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 First Quarter 2018 Earnings Conference Call. This call is being recorded today April 17, 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 first quarter earnings conference call.

Today's call may include forward-looking statements. These statements represent the firm's belief regarding future events that by their nature are uncertain and outside of the firm's control. The firm's actual results and financial conditions 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, our investment banking transaction backlog, capital ratios, risk-weighted assets, total assets, global core liquid assets, and supplementary leverage ratio, and you should also read the information on the calculation of non-GAAP financial measures that's posted on the Investor Relations portion of our website www.gs.com.

I will now pass the call over to our Chief Financial Officer, Marty Chavez. Marty?

Marty Chavez

Thanks, Heather, and thanks to everyone for joining us this morning. I'll walk you through our first quarter results and make some brief comments on the broader opportunity set for the firm. Then of course I am happy to answer any questions.

First quarter net revenues of $10 billion were up 25% versus the first quarter of last year. Net earnings of $2.8 billion were up 26%. Earnings per share were $6.95, up 35%. Return on common equity was 15.4% representing our highest quarterly return in over five years. While we are pleased with our strong first quarter performance, it's we are stepping back to put these results and the environment into context.

The last time we generated over a 15% return the environment was different in several ways. Five years ago, global growth was generally improving but still slow and we were embarking on a period of unprecedented global central bank stimulus. In contrast, the start to 2018 has been characterized by healthy backdrops of synchronized global growth and rising interest rates.

Better growth prospects are supporting central bank efforts to reduce stimulus which has been a primary factor driving the below average market volatility seen in recent years. During the first quarter, the positive outlook for global growth translated into improved corporate and investor confidence and subsequently solid activity across the firm, particularly in our Investment Banking and Market Making businesses.

Compared to the first quarter of last year, Investment Banking, FICC, Equities, Investing & Lending and Investment Management, each produced net revenue growth with four of the five increasing 18% or more. While it's impossible to predict the future, we remain cautiously optimistic that many of the broader drivers underpinning the solid start to the year, healthy economic growth, relatively positive investor sentiment and the emergence of new market trends can remain in place.

We are pleased with our improved performance in the quarter as it demonstrates the earnings power of our diversified franchise and shows what is possible with modest improvements in the environment and client activity and we believe there is room for additional revenue and earnings growth as we further diversify our global franchise across a broader client base with an expanded suite of products and services.

Let's discuss the individual businesses. Investment Banking produced net revenues of $1.8 billion, 16% lower than a very robust fourth quarter, which was our strongest in over ten years. The decline came amid a lower but still strong underwriting performance and a decrease in advisory revenues.

Financial Advisory revenues were $586 million. The decline relative to the fourth quarter reflects the decrease in a number of completed M&A transactions. During the quarter, we participated in announced transactions of approximately $240 billion. We are optimistic regarding the outlook for higher activity across a number of sectors given new clarity from US tax reform and healthy client dialogues.

Moving to underwriting, net revenues were $1.2 billion in the first quarter, down 12% from the fourth quarter across equity and debt. Equity underwriting net revenues of $410 million declined 11% driven by lower industry volumes.

In the first quarter, we ranked second globally in equity and equity-related underwriting with $20 billion of deal volume in over 100 transactions. Debt underwriting net revenues were $797 million, the second best quarter ever following last quarter's record.

Growing debt underwriting has been a long-term priority for the firm and we expect our strong M&A franchise will continue to support robust contribution from acquisition-related financings.

Turning to our Investment Banking backlogs, it increased versus both the fourth quarter and first quarter of 2017 driven by M&A volumes and underwriting respectively. As I mentioned, the new tax legislation in the U.S. has added significant clarity for our clients and we continue to work with them to assess and execute a variety of strategic priorities.

Moving to Institutional Client Services, net revenues were $4.4 billion in the first quarter, up 85% compared to the fourth quarter and up 31% versus the first quarter of last year. In both our FICC and equities franchises, we generated our highest quarterly revenues in three years. Performance was supported by better prospects for global growth and higher market volatility.

This backdrop drove, improved investor confidence, led to higher client engagement across flow and structured transactions, and a broader opportunity set for our franchise. FICC Client Execution net revenues were $2.1 billion in the first quarter, more than doubling fourth quarter levels reflecting a better operating environment and our efforts to strengthen client relationships.

Results were helped by reduced inventory headwinds in certain businesses. We saw higher sequential performance across all five of our global fixed income businesses as higher client activity drove a broader opportunity set despite a continued competitive environment with relatively tight bid ask spreads.

We also saw increased activity in areas where we have historical strength including higher activity in derivatives and structured transactions as clients sought to access emerging trends or hedge risks.

Within FICC, commodities increased significantly versus the fourth quarter reflecting improved performance, particularly in natural gas and power. Currencies results reflect better performance in G-10 and the significant improvement in emerging markets compared with a challenging fourth quarter. Rates benefited from higher activity in the U.S. and in Europe where we continue to grow our client footprint.

Credit reflected improved conditions in high yields, investment grades, munis and structured credit and benefited from stronger client activity in flow trading. Mortgages benefited from improved market conditions and better client engagement.

The improvement in FICC was also evident on a year-over-year basis with a significant increase in currencies reflecting strong performance in emerging markets, as well as significantly better results in commodities and credit.

We are pleased to see our FICC business improve versus a difficult 2017, which we believe in part represents our continued efforts to expand and diversify our global client franchise. Nonetheless, much work remains to be done and we continue to execute on the billion dollar FICC revenue growth plans we laid out last September.

Turning to Equities, net revenues for the first quarter were $2.3 billion, up 69% sequentially as equity market volatility rebounded globally from record lows driving higher client activity, and the broader opportunity set.

Equities Client Execution net revenues of $1.1 billion rose significantly, driving our highest quarterly performance in three years on stronger results in both cash and derivatives. Commissions and fees net revenues rose 11% to $817 million driven by stronger volumes across the U.S., Europe and Asia.

Security Services net revenues of $432 million rose 6% on higher client balances. Turning to risk, average daily VaR in the first quarter was $73 million, up from 15 year lows during 2017, but consistent with 2015 levels. The increase was driven primarily by client demand for our balance sheet. In many ways, we view rebounding VaR as a positive development and indicative of an improving opportunity set.

Moving to Investing & Lending, collectively, these franchises produced net revenues of $2.1 billion in the first quarter. Our Investing & Lending balance sheet ended the quarter at $129 billion, up $8 billion versus last quarter. It is comprised of approximately $106 billion in loans, debt securities and other assets and $23 billion in private and public equity investments.

Equity securities generated net revenues of $1.1 billion, reflecting net gains from private equities driven by company-specific events and corporate performance. Approximately 55% of our performance was from mark-to-market on public securities and events such as sales in our private portfolio.

Our global equity portfolio was $23 billion at quarter end and remains well diversified with over 900 different investments.

Our performance continues to be driven by an investment discipline that emphasizes risk-adjusted returns applied by global teams of over 400 investment professionals and supported by our dedicated risk management and controls infrastructure.

Regarding our equity investment portfolio, it is diversified across industry and geography and balanced across investment vintage. Approximately 30% of the portfolio is held in investments made in 2011 or earlier. Roughly 30% is from investments made between 2012 and 2014 and about 40% is from investments made over the last three years.

The balance and diversification coupled with our disciplined investments approach should help support further – future contributions from these businesses through the cycle. Net revenues from debt securities and loans were robust $1 billion. Results included over $550 million of net interest income, which continues to grow as we seek to increase more recurring revenue streams.

Results also included mark-to-market gains driven by underlying credit fundamentals and specific events from roughly 100 loans and securities. No single name was a significant contributor to the results. Our lending strategy remains focused on providing financing to support and expand our existing clients including in Investment Banking, Investment Management and ICS.

Our strategy is also focused on applying core competencies of Goldman Sachs, collateral and asset valuation and risk management. We also continue to prudently expand our lending to new client segments, primarily through our Marcus consumer platform, which includes digital lending, and deposits.

Since launch, markets has originated approximately $3 billion of consumer loans. We continued to emphasize credit worthy customers and the credit quality of our portfolio is performing in line with expectations. Additionally, our retail deposits, which were $9 billion at the acquisition of the GE business, exceeded $20 billion in March.

We are pleased with the progress we are making on strategic initiatives within our consumer franchise. Our long-term vision for markets is to create the leading platform for millions of consumers to take control of their financial lives offering personalized products to save and borrow better simple, transparence and provide value to customers.

Last week, we closed the acquisition of Clarity Money. This is an important next step and certainly not the last in creating a business that marshals technology to put power over personal finances fast in the hands of consumers.

Moving to Investment Management. We produced record revenues in the first quarter driven by our diversified global asset management business and differentiated private wealth management franchise. Net revenues were $1.8 billion including relatively stable management and other fees. The 6% sequential increase reflected higher incentive fees, driven by Harvest King.

We also grew transaction revenues by 28% driven primarily by higher TWM client activity. Assets under supervision finished the quarter at a record $1.5 trillion, up $4 billion versus the fourth quarter driven by $13 billion of long-term net inflows across fixed income and equity partially offset by $5 billion of liquidity product outflows and $4 billion of market depreciation.

Now, let me turn to expenses. Compensation and benefits expense include salaries, bonuses, amortization to prior year equity warrants and other items such as benefits, and our compensation to net revenues ratio of 41% was consistent with the first quarter of 2017. Non-compensation expenses were $2.5 billion, down slightly versus the fourth quarter and up 14% versus the year ago.

Higher non-compensation expenses versus the first quarter of last year reflects both higher client activity and our investments in future growth. There were three main drivers. Approximately, $150 million was driven by higher client activity, which increased brokerage, clearing, exchange and distribution fees.

Approximately $100 million comes from a variety of investments to drive growth including Marcus, and consolidated investments and approximately $50 million of the increase was related to an accounting change for certain transaction costs.

Next on taxes. Our reported tax rate for the quarter was approximately 17%. The quarter included a $203 million income tax benefit related to share-based compensation. Excluding this benefit, our underlying tax rate for the first quarter was approximately 23%, slightly lower than the long-term expectation of 24% we stated last quarter given transition rules effected for 2018. We will provide further updates as we continue to evaluate ongoing guidance from treasury.

Turning to balance sheet, liquidity and capital. Our global core liquid assets averaged $229 billion during the quarter. Our balance sheet was $974 billion, up 6% versus last quarter driven by increased client activity and demand for our balance sheet. On a fully phased in basis, our common equity tier-1 ratio was 12.1% using the standardized approach and 11.1% under the Basel III advanced approach.

The ratios improved by 20 and 40 basis points respectively on a sequential basis. Our supplementary leverage ratio was 5.7%.

In the quarter, we returned a total of $1.1 billion to shareholders including common stock repurchases of $800 million and approximately $300 million in common stock dividends. Additionally, our Board approved a7% increase in our quarterly common stock dividend to $0.80 per share beginning in the second quarter.

Given current capital levels and the opportunities we see to support our client franchise, we do not expect to execute share repurchases in the second quarter and will use earnings to support future investments. We have been transparent our growth plans and there is a clear demand from clients for our balance sheet, which provides an opportunity to deliver attractive returns to our shareholders.

Nevertheless, over the medium-term, we continue to believe our historical repurchase level of approximately $5 billion to $6 billion per CCAR cycle is a reasonable expectation.

Before taking questions, a few brief closing thoughts. While we are pleased with our performance in the first quarter, we continued to diversify our client footprint and the breadth of products and services we offer. We believe successful implementation of these initiatives will provide further upside to additional revenue and earnings growth for the firm.

Regarding our $5 billion in growth initiatives, we track our progress in a detailed and comprehensive way mapping not just the specific revenues generated from each initiative, but many key performance indicators that will provide insight into our progress.

Today, we are pleased to share that our performance is tracking in line or better than our goals. Of course, the results will be more back-end loaded and our plan and progress reflects that expectation. Looking forward, we continue to make significant investments in our future to deepen and expand our client franchise and drive growth in each of our businesses.

As we’ve discussed, our significant investments in technology underpins all of our efforts. We also continue to emphasize producing higher revenues from more recurring sources such as Investment Management, and Lending generating significant operating leverage and diversifying the long-term earnings profile of the firm.

We believe these efforts will continue to position us to create long-term value for our shareholders.

With that, thanks again for dialing in. I will now open up the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] And your first question is from the line of Christian Bolu with Bernstein. Please go ahead.

Christian Bolu

Good morning, Marty.

Marty Chavez

Good morning, Christian.

Christian Bolu

Just first off on Equities, so similar to peers, very strong numbers here. The worry is always sustainability. I know you do have some growth initiatives around electronic trading and you won the Bloomberg Trade Book business last year. Just curious how much of 1Q's strength was pay-off from growth initiatives versus just the episodic volatility backdrop during the quarter? And then how should we think about sustainability in that business going forward?

Marty Chavez

So, Christian, client activity was the major driver of the year-on-year increase. The vol spike, particularly at the beginning of February was a positive contributor to the Equities' P&L, but again client activity was the major driver and it would have been a strong quarter without the long volatility benefits. The environment lined up well for our franchise as you know, we've got franchise diversified across the products and geographies and really in the quarter, we saw the benefits of that.

The performance was strong across flow and structured products, across cash and derivatives, across geographies, and all the business lines when delta derivatives and prime there was really broad based improvement where the volatility created a robust market-making backdrop and the clients were active and we executed well.

You referenced the growth initiatives and of course our investments in Equities growth is an important part of those initiatives. It's – you also referenced Bloomberg Trade Book which brought on 1300 new clients and that's got some revenue runrate associated with it and we've been onboarding low touch and quant clients in connection with the new product services and platforms we've been developing.

It's early days in that onboarding, but also important to note that these offerings, electronic trading tools, analytics are valuable not just to the quant and systematic clients, but to our traditional clients as well. Bottom-line, the franchise does well when clients are active.

Christian Bolu

Great, thanks. On the regulatory front, I guess the Fed put out a couple of NPRs around SLR and stress capital buffer, the off-shut feels like leverage could potentially no longer be constrained or a binding factor for your business. So curious how we should think about the opportunity set for Goldman, especially growing some of the lower ROE businesses to the extent leverage is no longer a constraint?

Marty Chavez

Our initial read of the notices of proposed rulemaking from the Fed last week, I'll start with ESLR, it's clear from the rule – the proposed rule that SLR is likely to return to its intended purpose originally which was serving as a back stop to the risk-based requirements as opposed to being in itself a binding requirement.

While it seems likely that SLR will be less binding, we are of course still going to consider it holistically in our approach to capital allocation generally perhaps with the less – lesser weight. Of course, we will see how it's going to evolve and all of this has to – how the businesses evolve and responses that we make in demand from the clients is a dynamic process.

As for the stress capital buffer proposal, also last week, we are not surprised by it. It's been well highlighted and outlined by the Fed in multiple conversations with the market, as well as white papers and we are supportive of the Fed's stated goal which is to simplify the capital framework and connect the stress capital and spot requirements.

The regulator has also been very clear that it is a proposal and that they are open to feedback and they are inviting the feedbacks and we will take all of that under advisement as they works through finalizing the rules.

Based on the proposal, we would expect stress capital buffer to be the binding constraint and we will continue what we've been doing for a long time now which is dynamically allocating our scarce resources, optimizing under all of these constraints as they evolve with the goal always of growing the franchise driving returns. We have a history of responding to new constraints and we'll continue to do that.

Christian Bolu

Great. And then just one last clean up question for me. On the non-comp side, thanks for that breakdown between brokerage, investment and accounts. It's very helpful. How should we think about the right jump of point? Is it the $2.5 billion this quarter of non-comp, less the 150 of volume-driven cost and that's a, kind of a good number for us to think about the forward – kind of the forward non-comp trajectory?

Marty Chavez

Chris, and I encourage you to think of the recent level of expenses as indicative of the future level, given our commitment to growth and the growth initiatives that we have outlined that we are executing on. But having said that, of course, our commitments to delivering positive operating leverage to the shareholders is as firm as ever and you saw some of that play through in the first quarter results with EPS and pretax up 35% and non-comps up 14%. We welcome that dynamic.

Christian Bolu

Okay. Thank you for taking my questions.

Marty Chavez

Thank you.

Operator

Your next question is from the line of Glenn Schorr with Evercore ISI. Please go ahead.

Marty Chavez

Hey, Glenn.

Glenn Schorr

Hey, Marty. How are you?

Marty Chavez

Good, thanks.

Glenn Schorr

First one on I&L. I definitely appreciate the extra color that you gave. And I don't know how better to ask this, every capital market in the world is down, not a lot, but down 1% to 4%, call it. But it seems like your private is both on the equity and debt side, obviously has other things going on, so you produce like the best gains in like five years.

I am curious as to what we can learn to get towards that and more importantly what we can do going forward to get more credit? Because, if you look at it, your I&L line has been great for five years and we keep not getting enough credit in there. So I am searching for help on how to both explain it and particularly on the equity side.

Marty Chavez

So, I'll start with equities and happy to go in any direction you like it in Equity, I&L. The key to that business is, diversification. It's a global portfolio and it's diversified across sectors, across geographies, both private equity, also real estate. And the other key to it is a franchise business. We have sourcing capabilities that are driven by a global network and investing as we've been demonstrating with these results remains long-term emphasis as well as a core competency.

I gave you the vintage breakdown. And what I would say is that in this quarter, we clearly saw the results of excellent environment for harvesting and we've been actively harvesting both to maximize value for our investors and then also as to comply with the regulations. We also talked a little bit about the drivers, 50% of it was from mark-to-market on public securities for events.

For instance, sales in the private portfolio, but really the key to it is that we have [attractive] [ph] sourcing mechanism and it's finding great businesses and working with them to operate them and make them better and of course, that's been driving not only the results you seen in this quarter and prior quarters, the long-term book value for us.

Glenn Schorr

Okay. Got all that. Thank you. Curious on – I guess, this holds on to the labor corporate relationship's full umbrella. I guess, I'd love to hear you talk about the full suite of products that you – think you either have now or will be – obviously you are picking up on the lending fronts and trading, but, it has been talked about building on a suite of cash management products. So, maybe if you could just put that whole package together, that would be helpful?

Marty Chavez

There is – as we've mentioned in the growth plan, a number of initiatives across the firm and where do I start? So, what remains constant across all of them is the risk management, infrastructure that we've got and the disciplined approach to managing scarce resources. I'll call out a few of the activities under the growth plan. In FICC, we've increased our corporate derivatives mandates.

In Equities, as I touched on before, we've been onboarding clients, continuing to invest in execution services and infrastructure. There is some exciting developments that are driven out of equities, but actually, we are now broadening and applying across FICC as well building electronic tools, that are portals for our clients where we abstract and take the concepts of risk transfer very generally and show our clients all the different possible ways where they can effect risk transfer from agency to principals systematic across different product wrappers.

There is so many ways to do it and really making that transparent and simple and digital for our clients. It's a huge effort that's underway.

In Investment Banking, we've assigned coverage on over 500 of the 1000 targeted clients and you've all seen announcements of a number of senior bankers who've joined us recently. I called out the inflows in our Investment Management business and also to say a little bit on Marcus, the funded loan balance is about $2.4 billion, originations through the end of the first quarter life-to-date approximately $3 billion and you also know of the announcement of Clarity Money's – after the acquisition of Clarity Money, which closed on Friday and there Clarity Money is a digital app that aligns with what we've been doing already in Marcus.

Simplicity, transparency, a great experience for the clients and you can expect to continue to see us making investments to create adjacent businesses built around that digital app and that digital experience. And as we are doing all of this, we are doing it in a flexible way, where it allows us to move into all kinds of adjacencies, you mentioned cash management, which is an important opportunity and one that we are evaluating and exploring.

In Ayco, that's another example of providing executive counseling to the senior executives in Fortune-1000 companies there. We've been effective at growing the number of Ayco's client companies, as well as using digital tools and platforms to offer Ayco's services to more people inside the Ayco client companies. With all these activities have in common is delivering the entire firm and using our long-term strength in engineering to do this in a scalable and digitized way.

Glenn Schorr

Okay. So you are not doing much. Okay, thanks a lot. Appreciate it.

Operator

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

Marty Chavez

Hello, Michael.

Michael Carrier

Hi, Marty. Marty, just, I guess, a question on client content and activity levels both in banking and trading, like the industry, we always have kind of a seasonal lift in the first quarter. We've gotten the tax reform and rising rates and on the flip side, we've got some trade work and churns, flatter yield curves, so where do you see if there is things that you can point to in the business metrics, client balances activity?

Whether it's in banking or trading that makes you think that the – beyond potential that you are better this year over the next couple of years, that's different versus the past year is where we've seen kind of the 1Q bounce and then back to kind of muted activity levels?

Marty Chavez

Michael, one way to think about it is to compare this quarter to the last time we had results in both FICC and Equities at these levels. And I'd just start by saying, but clear and stable across these businesses is that our clients respond to macro growth and market dynamics dispersion across asset classes and they respond by being more active.

So let's look at some of the drivers in this first quarter versus the first quarter of 2015. Now of course, no predictions here, just contingency planning, but the drivers, having said that are quite different this time around. So this time we've got globally synchronized economic growth. It's been a little while since we had that. We had rising U.S. rates and stronger labor markets.

We've got U.S. tax reform now behind us and one could easily imagine that those are more durable drivers than, say, what we saw in the first quarter of 2015 in the first quarter you recall there were some events such as the Swiss Central Bank depegging from the euro.

There was an expectation of rising rates, but rates didn't actually rise until the back half of the year and then there was the initiation of quantitative easing from the European Central Bank and generally that's after some initial repositioning associated with dampening market volatility. So, those are some of the things that are different.

Going over to our Investment Banking business, there is a related set of dynamics, where, as I mentioned the backlog is up year-on-year. It's up sequentially and in retrospect with tax reform behind us it's now more clear that that's some corporations were waiting for clarity on tax reform to proceed. And so, the dialogue is strong.

Announced M&A is up and it takes a while for those announced M&As as you know to play through into completed M&A transactions and therefore into revenues, but it will note that across those sectors, yes, there are concerns about tariffs, trade wars and so on. But the activity and dialogue is strong. It's difficult to predict – impossible to predict what these drivers will be in the future. And so, we keep the focus on what we can do here which is to position ourselves to support the clients in whatever they are going to do.

Michael Carrier

Okay. That's helpful. And then, maybe one on the regulatory ratios. So just given, where your CET-1 is today in your comments on the buyback outlook. Just wanted to get a sense when you look at kind of the demand for the balance sheet and the opportunities for growth, whether it's on the institutional – the trading side or what you are dealing like the lending side. Do you have, kind of what you need meaning, can you hit the growth targets comfortably and still manage to the capital ratios with the buybacks that you suggested?

Marty Chavez

Yes, so, to give you that buyback expectation and then to reaffirm it in this quarter and also in pace of our growth plan which we've known and we've shared the outlines of it sometime ago. All – plus the notice of proposed rulemaking that have come from the Fed, we've been taking all of those factors into account. And of course there is uncertainties and it's evolving and dynamic and there is going to be a lot of discussion next – on those sixty days that the Fed has invited with the industry on stressed capital buffer and so there will likely be some evolution there as the rule makes its way into the final state.

And so, all of these things are moving and when we gave the growth plan, and the $5 billion to $6 billion expectation of share repurchases per CCAR cycle, we very much had what we thought possible for the stress capital buffer proposal in our minds when we proposed and adopted our internal capital management planning, which ensures that we are dynamically managing capital moving it around on behalf of the clients to where the highest return opportunities are for our shareholders.

So, we have all of these things in mind when we gave those. So the short answer to your question is, yes, we have the resources and the plan to be well-capitalized and to serve the clients and to execute on the growth plan.

Michael Carrier

Okay. Thanks a lot.

Marty Chavez

Thank you.

Operator

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

Marty Chavez

Good morning, Matt.

Matt O'Connor

Good morning. I want to follow-up on the Investment Banking piece, stronger than what we are seeing at peers and especially in the DCM, debt capital markets area, you alluded to the share gains there apart from some of the build out in recent years. But just hoping you could elaborate a little bit maybe specifically this quarter what drove DCM and I guess a follow-up question while now it – you mentioned the pipelines is up versus year-end, and maybe give a little color in terms of which areas were stronger within the businesses? Thank you.

Marty Chavez

So, on debt underwriting, let's step back and look at how we got here to this near record quarter after a record quarter. It's a priority that we identified as strategic priority really almost ten years ago. And you are seeing the results of that and the consistent execution across weeks, months, quarters, years in building that business and there in that business, you saw in this quarter what is the key driver and the differentiator of the business compared to the debt underwriting businesses in the peer group, which is that we identified our core strengths which we all know in M&A and we built the debt underwriting business around that core strength.

And so, it's really M&A as the driver for demand for the issuance and you are seeing the results flow through into revenues. The strategy over this period and continuing to now has remained stable which is giving advice, giving our clients access to capital markets and then applying everything we know and do about risk management to this business and doing it all in the context of strong franchise.

In this quarter, acquisition finance activity drove nearly half of the revenues in debt underwriting. As for notable transactions, I am very pleased to say that we were a leader in CVS's $40 billion bond issuance to fund the acquisition of Aetna.

Bottom-line I would say, M&A is the driver of sequential improvement in the backlog and the results that you are seeing in the business.

Matt O'Connor

Okay. That's helpful. And then, just on the backlog of overall Investment Banking being up versus year-end, maybe some additional color in terms of what areas are stronger, what region, any additional thoughts you can provide there?

Marty Chavez

Sure. What's notable about banking dialogue is that it's global. It's happening in all the geographies and it's happening in all of the sectors. You can see from some of the announced M&A which sectors are really active, but it's really across the board. It's in healthcare, it's in natural resources, it's in media, very broad based.

Matt O'Connor

Okay. Thank you.

Operator

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

Mike Mayo

Hi. How much of the $5 billion in growth initiatives have you achieved?

Marty Chavez

I'm not going to give you the revenue number itself. It's early days. When we built the plan to get to $5 billion over three years, it's back-end loaded. Certainly not ratable over the twelve quarters and so we've built in a slope there. But what I will say in this early quarter, the second quarter after we laid out the growth plan, it's the revenue is tracking according to the internal goals that we set for ourselves.

Mike Mayo

Let me ask a different question. How much do you have in tech spending for 2018? And how does that compare to say, 2017 or 2016? I am not sure if you've disclosed that in the past.

Marty Chavez

We don't, Mike, break out our tech spending. What I would say about tech spending generally is – there is really two components of it, which of course people, that's the major component. And then also, all of the other platforms, cyber security and so on that go along with it, which we call the managed spend. In the growth initiatives, which we've highlighted, the seven growth initiatives whether it's the corporate derivative mandates, it's what we are doing to quantum systematic clients.

In Investment Banking, there is a lot going on there. For instance, automating the buildings of company models and doing merger math by pairs and doing that at scale across all possible pairs and identifying opportunities for our clients. Whether it's Investment Management components of the $1billion growth initiatives in Investment Management, about a third of it is in our Ayco Executive Counseling business, the digital platforms there in markets there.

The key has been all digital, no manual intervention, no spreadsheets in the workflows and that continues to be core to the philosophy there. So, when you look at all of those initiatives, you can see that they all have engineering and in engineering, we are going to be doing some capitalizing of the expenses as we build up these platforms.

Make sure that we build them without over-engineering them in a way that's shareable across businesses and geographies. And so, yes, the demand for more software, more math is up across the board and we are evaluating that carefully because it really has to all be in service of making ourselves more effective, more efficient and doing this with margin expansion which you are seeing continuing as we make these investments.

Mike Mayo

Last follow-up. The decision between buyer build and you certainly are investing and that's why I was asking those questions, but what about the trade-off with buying and your answer to a Glenn's question earlier, I thought was very comprehensive and I can't wait to get the transcript to keep that. But when I look at your list, consumer lending, commercial lending, cash management, thousand more companies with Investment Banking, at what point would you ever consider merging with a traditional commercial bank?

Marty Chavez

So, let me start up by talking at a related different buy versus build and then I'll get to the last part of your question. So, we had a long history at the firm and I was a part of that since I grew up in the engineering businesses as a quant and software person. We had a long tradition where we would say the only thing crazier than building all your own software is not building all of your own software.

And so, we did that for a very long time and we've built hundreds of millions of lines of custom software. Our own language, we wrote our own database. That was a part of that a long, long time ago. And that has served us very well. So that platform that we've been working on, we just actually celebrated the 25th anniversary of it a couple weeks ago.

The SecDB platform is now wall-to-wall across all of our businesses globally and voiced out there. One thing that we've been working on is extending it out to the clients and packaging it up in APIs and user experiences and making it directly available to clients. Along the way, we've evolved that strategy of building everything internally and the strategy has now become one which we describe as a waterfall and so the waterfall is download, builds, buy.

And so, there I would say, by download, we just mean, if it's open source so we can participate in open source. We start there. If that's not going to work for our growth plan, then we are going to think about building it. But if it's really not differentiated, if it already exists in a great form and you saw that was Clarity Money, then the example there will be to buy.

So, pretty different from the old approach. We look at all of these possibilities and are open minded there as you know pros and cons to all of that. I'd expect that we are highly likely to continue with bolt-on acquisitions we've found in our Marcus business, but in many other places, that's building it on our own allows us to deliver best-in-class experiences.

But even within those context, as you are seeing with Clarity Money, we develop the view that that it already existed in a great form and so acquiring it makes sense. And so we are evaluating all of these acquisitions including things that you described, we are open minded and it's all part of the consideration as we execute on the strategy.

Mike Mayo

Thank you.

Operator

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

Marty Chavez

Good morning, Betsy.

Betsy Graseck

Hi, good morning. How are you doing?

Marty Chavez

Very well. Thanks. How are you?

Betsy Graseck

Good. So I just wanted to drill in on a couple of things. One was on the growth and the impact on the buyback. So I understand the rational for turning up the buyback in second quarter. I am looking at the fact that your end of period assets grew about 6% Q-on-Q.

So, as I am modeling out what kind of growth rate you are likely to get in assets, is it like 1%, 2%, I can keep for $5 billion to $6 billion buyback, but if we are going to – if you are going to be able to continue to grow it like a 5%, 6% Q-on-Q, that's when the buyback gets shut off. Maybe you could help let me understand when to turn it on and off?

Marty Chavez

So, we called out the passing of the buyback in the second quarter. It's part of the plan that we submitted to the Federal Reserve for their approval and we'll hear, we'll hear from them in June on that. And our goal is always to operate from a position of strength by exceeding all the regulatory capital requirements and having the resources available to meet the client demand for our balance sheet.

And as we do that, we are looking at serving the clients and doing so in a way that generates attractive risk returns for our shareholders and when we – the approach is straightforward. When we see opportunities to deploy capital in that way to serve the clients, then we are going to do that and we would always prefer that when we see the returns there as well to buying back our shares above book value.

It's a high-class problem to have, this taking capital allocation and while it's important to have the excess capacity and that's why we highlighted that $5 billion to $6 billion expectation, if the demand from the clients continues to be strong, that is really the principal driver and when we see that demand and the opportunity to deploy capital with high ROEs that's what we are going to do.

Betsy Graseck

I probably get it growing the book for our clients is best use of capital. I am just wondering if there was a breakpoint with the 6% versus the 1% to 2% that we have seen over the past several quarters that's all.

Marty Chavez

Betsy, I wouldn't see it as a breakpoint. I would say, that's far from being a breakpoint and really it's dynamic as clients' demands for our balance sheet continues to be strong.

Betsy Graseck

Okay. And then just second question on the markets and the deposit gathering that you are doing. I know you called it out in the prepared remarks, could you just give us a sense as to how much funding you are expecting? You are going to be able to support with the market's deposit growth? In other words, maybe you could give us a sense as to what kind of inflows you are anticipating getting with the price points that you have and how much loan growth do you think that can support over the next couple of quarters?

Marty Chavez

On the loan growth, I gave you the figure which is that, as of the end of March, we are over $20 billion in retail deposits. That figure back at the acquisition was $9 billion and there was about a $3 billion increase in those retail deposits in the first quarter and there we continue to, of course, pay close attention to what the deposit rates available are and you can see from that evolution that we have rates that are in the sort of top bunch of the pack but not at the top.

And there is a philosophy is to continue to grow the deposits by offering a better product and a better service and we are certainly exploring all kinds of ways to grow that deposit base with different products and different geographies. And you can expect to see some of those play out in results in future quarters. Having said all that, our loan-to-deposit ratio is low. And so, we definitively have sufficient capacity to fund the loans our clients' demands for loans.

Betsy Graseck

Great, great. And then just lastly, due to the marketing expenses associated with the deposit program, I mean, are those relatively small? I mean, it's not going to be something that shows that the non-comp expense that I should model in that roughly it's in the runrate today and that is just been a question that I've gotten from some people, is the marketing going to show-up in any meaningful form?

Marty Chavez

So, Betsy, the marketing expenses as we build out the consumer business do as you say, show up in non-comp. And we broke out some of the drivers in the year-on-year increase and outlined $100 million of that year-on-year increase is related not only to building out the Marcus platform, the market development of it, but also relating to investing in our investment entities that are consolidated on the balance sheet and therefore their expenses will also show up in non-comps.

On the Marcus business, as we mentioned in the last call, we've integrated the deposit and lending activities under one brand and increasingly you are going to see all of the adjacencies in that one brand and brand consistency and user experience consistency across all of the offerings into the Marcus brand is an important priority.

So the market developments and expenses will all be well be integrated. The results that you've seen in the first quarter include all of the investment costs as we build out this business. That's all baked in and we are still a few years away from fully scaling that business.

Betsy Graseck

Okay, thanks a lot. Appreciated.

Operator

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

Marty Chavez

Hello, Brennan.

Brennan Hawken

Hey, good morning, Marty. Thanks for taking the question. Just, I'd apologize if you've touched on this, but could you talk about the trends we saw this quarter, there was a lot of volatility and significant change in how we started out the quarter, risk appetite, engagement, it seemed in the beginning, maybe first half of the quarter versus March.

Could you, did that have a noticeable impact on your revenue trends trading businesses? And how has the quarter – second quarter started? I know it's early days, but maybe any indication would be great. Thanks.

Marty Chavez

Well, Brennan, as we all know, it's in the nature of markets to fluctuate. Wouldn't every week and every month is different, certainly in February, we saw the notable spike in vol and in volatility and volatility or mix wall, that was easy to see on all of the screens. In terms of volatility, in other asset classes, well, it's up a little bit from very low levels.

What I will note is that we are definitely seeing a trend where there is more dispersion in the asset classes than we've seen before. So for instance, higher rates, but not generally playing through into a stronger dollar and increased activity and volatility in credit markets, not really necessarily showing up in a powerful or material way in the credit markets.

And so, those – that kind of dispersion has continued, but I wouldn't say that there is anything material that I call out to read through into the first couple weeks of April.

Brennan Hawken

Okay. Thanks for the color.

Marty Chavez

Sure.

Operator

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

Marty Chavez

Hello, Guy.

Guy Moszkowski

Good morning.

Marty Chavez

Good morning.

Guy Moszkowski

With revenue as strong as it was in the first quarter across so many businesses and you did talk about positive operating leverage on the non-comp expense side, but I was wondering why you didn't signal that positive operating leverage as well on the comp accrual rate?

Marty Chavez

The comp accrual rate is something that we evaluate under a large number of scenarios. For what the rest of the year could be, we also do a little bit of a backwards look as you would expect, but it's much more forward-looking.

And when we look at all of these different scenarios, 41% which is the same as where we had it in the first quarter of last year is our best estimate or where the comp ratio will be for the year, but of course as you know, extremely well that evolves as we work through the year.

Guy Moszkowski

Got it. And then, just noticing that, when you talked about fixed income, you talked about strength in credit in the year-over-year comparison anyway that I thought was in contrast as pretty much all of your peers that have reported to-date. I was wondering, is that strength that you saw on the credit side, just a base effect that you didn't have such a good execution in this quarter a year ago. Or was it more than you were just extra conservatively hedged or just something else?

Marty Chavez

It’s the year-on-year driver in global credit was increased client activity. So, that’s really the best way to see the improvements in the results. Part of it was the comparison as you mentioned. But really it’s improved client activity and also I would call out within that in structure trading, particularly notable contributor to the year-on-year increase.

Guy Moszkowski

Great. That’s helpful. Thanks. And then just one more quick one, which is also credit-related, but in a different way, in discussing Marcus, you did say that you were tracking your credit expectations. But I think that, a lot of the clients that I’ve spoken with were a little surprised in your 10-K when you noted the higher than expected percentage of assets which are – or clients which are essentially sub-prime at least according to the FICO definition.

And I was wondering if you could give us a little bit more color on what you are seeing in terms of delinquency, formation and alike in the Marcus portfolio?

Marty Chavez

In the charge-offs and AHFL build of the portfolio, it’s all proceeding according to expectations. I remember vividly that section in the K that you are talking about it to go back and look at it. And don’t – and we could certainly get back to you on that whether there is migration from where somewhere the loans were originated.

But I’ll ask Heather to get back to you on the detail of that. We give disclosures and indications of where we are, really what I would say is that, there has been no surprises in the evolution of that business at all and we are well aware of where we are in the credit cycle as we set those expectations and we monitor it closely.

I get reports every day and every week and we have a structure in that platform in that business where we can rapidly roll out revisions to the credit sandbox as conditions evolve.

Guy Moszkowski

Okay, great. Thanks for answering my questions.

Marty Chavez

Sure.

Operator

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

Kian Abouhossein

Yes, hi. Can you talk – you mentioned earlier competition, I think you said is continuing on the bid ask spread side and I am just wondering, there is a higher volatility which historically has correlated this higher bid ask spreads.

Do you still that correlation breaking down from what we used to pre-regulation I refer as you to the set platform on post-trade transparency? I.e., is there a change that higher volatility in any of you is not leading to the historic higher bid ask spread levels? And I base it a little bit on your comment, but if you can maybe elaborate.

Marty Chavez

Well, first I will say, there are higher levels of volatility. You can see it in our VaR and yet the main driver of the increase in VaR was not increase in volatility. It was actually increasing in client demand for our balance sheet. And certainly in the case of Equities, there was that pronounced vol spike that happened in February.

When I look at the other volatility measures, yes, they are up for sure. But really it’s, I would say a modest improvement in the market-making backdrop. It’s evolving up in dramatic way, that would have shown, that would have played through as a driver of our VaR. There is a connection, no doubt, between vol and bid offer.

But it isn’t linear and it doesn’t happen in tight synchrony and there are also all kinds of evolutions in the market in the way products are traded in the packaging of the products themselves. And that’s certainly an evolution as well. So, it would be too simple to say that there is just as tight co-efficient that relates VAR to bid ask. It’s really the result of a lot of drivers playing through together.

Kian Abouhossein

And then, in terms of the trends, when we look at FICC in the first quarter, we heard from some peers there has been a material drop-off and then the rates business in particular in March. And can you just – I assume, you are sort of seeing the same developments across the market and can you just comment why that is?

And it should lead you think about normal seasonality trends as we have seen in the past, the fixed income is just a straight declining line first and second quarter. Do you see that as a reasonable trend for the market?

Marty Chavez

Well, I would start by saying that in the months-to-months comparisons, there is not a lot of information content to get into our FICC businesses. They are a little bit more detailed. There is a better market-making backdrop increase VAR, higher volumes across many of the asset classes and importantly, the work that we are doing to improve broaden, strengthen, diversify our engagement with clients, who are our clients, as well as new clients in different segments.

And most of the businesses rose year-on-year, foreign exchange, certainly and that was the driver of – and emerging markets, strong performance in emerging markets was the driver. In rates, if we look at the sequential change in the rates business, it's definitely up sequentially as you know and there it was really client activity-driven and clients responding to Central Bank activity. In the year-on-year comparison, rates declined a bit but remained solid.

Kian Abouhossein

Thank you.

Marty Chavez

Sure.

Operator

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

Marty Chavez

Hello, James.

Jim Mitchell

Good morning. Hey, Marty. Maybe just a follow-up question on the Seb. Obviously, from the starting point to your stressed minimum, that's a bit of a challenge for you and your peers in the brokerage side. But, I think when you think about the stressed minimum, there is probably a pretty big assumption that's on the Fed on RWA inflation and we can't see that in the stress test because it just gives you a period end.

So is there any help you can give us on if they are assuming flat RWAs as they've indicated or other sort of impacts that could help offset the big drop distressed minimum from start?

Marty Chavez

Well, as you know, there is many changes in the CCAR framework that are outlined in the Fed's proposed rules from last week. And, certainly there is a lot of discussions with the Fed about the evolution of their scenarios over time. There is some important changes that they've made, not only in putting a little more detail on Governor to rule those discussions back couple of years ago on stress capital buffer.

But they've also been quite specific that they are changing their assumptions about capitalization or share repurchases and balance sheet growth as they are evolving the framework. And they have been – it's really clear in our discussions with the senior people at the Fed and the staff that they are open, they want to hear suggestions.

They actively want to make the framework more simple and more transparent. The transparency theme is one that they highlight at every opportunity. And so, there I will say that we've been working on this evolving rule sets going back to 2009, the proposed rulemaking is consistent with everything that we've been hearing from the Fed over a period of time.

No particular surprises and our model has been one where generally we have more sensitivity to some of the stress test than peers with a different mix and even in the phase of that over the cycle, we generally have ROEs at the top or near the top of the peer group. And so, the adjustments will continue. There will be new constraints. There will be evolutions.

There will be dynamic changes, hedges, various kinds that we can make in our business and we'll respond. And so, I would say, the work continues.

Jim Mitchell

Absolutely. I am just wondering if there is a way you could help us frame the size of the impact of their assumed increase in RWAs that your stressed – at your peak to help us kind of at least get close to what might – at least one offset that you are starting where you can frame that?

Marty Chavez

Yes. Actually, it's too early to tell that really we are seeing RWAs as flat in the stress scenario. And when we look at where our capital levels are, and what we think the notice of proposed rulemaking is likely to imply. We've got a plan and we highlighted what we thought what we think.

The share repurchases will be over the CCAR cycle in the context of that plan and how we see that the minima evolving. So, it all ties together. I don't think at this current state with one week into the period of commenting on the notice of proposed rulemaking. I am thinking, there is a lot more that one could say right at this time.

Jim Mitchell

Okay, fair enough. And just maybe a question on, there has been a lot of chatter on the overall being east, what's your sense of what that – how it's kind of impacted you and your peers in terms of constraining inventory? Do you think it's a big deal, little deal? How do you think, how do we think about the impact of potentially some little more leeway in terms of holding inventory? Is it a big positive, little positive?

Marty Chavez

The discussions and indications from the regulators are that, they are looking to simplify the compliance with the Volcker Rule. Various – including very senior people at the Fed have said that it's a rule with a relatively straightforward concept or intent, but and its current form, the compliance with it. The number of data points that one has to generate is quite complicated.

And they've indicated that it's more complicated that it needs to be to serve the purpose of the rule. So, when we are thinking about how the Volcker Rule might change, we don't know. We will read the proposed rulemaking if there is one, when it comes out. And we will respond to it as we always do. Our thought would be it's likely to considerably simplify the process of conformance with the rule.

As for our ability to serve our clients make markets for them have the right amount of inventory on the balance sheet and manage all of those risks, it's dynamic. This is something that's one of our core strengths. Putting it all into the analytics and coming up with a strategy to optimize and draw all those constraints. And we'll continue to do that.

Jim Mitchell

Okay, fair enough. Thanks.

Marty Chavez

Sure.

Operator

Your next question is from the line of Chris Kotowski with Oppenheimer & Company. Please go ahead.

Marty Chavez

Hello, Chris.

Chris Kotowski

In your discussion of INO, you flagged $550 million of net interest income and believe the year ago number was 243 in the fourth quarter is right around 400. So, I am curious, does that reflect some unusually good positioning opportunities in the first quarter? Or does that primarily reflect the underlying growth in the loan portfolio, so that we could multiply it by four and add a growth factor?

Marty Chavez

So, I am not sure if you call that the second quarter of last year or the fourth quarter of last year. My records in the fourth quarter NII was $500 million and now it's $554 million, just little north of $550 million and definitively, it is – think of it is recurring. It is related to expanding our lending activities and continuing to diversify the lending activities.

That's $554 million component of the $1 billion in the debt INO segment, that $550 million component is recurring. As for the balance of it, happy to give you a little bit more color on the balance of the revenues, $1 billion, minus the $554 million and it's a diversified portfolio. We've got a differentiated sourcing mechanism and in that business a very long history of strong risk adjusted returns.

And so the additional revenues beyond the recurring NII are mark-to-market gains, which were driven by underlying credit fundamentals, not just like credit spread widening that we saw in the quarter. Just underlying and fundamentals as well as specific events and there it would be important to note that it's diversified.

It reflects mark-to-market, company-specific events, credit fundamentals across more than a 100 loans and securities. And there was no single name that was a significant contributor in any way to the results.

Chris Kotowski

Okay. All right. So I was looking at note 25 in your Ks and Qs, but that's puts up net interest income and it doesn't quite match up to the numbers you gave. But I'll follow-up with Heather.

Marty Chavez

Okay, we'll be happy to follow-up. There is net interest income in the segment and then there is net interest income for the firm and that's likely the difference between the two. But Heather will follow-up with you.

Chris Kotowski

Yes, but I am right in thinking that there is – I guess, the thing that's interesting is always rapid growth off a small base.

Marty Chavez

That's the theme we've built in our lending books over the past several quarters from a very small base and that's the phenomenon that you are seeing is important to emphasize in that lending growth that is franchise adjacent lending growth. That's not lending in and of itself that's related to all of our other businesses.

Chris Kotowski

Okay. All right. Thank you. I'll follow-up.

Marty Chavez

Sure.

Operator

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

Marty Chavez

Hello, Steven.

Steven Chubak

Hey, good morning, Marty. So, wanted to just start-off with a question on the balance sheet growth. I was hoping you can give us some better insight just in terms of the specific drivers of the balance sheet expansion. I recognize it was a reflection of a pickup in client activity in the quarter? I just want to get a better sense as to what – given the uptick in VaR, as well as the sheer magnitude of balance sheet growth, why we didn't see a bigger increase in RWA?

Marty Chavez

So, the growth in the balance sheet generally, it's an increase in loans receivable and it's also in financial instruments owned to support Repo and our prime services business and so that's where you are seeing the balance sheet growth.

As for the risk-weighted assets, they were constantly working to optimize the risk-weighted assets, especially if you get into advanced risk-weighted assets, you are seeing some continuing roll-off in operational risk-weighted assets and then the results of a lot of work on efficiencies, of various kinds, netting opinions, compression and so on all playing through into reduction of the risk-weighted assets.

There – it would be lovely if there was just a direct and easy connection between balance sheet and risk-weighted assets, but there is portfolio effects and it isn't just a direct linear relationship.

Steven Chubak

I appreciate all the color there, Marty and I know it's a rather envelope question. So, appreciate the effort. I just have one follow-up on Marcus. I know you already gave a very comprehensive response to Glenn's earlier question discussing some of the various product launches.

I am just wondering as I think back to last year, when you initially highlighted the $1 billion revenue target and how much of those new launches that will be spin, cited in the – and you highlight on the call or initially contemplated as part of that target, or is there maybe upside that could actually be realized as you maybe pursue other potential avenues or product channels?

Marty Chavez

Steven, when we announced the growth initiatives, one thing that we said was really important to reiterate that is that, they were not intended to be the definitive all encompassing list of growth initiatives. They were a set of initiatives that we shared with the market to hold ourselves accountable and to drive and organize our activities.

But, again, not the comprehensive set and certainly when we first began the planning process that led to the launch of our Marcus business, we looked at well over a hundred opportunities in consumer finance. And there, we evaluated all of those opportunities through a set of different lenses. Did we see substantial pain points for clients and therefore the opportunity to deliver some value?

Did we see a way to leverage core strengths that we already have, but that's in engineering or risk management culture and processes? And did we see attractive shareholder returns? And as well, would it be possible to generate meaningful results for us without requiring a large market share in those businesses.

And so, we still refer back to that set, because it's quite comprehensive and the world changes and evolves and so, we are looking at a very large number of opportunities. And we will execute on some of them and the ones we execute on will check all the boxes that I just outlined. And the set is quite large. So we are evaluating credit cards as you've heard us say.

We are looking at wealth management. We are looking at retirement products. We are looking at personal finance and we are looking at the adjacencies in and among our various businesses as we build all these things out. And so, the short answer to your question is, the growth initiatives are the one we outlined and we are tracking them.

We are making progress on them. There is granular indicators that we look at every week and there is a lot of other activities that are also happening, that we haven't expressly highlighted for you in the form of the growth initiatives.

Steven Chubak

That's great, Marty. I appreciate the color. Thank you for taking my questions.

Marty Chavez

Sure.

Operator

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

Marty Chavez

Hello, Devin.

Devin Ryan

Hey, thanks. Good morning, Marty. Most of my questions have been asked here. And I just have a modeling question. So the $50 million this quarter relate to the revenue recognition accounting change, should think that's maybe a low number moving forward, just assuming revenues in areas like M&A advisory, move higher?

And then, just trying to connect that to any implications that could have on the comp ratios this year, obviously, which is going to be one more lever in addition to kind of the higher starting point on revenues in the first quarter to maybe help push that comp ratio lower. So we didn't see it in the accrual this quarter.

Just trying to kind of think about some of the moving parts here. I know, you are kind of taking a full year view and you'll maybe adjust it later depending on the backdrop. But I am just trying to get a sense if this is conservatism as we are all in the year and that maybe one more factor to kind of think about what should be also kind of be thinking about the growth investments as we are just thinking about all those moving parts here?

Marty Chavez

So, in that $50 million component of the $300 million year-on-year increase in non-comps, the $50 million that's related to the change in accounting standards. I would say there is just some very modest conservatism in there and I would call it $230 million effect once you analyze it. And so, of course, we take it into account in all the scenarios that I mentioned, when we set our estimate at 41% for the comp ratio, that's in there.

Ultimately, as we go through the year and the results become clear, and we look at non-compensation, compensation and operating expenses, both of them together as operating expenses, a super important consideration for us always is delivering operating leverage with revenues growing meaningfully more than expenses and therefore that's playing through to the bottom-line increasing even more than revenues.

That's all part of the mix of how we set the comp ratio. 41% is our best estimate. It includes all of these factors that we've outlined, but ultimately, it's an output, not an input.

Devin Ryan

Okay, got it. Fair enough. And then, maybe just, not to beat the dead horse here, but on Marcus appreciate, all the detail and kind of the tangent areas that are growing in terms of loan opportunities. But when we think about the $1 billion of – it sounds like loan growth within Marcus alone this quarter.

Is they are adding some of these additional capabilities, it would seem that that should accelerate here, because I know that there is $12 billion of balance sheet tied to Marcus in the growth plan. So I am assuming that potentially there is an opportunity to actually increase that, given they are already at $1 billion today. Is that reasonable?

Marty Chavez

Let's go back to one point. I think it could $1 billion loan growth in Marcus have actually in the quarter, it's $0.5 billion.

Devin Ryan

Okay, got it. Yes, I think you were at a little bit over $2 billion last quarter, so. Okay, missed it.

Marty Chavez

I am sorry. Could you then repeat the rest of your question please?

Devin Ryan

Yes, I guess, my – the premise of the question was that if you are in the ballpark of $1 billion already and we are still in early days, is there an opportunity to potentially accelerate off of that, so that would maybe put the $12 billion level within the growth target is maybe a bit low at this point?

Marty Chavez

So, in the Marcus business, as it's a new business for us, we are not in any hurry. We are not approving large numbers of applications. We could approve more, but we are choosing not to, because it's all part of this deliberate organic growth process. We are always thinking of where we are, maybe more accurately said where we might be in the credit cycle since there will be no announcements of the turn of the credit cycle or any harbingers of when it's going to turn.

Hence taking all those into account, we are going to proceed with this methodical growth always open to revisiting it, but right now, as we look at the $12 billion balance sheet on Marcus and we look at the revenue opportunity associated with our Marcus, which, just as a reminder is the entire Marcus business not just lending, but also deposits. That remains our growth target.

Devin Ryan

Yes, great. Thanks, Marty. Very helpful.

Marty Chavez

Sure.

Operator

Your next question is from the line of Gerard Cassidy with RBC. Please go ahead.

Marty Chavez

Hello, Gerard.

Gerard Cassidy

How are you, Marty? A question for you. On the mark-to-market accounting that we show this quarter in the equity portfolios, can you share with us was there a cumulative mark because of the change in accounting and will we see similar – I mean, based on volatility every quarter of course, is that a kind of normal mark or was there something that was built up from prior quarters that had to be recognized and the marks will actually be lower going forward?

Marty Chavez

I know, some of the peer groups mentioned one-off effects from accounting changes. That is definitely not the case for us. Everything in that portfolio is and has been fair valued. So there was no kind of accumulation.

Gerard Cassidy

Okay. And then, second, when you guys talked about your Equities trading business, Equities Client Execution was quite strong as you've indicated and I think you highlighted that the cash and derivatives area was particularly good.

Can you give us some color what was it within those categories that really drove it and then was it more long-only traditional accounts versus trading accounts? And then, geographically, was there any area where America is stronger than EMEA or Asia and so on?

Marty Chavez

Well, first to step back and the important context is that, the year-on-year growth in Equities Client Execution is driven by client activity. And I would – if it were possible to call out a specific area of outperformance, I'd currently would do that, but actually I'd prefer it like it is, which is that it's quite balanced across cash and derivatives and flow and structured and all the regions including prime.

It’s across the client segments of asset managers and corporations. The traditional clients, and newer clients, it was absolutely everything all of the parts of the business working together and really a good evidence that all of these businesses in this kind of environment all work together synergistically. So, it was across the board.

Gerard Cassidy

And being in across the board, would you say that – or I don't know if you could break it out this way, what percentage of it was really market-driven meaning that volatility you identified particularly in February versus your guys' efforts of working twice as hard to get more engagement? Can you break it out that way or is that not really that easy to do?

Marty Chavez

I wouldn’t break it out that way. I would go back to something that I touched on earlier, which is that even without the vol spike, it still would have been a strong quarter.

Gerard Cassidy

Great, thank you.

Marty Chavez

Thank you.

Operator

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

Marty Chavez

Since there are no more questions, I’d 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 don’t hesitate to reach out to Heather. Otherwise, enjoy the rest of your day. And we look forward to speaking with you on our second quarter call in July. Thank you.