Company Name: JPMorgan
Company Ticker: JPM US
Date: 2018-04-13
Event Description: Q1 2018 Earnings Call

Market Cap: 380,193.66
Current PX: 111.48
YTD Change($): +4.54
YTD Change(%): +4.245

Bloomberg Estimates - EPS
Current Quarter: 2.218
Current Year: 8.885
Bloomberg Estimates - Sales
Current Quarter: 27422.571
Current Year: 109842.100

Q1 2018 Earnings Call

Company Participants

- Marianne Lake

Other Participants

- John McDonald
- Glenn Schorr
- Mike Mayo
- Matthew O'Connor
- Erika Najarian
- Betsy Graseck
- James Mitchell
- Ken Usdin
- Saul Martinez
- Gerard Cassidy
- Chris Kotowski
- Alevizos Alevizakos

MANAGEMENT DISCUSSION SECTION

Marianne Lake

Financial Highlights

Opening Remarks

- Just to let you know that Jamie is actually on the road with clients today
- So, he’s not able to join us this morning, but sends his regards
- So, now, I’m going to take you to the earnings presentation, which is available on our website
- Please refer to the disclaimer at the back of the presentation

Net Income and EPS

- Starting on page 1, the Firm reported net income of $8.7B, EPS of $2.37 and a return on tangible common equity of 19% on revenue of $28.5B, benefiting from broad based strength in performance, but also lower taxes and seasonality

Core Basis

- To put this quarter’s performance into context, on a core basis, pre-tax earnings grew 13% year-on-year, benefiting from higher rates, solid growth across other revenue drivers and continued investments in our businesses

- And even excluding the benefit of tax reform, net income was a clear record this quarter

CIB Market Revenue

- Included in the results, you see on the page, approximately $500mm of mark-to-market gains on certain investments previously held at cost due to the adoption of a new accounting standard
- These gains are reported in CIB Markets revenue
- Against that, there were a number of other smaller but nevertheless notable items, including changes in credit reserves, FVA, investment securities and private equity losses and legal, which together substantially offset those gains

Asset & Wealth Management

- Underlying results continue to be strong
- Average core loan growth, excluding the CIB, of 8% year-on-year, Card sales and Merchant processing volumes up 12% and 15%, respectively
- We maintained our number one rank in Global IB fees and had net income of $1B in the Commercial Bank
- And in Asset & Wealth Management, we saw strong long-term flows across all regions and 10% AUM growth

Q1 Results

Non-Interest Revenue and Expenses

- Turning to page 2, some more details about Q1 results
- So, before we get into the numbers and the performance drivers for the quarter, I do want to remind you that there have been a couple of adjustments to the numbers on the page, which are in line with the guidance that we gave during the fourth quarter
- First being the impact of the new revenue recognition standard
- You will recall this will have the full-year impact of grossing up non-interest revenue and expense, each by approximately $1.2B
- The impact for the quarter of about $300mm is included here and prior periods have been similarly restated

Tax Reform

- Second, as a result of tax reform, certain tax-equivalent adjustments that are included in managed revenue are lower on a relative basis and for that, prior periods have not been restated
- This impact, which was also about $300mm for the quarter, reduced revenue, was split about 50/50 in NII vs
- NIR and offset in tax expense

Revenue and Net Interest Income

- So, with that, revenue of $28.5B was up $2.7B or 10% year-on-year

- Net interest income was up $1.1B mainly reflecting the impact of higher rates
- Non-interest revenue was up $1.6B year-on-year
- And while this includes the mark-to-market gains on the first page, it also includes approximately $400mm of losses on investment securities and legacy private equity investments

Credit Costs

- Adjusted expense of $16B was up 6% year-on-year, reflecting higher compensation expense as well as business growth, including auto lease depreciation
- Credit costs of $1.2B were down $150mm year-on-year
- Consumer charge-offs were in line with expectations and guidance and there were no changes to reserve this quarter
- In Wholesale, we had a net reserves release of about $170mm, driven by a single Oil & Gas name

Tax Rate

- You'll see that our effective tax rate for the quarter ended a little above 18% compared to the 17% guidance we gave, driven by a combination of higher pre-tax earnings as well as geographical mix
- We're expecting full-year effective tax rate to be closer to 20%

Balance Sheet and Capital

- Shifting to balance sheet and capital on page 3. We ended Q1 with CET1 of 11.8%, down about 30BPS vs. last quarter
- Capital generated was offset by net capital distributions and changes in AOCI.
- So, the reduction was driven by higher risk-weighted assets, reflecting the increased level of markets activity, which similarly impacted all other ratios

CCAR Capital Plan

- In the quarter, the Firm distributed $6.7B of capital to shareholders
- And last week, we submitted our 2018 CCAR Capital Plan to the Federal Reserve, but as you know, we can't provide any details of that at this stage

Stress Capital Buffer

- So, before moving on to the lines of business, on page 4, I'll briefly address this week's new capital news
- Two new capital NPRs were released this week, the Stress Capital Buffer and eSLR
- Starting with the Stress Capital Buffer, the proposal was broadly in-line with the narrative and expectations that had been set
- There's a comment period – we intend to fully participate in the process and are encouraged that there is an openness from current leadership to really consider feedback from the industry

BAU Capital

- On the positive side, we support the convergence of stress and BAU capital and in general support simplification of the framework
- We agree that firms should be required to hold adequate capital to withstand severe stress calibrated to firm-specific exposures and risks
- We also agree that many of the changes to the construct of the test, for example, not having to hold capital for full distributions during a stressed environment, better reflect reality and board-approved policies

GSIB Surcharge

- That said, stepping right back, if we are fundamentally reconsidering the construct of minimum capital levels, then all of the building blocks should be in play, including the GSIB surcharge, to ensure they all hang together
- And to reinforce points that we previously made, first and foremost, the fixed coefficients need to be recalibrated in light of the economic growth we've had

Fed's Results

- Second, the underlying premise for the surcharge and, more particularly, U.S. gold plating is somewhat unnecessary for a firm that is compliant with all of the post-crisis reform that directly addresses systemic risks, which includes the severity of the CCAR stress, incorporating material GSIB-specific instructions
- Beyond that, obvious challenges with the current proposal include the significant volatility and the opacity in the Fed's results as well as challenges around implementation

Capital Levels

- So, getting to the numbers, you can see on the page, our estimated historical Stress Capital Buffer derived from the Fed's results
- And while, for 2017, it would imply no impact on our minimum capital levels, you can see that in years prior, the buffer would have been higher
- And you know that in 2018, the scenario was in many ways more severe and the lower tax rate has a net negative bias
- Further, there will potentially be a need for larger management buffers if it is necessary to accommodate significant volatility
- So, acknowledging everything that we don't know, it's fair to say that our minimum level of capital, including a management buffer, would likely be higher under this proposal, but likely still in the range of 11% to 12%

eSLR

- Briefly on eSLR, as you know, we are not currently bound by leverage
- And, prima facie, this proposal would reduce the eSLR minimum
- So, my primary comment on this is to reiterate my earlier comments about the need to be willing to re-examine the GSIB surcharge, regardless of the fact that it reduces the number

- Overall, we've been waiting for these proposals and we look forward to participating in the comment process

Consumer & Community Banking

- Moving to page 5 and let's start with Consumer & Community Banking
- CCB generated $3.3B of net income and an ROE of 25%
- Core loans are up 8% year-on-year, driven by Home Lending up 13%, Business Banking up 7%, Card up 5% and Auto loans and leases up 6%
  - Deposits grew solidly at 6% year-on-year
- We believe we continue to outpace the industry, which, as we previously noted, is experiencing a slowdown

Investments

- As consumers are increasing their allocations to investments, but also based upon our data, they appear to be spending more, reflecting a continued high level of confidence
- Client investment assets were up 13% year-on-year, with half of the growth from net new money flows and with record flows this quarter
- And active mobile users were up double-digits

Revenue

- Revenue of $12.6B was up 15% year-on-year
- Consumer & Business Banking revenue was up 17% on higher NII, driven by continued margin expansion and deposit growth
- Home Lending revenue was roughly flat as portfolio loan spread and production margin compression were predominantly offset by higher net servicing revenue
- And Card, Merchant Services & Auto revenue was up 18%, including higher auto lease income, but it was driven by Card on lower net acquisition costs, higher loan balances as well as margin expansion
- The Card revenue rate was 11.6% in the quarter

Investments

- Expense of $6.9B was up 8% year-on-year, driven by investments in technology and marketing, higher auto lease depreciation and continued underlying business growth
- The overhead ratio of 55% was roughly flat quarter-on-quarter, despite seasonally higher payroll taxes and higher marketing expenses

Credit

- Finally, on credit, the trends across our portfolio remained favorable
- Charge-offs were driven by Card and were in line with guidance and there were no reserve actions taken this quarter

- Recall last year included a net impact of a little over $200mm related to the student loan portfolio sale

Corporate & Investment Bank

- Turning to page 6 and the Corporate & Investment Bank, CIB reported net income of $4B on revenue of $10.5B and an ROE of 22%
- This quarter, in Banking, we maintained our number one ranking in Global IB fees as well as our number one rank in North America and EMEA
- IB fees were $1.7B, down 10% from a record quarter last year, as strong performance in M&A was more than offset by lower debt and equity underwriting fees

Advisory Fees

- Advisory fees were up 15% year-on-year as we saw good momentum and some large deals closed
- We ranked number one in Global M&A wallet and gained share in every region
- And for the quarter, we announced and completed more deals than any other bank

Equity Underwriting Fees

- Equity underwriting fees were down 19% in a market that was also down and vs. a strong first quarter last year, which included a number of large deals
- This quarter, we ranked number three in a very competitive environment
- And debt underwriting fees were down 18%, driven by a slow start to the year, primarily due to increased market volatility, which reduced issuance
- Despite these headwinds, we maintained our number one ranking globally
- And looking forward to the rest of the year, across products, the overall pipeline remains strong

Markets

- Moving on to Markets, total Markets revenue was $6.6B, up 13% year-on-year reported
- However, as mentioned, this includes the mark-to-market gains we called out on the front page and also includes a reduction of about $150mm, reflecting lower tax-equivalent adjustments year-on-year

Adjusted Revenue

- Accounting for both of these items, Markets revenue would have been up about 7%
- Fixed Income Markets adjusted revenue was flat vs. a strong first quarter last year, with Rates and Spread Markets reverting to more normal levels following significant outperformance last year, being offset by strong Emerging Markets and Commodities performance
- It was a record quarter for Equities and revenue was up 25%, a well-diversified story, driven by broad strength and continued momentum throughout the quarter, with increased volatility benefiting all of Equity Derivatives
  - In addition, we saw share gains in Cash and continued client activity driving growth in Prime as the investments that we've made in the business are paying off

Treasury and Securities Services Revenue

- Treasury Services and Securities Services revenue were both $1.1B for the quarter and up 14% and 16% respectively, driven by higher rates and balances
- Securities Services also benefited from asset-based fee growth on both market levels and new client activity

Expenses

- Finally, expense of $5.7B was up 9% year-on-year, half being higher compensation expense with a comp-to-revenue ratio of 29% and the remainder primarily driven by higher transaction costs in Markets

Commercial Banking

- Moving to Commercial Banking on page 7, another very good quarter in this business with net income of $1B and ROE at 20%
- Revenue was up 7% year-on-year, driven by higher deposit NII, as we continue to benefit from higher rates, partially offset by lower IB revenue
- Sequentially, revenue was down 8%, largely driven by the impact of tax reform
- Gross IB revenue of $569mm was down 15% year-on-year on a lower overall industry wallet and fewer large transactions vs. last year
  - That said, the underlying flow of business remains robust
- In fact, it was a record quarter for Middle-Market clients and the pipeline looks strong

Loan Balance

- Expense of $844mm was up year-on-year, as we continue to invest in the business, both in bankers and technology
- Loan balances were up 6% year-on-year and flat sequentially
- C&I loans were up 5% on strength in our expansion markets as well as specialized industries, but down 1% sequentially, roughly in line with the industry
- CRE loans were up 7% year-on-year and up 1% quarter-on-quarter, as the competition is significantly elevated
- For both, while client sentiment is high in the wake of corporate tax reform and we remain hopeful that this will support higher demand later in the year, we're not seeing that yet and we are maintaining pricing and credit discipline

Credit Performance

- Finally, credit performance continues to be very good with zero net charge-offs this quarter
- Moving on to Asset & Wealth Management on page 8, Asset & Wealth Management reported net income of $770mm, with a pre-tax margin of 26% and ROE of 34%
- Revenue of $3.5B was up 7% year-on-year, driven primarily by higher management fees on growth in AUM as well as higher NII on deposit margin expansion and loan growth

Adjusted Expenses

- Expense of $2.6B was down year-on-year, as Q1 last year included nearly $400mm of legal expense
- Adjusted expense would have been up 8%, driven by higher external fees on revenue as well as higher compensation

Net Long-Term Inflow

- For the quarter, we saw net long-term inflows of $16B, including $5B in active equities, with strength across all regions benefiting from strong long-term performance
- We saw net liquidity outflows of $21B, largely driven by a combination of recent M&A activity and the impact of cash repatriation due to tax reform
- AUM of $2 trillion and overall client assets of $2.8 trillion were up 10% and 9%, respectively, on higher market levels globally as well as net inflows

Investments

- Deposits were down 9% year-on-year, reflecting the migration into investments which we've previously discussed, but were about flat sequentially on seasonally higher balances
- Finally, we had record loan balances up 12%, with strength in both mortgage as well as other loans globally

Corporate

- Moving to page 9 and Corporate, Corporate reported a net loss of $383mm
- The net loss of $187mm in Treasury and CIO was primarily due to losses related to securities sales
- The net loss of $196mm in Other Corporate reflects approximately $100mm after tax loss on legacy private equity investments as well as a net tax expense on adjustments and true-ups to certain reserves
- And you'll recall that last year included a legal benefit and last quarter, of course, included the impact of tax reform

Outlook

Tailwind

- Finally, turning to page 10 and the outlook, given Investor Day is only six weeks behind us, we've not changed our guidance for the full year of 2018
- So, to wrap up, we are pleased with the Firm's performance this quarter, with all of our businesses showing continued and broad strength in an overall environment that remains supportive. And while acknowledging the tailwinds of tax reform and higher rates, the consistent performance of business drivers is translating into top-line growth and positive operating leverage with revenues and pre-tax income both up double digits year-on-year

QUESTION AND ANSWER SECTION

<Q - John McDonald>: Wanted to ask about LIBOR – we saw a big increase this quarter. Can you remind us how LIBOR affects you, kind of pros and cons? Where do you have LIBOR sensitivity on the asset side? And where do you have it on the funding-cost sensitivity to LIBOR? And how should we think net-net about that?

<A - Marianne Lake>: Yes. Okay. So, I'll sort of end with the upshot, which is that net-net the impact to our results in the quarter was a very modest positive, so a pretty small number, but on the positive direction.

And we've actually seen this a little bit before, I can't remember, a year or so ago. We are more sensitive, as you know, to the front-end of rates, but principally to IOER and Prime. So, while we do have exposure to LIBOR repricing, it's both on the asset and liability side as you mentioned. And we also have exposure to a combination of one-month and three-month LIBOR.

So, if you look sort of net across the assets and liabilities sides, they materially offset. We don't have sort of significant mismatches. And so, as a consequence, obviously, we benefit from a higher level of absolute short rates, but the basis widening hasn't been very meaningful to our NII. And I mean examples of assets that we price off LIBOR would be the Commercial Banking loans and, obviously, unhedged or hedged long-term debt on the liabilities side.

<Q - John McDonald>: Okay. And then, just as a follow-up, wondering about the drivers of the 7% expected growth in fee income for this year. At Investor Day, you mentioned you've got some bounce-back from headwinds in Card and Markets, but also core growth of, I think, about $2.5B you mentioned. So, what are the drivers of that overall 7% fee income? If you could just give us some color there, that'd be great.

<A - Marianne Lake>: Yeah. So, I'll start with sort of three relatively big drivers. So, yes, as we have now sort of lapped the big Sapphire Reserve, high-premium vintages, our net acquisition costs are substantially lower and so that is a tailwind. Plus, we are seeing regular way BAU growth in the Card NIR sort of drivers.

Similarly, Markets, as we talked about after Q1 performance, that's a driver. And then, there's the ongoing sort of growth in the auto lease income space, which is significant.

Outside of that, you look at our underlying drivers across the board in terms of new accounts and debit trends and Card sales and asset management fees is a driver too.

So, there's obviously a level of market dependency to it, but a bit of the sort of outsized year-on-year increase is seeing the somewhat tailwind of Card and Markets, both in the trading and in the asset management space.

<Q - Glenn Schorr>: There is a comment in the prepared text on – in Lending and Commercial Banking being "intensely competitive and led to no real growth." Yet I saw the comments about 5% and 7% C&I growth and CRE growth. So, I wonder if you could just flesh that out a little bit more about the competitive landscape. And I guess that's a pricing issue mostly.

<A - Marianne Lake>: Yeah. So, I'll start with, y-over-y, we're still getting significant benefit from our investment in expansion markets. And also, as you know, we have a pretty unique sort of offering in terms of Commercial Term Lending. And so, for a period of time, in both of those spaces, we've been materially outperforming the market. And so we're still seeing the benefit of that in our y-over-y numbers.

Q-over-q – and the trouble with C&I loans is there can also be some volatility associated with held-for-sale, mortgage warehouse seasonality and stuff like that. So, q-over-q, what we're seeing is just the impact of the sort of overall industry-wide slowdown. And the fact that you're right, it's not just pricing, it's just generally we continue to be very selective and cautious, given where we are in the cycle.

But we're not expecting flat for the year. We're expecting growth in the mid-single digits for the year. And we still believe that there should be demand.

And in the CTL space and Commercial Real Estate more generally, that's where the competition really has stepped up very significantly. And that really is where pricing has become fiercely competitive and there's been compression.

<Q - Glenn Schorr>: Thanks. And I just wanted a quick follow-up on all the comments related to the capital proposals. The simple question I have is hearing you loud and clear on everything related to risk-based capital. But the clear improvement on the leverage side and the SLR, does that theoretically – I know this is just a proposal right now – would that theoretically free up more activity in repo land and other short-term investments that soak up leverage capital, but not much risk-based capital?

<A - Marianne Lake>: I mean, so, generally across the sort of whole industry, I'd expect the answer to the question is yes. But remember, for us, that we haven't been constrained by leverage, Tier 1 leverage, or SLR, so over the last several years and it's a result, obviously of the business mix we have and the operating model that we have that we can socialize some of our scarcest resources across the company. And so, we wouldn't expect our behavior to change materially.

<Q - Mike Mayo>: Can you just give a little bit more of your expectations for consumer and specifically digital banking? The active online users were up 5% y-over-y, but for the quarter, it was up 12% annualized, and I know there's always risk in annualizing a number. So, is that change in online users seasonal or is it structural? Just a little more color on that.

<A - Marianne Lake>: Okay. So, I'll give you my best thoughts. I would say it's a little bit more structural than it is seasonal and we've been seeing continued growth in both digital and especially, the mobile channels. And it's a lot to do with adding features and, as we talked about at Investor Day, making it compelling for people to digitally move money, which makes them become much more engaged in all of the good things that come with that.

In addition, we talked also I think at Investor Day about the fact that we've recently added digital account opening. And so, I couldn't give you exact amounts of which ones of those is driving what, but we would continue to expect a bit of a structural acceleration. Certainly, we hope for it.

<Q - Mike Mayo>: And then, a follow-up on that. So, is this money sticky or not and if you could elaborate more on the deposit beta? I know you've been pretty cautious saying that money could flee more easily, because if it's digital, it goes. On the other hand, does it become more sticky because you have these connections?

<A - Marianne Lake>: Yeah. So, I think we sort of talked about the fact that digitally engaged customers are more loyal, that they spend more, and they bring us more deposits and investments. So, we gave you the stats I think at Investor Day, we see more card spend both debit and credit, but we also see higher deposits and investments for digitally active customers. So, overall, it's really good for our franchise to have these customers engaged and we hope they also use our branches by the way.

With respect to deposit betas, we've talked before about the two theses. The first, which is the one that we generally subscribe to, is that a combination of the ability to use technology, the transparency and expectation of higher rates as well as potentially over time the value of retail deposits to liquidity that we would expect higher reprice. And we haven't changed our expectation on that, but we haven't seen it yet either. So, we're going to have to watch that movie play out.

There is the other side of that argument that other people, many people, subscribe to, which is the customer experience, investments, the convenience, the brand, the marketing, the digital features, the products, the services, the rewards, all become increasingly important and customers are less price-sensitive.

So, I guess, we'll all know it when it finally unfolds. As you know, we sort of take a little bit more of a conservative view, but where we are right now in the normalization cycle specifically, the sort of retail, checking and savings – we haven't yet seen that unfold. We have seen migration in Asset & Wealth Management balances and that's to be expected to be a leading indicator. So, this will unfold over the course of the next year or so.

<Q - Matthew O'Connor>: Can you provide an update on your interest rate sensitivity with the recent move in rates that we've had?

<A - Marianne Lake>: I'm sorry. Say again.

<**Q - Matthew O'Connor**>: Just an update on your interest rate sensitivity from here.

<**A - Marianne Lake**>: Okay. So, we've seen two things happen, I guess. We've seen – obviously, we've rolled forward a quarter. I think our earnings-at-risk disclosed at the end of last quarter was $1.7B. You roll forward a quarter and that comes down a little as you sort of realize the rate benefit, but we've also seen, as you know, somewhere in the sort of mid-40s basis point increase in rates sort of front-end, long-end, which will also have a somewhat significant impact. So, $1.7B will be down quite meaningfully, I would expect, at the end of Q1, but you'll see those disclosures in our Q.

<**Q - Matthew O'Connor**>: Okay. And then, just separately, within your trading businesses, not a surprise, there's a big increase in the average VaR. Obviously, there's a lot of volatility in a number of the products out there or the markets out there, but just any way to think about like how much the VaR increased? And you had some increase in trading revenues, but maybe not as much as one would think when you see the VaR up that much. Is there any correlation between those two from a magnitude point of view?

<**A - Marianne Lake**>: Yeah, I think it's extremely difficult to draw a straight line between VaR and all of its complexities and revenues in any one quarter. And if I just sort of unpick it for you, first – and by the way, just to reiterate that it's still at relatively low levels relative to historical norms when we've been in more normal trading environments with higher levels of volatility and inventory and the like.

So I would just unpick it and say, of the increase, more than half was related to volatility and, obviously, some of the volatility was somewhat significant. We wouldn't necessarily expect to see that level continue, albeit that we would expect to continue to see period or episodes of significant volatility, and a bit less than half to do with positions principally, but not exclusively as a result of higher levels of client activity in the CIB and you saw the balance sheet also go up and risk-weighted assets and so on.

<**Q - Erika Najarian**>: So, my first question to you, Marianne, is if the Stress Capital Buffer becomes final as proposed and now the industry has a BAU CET1 minimum that could move year-to-year, how does that change your outlook on how to think about dividends and buybacks from here?

<**A - Marianne Lake**>: Okay. So, I mean I would start a little bit with – so, when you say as written, if you take the last year's spot, Stress Capital Buffer, you've seen just from history for us that that could be significant. So, there are three observations I would have.

The first is, when we think about capital planning, I think rightly you would expect us, and we do think about over more than a one-year cycle and while we have very significant earnings capacity, we don't want to be sort of up and down and sideways, and find ourselves sideways. So, I think there will be some implications of the potential for volatility in the calibration of management buffers.

And so, whether it's in a higher or lower SCB or whether it has to be taken into consideration, so that we aren't caught sideways from a test result, that is, with respect, once a year and a little bit opaque.

The second thing I would highlight to you is, for what it's worth, we saw our Investor Day sort of, I won't say guidance, but sort of indication that we would expect to try and have payouts at or around 100% say +/-. And you see our ratios are a little bit below 12%. So, I think that puts us on reasonably solid footing regardless of the precision of it to sort of understand how the rules play out.

Finally, I hope and I believe, I suspect, that through the comment period, the implications of volatility will be properly explored and that hopefully there will be some sort of mechanism considered to accommodate smooth or otherwise allow for things not to be whipsawing around based upon the specificity of the test.

At the margin, I guess, the fourth point, but – and not something that we overthink – is having the four quarters of dividends explicitly included, notwithstanding that the soft cap is lifted, kind of makes it dollar-to-dollar capital. So, at the margin, I guess that makes people think carefully, but we would still want to pay out a strong healthy dividend on growing earnings.

<Q - Erika Najarian>: Got it. And my follow-up question, I wanted to follow up to your response to Glenn's question on SLR. I think there was some excitement from your investors, if you look at your Q4 banking sub-SLR, I think it was 6.7% off of a 6% minimum and that would clearly go to 4.75%. But just to make sure I understood your response, even if you could add a low risk-weight exposure according to that constraint, that leverage exposure feeds into the size component of the GSIB surcharge calculation. And so, for there to be more freed balance sheet, you also really need to recalibrate the GSIB surcharge. Did I get that?

<A - Marianne Lake>: Yeah, I mean that's definitely one of the factors, but just the other sort of slightly cruder first-order factor is we are running 70 basis points above our minimum. So, if you reduce the minimum by another 100 basis points or 200 basis points, whatever the number is, we already had excess capacity. And so, when we think about the use of our resources, we obviously think about let's maximize SVA.

And so, we haven't felt extraordinarily constrained, I would say. So, it's that kind of just sort of basic we haven't been maybe as constrained as maybe others have been. And that is what it is and so while we'll continue to make every decision incrementally, based upon marginal SVA, but you are right, you have to take into consideration all the knock-on impacts. I mean, our stock price alone impacts GSIB.

<Q - Betsy Graseck>: Question on LIBOR. I know you discussed it relative to the loan book. I'm wondering if you could give us some color on how the LIBOR changes impacted trading.

<A - Marianne Lake>: Yeah. So, look, I would say that in the Fixed Income space, it was a sort of discussion and it was a feature or a factor. And even in Equities, to be honest, that it was part of the discussion, but I wouldn't say that we could point to it materially impacting our trading results.

<Q - Betsy Graseck>: And then, the follow-up is just on the mark-to-market gains that you called out, the $505 million. It looks to me like you've called it out as more towards your gains on certain equity investments. I just wanted to understand why it's really showing up in Fixed Income instead of Equity trading line. Is that the correct interpretation of the slide?

<A - Marianne Lake>: Yes. So, think about – so many of these investments are years old, many years old, and think about them as strategic investments that relate to business activity. For example, illustratively, like in financial market infrastructures or clearinghouses or exchanges or so on, also some strategic investments potentially related to other parts of the business.

So, it just happens to be the case that those investments years ago relate and continue to relate to Fixed Income more than Equities and they were previously held at cost. And as there are observable prices, as you know, for this quarter, we have to reflect that. So, it's really the nature of the investments.

<Q - James Mitchell>: Maybe just a question on the TCJA. I know there's overall wondering if it's going to have an impact on loan growth, but what about credit? Do you think that that has any positive impact, I guess particularly on the corporate side with higher cash flows going forward at a lower tax rate? How do you think about reserving and your expected loss rates going forward?

<A - Marianne Lake>: Yeah. I would say across the board actually, all the way from small business through middle-market, we're expecting sort of higher earnings, more FCF and, generally speaking, that would improve the sort of credit quality of the portfolio.

And we will only really see that come through as we get financials and see that in the financials and are able to reflect that in our internal ratings. But we would expect to see some positive lift as a result of that over time.

So, no doubt it helps, but it helps in a rising rate environment. So, there's a lot of plusses and minuses, but, yes, it's a tailwind for credit overall.

<Q - James Mitchell>: Right. Okay. Thanks. And then, maybe just following up on asset yields, you saw overall asset yields jump pretty nicely given the higher rate environment, but securities portfolio yields were down. Is that sort of a shortening duration or just a mix issue? Shouldn't we expect securities yields to be moving higher in this environment?

<A - Marianne Lake>: Yes, you should. What it is actually is the tax-equivalent adjustments that I mentioned. So, you're seeing the sort of relative impact of sort of lower tax gross-ups in the muni portfolio in investment securities. If you were to adjust for that, they would have been up in line with rates.

<Q - Ken Usdin>: Hey, Marianne, you mentioned that on the Consumer side, you had no incremental reserving actions. And I'm wondering if you can just kind of give us a state of the consumer to that extent. Are you feeling just better? Or was it also related to kind of just the growth math starting to look a little bit better in Card and Auto?

<A - Marianne Lake>: So, I would say we still feel really good about the consumer, I mean really good. And so, while you can look at the sort of overall sort of levels of consumer indebtedness and look at the fact that they've reached a peak and student lending is driving that in a large part, it's also clearly the case that people have had a long time to repair their balance sheets and term out debt at low rates and become more liquid. And so, sort of debt service burdens are still manageable and confidence is high and tax should be a benefit, generally speaking.

So, overall, we still feel pretty good. And it's showing a little bit in our sort of consumer spend data where we're seeing that confidence continue to sort of spur a bit in spending.

With respect to reserves, so our expectation and our belief about the strength of Consumer continues to be optimistic. And then further, of course, you know that our portfolio particularly is skewed towards higher quality credit. And so, we aren't seeing any signs of fragility or deterioration across the portfolio across the board. So, we feel pretty good.

<Q - Ken Usdin>: Got it. And on my follow-up, the Card revenue rate, it was nice to see it really spike up 11.6%. And then you guys have been talking about getting to 11.25% by mid-year. Any updated thoughts on just that trajectory and where you expect that to go over time now?

<A - Marianne Lake>: Yeah. So, I mean, much like we talked about with Card charge-off rate, there is some seasonality. So, Q1, the revenue rate would normally be seasonally higher.

Having said that, you're right, we did see some revenue outperformance in the Card space a little bit. And so, at this point, if you were to ask me 11.25%, while it certainly is very, very solid, expectation probably higher for the year.

<Q - Saul Martinez>: Oh, I'm sorry about that. Sorry, a little scattered this morning. I have a lot going on.

But, yeah, and I apologize if you already addressed this question, Marianne, but can you just talk to how you're feeling about the pipeline in Investment Banking? Obviously, it was a little bit of a soft quarter for you and for everybody.

And just how are you thinking about the pipelines, deal activity in light of Daniel's – I think Daniel's guidance at the Investor Day. Your expectations that Advisory and ECM might be up a little bit, DCM down a little bit. I don't know if you guys have any updated thoughts on the outlook.

<A - Marianne Lake>: Yeah. I mean, first of all, I would just talk a tiny bit about the quarter, because I think it's important and it's instructive. So, first of all, this quarter last year was a record. And so, not that we don't always want to repeat or – and beat those, I still feel like we did pretty well. And it's a little bit like the Fixed Income story. Last year Equities and – Equity Markets and DCM was up and M&A was less strong. And this year, that turned around. And I would say, as we look at the results in ECM and DCM that were down, there were a few – we were under-indexed to the larger fee events for a combination of reasons, some outside of our control and some regrettable.

And also some deals that we had hoped would close moved into the second quarter, which is all to say that actually if you look across the board, M&A still looks strong, DCM and ECM pipelines also look strong. Overall, the pipeline is well ahead of this time last year. So, as long as the market remains constructive, we should continue to see reasonable momentum across products. But as you say, thematically M&A and Equities they're likely to benefit more strongly than DCM in a rate-rising environment.

And so, confidence is strong, activity levels, you saw announced volumes are up. We printed a number one wallet M&A quarter. So, as long as market volatility, regulatory driven fiscal uncertainty doesn't escalate, we're feeling pretty good about Q2 and into the year.

<Q - Gerard Cassidy>: Can you give us any color on – when you look at your franchise, your Consumer franchise, is there parts of the country that are more competitive for deposits, whether that's metro New York vs. California vs. Texas? And could you give us some color on what you guys are seeing geographically on deposit growth and the competition?

<A - Marianne Lake>: Yeah. So, I mean I'll make you some thematic comments and if you still have questions, you can maybe speak to our IR, because I don't have everything in front of me, but I will tell you this, we compete with everyone across the board. We compete with the large money center banks and we compete with regional banks, with local banks and so there's plenty of competition in all markets. And we monitor the market dynamics, as you say at a pretty granular level.

And so, we will respond accordingly and I think we do pretty well across the board. And I wouldn't call any one out as standing out or any one out as clearly being more challenging. But that's an ongoing sort of iterative dynamic process. So, we compete – everywhere we compete, we compete with a lot of people who want these high-quality liquidity deposits and they want these relationships and so do we.

<Q - Gerard Cassidy>: Okay. And I apologize if you addressed this, I had to jump off the call for a minute. The deposit beta, where does it stand today for you folks? And on Investor Day, you gave us a very good trajectory of where you think it's going to. Are you still on that trajectory of where you think you should be?

<A - Marianne Lake>: Yes. So, with deposit betas, you have to sort of dig deep because there's a sort of full spectrum. We are, as an industry, firmly on a reprice journey, no doubt. And so, the sort of state of play and the maturity of that reprice journey depends upon the specifics of the business and the client. And so, at the Wholesale sort of top-end, reprice is really reasonably high. Not to say that there's nowhere left to go, but it's reasonably high and pretty consistent. And as you go down through into the middle-market space and small business and all the way down to the retail space, it's still relatively early days, given the absolute level of rates.

And so, we continue to see the journey. As I said, we've seen migration in Asset & Wealth Management now for a few quarters. As people are sort of reassessing deposits vs. investments, we're retaining those investments. So, we feel good about that, but that is generally a precursor to what we will see in retail at some point in the future and not yet, but with respect to the final part of your question, which was are we still feeling like the trajectory we showed you is our central case and the answer is yes at this point.

<Q - Chris Kotowski>: You touched on this in a tangential way, but let me ask it a different way. If we look at your Card fees on a consolidated basis, back in 2014, 2015, before you had the Sapphire launch, it was running around $1.5B a quarter. It bottomed out late 2016 and early 2017 at $900mm and now you're up to the $1.275B. As Sapphire completely matures, should we expect that to go back to the $1.5B, $1.6B a quarter, or is that ancient history and not indicative of anything?

<A - Marianne Lake>: So, I can't really comment in dollars. I'll tell two things. The first is that we've given you, so for 2018 anyway, our expectation of the revenue rate that will be, now likely above the 11.25% we've previously said. I will tell you we are largely – we have lapped. We have lapped the Sapphire Reserve quarters now, right. So, the big quarters, the 100,000 point premia quarters, those were in the fourth quarter of 2016 and the first quarter of last year.

So, I would call that in the rearview mirror now and, from here, we grow with the growth in the accounts and the businesses and the spend. So, we still expect to grow, but remember that also in that re-baselining and I can't remember which period you called out, but also remember we have gone through a whole renegotiation of all our Card co-brand relationships too, that have an impact.

So, growth will be an offset. We've had some structural step-downs for the reprice of the co-brand, albeit there're still great partnerships and we consider them very valuable. Sapphire we've lapped and, from here, hopefully we just continue to grow.

<Q - Alevizos Alevizakos>: Hi. Thank you very much for taking my question. I was wondering, Equities clearly was strong in the quarter, but I was wondering if you could give us some geographical split. I'm particularly interested, since I'm based in Europe, to see if you witnessed any impact from the new regulation, especially MiFID II, in either Cash or Derivatives. Thank you.

<A - Marianne Lake>: Sure. So, let me just start like at the top of the house and say that we've been talking about globally investing in bankers and salespeople and technology and building out our platforms across the Cash and Prime space. It is the case, because we were not competitive in sort of international synthetic Prime years ago and we now have an among best-in-class sort of platform that has been part of the growth driver. So, I would say, EMEA international Prime has been a bright spot.

Generally, so MiFID II, so I would say that there was a concern about pullback in trading. We saw a bit of hesitation, particularly actually in Fixed Income, less so in Equities, but the markets were generally being quite resilient. And so, we're still in the relatively early days and within the results that we have articulated to you, we've seen material increases in EMEA electronic trading, which we think will be likely somewhat permanent. Where people are choosing to do high-touch cash trading, we're seeing some concentration amongst players, which is also to say that we are seeing the industry wallet decline and margins compress. But for us, in particular, we're also benefiting from higher volumes. We think we're gaining some share and we're benefiting from some of that concentration among top players. So, net-net, yes, I think there's been some pressure on the in-scope wallet, but less so than you would think for us and then it's early days. We'll just have to keep watching it.