Company Name: JPMorgan
Company Ticker: JPM US
Date: 2017-10-12
Event Description: Q3 2017 Earnings Call

Market Cap: 339,211.44
Current PX: 103.60
YTD Change($): +5.98
YTD Change(%): +6.126

Bloomberg Estimates - EPS
Current Quarter: 2.372
Current Year: 9.752
Bloomberg Estimates - Sales
Current Quarter: 28497.944
Current Year: 113965.731

Q3 2017 Earnings Call

Company Participants

- Marianne Lake
- Jamie Dimon

Other Participants

- Betsy Graseck
- Erika Najarian
- Mike Mayo
- Ken Usdin
- Glenn Schorr
- James Mitchell
- John McDonald
- Saul Martinez
- Matthew O'Connor
- Gerard Cassidy
- Steven Chubak
- Brian Kleinhanzl
- Andrew Lim
- Marty Mosby

MANAGEMENT DISCUSSION SECTION

Marianne Lake

Financial Highlights

U.S and Global Economy

- Please refer to the disclaimer at the back of the presentation
- Q3 was generally constructive across businesses and asset classes
- Underlying business drivers grew broadly, and we maintained or gained share in a competitive environment
- The U.S. and global economy continued to grow
- Clients are active with demand for credit remaining solid
- All in all, resulting in 7% growth in net income, driven by positive operating leverage as revenue rises and expense remains controlled

Adjusted Basis

- On an adjusted basis, this is a clear record for a third quarter

- Of course, against this financial backdrop, I want to acknowledge the recent natural disasters
- The impact on affected customers, communities and employees has been devastating, and supporting them is our priority as they rebuild
- I will note that any financial impact is not significant to our results

Net Income and EPS

- Starting on page 1
- The Firm reported net income of $6.7B, EPS of $1.76 and a return on tangible common equity of 13% on revenue of $26.2B
- Highlights for the quarter include average core loan growth of 7.5% year-on-year, and the FDIC recently released its survey showing that the Firm has surpassed the competition and now ranks number one in total U.S. deposits and in deposit growth, driven by strong consumer deposit growth up 9%

Credit Environment

- Client investment assets, credit card sales and merchant volumes were all up 13%, and we continue to rank number one in global IB fees
- We have record revenue in the Commercial Bank and delivered record net income and assets under management in Asset & Wealth Management
- The credit environment continues to remain benign across products and portfolios
- Card charge-offs were fully in line with our expectations and guidance
- And outside of Card, our charge-off rates remain at historically low levels

Q3 Results

Revenue and Adjusted Expense

- Now turning to page 2 and some more detail about Q3
- Revenue of $26.2B was up approximately $700mm or 3% year-on-year, driven by Net Interest Income up $1.2B, reflecting the impact of higher rates and continued loan growth, partially offset by lower markets revenue
- Adjusted expense of $14.4B was flat to last quarter and to last year, if you exclude $175mm of one-time items in CCB in the prior year period

Credit Costs

- Credit costs of $1.5B were up about $200mm year-on-year, driven by higher net charge-offs in Card
- And in the quarter, we built Card reserves of $300mm, primarily due to seasoning of newer vintages, and we saw a Wholesale release of over $100mm, partially driven by select names in the Energy sector and reflecting improvements in portfolio quality in Commercial Real Estate

Balance Sheet and Capital

- Shifting to balance sheet and capital on page 3
- What is most notable on this page is that all of the numbers are basically flat quarter-on-quarter with the exception of growth in tangible book value per share, as capital generation was fully offset by distributions, reflecting a payout of above 100% for the first time in a long time, in line with our previous capital plan
- And from here, we expect the direction of travel for our CET1 ratio to be lower over time

Consumer & Community Banking

- Moving on to page 4 and Consumer & Community Banking
- CCB generated $2.6B of net income and an ROE of 19%
- We continue to grow core loans, up 8% year-on-year, driven by Mortgage up 12% and business banking, Card, and Auto loans and leases were each up 7%
- Year-on-year, we saw 13% growth in each of client investment assets, Card sales and merchant processing volumes
- Nearly half of the growth in investment assets came from net inflows, and our deposit margin continued to expand, up 6BPS this quarter
- Revenue of $12B was up 6% year-on-year

Revenue

- Consumer and business banking revenue was up 15% on higher NII, approximately equally due to margin expansion as well as strong average deposit growth
- Mortgage revenue was down 17% on loan spreads and production margin compression as well as lower net servicing revenue driven by the MSR
- Underlying that decline, the Mortgage business is performing well relative to the market
- Our originations are down only 1% vs. the market down an estimated 15%, as we gain share in purchase

Card, Commerce Solutions and Auto

- Finishing up on revenue, Card, Commerce Solutions and Auto revenue was up 7%, as higher auto lease income and growth in Card loan balances outpaced the continued impact of investments in new account acquisitions
- Expect CCSA fourth quarter revenue to be relatively flat sequentially, as higher net interest income will be offset by the anniversary net impact of Sapphire Reserve last year
- Expense of $6.5B was flat year-on-year or up 3%, excluding the one-time items I mentioned
- Higher auto lease depreciation and continued underlying business growth were partially offset by lower marketing expense
- The overhead ratio was 54% for the quarter, as positive operating leverage, despite significant investments in the business, moved us closer to our medium-term target

Credit Performance

- Finally, on credit performance

- In terms of net charge-offs, as I said, Card increased in line with expectations and guidance
- And in Auto, charge-offs included approximately $50mm of a catch-up, reflecting regulatory guidance on the treatment of customer bankruptcies
- Excluding this, the loss rate in Auto was only 41BPS

Auto Market

- In general, it feels like the Auto market has plateaued at current levels with inventory, incentives, used-car prices and SAR all having stabilized over the last few months
- And in terms of credit reserves, as previously mentioned, we built $300mm in Card reserves in the quarter as we grow
- And although there were no Mortgage reserve actions, portfolio quality improvements allowed us to absorb the expected impact of the hurricanes into our current reserves

Corporate & Investment Bank

- Now turning to page 5 and the Corporate & Investment Bank
- CIB reported net income of $2.5B on revenue of $8.6B and an ROE of 13%
- Q3 2016 revenue in both IB fees and markets benefited from a number of large fee events and higher levels of volatility, creating tough comparisons across the board
  - This quarter in banking, IB revenue of $1.7B was strong and relatively flat from last year's record levels
- YTD, we've gained some share and maintained our number one ranking in global IB fees
- We also ranked number one in North America and EMEA

Equity Underwriting

- We printed record advisory fees for third quarter, up 14% on broad strengths across sectors and deal sizes, particularly in Europe, making up for a smaller wallet in North America
- In equity underwriting, fees were down 21%
  - However, we ranked number one in wallet, number of deals and volumes globally for the quarter and for the YTD
- The market remains active and the pipeline healthy
- And in debt underwriting, there was a reasonably high run rate coming into the quarter, and we broadly maintained it

Lending Fees

- Lending fees slightly down year-on-year and quarter-on-quarter, driven by strong repricing and refinancing activity and high-yield bond issuance
- We ranked number one in fees YTD and gained share overall and across products
- Treasury Services revenue of $1.1B was up 15%

- And while higher rates are a driver, we are also seeing positive momentum in organic growth in the business globally, as our clients are responding favorably to the investments we've made in our platform and products

Market Conditions

- Moving on to Markets
- Total revenue was $4.5B, down 21% year-on-year against an impressive Q3 2016 in a quieter and very competitive environment
- Fixed Income revenue was down 27%, a solid performance given a backdrop of low volatility and tight spreads
- And at the risk of laboring the point, you may recall that we gained 240BPS of share in FICC in Q3 2016, which will mean our year-on-year decline will look larger than most
  - Equities revenue was down 4%, but underneath that is a diversification story
- Consistent with last quarter, lower flow and exotic derivatives activity was substantially offset by strength in cash and prime, which continues to be a bright spot for us this year

Revenue

- Before I move on, Q4 environment so far feels consistent with the second and third, with no obvious catalysts on the horizon for that to change, but of course, change it could
- So, it's worth pointing out that Q4 last year was also a record for a fourth quarter since the crisis
- And as such, we expect next quarter's markets revenues to be lower year-on-year

Securities Service

- Securities services revenue of $1B was up 10%, driven by rates and balances with average deposits up 15% year-on-year, as well as by higher asset-based fees on market levels globally
- Finally, expense of $4.8B was down 3% year-on-year, driven by lower compensation expense on lower revenues, and the comp-to-revenue ratio for the quarter was 27%

Commercial Banking

- Moving to Commercial Banking on page 6
- Another excellent quarter in this business with net income of $881mm, with record revenue and an ROE of 17%
- And although we recognize that our results are flattered by a benign credit environment, the performance is very strong and broad based and is driven by the investments we've been making in the business, the differentiated platform capabilities we can offer our clients, and our commitment to business discipline

Revenue

- Revenue grew 15% year-on-year, driven by deposit NII and on higher loan balances, with overall spreads remaining steady
- And while IB revenue was down some year-on-year, we grew 9% sequentially, with particular strength in Middle Market, which is starting to feel like a trend

- Expense of $800mm was up 7% on continued investment in the business focused on technology as well as banker coverage, having added over 200 bankers since the beginning of 2016
- And since our investment agenda is ongoing, expect fourth quarter expenses to remain at about this level

Loan Balance

- Loan balances were up 10% year-on-year and 1% quarter-on-quarter
- C&I loans were up 8% year-on-year, driven by strength in expansion markets and specialized industries, but were flat sequentially in line with the industry on flat utilization, despite decent deal flow and stable pipelines
- Commercial Real Estate saw growth of 13% year-on-year and 2% quarter-on-quarter
- And although growth rates are decelerating, we continue to outpace the industry
  - However, we remain very disciplined in client selection, products and pricing and are sticking to what we know well

Credit Costs

- Finally, credit costs were a benefit of $47mm, predominantly driven by Commercial Real Estate
- Credit performance remained strong with a net charge-off rate of 4BPS

Asset & Wealth Management

- Leaving the Commercial Bank and moving on to Asset & Wealth Management on page 7
- Asset & Wealth Management reported record net income of $674mm with pre-tax margin of 33% and an ROE of 29%
- Revenue of $3.2B was up 6% year-on-year, driven by higher market levels and by strong banking results on higher deposit NII
- Expense of $2.2B was up 2% year-on-year, driven by a combination of higher compensation and higher external fees, for which there is an offset in revenue
  - This quarter, we saw net long-term inflows of $21B with positive flows across Fixed Income, multi-asset and alternatives, being partially offset by outflows in equity products
- We also saw net liquidity inflows of $5B and continued to increase our global market share

Client Assets

- Record AUM of $1.9 trillion and overall client assets of $2.7 trillion were up 10% and 9%, respectively, year-on-year on higher market levels globally as well as net inflows
- Deposits were down 6% year-on-year and 4% sequentially, reflecting continued migration from deposit accounts into investment-related assets
- And we are retaining the vast majority of these balances
- Finally, we had record loan balances, up 10% year-on-year, driven by mortgage up 19%

Corporate

- Moving to page 8 and Corporate
- Corporate reported net income of $78mm
- Treasury and CIO's results improved year-on-year, primarily due to the benefit of higher rates
- And you'll remember that last quarter, Other Corporate included a legal benefit, which is driving the quarter-on-quarter decline you see on the page

Outlook

Charge-Offs and Loan Growth

- Finally, turning to page 9 and the outlook
- All of NII, expense, charge-offs and loan growth remain broadly in line with previous guidance
- So to wrap up – this quarter and this year, we continue to consistently deliver for our clients
- Our businesses are performing strongly across the board, maintaining or gaining share
- Our financial performance clearly demonstrates the power of the platform, the benefit of diversification and of scale, as well as an investment strategy focused on long-term growth and profitability
  - We remain very well positioned to continue to benefit in a growing global economy

QUESTION AND ANSWER SECTION

<Q - Betsy Graseck>: Good. Two questions. One, on the revenue lift in the Consumer & Community Bank. I know on slide 4 you highlighted that the 6% up year-on-year was driven by the higher NII and deposit margin expansion.

<A - Marianne Lake>: Yeah.

<Q - Betsy Graseck>: Could you just describe a little bit if this is just the start of an improvement in transfer pricing that the consumer banking division is benefiting from? And is there a lag that we should expect that would continue to drive up this revenue lift over the next several quarters?

<A - Marianne Lake>: So, Betsy, there's no change in our transfer pricing methodology or even the way we compute it. It's to do, as you appreciate, with obviously higher rates and the fact that we are in a very disciplined environment at this point on deposit reprice. We would expect to continue to see the margin expand over the course of the next several quarters. But we would also expect to continue to drive higher NII as we're growing our deposits.

<Q - Betsy Graseck>: And then...

<A - Marianne Lake>: There's no change to FTP.

<Q - Betsy Graseck>: Right, but that FTP methodology should continue to drive up deposit margin over the next couple quarters?

<A - Marianne Lake>: Yes.

<Q - Betsy Graseck>: Okay. And then the second question is just how you're dealing with the Equifax fallout. The question here is, does the breach that occurred drive any changes to how you are assessing credit requests that come in? How you are filtering for what you perceive as fraud risk? And how you're managing the book of outbound credit requests that you're looking for from a proactive perspective on your loan book?

<A - Marianne Lake>: Yeah. So I mean I think the way to think about it, not to sort of diminish the importance of any individual breach or situation, is that we are honestly under constant attack, both in a more general side, but also from a fraud perspective. And so while we will always react and learn lessons from every individual situation, this is not the first breach, nor will it be the last breach.

And so as a result, we have been constantly evolving and refining the way we think about fraud prevention, detection, underwriting, continuing to move to multifactor protocols around customer identification, looking to leverage all of our data to sort of better inform our underwriting decisions.

So the reality is that, as important as it is and as much as we – as each individual breach could impact the overall equation, we have had to evolve over an extended period to the position that we're in now. And so as a direct result of this, there won't be specific, meaningful changes, but a continuous evolution. And so when we're looking whether it's at sending out pre-approvals or marketing offers or receiving inbound applications, we are increasingly looking at a number of different data points and facts to be able to identify the customer and understand the application.

<A - Jamie Dimon>: And just let me add, as part of a breach, so if your name was taken and we know that or Social Security or driver's license, we can put in a lot of enhanced controls which we do about your name specifically. We don't have to rely on those things. We can reduce reliance, we can greatly, dramatically increase antifraud on your account. So we do do that and dramatically diminish any effect on our customers.

<A - Marianne Lake>: Yeah. And the reality, Betsy, is that we kind of operated over an extended period now on the presumption that while we happen to know about this breach, there will be others either right now that we don't know about or over time. And so we have to be proactive, not reactive. And we'll obviously look to learn anything we can. But we continue to evolve so that we can use all of the information at our fingertips. And as a practical matter, we are not seeing a specific increase in fraud.

<Q - Betsy Graseck>: And as a result, expense impact, loan growth impact de minimis from your perspective?

<A - Marianne Lake>: Correct, correct. As a result, we are already spending the money that we need to spend to keep hopefully ahead of the curve on all of these things. Our operating losses are – I will say the combination of all of the information that has been compromised over the course of the last several years has put pressure on fraud costs, but nothing incremental from this. And so no impact on expenses or loan growth that would be measurable.

<Q - Erika Najarian>: I wanted to follow up to your responses, Marianne, on no pressure on deposit pricing. I'm wondering if you could, especially in light of your deposit growth strength and especially in the Consumer, give us a sense on how repricing trends are today in terms of the Consumer Wealth Management vs. Wholesale deposits?

<A - Marianne Lake>: Yeah. So, look, obviously, apart from the rate hike in June, nothing has really happened much since last quarter, and so the landscape is looking pretty similar, and not because that's surprising, so I'll come back to that in a second, which is to say that there's been very little to no movement in the repricing of deposit accounts. There's been some incremental movements in certain savings and CDs, but nothing systematic in the consumer space, but that's pretty much as we would have expected with rates at these absolute levels. And so at some point in time, and that may be a couple, three more rate hikes from now, the dynamic may start to change, and so we haven't changed our perspective about what we think the ultimate reprice will look like.

In Asset & Wealth Management, the story on deposit pricing is somewhat similar, a little bit more movement, but nothing particularly meaningful or dramatic. The story there is very much again as expected. At these levels of rates, you are seeing customers start to make choices to move certain of their deposit balances into investment assets. That's normal migration, migration that we expected and that we've modeled. And we are retaining those balances.

So, we are starting to see some of the dynamics we expected play out. That started happening at the beginning of the year and has continued to progress. And then in the Wholesale space, there is a spectrum as well. So, I would start with, we're firmly on a reprice journey in Wholesale, no doubt. And depending on where you are in the spectrum, it ranges from the smaller and lower middle market companies, where the reprice is modest, but present to the higher end, where it's reasonably high.

And so overall, if I step back, there's where we are – if I step back and say, have we learned something new in this cycle that we didn't know? The answer is no, not really. If you look at the first four rate hikes of the previous normalization cycle, the overall cumulative deposit reprice was pretty much the same as it is now. So, we continue to believe that the dynamics that we've been talking about over the last several years and that we've expected will play out. They may not play out exactly as we have them modeled, but they will ultimately play out that way, and that we have appropriately conservative reprice assumptions.

<Q - Erika Najarian>: Got it. And my follow-up question on that is, you're one of the few firms that have been really talking about anticipating the impact from a Fed balance sheet reduction over the next several years. And the question I often get from investors is, obviously in particular, retail is valuable not just for the price of it today, but on an LCR basis.

How would you respond to the question, given the 6% growth in digital in the consumer bank and 12% growth in mobile, does technology help with the stickiness of the consumer deposits? Or does it potentially aid in the velocity of switching?

<A - Marianne Lake>: So, at the risk of sort of hedging, it's actually a bit of both. The reality is, there's always been two different camps on the reprice theory for consumer. There's been the camp of acute market awareness, low for long. Technology enhancements allow movement of money to be easier, competitions for retail deposits and good liquidity deposit is high, therefore reprice higher.

And the counter to that, which has merit, and which we are seeing to a degree is customers feel that they're weighing a more balanced scorecard of things when they choose where to keep their deposits. And customer satisfaction, the suite of products and simplicity, the digital and online offerings as well as the safety, security and brand all matter, and that price is a factor, but not the only one.

So, I would say we certainly feel that having a leading digital capability is critical to overall our customer franchise, and it will in all likelihood have an impact on the stickiness of deposits because customers value that kind of convenience very highly. I would also say one other thing about where we are right now is that, as you know, as much as you're right about the sort of potential demand for the sort of high liquidity value deposits, there's a lot of excess liquidity in the banking system. And although loan growth is solid, it's solid. So, we aren't seeing a frenzy, albeit that we're very proud of our deposit growth.

<Q - Mike Mayo>: My question is on the Consumer & Community Bank, a three-part question. First, what percent of your customers have Online Bill Pay? I'm trying to get back to that stickiness of the deposits?

<A - Marianne Lake>: I don't have that off the top of my head, but we can get back to you.

<Q - Mike Mayo>: Okay. Can you give a ballpark? I don't think you've disclosed that before. Is it like to the nearest quarter or...

<A - Marianne Lake>: Here's what we'll do. I fear if I give you a ballpark, I'll get it wrong while we're on the call. We'll get someone to send the details, and let you know.

<Q - Mike Mayo>: Okay. And then the second part is the deposit beta has been lower. You gave your caveat. But mobile bank customers are up 12% y-over-y. Why do you still need 5,200 branches? Isn't this a good time to close branches when deposit competition isn't as tough as it might be in the future?

<A - Marianne Lake>: So, we're doing a bit of all of the above. So, I'll start with the comment which you've heard from us before, but which we still strongly defend, which is that branches still matter, that 75% of our growth in deposits came from customers who have been using our branches. On average, a customer comes into our branches multiple times in a quarter. So, I know that all sounds like old news, but it's still new news or current news. So, the branch distribution network matters.

Customer preferences are changing, and we are not being complacent to that. So, we are underneath the overall 5,000-plus branches continuing to consolidate, close, move, grow, change all of our branches in line with the opportunity in the markets that we're in. So, net, for the year, we'll be down about 125 branches. We've closed more than that, consolidated some and added some. So, we're not being complacent to the consumer preference story, but branches still matter a lot, and we're building out all of the other sort of omni-channel pieces, as you know, so that we have the complete offering. And if the customer behavior starts changing in a more accelerated fashion, we will respond accordingly.

<Q - Ken Usdin>: Question first on the loan side, on the yields. So, last quarter, they held flat. And this quarter, they're up 16BPS. I just wonder if you could help us understand, was that more just the mechanics of timing of hikes moving through your variable rates? Is it any element of pricing or any other things you could just help us understand why we saw that great, nice improvement there?

<A - Marianne Lake>: Yeah. So, I would characterize this as over the two quarters of normal. So, you may recall last quarter, there were a couple of things that we talked about. First was that there was $75mm sort of one-time interest adjustment in Mortgage, which artificially reduced loan yields for the quarter. And secondly, that seasonality and mix in Card similarly. So, we would normally, in the law of extraordinarily big numbers, expect for a 25 basis point rate hike that we see about 10-ish basis points of improvement in loan yields across the whole portfolio. We didn't see that last quarter. What you're seeing this quarter is the reversal of those factors and the normal benefit of the June rate hike.

<Q - Ken Usdin>: Got it. Okay. And my second question, with the Card build, you took the reserve for Card to around 3.3%. I know you had talked about staying below a 3% Card loss rate for this year. But I'm just wondering, as we get into next year, you kind of had a medium-term idea of 3% to 3.25%. How are you feeling about that in terms of the seasoning of the Card book and loss rates?

<A - Marianne Lake>: Yeah. So, as we look at the loss rates for this year, they're coming in as we expected at less than 3%. And as we look out to next year, based on what we know today, it's still in that 3% to 3.25% range, albeit maybe at the higher end of that range. So, it's broadly in line with our expectations. So, the reserve build – and in the consumer space, we move our reserves not in dollar increments – but the reserve build is about a little less than one-third on the growth and a little more than two-thirds on normalization of charge-off rates.

<Q - Glenn Schorr>: I don't know. Maybe, it's a little nitty-gritty, but you're definitely the person for this. Point to point, the yield curve was about the same – 10-year was about the same point to point. However, throughout the quarter, the curve was much flatter. I'm just curious if that has any dampening effect in any given quarter. And maybe the better way to ask it is, could it have a little bit more of a positive run rate as we go forward?

<A - Marianne Lake>: Yeah. So, yeah, a couple of things, the first is just to sort of repeat the standards, just as a sort of macro matter, we are more sensitive to the front end of rates than to the long end of rates, particularly over any short period of time. And so intra-quarter volatility in the 10-year, while it's not – nothing, is not likely to have a material impact on our run rate. We're clearly, overall, generally flatter long end of the curve, in general, on average, through the year, all other things being equal, will have had a dampening pressure on our expectations, but it's part of the reason why they went from $4.5B to $4B, not the only one, as we progress through the year. But generally speaking, intra-quarter volatility is not something that would have a meaningful impact on our run rate.

<Q - Glenn Schorr>: Okay. Cool. And in terms of the loan growth, I think it's completely normal to see some moderation and you're still doing reasonably better than the industry. I'm curious, on the main source of maybe the moderation ticking down a little bit. And then more importantly, is it too soon to ask if any of this talk on tax reform and decent economic data is having a pickup in the conversations on the loan growth side?

<A - Marianne Lake>: Okay. So on the first, I think it is quite important to not look at the average and to kind of decompose into constituent parts because we've talked before about the fact that we use our balance sheet strategically in the CIB, but loan growth is not really a thing there.

And so this quarter, we saw no loan growth in CIB. So no big deal, but it means that that 7.5% core growth for the whole portfolio would have been outside the CIB, closer to 9%. So start with that.

Consumer has been pretty consistent. So across the consumer space, whether it's our jumbo mortgages, whether it's the Business Banking, Card, Auto loans and leases, they've been growing at reasonably solid and in consistent high single-digit territory or even low double-digits for Mortgage over the last several quarters. And at this point, we don't really see anything that is suggesting that that will moderate meaningfully.

So the way you're seeing and similarly in Asset & Wealth Management on the banking side. So really, where you're seeing the growth moderate is in Commercial and it's in both the C&I loans and the Commercial Real Estate loans and they each have a story.

With the C&I loans, for us, the story is about moving from meaningfully outperforming the industry to being more in line with the industry. So over the course of the last couple of years, as we've added expansion markets, opened new offices, added a couple hundred branches, developed our specialized industry coverage models, we've been growing meaningfully better than the industry. And so you see that even in this quarter and our year-on-year growth at 8%, as compared to the quarter-on-quarter growth where it's flatter.

And that to me is really a factor of the fact that in this stage of the cycle, our clients have strong balance sheets. They have a lot of liquidity. They have had access to the capital markets. And so GDP plus growth is not unlikely to be a level for the foreseeable future.

With Commercial Real Estate, it's slightly different. We're still outpacing the industry, but we've kind of gone from very strong to strong. And we would continue to expect that to slowly moderate. And that's a number of things. It's, well, some higher rates. It's actually a lot of competition. And then it's a lot also about client selectivity, given where we are in the cycle. So we are being very cautious about new deals that we add to the pipeline and the client selection that we have. So all of those factors I think weigh into the Commercial Real Estate space.

Tax reform, so a fiscal stimulus. The reality right now is, although I think everyone, and ourselves included, are hopeful obviously that tax reform is done for the right reasons and that the economy responds accordingly. At this point it's not front-and-center in the dialogue we're having with our clients about whether they should or shouldn't do a strategic deal or take an action. So I would say it is neither holding up business nor spurring business, but that could change. So at this point I'd say it's a factor, but not a driving factor and that could change.

<Q - James Mitchell>: Maybe just a quick question on the outlook on the Net Interest Margin, should we still expect some grinding higher of asset yields even without rate hikes? How do we think about that trajectory, assuming we don't get any more rate hikes from here?

<A - Marianne Lake>: Well, so – I mean I'm – we'll just deal with Q4, because I think the landscape of rate hikes for 2018 is an open question. But, no, we would expect loan yields to hold relatively flat, all other things being equal. It's a very competitive environment. We aren't seeing – we're seeing some pressure in Commercial Real Estate spreads. We're seeing generally spreads holding up. But I would expect competitive pressures to keep loan yields relatively flat.

<Q - James Mitchell>: Okay. And just maybe on the reserve build outlook. Should we still expect it to kind of track with growth and keep the reserve ratio kind of similar in Card as where we are now? Or do you still anticipate some additional building? How do we think about that? And if you could size the hurricane impact, that would be great, this quarter.

<A - Marianne Lake>: Yeah. So we are – at this point we are at that 3% charge-off rate, rising to 3% to 3.25% next year and growing. So you should continue to expect that we'll be adding to reserves. Our outlook for reserve adds next quarter is below this quarter, but obviously we will continue to observe that.

And with respect to the hurricanes, right now, in this quarter's results, in the credit lines, in Mortgage particularly, and to a much lesser degree in Wholesale, we built – effectively built $55mm of reserves. To sort of contextualize that, we have used our unfortunate experiences of Sandy and Andrew and other natural disasters to calibrate the assumptions we're using.

At this point, it's early to be able to say how the losses will actually manifest themselves. It could be that it's lower than that. But that's our sort of central case right now, $50mm in Mortgage and just a handful of million in the

Wholesale space.

<Q - John McDonald>: Marianne, I was wondering if you could discuss how you're balancing all the investments you're doing in IT and business growth with the efficiency mindset that you guys always have.

I guess one of the frameworks is, if I look at the three-year simulation you provided in February, a lot of the expense growth seems to happen this year. We have kind of $2B increase in adjusted expense. And post 2017, the expense growth looks very modest. So maybe you could just talk about – a little bit about the levers you're using to keep expenses in check as you're doing all the investments.

<A - Marianne Lake>: Yes. So I'll just start with a bit of a philosophical discussion, which is it is our opinion that now, as much if not more so than ever, the investments we're making in technology will effectively breed and deliver the efficiency. So to the degree that we are able to find incremental investments or accelerate them, we'll be willing to do that. And our expense numbers, our outlook have never been targets.

So that's the just sort of mental, philosophical point of view that we would deliver any technology innovation and investments that we could execute well that we think would be either accretive to our returns through revenues or efficiency.

Specifically, when you look at the simulation, just as a point of technicality. In 2018, middle – probably middle to Q3 2018, we are expecting that the FDIC DIF fund will reach its level at which the surcharge will be able to be reduced. That's a meaningful positive for us.

And so if you look at the implied growth in expenses from 2017 through the medium term, they are larger than is implied. But if we found the opportunity to do more or to accelerate more, we would do it and explain it to you. So we'll come back to that at Investor Day.

<Q - John McDonald>: Okay. Thanks. And then just a follow-up. You mentioned the Card revenue run rate has moved up again nicely this quarter. It seems like you might be able to get to your target by the early half of next year. Is there upside to that revenue run rate target? Are things coming in better than expected in terms of the moderation of promo rates and things like that? Or maybe you could just give a little color there.

<A - Marianne Lake>: Yes. I think – so when we did some conferences at the end of the last year, I think that we said that we'd expect the revenue rate for the full year this year to be 10.5%. And it will be a little better than that. And the revenue rate increase in the quarter speaks to a little bit of spread and a little bit of lower premia. It will go down next quarter because of Q4 effect of the Sapphire Reserve travel credit for overall, call it, 10.6% for the year.

But yeah, we do expect to hit the 11.25% in H1 next year. And we've reached the inflection point, end of Q2 and into Q3 where growth is offsetting the impact of the significant upfront investments in Sapphire Reserve, so we'll see revenues grow from here.

<Q - Saul Martinez>: Following up on, Marianne, on the Commercial Banking business. You've had – you've obviously – you've had very good momentum there over the last couple years, and you did talk about credit dynamics in moderation and credit growth and sort of a normalization back towards industry trends. But can you just comment a little bit more broadly about some of the initiatives you've had there from a revenue standpoint, whether it be the Middle Markets initiative, the growth in IB, international and whatnot.

Your earnings growth has been obviously very, very strong in this business and it's starting to move the needle a little bit. But if you can just give us a little bit of color on the opportunity set you see there?

<A - Marianne Lake>: Yes. So I'll just start with credit for a second. Because although we absolutely expect at some point that we're going to see normalization of credit, we haven't seen that yet. I just want to make that clear. So we are appropriately cautious in starring at everything, but we're not seeing any deterioration or any thematic fragility in our portfolio that we're concerned about at this point.

With respect to the revenue side of the story and the efficiency side, I mean, it really is a story of all of the things you mentioned, sort of all coming together at the same time. So we have been adding to – we have our expansion markets from the WaMu acquisition, we've been adding new markets and opening offices. We've been adding bankers, and as you know...

<A - Jamie Dimon>: We're in all 50 of the top MSAs.

<A - Marianne Lake>: Yes, we are in all 50 of our top MSAs now. And we've been adding bankers and as you know, when you add all of these investments, for a period of time, when they are still in the buildup mode, you don't see that drop to the bottom line or to the top line and now we're starting to see our bankers hit their strides, they come, very productive, the balances are building, and then I would also say that this is the epicenter of delivering the whole platform to our clients.

So if you think about what we're able to offer our clients in terms of international capabilities, banking coverage across industries, core cash, global payments, we have a platform offering, I think that is, well, it's certainly complete, and it's somewhat differentiated.

And then the third thing I would say is that it's a buttoned-up business. We have been looking at efficiency and expenses and really working on making sure that due to simplification processes that we went through in 2013, 2014 and 2015 that we are focusing all of our efforts on our core strategic clients and it's paying off.

<Q - Saul Martinez>: That's great. I guess sort of a related question on the Commercial Banking business. It's a little bit of a follow-up as well on tax reform. Obviously, with the Congress or the administration and House Ways and Congress released a blueprint, so Congress can now start to flesh out a tax plan. And obviously, there is a lot of uncertainty to the content, the timing, heck, whether it even happens or not.

But if we do see something that is sensible, however you want to define it, how quickly do you think that we could start to see that beating through into better sentiment and ultimately into better demand or increased demand for credit?

<A - Marianne Lake>: Yes, so I would say, it's almost like you said, there's so many uncertainties that it's almost talking about hypothetical at this point, as encouraged as we are with the ongoing dialogue. My view is sentiment is relatively high. In fact, it's ticked up slightly over the course of the last short while. So from that vantage point, we're in a position of strength. And there would necessarily be some lag, so whether that is a couple of quarters or longer, so certainly, in the foreseeable future, you would hope to be able to see increased demand and confidence leading to action.

<Q - Matthew O'Connor>: Can you talk about how your – good morning. Can you just talk a bit about how you're managing the excess liquidity? You've obviously continued to build cash, the securities book has shrunk. It makes sense given the flatter yield curve, but you combine that with the still good deposit trends and the slowing loan growth and obviously a challenge as you think about protecting NIM going forward. So maybe just talk about the dynamics there and how you're thinking about the yield curve, how to manage that?

<A - Marianne Lake>: Yes. So I would start with the excess liquidity question because while we feel very, very good about our liquidity position, and you will have seen in the recent disclosures where everyone is positioned and necessarily, even if LCR was the only consideration, people would want to be running a buffer to LCR. But LCR is not the only consideration and the other most notable one I would point out to would be Resolution Planning. So know that when we have our overall liquidity position, we've taken into consideration a combination of constraints. And so what may look excess in one – on one lever or may not be as excess on another.

The second I would say is that when we look at the deployment of our HQLA, we look at it in a context of our targets for what we want the duration of equity for the company to be over the course of the normalization in rates. And obviously, it's not just about liquidity. It's also about duration. So we're comfortable with our liquidity position. We have a framework for deploying it and for thinking about the spot and forward-looking duration of the company. That's not to say that we are not opportunistic in taking advantage of moves that are technical in the long end of rates to either deploy or to undeploy dry powder and we still have some. So it's more than just liquidity. It's also duration and we've taken the overall balance sheet and our expectations and our targets into consideration, albeit that we still have some dry powder.

<**A - Jamie Dimon**>: And we maximize between loans.

<**A - Marianne Lake**>: Yeah.

<**A - Jamie Dimon**>: Securities.

<**A - Marianne Lake**>: Yeah.

<**Q - Matthew O'Connor**>: And then just a follow-up on the rate sensitivity. You mentioned before or you reiterated before your more leverage through the short end of the curve. If you get continued increases on the short end of the curve, but the 10-year doesn't go anywhere, is that still NIM-accretive as it's been thus far?

<**A - Marianne Lake**>: So it will be over the short while and our full expectation outside of any other, like, stimulation is that as the front end of rates goes up and as gradual QE unwind happens that you're going to see the long end of rates go up, albeit more slowly. So it's pretty typical at this point in the normalization cycle to have a curve flatten. That's what we're seeing. That's what we would expect. I would expect to continue to see the long end rise. And yes, it should be NIM-accretive.

<**Q - Gerard Cassidy**>: You touched on this a little bit, but maybe you can give us a little more color. You mentioned in your opening remarks you increased your market share in Investment Banking. Can you share with us, is it – are you getting a bigger wallet share? Or are you winning more customers? And also, some of your competitors are still struggling, is that also a factor?

<**A - Marianne Lake**>: So I would say it's wallet share, it's blocking and tackling. We did pretty well in Europe, but there is still a lot of competition. So I would say it's less about the specifics of any one competitor because the environment is pretty competitive and just about sort of reasonably broad strengths. Two things that I would also point out is, the first, in equity underwriting, similar to in FICC, we gained a couple of hundred basis points a share in Q3 last year. So on an apples-to-apples basis, to where we would normally expect our share to be, we're still doing very well.

<**Q - Gerard Cassidy**>: Very good.

<**A - Jamie Dimon**>: I would just say, I think competition is fundamentally fully back.

<**A - Marianne Lake**>: Yes.

<**A - Jamie Dimon**>: It's not that they're – most of these players are all out there, some specialize in certain areas, but it's fully competitive. And you have new entrants soon, like the Chinese banks, et cetera.

<**Q - Gerard Cassidy**>: Very good. And possibly, Jamie, if you want to weigh in on this, what's your guys read of the new Treasury Report on changes coming in the capital markets that was released in early October? Any specific items in there that you guys looked at that would be specifically beneficial that you'd like to see change? And what's the probability of it happening? And could it happen sometime next year?

<**A - Marianne Lake**>: Okay. That was a lot. And so look, first of all, like we welcome the report and it's a long report, couple of hundred pages. There's a lot of recommendations, very comprehensive. So kudos to the Treasury for delivering it. And we are supportive of those recommendations kind of at large. And I think the most important thing to remind you is that this is not about materially changing the legislative landscape. It's about recalibrating, sensibly recalibrating the specifics of individual rules over time, and so we're still digesting the report, but we are supportive.

It is very comprehensive, and it could be very beneficial to the liquidity and depth of the capital market, which is what we should be able to hope for and not contrary to safety and soundness. So in that sense, very supportive, all good, it's going to be complicated and it will take time, but the will is there. And so whether it's the administration or the regulators, there's a general recognition that there's the ability and the appetite to want to make rational change. And so if that helps to grow the economy and all the things that come with that, we're working as constructively as we can on that.

<Q - Steven Chubak>: Jamie, I was actually hoping you could update us on your efforts to launch your online brokerage offering. It's something that you'd mentioned in your last letter. And was curious since it comes up with investors quite often, how you view the opportunity set in that business for JP, whether it's an effort to just build a moat around your current client cash balances and maybe fill a void or is your intention to become a bit more disruptive in this space and actually attract many more customers and potentially even offer even more aggressive pricing and terms?

<A - Jamie Dimon>: So we're building obviously kind of beta platforms for trading and investing and things like that and also the P2P, Zelle, which is doing quite well. We look at all those things as things you want to, from the client standpoint, you want to offer to client. And at one point, we'll be talking about a more testing what we think might or might not work and then we'll give you more of a strategic view of that probably around Investor Day.

<Q - Steven Chubak>: Got it. Okay. And Marianne, just wanted to follow up on some of the discussion around excess liquidity management and I appreciate the fact that you guys certainly want to be conservative in thinking about duration and maybe taking a more holistic view of the asset side of the balance sheet. But looking at the LCR disclosures and just given the stark contrast in terms of how much you have parked in the way of excess reserves and relatively low levels of MBS compared with your peers, how you're thinking about duration management and whether you do have additional capacity to actually remix some of that cash of the Fed into higher-yielding MBS, especially as we think about the Fed balance sheet unwind dynamics?

<A - Marianne Lake>: So we have a fairly large mortgage loan portfolio in addition to having a large portfolio in our investment securities in MBS. So we are already reasonably, equivalently, mixed in terms of our percentage of mortgage exposure to our total assets or loans to the competitive landscape. And so, trust me when I tell you that you talk about excess liquidity because of LCR and we are thinking about more than just LCR.

And we do – as I said, while we do maintain a short position and the cost of being short is relatively cheap, we don't have the kind of capacity to invest $100-plus billion in MBS right now or anything that's meaningful like that to generate higher returns without blowing through our duration targets.

<Q - Brian Kleinhanzl>: ...on loan growth. You've had another decent quarter of good growth in residential mortgage. Maybe looking across Consumer, is there anywhere where you've had to kind of open up the credit box in order to get growth there? I know you mentioned that loan yields are expected to be tight on competition and not increase as much, but have you had to go down market at all for loan growth?

<A - Marianne Lake>: No, no, no, we haven't. As we talked about before, a while ago, we made some surgical changes to our credit box in the Card space, that's, if anything I would say, incredibly granular, incredibly surgically tightening, not the reverse. Whether that's in Card, in certain micro-cells or whether that's in Auto, I would say we've been pretty conservative and we're probably doing, at the very margin, a little bit of tightening.

<Q - Andrew Lim>: I was wondering if you could talk a bit more about the quantum and timing of return of excess capital. Of course, one of your notable competitors has given a very detailed strategy of how to do this by the end of 2019. Are you in a situation to adopt a similar strategy?

<A - Marianne Lake>: Well, so I mean, congratulations to them if they have a high degree of confidence on what 2018 CCAR is going to look like. So I will tell you this. We said very clearly that we feel that the company should operate within the range of 11% to 12.5%. We feel like it should be lower in that range. And having a capital plan approved of $19.4B of share buybacks over the next four quarters and over 100% payout based on analyst estimates is a start.

So nothing has changed about that objective, but we would want to be measured about the pace at which we do it until we have a bit more final clarity on what the new generation of capital rules will look like. So we hopefully will know more as we go into the next cycle of capital planning. We haven't changed our point of view that we should be able to continue that journey down into the range, and that would be our objective. To tell you that we can give you the roadmap for that today I think is not accurate.

So as you can do – you can and you have done your own math, look at our earnings outlook in your models and payouts of over 100%. And you can see that we can move down in that same timeframe to something much lower than we are now, if not towards the bottom. But that's not to say that we will be able to do that. We need to go through the tests.

<Q - Andrew Lim>: Okay. Fair enough. Thanks. And I have a different question. MiFID II is high on everybody's minds. I think everyone's focused on the impact on equity research and FICC research. But I mean there's broader implications possibly for how that might impact FICC trading, not just from your own point of view, but also from the point of view of clients who might not be compliant by the end of the year. How does that weigh on your mind? And what impacts could we expect there?

<A - Marianne Lake>: Yes. So I think I got that. So the compliance burden and the readiness and the work to be ready is a significant heavy lift, not just for us, but as you say, for all market participants. And so there is the possibility that effective at the beginning of the year, there will be ongoing work that needs to get done. We feel like we're reasonably well positioned to defend our position.

But there's no doubt that over the course of the year and beyond, as people get clearer and clearer on transparency and costs to execute vs. advice vs. content that there may be competitive dynamics that change. And we feel like we've been building for the last several years to be ready for those dynamics.

So there could be some bumps. I don't think it's anything that we're concerned about at this point. And we will all learn a little more as we go through 2018.

<Q - Marty Mosby>: I was going to ask you about the credit. You pulled out and highlighted Auto after we went through kind of an episode of possible deterioration. You put that together with Energy and what we experienced last year, those are our first two pressure points on the credit cycle. And really, we've come through without any real heartburn from either. Does that tell us something about the derisking and underwriting discipline that the banks in particular have adopted since the financial crisis?

<A - Marianne Lake>: So I would say that that for sure has to be part of it. And even with the Auto situation, what you're seeing is, I think, a marketplace that is much more responsive.

So while we felt like we got ahead of the issues and tightened early, you've seen the sort of industry generally move in that direction. So I think there's no doubt that the environment in totality, sort of capital, liquidity, controls, regulation, has led to higher quality loan books. And so yes, we have been pressure-tested. Energy was a 1 in a 100-year flood. And I think the industry and specifically, our portfolio, performed really quite well.

<Q - Marty Mosby>: And the second...

<A - Marianne Lake>: That's not to say that there isn't a point of pain out there somewhere that we won't see. We just feel like we'll be in the good position to get through that.

<Q - Marty Mosby>: And then flipping over to deposit growth. What we saw is you kind of layer deposits in institutional deposits, corporate deposits, retail deposits. We're starting to see a little bit of a pressure in the sense of institutional deposits and Wealth Management began to decline.

Corporate and Retail still show a lot of strength. Just kind of think about that dynamic, because that's really where you begin to see pressure on betas, is typically when you see pressure on volumes. And we just haven't seen it in the core deposit base yet.

So a premium for liquidity that's been kind of pushed into those core customers from corporate and retail seems to be pretty persistent, which will mean the duration and the length and the growth of deposits will be much longer than what we probably anticipated before?

<A - Jamie Dimon>: Yes.

<A - Marianne Lake>: Yes, but no – yes. No, I would tell you that we are seeing that rotation start. If you go back even three years ago, we kind of gave you an outline of what we thought would happen. We said we're going to see rotations from the higher wealth segment into investment assets, followed ultimately by the consumer space.

We'll see retail deposits move into money funds. We'll see outflows of Wholesale non-op deposits as the Fed shrinks its balance sheet. But those things are going to play out over the course of the next, depending on the rate cut, over the course of the next two to four years. So we've begun to see it. It should be expected. I don't think it tells us anything new or different necessarily at this point.

<Q - Mike Mayo>: A follow-up question. So Card revenues are tracking well, per your other comments, but the y-over-y Card spend growth has moderated some. Can you talk about the trend with the Sapphire Reserve card?

<A - Marianne Lake>: Yes. So look, our Card spend growth at 13% up year-on-year is still very strong. So when we say moderated, it's from very strong to very strong. And it is in part due to the number of new products we've had. So we would continue – the Sapphire Reserve Card spend engagement is very strong and we're very pleased with it. So it's not, I wouldn't say it's a moderation necessarily. It's just that at these very high levels, from a slightly higher to very strong is still a great story.

<Q - Mike Mayo>: And with such a great deal a year ago, are you – what's the attrition like with the customers?

<A - Marianne Lake>: So if you think about – our first acquisitions were in August and September. So we're kind of at the early stages. So far, very encouraging. So far, better than our expectations, but a little early to sort of draw firm conclusions on it, but very encouraging.