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# The Goldman Sachs Group, Inc. (GS) Q2 2023 Earnings Call Transcript

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## Q2: 2023-07-19 Earnings Summary



EPS of \$3.08 misses by \$0.75 | Revenue of \$10.90B (-8.17% Y/Y) beats by \$229.86M

The Goldman Sachs Group, Inc. (NYSE:GS) Q2 2023 Earnings Conference Call July 19, 2023 9:30 AM ET

### Company Participants

Carey Halio - Head of Investor Relations & Chief Strategy Officer

David Solomon - Chairman & Chief Executive Officer

Denis Coleman - Chief Financial Officer

## **Conference Call Participants**

Glenn Schorr - Evercore  
Ebrahim Poonawala - Bank of America  
Steven Chubak - Wolfe Research  
Betsy Graseck - Morgan Stanley  
Mike Mayo - Wells Fargo  
Brennan Hawken - UBS  
Devin Ryan - JMP Securities  
Daniel Fannon - Jefferies  
Matt O'Connor - Deutsche Bank  
Gerard Cassidy - RBC Capital Markets  
James Mitchell - Seaport Global

## **Operator**

Good morning. My name is Katie and I will be your conference facilitator today. I would like to welcome everyone to the Goldman Sachs Second Quarter 2023 Earnings Conference Call. This call is being recorded today, July 19, 2023. Thank you. Ms. Halio, you may begin your conference.

## **Carey Halio**

Thank you. Good morning. This is Carey Halio, Head of Investor Relations and Chief Strategy Officer at Goldman Sachs. Welcome to our second quarter earnings conference call.

Today, we will reference our earnings presentation which can be found on the Investor Relations page of our website at [www.gs.com](http://www.gs.com). Note, information on forward-looking statements and non-GAAP measures appear on the earnings release and presentation. This audiocast is copyrighted material of the Goldman Sachs Group, Inc. and may not be duplicated, reproduced or rebroadcast without our consent. I'm joined today by our Chairman and Chief Executive Officer, David Solomon; and our Chief Financial Officer, Denis Solomon.

Let me pass the call to David.

## **David Solomon**

Thank you, Carey and good morning, everyone. Thank you all for joining us. This quarter, we produced net revenues of \$10.9 billion and generated earnings per share of \$3.08, an ROE of 4% and an ROTE of 4.4%.

Our results were impacted by several items related to businesses we are executing on a strategic transition and positioning the firm for the future. In particular, shifting our asset wealth management business to a less capital-intensive model and the pivot to narrow our consumer ambition. All in, these items reduced our EPS for the second quarter by \$3.95 and our ROE by 5.2 percentage points. Our results were also impacted by the challenging macro environment and in particular, headwinds facing our specific mix of businesses.

Activity levels in many areas of investment banking hover near decade-long lows and clients largely maintained a risk-off posture over the course of the quarter. CEOs around the world continue to be cautious as businesses grapple with persistent inflation, geopolitical tensions and slower growth. But we know the corporate activity and capital formation are core to our financial system and there are a number of structural catalysts that should lead to increased levels of activity. And we're seeing it begin to pick up in a few spots already, particularly equity capital markets and M&A dialogue. There's no question, recent economic data in the U.S. indicates the Fed's efforts to fight inflation are showing progress and we are starting to see more optimism about the forward trajectory. However the year unfolds, we stand ready to help our clients navigate the evolving backdrop while maintaining a prudent risk posture and operating the firm more efficiently.

Importantly, we laid out a clear set of strategic goals at our Investor Day in February and we are in execution mode. We have 2 incredibly strong client franchises a world-class global banking and markets business, we continue to deliver solid returns even in an environment with reduced activity levels and a scaled asset and wealth management platform that continues to show very strong underlying trends aligned with our Investor Day goals with growth and more recurring revenues of management and other fees and private banking and lending. These businesses are supported by a number of things. First, a long track record of serving the world's leading businesses, institutions and individuals, building relationships as a trusted adviser is core to what Goldman Sachs does. Next, the client-centric mindset. Over the last 5 years, we have strengthened our efforts to bring to bear the best of the firm's capabilities and holistically serve clients with our One Goldman Sachs operating ethos. Client feedback continues to be highly encouraging and we see opportunities to make further gains.

We also have a global, broad and deep platform with capabilities that span across products, geographies and solutions a key differentiator of value to our clients around the world. We have exceptional people. They are differentiated and they work hard to make a difference for our clients. And lastly, this is all underpinned by a culture of collaboration and excellence. We are also pleased that our strategy to reduce the capital intensity of our business is resulting in sustained multiyear progress. Starting in October our SCB will be reduced by 80 basis points to 5.5% giving us greater flexibility to deploy our capital. We continue to execute on the \$30 billion share repurchase program we announced in February and we recently announced a 10% increase to our quarterly dividend. We have made it a priority to grow our dividend to a competitive rate. And since the beginning of 2019, we have more than tripled our dividend from \$0.80 to \$2.75 per share per quarter.

Given our ongoing strategic efforts to lower the firm's capital density and reduce earnings volatility, we are well positioned to grow it further. As I said, we are laser focused on executing on our strategy. This moment in the economic cycle creates meaningful headwinds for Goldman Sachs and our business mix. At the same time, we are making tough decisions that are driving the strategic evolution of the firm. Given both these factors, it should come as no surprise that we're going to a period of lower results. I remain fully confident that we will deliver on our through-the-cycle targets of mid-teens returns on at significant value for shareholders.

I'll now turn it over to Denis to cover our financial results for the quarter in more detail.

### **Denis Coleman**

Thank you, David. Good morning. Let's start with our results on Page 1 of the presentation. In the second quarter, we generated net revenues of \$10.9 billion and net earnings of \$1.2 billion, resulting in earnings per share of \$3.08. As David mentioned, we have provided additional detail this quarter on 3 items that impacted our results. These items are a gain in connection with our sale process for the market's unsecured loan portfolio as well as the business' operating results. Losses from our historical principal investments within Asset and Wealth Management and results related to GreenSky, including a goodwill impairment in consumer platforms. In aggregate, for the second quarter, these 3 items impacted net earnings by \$1.4 billion and reduced our EPS by \$3.95 and our ROE by 5.2 percentage points.

Turning to performance by segment, starting on Page 4; Global Banking and Markets produced revenues of \$7.2 billion in the second quarter. Advisory revenues of \$645 million were down versus a strong prior year period amid significantly lower industry completions. Equity underwriting revenues rose year-over-year to \$338 million as we saw some signs of reopening in the capital markets, although volumes continue to remain well below medium and long-term averages. Debt underwriting revenues were slightly down versus the second quarter of 2022 as activity remains muted. Nonetheless, our client franchise remains very strong and we remain well positioned to support the needs of our clients.

We ranked number one in the league tables across announced and completed M&A as well as equity underwriting and high-yield debt on a year-to-date basis.

Additionally, our backlog rose quarter-on-quarter, primarily in advisory. FICC net revenues were \$2.7 billion in the quarter as clients remained in a risk-off posture, relative to an active prior year quarter, particularly in commodities, rates and currencies. FICC financing revenues were \$622 million. Equities net revenues were \$3 billion in the quarter, roughly flat year-on-year. Equities financing revenues were a record \$1.4 billion as we benefited from our ongoing strategic focus and increased balances. This was largely offset by a decline in intermediation revenues, primarily in derivatives.

Our strategic priority to grow financing across both FICC and equities continues to yield results as these activities increase the durability of our revenue base and we continue to see attractive deployment opportunities to support further growth.

Moving to Asset & Wealth Management on Page 5; revenues of \$3 billion were down 4% year-over-year, primarily driven by weaker results in equity and debt investments. Management and other fees increased 5% year-over-year to a record \$2.4 billion, largely driven by higher assets under supervision.

Private Banking and lending revenues were also a record at \$874 million. We continue to see positive momentum in this business as we benefit from higher deposit balances and NII. Results were supported by a gain of approximately \$100 million related to the sale of substantially all of the remaining Marcus loans portfolio. Equity investments generated losses of \$403 million. More specifically, we had roughly \$305 million of net losses in our private portfolio, primarily due to markdowns on investments in office-related commercial real estate and approximately \$100 million of net losses in our public portfolio, largely driven by a loss related to a historical principal investment that we sold out of during the quarter. Importantly, we have now reduced the public portfolio to approximately \$1 billion, down from more than \$4.5 billion in 2021.

Debt investments revenues were \$197 million, with the year-over-year decline driven by weaker performance in real estate investments. This quarter, we also experienced approximately \$485 million of impairments on our real estate-related CIE portfolio which are reflected in operating expenses. In aggregate, the results from Marcus loans and the losses from our historical principal investments negatively impacted our margins for the segment by approximately 15 percentage points for the first half of the year.

Now moving to Page 6; total firmwide assets under supervision ended the quarter at a record \$2.7 trillion, driven by \$30 billion of market appreciation as well as \$8 billion of long-term net inflows representing our 22nd consecutive quarter of long-term fee-based inflows.

Turning now to Page 7 on alternatives; alternative assets under supervision totaled \$267 billion at the end of the second quarter, driving \$521 million in management and other fees for the quarter. Gross third-party fundraising was \$11 billion for the quarter and \$25 billion for the first half of the year.

Total third-party fundraising since our 2020 Investor Day is now over \$200 billion and remains very well positioned to achieve our 2024 target of \$225 billion.

On-balance sheet alternative investments totaled approximately \$53 billion, of which \$24 billion is related to our historical principal investment portfolio. In the second quarter, we reduced this portfolio by \$3.6 billion which included sales of a number of CRE-related investments, bringing year-to-date reductions to approximately \$6 billion and putting us well on pace to achieve our 2024 year-end target of a historical principal investment portfolio below \$15 billion.

Next, Platform Solutions on Page 8; revenues were \$659 million, driven by growth in loan balances and consumer platforms. As noted earlier, we took a \$504 million impairment charge on the goodwill associated with consumer platforms this quarter in connection our exploration of a potential sale of the GreenSky business. We will continue to evaluate its intangibles for impairment and should we decide to sell the business, we will also make a determination regarding moving Greensky to held for sale, similar to the action we took last quarter with respect to our markets unsecured loan portfolio.

We will share further updates as appropriate. Additionally, you'll recall that at our Investor Day earlier this year, we said that we expected to reduce the efficiency ratio in Platform Solutions below 100% by the end of this year and we are making progress. Absent the impact of the goodwill impairment in consumer platforms, the efficiency ratio for the segment year-to-date would have been better than our stated goal.

On Page 9, firm-wide net interest income was \$1.7 billion in the second quarter. Our total loan portfolio at quarter end was \$178 billion, unchanged versus the prior quarter. For the second quarter, our provision for credit losses was \$615 million. Provisions in the quarter were primarily due to continued growth and higher net charge-offs in our lending portfolio within consumer platforms. Additionally, within our wholesale portfolio, impairments and a reserve build were partially offset by releases due to lower balances.

Moving on to Page 10; we've added a new slide this quarter, providing additional detail on our CRE exposure. Starting with the left side of the page, CRE loans represent a relatively small percentage of our overall lending book, roughly 15%. And we are well diversified by property type with only 1% in the office category. Moving to the right side of the page, you can see additional detail on our CRE-related on-balance sheet alternative investments. We conducted a comprehensive asset-by-asset review of this portfolio this quarter and we have incorporated the feedback from our sell-down process. Office-related exposure represents approximately 2% of the aggregate portfolio and equity securities loans and debt securities and approximately 15% of the CIE investments in other category net of financings.

Overall, the CRE investments are diversified across geographies and positions with no single position representing more than 1% of the total on-balance sheet alternative investments. Furthermore, 50% of these investments are historical principal investments that we intend to exit over the medium term. We continue to remain highly focused on the overall risk management of this portfolio.

Turning to expenses on Page 11; total quarterly operating expenses were \$8.5 billion. Our year-to-date compensation ratio net of provisions is 34% which includes approximately \$260 million of year-to-date state severance costs. At Investor Day in February, we articulated this year and we have now largely reached this organ with line of sight to surpass it.

Quarterly non-compensation expenses were \$4.9 billion. The increase in our non-compensation expense was entirely driven by the CIE and goodwill impairments I discussed previously. Absent these items, non-comp expense is down for the second consecutive quarter, even in the face of inflationary headwinds. Our effective tax rate for the first half of '20 was an increase in taxes on non-U.S. earnings. For the full year, we expect a tax rate of roughly 22%.

Next, capital on Slide 12. Our common equity Tier 1 ratio was 14.9% at the end of the second quarter under the standardized approach which is 190 basis points over our new 13% requirement that will become applicable in October.

As David mentioned, we are pleased with the results of the recent stress test and remain confident that our strategy to reduce the capital density of our business will continue to help improve our SEB over time. The 80 basis point reduction in our SEB will allow us to continue to remain nimble in dynamically deploying capital to support our client franchise. In the quarter, we returned \$1.6 billion to shareholders, including common stock repurchases of \$750 million and common stock dividends of \$864 million. Our Board has also approved a 10% increase in our dividend, to \$2.75 per share beginning in the third quarter. This increase will enable us to pay our shareholders a sustainable growing dividend and maintain a competitive yield, complemented by our previously announced \$30 million share repurchase program where we intend to step up the level of buybacks going forward.

In conclusion, our second quarter results reflect a challenging backdrop as well as our ongoing execution of several strategic actions. These initiatives will help transition our business and improve our overall return profile. We remain confident in our ability to deliver for shareholders while continuing to support our clients and remain optimistic about the future opportunities set for Goldman Sachs.

With that, we'll now open up the line for questions.

## **Question-and-Answer Session**

### **Operator**

[Operator Instructions] We'll go first to Glenn Schorr with Evercore.

### **Glenn Schorr**

So I want to talk about how we build towards that medium-term ROE target. So obviously, for this quarter was depressed by the write-downs. Let's start with a 9-ish starting point. We know capital markets activity will be better in normal times. So I know we're a lot closer than it looks right now. If you look at Page 7, where you spelled out the \$3.6 billion of historical principal investments that declined in the quarter or if you want to do it year-to-date either way, my question related to that reducing capital intensity is in a good way, it didn't look like there was a big gain or loss related to those exits. A) Is that right? And B) how much capital [RWAs] (ph) that you free up because I'm just trying to build towards that ultimate goal.

### **Denis Coleman**

So Glenn, thank you for the question. And I think in terms of our journey towards our through-the-cycle returns, there are a number of things that we need to do in terms of achieving the top line targets that we laid out at Investor Day as well as continuing to drive ongoing capital efficiency. The capital efficiency has been a project that we've been working on for a number of years. We've had particular increases in those reductions over both the first and second quarter. As you know, about HPI down \$6 billion. And as we -- if we ultimately reach our target, we expect the total AE reduction to be approximately \$9 billion.

### **David Solomon**

Yes. I just -- Glenn, I just want to add 2 things, just looking at that because Denis has focused on the AE and the continued journey. The one thing he didn't touch on was your question around the reductions and whether there were meaningful marks around that. There are some we'd reduced where -- it might be a public position, so we mark those public positions at market that night and you sell that position at a discount. So there could be a slight loss. There are others that are private positions where you keep a valuation adjustment or a discount to what you believe it's worth as you sell and you get a gain. But I wouldn't say there's anything material that I'd call out in the context of that process. But the important thing about the journey that I'd like to emphasize is we laid out clear in Investor Day that we were going to narrow the consumer ambitions and really focus on these 2 big businesses. Clearly, at this point in time, given the lack of investment banking activity, our investment banking business is performing at a lower level of return and a lower level of activity than we've seen in nearly a decade. We don't believe that's constant. We believe that, that global markets and banking business can deliver mid-teens returns through the cycle and that obviously makes up more than 2/3 of the firm.

In addition, Marc Nachmann laid out at our Investor Day, a very clear path on asset management to grow the top line of asset management ex the legacy balance sheet by a high single-digit percentage and we set a target to drive the margin which ex the legacy balance sheet up to 25%. At that point, that is a mid-teens return business. And as we continue to narrow the drag which we're making progress on in the platforms and I believe we'll narrow that to 0 and move past that, you've got these 2 businesses that are the firm that will be mid-teens through the cycle. So that's the way I'd think about it. But obviously, you need a better environment than this environment to see that.

### **Glenn Schorr**

I appreciate all that. And maybe one just big picture. Think a lot of banks that -- investment banks that have reported over the last couple of days have had varying degrees of optimism about capital markets activity returning. And I think in typical Goldman fashion, you all have been I think, appropriately conservative over the last couple of quarters. So maybe I'll just get a mark-to-market on what green shoots you may or may not be seeing. You mentioned your advisory pipeline was up, just kind of contextualize that, that would be great.

### **David Solomon**

Sure. I'd say the following. It definitely feels better over the course of the last 6 to 8 weeks than it felt earlier in the year. And I've talked in the past on this call and other times when I've talked to many of you about the fact that when you have a big reset, it takes 5 or 6 quarters to get that reset. It's not surprising that we're kind of at 6 quarters now and you're starting to see more activity. So it's definitely been a pickup in equity capital markets activity. That definitely feels better. There's more M&A dialogue I can't tell you exactly what the journey is. But when I go back and I look historically at other periods where the macro environment has created sharp drops in investment banking activity, they tend to last for a year or so and then they start to improve. And so I think we're starting to see that here. It definitely feels better. I think the inflation data has been better. The client sentiment is better and now we'll have to watch and see that journey. But I know this activity level of 10-year lows in investment banking activity is not going to be the norm on a forward basis.

### **Operator**

We'll take our next question from Ebrahim Poonawala with Bank of America.

### **Ebrahim Poonawala**

I guess maybe just the first question, when we think about potential for obviously pick up in the back half, David, as you just mentioned but give us a sense of rightsizing the business, given the slowdown that we've seen over the last year or so, -- are we there headcount-wise, infrastructure-wise, where you want it to be on the expense base and as we anchor back to the efficiency target around 60%. Just give us a sense of how you think we get there and where the where Goldman is today in terms of just rightsizing the expense base?

### **David Solomon**

Yes. So I think we've made -- I'll make a couple of comments and Denis will probably add on with some more granular detail. But I think we've made progress. We set out some targets at the beginning of the year. As you heard in Denis' prepared remarks, we have them basically accomplished and in line of sight for more. You've seen our noncomp expense ex these extraordinary items around impairments have been down for the second quarter in a row. We've been very focused on that. And there's been real work done there because there's certainly inflationary pressure on a bunch of the line items that are noncomp expenses. I think that with hindsight, I'm very glad that we were early in January is starting to work on the headcount sizing. We took a couple of actions so far this year and we feel good about where we are. I'd remind everybody. And we've said this before that we are resuming our regular performance-based process that we do with compensation at the end of the year which we had stopped during the pandemic and started again next year when we go through compensation, we will do a performance review but we have no other specific plans on the headcount now. We'll watch the trajectory of revenues in the environment as we go forward.

We'll always make adjustments if something changes. But as we just said, we think we're operating an extraordinarily low activities of investment banking. We're not going to erode that franchise. That is a key franchise of the firm. So this is a moment that we probably have to support that a little bit more as things recover. We obviously are focused on a bunch of efficiency uplift in processes and operations. We have a big project going on to make some investments that can create more automation and technology and we feel good about that. So we think that over time, that's not a 2023 or early '24 thing but we think over time, that's something else that will benefit the trajectory. Denis, do you have some specifics to add?

### **Denis Coleman**

I mean just to add for you. So end of the second quarter, we ended -- headcount was 44,600 it's down about 2% on the quarter, about 8% year-to-date. I think the more comparable metric is probably the year-over-year metric of down 5% because we'll have new joiners in the third quarter. But as David said, we're happy about taking the action early in the year, positioning the firm appropriately and also pleased that we've been able to reach towards our target of \$600 million in run rate payroll efficiencies.

### **Ebrahim Poonawala**

Got it. And just maybe a quick follow-up. I think if I heard you correctly, you mentioned goal to maybe step up a pace of buybacks in the back half. Just if you could maybe put some numbers around that, what level of buybacks we should expect? And how big a deal is the Fed Basel NPR, from what we're hearing, it may take 6, 12 months before we know what the final rules when they incorporate industry feedback look like? So how big of an unknown that is in terms of your capital deployment plans?

**Denis Coleman**

Sure. So you have pieces of the answer to my question to the question for my answer. So what we would say, obviously, very pleased with the CCAR results -- we have 190 basis points of cushion. We intend to deploy some of that excess capital into the client franchise to continue to grow our activities there. We announced our increase in dividend. We've been very committed to sustainably growing our dividend and we're going to increase our level of buybacks. We are mindful of Basel III revisions but we also recognize that we will get a rule. There will be a comment period for the rule. There will be a period in which that's implemented, some suggestions in the beginning of 2026. That implementation may even have a phase-in period. So as we think about the way in which we manage capital we think we should be optimizing for our client franchise and for our shareholders.

We obviously will make sure we're in a position to adopt any new guidance and to do so on time and early -- but in the intervening period, we're going to continue to manage our capital to grow the firm and to deliver returns of capital to shareholders and we thought we would indicate that, that intention is to step it up from where we are.

**Operator**

And we'll take our next question from Steven Chubak with Wolfe Research.

**Steven Chubak**

David, there's been a fair amount of price speculation covering how you're -- the consumer business, specifically even some recently suggesting you might look to sell some additional receivables tied to partnership with Apple and GM. I know price speculation might not be representative of what's actually being discussed. So it might be helpful just to hear about your strategic priorities for the consumer business, maybe how your vision has evolved in recent months just given some of the challenges facing that business and maybe not fitting with your -- aligning with your core competencies.

### **David Solomon**

Yes. So thanks for the question. And I frame it this way. As I think you know, we made difficult but appropriate decision over a year ago, working with our Board to narrow our consumer ambitions and kind of rolled out the fall, the direction of travel and have been executing on that. And that included the wind down and the execution of the markets the wind down of the execution of the sale of the Marcus loan portfolio which has now been completed and obviously exploring options for GreenSky which we've been transparent on are in the process of. We've also said very clearly that our credit card partnerships are long-term partnerships. We don't have unilateral rights with them. They definitely can operate better. We've been working hard to improve the operation of them which will reduce the drag and we're making good progress on that. And we're working with Apple and also with GM to do that. And so there's a significant focus on reducing that drag. And the drag of those credit card partnerships has gotten smaller and it will continue to be reduced as we move forward into 2024. We continue to have a very strong deposit platform. We launched an Apple savings platform which also was a successful launch to grow our deposit base. And so we'll continue to grow deposits and that's the course that we're on at the moment.

### **Steven Chubak**

It's great color. Maybe just for my follow-up on equity financing specifically. The contribution in the first half actually implies an incremental \$1 billion in fees year-on-year. You've definitely been highlighting the commitment to grow the financing piece. And just wanted to better understand, one, the durability of the gains that you saw in the first half and as we look out over the next few years, how significant of a contribution to the trading business do you expect from the financing component both across equities as well as FIC?

### **David Solomon**

So I'm going to start with a high-level just strategic view of what I think we've done and we're focused on doing and then Denis will give you a little bit more detail. But 1 of the things -- this has been a strategic priority for us because I certainly remember going back over the last decade, there were times where we did not have the largest equity business and we were not in a position with our clients and the equity franchise that we're in now. And there were some reasons based on strategic decisions that we made at the time. But we've been very focused over the last decade in improving that position and have made good progress and growing the financing franchise and also expanding the base of clients that we worked with there has made a real difference.

And so, I look at the equities performance this quarter and feel very good about it; very good about what the team has accomplished and very good about the feedback we get from clients. Now broadly, that financing revenue is more durable than intermediation revenue but it obviously is affected by risk on, risk off and overall market level activities. And so there can be variability in it but there's a base stability there that's much more meaningful than intermediation revenues. Denis can expand a little bit more on how we think about that from a risk and a capital perspective.

### **Denis Coleman**

Sure. So that is the strategic direction of travel. We are allocating a lot of time and resources, human capital, financial capital to grow those activities Equities financing revenues are nearly 50% of overall equities revenue this quarter and that's something that has been growing. Even the combined FIC and equities financing as a percentage of pick and equities continue to grow. So remain very focused on prioritizing activities in that space with clients. And we're also observing that there's a virtuous reinforcement of our commitments to grow market share and to cover clients more holistically over a multiyear period.

It's paying dividends both across dividend and intermediation and recognizing David's comments with respect to market valuation levels which drive changes in balances and changes in behavior, there's also activities that we've been taking to sort of systematically identify components of the client base across the financing activities and make sure that we're capturing more share in underpenetrated portions of the client base. So remain committed to growing that activity. It's relatively more durable than intermediation but like other line items, it can fluctuate on the forward.

### **Operator**

We'll go next to Betsy Graseck with Morgan Stanley.

### **Betsy Graseck**

Just one follow-up to that last question and then a different one. But just on the last question. So you mentioned durability when you were talking about financing, that was part of what I wanted to understand. Do you feel like this quarter of financing revenue is a good jump off point for us to grow from. And if there's any puts and takes on how you would think -- how would you want us to think about that level of durability, that would be helpful.

### **Denis Coleman**

Sure. So I'll comment both on FICC and equities. In fixed income, we had slightly softer performance over period-on-period. That was driven by a component of fixed financing which is more episodic which is commodities-based financing, those activity levels were a lot higher. And so I think you see lack of contribution from commodities-based financing activity that was in prior periods but I think the forward for other components of our fixed financing, like collateralized lending and repo, I think there remains opportunity for us to deploy and continue to grow those types of activities. I'm always cautious about predicting growth off of record performance. We're pleased with the equities financing performance in the second quarter and we do intend to grow that from here but we'll have to continue to work hard to continue to deliver the type of period-over-period growth but we do think there is still unaddressed market share and we continue to grow our balances to grow those revenues.

### **Betsy Graseck**

And you highlighted capital obviously have excess, significant excess. So there's that flex between buybacks versus deploy. This is an opportunity to deploy. I guess the follow-up I had to that was in your comments earlier on the Basel III end game. I think you mentioned that you -- look, you're in a position to be opportunistic, whether or not you want to meet the requirements early. And I guess that was the question I had on when you say on time, of course but early just meaning within that phase-in period early. And again, I kind of asked the question with the context of you've got this opportunity in financing. So how should I think through meeting it early versus leaning into financing versus other options you might have.

### **David Solomon**

Yes, Betsy. So look, I appreciate that. I think there's a lot that's unknown about the direction of travel on this. And we're talking about years out. And so I think Denis' message on early was in the context of the phase-in period, making sure we were getting there on time. But no, we are focused on deploying -- we generate a lot of capital because the firm generally through the cycle generates good earnings. We are going to return a bunch of that to shareholders and there are opportunities as we're talking about to deploy that in service of plants.

Given the work we've done strategically, we now have much greater flexibility which gives us the option to look sharply at some of the deployment opportunities where maybe 6 to 12 months ago, we felt we needed to be more cautious. And at the same point, we have more capacity, as Denis said, to step up buybacks. You should view that we're very, very focused on delivering capital to serve clients and to shareholders and we'll be very thoughtful about the adjustment phase in of whatever comes when we understand it. But I'd just say there's a lot of uncertainty. It's a ways out; there's going to be comment periods. And so there's nothing going to be premature about what we do.

### **Operator**

We'll go next to Mike Mayo with Wells Fargo.

### **Mike Mayo**

Look, I think you described here the rightsizing with investment equity debt CIE, the consumer and with head count is what were any [indiscernible] and where are you on the rightsizing of headcount? And the big picture question for David is simply, is this as bad as it gets? Do you feel comfortable that you captured everything with any severance to marches to GreenSky to CIE with debt investment -- debt equity investment and that you were conservative enough? Are we going to keep seeing 9% ROEs or does this accelerate your journey to that 15% midterm ROE?

### **Denis Coleman**

Okay. Mike, it's Denis. I'll start and then I'll turn it over to David. So we called out our severance expense year-to-date was \$260 million the vast majority of that was in the first quarter in connection with much, much larger levels of headcount reductions then. The reason that we're making an effort to call it out, you will also notice that our comp ratio net of business at 34%. We're just making an effort to provide transparency in terms of what components of our compensation expense accruals are designed for severance. And we think that's important because with the balance - - we're going to be focused on our pay-for-performance Ethos as well as balancing returns for shareholders but making sure that we have the capacity this year to protect our talent, protect the franchise, make sure we're positioned to capture the upside. So, the severance disclosures are just designed to help understand the financial impact of the actions we've taken David will give you more color but we've largely done what we set out to do. We're on target for the payroll efficiencies and that I'll help you understand what the severance picture is relative to the overall accrued level of compensation and expense.

### **David Solomon**

And Mike, to your bigger question, this was a meaningful quarter of putting some things that we strategically decided to do behind us. With respect to the balance sheet, I think one of the things that's very important to call out, this is an environment at the moment that's been hard on that legacy balance sheet. We are reducing the legacy balance sheet but we could just as well next quarter, if the environment improves, of positive revenues from that legacy balance sheet too. But if the environment got worse, we still have balance sheet to reduce. So I've been around the firm a long time. This was obviously a tough quarter but we also had one-off items that we put in. We're going to continue to give you transparency on the legacy balance sheet and we're going to continue to move forward. I think the environment feels better, if the environment feels better and the environment turns out to be better, you'll see better performance. But I feel very, very good about the strategic decisions that we're making, the execution that we're working on, the progress we're making in asset and wealth management and we as a leadership team see a clear path to improvement in a better operating environment.

### **Mike Mayo**

And can you remind us -- so you're taking this pain the charges and you're looking to get to mid-teens ROE in the medium term. How do you define medium term? And what should we be looking at along the way because to the extent that this accelerates this transition. It'd be nice to see some metrics externally for that progress?

### **David Solomon**

Well, we're going to make progress, Mike, over the next couple of years, the next 2 to 3 years, we're going to make meaningful progress. But I'd just highlight, when you go back to our core business, banking and markets, where we are a leader and I think given the mix of that business is performing well and what's not a perfect environment for that business, if that business, we really believe will deliver mid-teens through the cycle. The investment banking returns right now are at a very, very significant low but we do have a 14% ROE to date in Global Banking and Markets. So an improved environment should help us. The asset management journey is going to take and we were very clear about this in February, it's going to take 2 to 3 more years for us to continue to make progress on the journey with respect to the continued reduction of the balance sheet and the revenue growth and the margin uplift. And we're working on it. We see a clear line of sight and we're going to make progress.

### **Operator**

We'll go next to Brennan Hawken with UBS.

### **Brennan Hawken**

You spoke earlier to green shoots that you're seeing in the banking side given how important sponsors are to your banking franchise, curious to drill down and specifically understand what you're seeing with that cohort and whether or not we need to see the levered loan market recover before they can come back in full force?

### **David Solomon**

Yes. So thanks for that question, Brennan. It's a good question. It's an important thing. I'm glad you're asking us to highlight it because I think about it this way and it's very, very important. When you look at our M&A business, a significant contributor to our M&A business is M&A responses and that's come to a halt. It's come to a halt. There are 2 aspects of it. There's buy side and the sell side. The buy side obviously also give us financing and other capital markets activity. The sell side sometimes gives staple and financing opportunity, too but that stuff has kind of come to a halt. Here's one thing I know about financial sponsors.

Number one, they own a bunch of assets. They're all for sale and they all will be sold. This environment has slowed down the pace of sale in a better environment that will accelerate. And I think we're going to see that accelerate as we look forward from here. This has been a particularly slow environment for that. Secondly, they have enormous dry powder, okay? And they can't make money unless they deploy. And so as soon as you get to a place, the values reset and financing costs are understood, you start to see people deploy. We're starting to see some of that. You saw this quarter, obviously, a very, very big transaction around FIS. And so you're going, I think [indiscernible] as we move forward. So this is a very, very important part of the investment banking ecosystem that kind of came to a shutdown given the volatility of change in the environment. And I'm not smart enough to tell you this quarter, next quarter but it will meaningfully improve and it's an important component to investment banking activity. And it's one of the reasons why investment in banking activity is running at kind of from an activity level, kind of 10-year lows. And the other part of your question, Brennan, speaks to availability and health of financing markets.

I think we certainly have underwriting appetite to facilitate these transactions. We believe we can distribute risk into the market. There's also a number of principal in buckets, both with our clients and within our own funds that are capable of deploying financing to support transaction activity in this environment that could also be an attractive source of activity for the firm.

### **Brennan Hawken**

Great, I appreciate it. And then for my second, you started the process of selling GreenSky. We saw the goodwill impairment. What's been the reception to that asset? And has that impacted your expectation for how quickly you could finalize that sale?

### **Denis Coleman**

Brennan, in terms of the process, we're obviously in the middle of the process. We have feedback. I think extra color, just to share with you in terms of how you think about potential on the forward. It's a business we bought for \$1.7 billion. We integrated into Goldman Sachs. We're seeing it perform well. It's a good business. We had made the decision to explore alternatives because it's not the right fit necessarily for Goldman Sachs. We've written down the goodwill in the Consumer platform segment. There's no more goodwill to be written down. That business at this point has remaining unamortized intangibles approximately \$625 million that we consider for impairment on a quarterly basis and we'll do so in the future. And should we move forward with the transaction with respect to GreenSky, it could happen in a number of different ways. We could sell the platform, we could sell the platform and the historical lending book that we have on balance sheet. And should we choose to sell the loan book, we'll designate that as held for sale, much like the Marcus loans process and you'll see the P&L impact accordingly as we mark the loans and release the associated reserve.

So those are the types of things that could occur on the forward given the strategic activity but I don't think there's anything else to say about the GreenSky process given where we are.

### **Operator**

We'll go next to Devin Ryan with JMP Securities.

### **Devin Ryan**

In markets we hit on financing. So I just want to look at intermediation here. And obviously, results were off quite a bit from a great quarter last year. But based on the results, it also looks like you did better than the implication on the conference circuit late in the quarter. So just the implication there would be that June got a lot better for intermediation. So I just want to make sure kind of that read is correct. And then did June feel like a more normal month relative to the first couple? And has that continued? Just trying to think about the quarter and the cadence there?

### **David Solomon**

Yes. So thanks, Kevin. I'd just say and you highlighted this appropriately, just pointing back. I mean, one of the big differences when you look at the year-over-year comparison is we're coming out of the period where the word started in Russia and there was an enormous activity in the commodity space. And we were very, very well positioned to serve clients in that space. And so we -- if you go back and you look at the second quarter 2022, we way outperformed in that quarter because of that commodities activity and obviously didn't have that here. I think to the second part of your comment, yes, June was better. June was definitely better. And so there was an improvement in tone and a little bit of improvement in risk on and what we're early in the quarter. But there's no question, there's more of a risk on sentiment in the month of July than it was earlier in the second quarter. And you just think about it, we're coming out of March, we were coming out of the banking crisis and you think about when we were on this call in early April, we're in a very different place in terms of investor sentiment overall. So there has been an improvement through the quarter. And I think it's noted appropriately.

### **Devin Ryan**

Okay, that's great. And then just on transaction banking and the momentum there, be great to just get an update on some of the kind of the drivers. And really, the question is, it's such a huge market as you guys identified when you got the business. It's still a very small driver for Goldman. And so just trying to think about the growth there? And are there opportunities for more step function growth if you add a certain capability? Or just how should we think about the opportunity to really -- this to become a much bigger business for Goldman?

### **David Solomon**

So I appreciate that question. I think it's -- I think you're right. I think we've got an interesting platform. It's been very constructive in bringing deposits to Goldman Sachs. But one of the things that we said over the last couple of quarters is we're working now on getting the clients that are on the platform to really get more of their payments activity into the flow, so this delivers real revenue and real value over time, that's taking some time and it will take some time. I think it's a dispersed business where there are lots of providers for most people. These are our clients, so we have the right to kind of compete for and be engaged for this. They like our technology but making changes in payment flows takes time. So I think the team here is very focused on the long-term investment in building those relationships. I think a particular opportunity for us is around what I call kind of financial sponsor companies, etcetera. We're obviously given our financial sponsors franchise. We have a very, very good opportunity set over time. But this is going to take time to execute. I think it's one of those things where we have a business that's performing fine but it's not making a meaningful contribution. But I think this is something where, over time, we'll work hard to figure out how this can make a more meaningful contribution to the firm with our client base.

### **Operator**

Thank you. We'll go next to Dan Fannon with Jefferies.

### **Daniel Fannon**

I wanted to ask about private banking and lending, even ex the \$100 million gain this quarter. That continues to be an area of growth. Can you talk about the prospects as we think about going forward and the inputs to kind of continue the lower growth you've seen?

### **David Solomon**

Sure. So it's highlighted as one of those areas within the overall Asset & Wealth Management business which we think has the combined benefit of growth opportunities as well as more stable and recurring revenues, there's a couple of components inside of that line item. We've obviously seen strong growth in the deposit platform which has been contributing nicely and that was the area in which we had our Marcus loans activities which on the for those will obviously have -- will not be contributing on the forward. But the other piece of it which is an area of strategic priority for us is the overall activities with respect to wealth lending activities. And we have, as I think David highlighted earlier, premium ultra-high net worth business that has been growing nicely. But we feel like we're relatively underpenetrated with respect to some of the lending activities with those clients and across the wealth space. And so we have some new leadership across the division in the past number of quarters and a very, very clear mandate that we should be out there aggressively leaning into those relationships and making sure that we can solidify them as comprehensively as possible and we expect that will be a contributor to that line item as well on the forward.

### **Daniel Fannon**

Great. And then just as a follow-up, in terms of the balance sheet reduction outlook and as you think about line of sight which I think you used to give us some numbers and given capital markets may be opening up and a little bit more receptive to exit anything that you could point to or numerically talk about in the short term that you're planning on or have as I said, line of sight on?

### **David Solomon**

Sure. I appreciate that question. So obviously, we took you to current on historical principal investments at 23.8%. You know that there is a year-end '24 target of below \$15 billion. We said we are well on pace towards that target. I would say that we have line of sight on several billion of incremental reductions. We have a large number of processes and positions that we're exploring for disposition. They're all in various stages of completeness from exclusivity to on offer to being marketed to being prepared. We've moved a large number of positions year-to-date and we have more that we're focused on moving from here. So I would offer that up as it's an ongoing highly engaged process where we expect to make incremental progress.

### **Operator**

We'll go next to Matt O'Connor with Deutsche Bank.

**Matt O'Connor**

So the SCB obviously came down very nicely this year and has been trending down for a couple of years now. We are getting some questions on how some of the consumer loan portfolios have impacted that. And specifically with the sale of the Marcus loans and potentially sale of GreenSky loans and again, according to the media, potentially exit the credit card. I guess the question is, do those loans actually help bring down the SCB? Or what are the puts and takes there as you think about the impact of those loan portfolios in aggregate on the annual FACA.

**David Solomon**

Sure. So look, you're familiar with the process as we are. There's various levels of transparency that you get through the process. Obviously, those contributions from lending activities which roll into components of the test. But the big driver for us and what we feel has been enabling us to meaningfully move down our SCB towards the 5% area that we've been discussing is really attributable to the on-balance sheet investments. We think that has a very, very meaningful impact for us. And the thing I would remind you is that the impact that was just revealed in this year's test with this SCB of 5.5% due to be implemented in October, that's based on the snapshot of activity that the Fed took last year which means that all the activities that we're discussing on this call are going to be considered in the next test. And assuming that the test is similar next year to the test this year which I don't know. But if it is, we will continue to see benefit from our reduction of these on balance sheet investments. So the reason why we remain so focused on setting those targets and providing so much transparency about our trajectory and our path is that we really believe that, that's a very, very meaningful way to understand our trajectory in terms of minimum capital ratios until, obviously, any new news on that front.

**Matt O'Connor**

Okay. So focus much more on the legacy on balance sheet positions versus the consumer lending portfolios?

**David Solomon**

Yes.

**Operator**

We'll take our next question from Gerard Cassidy with RBC.

## **Gerard Cassidy**

David, in your opening comments, you were talking about you guys are still very focused on reaching a mid-teens ROE through the cycle. We all know the business has been depressed as you pointed out in your comments. Can you share with us, if you go -- we have -- the public has access to the geologic data your data is probably better than that. But if you look at the geologic data for '21 and '22, obviously, global investment banking revenues were unusually strong. Why would you think is a normal level for global investment banking revenues that you need to get to that mid-teens ROE that you're targeting?

## **David Solomon**

So again, I'd highlight that Global Banking and Markets, even in this environment, has close to 14% ROE for the first 6 months of the year in what's not a great environment for investment banking. We don't disclose the separate ROE for investment banking but I just highlight to you, it's running way, way below what it's run on average over the course of the last 5 in the last 10 years. We do not have to go back to 2021 kind of levels in order to see a material uplift in that investment banking ROE which would bolster the overall through-the-cycle uplift of our Global Banking and Markets franchise. I'm sure in my lifetime, maybe not my career, I'll see another year like 2021 but 2021 falls into that category of years that come along once in a decade, I wouldn't call that normal either. But I would say that this is not normal and normalize somewhere in between. Our average, I hate the word normal, average lies somewhere in between.

## **Denis Coleman**

The only thing I would add which I'm sure is intuited to, Gerard, some of the activities that are not contributing us substantially right now are very capital-efficient activities. And so looking at deal logic levels of activity or revenues are 1 metric but some of them are very, very beneficial to our overall results. And they also have the capacity to catalyze other activities as a consequence. So in environments of more active levels of investment banking, we see some positive impact across the rest of the firm that's not necessarily captured simply from the Delta explained in that investment banking line.

## **David Solomon**

Yes. One other thing, Gerard, I'd just add, if you go back, it's an interesting thing to do. If you go back and you look at investment banking revenues from people who report them, over the last 20-plus years, go back to 2000 and look at investment banking revenues. There's a change in the environment and investment banking revenues have dropped meaningfully because of that. You can go back and you can see that at other times over the last 20 to 25 years. You can see that from 2001 to 2002. You can see that from 2007 to 2008. You can see that in 2010 to 2011. And obviously, you're seeing it from 2021 to 2022 and '23. What's interesting is to go look at what happens when you come out of the cycle and kind of look at the growth in the upshot because market cap grows, there's growth in the economy, etcetera, I don't think it's going to be different this time. I think this is a cycle. We haven't seen a cycle in a while. And the other side of the cycle will continue to look attractive the services of advising the need for mergers and consolidation, even though there can be headwinds and friction, the need for capital markets activity, IPOs, equity financing, destiny, that's a fundamental part of our economy. It's not going away. It's been depressed for the last 4 to 6 quarters.

### **Gerard Cassidy**

Very helpful. And then Denis, a technical question for you on GreenSky. You mentioned that you still have intangibles and you are going to think -- or you still have a determination to make whether GreenSky should move into held for sale. Two-part question. What will trigger that to move it into held for sale? Then should you do that? And if there's an intangible impairment, do you have to take that impairment at that time when you move it into held for sale or you can wait for a later date?

### **David Solomon**

So, thank you. The decision as to whether and when we move it to held for sale is when we make a decision affirmatively that we are selling the business and we're selling the loan portfolio and we will. When we make that decision, we will designate it as such and you will see the P&L consequences of that designation at that point in time. We evaluate the intangibles every single quarter for impairment. And in the next quarter, we will also analyze the intangibles for impairment.

### **Operator**

We'll take our next question from Jim Mitchell with Seaport Global Securities.

**James Mitchell**

Just on Platform Solutions profitability. I appreciate you getting to an efficiency ratio already below 100%. But the other drag on profits is credit. I think you guys noted that in consumer platforms had a 5.8% net charge-off ratio. I would imagine point of sale is lower than cards. So that would imply cards as well north of 6% in terms of that charge-off ratio. How do we -- is that right? And how do we think about the credit quality in that book and where you see it kind of normalizing? SP1 Sure. So a couple of things. On the one hand, the net charge-off in consumer at 5 for the quarter, given the nature of our portfolio, its maturity, the overall operating environment we do expect that, that will continue to tick up over the next couple of quarters.

**Carey Halio**

But you'll also notice that we reduced our coverage ratio this quarter as well. And that's because the performance of the activities is actually coming in better than we had originally expected. We had put together provisions on a conservative basis. And now as we have more and more data coming through, we actually are comfortable in removing some of that conservatism and bringing down the coverage ratio. So I'd say trending as expected with overall better data coming through than originally anticipated.

**James Mitchell**

Okay. Maybe just a follow-up question on Wealth Management. I haven't really talked about it in a while but whether it's with AECO and trying to move a little bit down market from the ultra-high net port space. Can you talk to the progress you've made there? And what kind of where you're seeing investments in growth?

**David Solomon**

So AECO, within the overall platform, ACO is something we continue to grow. We continue to be focused on. It's extremely well received, in particular, by a number of our C-suite clients. It's part of our approach to having a more integrated and comprehensive approach to clients in that segment. We do see opportunities to continue to expand our offering. We also see opportunities to expand within the ultra-high net worth space, both in the United States and abroad and we have a very, very long track record of delivering and we believe we are actually despite the franchise under-penetrated and continue to grow that as well.

**Operator**

That will conclude our question-and-answer session. Please continue with any closing remarks.

**Carey Halio**

Yes. We just want to thank you for joining. And obviously, if you have any further questions, please feel free to reach out to me or Johan and the rest of the team. Otherwise, we look forward to speaking with you soon. Thank you, everybody.

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