Operator

Good morning. My name is Dennis and I'll be your conference facilitator today. I'd like to welcome everyone to the Goldman Sachs First Quarter 2015 Earnings Conference Call. This call is being recorded today, April 16, 2015.

Thank you. Mr. Holmes, you may begin your conference.

Dane Holmes

Good morning. This is Dane Holmes, Head of Investor Relations at Goldman Sachs. Welcome to our first 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 the year ended December 2014. 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, Global Core Liquid Assets, and supplementary leverage ratio, and you should also read the information on the calculation of non-GAAP financial measures that's posted on the Investor Relations portion of our web site 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, Harvey Schwartz, will now review the Firm's results. Harvey?

Harvey Schwartz

Thanks Dane and thanks to everyone for dialing in. I will walk you through the first quarter results, and I am happy to answer any questions.

Net revenues were $10.6 billion; net earnings $2.8 billion; earnings per diluted share, were $5.94, and our annualized return on common equity was 14.7%. The first quarter was dominated by one primary theme, central bank policies. In the United States, the market heavily debated whether 2015 would be the year that the Federal Reserve raises rates. On the other hand, the European Central Bank announced the creation of a €1.1 trillion quantitative easing program that kicked off in March.

The prospect of two of the world's largest economies, implementing divergent monetary policies had a significant impact. Market participants reassess the implications for both global economic growth, and as a consequence, the performance of various financial assets.

Regarding the economic outlook, on one hand, low rates are viewed as providing an important economic stimulus to the United States. On the other hand, a return to normalized rates would be consistent with a strong underlying economy.

Looking at the bigger picture, the degree of conviction around a slow but stable U.S. recovery continued to gain support for most of the quarter. The weaker recent jobs report in the U.S. has sparked some debate around the timing and magnitude of potential rate hikes. However, the long term expectation of slow, but steady growth and higher rates, remains intact.

Across the Atlantic, the announcement of quantitative easing in Europe provided some stability and the basis for greater economic growth in the region. The launch of a €60 billion per month purchasing program provided greater confidence to market participants on the Eurozone outlook. The impact was immediately felt across European financial markets.

If you take the European government bond market for example, more than a quarter of the bonds are trading with negative yields today. The equity markets in Europe rallied, as demonstrated by the 18% increase in the Euro Stoxx 50 Index during the quarter, and the Euro reached its lowest level versus the dollar in 12 years. As a result, there was greater activity as clients responded to heightened market volatility.

Given the scope, complexity and significance of these two different monetary policies, it isn't surprising, that there continues to be a robust discussion around the potential impacts.

For our firm, the focus continues to be our clients and serving their needs. Our clients are placing a greater premium on both intellectual and financial capital, given market dynamics and an evolving competitive landscape. We are committed to providing our clients with superior advice, investment performance, content, market liquidity, and certainty of execution. We believe that our extensive capabilities favorably position us to meet a variety of client needs, in what is certainly a dynamic market environment.

Now I will discuss each of our businesses. Investment Banking produced first quarter revenues of $1.9 billion, up 32% from the fourth quarter. Our Investment Banking backlog decreased since the end of the year, but its still up significantly, relative to a year ago.

Breaking down the components of Investment Banking in the first quarter, advisory revenues were $961 million, the highest since 2007. This 39% increase relative to the fourth quarter reflects both the increase in completed M&A, and the strength of our leading global franchise. In the quarter, Goldman Sachs ranked first in worldwide announced and completed M&A. We advised on a number of significant transactions that closed during the first quarter, including Allergan's $71 billion sale to Activis; RWE's €5.1 billion sale of RWE-DEA, [indiscernible] Group, and Dai-ichi Life Insurance Company's $5.7 billion acquisition of Protective Life Corporation.

We also advised on a number of important transactions that were announced during the first quarter; these include, MeadWestvaco's merger with Rock-Tenn for a combined enterprise value of $20 billion; Charter Communications' $10.4 billion acquisition of Bright House Networks; and Dow Chemicals' $5 billion separation of its chlor-alkali and downstream businesses, to Olin Corporation.

Moving to Underwriting, revenues were $944 million in the first quarter, up 26% sequentially as equity issuance improved. During the quarter, we ranked first in Global Equity and Equity Related and Common Stock offerings. Equity Underwriting revenues of $533 million rose 56% compared to the fourth quarter, largely due to an increase in secondary offerings. Debt underwriting revenues were essentially unchanged at $411 million.

During the first quarter, we actively supported our client's financing needs, leading Santander's €7.5 billion follow-on equity offering; Chevron's AUD4.7 billion sale of its stake in Caltex Australia; and Berkshire Hathaway's €3 billion investment grade issuance.

Turning to Institutional Client Services, which comprises both our FICC and Equities businesses, net revenues were $5.5 billion in the first quarter, up significantly compared to the fourth quarter. FICC client execution net revenues were $3.1 billion in the first quarter, and included $32 million of DVA losses. Net revenues were up more than 2.5 times sequentially, as client activity increased in a number of our businesses, in response to higher volatility and improved market conditions. Interest rates and currencies were both significantly higher sequentially, as client activity improved amid diverging central bank policies.

Credit increased significantly from a more challenging fourth quarter, as credit spreads generally tighten during the first quarter. Mortgages also rose versus the fourth quarter, although volatility and client activity remained generally low. Given continued trends in the energy markets, commodities improved sequentially, with higher levels of client activity.

In Equities, which includes equities client execution, commissions and fees and security services, net revenues for the first quarter were $2.3 billion, up 20% sequentially and include $12 million in DVA losses. Equities client execution net revenues increased 50% sequentially to $1.1 billion due to a favorable market-making backdrop with higher levels of client activity, particularly in derivatives. Commissions and fees were $808 million, down 3% relative to the fourth quarter. Security services generated net revenues of $393 million, up 12% sequentially, reflecting higher customer balances.

Turning to Risk; average daily VaR in the first quarter was $81 million, up from $63 million in the fourth quarter. The move up was primarily due to increased market volatility across all categories.

Moving on to our investing and lending activates; collectively, these businesses produced net revenues of $1.7 billion in the first quarter. Following a sale of our investment in Metro International in the fourth quarter, we made a decision that the remaining revenue related to consolidated investments within the other line, was not significant in the context of the I&L segment. As a result, we are now reporting the other I&L revenues within the equity and debt lines.

Equity Securities generated net revenues of $1.2 billion, primarily reflecting strong corporate performance and company-specific events in private equity, as well as net gains in public equities. Net revenues from debt securities and loans were $509 million, with roughly $200 million in net interest income and the balance coming from net gains.

In Investment Management, we reported first quarter net revenues of $1.6 billion, essentially unchanged versus the fourth quarter. Management and other fees were down 3% sequentially to $1.2 billion. Assets under supervision remain flat at $1.18 trillion. $7 billion of long term net inflows, driven by fixed income and equity products, and net market appreciation of $6 billion were offset by net outflows of $14 billion in liquidity products.

Moving to performance; across the global platform, 82% of our client mutual fund assets were in funds ranked in the top two quartiles on a three year basis, and 73% in funds ranked in the top two quartiles on a five year basis.

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, was accrued at a compensation to net revenues ratio of 42%. This is the lowest first quarter accrual in our public history, and 100 basis points lower than the accrual in the first quarter of 2014. Our lower accrual rate reflects our strong 14% year-over-year net revenue growth and the positive operating leverage embedded in our firm.

First quarter non-compensation expenses were $2.2 billion, 12% lower than the fourth quarter, and slightly lower than the first quarter of 2014. The fourth quarter included higher charitable contributions and higher impairment charges on consolidated investment entities.

Now I'd like to take you through a few key statistics for the first quarter; total staff was approximately 34,400, up 1% from year end 2014. Our effective tax rate for the first quarter was 27.7%, that is down from a 2014 rate, primarily due to changes in geographic earnings mix. Our global core liquid assets ended $175 billion. Our common equity tier-1 ratio was 11.4% using the standardized approach, it was 12.6% under the advanced approach. Starting this quarter, the lower of these two ratios is our binding regulatory constraints.

Our supplementary leverage ratio finished at 5.3%, 30 basis points above the minimum requirement that begins in 2018. And finally, we repurchased 6.8 million shares of common stock for $1.25 billion in the first quarter. These repurchases reflected the completion of our 2014 capital plan.

As previously announced, the Federal Reserve Board did not object to our revised 2015 capital plan, which includes share repurchases, dividends and other capital actions. In terms of this year's CCAR test, we announced an increase in our quarterly dividend to $0.65 per share beginning in the second quarter. As it relates to our share repurchase capacity, one point I want to highlight, is that any potential share repurchases over the next five quarters, will be heavily back-end weighted. As you all know, we do not publicly disclose the approved size of our repurchase capacity. Again, we take this approach for a very specific and practical reason. We don't want our shareholders to view the approved buyback amount as a commitment to return that capital. For us, capital allocation is a dynamic process. If we see opportunities to deploy the capital attractively to support client activity, we want the flexibility to do it, and conversely, if our clients are less active, we will certainly look to return it. our track record on this one, is well established.

Now, before I take your questions, let me offer some closing thoughts. The first quarter has served as a strong start to 2015. The year-over-year increase in net revenues reflects, not only the strength of our franchise, but also our ability to provide high quality advice and certainty of execution for our clients. Our performance this quarter, well just a quarter, reflects numerous efforts over the last several years to adjust our business. We sold several businesses due to regulatory capital implications. We transformed our financial profile, significantly improving our risk based capital. We revamped our capital allocation processes, improving our decision-making and efficiency. We took a hard look at our operating cost, fundamentally changing our expense structure by eliminating costs, reallocating resources, and leveraging technology. We made all these changes, while at the same time, continuing to invest in our global client franchise.

We know that our success in many ways begins and ends with our clients. It’s the trust they place in us and our ability to execute on their behalf that drives our franchise, and we believe that our steady commitment, particularly through these more difficult years, has been critical to creating stronger client relationships. And there is one important thing that we didn't change, our focus on creating shareholder value, our efforts are ultimately a reflection of our commitment to you, our owners. We understand that to create shareholder value, we need to have strong financial footings, be an efficient allocator of capital, and have a world class client franchise. Ultimately, our efforts over the past several years have meant that a 14% increase in year-over-year revenues can contribute to a 40% increase in net earnings, a 48% increase in earnings per share, a 380 basis point improvement in ROE, and finally 9% growth in book value per share over the past year.

Thank you again for dialing in, and I am happy to answer your questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Your first question comes from the line of Glenn Schorr with Evercore. Please go ahead.

Glenn Schorr

Thanks very much.

Harvey Schwartz

Hey good morning Glenn.

Glenn Schorr

Good morning. Let's start with Investing and Lending, it was pretty darn good. I am curious on the equity side, how much of it was actually realized in asset sales, because it was a pretty active quarter? And then maybe related to that, if you could give the portfolio of breakdown in terms of equity, debt and lending assets?

Harvey Schwartz

So, let's just start with the balance sheet; you know that the balance sheet at the end of the quarter for the fourth quarter was $79.5 billion and in terms of debt, that's basically -- north of $50 billion of that is in the debt line. So that's the bulk of the balance sheet. In terms of equity, as you know, we have $4 billion of public equity and $18 billion of private equity.

Now, in terms of the performance in the equity line, in terms of the quarter, we don't think of it as much as asset sales, because we make asset sales often, there is a period we are restricted. That's why we are careful to give you the public equity numbers. But basically, when you break it down, give or take 40% of the performance came from those assets that are already public. 40% came from basically company improvements and the balance would come from things like pending IPOs and things like that. That's how I'd break it down for you.

Glenn Schorr

And, what's the disallowed portion or what's the best way to ask how much Goldman still has in the funds that you need to eventually liquidate?

Harvey Schwartz

So I think -- I just want to make sure, I am going to rephrase your question to make sure I understand it. I think you're saying that, in terms of -- under regulatory guidelines, under the vocal compliance, that number is approximately $8 billion, and so, a bit of a high class problem, as we have been harvesting, that number has obviously been going up, because there has been good performance. Now remember of course, one of the reasons we were focusing on that with you over the last couple of years is, because the original deadline in that was July of this year. Of course, the regulators have granted an industry-wide extension on that through 2017. So we continue to focus on it.

Glenn Schorr

Great. Last one is, on FICC, I mean, the macro products are great, but credit mortgage wasn't, so not exactly hitting on all cylinders as a whole. But it certainly seems like, maybe some of the reduced capacity in the industry is helping you, and so your long term strategy that we all beat you up for the last five years might be working. Could you talk towards what you're seeing in terms of capacity and now that you've seen a pickup involved, clearly [ph], what it means?

Harvey Schwartz

So on FICC, I think you're right to say that, one of the things we have benefited from, certainly is the diversity of the businesses. Its not just FICC, its across equities as well, because as you said, even in a quarter like this, where you're seeing improved FICC performance sequentially and year-over-year, you're really seeing it in the macro side of the business, and as you said, not all cylinders are firing.

In terms of us, through this part of the cycle, while you were beating us up, we were spending a lot of time focused on the clients and staying very-very committed to the businesses, and we are seeing it translate through. I don't have perfect visibility into our competitor's obviously, but you've seen the announcements, some things more stark like commodities. But certainly, we are hearing it from clients, and now we are starting to see a bit of it, I would say geographically, certainly in Europe. I know you asked about FICC, maybe take the equity business for example. We have seen a trend in derivatives, and then certainly in a quarter like this, it was pretty significant.

Glenn Schorr

Okay. Thank you very much.

Harvey Schwartz

Thanks so much.

Operator

Your next question comes from the line of Christian Bolu with Credit Suisse. Please go ahead.

Christian Bolu

Good morning Harvey.

Harvey Schwartz

Hey, good morning Christian.

Christian Bolu

So to start on maybe CCAR, the Firm has proven very adaptable in managing the regulatory environment. As you think about, obviously, your CCAR results. I am just curious as to what levers you have here to improve your relative positioning?

Harvey Schwartz

Sorry, I didn't hear the very beginning of your question, I apologize Christian. Could you just repeat it?

Christian Bolu

Yeah. So my question basically is just on your CCAR ratios. I am just curious, what levers you have to improve your positioning?

Harvey Schwartz

Right. Okay, I understand. So as you know, we get very little transparency by design, in terms of how the regulators have constructed CCAR going into the test. One thing of course is, we get transparency on our results coming out of the test. And so last year, you saw us digest that information among other regulatory constraints, and we took very immediate action around the balance sheet, and as you saw in the second quarter, reduced the balance sheet by $50 billion. Every year's test, you learn a little bit more in terms of the results. This year's tests, in terms of the constraints, again this is all public, had to deal with total capital, and so we are again digesting the results, and we will look at that, in terms of how we think about deploying our balance sheet, our capacity and our capital structure, and again, we will go through a process. I am not saying the process will yield the same results in terms of last year's balance sheet actions, but we are going through that same diagnostic process now, with our teams in the businesses.

Christian Bolu

Okay. Have you mentioned your clients are placing a greater premium on kind of financial capital, and [indiscernible] execution. Curious to how this is being expressed? Are you seeing a wider bid-ask spreads in the market that give you more business, or something else?

Harvey Schwartz

So, as I mentioned, we are seeing it in certain parts. I guess one of the areas I point to, is if you just look at the capital we committed to block transactions during the course of the quarter, obviously there were some significant capital commitments we made to clients during the course of the quarter, the largest block transactions that were done. And so, we felt very well positioned to connect those sellers or issuers of equity, with buyers on the other side.

I'd say more broadly, the process of repricing has been maybe slower than folks would have expected. We are certainly seeing it in parts of the business, and when you start to see it, is when the market picks up. So again, I highlight the derivatives activity, which was a solid driver in our equities client execution line this quarter. We have also talked about it in commodities for example. So in the comm markets, you don't see it as much. But when activity picks up, you start to see it.

Christian Bolu

Great, very helpful. Thank you.

Operator

Your next question comes from the line of Matt O'Connor with Deutsche Bank. Please go ahead.

Matt O'Connor

Good morning.

Harvey Schwartz

Good morning, Matt.

Matt O'Connor

Any more color you can give us in terms of the strengths within equity, derivatives, from a regional point of view, should we assume that it was in Europe, from QE and some of the movement in prices there. Just trying to piece that line item together a little bit more?

Harvey Schwartz

Yeah so, within equities, the performance was really broad based in what we saw this quarter. We talked for a long time with you about -- to really be a significant player in this, you need to have scale and you need to -- for example, be in all the business lines, whether its prime brokerage, derivatives, ability to commit capital which I just spoke about, you need to have strong electronic capabilities, and you need to be geographically diverse. And this was a quarter, where we really saw strong contribution across the entire business, and I highlight derivatives in Europe, because it was a driver, and we hadn't seen it recently, but that's really a sum of it, but was really broad-based, and it really leaned into the strength of our business. And again also of course, we had a weaker Q1 last year. But it was a solid performance.

Matt O'Connor

Okay. And then just separately, in terms of the comp-to-revenue ratio coming down, I mean I feel like symbolically its important that the ratio came down the first quarter, which hasn't for several years. So just how are you thinking about, what the target is, in terms of operating leverage? You said, a focus on generating positive operating leverage, but I think it was more than two times to one, so you had a lot of margin there to say, play with?

Harvey Schwartz

So, the 42% at this stage is our best estimate. We did reduce the competition expense last year from 44% to 43%, and then this is 42%. And again, we have always talked about the fact that, the compensation is going to be driven by performance, and this year with the 14% year-over-year increase in revenues, that's our best estimate.

Now in terms of the operating leverage, this has been years of hard work, in terms of managing expenses, really thinking about how to most efficiently use the resources. And so, when you have that in place and you get the revenue uptick, obviously, its much -- you can more easily translate that into the bottom line, and that's what you're seeing this quarter.

Matt O'Connor

Okay. Thank you very much.

Harvey Schwartz

Thank you.

Operator

Your next question comes from the line of Michael Carrier with Bank of America. Please go ahead.

Michael Carrier

Good morning Harvey. Just a follow-up on the equity [indiscernible]. So it sounds like you mentioned the derivatives, you mentioned blocks; I just wanted to make sure on the block side, was there anything that was way outside, when you look at whether its maybe quarter-over-quarter, because year-over-year, you know, you had a weak comp?

Harvey Schwartz

No. As I said, prime brokerage balances were up. There were a number of drivers in volume and activity. But it was really client driven. So there were index rebalance, transactions that we do. This quarter, we were able to facilitate large volumes for clients. It just came together nicely.

Michael Carrier

Okay. And then -- I think it was the last quarter, but you guys gave some of the repositioning that has taken place in the past couple of years, the revenues that were lost. Then you guys have also mentioned, a lot of the investment that you are making on the technology side, to position for a lot of these new roles. When you think about, what is expected of the industry, at this point going forward, do you feel like most of that is in place, and I guess what I am trying to get at is, if you are already positioned for that, then from the client or the market share standpoint, maybe that's one of the things that's driving it, as a lot of other firms are still trying to figure things out. So wanted to get a sense of, where you guys think you're, given all these conflicting regulations, and how well you can manage them, at this point, given what you know?

Harvey Schwartz

So, let me start with technology, because obviously technology has been a critical driver and part of our operating infrastructures are firm for as long as you have been covering us and well before. And that investment is not something obviously you can do in a short period of time. So this reflects decades of investment in technology platform as you know. We have talked about this in the past, Mike, we have one risk management platform SecDB, which certainly gives us some efficiencies in scale, because as we adapt, if we need to build things for our equity business, or if we need to build things in different parts of the world, it obviously goes without saying, that you can be more efficient as you replicate those things.

So its that constant reinvesting in the business that gives us that flexibility, but that's not new. The regulatory component obviously, as we get into the finalization of rules and the implementation of rules, that will continue to be an ongoing process; when we think about technology away from the narrow subset of regulatory compliance, which plays obviously a mentally critical role. The other way we think about it is, really how do we deliver to clients, and that again, we continue to invest in, and then other than being efficient, are there ways we can grow revenues from technology, and so we are constantly monitoring that.

Michael Carrier

Okay, that's helpful. Thanks.

Harvey Schwartz

Thanks Mike.

Operator

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

Mike Mayo

Hi. I am just going to ask a real basic question; how sustainable were your results in each of the four business lines? You already said, the investment banking backlog is a little bit less than at year-end. So as you look at it compared to the prior quarter, should we expect this higher level of performance, or is this just the usual first quarter bump and that we are going back down to a lower level?

Harvey Schwartz

So lets just take Investment Banking, Mike; so you remember, at the end of last year, we talked about the fact that we had 1 trillion announced transactions and there was a $200 billion gap between us and our next closest competitor. So in the first quarter obviously, you would expect to see a certain of those transactions coming through. I would point out that the backlog is up significantly from last year. And so, in terms of the backlog in the quarter, it was down a little bit in investment banking, and then it was up across equity underwriting and it was up across debt underwriting.

[Indiscernible] about the backlog, in the way that you described it, but for example, if you asked the question slightly differently, you said listen, the trend in banking, does it feel like its still in place? The short answer to that is yes; when we talk to CEOs and Boards, CEO and Board confidence continues to be high, and you've even seen in the last couple of weeks in announced transactions, there is a fair bit of activity out there, and we feel very well placed for it.

Mike Mayo

And on the trading side?

Harvey Schwartz

So, on the trading side I'd say the same thing; in terms of trends, this discussion around diverging monetary policies, which is a catalyst. That trend feels like its in place, and the client dialog and in terms of our communication, we are very focused. But in terms of you extrapolating that in terms of the quarter, its very early in the quarter, and so all these things, as you know, are going to be driven by the environment, and ultimately, how our clients respond to that.

Mike Mayo

Then one follow-up question; the PSUs are new with an 11% hurdle for ROE and this quarter you had a 14.7% ROE. So is that PSU hurdle high enough, how did you come to that? Do you consider that kind of a target for the firm?

Harvey Schwartz

I am glad you asked that question; because we have had this discussion around target. And as we said before, a call wouldn't be complete, unless we talked about something about a target with you Mike. So really important, the PSUs that you mentioned, which I am sure you saw in the proxy, that is not a target for the firm; and that's an important distinction for everyone to understand. The reason we don't have a published ROE target, is because it's just not how we manage the firm. If you recall, all the time we spent in the fourth quarter, talking about our ROE framework, in terms of how we think about capital management. That's a much better way to understand how the firm thinks about most efficiently deploying its capital.

So in terms of the PSUs, as for the proxy, our Board engaged with shareholders actively as they always do, and they took that feedback in along with other constituents, and they felt like adding those metrics to certain executives in the firm, made sense from a shareholder perspective.

Mike Mayo

All right thank you.

Harvey Schwartz

The other thing Mike I'd say on ROE target, its interesting you know; if we'd had an ROE target out there, and again, because you and I have gone through this so many times. If we'd had a target out there, we had an 11.2% return last year. If we had a target out there of 13%, and we had our 14.7%, I don't know how you would digest that. We really view 14.7%, it’s a good solid performance for the quarter, its close -- we are really in mid-teens territory now. But our aspirations to deliver for our shareholders are higher. And so -- again, that's why we don't have a specific target. We really think about how to drive value over the long run.

Mike Mayo

All right. Thank you.

Harvey Schwartz

Thanks Mike.

Operator

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

Betsy Graseck

Hey, thanks.

Harvey Schwartz

Hey Betsy.

Betsy Graseck

Hey good morning. Hey, a couple of questions. One is just on the fundamental review, the trading that Basel is currently engaged in and wanted to get your thoughts on, how you see that going, and if it goes into places its currently outlined, how you deal with that?

Harvey Schwartz

So we have obviously been actively involved with the regulators, as does the industry broadly on the trading book review. I think its too early to extrapolate anything from the QIS in terms of any final rule. Our discussion, we think its important -- its really about calibration in terms of how folks want to actually think about the next round of a rule set. But as you have seen us do in the past, whenever we get a final rule, we will work within that rule set. I think that -- as we think about these rules that impact businesses where we require to have inventory, again we got to think about calibration, because we need to think about market liquidity and the industry's ability to provide that, so that has been a discussion for us.

Betsy Graseck

Right. Just because it feels like the hedging is a little bit clunky, not really treating risk as you would want to manage it?

Harvey Schwartz

Yeah I would say, let's give regulators time on this, I don't want to pre-judge anything. There is still a lot of work to do.

Betsy Graseck

Okay. And then just separately, maybe speak a little bit to how you're thinking about the commodities business? We have had some recent headlines from some of the regulators on that. I know that you're very committed to a client oriented business. But could you just identify how much of -- what your commodities business generates today is client facing?

Harvey Schwartz

So the driver -- I mean, our commodity is all about the clients. As you know, we have sold certain assets, and that's really the driver and when we talk about commodities within our fixed income business, that's what it is. I think -- look, its an interesting time to be having this discussion around commodities and regulation, because as we have seen really since the first quarter of last year, we start to see volatile natural gas markets, then followed by this huge decline in the energy markets over the last six plus months.

I think it really reinforces the needs for firms like Goldman Sachs to be in a position to provide our clients with liquidity, with financing capacity, and so for us, as you know, we have been in the commodity business forever. We know how valuable it is to our clients, we are hugely committed to it.

In terms of regulation, we will see how the regulation evolves, and again, we will stay in active dialog with the regulators. But I think at this stage, everybody sees how critical it is, and how important it is to clients. That's what I would say.

Betsy Graseck

Thank you.

Operator

Your next question comes from the line of Guy Moszkowski with Autonomous Research. Please go ahead.

Guy Moszkowski

Good morning Harvey. Question for you first of all on the buyback comment you made and the idea of backend loading, and I was wondering in the context over the last couple of years, where it has tended to be more consistent. What prompted the rethink? Is it something to do with CCAR, reinvestment opportunities that you're seeing? Just a little color on that would be helpful?

Harvey Schwartz

As you know, year-to-year, the CCAR test changes. Obviously I can't speak to anything at supervisory level detail. But there were aspects and nuances of this year's tests, that to the extent to which we use our capacity, that we would use our capacity later in the year. Now this is public of course, the Federal Reserve gives you capacity on a quarter-by-quarter basis. And so, I was just letting you know, that due to nuances in this year's test, largely driven by the fact that we are mark-to-market firm -- we mark-to-market our balance sheet, that the -- to the extent to which we use it, it will be more back-end weighted.

Guy Moszkowski

Okay. So it has more to do with that, than the idea that with business levels picking up, you're seeing more opportunities to deploy capital in the business?

Harvey Schwartz

No. I was specifically speaking in a CCAR context, with the expected capacity. Of course, as you know when you look at our long history, as a firm, for the vast majority of our history, we have reinvested capital into the business, and so to the extent to which we continue to see growth in client demand, obviously that's our preference.

Guy Moszkowski

Got it. Let me ask you a litigation question; you certified a $190 million in the quarter, can you give us a sense for how much of that is the reserve build versus just incurred costs?

Harvey Schwartz

So we don't break it down specifically at that level. What I will tell you, it’s the same process. We continue to evaluate any outstanding litigation in the course of the quarter, and we accrue accordingly.

Guy Moszkowski

And how should we think about, the fact that in the most recent quarter, one of your major competitors said that they were in negotiations with the Department of Justice on private label mortgage securitizations. And really at this point, if we assume that they do what they are in negotiations to do. The only major U.S. dealer that wanted to have done one of those settlements is Goldman. Should we be thinking that there is probably going to be something coming down the line in the next few quarters, that you're in negotiations?

Harvey Schwartz

So again, to the extent to which on any specific cases, we are not going to comment. I am sure you understand that. I would really encourage you to look at the most recent 10-K and our Q disclosure, where we are very explicit about all these matters.

Guy Moszkowski

Okay, fair enough. And then, the final question I had for you is just on the tax rate. You talked about geography and obviously, we have seen tax rates similar to -- that you had this quarter in the past. Would it be appropriate for us to sort of factor that in together with the norm for the first quarter together, with the normal kind of low 30s and be thinking in terms of something along the lines of 30% for the full year, or would you expect this tax rate to continue?

Harvey Schwartz

So it’s a good question. So just for everyone who may have not had a chance to be [indiscernible] beginning of the call, effective tax rate for last year was 31.4 and for the quarter was 27.7, and as you have pointed out Guy, that was mostly driven by geographic earnings mix.

What I would say is, all factors being equal, in terms of the full year rate, and the way you should think about it, given that we are starting from such a low level, I think its reasonable to assume that we come in below last year's rate. But we will see how the year evolves.

Guy Moszkowski

Okay. That's really helpful. Thank you, Harvey.

Harvey Schwartz

Sure, thanks.

Operator

Your next question comes from the line of Jim Mitchell with Buckingham Research.

Jim Mitchell

Hey good morning.

Harvey Schwartz

Hey Jim.

Jim Mitchell

Just maybe circling back to FICC. FX [0:41:31] rates are very strong, which you obviously highlighted as did everybody else, credit, mortgages being weak year-over-year, but we had an environment where, I mean, I guess that if you look at sort of trace volumes being up, credit spreads were pretty stable. What's really, I guess, hurting that business, is it just simply, there wasn't enough volatility, or just absolute low rates are hurting spreads, or is it -- clearly inventory levels are down, or is it a combination of all those things. Just trying to think what is a better environment do we just need to see higher rates?

Harvey Schwartz

I think this last quarter was really a case of investors evaluating, clients really evaluating, where they used to be, with respect to their portfolios. There was obviously less refinancing activity during this quarter versus a year ago. But I would say the key driver is the debate overrates and how people are thinking about their portfolios. I think if we saw a path towards normalized rates over time, I think you could see a pick-up.

Jim Mitchell

Okay. So we just kind of need to wait and see rates get a little -- more conviction about rates and predictability. And just maybe a bigger picture question on the banking cycle and M&A. Clearly, we have seen a nice pickup and continued in the first quarter, where do you -- in terms of conversations with clients, do you still think there is a lot of juice left in, I think if you look at past cycle, this would imply we still have quite a bit of room to go. Just want to hear your thoughts on it, if you --

Harvey Schwartz

You're right. In terms of -- if you want to use the benchmark path cycles, certainly there is room for increased M&A activity. In terms of our discussions with CEOs and Boards, I would say that the momentum feels still quite good. There is large transactions within industries tend to be a catalyst for other transactions. Strategies are very well positioned, in terms of driving synergies, the financing markets remain attractive. Again -- so, there is room here, and our recent dialog is quite good, and as you point out, there is room versus sort of historical benchmarks.

Jim Mitchell

Okay, great. That's helpful. Thanks.

Harvey Schwartz

Thanks.

Operator

Your next question comes from the line of Chris Kotowski with Oppenheimer. Please go ahead.

Chris Kotowski

Hi. Good morning. Just wanted to circle back to the equity client execution, because the result is just so discontinuous with -- though its roughly double the last, say, eight quarter moving average. I mean, can you say -- was it just a unique opportunity set, was it a couple of big transactions, was it related to the block transactions that you were talking about earlier, or is this more like the new normal?

Harvey Schwartz

Look, we will see how the subsequent quarter goes. I would say that, look, if we looked at last year's first quarter, it was definitely a more challenging market-making environment. Again, this is really just one where, geographically, from a derivatives perspective, the ability to commit capital. Things just really lined up quite nicely for our franchise; and again, it was broad based. So the environment was good everywhere. Doesn't mean it can't get better and doesn't mean it can't decline, but it was good everywhere this quarter.

Chris Kotowski

Okay. And then on a kind of a global macro-view back in 2011, I guess the prospect of a Greek default inside the Eurozone and crisis and we seem closer to it than ever. Is it now in your view, a non-event, if and when it happens, that everyone has had enough time and preparation to get ready for it?

Harvey Schwartz

It’s a complicated question. I would say, first of all Greece has been in view for a long time for folks, so people have had an opportunity to digest it. I think that, on the plus side, the environment in Europe versus 2011 is dramatically different, in terms of -- if you think about the discussion around other peripheral countries relative to 2011. And so I think, those are all things on the plus side. We are obviously monitoring it very carefully.

I would say, on the concerning side, look, its an experiment that hasn't been run, and so we will have to see what it has for markets. But its certainly, if we compare this to 2011, you'd have to assume that, the risk is much more contained, given people have had years to focus on this.

Chris Kotowski

Okay. Thank you.

Operator

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

Brennan Hawken

Good morning Harvey.

Harvey Schwartz

Hey Brennan.

Brennan Hawken

So quick one on thinking about equities here coming into 2Q, typically strong, given dividend season in Europe. How much do you think that QE on the continent is going to play into that this quarter?

Harvey Schwartz

Well clearly, it was a big driver in terms of increased confidence in Europe, and you saw that immediately -- that translated immediately into big uptick in European equity markets. We will see how much pull-through that has during the course of the quarter, but clearly it has been in focus for our clients now, and so we will see how much stamina it has. But obviously the commitment to QE is substantial.

Brennan Hawken

Sure. And then, sorry about bringing it back to equities here, but one more; can you just speak to what sort of impact Asia had on the quarter, particularly given some of the market structure changes we saw in the region?

Harvey Schwartz

So, certainly it was a contributor, if I ranked it for you, it was -- Europe was a more significant contributor. But the trend in Asia, has been much better, obviously. And as those markets continue to liberalize, I think the dynamic nature of capital flows will continue to increase. Of course, it was helpful in Asia, but again, this was broad-based across our equity business.

Longer term, we are pretty optimistic about the opportunities there though.

Brennan Hawken

Terrific. Thanks a lot.

Operator

Your next question is from the line of Steven Chubak with Nomura Securities. Please go ahead.

Steven Chubak

Hey, good morning Harvey.

Harvey Schwartz

Hey, good morning Steven.

Steven Chubak

So I just had a question on CCAR and your preferred issuance plans. With total capital under CCAR specifically, now the binding [ph] constraint for the firm. Even though you're already operating at that 150 basis point preferred target, is it fair to expect that you will look to close the gap, or improve your CCAR position by issuing more preferreds or more qualifying debt?

Harvey Schwartz

So you may have seen, or you may not have seen, Steven, but we are actually -- we announced this morning, we are out in the market with preferred. So that transaction is out in the market now, and we will be closing later this afternoon. In terms of how we think about this, this is a great question, because as I said before, a lot of this is about how you digest the CCAR results and how you think about -- again things like, how you price the balance sheet, how you deploy your capital and the optimal capital structure. And so, you should assume we are going to look at everything, in terms of how we position the firm going forward as it relates to the capital structure, make sure we do -- we construct it in a way that's most efficient for our clients and most efficient for our shareholders.

Steven Chubak

That's really helpful Harvey. And actually, in that same vein, since you mentioned about capital allocations under CCAR, it might be helpful if you could clarify, regarding how you allocate the capital under your attributable equity framework. Under CCAR lines, do you use for your stressed end of [ph] period or your minimum ratio for determining the level of required capital for assessing the adequacy of the ROEs for various trades?

Harvey Schwartz

Right. So some of this obviously, we consider proprietary in terms of how we think about the dynamic nature of capital management. But for the folks who haven't studied, and obviously Steven is a very thoughtful consumer of the information. In terms of our return on attributed equity framework, what we have discussed with the marketplace, is basically all those factors that contribute to regulatory capital constraints, Basel-III advanced, standardized, supplementary leverage ratio, elements of CCAR. We had weightings [ph] to those, given their significance and we basically have constructed an algorithm that helps guide us, both in executing certain transactions, and obviously how we evaluate businesses over the long run. But we haven't discussed the specifics of how we incorporate those variables.

Steven Chubak

Okay. Well that's it for me Harvey, thank you for taking my questions.

Operator

Your next question is from the line of Matt Burnell with Wells Fargo Securities. Please go ahead.

Harvey Schwartz

Good morning Matt.

Matt Burnell

Good morning Harvey. Just a question for you, in terms of what's going on in the capital markets with your businesses, specifically on the energy side of things. We have heard from a number of more commercially oriented banks so far this earning season about what's going on with their borrowing and capital markets activity within that sector specifically. I am curious given what's happened in the last two to three quarters in the oil markets, have you seen a meaningful increase in those companies coming to market, or has that been much more status quo?

Harvey Schwartz

I can't comment specifically in terms of the [indiscernible]. What I will say is, obviously given our role in commodities and our role -- energy companies and industrial companies broadly, the activity level for the past several quarters has been extremely high. Often what you will see is, given sort of this really very steep decline in the oil price, is, those things won't translate immediately. But over time, obviously the industry adjusts that, and then you begin to see things like merger transactions and capital actions. And so, the activity level -- the dialog is quite high, but I can't point you to any specific transactions that I would highlight.

Matt Burnell

Okay. And then just switching to investment management; you mentioned that there was an outflow on liquidity products. It seemed a little bit larger than what we have seen from a couple of other peers. I guess I am curious if you can just give us a little more color on that, and does -- what happened over the last couple of quarters with the flows, presume a somewhat higher normalized pre-tax margin in that business, relative to the high teens that you typically put up?

Harvey Schwartz

So in terms of the flow, as we said, there was $13 billion of combined net inflows and market appreciation, offset by $14 billion in liquidity outflows. Those flows can move around, as clients reallocate assets and move back and forth. I think if you look at the historical movement around those predominantly mutual fund assets, you will see flows like this historically, so I wouldn't point to any meaningful indicator.

In terms of the margins of the business, obviously this business remains strategically a very high priority for us. We have been investing in it for years, and we continue to see progress; and over time, we expect that you will see margin expansion.

Matt Burnell

Okay. And then just finally for me, was there any material change this quarter versus the fourth quarter in the benefit to your Basel III ratios from a significant financial institution deduction that you said was about $5 billion last quarter?

Harvey Schwartz

Yeah, that's not the key driver in this quarter. It really is the growth in equity. It’s a [indiscernible] driving it this quarter.

Matt Burnell

Okay. Thanks very much.

Harvey Schwartz

Thank you.

Operator

Your next question comes from the line of Brian Kleinhanzl with KBW. Please go ahead.

Brian Kleinhanzl

Good morning. Just a quick question on the capital ratios; can you give us what the fully phased-in capital ratios are, what's the RWAs?

Harvey Schwartz

Sure. So fully phased-in is 11.8 and 10.6. Now again, we just got a question on the significant clients for institutional deduction, and so when you look at that, that between the transitional, I would say, the best way to think about it on an apples-to-apples basis, assuming all other factors being equal, you should assume that the fully phased-in versus transitional would roughly be around the midpoint of that, because we get the benefit of the significant institutional deduction, as we move money out of funds.

In terms of RWAs on the quarter, for advanced $565 million, and standardized $626 million.

Brian Kleinhanzl

Okay. And towards the [indiscernible] 5.3% and the kind of the constraint ratio for CCAR has moved up the total capital. Do you have a sense of what the buffer is that you would run the SLR [ph] at now, could you get away with a 50 basis point buffer, since the total seems to be constraining?

Harvey Schwartz

We haven't finalized a buffer in terms of how we are thinking about that. And so, we will have to see how that evolves, in terms of how we want to think about it. But obviously, there has been significant progress, and we are above the 2018 minimum requirement.

Brian Kleinhanzl

Great. All right, thank you.

Harvey Schwartz

Thank you.

Operator

Your next question is from the line of Eric Wasserstrom with Guggenheim Securities. Please go ahead.

Eric Wasserstrom

Thanks. Good morning.

Harvey Schwartz

Good morning Eric.

Eric Wasserstrom

One of the dominant themes from Goldman last year was the very significant reduction in its balance sheet size. And so I am wondering how -- if we should be thinking about that differently at all, at this stage, given what you're talking about, with respect to client interest and demands, but relative to the capital constraints that were highlighted under the CCAR and I am assuming were the genesis for today's preferred offering. How should we think about all of the dynamics with respect to balance sheet size?

Harvey Schwartz

So the balance sheet reduction we went through last year, it’s a great -- I am glad you brought it up. That was about repricing the balance sheet, and all about this framework we talked about, in terms of how we deploy our marginal capital. And so, if you think again about last year's test, you could grow equity, you could grow capital, but the reality is, you obviously -- you want to do that in a way that delivers marginal returns. And so, that was all about repricing, and so as we went through an exercise last year, that was repricing [indiscernible]. If we again -- our preferred operating position would be to grow the capital base, grow the balance sheet accretively and deploy that capital to clients. but obviously, we are going to be very sensitive to returns on that, and how that marginal balance sheet gets priced.

Eric Wasserstrom

But it sounds like, from your repricing commentary, you do see that at least on the margin occurring?

Harvey Schwartz

Correct. Well we certainly have seen some in terms of pricing, and then last year, we felt the discipline of the process we went through -- went quite well, as we talked about, there was very little disruption to client activity.

Eric Wasserstrom

Great. Thanks very much.

Harvey Schwartz

Thanks.

Operator

Your next question is from the line of Devin Ryan with JMP Securities. Please go ahead.

Devin Ryan

Hey, good morning.

Harvey Schwartz

Good morning Devin.

Devin Ryan

Good morning. Just one the ROE outlook and the drivers, obviously your margin is a big one, and the pretax margin for all of last year is 36%. It was 37% this quarter, which I thought was impressive. So we just look at the businesses, that have more of a granular level, are there are areas where you feel like you're getting to about as good as it will be, and then where do you see the biggest areas for additional leverage to the margin?

Harvey Schwartz

So the discussion around how we manage the businesses and where we think about driving additional leverage, that's a continual conversation at Goldman Sachs that's going to happen all the time; because we are always reviewing the businesses, and making sure we are driving them to the ultimate outcome. Now, to the operating leverage you're seeing, that's firm-wide, and really is the result of, again, the years of investment we made in technology, how we scaled the resources, the cost cutting programs that we announced several years ago that was raised, and several billion dollars. And so, you are now just starting to see all that translate through. But we are constantly evaluating the businesses for opportunities, both to grow and to hold.

Devin Ryan

Okay. Thanks, and then just coming back to Europe one last time, the stability that's helping client activity, is there any way you can just help size that for us relative to the recent past; how much stronger was it this quarter, we talked about derivatives, but where else does that pickup, and any perspective around how much bigger it was this quarter, relative to the recent past?

Harvey Schwartz

So I highlighted it to give you some sense of the underpinnings of the activity that's driving it. But again, in equities, it really was broad-based client activity, geographic and across the business and within individual product lines.

Devin Ryan

Okay. Thank you.

Harvey Schwartz

Thanks Devin.

Operator

Your next question is from the line of Kian Abouhossein with JP Morgan. Please go ahead.

Kian Abouhossein

Yes hi. Just coming back to equity derivatives, I was wondering if you could just give a little bit more flavor in terms of products, if the strengths on the execution side came maybe more from the flow side, or was it more from the delta one side or structuring side or dividend swaps; can you just talk a little bit through the products in order for us to get a better understanding of what we should think about going forward trends, in some of these areas? Because clearly, some of them are a bit more bulky than others, if I may?

Harvey Schwartz

Really Kian, its truly client activity across each of the businesses. So I wouldn't highlight any particular product line within the derivative businesses. Obviously, when you have a big up move in European equity markets like you did with QE, obviously that's an opportunity for clients to get involved, and there is lots of things they look at, both from a [indiscernible] perspective and a more structured perspective. I think if you try and answer your question around things like where, people are more interested in derivatives that had maybe multi-variables, sure. But again, it was broad-based, it wasn't any one particular driver.

Kian Abouhossein

And there is no real distinction between structuring with this flow, in terms of -- your mix not much significantly changed?

Harvey Schwartz

I won't talk to our mix, because the firm obviously, we have the intellectual capital on the systems, and the capacity to point that capital for clients. And so, I think we are always well positioned for those parts of the cycles in the market. But again, broad-based in equities.

Kian Abouhossein

Yeah. And in respect to fixed income, we have had some things giving us a bit of a steer in terms of how the revenues breakdown between macro and credit, and I was wondering, could you give us a bit of a feeler as well? Is it half-half at this point in the first quarter, or should we think about it differently?

Harvey Schwartz

We don't provide a detail by macro versus credit. What I would say is that -- look, we have an investment in all these businesses, and again, we benefited from the diversity. At times, credits can be particularly active, and at times, macro is going to be particularly active. But we don't provide disclosure in terms of that split.

Kian Abouhossein

And lastly, on commodities. Clearly, commodities had an uptick in volatility, but at the same time, you highlight volatility as a business which year-on-year was down. I am just wondering, if you could just explain a little bit to me, why commodities was relatively weak on a year-on-year basis?

Harvey Schwartz

So you may recall that last year, and I was going back to the first quarter 2014, commodities had a very strong quarter, a lot of that is we discussed at the time, was due to the extraordinary volatility of natural gas. And it drove a lot of client activity in the sector, and that was really the first time you and I started talking about the fact, that we were really seeing the absence of competitors on the field, and a huge uptick in client dialog. And so you're just coming off a very strong 2014 first quarter, but commodities remains a very active space for us, and our dialog with clients is quite strong.

Kian Abouhossein

Okay. That explains it. Thank you very much.

Harvey Schwartz

Thanks Kian.

Operator

Your next question comes from the line of Marty Mosby with Vining Sparks. Please go ahead.

Marty Mosby

Thank you. I want to ask you, one thing that you highlighted in the press release was the largest ever NPL -- largest increase in five years in tangible book value. Would the increase in returns and still continue constraints on capital deployment, isn't that really a fundamental accelerator, as you look forward over the next couple of years?

Harvey Schwartz

So again, the environment is going to -- ultimately something that we participate in. But I would say that again, the thing that we have focused on over the last several years, which has been making sure that we continue to invest in our client franchise, and at the same time, build operating leverage. That's why you're seeing that. You're seeing the 14% year-over-year growth in quarterly revenues, and its just translating to the bottom line, with a lot of operating leverage.

Marty Mosby

And then, when you look at the comp ratio at 42%, once you made some improvement with what you've done in the past, but when you look at it on the average for the year, you have recently highlighted, then on the 38% kind of number. In that, you would look for the year being closer to what you've done in the past couple of years. When you see that you almost have $0.50, $0.60 of earnings per share that's basically pushed forward as you review performance in your compensation plans over the rest of the year?

Harvey Schwartz

So its our best estimate today, Mosby, and we will evaluate the year as we go through and obviously again, as we have discussed in the past, the culture of pay for performance at Goldman Sachs will evaluate it continuously as we go through, and it will be driven by performance.

Marty Mosby

Thanks.

Harvey Schwartz

Thanks Mosby.

Operator

At this time, there are no further questions. Please continue with any closing remarks.

Since there are no more questions, I just want to take a moment to thank all of you for joining the call. Hopefully, I will be able to and other members of senior management, we will see many of you in the coming months. If you have any additional questions, please don't hesitate to reach out to Dane. Otherwise, enjoy the rest of your day, and look forward to speaking with you on our second quarter call. Take care now.