Goldman Sachs Group's (GS) Management on Q3 2018 Results - Earnings Call Transcript

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Q3: 10-16-18 Earnings Summary

SEC 10-Q

EPS of $6.28 beats by $0.94 | Revenue of $8.65B (3.84% Y/Y) beats by $216.01M

Goldman Sachs Group Inc. (NYSE:GS) Q3 2018 Earnings Conference Call October 16, 2018 9:30 AM ET

Executives

Heather Kennedy Miner – Head-Investor Relations

Stephen Scherr – Incoming Chief Financial Officer

Marty Chavez – Chief Financial Officer

Analysts

Glenn Schorr – Evercore ISI

Michael Carrier – Bank of America

Christian Bolu – Bernstein

Matt O'Connor – Deutsche Bank

Mike Mayo – Wells Fargo Securities.

Betsy Graseck – Morgan Stanley

Steven Chubak – Wolfe Research

Brennan Hawken – UBS

Guy Moszkowski – Autonomous Research

Jim Mitchell – Buckingham Research

Devin Ryan – JMP Securities

Gerard Cassidy – RBC Capital Markets

Marty Mosby – Vining Sparks

Operator

Good morning. My name is Dennis, and I will be your conference facilitator today. I would like to welcome everyone to the Goldman Sachs Third Quarter 2018 Earnings Conference Call. This call is being recorded today, October 16, 2018.

Thank you. Ms. Miner, you may begin your conference.

Heather Kennedy Miner

Good morning. This is Heather Kennedy Miner, Head of Investor Relations at Goldman Sachs. Welcome to our third 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 2017.

I would also direct you to read the forward-looking disclaimers in our quarterly earnings release, particularly as it relates to the impact of tax legislation, expenses, our investment banking transaction backlog, capital ratios, risk-weighted assets, total assets, global core liquid assets, supplementary leverage ratio and stress capital buffer. 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 website, 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.

Today on the call, I'm joined by our Chief Financial Officer, Marty Chavez; and our incoming CFO, Stephen Scherr. As Stephen is new to many of you, I'd like to take a moment to introduce him. A 25-year veteran at Goldman Sachs, Stephen has held numerous leadership positions, beginning his career in Investment Banking and then on to Fixed Income, next heading our Financing Group in Investment Banking and later serving as our head of firm-wide strategy. Most recently, he was CEO of GS Bank and ran our Consumer & Commercial Banking Division, including Markets.

With that, I'll pass the call to Stephen.

Stephen Scherr

Thanks, Heather, and thanks to everyone on the call for joining us this morning. I'd like to make a few comments before I turn the call over to Marty to walk through our third quarter results. First, let me begin by saying it's truly my pleasure to be here today as I take on my new responsibilities as CFO. I'm excited about delivering on the core job itself and getting to know all of you in the weeks and months ahead.

I must also say that I'm thrilled to be part of the firm's new leadership team. David, John and I have worked together for nearly 20 years. We know each other well, see each other as partners in the business and share common objectives and goals for the firm. We jointly recognize the strength and importance of our client franchise, our people and our financial capital, and I'm sure this is of particular importance to you. We intend to take a long-term view to driving strong shareholder returns. This is a key focus area for David and for the rest of the management team. With that said, let me briefly turn to two of our key priorities, which are amongst several areas we will cover in greater detail in the coming months.

First, we believe that Goldman Sachs has amongst the strongest client franchises on The Street, with corporations, with governments and institutions and with a growing number of individual clients and customers across the wealth spectrum. But we also know that we can do more to deliver the whole of Goldman Sachs to our clients in a more seamless way. This is a key objective. We've already begun to reexamine ways to deepen our client relationships by fostering easier access to all of Goldman Sachs. We also plan to continue to expand our reach to new clients of the firm. We will do so by better leveraging our core competencies of advice, risk management and technology solutions and by encouraging innovation and entrepreneurship within the firm. Importantly, we remain committed to executing on the revenue growth opportunities we laid out for you about a year ago. I will provide an update on these efforts in November.

Second, we are reviewing all of our businesses, front to back, to ensure that our people and our financial resources are optimally deployed. Our objective here is clear: to improve shareholder returns. This is why David, John and I, along with the rest of the leadership team, will look for new ways to grow our businesses while improving our operating efficiency for the long term. We expect to continue this dialogue with you, focusing not only on further defining our business priorities but also on the metrics we will use to measure our progress. As we move ahead, we anticipate that we will have active and ongoing discussions with all of you. David will join our earnings call in January and is looking forward to being a participant in the quarters and years ahead.

Finally, I would like to thank Marty for his many contributions to the firm as our CFO. We are fortunate that we will continue to benefit from his leadership in our Securities business. Adding Marty's deep understanding of technology and the firm's balance sheet to Ashok's market expertise and Jim's thorough knowledge of our client needs gives us the right mix of talent to lead the Securities Division. On a personal note, I'm thankful to Marty for his partnership and guidance in ensuring a smooth transition.

With that, I'd like to turn the call over to Marty, who will walk us through third quarter results. Marty?

Marty Chavez

Thank you, Stephen. I'd want to share that I've really enjoyed the opportunity to work with all of you, our analysts and our shareholders, during my tenure as CFO. I'm also incredibly excited to take on a new leadership role in the Securities Division where I can serve our clients and further the firm's leadership in market structure innovation and automation. And I look forward to spending time with the investor community in my new role.

I'll now walk you through our third quarter and year-to-date results, then cover each of our businesses. And of course, we will be happy to answer any questions. Third quarter net revenues were $8.6 billion. Net earnings were $2.5 billion. Earnings per share were $6.28. Return on common equity was 13.1%, and return on tangible common equity was 13.8%.

Turning to year-to-date results. We had firm-wide net revenues of $28.1 billion, the highest in eight years; net earnings of $7.9 billion; and earnings per diluted share of $19.21 was a record for the first nine months. We grew year-to-date revenues by 16% or $3.8 billion, and we delivered positive operating leverage, growing pre-tax earnings by 22%. Year-to-date, return on common equity was 13.7%, and return on tangible common equity was 14.6%, up by 340 and 370 basis points, respectively, versus last year.

Our year-to-date revenue growth demonstrates solid progress across the firm as all four of our business segments grew at a double-digit pace. We grew our Institutional Client Services revenues by 16% or $1.5 billion, accounting for 40% of the year-to-date revenue improvement. That reflects an 18% rebound in FICC and a 15% increase in Equities where we continue to work to deepen our existing relationships and expand our client franchise.

During the third quarter, while we saw quieter levels of client activity in certain businesses, several positive macro trends continued, including healthy global economic growth, particularly in the U.S.; strong CEO confidence; open financing markets; rising equity market valuations; and stable credit spreads. Despite the seasonal decline in client activity amid emerging market volatility and trade policy uncertainty, we saw improvement in September as our clients continued to seek our market-making services. While it's impossible to predict the future, we remain cautiously optimistic given active client dialogues, healthy economic growth and resilient investor sentiment.

Let's review individual business performance for the third quarter. Investment Banking produced net revenues of $2 billion, down 3% versus the second quarter, but up 10% versus a year ago, driven by a rebound in equity underwriting. Financial Advisory revenues were $916 million, up 14% relative to the second quarter, reflecting solid M&A volumes.

During the quarter, we participated in announced transactions totalling over $200 billion across more than 90 deals. Our announced volumes continued to outpace the industry, increasing 19% versus a year ago. Client engagement has improved notably across the Americas and Europe this year. Healthy dialogues on strategic activity continue across a broad base of sectors, including TMT, natural resources and health care, as well as from sponsor-related transactions. For the year-to-date, we ranked first in announced M&A, advising on over $1 trillion of volumes across 300 transactions, with a $125 billion lead over the number two competitor.

Moving to Underwriting. Third quarter net revenues were $1.1 billion, down 14% versus the second quarter on seasonally lower volumes but up 20% versus a year ago. Equity underwriting net revenues of $432 million decreased 12% sequentially amid lower follow-on volumes but more than doubled versus a year ago as IPO activity accelerated, supported by strong activity in Asia. For the year-to-date, we ranked number one globally in equity and equity-related underwriting with over $55 billion of deal volume across 300 transactions. We also ranked number one in global IPOs.

Debt underwriting net revenues were $632 million, down 16% from last quarter amid lower industry volumes. However, our year-to-date performance was a record, reflecting strong client engagement and our multiyear investment in our acquisition finance business.

Our Investment Banking backlog remains at robust levels but decreased versus a record second quarter, driven by M&A completions and underwriting. Our backlog still remains up significantly from a year ago. Clarity from U.S. tax reform, a supportive economic backdrop, solid equity market valuations, significant private sponsor interest as well as corporate's desire for strategic M&A across sectors are all supporting healthy activity.

Moving to Institutional Client Services; third quarter net revenues were $3.1 billion, down 13% sequentially but roughly flat versus last year. FICC Client Execution net revenues were $1.3 billion, down 22% sequentially and 10% lower than a year ago, driven primarily by low levels of volatility and client activity. Importantly, we continue to execute on our efforts to deepen and broaden our client relationships.

We also are making significant investments in our capabilities and platforms to provide content, execution, data and analysis in modern digital formats. These efforts cover the entire client experience. On the execution side, we continue to generate strong growth. Our electronic FX volumes are up over 20% year-over-year. We now have over 2,000 active FX users on our Marquee single-dealer platform and are in the process of launching the next generation in the fourth quarter to better serve both institutions and corporate clients.

In credit, we also continue to have success with our electronic corporate bond offering. Our credit algorithm now covers 10,000 U.S. investment-grade bonds, executing trades up to $2 million, allowing us to gain efficiency by electronically serving a significant portion of our investment-grade flow. Within that execution mandate, the GS corporate bond algorithm currently ranks number one in U.S. investment-grade volumes on the two largest electronic platforms.

Turning to the individual FICC business performance in the third quarter. Currencies increased versus a year ago in both G10 and emerging markets, driven by higher activity and better performance. Commodities also increased versus a more challenged performance a year ago, helped by lack of headwinds in natural gas and power. Offsetting these improvements, rates declined significantly year-over-year amid low volatility and lower activity across government and inflation products, particularly in Europe. Credit declined amid sluggish activity across products and the smaller opportunity set. Lastly, mortgages declined versus last year, primarily on lower performance and volumes in CMBS.

Turning to Equities, net revenues for the third quarter were $1.8 billion, down 5% sequentially but up 8% versus a year ago on better performance, higher U.S. equity market volumes and higher average volatility. Equities client execution net revenues of $681 million were roughly flat sequentially and up 17% versus a year ago. Performance was supported by strength in our derivatives businesses, partially offset by lower cash revenues from program and on-exchange electronic trading.

Commissions and fees of $674 million were down 12% sequentially but roughly flat versus a year ago. Nonetheless, we continue to see strength and market share growth in our low-touch volumes with meaningful year-over-year gains in all regions.

Securities services net revenues of $439 million were flat sequentially and rose 9% versus last year, reflecting higher average client balances as we continue to invest to expand our footprint in the business.

Moving to Investing & Lending, collectively, these activities produced net revenues of $1.9 billion in the third quarter. Equity securities generated net revenues of $1.1 billion, reflecting net gains from private investments, primarily driven by improved corporate performance. Mark-to-market on public securities reflected lower performance in Asia. On a year-to-date basis, our equities I&L businesses generated $3.5 billion of net revenues, roughly 60% from corporate investments and 40% from real estate.

Our global private and public equity portfolio consists of over 1,000 different investments and remains diversified across industry and geography and balanced across investment vintage. We continue to reinvest to drive future long-term performance, with 46% of the investments in the portfolio made in the last four years. The remaining 54% is split, with 23% from investments made between 2012 to 2014 and with 31% made in 2011 or earlier, which are generally closer to harvesting.

Net revenues from debt securities and loans were $750 million. Results included approximately $700 million of net interest income, equivalent to a $2.8 billion annual pace. Our net interest income continues to grow as we increase more recurring revenue streams and lend more to our broad client base. Results this quarter also included a provision for loan losses of $174 million, primarily related to loan growth.

Our I&L assets included approximately $105 billion in loans, debt securities and other assets and $21 billion in equity investments. In addition, we hold another $12 billion of consolidated real estate investments on the balance sheet.

Let me also give you a quick update on our markets consumer business. Markets has evolved from a single-product to a multiproduct platform and today serves more than two million customers through our lending and savings products and our personal financial management app, Clarity Money. We were pleased to launch our fourth business late last month, entering the UK retail deposit market. Since launch through last Friday, we have raised nearly $2 billion of UK online deposits across more than 55,000 accounts. In addition, our U.S. retail deposits grew to over $26 billion at quarter end as we continue to expand and diversify our sources of funding.

In our markets personal loans business, we held $4 billion of loans on our balance sheet at quarter end. We continue to monitor credit quality closely and remain very aware of where we are in the credit cycle. Our pace of loan growth will continue to be governed by our assessment of consumers' ability to pay and the overall macro environment. We are building this business for the long run, and we are not chasing volume targets. We will continue to grow deliberately and carefully.

Next, turning to Investment Management, we posted net revenues of $1.7 billion in the third quarter, driven by continued growth in our asset management and private wealth businesses. Net revenues were down 8% sequentially, driven by significantly lower incentive fees but up 12% versus a year ago on higher management and other fees and incentive fees. Management and other fees were $1.4 billion, up 3% sequentially and up 9% versus a year ago.

Transaction revenues were $174 million, down 4% versus the second quarter and up 4% versus last year. Assets under supervision finished the quarter at a record $1.55 trillion, up $37 billion versus the second quarter. Results included $13 billion of long-term net inflows in the quarter with inflows across all major categories, with particular strength in equities in quantitative solutions.

In addition, we saw $8 billion of net inflows into liquidity products and $16 billion of market appreciation. Over the trailing five years, we attracted total cumulative organic long-term net inflows of approximately $225 billion.

Now let's turn to expenses. We continue to monitor and manage our expense base carefully. We emphasize paying for performance to attract and retain the best talent and investment spending to support our clients while building technology, infrastructure and platforms to grow the firm for the future. Compensation and benefits expense include salaries, bonuses, amortization of prior year equity awards and other items such as benefits. We reduced our year-to-date compensation-to-net revenues ratio to 38%, down 200 basis points from the first nine months of last year, reflecting our strong year-to-date revenue growth and our emphasis on profitability.

Non-compensation expenses year-to-date were $7.6 billion, up 17% or $1.1 billion versus a year ago. Roughly 55% of the increase versus last year continued to be from expenses related to client activity and investments for growth, including approximately $425 million across markets, our consolidated investments and technology; and approximately $190 million from higher brokerage, clearing and exchange fees. We also saw roughly $215 million of expense increase related to the new accounting standard and a $149 million increase in litigation expense.

On taxes, our year-to-date tax rate was 19%. We expect our full year 2018 tax rate to be materially consistent with the first nine months. This rate can vary and is based on a number of factors, including our overall level and mix of earnings and updated guidance from Treasury on the implementation of Tax Legislation. As we said previously, we will provide updates on our tax rate for future years once we have final guidance from Treasury expected this quarter.

Turning to balance sheet, liquidity and capital, our global core liquid assets averaged $238 billion during the quarter, roughly unchanged from second quarter. We continue to expect this to decline as we redeploy our balance sheet to meet client needs.

Our balance sheet was $958 billion, roughly flat versus the second quarter. Our common equity Tier one ratio was 13.1% using the Standardized approach and 12.4% under the Basel III Advanced approach. Our ratios improved by 50 basis points and 90 basis points, respectively, on a sequential basis. Overall, 40 basis points of the improvement was driven by an increase in common shareholders' equity and reduced market RWAs. The advanced ratio further improved, primarily on credit RWA reductions. Our supplementary leverage ratio was 6%, up 20 basis points versus the second quarter.

On capital return, we paid $311 million in common stock dividends and bought back $1.24 billion in the quarter in line with our $5 billion share repurchase authorization for the 2018 CCAR cycle. And over the past three quarters, we have now built back our Standardized CET1 ratio by 120 basis points, in line with our ratio before tax reform took effect. We have a strong capital position to both serve clients and invest for growth.

Before taking questions, a few closing thoughts. We are pleased with our performance in the first nine months of 2018, which include our self-funded investments for future organic growth. Our solid double-digit year-to-date revenue increase demonstrates the capabilities in each of our client businesses, and we continue to work hard to grow further from here. We also remain committed to driving positive operating leverage as revenues grow, which was clearly on display as pretax earnings are up 22%, driving our year-to-date ROTE of 14.6%. In addition, our strong competitive positions and continued execution enable us to deliver attractive long-term returns for shareholders.

With that, thank you again for dialing in, and we'll now open up the line for questions.

Question-and-Answer Session

Operator

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

Glenn Schorr

Hi. Thanks. A follow-up on your dialogue around Marcus and the provision in I&L. So I heard you that most of this is related to growth. I'm curious, at some point, are we going to see some of it related to seasoning as you grow and time goes on? And I think there was a story during the quarter that you pulled back maybe 10% versus your growth expectations. Are you seeing any signs of stress or delinquencies? Is that just prudent risk management?

Stephen Scherr

Sure. Thanks, Glenn. It's Stephen. I'll take that question. First, in terms of the pace of activity in Marcus, we have been underwriting and reunderwriting this business from the first quarter – we began in the fourth quarter of 2016 – and at each moment, taking stock of where we are, mindful of being potentially late in the consumer cycle. And so we have honed our underwriting standards and have watched where our vintages come in.

The debate around 2019, which the press paid some attention to, is really about the level and pace of growth. In 2019, I'm confident that we'll see an increase in originations relative to where we are in 2018. The debate is about the pace and size of that increase. And the decision we're going to make is entirely based on what we see in the portfolio, particularly as our vintages start to illustrate where we are, but equally mindful of where we are in the consumer cycle. I'd say, by the way, on that, there's no material evidence to suggest that it's turning. But equally, we take stock of just how long this cycle has gone. And so we're quite careful, and 2019 will be about pace of growth, not whether we will grow.

On the question I think you asked about reserves that we're taking, I would say that something on the order of about 1/3 of that was, in fact, related to Marcus. And it's important to understand that the reserve build around Marcus will be commensurate with growth, meaning as we take growth up and you're in that growth cycle, you're going to take more reserves. And at some point, you'll hit a level of stability where your reserves will, in fact, level off because you've leveled off in terms of a static position in terms of loans on the book. But I think that right now, that's simply a function of the growth trajectory of the business from beginning to where we are.

Glenn Schorr

Okay, appreciate all that. And then one follow-up on comp. Revs are up 16% year-to-date. You commented about your year-to-date ratio at 38% is down 200 basis points versus last year. Can't predict anything, but if the fourth quarter's somewhere in the range of in line with year-to-date trends, is it crazy to think we might see a much lower comp ratio versus last year, meaning in that same 100 to 200 basis points lower for full year?

Marty Chavez

Glenn, this is Marty. On the comp ratio, as you know, it's – we see it as an output, not an input. Important that we attract talent and retain talent. And we'll continue to do that. The ratio that you see now, 38%, which is down two points from the first nine months of last year, down one point from where we had it in the first half of this year, is, as you would expect, our best estimate of the comp ratio with all the information that we have right now.

And where the full year ratio ends up will depend on what happens in the fourth quarter, which we won't predict. One other thought, we had mentioned this in the past that it's important, as we expand the firm and grow our businesses and we emphasize lending and also platforms, increasingly, our focus is turning away from comp-to-net revenue ratio, where – which has historically been a topic on these calls, and really to efficiency ratio overall where we're looking at comp and non-comp expenses holistically with the focus on profitability.

Glenn Schorr

Fair, okay. An accounting follow-up or just a geography thing. The $160 million tender gain, it was across both I&L and FICC and Equities. Do you have that breakout just so we could do our little sustainability numbers and what grew where?

Marty Chavez

Sure, Glenn. I'd be happy to break that down. So as you noted, it's $160 million in revenue on the debt tender. And the geography in our financial statements is approximately evenly split across FICC ICS, Equities ICS and I&L, so approximately evenly split across those three categories.

Operator

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

Stephen Scherr

Hello, Michael.

Michael Carrier

Good morning. First one, just on the Investment Banking and the trading backdrop. Some of your competitors, you have mentioned that the competitive dynamics have gotten a little bit more intense more recently. Just wanted to get your take on what you guys are seeing, some of the – maybe the market share opportunities that you have set out over a year ago, how that's playing out and how much of that is either from like a competitive standpoint versus maybe some of the technology initiatives that you guys have been investing in that maybe you guys have more of a competitive advantage than some others.

Marty Chavez

Well, Michael, on – I'll start with Investment Banking. We have, as you can see in the results, a leading position, and we continue to emphasize that and build on that. That position already at the top of the league tables is one that is an important part of our growth initiatives. So for instance, we have targeted 1,000 new clients, and we've assigned coverage on 80% of those, and we've done that with many new hires, which you've seen in the news, and that's starting to play through in revenues.

Going to FICC and Equities, those businesses, as we all know, are always, always competitive. And there, we have an historical strength in our platforms. We've had our SecDB risk management platform for decades, and that is a differentiating part of our expertise in risk management. And we're leading in those extremely competitive businesses with content, scale and making it all client-centric and investing to modernize it with digital access, digital formats of many kinds, digital user experiences, over the Web, same tools that our people use, deploying them to clients, also giving clients the abilities to plug indirectly into our platform through APIs, which is very much a theme for us as well as all companies that are building and deploying technology for their clients.

And we've started to see that, again, also play through in revenues. We've highlighted in the past our investment in our platform expansion to serve quant clients tailored for them but also a value to our traditional clients. And we've seen, since 2016, about 180 basis points market share growth in low touch and half of that in the year-to-date.

Michael Carrier

Okay, that's helpful. And then just one on the I&L outlook and backdrop. I think when we see more volatility in the market, sometimes that weighs on you guys and maybe the visibility on that business. Just given what you guys have done to build out the Investing & Lending business and the makeup today, just how much will the public market volatility, maybe wider credit spreads impact it versus sort of the core lending growth? And then maybe on the equity side, like GDP growth continues to be healthy. I guess just some perspective on different backdrops and how that can impact that business given that it's a little bit tougher to gauge.

Marty Chavez

Absolutely. So I'll start by saying – and it's a theme that we've discussed before, which is that these businesses are not market-beta businesses. They're franchise-adjacent. They are part of our franchise, both the equity and the debt part of I&L. So I will start with the equity part. There's two contributors. First of all, the Merchant Banking Division, then also our Special Situations Group.

Starting with Merchant Banking, the portfolio's diversified across sector, across geography, across private equity and real estate. We have a sourcing and origination model that's distinctive, doesn't exist elsewhere. It's strongly connected to our IBD platform, to our institutional relationships with corporates, with private equity firms. And in addition, we're leveraging our GS domain expertise and knowledge to make the investment decisions.

And in all of these platforms, we have a diversified lending portfolio that's got a differentiated sourcing mechanism with a long history of strong risk-adjusted returns. And so the drivers of that are going to be synergies with the rest of our platform and the differentiated content that we have as we make – as we harvest these investments. And so I would not think of it as linked to market beta. And of course, on the equity I&L line for both private and public, it will be affected by market valuations and levels. But the operating performance is really what's critical, and we saw that driving the results in that segment this quarter.

Operator

Your next question is from the line of Christian Bolu with Bernstein. Please go ahead.

Christian Bolu

Good morning, Marty and welcome to the call, Stephen.

Stephen Scherr

Thank you.

Christian Bolu

So staying on FICC, just maybe follow up to the previous question. I guess if you could share just an update on the growth initiatives you guys outlined to expand the customer footprint and kind of where you are in the ability to pick up an extra billion dollars of revenues over the next couple of years. And then ultimately, when do you think some of these initiatives to expand the footprint will start to kind of actually play out in revenues?

Marty Chavez

So there's, as you know, Christian, many things we're doing. And in the growth initiatives that we outlined, we're tracking those closely, and you're starting to see some of those initiatives play through in FICC specifically. There, as we emphasized when we laid out the growth initiatives there, they're not dependent on improvement in the market environment. And so there, wallet share is an important metric. And it's one that we're following closely and holding our people accountable. One of my colleagues who will be my co-Head in the Securities Division when I rejoin, Jim Esposito, has been doing this in banking for years and now is co-Head of Securities Division, the same kind of granular week-by-week, quarter-by-quarter tracking of where we are with the top 1,300 institutional clients.

It's just one source of third-party market data but, in the coalition data for the first half of 2018, shows that with those 1,300 institutional clients mostly representing market-making, risk and remediation, we're number two in FICC and number two jointly across FICC and Equities. And we've seen 30 basis points expansion in the wallet share since the end of 2016 with those clients. So just to step back and look at our strategy broadly, I'll just highlight four aspects of it. First, clients. In that business, as in all of our businesses, it begins and ends with the clients. So clients have risks they don't want, want risks they don't have. It's our job to help them understand their risks and to get them from A to B and to do that by providing them liquidity and doing that by providing them financing and having a seamless client experience front to back in platforms. Happy to go into it in as much detail as you'd like. That's where I'll be spending a lot of my time. It's fundamental to our success in the business.

And there, again, it's taking the tools that we've developed for ourselves and sharing them very broadly with clients in a variety of formats, including for many clients who want to just plug in through APIs and get our data sets and risk analytics directly and plug into their computers, doing this all while optimizing our resources, managing our liquidity capital and expenses. What's exciting for me and for all of us is the world-class team that we have in that business. And our success is going to be driven really entirely by how effectively we bring together engineers, salespeople, bankers, traders to deliver that content and execution.

Christian Bolu

Great, very comprehensive answer. Switching over to the Private Bank. At least by our numbers, feels like Private Bank lending is significantly underpenetrated relative to your peers. So curious how you think about the opportunity to expand then within that business. And then more broadly, could you update us on maybe progress on kind of your initiatives to grow the adviser base and client assets?

Marty Chavez

We agree, and we are working on it. It's part of our growth initiatives that we outlined. And especially outside the U.S., where we're already strong, especially outside the U.S., we see significant opportunities. And we'll be coming back to talk to you about that. We're hiring and executing on it.

Operator

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

Matt O'Connor

You guys had a nice increase in the capital this quarter. Obviously, it's a combination of retained earnings but also a decline in both assets and RWAs. And just wondering how much of that is kind of explicit efforts to optimize the balance sheet after CCAR. And if it is, is there further optimization you can do to get better positioned for 2019 and beyond CCAR?

Marty Chavez

Well, of course, we're pleased at the success with which we have built capital over the past three quarters. As we reviewed, Standardized CET ratio is up 50 basis points sequentially, and it's putting it now 10 basis points above the level before tax reform hit. So that's a 120 basis point build. And we've been doing this while having operating leverage, investing in all of our businesses. And so that's a fantastic result. It has been a focused effort across the firm. Now a large part of the improvement in the capital ratios is just performance. Retained earnings on the market RWAs, those have benefited, and that's a part of the driver of the improvement and lower volatility. And then on our credit RWAs, it's changing in composition of the loan book. So all of those effects are part of it. Stephen, would you like to add to that?

Stephen Scherr

Yes. The only thing I would add to that is I think that the speed and efficiency with which our ratios recovered over three quarters following year-end, I think, speak volumes about the agility of the business to adjust. And I know there are often questions raised about changing circumstances in regulation and capital needs. And I think that if you look at the way in which we took our ratios up as quickly as we did, frankly, without negative consequence to the overall business, in fact, they rose by virtue of the strength of the business. So you see capital increase by virtue of retained earnings, and you look at the speed with which we turned velocity on the commitments made so that commitments are not sitting on the book for an extended time, all of these are inputs and variables that I think say a lot about the business' ability to adapt. And I just – I offer you that in the context of thinking forward to what may play out from a capital point of view and the organization's ability to adjust.

Matt O'Connor

Okay. And then just sticking with capital, you've made a couple of comments about updating and potentially expanding the growth efforts next month. To date, the vast majority of your growth initiatives have been organic. I think you've had a couple of small deals below the radar. But would acquisitions be more of a part of the strategy going forward? Or what are the current thoughts on, call it, medium- and large-sized acquisitions? And then does the level of your stock, which is obviously off quite a bit this year, does that play into the thought process as well? Thank you.

Stephen Scherr

Sure. It's Stephen. Why don't I take that question? I think that you should expect that in certain segments of our business, we will continue to be acquisitive. So in that context, acquisitions around our Consumer business have been made, and I think we'll continue to make them. They are immaterial in the overall size of the organization, but quite material in the context of aggregating both engineering talent and IP to develop that business more thoroughly. I think equally in the context of the Investment Management Division, historically, you have seen us make small acquisitions in that context because you can pick up teams or assets or sort of extend yourself into adjacent businesses.

So I think in those two areas, you should expect us to be nimble and potentially acquisitive. I think in the size of those transactions, where stock stands as a currency is less relevant. Putting cash to that acquisition is perfectly reasonable and immaterial. Now I would say that inasmuch as we'll be acquisitive in those two areas, that's not meant to be a read across to the strategic sort of view of the firm more broadly. And so I don't want to have you come away thinking that those read across to major acquisitions that the firm would do. I simply want to point out that those are businesses where acquisitions are efficient, both, as I said, in the acquisition of talent and IP and equally time to market, particularly in the Consumer business where the opportunities may present themselves.

Operator

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

Mike Mayo

I had a couple of questions. First, as it relates to the Marcus 2020 targets for $1 billion in revenues and $14 billion in outstandings, would you say that you're pulling back from those targets, which seems to be fine if you're seeing conditions change?

Stephen Scherr

So on your question on Marcus, I would say that it's important to recognize that there are a number of different components to Marcus that contribute to the 2020 objective. Unsecured lending in the Marcus platform being one, but equally, the value of deposits in that franchise being another, and then there may well be other opportunities that present themselves in terms of new business between now and then. And so it's a mix of different businesses. And I'd point out that even if we work on moderate growth, the growth would still be in place in lending for 2019, but we were to moderate it.

If you just look at the rather explosive growth in the deposit platform, particularly in the UK., so we are not two or three weeks in and have nearly $2 billion equivalent of UK. deposits, the FTP value on that will be significant. I guess the point I'm making is that when you look at the loan component that makes up a number of different inputs to that target, our ambition is not to stretch through the target, meaning we're not going to let that business sort of grow because the target is out there in terms of balance sheet. If, in fact, the market and the environment is not hospitable to us, and we will watch it carefully but not grow against the gale wind. We don't see that wind yet, so we'll continue to grow, but the point being there are multiple sort of avenues by which we'll hit that target in 2020.

Mike Mayo

And then two separate questions. Stephen, you mentioned one strategy is to deliver the entire Goldman Sachs to deepen client relationships. I guess from our perspective, you guys crush it with the relationships with the CEOs of corporations, but you don't get your fair share of the business given those relationships at the top of the house. Correct me if I'm misunderstanding that. So what metric would you look at, like what share of wallet, say, you have of corporation today? And where would you like that to be? Or help me how to think about that.

Stephen Scherr

Sure. So historically, in Investment Banking, which have been the principal owners of corporate relationships, you're right to point out that the relationship by and large went to the top of the house. I will tell you, just from my own experience in that business, that the relationships now have really broadened quite considerably over the last several years. And frankly, I'd go back to the financial crisis when liquidity was dear that liquidity and capital raising for companies became strategic and moved its way into the office of the CEO. And so the relationships that our teams have now go well beyond the CEO and extend into CFOs, treasurers, assistant treasurers in the context of what's there.

I'd also say that our relevance in the context of activity with which we can engage corporates on has grown quite considerably. And frankly, that's been commensurate with credit expansion that we have made to a number of our clients as a general matter. And so if you will, our petition for a broader set of business I think is more real and more credible than it's been in a long, long while. And finally, I'd say – and an example of this would be the nascent plans now around corporate cash management, which is I view us as having an extraordinary set of relationships with corporates to sort of look and build that business on a technology platform that will be rather edgy.

And I think our ability to capture it now is more real than it would have been years ago. But equally, I'd point out that when you look at the tangible addressable market that, that represents relative to the traditional product sets that we've been in, it almost doubles. So just imagine, when you look at the strength of the Investment Banking business and you find us in number one positions across a range of different products, imagine us extending that product set now to corporate cash management and other similar such businesses, and I think the opportunity there is fairly extensive growth in areas that we've not played in before.

Operator

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

Betsy Graseck

Hi, good morning. A couple of questions. So starting off on Marcus, I think you indicated the reserve build for the portfolios overall and gave us a split into Marcus, and it seems like that's running at about a 7% build on new loans. I'm wondering if that's the right math and if you can talk us through how you think about reserving for Marcus. Is it on a 1-year forward basis? Is it on a longer-term basis than that? And if you could just update us on the FICOs of the portfolio on where your new loans are coming out in terms of a FICO band?

Stephen Scherr

Sure. So as I said, I think, in response to a question earlier, our reserve build has been commensurate with loan growth, and it's not a function of any perceived deterioration in the book itself. While I don't have the specific numbers, I will tell you that we reserve at differentiated levels across the aggregate loan book such that we reserve at a higher level for Marcus loans relative to what we would be reserving on other loans. And that should not come as a surprise because the Marcus loans are unsecured, and we have security in a vast majority of the balance of the loan book that's there. And so it's differentiated and tailored as it ought to be and as it's required to be based on the perceived risk that's there. And I think so long as we remain in a growth mode, you'll continue to see that increase commensurate with the growth itself.

Betsy Graseck

And the differentiation is within Marcus as well? Or you're just talking about between Marcus and different – other loan product?

Stephen Scherr

Yes, let me be clear, it's not differentiated within Marcus itself. It's differentiated as between Marcus and other loans that sit on our books. Let me also come back to the question you asked around FICO scores. Our FICO bands still skew into the 700s. Candidly, there has not been a change from the time we originated to where we are now. We trend high on the FICO band, and we'll continue to sort of stay above 660 or better in the context of our forward-going underwriting in Marcus.

Betsy Graseck

Okay. And then on the UK side, you indicated, what, $2 billion in deposit growth over 55,000 accounts. Did I get those numbers right?

Stephen Scherr

You did. In fact, the numbers have increased since the numbers we cited you on Friday. I mean, those numbers now are at about 75,000, and well into $2 billion equivalent of deposits would have been raised. And I think what's interesting is that this is now filling out with strategic intent that we had from the very beginning around retail deposits, beginning in the U.S. and now evident in the UK, which is the opportunity for us to sort of engage in retail deposit gathering as a substitution for the predominance of wholesale funding, I think holds out enormous strategic value for us. And it's now sort of playing through that way, and we've been super pleased with the progress on deposits in the U.S. And equally, as you can imagine, just given the pace of growth of deposits in the UK, that's proving to be a very, very valuable channel for us.

Operator

Your next question is from the line of Steven Chubak with Wolfe Research. Please go ahead.

Steven Chubak

Hi, good morning. So wanted to start off with a question on capital on the SCB. Stephen, it was encouraging to hear you speak about your commitment to deliver improved shareholder returns, the plans to evaluate the different businesses. I'm just wondering, given the uncertainly relating to how the stress capital buffer rules are ultimately going to unfold and the expectation for further delays beyond the next few months, how do you handicap the impact of changing rules and evaluate through-the-cycle returns across your different businesses?

Marty Chavez

Well, Steven, I'll start with that and then turn it to Stephen. So on the SCB, we are a vigorous participant in the industry conversations. You've seen our bilateral letter that we filed with the Fed, and we know that the Fed is listening. At the same time, we don't know the form that the final rule will take. And any thoughts on when SCB will be incorporated into CCAR would just be speculation on our part, so we won't do that. But I will say that as for the final form that the rule takes, we'll be prepared. Stephen referenced our agility in building capital to the level that we've got right now. We'll continue to have that kind of agility, and we'll be ready for SCB to be a part of CCAR 2019, and equally, we'll be ready for SCB to be part of a later CCAR, in which case we continue to be bound by SLR. As you know, we support the underlying concept of SCB, which is linking spot and stress capital. The details are really important. Stephen?

Stephen Scherr

I would only add to that, that as I said earlier, we need to run and guide the firm with customer and client centricity at its core. And in doing that, of course, we're mindful of the potential for changing circumstances in capital rules, and we need to be nimble in the context of how we adapt to them, just as we were over the last three quarters to adapt to change occasioned by tax. I would say that from the perspective of David, John and myself, we're undertaking now a mark-to-market on the business, as you would expect any new leadership team to do. And in that context, we're looking to rationalize costs and make sure our costs are right front to back. But equally and to your question, capital's a scarce resource, and we need to ensure that capital is being allocated appropriately to businesses that can hurdle what we care to hold out for them in the context of ways in which we can serve customers and clients. And so I would only represent to you that with capital as a scarce resource and the potential for capital rules to change and for us to stay nimble yet serve our clients, we need to go through this exercise in a very, very detailed way and then make very hard decisions about where capital ought to be deployed as in across different businesses to do what I said at the beginning is our intent, and that's to yield a positive shareholder return on the back of our activities.

Steven Chubak

Thank you both. That's incredibly helpful color. And then just one follow-up for me on operating leverage. We saw some nice efficiency improvement in the quarter. Marty, I appreciate your color speaking to how you view expenses and managing efficiency more holistically. I'm just wondering how much of the improvement this quarter was a function of revenue mix. And then looking over the next couple of years, it feels like expectations are flat and assumption around continued revenue growth somewhere in the mid-single-digit range, but really no operating leverage improvement. I was hoping you could speak to your commitment to delivering improved margins and profitability if that revenue growth materializes.

Stephen Scherr

Sure. It's Stephen. Why don't I take that with a sort of forward-going look? So if you look at the three quarters, our revenues were up 16%, and our expenses together were up 13%. And here, I'm not distinguishing between comp and non-comp. I'm just looking at expenses overall. So a 3% delta over the three quarters, and that includes considerable expenditure in the context of growth. And so what I find positive in that and a guide toward where we will be is that we're going to look to continue to fund our growth from within the business and all the while produce operating leverage in the business. I think that expectations ought to be modest in – through the balance of this year, but equally and through 2019 as we stay on a growth theme and make the kind of expenditures that Marty was referring to, which we think have positive IRR and will yield long-term – frankly, medium- to long-term positive return for shareholders.

Longer term, I think we should hold ourselves out to even greater efficiencies because platforms will become more mature, delivery of product across all of our businesses will be more efficiently delivered, and you'll start to see pickup at the top line by virtue of the investment in the growth initiatives themselves. And so I'd just draw that – I'd distinguish in sort of time segments without being overly precise as to what I expect to continue in the near term and then what can happen over the longer term.

Operator

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

Brennan Hawken

Good morning. Thanks for taking my question. First one on the loans receivable. I think that you – at least from the last Q, about half of the loans receivable balances is in corporate exposures. So just wondering if maybe you could give some color around what types of loans those are, what portion might be tied to deals or look like levered loans, how much of those are secured? I think, Marty, you spoke to the fact that you guys are approaching cyclical risk with prudence, which is clearly reassuring. Just maybe helpful to get some of those stats around the portfolio.

Marty Chavez

Sure, I'll take you through that. Happy to. So if you look at the loan book in aggregate, about 80% of it is secured. Many components to that loan book, some of it is, for instance, in real estate, it's nearly 100% secured. And the institutional part of that portfolio, it is also diversified. Of course, those are relationship lending, IBD corporate, there's middle-market lending. And then I'll mention a couple of other items. So the Private Wealth Management and GS Select part of the loan book is 98% secured. And then, Marcus, of course, is not secured, but as Stephen has described, we have an intense focus on the credit profile.

Operator

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

Guy Moszkowski

Good morning. This question I think is going to build a little bit on some of the earlier comments that you've made on platforms and margins going forward. But I wanted to take a look at, for example, FICC, which has struggled over the years in this quarter, again has a significant revenue downturn. But can we go below the surface and talk a little bit about margins? As that business becomes more of a platform business, more digitized, can you give us a sense for what's been going on with the margin? Are we looking, to some extent, at pricing coming down as the business is more digitized but, on the other hand, the margin improving because of that?

Marty Chavez

Well, this is one of my favorite topics, so I'm happy to go through what we're doing on platforms. There's so many themes here, and they all relate to margin and scale. So just – it is just the way of the world of compression wherever you look, and that's driven by technology and data. And that's a trend that we're embracing, not resisting. And this is and remains a people business. And at the same time, we want to give our people tools so that they do the things that people can do best and always will do best and then leave to machines things that the machines do best, right, just as I wouldn't want to compete with my HP 12C to see who can add or multiply faster. And that's a general theme.

So across securities but I'll emphasize FICC since you asked about it, we're in the middle of a large project, which we've been funding organically, to reengineer the legacy systems. We have them, everybody has them, to eliminate manual work and drive scale. An important theme, as data becomes, and we all know this is the fuel for the economy, using that data and carefully and appropriately, hugely important in all businesses, especially in our business, to provide results that are better for the clients, we're going to continue to invest in Marquee. I mentioned the real effort we're doing in the fourth quarter. We have a huge ambition to create a cross-asset, integrated agency and principal platform for accessing liquidity across all of the products and making that liquidity available to our clients in a variety of formats over the voice channel, our people using those tools, clients using the tools, clients plugging into our computers directly. And so all of this is happening as that business becomes increasingly automated, we're taking many of the same themes that have been very successful for us in our equity business. I highlighted some of them in the prepared remarks. Our bond pricing engine quoting 10,000 CUSIPs. That number's only going up. The $2 million size, that number we'd expect to go up.

The development of ETFs in credit is transforming that business, creating the capability for portfolio and program trading along the lines of what we've done in Equities. And so there's a lot of parallels to Equities. Of course, the market structure is different, and these businesses will evolve differently and at different speeds. But the lessons we've learned of building tools, having a tool-driven culture, putting those tools in the hands of our people and clients, that's what's going to drive margin efficiency and scale.

Operator

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

Jim Mitchell

Good morning. Maybe just talk a little bit about the strategy in Marcus longer-term? I think you mentioned potentially adding more products. I mean, as you kind of go downmarket a little bit in wealth management with Ayco, how do you see this evolving? Do you see going – pursuing sort of more of a retail wealth brokerage-type model layer on to Marcus? Seems like brokerage could be kind of a core competency. How do you think about that, adding those kind of businesses longer-term?

Stephen Scherr

Sure. So, I would say we began with Marcus on a product-by-product basis, in part because it was prudent execution and it was cautious, and we needed to ensure that we would get it right and play it right. But our ambition was never to just be a bespoke set of products. What we want to offer out to consumers and millions of consumers is an opportunity to engage with us so as to improve their own financial engagement and the like.

And to that end, we're building a platform. Clarity Money, which is an app that we acquired, can present itself as the front door, where it offers consumers an ability to manage their balance sheet and their cash flow and all the while give them a financial wallet off of which they can then take part in a platform that would be made up of products, some of which – many of which will be our own, some of which may not be our own.

Obviously, deposits and lending are just the two products as of now that sit on that growing and developing platform. As I look forward, there are a number of opportunities for us on the product set. One certainly, as you're referring to, is wealth and a more mass affluent wealth product. I think that we're particularly well positioned to do that in the context of the adjacency that exists between our Investment Management Division and Marcus, where we have an extraordinary factory floor in GSAM that can build and develop product. That product can be put on in more mass affluent wealth platform. And so I think wealth, as you allude to, is an area that we should certainly focus on. I would also say on the topic of adjacencies, and this is to make the point that as we develop a broader, bigger Marcus platform, there are adjacent channels and avenues in and around the firm that we can avail ourselves of, okay?

One, you alluded to is Ayco. Ayco is an extraordinary channel that sits within the Investment Management Division and has and does present us with an opportunity to go in through the business to get to consumers. So, think of B2B2C, and they have relationships with formidable companies and the ability to offer Marcus at work, just as an example, is sort of a channel that can be pursued. And so Marcus as a platform is not to be viewed as an island within the firm. I'd also say that we have opportunity by virtue of relationships that exist with corporates through Investment Banking, to take those relationships and look to develop partnerships with consumer-facing organizations. And frankly, that will lower our cost per acquisition on customers of Marcus. And so I offer this out not just to give you an indication of what the platform might look like, what the forward road map might be with respect to product, but equally to sort of let you in on the adjacencies and channels and opportunities that exist around Goldman Sachs that can serve in the growth of what we try to build with respect to consumers.

Operator

Your next question comes from the line of Devin Ryan with JMP Securities.

Stephen Scherr

Hello, Devin.

Operator

Devin, check your phone has been put on mute.

Devin Ryan

Good morning. Sorry about that. And the first question is on the Equities business and just the success you're having on a relative basis as well. Obviously, there's a lot of concern just heading into the year around the business, particularly with MiFID II implantation, but revenues are now up, I think, about 15% year-to-date. So you're clearly taking market share there. And so now that we've had some data to look at, can you see whether you're consolidating market share in areas that maybe MiFID is most directly impacting, so you're winning on that front? Or is it maybe growth coming from other places or mix? It's just a little bit tough from the outside to strip it out, so would love to get some color on the success there.

Marty Chavez

Sure, happy to go through that. So you're correct, revenues year-to-date for the Equities segment are up 15%. And going into the quarter, as a main driver of the quarter is client activity. We also highlighted year-on-year strength on derivatives. Now over the last several years, if you look at the cash and derivatives contribution to equities client execution, it's evenly balanced, though it can, of course, change from quarter-to-quarter. And as we've highlighted in previous calls, we have scale, we have depth and breadth of products across cash and derivatives, a variety of product formats, strength in prime, which goes from strength to strength and diversified regionally. And we wouldn't trade that business for anyone else's. We've definitively seen ourselves picking up market share, as you referenced. We see that in third-party statistics of various kinds. I talked about earlier how we've grown our wallet share in low touch. And so that is a part of the investments that we've been making. Now you referenced MiFID II. And MiFID II is an important driver of – it is not the only one, of something that's happening across the system, which is consolidation in the top three scale players. As we were preparing for MiFID II implementation, on these calls and in other formats, we said that we expected the MiFID II reforms to actually benefit the scale players, those with differentiated content and execution capabilities as well as research. And we are one of those. We're investing to be certain that we continue to remain there. And definitively, we've seen, especially in Europe but also globally, market share concentrating in the top 3.

Operator

Your next question comes from the line of Gerard Cassidy with RBC Capital Markets. Please go ahead.

Gerard Cassidy

Thank you. Good morning.

Stephen Scherr

Good morning, Gerard.

Gerard Cassidy

Good morning. You guys have been very cognizant of the credit cycle. You've talked about where we are relative to the consumer side. Can you remind us, in the underwriting of the Marcus loans, what are you underwriting for in terms of the peak loss rate? When we get into a down credit cycle recession, nobody knows when that will happen, but we all recognize credit losses for everybody will go up. Can you remind us what you think the – how the Marcus portfolio will perform in that environment and what the peak credit losses could be?

Stephen Scherr

So the way we have approached Marcus is that in each vintage, we price our book in order that it could incur a doubling of the modeled loss and leave us in a break-even position, obviously with the exception of whatever we had paid for the acquisition of the customer itself. So putting those expenses aside, loss scenario, we price for a doubling of loss, again, to put us at a break-even. And our own thinking is not different than yours in the context of where we are.

As I said at the start, there's been no manifest evidence to suggest that it is or has turned. But knowing that we're long in the cycle, we're attentive to our underwriting. I'd also point out that in the context of the six or seven quarters since we began, by virtue of what we've built from a clean technology slate, we're on to our 10th or 11th iteration of the underwriting box. And that is one in which we learned from data both on-premise and offpremise, so what we learn from our own portfolio as well as what we can glean from publicly available information. And we continue to hone our underwriting box and back-test it against prior vintages. But all the way along, we stand to our own imposed policy of ensuring that we price for a doubling of loss.

Operator

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

Marty Mosby

Thanks. I had two questions and the kind of the same kind of focus. But if you look at 1,000 new customers, you're talking about attracting new sales reps and trying to expand, are we – Goldman years ago had kind of consolidated up towards the top end of the market. Are you thinking about going downstream more to institutional customers that are maybe middle market? And are you – what segments are you most interested in, in that case?

Stephen Scherr

So thanks for the question. I'd answer your question without limit to any particular division, meaning if I look at Investment Banking, as part of the growth initiatives with the 2020 target, we set out to open offices in a number of different cities, where we had not formally been and to look to expand the client base, because there's very attractive, accretive business to be had in and among those clients. And I don't particularly view it as going downmarket so much as expanding the aperture on, in the case of Investment Banking, just the geography of where we are and what we're going to do. And we're seeing some manifest success in that context. There were 10 notable transactions derived from an expanded footprint, which had meaningful P&L consequence to the business.

In the context of the Securities business, I would look at both Equities and FICC and say that part of what sits in front of us and the leadership of that division is a changing skew on the customer base, which is looking at corporates as an expanded client set or customer set for both FICC and equity products.

Markets, it's obvious and self-evident in terms of that being a new consumer base for the firm more generally. And then I'd look at middle-market lending, which sits in the I&L line. And as Marty alluded to, in the quarter, we generated $700 million of net interest income, which is recurring. It'll have a run rate of about $2.8 billion annually. And I view that as very stable, meaning if you look down the roster of loans that sit in that segment, they look very much like what you would find at big money center banks, and it has not been, to this point, an area of focus for us. And we come at those clients not with a single product but rather with a range of different products such that we sit at the top of the capital structure in a better risk position and avail these customers and clients with the kind of liquidity and access to capital they need.

Operator

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

Stephen Scherr

Thank you. So since there are no more questions, I would like to take a moment to thank everyone for joining the call on behalf of our senior management team. We hope to see many of you in the coming months. If any additional questions arise in the meantime, please do not hesitate to reach out to Heather. Otherwise, we look forward to speaking with you on our fourth quarter call in January.

Operator

Ladies and gentlemen, this does conclude the Goldman Sachs Third Quarter 2018 Earnings Conference Call. Thank you for your participation. You may now disconnect.

Comments (0)