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 Second Quarter 2012 Earnings Conference Call. Also this call is being recorded today, Tuesday, July 17, 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 second 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 description of risk factors in our current annual report on Form 10-K for our fiscal year ended December 2011.

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. This audiocast is copyrighted material of The Goldman Sachs Group, Inc. and may not be duplicated, reproduced or rebroadcast without our consent.

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 second quarter results, and then I'll take your questions.

Net revenues were $6.6 billion. Net earnings were nearly $1 billion. Earnings per diluted share were $1.78, and our annualized return on common equity was 5.4%. Year-to-date, our annualized return on common equity was 8.8%.

Questions surrounding the stability of the global economy and its future prospects resurfaced in the second quarter. The situation in Europe remains a primary concern. Despite the systemic benefits of the European Central

Bank's long-term refinancing operations, the market refocused on the broader sovereign challenges that remain. In particular, client psychology suffered from continued skepticism regarding the mechanisms and political will required to address the complex series of issues facing European governments. The outlook for the global economy was further clouded by concerns about slowing economic conditions in the United States and China given weak economic data during the quarter.

The accumulation of these various macroeconomic concerns increased market uncertainty and reduced client activity. For example, during the second quarter, industry underwriting volumes declined significantly, with debt and equity volumes down by 36% and 15%, respectively. Market volumes also posted quarterly declines in various fixed income and equity products. While a challenging macro environment may translate into lower industry volumes, our focus on our clients is unwavering as the advice, execution and Investment Management services that we provide to our global client franchise are more highly valued in a difficult environment.

The uncertainty has also led the firm to conservatively manage its risk profile, maintaining a high level of risk-adjusted capital and a significant liquidity cushion. We believe our continued focus on serving our global client franchise and managing our risk prudently is essential to the firm's ability to create shareholder value over the long term.

I'll now review each of our businesses. Investment Banking produced second quarter net revenues of $1.2 billion, up 4% from first quarter results. Second quarter Advisory revenues were $469 million, down 4% from the first quarter. Goldman Sachs ranked first in worldwide announced and completed M&A globally for the year-to-date. We advised on a number of important transactions that closed in the second quarter, including Johnson & Johnson's $19.7 billion acquisition of Synthes, Sara Lee's $7.2 billion spinoff of its international coffee and tea business and Austar United Communications' AUD $2.7 billion sale to Foxtel. We're also advisor on a number of significant announced transactions, including Cooper Industries' $12.6 billion sale to Eaton, Walgreens' purchase of a 45% stake in Alliance Boots for $6.7 billion and Catalyst Health Solutions' $4.4 billion sale to SXC Health Solutions.

Second quarter underwriting net revenues were $734 million, up 10% sequentially. Equity underwriting revenues of $239 million were down 6% from the first quarter, reflecting weaker issuance activity. Debt underwriting increased 21% to $495 million, diverging from lower industry-wide issuance volumes due to our involvement in several significant transactions.

During the second quarter, we participated in many noteworthy underwriting transactions, including BTG Pactual's $1.7 billion IPO, IHS' $1 billion secondary offering and Chesapeake Energy's $4 billion bridge loan. Our Investment Banking backlog increased from the end of first quarter levels.

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 $3.9 billion in the second quarter. Our FICC and equities client execution business produced significantly lower results relative to the first quarter, driven by macro concerns and weaker market sentiment.

FICC client execution net revenues were $2.2 billion in the second quarter, down 37% from the first quarter as most businesses produced lower results. Our rates, currencies, credit and commodities businesses were negatively impacted by client risk aversion and lower volumes following more acute concerns about the situation in Europe and broader macroeconomic weakness. While volumes were also lower in mortgages, the business benefited from better asset price stability.

Turning to equities, which includes equities client execution, commissions and fees and securities services. Net revenues for the second quarter were $1.7 billion, down 25% sequentially. Equities client execution revenues were 51% lower to $510 million, reflecting higher levels of volatility and declining market volumes. Commissions and fees were $776 million, down 7% from the first quarter on lower volumes. Securities services net revenues of $409 million were 11% higher sequentially due to seasonally stronger client activity. Turning to risk, average daily value at risk in the second quarter was $92 million, down 3% relative to the first quarter.

Let me now review Investing & Lending, which produced net revenues of $203 million in the second quarter. The firm's Investing & Lending activities across various asset classes, primarily including debt securities and loans 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 loss of $194 million during the quarter. Other equity investments generated net losses of $112 million, reflecting losses in public equities largely offset by gains in private equities. Net revenues from debt securities and loans included net interest income and net gains of $222 million. Other revenues of $287 million were primarily driven by the firm's investment in consolidated investment entities. In Investment Management, we reported second quarter net revenues of $1.3 billion, up 13% from the first quarter, largely due to incentive fees related to the sale of our client's remaining investment in ICBC. Management and other fees were consistent with the first quarter at $1 billion. During the second quarter, assets under management increased $12 billion to $836 billion. Inflows and fixed income due to the acquisition of Dwight Asset Management were partially offset by $4 billion of market depreciation.

Now let me turn to expenses. Compensation and benefits expense, which includes salaries, bonuses, amortization of prior-year equity awards and other items, such as payroll taxes and benefits, was accrued at a compensation to net revenue ratio of 44%, which is consistent with the firm's accrual in the first quarter of 2012. Second quarter non-compensation expenses were $2.3 billion, 4% lower than the first quarter, reflecting reduced cost across a number of expense categories. Total staff at the end of the second quarter was approximately $32,300, relatively flat from the first quarter of 2012. Our year-to-date effective tax rate was 33.2%.

Many of the last several quarters presented challenging operating conditions, with macroeconomic concerns taking center stage. As we've said many times, our opportunity set begins with a client's decision to transact, and the recent environment has damaged client sentiment and reduced overall activity levels. As a management team, we recognize that we cannot control the macro environment. However, we remain committed to using all the appropriate levers available to us to improve returns without negatively impacting our client franchise or longer-term prospects.

We have a long history of adapting, and we'll need to continue to allocate resources effectively to meet our clients' need to maximize returns. In a difficult operating environment, we have 2 principal levers to enhance returns: expense and capital management. A year ago, we announced a $1.2 billion expense initiative. We subsequently increased the amount to $1.4 billion. We've met that target and continue to focus on improving operating efficiencies across the firm. We're currently targeting approximately $500 million in additional run rate cost savings to be achieved by year end.

During the quarter, we repurchased 14.3 million shares of common stock for a total cost of $1.5 billion. We believe that we have sufficient flexibility to manage our capital levels appropriately for the remainder of the year. However, the level of ongoing share repurchases will continue to be driven by our assessment of the risk to the broader operating environment, our earnings generation and the potential for more attractive opportunities to put our capital to work for clients.

In this environment, we will continue to focus on helping our clients navigate the challenging market conditions. We will work to balance near-term uncertainties with longer-term strategic goals. We will invest for growth in attractive regions and businesses and reduce our commitment to businesses experiencing lower client demand. Doing this effectively is the key to protecting our global client franchise and thus, our ability to generate attractive long-term returns for our shareholders.

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

Question-and-Answer Session

Operator

[Operator Instructions] Your first question is from the line of Howard Chen with Crédit Suisse.

Howard Chen - Crédit Suisse AG, Research Division

Just picking up where you left off the prepared comments, with all that you're willing and trying to do to control expenses and capital management, we still have a 5% return on tangible equity. Just curious what else is in your mind and the partners' minds about getting back to kind of exceeding cost of capital and other than just waiting for a more vibrant macro environment?

David A. Viniar

Howard, look, I think you've heard me talk about this before. We're controlling the levers we can, which are expenses and capital. We obviously don't want to go too far on either one, because we think, at some point, the world will be -- will get better. But I think that all of those things will let us perform a little bit better in a tough environment. They're not -- we're not going to cut our way to prosperity, and we're not going to cut our way to the appropriate levels of returns. And I think that we'll continue to do the best we can with our clients, manage our expenses and manage our capital, but I would not expect that we're going to have acceptable ROEs in a macro environment like this.

Howard Chen - Crédit Suisse AG, Research Division

Understood. And then given the recent Fed, 2.5 and Basel III NPRs, was just hoping you could give some thoughts on some of the Basel III guidance after you and the team incorporate some of these recent NPR rules.

David A. Viniar

Yes. What I would tell you is when we sit here today, best estimate, and these are still rough and all done manually, if we looked at Basel III today, it would be slightly below 8%. And if we roll forward, and only just pure math add consensus estimate and largely, the passive items like credit correlation, mortgage securitization, they're going to roll off, by the end of 2013, we'd get to slightly under 10%. And that's about 0.5% lower, because of -- than we told you last time, because of some of those -- the new Federals and about 0.5% lower because of lower consensus estimates that have come out. So those are 2 things that have really changed since we spoke last.

Howard Chen - Crédit Suisse AG, Research Division

Great. And then finally for me, $1.5 billion of share repurchase is pretty impressive this quarter. I think if -- I know there's a lot of variables in this. But if the stock does the same trajectory as it did last year, i.e. it remains below tangible book, we saw you pick up share repurchase in the third quarter and then get a little quieter in the December quarter. Is that still a fair assumption to use? Or are there other things specific to this operating environment or valuation that we should be thinking about for this year?

David A. Viniar

I -- we can't give you a prediction. It's going to depend on a lot of things. And I -- again, you've heard me talk about this before. It's a very big dilemma in an environment like this. We -- in an environment like this, we are -- tend to be very cautious. We tend to conserve cash and conserve capital, and yet, we have a stock price trading well below tangible book. And I know when we look back in the future, we're going to wish we'd bought back more at this price. And so it's a trade-off between caution in a difficult environment, seeing what our earnings are and calibrating it with the very low stock price. And so it's not a science. And it's something that we look at all the time, and we'll just have to see as we go.

Operator

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

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

Is there anything you can tell us on the asset servicing sale on the capital freed up, potential gain, revenues impacted, anything you can help us with? Because I think I get the strategic rationale of not investing in core business.

David A. Viniar

So there wasn't a lot of capital attributed to the business, so I don't think it's going to free up that much capital. We have very little book value. So a very large portion of the purchase price will be gain. I think the transaction's expected to close in the fourth quarter, so probably won't come till then. And there was not a lot of revenue and earnings associated with it, so it's not going to have -- it has a very immaterial effect on our business going forward.

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

Okay. Appreciate that. This might be nitpicky, but is it fair to assume that what you and others have -- well, let's just stick with you guys, what you bought back in the quarter was one quarter of your CCAR approval?

David A. Viniar

I -- we have not disclosed that number nor am I going to start right now. But it was a good try, Glenn.

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

Can -- Alliance Boots, on the Advisory side, I could take my guesses. But can you help us of what you owned and what it contributed in the quarter?

David A. Viniar

With that, I'm not going to give you the exact numbers, but we had a very small, very small equity investment in it. And so -- and a slightly larger but still very small amount of debt. So the gains from those were not terribly material.

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

Okay. That's good. And then lastly, this is -- any color would be helpful. But you have the expense thing going on. You just told us about more – you have the buyback, which is actually reducing your share count. Can you talk about how you think about the potential operating leverage, God help us, if revenues actually do go up some day? Because it seems like the incremental margins are -- potential is big.

David A. Viniar

Look, we -- I think you said it well. We think we're very well set up, because the other thing you didn't mention was the amount of liquidity we have. And we have a lot of liquidity also, which can be used if we see good business opportunities. And so we think that we kind of have staffing levels at the right places and the right seniority. Our expense base about taking it down to where we think it ought to be, capital levels where they ought to be. And if we see good opportunities, obviously, we'll start generating capital again. Remember, in addition to that, our risk is extremely low. The VaR, while its just one measure of risk, $92 million is the lowest it's been since the third quarter of 2006. It's almost 6 years. So I think if we see the world get better, and my view on this, it will get better, I just don't know when. We're in a cyclical business. I think we're extremely well set up. And I guess the last thing I'd add to that is our client franchise. We continue to have a very high market share in all of the most important businesses. And I think if there's more to do, we'll get on more than our fair share of it.

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

Last one that's related to that is you made your comments on Europe. You guys have been very defensive on it and right. Have you seen any signs that either the logjam or the ultimate solution is near?

David A. Viniar

Look, I'm not an economist, and I'm not an expert in this, but there's nothing that we've seen that -- you heard my comments -- that gives us a lot of confidence that there's a solution coming any day now. I hope I'm wrong there. And as I said, I'm not an expert in this. And I know there's a lot of people over there who are working very diligently to come up with the right solution, but we've been through this for a very long time.

Operator

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

Betsy Graseck - Morgan Stanley, Research Division

A couple of cleanup questions on that. On the sale to STT, what's the impact on FTE?

David A. Viniar

The impact on?

Betsy Graseck - Morgan Stanley, Research Division

FTEs? Headcount?

David A. Viniar

Betsy, I don't actually know that number offhand. So how about if we get back to you on that? I think it's going to be maybe a couple of hundred people, but I'm not 100% sure. So we'll come back to you on that.

Betsy Graseck - Morgan Stanley, Research Division

Okay. And then the $500 million in cost saves by year-end, does that include the STT sale?

David A. Viniar

It's going to be pretty immaterial. It's really going to be a $500 million run rate savings on our kind of ongoing expenses. The expenses that we had associated with that were not very big. Both the revenues and the expenses were not very big.

Betsy Graseck - Morgan Stanley, Research Division

All right. Can you just -- can I dig in a little bit to where the opportunity set is for the expenses? Is it more coming from the non-comp line, where there's opportunities for you to leverage some of the investment spend you've been making in your IT backbone?

David A. Viniar

I'd say it's actually more -- it's on the margin non-comp expenses and more people related, and it won't necessarily result in lower headcount. In fact, I would expect that with campus hiring coming on, we'll probably have higher headcount by the end of the year. But we'll have a more junior and less senior-weighted headcount going forward.

Betsy Graseck - Morgan Stanley, Research Division

Okay. So more skewed towards comp than non-comp?

David A. Viniar

Yes. That's right.

Betsy Graseck - Morgan Stanley, Research Division

Okay. And then just lastly, we've been getting closer to derivative proposals coming out of the CFTC. Can you just walk us through how you're thinking about shifting the business, if at all?

David A. Viniar

I think you said it well. We're getting closer, but we're still not there. Even some of the things that have been agreed upon haven't been released yet. We're, I think, not saying wait and see, because we have a lot of people working on getting ready, but we're not really making wholesale changes yet until we know the final rules. But I think you're right. We're getting closer, but we're just not there yet.

Betsy Graseck - Morgan Stanley, Research Division

Okay. And then last, when you mentioned under 8% Basel III, that included the 2.5, right?

David A. Viniar

Correct.

Betsy Graseck - Morgan Stanley, Research Division

That's all in?

David A. Viniar

Yes, all in.

Operator

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

Kian Abouhossein - JP Morgan Chase & Co, Research Division

A few questions. On NPR 2, I assume you're assuming in your 8% calculation, below 8%, a standard methodology for NPR 2 rather than an internal one. Is that correct?

David A. Viniar

Yes, that is correct.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

And is it likely that you will be able to move to an internal model, i.e. the 50 basis points could come back?

David A. Viniar

We don't know yet. It's something we have to work through, and we'll work with the regulators. It'll take a little bit of time, but I'd be -- I don't want to overstate it. We just don't know.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

And can you give us an idea, the 283 market risk-weighted assets that you have disclosed in the past for 2011 and in one of your presentations, where would we be standing at this point for the 283?

David A. Viniar

Kian, I'm sorry. I don't have that number right at the tip of my fingers either. We'll come back to you on that one.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

Okay. No problem with that. And lastly, if we look at the risk rating of NPR 2 on the securitization, which will be about 20% on the highest tranche. If I look at Europe, we would be around 7% under CRD III. How do you see your business developing in such a context considering the European have an advantage on the securitization front going forward?

David A. Viniar

You ask a very fair question there. I would tell you that some of the rules, even the ones you talked about, didn't come out as badly as we thought they might have, which would have made the divergence even greater. But I think we're looking at this, and we're just going to have to see how it unfolds. But I think it does put the U.S. firms at a competitive disadvantage. I think you're right. And it might end up with a smaller mortgage securitization business for us.

Kian Abouhossein - JP Morgan Chase & Co, Research Division

And if I may, one more. In terms of capital movement within the firm, how do you see the capital moving towards higher-growth areas? Where are the segments either by business where you see opportunities or geographies from your perspective?

David A. Viniar

Look, we've talked about a little bit about this before. We continue to be pretty optimistic about the growth markets. Obviously, they're not a straight line up, and some of them are experiencing some difficulties now. But over the next 3 to 5 years, we continue to think that there's going to be greater economic growth in some of the growth markets and some of the developed markets. But we're also pretty bullish as the world starts to get better, which I just don't know when it's going to happen in most of our businesses all around the world. And so we're -- you've heard Lloyd say, we want to be Goldman Sachs in more places, but we also want to grow Goldman Sachs where we are.

Operator

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

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

I just wanted to follow up on the article I'm reading in the Wall Street Journal: Goldman builds private bank, sets a target for $100 billion in additional loans. Can you describe what you're doing in the private banking area and with regard to targets for loans?

David A. Viniar

Sure. I think there might have been some overstatement there. Look, we've been in the private wealth business for a long time. You know that's a very important business for Goldman Sachs. We've always lent to our private wealth clients. And having the bank has just made that a more efficient and more profitable business, so we intend to continue to grow that slowly as we have been. As far as corporate loans go, as we've mentioned, with -- especially with the retrenchment of some of the European banks, there are some of our clients who really need dollar funding. We have some available through the bank. We'll use it where we think it's most efficient, we have the most profit opportunities, we have the clients who need it most. So again, I think we're just going to be more efficient. And all I'd tell you is the bank -- the total bank has a little over $100 billion in assets and only about $50 billion in deposits, which are used for a variety of things. So you can do the math on the loans.

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

So do you have a $100-billion loan target?

David A. Viniar

I would say we have $50 billion of deposits right now. They're going to grow slowly over time as we can grow them, and then we'll use some amount of that for our loans. So you can -- as I said, you can do the math.

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

So now, a real big picture question. In deciding to go this direction more aggressively, you could either decide to expand the balance sheet, expand loans, expand the back. You could have gone the other direction and said, "We're going to de-bank and really shrink what we have, especially trading below tangible book." Or you could have just put off this decision to another day. So why decide this now? What was the urgency, in addition to the European bank situation? And did you consider the idea of de-banking or just dramatically shrinking your balance sheet?

David A. Viniar

Mike, I think I told you there might have been some overstatements, to start. I think that -- again, I've told you before that I think the idea of de-banking is not really something that's on our mind. We're regulated by the Fed. We're going to be regulated by the Fed. We are a bank holding company, and we're going to be one for the foreseeable future. So that hasn't changed, but I don't think there's any big change in our strategy that's coming. This is something that is part of what we are. We're going to grow it where we see opportunities, we're going to take advantage of the opportunities we see, but it's not a big change in strategy.

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

And then lastly, you're still trading below tangible book value, and I know you have a lot of confidence that your assets are marked accurately. Anything else you can do to realize that value in addition to more aggressively repurchasing your stock?

David A. Viniar

I think that's really the main way.

Operator

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

Michael Carrier - Deutsche Bank AG, Research Division

Maybe a follow-up question just on the return environment. It seems like if you look across the industry, it's tough enough for someone like you or even the top 5 players in the industry to still generate a 10% ROE. So it's got to be, depending on mix, even tougher for firms that are kind of in the 5 to 15 ranking. Given that you're big on the Advisory side in the financial service sector, has there been any pickup in discussions, dialogue on bigger moves instead of just the cost-cutting strategic decisions in the industry of exiting certain businesses, paring down certain regions? Like are we at that point, just given that this weak macro environment has been kind of just slugging along for a few years?

David A. Viniar

Look, it's a really hard question as we've talked about. You never know what the future is going to bring. We're in a cyclical business. We know we're in a cyclical business. It's hard to know when the cycle's going to change. We think we have tremendous upside in a lot of our businesses. While we're trying to pare down and perform as well as we can in this difficult environment, it's not returns that are acceptable to us or to our shareholders, and we know that. But the question is how much of the upside that we want to give away to have slightly better performance today. So we're not at the point now where we're thinking of wholesale strategic changes or wholesale shrinkages in any way. We have a long history of doing this incrementally as we see how the world unfolds, and I think I would expect that that's what we're going to continue to do.

Michael Carrier - Deutsche Bank AG, Research Division

Okay. I mean that was for you. I was saying more for the industry. Like meaning when you look across like the financial service sector, based on the conversations through, like on the Advisory side, have you seen a pickup on dialogues based on the environment and potential changes taking place?

David A. Viniar

Look, I think we've talked about seeing some of the European banks retrench as -- with some of the difficulty. But other than that, we're not really seeing wholesale changes.

Michael Carrier - Deutsche Bank AG, Research Division

Okay. And then on your cost reductions, just that $500 million, that makes sense, no wholesale changes. But in terms of where you're seeing those opportunities, like are you still overinvested in Asia or Europe and so you're pulling back more there? Is it certain product areas or certain businesses? Or is it across the board still?

David A. Viniar

The only thing I would say is while we're -- because we still think it's a great long-term opportunity, we're certainly pulling back less in the growth markets than other places. But that doesn't mean that -- as we said, they're not a straight line up either, but we're pulling back less there.

Michael Carrier - Deutsche Bank AG, Research Division

Okay. And then last one, just on the OTC shift. It seems like we're getting closer in terms of the number of rules that are out there. But still, seems like it's going to get kicked to 2013. When you look at it, whether it's the clearing opportunity and then obviously, the give-up on some of the revenues, do you have any indication or any estimate of -- I think most would expect the OTC market can get cleared -- the challenge is what portion can trade on a SEF or can transact and then the pricing goes away or goes to those platforms? So when you look at the OTC market, what portion can go in that direction? And then even though pricing goes down there, how much capital can you be saving as a lot of these products get cleared?

David A. Viniar

Mike, it's really hard for me to give you specificity on that question. The rules aren't done yet. The industry is still looking at how these things are going to unfold. If I gave you specific numbers there, I would literally be making them up, and I don't want to do that.

Operator

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

Brennan Hawken - UBS Investment Bank, Research Division

A lot of my questions have been asked, but just maybe a couple quick ones. FICC results were actually a little bit better than we had been looking for. And in the press release at least, you highlighted the strength in the mortgage business, and you commented on asset price stability helping out there. Was there some benefit from Maiden Lane? Or can you give us a little more granular impact on what that was?

David A. Viniar

I think that's one of the things that helped. I think some of the Maiden Lane transactions being cleaned up, I think that took a little bit of overhang off the market. I think that was good. I think you probably saw there have been some tenders in Europe, which have been helpful. So there's been a lot of things that have taken some of the overhang off the market. And as investors have also been searching for yield, I think they felt pretty good about the mortgage space. And so I think it's been a pretty attractive space for people.

Brennan Hawken - UBS Investment Bank, Research Division

Okay. And then circling back to the private bank question, and I know you've stated pretty clearly that the article overdid it a little bit. But when you think about some of the regulatory constraints that are being applied to the Capital Markets businesses and -- couldn't this potentially be an opportunity to create some more stability in your earnings base? And given, as you said, the great relationships you already have with many of your high net worth clients and such, the opportunity to maybe grow the bank to just give a bit more of a baseline for Goldman, is that something that you guys are thinking about as well or not really? Am I overdoing it?

David A. Viniar

I don't want to -- I want to neither overstate nor understate the opportunity. I mean, as I said, private wealth business is a good business for us. We have a bank. We are a bank, a bank holding company with a bank. We're raising deposits, and we'll use some of those deposits for private individual loans, some of it for corporate loans. But we're not a retail bank. We don't have branches. We're not going to bring in $1 trillion of deposits, and so there is no change in the strategy of Goldman Sachs. We're largely a wholesale firm. We also have a bank, and we'll use those deposits that we have and grow them and use them wisely for profitable opportunities where we see them.

Operator

Your next question comes from the line of Christopher Wheeler with Mediobanca.

Christopher Wheeler - Mediobanca Securities, Research Division

A couple of questions on the Investment Management business, if I may. First, just a point of clarification. In terms of the incentive fees in respect of ICBC, is it fair to say that probably, if we split those out, we'd have the normal kind of seasonal double-digit millions of incentive fees? That's the first question.

David A. Viniar

Yes.

Christopher Wheeler - Mediobanca Securities, Research Division

Okay. The second one is falling back on the private banking segment, can you give us some clue as to the portion of the $839 billion of AUM that at the moment you would classify as being with wealthy individuals as opposed to being institutional or retail?

David A. Viniar

Chris, again, I don't have those numbers with me. And so we're going to have to come back to you on that.

Christopher Wheeler - Mediobanca Securities, Research Division

Okay. And then really following on from that, in terms of -- I'm sorry to push on the strategy, but it is a very topical issue, particularly given obviously what seems to be a desire to diversify here. But would the focus, you would say, remain on your traditional U.S. client base, or would you focus perhaps a little bit more of your effort on, obviously, what is the faster-growing Asian markets, where obviously, you have a strong footprint in the investment bank?

David A. Viniar

Well, we've talked about this before. Growing the private wealth business outside the United States has been a big focus of ours and especially in some of the growth markets, as you mentioned, like Asia, where we think there is a lot of wealth that's been and being created given our investment banking relations and given the strength in our private wealth business. That has been a strategic focus of ours for a while, and it continues to be.

Christopher Wheeler - Mediobanca Securities, Research Division

Okay. And then if I was to ask you, what portion of your -- I suppose you've answered the question. But your portion of your wealth management assets are actually outside of the United States, would you have an idea whether it was 20%, 10%?

David A. Viniar

It's very small right now. It's a very small number, but it's something that we're looking to grow rapidly.

Operator

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

Roger A. Freeman - Barclays Capital, Research Division

I'm just going to come back to a couple of things that have been asked already. One, on the buybacks, were you fairly spaced across the quarter? Or were the buybacks more concentrated earlier part than latter part given the gyrations in the markets?

David A. Viniar

I think it was -- I mean, you can see by the average, I think we were relatively evenly spaced across the quarter.

Roger A. Freeman - Barclays Capital, Research Division

Okay. So I mean as you balance all those things that you've talked about and the risk environment, as you characterize it, it appears not as -- certainly, not as bad as parts of the fourth quarter last year, where I think you did pull back on the buyback. Is that a fair characterization?

David A. Viniar

I – look, as I said before, this is something that we're going to consider as we go forward. I don't think you should take the fourth quarter as an example of anything other than it's what we decided to in the fourth quarter of last year. And we're just going to see how things unfold as we go forward.

Roger A. Freeman - Barclays Capital, Research Division

Okay. Then on the $500 million in additional run rate costs you're going to take out, does that assume a current-ish run rate for the balance of the year?

David A. Viniar

I'm not sure I understood that question.

Roger A. Freeman - Barclays Capital, Research Division

Well, does it -- is it an assessment of where you need to get your cost base to relative to current levels of revenue generation?

David A. Viniar

Yes. It's assuming things are kind of stable as they are, we expect that by the end of the year, we will have taken out round numbers and other $500 million of cost. It will come out over the next couple of quarters.

Roger A. Freeman - Barclays Capital, Research Division

Okay. And is there anything that you or the board, management will be looking to make a determination otherwise? In other words, if there's a bigger structural cost change that would after -- be given of you that the revenue profile is going to be challenged for a long period of time? I know that's not your view right now.

David A. Viniar

Look, that's always the hard question, and it's always hard. I can't tell you we won't reach that conclusion. It's hard to reach that conclusion. History tells us that we will do things more on an incremental basis. But we'll have to see how the world unfolds.

Roger A. Freeman - Barclays Capital, Research Division

Yes, okay. And then just 2 more quick ones. Investing & Lending, you talked about some Private Equity gains. I guess within that, how much was realized versus unrealized? And was most of the realized the Alliance Boots that Doug was asking about?

David A. Viniar

Well, the second question is easy. Most was not the Alliance Boot. It was a pretty small number, as I said. I don't have what was realized versus unrealized with me, but most of it is what we would call event driven, which means it was based on a company that was private, went public. So then we're able to see the price, a bid for a company that we have an investment in. So it was mostly event driven.

Roger A. Freeman - Barclays Capital, Research Division

Okay. That's fair. And then lastly, just on securities services, you mentioned revenues were up sequentially. Were balance, prime brokerage balances up?

David A. Viniar

They were roughly flat.

Operator

Your next question comes from the line of Brad Hintz with Bernstein.

Brad Hintz - Sanford C. Bernstein & Co., LLC., Research Division

Yes. Right. I've been looking at the British Banker's Association site, and your name doesn't appear on the list as a LIBOR bank. But I guess I have a question, that is as a major player in fixed income, over the counter enlisted derivatives and as a major money market provider, would that make Goldman Sachs an aggrieved market participant if LIBOR was manipulated?

David A. Viniar

Let's just say we're not a provider of LIBOR. And we'll just leave it at that, Brad.

Brad Hintz - Sanford C. Bernstein & Co., LLC., Research Division

Okay. Well, then I -- can we talk about history though?

David A. Viniar

Sure.

Brad Hintz - Sanford C. Bernstein & Co., LLC., Research Division

In the 1990s, Salomon attempted to manipulate the U.S. Treasury auction. And there was a series of civil claims against Salomon by the other primary dealers. Was Goldman a plaintiff?

David A. Viniar

I actually do not know. I don't believe so, but I don't remember. I'd have to go back and look. I think in this one, we're going to watch this for a while.

Brad Hintz - Sanford C. Bernstein & Co., LLC., Research Division

Well, okay. So no comments on LIBOR at this point?

David A. Viniar

Other than that we're not involved.

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 small things. Just a little bit more clarification on the Basel III. You mentioned '11 now being closer to '10 for 2013. I just wanted to check if that excludes any additional mitigation and whether you've -- now you've got more sight of the rules, whether you may kind of up the mitigation or give us some details on that.

David A. Viniar

It excludes active mitigation. As I said, there's some stuff that just rolls off. That's included in there. It largely includes any active mitigation, and it's something that we're really starting to go through with the businesses now.

So I don't have a better update for you on it, but we're going to start looking at it pretty closely.

Fiona Swaffield - RBC Capital Markets, LLC, Research Division

Okay. And just a clarification on Investment Management. I mean, you obviously mentioned the impact of the acquisition on the net new assets, but would it have any impact on the absolute revenues, Q2 on Q1?

David A. Viniar

Very, very minor.

Operator

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

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

Couple of I think kind of cleanup ones. On the expense side, it seems most quarters recently, we've had the impairment charges related to consolidated investment entities running through the D&A line. I don't know, it's been something in the neighborhood of $100 million a quarter. How should we think of that going forward? Because to the extent that that continues, that would be potentially a meaningful part of the $500 million.

David A. Viniar

It's not what we were thinking of in the $500 million, but we certainly hope that those diminish over time. We like our investments to be good investments, and obviously, the ones that are impaired are not. And we think we're through a lot of it, but I can't tell you the other things aren't going to go the wrong way.

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

Is that something we should look at market trends and almost like a Private Equity-type we should mark things up or down? Or is it just...

David A. Viniar

No. It tends to be very idiosyncratic, and it tends to be more based on the performance of an investment rather than the market.

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

Okay. And you mentioned earlier Europe, and we've heard a lot -- at least we were hearing a lot of about market share gains in different businesses as

European competitors have pulled back. As we come into the summer and the environment really hasn't been a whole lot better, I guess, a, are you still seeing that? Is it spreading at all? And b, how meaningful of an opportunity really can that be for Goldman Sachs?

David A. Viniar

Look, you've heard me say this. We think that it is an opportunity. We think that there's going to be needs in Europe and that the banks are retrenching. But so far, the -- there hasn't been that much activity, and so it's really hard to see it come through. We think that over time that would be a really -- and certainly, over the near term, it could be a meaningful opportunity for us, but we haven't seen it yet.

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

Okay. And was there -- I guess finally, was there any DVA gains to note on the quarter?

David A. Viniar

Less than $10 million.

Operator

Your next question comes from the line of Stephen Worgen [ph] with JPMorgan.

Unknown Analyst

I'm still struggling a little bit with the comp issue. I mean, I think we've had this discussion, but it's becoming more material now. I mean, basically, under the Basel rules, the capital that you have to have today more than has doubled. And I recognize we're kind of in a cyclically slow environment. But in the past, you guys said, "Well, look, relative to the peer group, our ROT is better." So it justified like the comp ratio you were producing. But now, your return on tangible equity is kind of in line or even below some of the peer group, and you're still comping at like 44%. Now I recognize in the fourth quarter, you tend to true that up so that the aggregate full year number tends to go in the lower 40s. But I mean, at what point do you just recognize like that the business has changed because of the capital or maybe the revenue environment and that the new structural or normal comp ratio should be something materially lower, like maybe in the 30s, so shareholders get appropriate return above their cost of capital?

David A. Viniar

Look, first of all, I think it's a dangerous thing to compare comp ratios, because you have a lot of very, very differently structured firms. So I don't think you can compare comp ratio amongst firms. I think we're doing -- we're very cognizant of the returns that our shareholders get versus what our employees get. As you know, the ratio itself has come down pretty meaningfully in the last several years. We'll see what it ends up being this year. We also live in a competitive environment. And we could cut comp very dramatically in one year, and it would help our returns. But we live in a competitive environment. We still have people leaving for multiyear offers away from us, some from our competitors, some from other industry participants. And so we try and balance those 2 things as best we can.

Operator

Your next question comes from the line of Douglas Sipkin with Susquehanna.

Douglas Sipkin - Susquehanna Financial Group, LLLP, Research Division

Just 2 questions. One, you mentioned the IB pipeline had improved a little bit. Can you talk about maybe where you were seeing that? And then just a follow-up. It just seems like on the margin, you're starting to see a little bit more M&A activity, obviously, very gradual. Maybe you can comment on if something's happening. Or is it sort of just guys saying, "All right. This is the environment, and we still want to do something."

David A. Viniar

So the covenants, first of all, you've heard me talk before about it, backlog was up. It's an indication. You shouldn't read too much into it. As you know, some deals never get into backlog. Some deals that are in backlog don't get done. But I think it is an indication that we saw a little bit more activity in the first quarter, and it was, I'd say more M&A and debt focused than equity focused given how tough the equity markets were. And you're right, we're seeing a small pickup in M&A volumes. We continue to see a very large number of discussions. I think some of that pickup are cross-border deals, where people think that they can pick up assets cheap in various locations. But I think we're -- it's still a question of CEOs becoming more confident before we see a very big pickup in the merger business, which is at historic lows. And so I think we're poised for that to happen, but it's not going to happen until CEOs become more confident.

Operator

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

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

First of all, on the I&L Portfolio, given now that we -- you've seen the text of the NPR, are you thinking of any changes to the overall balances within that portfolio from what you've already read in the NPR? And are you thinking about potentially changing the amount of capital supporting that business?

David A. Viniar

There are some things that are just proposals, and we're still going through them and trying to understand exactly how to interpret them, because they're not so clear. But as of now, we're not thinking necessarily of a change in strategy, but we're going to have to look at what the capital requirements are. And we're going to have to make sure that investments we make will have the appropriate returns given the capital requirements that we have. If they don't, we won't make them.

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

And then forgive me if you've already mentioned this, but I jumped on the call just a couple minutes late. Any material changes to your stated exposures to the GIIPS countries in the second quarter relative to what you've put out for the first quarter?

David A. Viniar

No. They're up a little bit up, but they're still our gross exposure which, as you know, is exposure only net of cash in U.S. Treasury collateral. But before any hedges, it's still under $4 billion. And that after you take into account CDS hedging, which are with banks outside of the country, is roughly $2.5 billion. So about as well as it can be and still be operating in those countries.

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

And then I guess within that, just one additional question on the commercial/high net worth business. Would there be loans that would be made in that business that would be included in the -- in future GIIPS exposures potentially? Or is it more focused on Asia?

David A. Viniar

Yes. No, it would be there too. If we have clients in those areas, if we can structure them well and have the right protections, maybe with collateral outside the GIIPS area, maybe with collateral with very big haircuts, we would certainly use the dollar funding capacity that we have possibly, because we have a lot of important clients in those regions for loans in those regions as well.

Operator

And at this time, there are no further questions. I will now turn the call over to management for any closing remarks.

Dane Holmes

We'd like to thank everyone for joining us for our second quarter earnings call. If anybody has any additional questions, please feel free to reach out to us in the Investor Relations department. Otherwise, enjoy the rest of your day.