data has been -- economic data has been a little bit better than expected. So you kind of have some outstanding factors there, and how it plays out, we're just going to have to wait and see.

**Kian Abouhossein - JP Morgan Chase & Co, Research Division**

And it seems to me that one of the issues which also came up in your conference calls regularly is the issue of credit, which was much more difficult to trade over the last 3 quarters. Do you think there's a change in the environment in the credit world, or do you think it's similar? And what's the structural change, would you say, in credit?

**David A. Viniar**

I don't think there was -- has necessarily been a structural change. I think it's too early to tell if there's been a change in the environment from just 2 weeks. One of the big issue in credit was big divergence in the basis between cash and derivatives, very unusual divergence with -- made it very, very hard to manage. I expect that, that will normalize at some point. But when that point is going to be, I just don't know.

**Operator**

Your next question comes from the line of Fiona Swaffield with Royal Bank of Canada.

**Fiona Swaffield - RBC Capital Markets, LLC, Research Division**

Just 2 issues I had. One is that rollover, some maturity for 2012. I wondered whether you could talk through what you've raised already this year in terms of senior and how you're going to manage the rollover. I thought it was $26 billion. And the secondary is just on the cost side, the $1.4 billion. Historically, you've accrued the stock compensation to revenue ratio kind of on an even basis at 3 quarters. I'm just wondering should we kind of expect some step change given there should be some of these cost benefits coming through, or is that something we don't really know until the end of the year with the true-up?

**David A. Viniar**

Sure. As far as the rollover of our debt, we have -- I think it's roughly $25 billion that matures this year. And we've been in a blackout period so far this year, so we haven't raised any until today. So we'll see going forward. As far as accruals, what we will do is what we've always done, which is we accrue with the comp ratio is our best estimate of where we think our comps are going to be. And then we adjust as we get to year-end when we know what it actually is. And exactly what that's going to be, I don't know yet, but that's how we'll accrue.

**Fiona Swaffield - RBC Capital Markets, LLC, Research Division**

But just to check on that last thing. So if you did think that you knew that x of the $1.4 billion is coming through lower, say, fixed cost, then we could see that in a lower comp ratio accrual.

**David A. Viniar**

If we thought it was going to be lower, it would be lower accrual. But I wouldn't expect that that's necessarily going to happen.

**Fiona Swaffield - RBC Capital Markets, LLC, Research Division**

And can I just clarify? I think I may have misunderstood. But I think that you said that the comp -- the variable compensation under your control is down more than the revenues, so down more than 26, yet I think you said deferred was flat. I'm trying to work out the moving parts, but I -- maybe I misunderstood.

**David A. Viniar**

No, I did say it was down significantly more than revenues. That's correct.

**Fiona Swaffield - RBC Capital Markets, LLC, Research Division**

So what would the other -- if deferred is flat, so i.e. fixed salaries are up a lot, so maybe it's something to do with severance? Is that the moving...

**David A. Viniar**

Well, no, no, that's -- if deferred comp is flat, and then obviously, the -- and the whole amount was down 21% and part of it was not down at all, then the rest of it has to be down a lot more than 21%.

**Operator**

Your next question is from the line of Jeff Harte with Sandler O'Neill.

**Jeffrey Harte - Sandler O'Neill + Partners, L.P., Research Division**

You mentioned that the backlog was down sequentially but up year-over-year. It seems, for a while now, we've had a very strong supply side kind of the backlog, but a lack of demand or ability to get deals done. Are you seeing the supply side of things still hang on as far as companies are eager to do things? It's just a matter of demand picking up or even -- is even the supply side waning a little bit?

**David A. Viniar**

I think it's both. I think, for example, and I may have this a little wrong, but I'm not far off, I think filed IPOs are the highest they've ever been, or close to if not the highest they've ever been. And it's just a question of the markets being receptive to the deals, so a lot of that. As far as the M&A backlog, I'd say there's more a lot of dialogue and companies circling each other and talking and wanting to do things. But even on getting things announced until people pull -- are a little bit more confident, I don't think they're going to pull the trigger. So it's a combination of those 2 things.

**Jeffrey Harte - Sandler O'Neill + Partners, L.P., Research Division**

Okay. And could you talk a little bit, geographically, about the competitive environment? I'm thinking -- I mean, headcount reductions in the industry certainly seem to be more U.S.-centric. How are some of the emerging markets? I know there are still higher growth areas trending as far as competition for talent and competitors in general.

**David A. Viniar**

I think there is always high competition for the best talent. Is there the same -- obviously, given the industry slowdown, is there the same level of competition for everyone? The answer is probably no. But for the best people, for the really good talent, there is a high level of competition within -- from our traditional competitors. There's a high level of competition from what you call the shadow banking industry, from other places. And there are -- it's true outside the U.S. and in the U.S.

**Jeffrey Harte - Sandler O'Neill + Partners, L.P., Research Division**

And have you seen a -- I mean, the competition is always there, but have you seen any kind of a trend change over the last, say, 6 to 8 months where things have been difficult?

**David A. Viniar**

No.

**Jeffrey Harte - Sandler O'Neill + Partners, L.P., Research Division**

Okay. And then finally, the relationship lending in the quarter. This is the first time I remember you disclosing how big that loss or the impact was. Is that a function of it not having been material enough before? Is it something new for the way you're accounting? And I'm just wondering why, this quarter, we're hearing about it.

**David A. Viniar**

It's the former. It was so material within the context of the whole number that we decided that should be disclosed. And before, it wasn't.

**Operator**

Your next question is from the line of Betsy Graseck with Morgan Stanley.

**Betsy Graseck - Morgan Stanley, Research Division**

A couple of questions. One, kind of housekeeping issue, but it's on the Investing & Lending segment. So the debt marks had the impact of a hedge. And I guess I just wanted to understand how much the hedge impacted the debt section of the I&L both this quarter and last quarter.

**David A. Viniar**

The hedge on the relationship lending?

**Betsy Graseck - Morgan Stanley, Research Division**

Yes.

**David A. Viniar**

In the quarter, although there was a lot of volatility because of the basis between the hedges, as well as versus the cash positions, over the course of the quarter, the hedges had very little -- the hedges versus the marks had very little effect. It was really almost all just the day one marks.

**Betsy Graseck - Morgan Stanley, Research Division**

Okay. And versus last quarter?

**David A. Viniar**

I don't have last quarter in front of me. We'll get back to you on that one.

**Betsy Graseck - Morgan Stanley, Research Division**

Okay. And then just on capital return. I know you mentioned that you submitted your request. One of the things that I've said looks at is sustainability, predictability of earnings. So I guess, I’m just wondering how you present that to -- how you present your capital request to the fed, given the volatility that we're seeing in the industry right now. Do you just kind of shoot for the low end of the range, or you're just very conservative in your outlook for earnings? I'm just trying to understand how you think through that.

**David A. Viniar**

We make our best estimate given the economic environment that is prescribed. So the thing that really causes the most volatility in earnings is the economic environment. If you give us an economic environment, if that economic environment actually happens, we can get relatively close on where we're going to come out. Obviously, there's going to be variability. It's not going to be exact. The thing that causes the variability, really, is the change in economic environment. So for a given economic environment, we make our best prediction.

**Betsy Graseck - Morgan Stanley, Research Division**

Okay. And then you mentioned that you've got expectations for common Tier 1 under Basel III going to just under 11% by the end of 2013, which is based, in part, on estimates, right, consensus estimates.

**David A. Viniar**

Yes.

**Betsy Graseck - Morgan Stanley, Research Division**

So to the degree economic environment is still why the consensus estimates comes down and we should expect that you're going to be hitting a lower number than that sub-11% by the end of 2013.

**David A. Viniar**

Yes. If earnings were lower on that calculation, our ratio would be lower. And if earnings were higher on that calculation, our ratio would be higher.

**Operator**

Your next question comes from the line of Brennan Hawken with UBS.

**Brennan Hawken - UBS Investment Bank, Research Division**

So just a couple of quick questions. One, a follow-up on one of Glenn's questions here. For the recently submitted CCAR, can you help us understand how you came up with your projection for 2012 pre-provision net revenue, and maybe whether or not the fed has given you any guidance on the numbers that they look at when they come up with their own set of projections for a firm like Goldman?

**David A. Viniar**

As I mentioned, we -- both the fed gives us certain economic environments, both in a base and a stress case. We also have our own based on conversations with our economists. We come up with our own economic scenario. We then do a very detailed analysis going business by business and what we think our results will be given those economic scenarios, and that's what we submit.

**Brennan Hawken - UBS Investment Bank, Research Division**

And has the fed given you any color on how they think about it?

**David A. Viniar**

Well, they gave -- they have economic scenarios as well. So there's ours and their economic scenario. And based on those, we put in submissions on both.

**Brennan Hawken - UBS Investment Bank, Research Division**

Okay. And then on a different sort of issue. Given some of the drying up of liquidity in certain fixed income markets with dealers holding less inventory and that oligopolistic nature of institutional fixed income asset management business, do you think that there's an increase in risk that you could end up seeing some disintermediation from the buy side and just using dealers less often and just interacting between each other?

**David A. Viniar**

Okay. I think that the market-making function that we and others perform is a very, very valuable function for our mutual fund, hedge fund, corporate, et cetera, clients to be able to access markets as quickly as they want to, to be able to get prices on things they want to buy and sell very, very quickly when they want to do it. I think that the ability to do that directly is going to be hard. I think people would have to be set up in a way that they're not set up now to execute at a speed that they're not set up to execute and to have a liquidity that they don't have right now. So I think that the function that we and others perform in providing that liquidity market is going to remain a very valuable function.

**Operator**

Your next question comes from the line of Matt Burnell with Wells Fargo Securities.

**Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division**

Just a question on your international revenue trends in the fourth quarter. I'm just curious as to -- were they substantially different enough to change the relationship of the international revenues relative to the U.S. revenues in the quarter? And I guess, looking forward, how are you thinking about that relationship over the next year or 2?

**David A. Viniar**

So look, it's a little hard because of certain factors. So for example, our Asia revenues, as a percentage, were much higher in the fourth quarter than the third quarter, but that's partially because ICBC was up nearly $400 million in the third quarter and down $1 billion -- no, I'm sorry, in the fourth quarter and down $1 billion in the third quarter. So that really accounted for most of the change. As far as kind of a trend, I would expect that -- we've been running for the last few years between 50% and 60% in the U.S. and between 40% and 50% outside U.S. with variability around that, largely because of things that I just talked about, I would expect that to trend more towards 50% in the U.S. or maybe even less and the rest outside U.S.

**Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division**

Right. So that's not very different from what you've been seeing for a while. I guess I'm just curious in the Trading and in Investment Banking businesses, maybe excluding Investing & Lending.

**David A. Viniar**

I think we'll trend towards a little less than 50% in the U.S. and a little more than 50% outside the U.S.

**Matthew H. Burnell - Wells Fargo Securities, LLC, Research Division**

Okay. And then just a administrative question. In terms of the DVA, CVA effects the quarter, you noted on the release that they were effectively minimal. What benefit did you get this quarter from some of the hedging that you said you did in the third quarter from -- on that exposure?

**David A. Viniar**

It largely didn't matter. Our spreads were pretty flat quarter-over-quarter. So with or without hedging, it was pretty much -- the whole amount was about $20 million. So it didn't really matter.

**Operator**

Your next question comes from the line of Mike Mayo with CLSA.

**Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division**

So you've had the best loan syndications in the industry, I guess, in about a couple of decades. Is some of that activity reflecting a slot from the capital market to loans, or why are you seeing that?

**David A. Viniar**

Mike, I missed the beginning of what you said. We've had the best -- I didn't hear what you say is the best something in a few decades. I didn't hear what you said.

**Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division**

The best loan syndications in the industry in 2 decades. So my question is, are you seeing that in less fixed income or bond issuances or some of those bonds going to loans? Or do you have any color on that?

**David A. Viniar**

I'm sorry. I'm still confused. The best loan syndications in a couple of decades?

**Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division**

Yes, the loan syndication activity for the industry in 2011 was some of the highest you've seen in about 20 or 21 years.

**David A. Viniar**

Okay.

**Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division**

And my question is, are you seeing activity move from capital markets back to loans?

**David A. Viniar**

Well, yes. I actually think that was largely structural. There was just a lot of cash available for loans. And so I think people took advantage of that. I don't necessarily think that's going to be a trend.

**Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division**

Okay. So you would expect -- no, that's fine. Let me go to the capital question. Where are you leaning right now? Are you leaning toward having higher capital levels for a perception of greater stability of Goldman Sachs, or are you leaning toward, hey, let's buy back a lot more stocks because we're trading below book value?

**David A. Viniar**

You and I have talked a little bit about this before, Mike. It's a very hard question, and it's not a science. We sit here with our stock price where it is. And as I said to you, I am relatively certain that at some point in the future, we're going to wish we bought back a lot more stock at this price. Yet the flip side is it's a very tough environment, and in a tough environment, we tend to be very conservative and want to hoard cash and hoard capital. And so we make the -- those 2 things you mentioned are offsetting thoughts that we have, and we just try and make the best decision we can in the environment.

**Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division**

Well, if you feel a teeny bit better about Europe, would that mean you'd lean a little bit more toward buybacks?

**David A. Viniar**

I should emphasize teeny in how much better I feel.

**Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division**

And then lastly, your revenue weakness recently. Are you saying none of that is due to secular factors? It's all cyclical. There's no structural changes that's hurting your revenues.

**David A. Viniar**

I never make -- I shouldn't use never. I don't like to use the word never. I don't make statements that bold, and I couldn't say that. I think that we are clearly in a cyclical downturn. There is less activity. That is cyclical. That will come back. I have no idea when, but it will come back. Over time, there have always been secular changes in our business, and I think we'll go through some secular changes now in how we deliver our services. I think the services that our clients want that -- you've heard us talk about this. The advice, the capital, the liquidity, the risk management, the asset management, I think those services are still going to be the same services. I think there will be a cyclically higher demand for those services than there is now, and there might be some secular change in how those services have to be provided. And our job is to make sure that we're able to provide them in the way that we'll be able to and will be required going forward.

**Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division**

Let me try one last time. Your ROE target of 20%, I know you don't have an ROE target now. Do you think you'll have one in the future, once you know what the capital rules are?

**David A. Viniar**

Yes, I think we will.

**Michael Mayo - Credit Agricole Securities (USA) Inc., Research Division**

And would the sole adjustment to that ROE target be based on the capital? So if you have to hold 1/4 more capital then your ROE would go from 20% down to 15%.

**David A. Viniar**

No, it would be a combination of changes in capital requirements and changes in what we view as the opportunity set going forward. So that's why I can't give you the number now.

**Operator**

Your next question is a follow-up from the line of Betsy Graseck with Morgan Stanley.

**Betsy Graseck - Morgan Stanley, Research Division**

Yes, just a follow-up. You mentioned the sub-11% on 2013 for common Tier 1. What's your estimate for the 2012 year end?

**David A. Viniar**

I -- Betsy, I don't have that now. We'll get back to you on that as well.

**Betsy Graseck - Morgan Stanley, Research Division**

Okay. Because I think in the past, you had said sub-10%. And just wondering if you're still there or not.

**David A. Viniar**

I'll come back to you. I don't think it's going to be far from that, but I'll come back to you.

**Operator**

Your next question is a follow-up question from the line of Roger Freeman with Barclays Capital.

**Roger A. Freeman - Barclays Capital, Research Division**

Just a couple of quick ones. The repurchases, do you have any remaining authorization from last year that you can do in the first quarter?

**David A. Viniar**

Yes. We have a small amount remaining that we can do in the first quarter, but it's pretty small.

**Roger A. Freeman - Barclays Capital, Research Division**

Okay. And on the SIFI buffer. And I know it's not finalized yet, but do you have any reason -- is there any reason why you shouldn't expect 200 basis points for you?

**David A. Viniar**

Well, we read in the paper that it was going to be 150 basis points. We don't know any more that than what we read in the paper.

**Roger A. Freeman - Barclays Capital, Research Division**

Okay. Oh, and just lastly, on VaR. The interest rate VaR, you've noted that, that was up because volatility was up a lot. Did you actually -- did you reduce risk and interest rates, or did you increase for VaR just in the quarter?

**David A. Viniar**

So if you remember, at the end of third quarter, I told everybody that you should expect our VaR to be higher in the fourth quarter because volatility was already up and our ending VaR was higher than it was in the third quarter. So we knew that this was going to happen because volatility was so much higher.

**Operator**

And at this time, there are no further questions. Please proceed with any closing remarks.

**Dane Holmes**

I'd like to thank everybody for joining us for our fourth quarter earnings call. If you have any incremental questions, please don't hesitate to contact us at Investor Relations. And otherwise, enjoy the rest of your day. Thanks. Bye.