Company Name: JPMorgan
Company Ticker: JPM US
Date: 2017-04-13
Event Description: Q1 2017 Earnings Call

Market Cap: 305,442.15
Current PX: 85.85
YTD Change($): -.44
YTD Change(%): -.510

Bloomberg Estimates - EPS
Current Quarter: 1.653
Current Year: 6.660
Bloomberg Estimates - Sales
Current Quarter: 25714.400
Current Year: 103016.500

Q1 2017 Earnings Call

Company Participants

- Marianne Lake
- Jamie Dimon

Other Participants

- John McDonald
- Glenn Schorr
- Gerard Cassidy
- Betsy Graseck
- Jim Mitchell
- Ken Usdin
- Marty Mosby
- Erika P. Najarian
- Matt O'Connor
- Eric Wasserstrom
- Matt Burnell

MANAGEMENT DISCUSSION SECTION

Marianne Lake

Financial Highlights

EPS and Revenue

- Starting on page 1, we're off to a good start this year, with net income of $6.4B, EPS of $1.65, and a return on tangible common equity of 13%, on revenue of $25.6B, with the continuing momentum from last year, driving strong performance across all of our businesses
- Highlights for the quarter include:
  - Average core loan growth of 9% year-on-year, reflecting broad strength across products
  - Continued double-digit consumer deposit growth
  - Strong Card sales, up 15%, and merchant volume, up 11%

Net Income and IB Fees

- In addition, we achieved a number of records across our businesses, most notably:
  - Net income and IB fees for a first quarter in the CIB, net income and revenue for the Commercial Bank
  - And assets under management and banking balances in Asset & Wealth Management

Credit Environment

- Overall, the credit environment remains benign
- In Consumer, there were no reserve actions taken across our core portfolios, while in Wholesale, we had a net reserve release of about $90mm driven by Energy, resulting in net releases in both the CIB and the Commercial Bank
- We see no significant items here on the page, but there are a few notable items in our results that I'll highlight here for you

Tax Benefit

- The first is a tax benefit of a bit less than $400mm and the benefit relates to the difference in stock price between vesting date and grant date for our employee equity awards
- And while such an adjustment is business as usual, the recent appreciation in our stock price has caused the benefit to be outsized this quarter, with the largest impact accruing to the CIB and to a lesser extent Asset & Wealth Management

Student Loan Portfolio

- Second is a write-down of our Student loan portfolio of approximately $160mm after-tax, as we moved these loans to held-for-sale and explore alternatives to that portfolio
- And last is firmwide legal expense of around $140mm after-tax, relating to a number of matters across businesses, some positive, some negative, and with the most significant impact being in the AWM business

Net Interest Income and Noninterest Revenue

- Moving on to page 2 and some more detail about Q1
- Revenue of $25.6B was up $1.5B, or 6% year-on-year, with the increase evenly split between net interest income and noninterest revenue
- NII reflected the impact of higher rates and continued growth, and NIR reflected higher CIB revenues, partially offset by Card acquisition costs and lower MSR risk management

Adjusted Expense

- Adjusted expense of $14.8B was up 7% year-on-year, mainly driven by higher compensation on increased revenue and higher Auto lease depreciation
- In addition, the combination of the impact of the FDIC surcharge, as well as our Foundation contribution this quarter, accounted for nearly $200mm of the year-on-year expense change
- Adjusted for the Student lending write-down I just mentioned, credit costs of $1.1B would be down approximately $700mm year-on-year, as higher charge-offs in Cards were offset by a Wholesale net reserve release this quarter vs. a sizable build in the prior year

Balance Sheet and Capital

- Switching to balance sheet and capital on page 3

- We ended the quarter with both Standardized and Advanced Fully Phased-in CET1 of 12.4%, in line with our expectations, and overall driven by net capital generation
  - We continue to manage our balance sheet with discipline
- Total assets returned to above $2.5 trillion, reflecting the continuation of strong deposit growth, as well as our trading balances normalizing from very low levels at the end of the year

Liquidity Perspective

- From a liquidity perspective, HQLA was flat to year-end and the firm remains compliant with all liquidity requirements
- We continue to grow tangible book value per share, while returning $4.6B of net capital to shareholders in Q1, which included $2.8B of net repurchases and common dividends of $0.50 per share
- And this $4.6B compared to $3.8B returned last quarter
- As you know, we recently submitted the 2017 CCAR Capital Plan to the Federal Reserve and, as you would expect, we have no feedback to give you for now

Consumer & Community Bank

- Moving on to page 4 and the Consumer & Community Bank
- CCB generated $2B of net income and an ROE of 15%
- Core loans were up 11%, with strength across products
- Mortgage was up 15%, Card up 9%, Business Banking up 9%, and Auto loans and leases up 12%
- Deposit growth continued to outperform the industry, up 11%, with about half of deposit growth from existing customers as we continued to deepen relationships
- We continued to see very strong growth metrics in Card for the quarter, with sales up 15% and new account originations up 9%
- Merchant processing volumes were up 11% year-on-year and active mobile customers up 14%

Revenue

- Revenue of $11B was down modestly
- Consumer & Business Banking revenue was up 8% on strong deposit growth, and we are starting to see the long-awaited improvement in deposit margins
- Mortgage revenue was down 18%, driven by lower net servicing revenue, reflecting lower MSR risk management, as well as portfolio run-off
- And Card, Commerce Solutions & Auto revenue was down 3%, driven by continued investment in Card new account acquisitions that will provide long-term value, which was predominantly offset by net interest income on higher loan balances, as well as higher Auto lease income
- Expense of $6.4B was up 5% year-on-year on Auto lease depreciation and continued business growth

Credit Trends

- Finally, the credit trend in our core portfolio remain favorable
- Net charge-offs increased year-on-year, primarily driven by $470mm write-down of our Student loan portfolio, against which we released $250mm of reserves
- And Card charge-offs were up in line with expectations and in line with guidance

Mortgage and Auto Credit

- Moving to Mortgage and Auto credit, our portfolios continue to perform very well
- Now turning to page 5 and the Corporate & Investment Bank
- CIB delivered a strong result, with the reported ROE of 18% and net income of $3.2B, but remember, a significant portion of the tax benefit on the stock update is reflected in these results
- Revenue of $9.5B was up 17% year-on-year, and IB fees of $1.8B were up 37%, partly due to a weak first quarter last year, but also given strong absolute performance this year

Banking

- In Banking, IB revenue was up 34%, driven by higher overall issuance, especially in ECM, including a strong IPO market
- And remember, Q1 2016 was particularly strong in M&A and weak in DCM for us, and this quarter share normalized
- Overall, we gained share and ranked number one in global IB fees, and number one in North America and EMEA
- Looking forward, sentiment is positive, the market remains broadly constructive, and across products we expect decent deal flow and the pipelines are healthy

Treasury Services

- Treasury Services revenue of $981mm was up 11% year-on-year, driven by higher rates and operating deposit growth
- Lending revenue was $389mm, was up 29% year-on-year, on higher gains from securities received from restructurings

Markets & Investor Services

- Moving on to Markets & Investor Services, Markets revenue of $5.8B was up 13%
- At Investor Day, the market was characterized by low volatility and subdued client activity, leading us to be somewhat cautious
- March ended up being stronger than expected, reflecting some recovery in volatility, but also clients responding more to market themes, including European elections and, to a lesser degree, a stronger U.S. rates outlook

Fixed Income Revenue

- Fixed Income revenue was up 17%, with Credit and Securitized Products as key drivers, on stronger client activity and significant spread tightening broadly

- Rates was also solidly up, as the market reacted to central bank actions and we saw a pickup of flows in EMEA
- We had a decent quarter in Equity, with revenue up 2% year-on-year in somewhat quite markets broadly, with Corporate Derivatives and Prime being brighter spots
  - Securities Services revenue was $916mm, in line with guidance
- And finally, expense of $5.1B was up 7%, driven by higher performance-based compensation, and the comp-to-revenue ratio for the quarter was 29%

Commercial Banking

- Moving on to page 6 and Commercial Banking
- Another excellent quarter in Commercial Banking, with a 15% ROE
- Revenue grew 12% year-on-year due to higher deposit NII and continued loan growth, as well as on strong IB revenues, up 34%, making this the third consecutive quarter of IB revenues of over $600mm
- Expense of $825mm was impacted by $29mm impairment on leased assets
- Excluding this, we saw expense increase slightly above guidance as we made great progress on the pace of investments, which will continue to drive strong top line growth

Underlying Expense Trends

- Looking forward, we expect our underlying expense trends to be relatively flat
- Loan balances of $191B were up 12% over the prior year
- Consistent with the industry broadly, we have seen a slowdown in C&I growth, with our loan balances remaining relatively flat sequentially, although up 8% year-on-year
  - There are a number of factors likely contributing, including potential noise in the data from large acquisitions in prior periods and a resurgence in capital markets activity, particularly in DCM including high yield
- So not to dismiss the importance of the trend, we do need to weigh all the facts, and against that, other macro indicators remain supportive of the economy broadly, including CapEx data and surveys, as well as very high levels of business optimism, all of which should be supportive of solid demand for credit over time

Commercial Real Estate

- In Commercial Real Estate, we saw sequential growth of 3%, slightly ahead of the industry, but below the pace of prior quarters, impacted both by higher rates, as well as a prudent approach to new originations, given where we are in the cycle and maintaining discipline on risk-adjusted returns
- Credit performance remained strong, with a net recovery of 2BPS, reflecting continued stability in both our C&I and CRE portfolios, and overall a net release of loan loss reserves driven by energy

Asset & Wealth Management

- Leaving the Commercial Bank and moving onto Asset & Wealth Management on page 7
- Asset & Wealth Management reported net income of $385mm, with a pre-tax margin and ROE each of 16%

- Revenue of $3.1B was up 4% year-on-year, driven primarily by higher market levels and strong banking results, on higher deposit NII
- Recall that last year's first quarter included a one-time $150mm gain on the sale of an asset

Core Business Results

- Expense of $2.6B was up 24% year-on-year, predominantly driven by higher legal expense
- I want to emphasize that the underlying core business results remained very strong
- In fact, in line with the strongest performance of the business ever
  - This quarter we saw net long-term inflows of $8B, with strength in fixed income and multi-assets being partially offset by outflows in equity
- Assets under management of $1.8 trillion and overall client assets of $2.5 trillion were both up 10% year-on-year, reflecting higher market levels and net inflows into both liquidity and long-term products
- Finally, banking balances continue to be strong, with loan and deposit up 7% and 5%, respectively

Corporate

- Moving onto page 8 and Corporate
- Corporate generated $35mm of net income for the quarter
- Treasury and CIO's results improved, in part reflecting the benefit of higher rates, and Other Corporate benefited from the release of certain legal reserves

Outlook

NII

- Finally, turning to page 9 and the outlook
- With the addition of the March rate hike, we've updated our NII scenarios as follows
- Rates flat from here for the full year NII would be up around $4B
- Based on the implied, NII would be up by around $4.5B, and of course, the Fed dots would imply the possibility of three rate hikes this year, which is not fully priced in
- So expect second quarter NII to be up sequentially, approximately $400mm, consistent with what we saw this quarter

Summary

To wrap up, these results reflect strength broadly across our businesses

We remain well-positioned to benefit from client flows and a healthy economy as we serve our clients and communities, and we look forward to continuing to grow our business

QUESTION AND ANSWER SECTION

<Q - John McDonald>: I just had a question about any early signs of deposit beta and elasticity. I guess, on the Consumer side in your Retail Banking area, are you seeing customers increasingly ask for higher rates in their deposit accounts, or any activity where they're moving from kind of checking to savings and kind of early signs of pressure on deposit pricing?

<A - Marianne Lake>: So in the retail space, the answer is no, not really. And to be completely honest, we've been pretty consistent that we would not really have expected there to be much in terms of deposit reprice, at absolute level of rates that are still quite low. And so with IOER at 100BPS, we're still in that sort of realm of the atmosphere. And so we would expect that to start happening a couple rate hikes from here maybe. We'll have to wait and see. We've, obviously, never really been through exactly this before. On the other side of the equation in the Wholesale space, we are in the process of seeing reprice happen.

<Q - John McDonald>: Got it. Okay. And in terms of customers, they're not really asking yet or behaving in a way that they're looking price-sensitive, you're not seeing any early signs of it yet?

<A - Marianne Lake>: No.

<Q - Glenn Schorr>: I wanted to maybe get out in front of what could be some brewing issues in retail land. And the perspective I'm looking for is, you have plenty of gross exposure to retail and retail-related; however, there seems to be plenty of collateral and you're typically at the top of the capital structure too. So can you talk about both direct exposure in some of the problem retail areas and the related exposure in like Commercial Real Estate on the mall side?

<A - Marianne Lake>: Yeah. So I don't have all those numbers directly in front of me. I know that in the Commercial Bank, our exposure to malls is really pretty modest. It's roundabout sort of $3B in the Commercial Real Estate space. And I will tell you that while there, obviously, is a lot of discussion around retail and – with some merit, it's very case-by-case, location-by-location specific. And I kind of liken the discussions a lot to discussions we have around our bricks-and-mortar banking businesses, which is consumer – the way consumers engage with – retail is changing, it doesn't mean they will stop engaging with retailers. And so it will be very specific with respect to location and tenants, and it doesn't necessarily mean that retail is going to be in as much potential trouble as I think people are talking about. So we remain cautiously watching it, but also cautiously optimistic, but it's not – it's a bit overblown.

<A - Jamie Dimon>: And you should assume that we've looked at not just direct retailer or retailer related real estate, and all the vendors who potentially are any sort of retailers.

<A - Marianne Lake>: Correct.

<A - Jamie Dimon>: And when you put it all together, it's a little bit like there'll be something there, but it's nothing that will be dramatically happening.

<A - Marianne Lake>: Yes.

<Q - Glenn Schorr>: Is the main reason your position in the stack – meaning, I notice you have a lot of collateral against your exposure, and like I said you tend to be at the top of the stack. Is that the main issue? Like, I remember doing this with you guys two years ago in oil, while oil was dropping, and it turned out you barely came out with a few cuts and bruises. There seems to be more collateral here, but I don't want to put words in your mouth.

<A - Jamie Dimon>: Are you talking about real estate related to retail or are you talking about retailers?

<Q - Glenn Schorr>: I am talking both, because you do have hundreds of billions of direct retail exposure plus the Commercial Real Estate exposed to it. I'm just thinking if...

<A - Jamie Dimon>: No, no, you're way out of line. I mean, direct retail exposure, we're very careful. The retail business has always been violent and volatile. You can look back through our history and half of them are gone after 10 years. That is a normal course. So we're usually senior. We're very careful with stuff like that. And then you go to real estate, okay, most of our real estate has nothing to do with retail. So we do have some shopping centers and malls and buildings and stuff like that, but those are generally high on the stack, well secured, not relying on single retailers, et cetera.

<Q - Glenn Schorr>: Okay. I was just looking at taking a temperature.

<A - Jamie Dimon>: It will be like Oil & Gas for us. It won't be a big deal.

<Q - Gerard Cassidy>: Can you give us some color on the credit card area in terms of, I know you upped your credit card losses earlier in the year in Investor Day and in the fall of last year. What's your guys' outlook for the credit losses in the credit card portfolio? Where would you tolerate it to and at what point do you really change the underwriting standards if you need to?

<A - Marianne Lake>: Yeah. So, look, I know that – so one of the things that we want to remind everybody before we talk about the trend is that the credit card losses are still at absolutely very, very low levels. And notwithstanding whatever we would have done or have done or continue to do with our credit box, we would ultimately have expected them to normalize to higher rates, regardless. So...

<Q - Gerard Cassidy>: Agreed.

<A - Marianne Lake>: So – and then, obviously, Q1 hasn't been [indiscernible] (21:46).

<A - Jamie Dimon>: Probably just the previous cycle stuff.

<A - Marianne Lake>: Yes, exactly. And, obviously, first quarter has some seasonality. So I would just start by saying that the charge-off rates you're seeing are completely in line with our expectations and guidance that we gave you at Investor Day, both in terms of 2017 being below 3% and over the medium-term being between 3% and 3.25% for all the reasons that we articulated, a combination of targeted credit expansions that took place over the last couple of years and the performance of those newer vintages is in line with our expectations and with high risk-adjusted margins.

So it's not really about tolerating the charge-offs as long as we're getting paid properly for the risk, which is the case. And, obviously, as we see those charge-off rates both normalize and reflect those newer vintages, they will go up modestly over time. And we expanded our credit in a targeted way, but it wasn't a significant expansion. And we will respond in our credit and risk appetite to whatever we're seeing in the environment, but it won't necessary be dictated by charge-off rates, as long as it makes sense vs. the risk.

<Q - Gerard Cassidy>: Very good. Got you. And as a follow-up, obviously, you had very strong Investment Banking on the FICC trading side, very strong Capital Markets numbers. Are you guys seeing further evidence of taking more market share from your competitors in any of the product lines, whether it's Investment Banking or FICC trading or Equity trading, et cetera?

<A - Marianne Lake>: So I would say if you look back over 2016, and even 2015 and 2016, it's true and clear that we've gained share not just in Fixed Income – reasonable share not just in Fixed Income, but also in Equities and our business performed well last year. And I would suggest to you that we will defend that share, but the competition is back and healthy and you can't expect us to continue to gain share at those kind of levels. We want to defend it, but it's a healthy competitive market right now. So I would say, not really.

<Q - Betsy Graseck>: A couple of questions. One on Card. How large are you willing to be in Card? I think on various metrics you're between 15% and 22%, depending on if you're looking at things like merchant acquiring or the balances in Card in general as a percentage of total outstandings in the country.

<A - Jamie Dimon>: We have a ways to go before we're concerned.

<A - Marianne Lake>: But it's also...

<Q - Betsy Graseck>: Just asking because in the last cycle you were really nimble and do you still feel that you can be nimble at this market share.

<A - Jamie Dimon>: For merchant processing, there's a lot of share you can gain.

<A - Marianne Lake>: Yeah.

<A - Jamie Dimon>: And that is not even close, because of products and services and changing technology. And I think we're way away in credit card for you to say, well, that's too big for JPMorgan Chase. There is a point where it's going to be a good question, but it's not even remotely close at this point.

<A - Marianne Lake>: And I would also say that Card continues to be a fiercely competitive space, so we will continue to try and provide our customers with significant values and have deep engaged relationships. But I don't think you're going to see material dips in share in the short term.

<A - Jamie Dimon>: And we also look strategically at credit card, debit card, online bill pay, P2P – it's all one big thing to do a great job for the clients.

<Q - Betsy Graseck>: And then when you're thinking about the credit box, I know a while back you mentioned, okay, we widened the box to 680. Is there any interest in widening it further?

<A - Marianne Lake>: Not specifically at this point. I think we're very happy with the performance of the portfolio with the growth rates we're getting. You saw that our core Card loans were up 9% year-on-year, and we're getting a lot of NII benefit from that. So I think we feel pretty well-positioned, at this point.

<Q - Betsy Graseck>: So loan growth should probably stay in line with where it is or slow down, is that how we should be thinking about it?

<A - Marianne Lake>: Yeah, I would say loan growth should be in the mid to higher single digits.

<Q - Jim Mitchell>: I'm going to follow-up on the NII question. I think your implied guidance of $4.5B higher than 2016 is now over $500mm from where you were at the Investor Day. Is that the lower deposit beta experience? What's driving, I guess, the modest increase?

And then just as a follow-up on that, in terms of if we do the implied curve, I think there is about one more rate hike in June. If we were to get another one, realize the dot plot too and get another one in September, would that be a material increase in that expectation or just incremental, or just how do we think about that?

<A - Marianne Lake>: So, look, I would – obviously, when we give you guidance, we give you sort of reasonably rounded numbers. So actually the impact of current implied is a bit more than $500mm more than it was at Investor Day. But in the law of big numbers, that's a pretty reasonable amount. Yes, there is an element, of course, as we talked about in the Wholesale space, where we are seeing reprice happen and it does reflect our estimates of what we expect to see over the course of the year in cumulative deposit betas.

And with respect to if there was – and you know that the implied curve has priced in one and a half more hikes. So it's – obviously, March is earlier, so longer there's a little bit more rate benefit, but it's sort of in line with our expectations. And if we had another rate hike, it would likely be later in the year and ultimately have a relatively modest impact on this year, but obviously be important going forward.

<Q - Jim Mitchell>: Okay. So anything in September would be sort of incremental.

<A - Jamie Dimon>: You should be able to extrapolate those numbers on your own.

<A - Marianne Lake>: Yeah.

<Q - Ken Usdin>: Marianne, you noted the obvious slowdown we've seen in C&I and, Jamie, in the press release you talk about the consumers and businesses being healthy and the pro-growth initiatives. Since the Analyst Day, we obviously had Obamacare not go through, and then there's been some doubts on tax reform. So just wondering, can you help us understand just where you're seeing that slowdown in C&I. Where are we in terms of that confidence turning into real results? And how much is just the wait-and-see vs. where the economy actually is?

<A - Marianne Lake>: So – and I think it's important to put slowdown into context. So we did have 8% growth year-on-year in C&I. We're just saying sequentially things are a bit quieter, and there's a whole bunch of reasons that could be driving that. And importantly, you mentioned it, when we're in dialogue with our clients, they are optimistic and they are thinking about growing their businesses and hiring, and all of those things are true. And so putting aside those that have access to capital market for a variety of reasons in lieu of bank loans, it's completely understandable that optimism would lead actions. And so as to what that lag will look like, we'll all wait and see, but fundamentally a pro-growth series of policies will be constructive to the economy, to our clients, and ultimately will end up in them hiring, spending, and they already are, and we'll see that translate into loan growth. Whether that's in H2 this year, we'll see.

<A - Jamie Dimon>: I would just add that, I wouldn't overreact to the short-term thing about loan growth, because there's so many things that affect it. As you go through the episodic part, in the CIB I wouldn't look at loan growth at all, because companies have a choice of doing loans and deals or bonds, something like that. Credit card looks okay. Mortgage is, obviously, affected by interest rates. Auto is, obviously, affected by auto sales, and Middle Market was okay. It was slow, but it was okay. So I wouldn't overreact to that.

And the second thing is, you should – you all should expect, as a given, that when you have a new President and they get going, the nine months after the 100 days is going to be a sausage making period. There will be ups and downs, wins and losses, stuff like that – okay. But it is a pro-growth agenda, tax, infrastructure, regulatory reform, and that is a good thing, all things being equal, and we think if that took place, it would help all Americans. To – not to expect it to be smooth sailing, that would just be silly.

<Q - Ken Usdin>: Yeah, fair points. Fair points. And just one quick follow-up just then on the dealmaking side. M&A has slowed a little bit, but I'm assuming it's the same point, Jamie, just in terms of – just pipelines and expectations that corporates have about transacting. Does that fit into that same vein, or is there anything different in terms of just companies getting – strategics getting more aggressive in terms of acquiring and adding to their businesses?

<A - Jamie Dimon>: It looks fine, and of course, it's episodic.

<A - Marianne Lake>: Yes. And I would also say that, while of course people's dialogue include a degree of discussion around regulatory reform and tax reform and the like, it isn't stopping the strategic dialogue and it isn't stopping people or boards from considering strategic deals, partly because of what you said. Partly because there is a recognition that these things will take some time to ultimately get finalized, and that they don't want to put their strategic agenda on hold. So in some ways you get both sides of the equation. People aren't going to wait indefinitely to get certainty on issues when there are good, strategic deals that can be done, and that's part of the dialogue. We're not saying it has no impact, but it's still quite healthy.

<Q - Marty Mosby>: I wanted to focus on deposit pricing in a sense that before the Fed started moving up, deposit rates and the Fed funds rate were right on top of each other, around 15BPS. Now the effective Fed funds rate is around 90BPS and deposit costs are only 20. So that 70BPS on your $1 trillion of deposits basically gives you about $7B worth of incremental revenue that's needed to cover the cost of branches and other things for those deposit franchise. At what point do you hit a targeted kind of spread? And where is that, where you begin to at least break even on those costs vs. revenues?

<A - Jamie Dimon>: I can just answer that. Marianne's given you guys some very specific guides on interest rates. When interest rates got to zero, remember that when it's floored, those – no one expected for the first 25 or 50BPS necessarily to be paid out because of the cost. Marianne also gave you at Investor Day a very forward-looking view of that where it kind of normalizes – okay. And it's different for every different type of deposit, so Wholesale deposits, Commercial Credit deposits, Custody deposits, Treasuries deposits, I mean, they're all different. So it's hard to summarize it all, but at one point you're going to go back to kind of a normalized spread, and in terms of just retail I would say that that's like 3%.

<A - Marianne Lake>: Maybe a little less.

<A - Jamie Dimon>: Maybe a little less.

<A - Marianne Lake>: And I would also just say, I am glad that you brought up one point, because it's something that I like – a point that I'd like to make, which is when people think about the benefit we get from NII on rising rates, there's an element of people making it sound very passive. Yes, you're correct. We did build those branches. We acquired those customers. We built the products. We invested in the customer service to be able to enjoy the industry-leading deposit growth that we're having, but I would also make – and so as the margins improve, then we will, obviously, enjoy the benefit of that. And to your point, we invested to be able to. But I will say that if you – we look at the performance of our branches every single week, month, individually, put together by market, and the very, very, very, very, very vast majority of them, meaning that only a handful do not, are profitable in their own right today at these spreads on a marginal basis. So the branches are doing very well.

<A - Jamie Dimon>: And another number we give you, you should look at, we give you what we expect normalized margins and normalized returns to be in Consumer, Card, all these businesses. Those numbers include normalized Credit Card charge-offs, like the Credit Card, the number we now use is 4.25%.

<A - Marianne Lake>: Yes.

<A - Jamie Dimon>: Something like that. And in retail, going back to normal spreads. That's what those numbers include. And, of course, it all bounces around. We kind of look at them to be priced for normalized results. We don't price for over-earning or under-earning, and have too much credit, too little. And that's kind of how we run the business.

<Q - Marty Mosby>: A follow-up to that is – really what I'm getting at is last year everybody was assuming through the cycle kind of betas and we were saying that they were going to be much lower early on. We do think once you get to a certain target, usually about 100BPS of spread, you start to see a little bit more pricing pressure starting to kick in, just like you were saying, Jamie, in a sense that different products have different [indiscernible] (35:19)

<A - Jamie Dimon>: We built that into every number we've given you. We've always told you about the beta and gamma.

<A - Marianne Lake>: I can point you to a presentation in May of 2014, where we showed exactly what we expected the complexity of deposit reprice to look like based upon historical moves. So what we have actually seen to-date looks incredibly similar in terms of realized reprices. You're actually right. I will tell you, though, that history may not be a precise predictor of the future, because we've never really been in this exact position before, and other things play into the equation, including the fact that the industry, but us specifically, have significantly invested in other customer service products, items like digital and the like, which will change the dynamic one way or another on reprice. So you're right, historically, 100, 150BPS you start to see some movement, we'll see.

<Q - Marty Mosby>: And the last component of this is the balances continue to grow. So as long as we're seeing double-digit kind of sequential annualized and y-over-y growth in deposits, that provides a little bit cover in the sense of what you're talking about as well. We may see a little bit more lag just because we're still continuing to get deposit growth.

<A - Jamie Dimon>: Yes, but I feel a little cautious there too. We feel great about the deposit growth and the account growth. So you have new accounts – we're growing and existing accounts are growing. Remember, there you also – the history, you've got to be very careful because if rates were higher, people do different things with their money, like CDs. And then how they view the stock market, that money, some of that potential is in the market. So we're always conscious of the fact that those flows kind of ebb and flow, and history is only somewhat of a guide to that.

<Q - Erika P. Najarian>: I had a few questions on deregulation. Jamie, in your shareholder letter, you dedicated a lot of time on mortgage and opening that up for banks to originate more of the percentage of mortgage in the United States. As we look forward, do we need legislative change for the banks to gain more market share from non-banks in mortgage, like Clarity in QM or the CFPB, or would a change in supervisory attitudes be enough for that to shift on the mortgage side?

<A - Jamie Dimon>: So I picked that category out precisely because it didn't take legislation and it was very important, and my point isn't about banks vs. non-banks. My point is about the United States of America and what these things did to the availability of credit to certain classes of people. I was very specific. We actually published a research report in the mortgage land, which you can go get, by Mr. Jozoff that really breaks it out. But because of the cost of servicing delinquent accounts $2,000 a year, because of the additional cost of origination, because of the potential litigation, because of the lack of clarity around QM, because of the False Claims Act, that the consumer is both paying more and the credit box is wider than the other might be. And that we actually believe that credit box is hurting first-time buyers, younger, self-employed, prior defaults. Someone who when defaulted in the past deserves – we always say deserves a second chance.

So that policy has restricted that. And the shocking thing to me is the absolute size of that, which we think could be $300B to $500B a year. That one thing alone could have added – because of the secular stagnation, could have added 0.3% or 0.4% a year to growth. So if you changed it five years ago, you're talking about a lot of growth, a lot of jobs, a lot of new homes. A lot of young families into homes and a very positive thing – without taking a lot of extra credit risk. And it was about America – I could care less if the banks or the non-banks do it. My point about that was how it's hurting growth of America and hurting that class of citizens. And I really think some of you should be writing about that more, because that's how important it is. And that was one example.

<Q - Erika P. Najarian>: That's clear. Thank you. And the follow-up to that is a couple – a week ago or so, there was a lot of talk from Washington about the current administration potentially supporting Glass-Steagall. And, of course, a lot of your investors called in concerned. And, Jamie and Marianne, two-part question. Wondering if that's a real worry for JPMorgan shareholders. And second, Marianne, maybe in an Investor Day two years ago, you mentioned that the capital and the cost that a breakup would save was not that much. And I'm wondering if you could also – if you remember, refresh us on that analysis.

<A - Marianne Lake>: Okay. So I would just start by saying, we've been consistent that our operating model, including the diversification of our businesses has been and was a source of strength not just for us, but also for the financial markets during the crisis. And there is strength in the way the company operates that can't be discounted. I would also say that, the commentary feels unnecessary, given where the industry stands on capital, liquidity and regulatory reform broadly.

And I would just point, as I'm sure you've all read, to most recently Governor Tarullo making comments about this, but historically other thought leaders in the financial stability space talking about it. And I would further say that it doesn't feel, for reasons that you just articulated in terms of structural reform or structural change in the model of banks, so that would be consistent with a level playing field and pro-growth agenda in the U.S. So that's kind of how we feel about it. I can't give you specific reasons to not continue to monitor the situation, but it doesn't feel consistent with the rest of the objectives of the administration.

And with respect to Investor Day a couple of years ago, lots of things have fundamentally changed since then, but the ultimate conclusion hasn't, which is that we believe that there is significantly more value for our shareholders and [furthermore] for the economy with this company the way it is today than in some other forms.

<Q - Matt O'Connor>: We've, obviously, seen quite a bit of flattening of the yield curve, and it could reverse pretty quickly if there is progress made on the pro-growth agenda. But just talk about at what point does the flatter yield curve start to impact NIM. And I guess I'm thinking specifically if we get a couple more hikes on the short end, but the long end either doesn't move or the long end comes down more, how do we think about the breakpoint in terms of NIM benefit in the short end being offset by the flatter yield curve?

<A - Marianne Lake>: Look, I was just – first we all, we don't overthink the shape of the curve or the process of normalization in any one period. We think about the reason for the actions and ultimately as long as the economy is growing, you'll see both of the front and the long end of rates ultimately go up. And even though I know that spread is lower and we've broken down – broken below a little bit of the lower bound, it's been in the kind of 2.30%, 2.60% range for a while, so we're still within – largely speaking, within the range. And our central case is that we're going to see the 10-year higher by the end of the year. And if you look at our Earnings at Risk disclosures, we're much more sensitive to – as a pure NII NIM matter to the front end of rates. And so not to say it would not have an impact, but it would take a while for that to have an impact that would meaningfully offset any of the benefit of higher short end rates.

<**Q - Matt O'Connor**>: Okay. And then separately, as we think about central banks winding down some of the QE and the Fed actual shrinking their holdings, how do you think about that impacting your businesses? And, obviously, there might be a rate impact. I think you talked about your rate expectations quite a bit, but just how do you think it might impact, say, the Markets business with potentially more assets kind of out there to be purchased and sold?

<**A - Marianne Lake**>: I mean, ultimately, sort of any actions by central banks, any change in the shape of the yield curve, anything that is presenting an opportunity for clients to transact and trade is an opportunity for our businesses. So as long as it happens in a reasonably rational fashion and there are no significant events, it should create an opportunity for clients and an opportunity, therefore, for us.

<**A - Jamie Dimon**>: And always keep in mind, the why they do something probably is more important than the what they do. So if they are doing it because the American economy is getting stronger, that is more important than the direct effect of adding – letting securities mature, et cetera.

<**Q - Matt O'Connor**>: Yeah, I guess there's two thoughts on – there's the impact of QE on the economy, and then the impact of QE on some of the Markets businesses that maybe there's been a crowding out from all the QE so as they unwind it, it could actually boost activity levels.

<**A - Jamie Dimon**>: It could. It could. I just wouldn't put that in your models.

<**Q - Eric Wasserstrom**>: Just a couple of questions on Consumer. We've talked a lot about Card losses, but one thing that seems to be a little bit unusual is that a lot of the commentary across many of the card issuers is for the expectations of losses to be higher in H1 than H2. And I just wanted to get your perspective on the likelihood of that trajectory.

<**A - Marianne Lake**>: So in terms of rates, obviously, the loan balances are seasonally low in Q1 and charge-off rates are higher in Q1, but overall we're not expecting to be see abnormal patterns in our charge-offs.

<**Q - Eric Wasserstrom**>: Got it. Thank you. And then just to follow-up on Auto. Your release alluded a little bit to the impact of declining residual values, which has been, of course, a focus for the past couple of years. Was there anything unusual in your view about the pace of decline in resid values in this first quarter?

<**A - Jamie Dimon**>: Because it happens every 5 or 10 years, so why would anyone be surprised? And we've always been very conscience of this and very careful about we do leases. We do them conservatively. We've got processes in place.

<**A - Marianne Lake**>: We only do them for our strategic manufacturing partners.

<**A - Jamie Dimon**>: And since they're going to our strategic manufacturers and we properly account for it and we have completed. And we have loss mitigation that's pretty important. So, no, we're not surprised. It's going to happen every now and then.

<**Q - Eric Wasserstrom**>: But in terms of the pace of resid values from here, similar or different in your view?

<**A - Jamie Dimon**>: I have no idea.

<**Q - Matt Burnell**>: Marianne, let me start with a question on the net revenue rate in the Card Services business. That's been relatively steady, a little over 10%, for the last couple of quarters. I presume, given your outlook, that that would stay pretty close to the 10.1% level that you reported for the last couple of quarters. Or are you thinking about a change there as you slightly change your marketing strategy?

<**A - Marianne Lake**>: So it's actually got somewhat less to do with our marketing strategy than it has to do with the fantastic success we've had with new products, particularly Sapphire Reserve in Q4 and in Q1 this year. But

fundamentally, if you go back I think to a conference that Kevin Watters spoke at last year sometime in, I think, September, he said, look, we're going to see the revenue rate be lower, about 10-and-some for the couple of quarters while we acquire all of these accounts. Once we've hit a pace, we should see it middle out at 10.5% for the full year of 2017.

So Q1 lower, and subsequent quarters continuing to now start rising back up towards the 11.25%, which was our ultimate run rate target. And that's still fundamentally what we are expecting to see, which is we are at – assuming that our expectations of what we're going to see in account growth over the future period continues to hold, we would expect to see an increase from here in Q2, the overall year to be sort of in-ish the mid-10s and end the year 11-ish, and then go back to 11.25% over the course of next couple of years.

<Q - Matt Burnell>: Okay. Thank you. Jamie, maybe a question...

<A - Marianne Lake>: Definitely have other great new products.

<Q - Matt Burnell>: Fair enough. Jamie, a question for you, just another one on the regulatory landscape. There are number of open positions inside the Beltway at a number of the primary bank regulators, and I'm just curious in terms – pardon me?

<A - Jamie Dimon>: I said I'm not interested. I'm kidding.

<Q - Matt Burnell>: Well, somebody should fill those spots, if it's not you. And I'm just curious what your thinking is of the timing of those appointments and how quickly those could get filled and what benefit that might provide to the banking industry.

<A - Jamie Dimon>: Look, I've been clear – I think that Gary Cohn and Steve Mnuchin are doing the right thing. They want to find the right people for those jobs. They're talking – I gather they are talking to lots of people. But even after they announced it, remember, they need to be vetted and confirmed, and that normally can take 90 days. So the sooner the better, but I think getting the right people is equally important.

Marianne Lake

Q1 Highlights

Direct Retail Exposure

- So just, Glenn, I don't know if you're still on
- I've got a couple of numbers for you in terms of retail exposure
- Our direct retail exposure in the Wholesale space is about $20B, more than 70% investment-grade and more than 60% secured
- And in terms of Commercial Real Estate, about $11B, largely ABLs, pick the right name, structural protection, all the things you talked about
- So not that it's nothing, but it's in the context of our overall Wholesale lending portfolio it's not as concentrated, I think, as perhaps you were implying
  - So if you want to call Investor Relations and let us know what you were looking at, we can try and reconcile those numbers for you.