Company Name: JPMorgan
Company Ticker: JPM US
Date: 2017-01-13
Event Description: Q4 2016 Earnings Call

Market Cap: 310,235.51
Current PX: 86.70
YTD Change($): +.41
YTD Change(%): +.475

Bloomberg Estimates - EPS
Current Quarter: 1.565
Current Year: 6.502
Bloomberg Estimates - Sales
Current Quarter: 25567.625
Current Year: 102555.000

Q4 2016 Earnings Call

Company Participants

- Marianne Lake
- Jamie Dimon

Other Participants

- Kenneth M. Usdin
- Elizabeth Lynn Graseck
- John Eamon McDonald
- Erika P. Najarian
- Mike Mayo
- James Mitchell
- Paul J. Miller
- Glenn Schorr
- Matthew Derek O'Connor
- Brian Kleinhanzl
- Eric Wasserstrom
- Steven Chubak
- Andrew Lim
- Gerard Cassidy
- Matthew Hart Burnell
- Marty Mosby

MANAGEMENT DISCUSSION SECTION

Marianne Lake

Financial Highlights

Net Income and Tax Assets

- So starting on page 1, we had a strong end to the year with record net income for a Q4 $6.7B, EPS of $1.71, and return on tangible common equity of 14%, on revenue of $24.3B, reflecting strong performance broadly across our businesses in a more constructive environment
- You'll see on the page a tax benefit of $475mm included in the result in the CIB, as we were able to utilize certain deferred tax assets
- The quarter would still have been a record without that benefit

Core Loan Growth and Sales Volume

- Highlights for the quarter included:
  - Core loan growth of 12%, with strength across businesses

- Continued double-digit consumer deposit growth, ending with deposits over $600BAnd record card sales volume, up 14% on continued strong momentum

- In addition, Markets revenue was the highest on record for a fourth quarter, up 24% year on year
- And credit performance remained strong, with net reserve releases across both Consumer and Wholesale

Revenue and Net Interest Income

- Moving on to page 2 and some more detail about Q4, revenue of $24.3B was up $600mm or 2% year on year, driven by net interest income on the back of continued strong loan growth as well as the impact of higher rates
- Non-interest revenue was flat year on year, with strength in Markets offset by higher card new account acquisition costs

Adjusted Expense

- Adjusted expense of $13.6B was flat year on year, and this quarter's results included nearly $200mm of after-tax legal expense
- Credit cost of $860mm in the quarter included a net reserve release of a little over $400mm across Consumer and Wholesale
- Energy remained stable, and we saw modest releases in both oil and gas and metals and mining

EPS

- Shifting to the full year on page 3, another full-year record net income of $24.7B and a return on tangible common equity of 13% on $99B of revenue
- While net income was up 1%, our EPS of $6.19 was up more than that as we continued our disciplined capital return to shareholders
- Revenue was up $2.5B, driven by NII, up $2.7B on the back of loan growth and the impact of higher rates
- Non-interest revenue remained flat year on year, reflecting strength in Markets and funding card new account acquisitions as well as lower asset management revenues

Adjusted Expense

- Adjusted expense for the year came in at $56B, as expected
- And our adjusted overhead ratio increased to 57%, as we continued to execute on, and near the end of, our strategic cost programs in CCB and CIB, as well as self-funding investments in growth of nearly $1B year on year
- In addition, legal expense for the year was a modest positive

Credit Cost and Net Charge-Off

- Credit cost for the year was $5.4B
- Net charge-offs of $4.7B were in line with guidance and included $270mm of charge-offs related to oil and gas and metals and mining

- And we added $670mm of net reserves, reflecting builds in card and energy, largely offset by releases in mortgage
- Finally, net capital distributions for the year were approximately $15B, up $4B, or 37%, including dividends of $1.88 per share, up 9%

Capital

- Turning to page 4 and capital, we ended the year above 12%, with both standardized and advanced fully phased-in CET1 ratios in line with our expectations
- Net capital generation for the quarter, while positive, included a 16 basis point impact of higher rates on investment securities AOCI
- The advanced ratio improved, primarily due to lower counterparty and market risk, whereas standardized was up by less, reflecting the impact of high-quality loan growth
  - We've been disciplined managing our balance sheet, and our average balance sheet for the quarter was a little over $2.5 trillion and $1.5 trillion of RWA
- SLR was down slightly from the prior quarter at 6.5%, as our average balance sheet was higher this quarter, primarily driven by deposits

Consumer & Community Banking

- Moving on to page 5 and Consumer & Community Banking, Consumer & Community Banking generated $2.4B of net income and an ROE of 17%
- We grew deposits a record $60B y-over-y, up 11%, exceeding $600B.
- Core loans were up 14%, with mortgage up over 20%, with strength across all products - Auto up 11%, Business Banking up 9%, and Card up 8%

Card Sales Volume

- We saw record card sales volume in the quarter, up 14%, marking the strongest growth in a decade
- Card new account originations were up 8%
  - They were up 20% for the full year, driven by strong demand for new products
- And nearly 80% of those accounts were opened through digital channels

Active Mobile Customer Base

- Merchant processing volumes were up 10% year on year and surpassed the $1 trillion mark last year
- And our active mobile customer base continues to grow and was up 16%
- Revenue of $11B was down modestly year on year, reflecting a reduction in card revenue
- Recall that last year included $160mm gain on the Square IPO.
- And in addition, strong momentum in Card and Auto was more than offset by the investments in our Card new account acquisitions

Revenue

- Consumer & Business Banking revenue was up 4% on strong deposit growth
- And Mortgage revenue was relatively flat, as higher production margins and volumes were offset by lower servicing revenue on lower balances
- Expense of $6.3B was flat year on year, as growth in the business was largely offset by continued expense efficiencies and lower legal

Credit Trends

- Finally, the credit trends in our portfolio remained favorable
- We saw net reserve releases in the quarter driven by mortgage on lower delinquencies as well as improving HPI, with releases of $275mm in the PCI portfolio and $150mm in NCI
- On PCI specifically, actual losses have been lower than modeled output, and the release this quarter reflects that trend
- We will continue to observe actuals and recalibrate our models as necessary, which may result in future releases
  - These releases in mortgage were partially offset by a build in card of $150mm and $50mm in Business Banking, both on the back of strong loan growth

Auto

- Charge-offs increased y-over-y, driven by card, as newer vintages continued to season in line with our expectations
- And in Auto, we are watching industry trends in subprime and used car prices, but our heavily prime Auto portfolio continued to perform well

Corporate & Investment Bank

- Now turning to page 6 and the Corporate & Investment Bank, CIB delivered a very strong result, with net income of $3.4B and an ROE of 20%
- Adjusting for legal, tax, and credit costs, the ROE was a strong 17% for the quarter
- Revenue of $8.5B, up 20% year on year, was our best reported performance ever for a fourth quarter

M&A, ECM and DCM

- As we look at the full year, a moment on league tables
  - In Banking, we ranked #1 in global IB fees and #1 in North America and EMEA
- And we were the only bank among the top 5 to grow share
- In M&A, we continued to rank #2 globally, and did more deals than anyone else last year
- In ECM, we maintained our #1 ranking, improved our share, and were #1 in volume, across all products, and in both North America and Europe
- And in DCM, we ranked #1 across High-Yield, High-Grade, and Loans

IB Revenue and Fees

- Back to the quarter, IB revenue was $1.5B, up 1% year on year
- Advisory fees were down 17% from a strong prior-year quarter, and impacted by lower announced volumes in H1 last year
- Equity underwriting fees were down 5%, a little better than the market, with strong performance in North America
- And debt underwriting fees were up 32%, relative to a weak prior-year quarter, on strong flow issuance as well as acquisition financing
- Treasury Services revenue of $950mm was up 5%, driven by higher rates and operating balance growth as well as higher fees on increased payment volumes

Markets

- Moving on to Markets, another strong quarter, with the highest revenue on record for a fourth quarter in total and for each of Fixed Income and Equities
- And like last quarter, the strength was broad-based
- Revenue of $4.5B was up 24% year on year, in part flattered by a weaker fourth quarter last year, but on the whole driven by momentum carried forward from Q3 and the ability to capture flow from higher volatility and client activity
- The backdrop was that of a healthier global economic outlook, increased optimism, and global political developments

Fixed Income Revenue

- More specifically, Fixed Income revenue was up 31%, as we saw increased client risk appetite for spread products as well as clients actively hedging commodities in a better energy market
- And Equities revenue was up 8%, reflecting strong performance in derivatives
- Credit costs were a benefit of nearly $200mm, primarily driven by oil and gas and metals and mining
- And finally, expense of $4.2B was down 6% year on year, primarily on lower compensation, resulting in a comp-to-revenue ratio of 27% for the full year

Commercial Banking

- Moving on to page 7 and Commercial Banking
- Another outstanding quarter in Commercial Banking, with net income of $687mm, record revenue of $2B, and an ROE of 16%
- Revenue was up 12% and expense down 1%, with an overhead ratio of 38%
  - Loan growth remains robust
- Credit performance remains strong, and client sentiment has improved
- Revenue growth was driven by higher deposit NII and loan growth, with loan spreads holding steady as well as higher IB revenue with good underlying deal flow

- For the full year, IB revenue was a record $2.3B, up 5% year on year, as we gained share

C&I and CRE

- Expense was down slightly, with the impact of impairments in the aircraft leasing business last year offset by investments we've made in bankers and technology this year
- We ended the year with record loan balances of $189B, up 14% year on year, with growth in both C&I and CRE
- C&I loans were up 9%, as the investments we've made in specialized industry coverage as well as adding over 130 net new bankers this year contributed to growth
- And CRE loans were up 19%

Credit Performance

- Finally, credit performance remained strong, with a net charge-off rate of 11BPS, driven by a couple of Oil and Gas names largely reserved for
- And we saw a modest increase in loan loss reserves, driven by select client downgrades
- In CRE, we had no net charge-offs, and we reiterate three-quarters of its portfolio is multifamily lending to owners of stabilized Class B and C properties in supply-constrained markets
- And the remainder is real estate developers that we know well, and we continue to be disciplined and limit exposures to riskier segments of the market

Asset Management

- Leaving the Commercial Bank and moving on to Asset Management on page 8
- Asset Management reported net income of $586mm, with a 30% pre-tax margin and an ROE of 25%
- Revenue of $3.1B was up 1% year on year, driven primarily by strong banking results on higher deposit NII and continued loan growth, predominantly offset by prior-period asset disposals
- Expense of $2.2B was down 1% year on year

Liquidity Flow

- For the full year, we had long-term net inflows of $23B in a challenging environment, driven predominantly by Fixed Income, Multi-Asset, and Alternatives
- In addition, we gathered $24B of liquidity flows this year
  - However, for the quarter, we saw net long-term outflows of $21B, obviously disappointing
- But on a more positive note, we saw liquidity inflows of $35B this quarter, gaining share and strengthening our leadership position during this period of money market reform

AUM

- AUM grew 3% year on year and overall client assets 4% to $1.8 trillion and $2.5 trillion respectively, driven by net inflows as well as higher market levels
- And our long-term investment performance remained solid, with 80% of mutual fund AUM ranked in the first or second quartiles over five years
- And we had record loan balances, up 4%, and record deposit balances, up 9%

Corporate

- Moving to page 9 and Corporate
- Treasury and CIO was flat quarter on quarter, with a net loss of around $200mm
- And Other Corporate was a loss of $144mm, primarily driven by legal expense

Outlook

Net Interest Income

- Turning to page 10 and the outlook, looking forward to Q1, expect net interest income for the Firm to be up modestly, reflecting the impact of the December rate hike as well as continued loan growth
- For Asset Management, expect revenue will be slightly less than $3B, reflecting seasonality of performance fees
- And recall that last year's first quarter included $150mm gain on the sale of an asset

Expenses

- On expense, expect CCB to be up around $150mm sequentially on higher auto lease depreciation as well as seasonally higher compensation and marketing
- And expect expense in the Commercial Bank to be up quarter on quarter to around $775mm, as we continue to invest
- Obviously, we are looking forward to Investor Day, and we'll give you more detailed 2017 guidance then

Summary

So to wrap up a record fourth quarter and a record year, both net income and EPS, demonstrating the strength of the platform

We enjoyed revenue growth

We met our expense and capital commitments, increased payouts to shareholders, and generated good returns on higher capital

As we move into the new year, we remain well-positioned and are excited about the opportunities to grow the business by serving our clients and communities

QUESTION AND ANSWER SECTION

<Q - Kenneth M. Usdin>: Marianne, I was just wondering. I know you'll give us more at Investor Day. But just in terms of that first quarter starting point for NII and just how it translates between growth in the balance sheet, and then you mentioned the benefit from the rollover in rates, can you help us just try to think about how you parse those views out and think about volume vs. rate?

<A - Marianne Lake>: Yes, so hey, Ken, you guys have a busy day today. I would say that Q1 is always a quarter in which we have a bunch of different factors. Most notably you also have day count issues in Q1, so I can go through that. But I would say most of the benefit, which we expect to be up modestly, will be driven by the rate increase, with growth being offset by day count. That's fundamentally how to think about it.

It's probably more instructive to think about the full year. And so if you recall back to Q3, just to reorient everyone, at that point when we didn't have the December hike, we said rates flat. So on growth alone, we would expect NII for the full year to be up about $1.5B. Obviously, we have had the 25 basis point hike in December. And based upon that alone, so now with the new rate flat, that $1.5B would be about $3B, a little over $3B. So for the full year, we're expecting on the December hike alone that it would be about half volume and about half rate.

<Q - Kenneth M. Usdin>: Understood, great. And if I could ask a follow-up, just on the volume side, you had another great year of double-digit loan growth. And obviously, we're at this intersection between what was and then what will be. Any change to that expectation that you could just grow the loan book, core loan book that is, as strongly as you have in the past three years?

<A - Marianne Lake>: Yes, so I think the way to think about it, and again I think we talked a little bit about it last quarter and you maybe see it in Q4, so we've been growing our loans in the – we said at the beginning of the year 10% to 15%. We've revised that to be at the top end of that range. So we've been growing at around 15% core loan growth. Q4 was 12%. So I wouldn't call it a deceleration per se, but it is a little bit lower.

So I think going into 2017, our expectation is that we would continue to grow loans strongly but possibly at the lower end of that range rather than the higher. And of course, to a degree it will depend upon our Mortgage portfolio, but we intend to continue to add to that too. So sitting here today, I'd say more high single, 10% +/-, and we'll give you more updates at Investor Day.

<Q - Elizabeth Lynn Graseck>: I just wanted to dig in a little bit on the forward look NII up a bit, but also expenses up a bit, and I just wanted to understand. Is that because you've got the opportunity to reinvest in things that you haven't been able to? And if you could, just speak to what kind of timeframe the reinvestment will yield returns because the question I've gotten from people is why aren't you dropping the NII benefit to the bottom line here.

<A - Marianne Lake>: So just taking the two things separately, Betsy, I would say the NII upside is dropping to the bottom line, but you saw all of our underlying drivers across all of the businesses. Volume, transactions, everything is growing very strongly. And although we still have some work to do to finish the large expense programs, we're near the end of that. So just generally speaking, we're continuing to invest in the businesses, and we'll see the improvement in our expenses flatten out and start to grow with volumes. And that would also support growth in non-interest revenue outside obviously of the card phenomenon that we've talked to you about.

<Q - Elizabeth Lynn Graseck>: And then the related follow-up has to do with how you're thinking about the excess cash you've got and the balance sheet duration, and if there's anything in this new interest rate environment that you would be seeking to do to optimize…

<A - Marianne Lake>: Sorry, carry on.

<Q - Elizabeth Lynn Graseck>: To optimize your position.

<A - Marianne Lake>: So when we think about our investment securities portfolio, we think about it as responding to structural changes in our balance sheet, which are predominantly driven by loans and deposits. And it's always important I think to remember, because we focus a lot on structural interest rate risk, that it also is liquidity and liquidity risk. In this quarter, there was a combination of things. You saw that we grew deposits more strongly than loans this quarter, so we had some excess cash as well as the fact that the rates rose. So two things happened in our investment securities portfolio. Mortgages extended and we did add to duration. But we have a very disciplined risk management framework that's based – that's been consistent through time and based on our expectations for normal rates in the future, and we just executed on that strategy.

<Q - Elizabeth Lynn Graseck>: So no change to the duration?

<A - Marianne Lake>: Yes, we added to duration in accordance with our framework.

<Q - Elizabeth Lynn Graseck>: Okay.

<Q - John Eamon McDonald>: I was wondering if you could comment a little bit about some more color in Card trends. You have exciting new products out there. How are the economics of the Sapphire Reserve card been coming in relative to your expectations? And what factors drove the decision to cut the original promotion award back, and should that affect your account acquisition costs? Thanks.

<A - Marianne Lake>: Great. So obviously, the Sapphire Reserve card is still quite young or still quite new. But relative to our modeled expectations, even at the intro promo premium, things are coming in, in line or better than our expectations. Now obviously, we need to continue to back-test that through time, but we're very encouraged by not only the excitement in our customer base but also the way that the trends are performing in terms of spend and engagement.

But when we introduce a new product, we intentionally introduce a very exciting premium promo. And it's intended to generate excitement, and I think you would agree it did, so we're delighted with the response that we've had. And we've actually kept it up for longer than we initially expected, but it's normal for us to come down from those intro rates as the product becomes more mature, and that's what we're doing. But to be very clear about our expectations of the performance of the card, even at 100,000 points, we still expected the card to be a strong return and very accretive. So obviously at a lower premium, it would be more so.

But one last thing I would say is everybody gets very interested in the upfront points. It's our opinion that the real value to consumers of that card happens over time with their spend behavior. And to take the points down from 100,000 to 50,000 have less than a 10% reduction in the overall value through the lifetime of an engaged customer on average.

<Q - John Eamon McDonald>: Okay. And just as a follow-up on that, in terms of the card credit quality, it's been very good. Would you still expect to see, though, some seasoning as the book matures? What kind of outlook would you have on the card charge-offs?

<A - Marianne Lake>: So the charge-offs came in for the year at 2.63%, which is in line with the guidance that we gave I think in November that Kevin Watters gave. He's given guidance for 2017 as we continue to see the newer vintages season, up 2.75% +/-, and that's been our expectation. So the newer vintages are performing in line with our expectations.

<Q - Erika P. Najarian>: I know that you've said previously that regulatory reform or regulatory relief will unlikely have any fundamental change in terms of how you're thinking about budgeting, but I'm wondering if you could help us understand over the past few years, how much have regulatory costs grown? And has that peaked anyway? And can you give us a sense of how that could trend over the next few years, either the natural trend of it or what the impact would be of regulatory reform?

<A - Marianne Lake>: So I'll give you a couple of things, and hopefully that will help. So I think a year or so ago, we talked about the fact that – I'm going to now talk about cost of controls more broadly than just regulatory. The cost of controls had increased for the company by about $3B over several years, but that we expected they would peak and start bending down, and that is indeed what we have been seeing. Now I'm not saying that that bend down is a sharp bend as we continue to be held to very hard compliance burdens. But nevertheless, we are seeing some efficiencies as we mature our processes and automate them.

Offsetting against that and one of the reasons why it may be less obvious is that we've continued to increase our spend in cyber security as we want to protect the bank and the customers' data. So naturally, that is happening. We are not going to continue at this point carving out the cost of regulatory or control because that is our operating model, it's our new normal. And until we understand whether or not the forward-looking landscape is changed, we won't be able to give you any kind of idea about how and when that will impact our expenses, but we will continue to be more and more efficient. And certainly, if we are able to take a step back and look at the rules and regulations and the way that they are being implemented and make rational changes to it, if that is something that allows us to become more efficient, then we will certainly do that and keep you informed.

<Q - Erika P. Najarian>: Great. And just as a follow-up to John's question on Card trends, when you look at the Card revenue rate declining about 200BPS or so y-over-y, is your response to this question essentially implying that we've potentially hit peak promotion in 2016, and perhaps the revenue rate will have some stability to it in 2017?

<A - Marianne Lake>: So I think in the conference in November, Kevin Watters said that as we look at the new products and we look at them growing, coming out in 2016 into 2017 we'd expect the Card revenue rate for the year next year to be about 10.5%, after which as the cards and the accounts season and drive revenue growth, we should see that continue to trend back up to 11% and above.

<Q - Mike Mayo>: Jamie, your comments said that the U.S. economy may be gaining momentum. If you could give some of the basis for that comment, is it more risk borne by investors or more CapEx by companies, or is this more hope?

<A - Jamie Dimon>: I think it's actual detail of retail spend, auto sales, house prices, household formation, confidence numbers. So I'm not basing it on the market; I'm just basing it if you look at a broad range of things. And it looks like growth may have gotten a little better in Q4. Plus, if you take a walk around the world, Japan is doing a little bit better. Europe is doing a little bit better. In fact, one of the IMF reports or something that came out yesterday and thought that global growth will tick up next year, so it's just those factors.

<Q - Mike Mayo>: Is that enough for you to say you're going to invest a little bit more or hire some more people or extend a little bit more? And along those lines, how do you see market share gains potentially?

<A - Jamie Dimon>: It's not going to change our plans very much because we don't really react that much to the weather because when you grow to add bankers or stuff, you know you have to do it through a cycle. I do think if there's some regulatory relief, you will see banks be more aggressive and growing, opening branches in new cities, adding to loan portfolios, seeking out clients they don't have. So I'm hoping that we'll see a little bit of that too, but that will wait for a little regulatory relief.

<Q - Mike Mayo>: Are you saying this might be a little bit more than just weather, that this might be more sustainable when you say the economy might be turning?

<A - Jamie Dimon>: I'm saying we don't react to a small change in the economy to how we grow and expand our business. But as I said it looks to us, if you look across the broad spectrum, CapExs, business confidence, consumer confidence, household building, household formation, wage income, wages going up, unemployment going down, auto sales going up, retail sales going up, it looks like it's getting stronger, not weaker. That's what it looks like to me. That's just my own personal belief.

<A - Marianne Lake>: Maybe just if we give you a bit of insight into the philosophy about how we do our investment and expense budgeting, when we talk to our businesses, regardless to Jamie's point about necessarily whether the external factors are moving, the question is what do we want to do in terms of products and services and technology and bankers and offices that we can execute on well and responsibly. And that is typically what binds us, not our appetite to invest the dollars.

So I think we've told you pretty consistently, and you've seen it, we added 130 net new bankers. We opened the eight offices in the Commercial Bank. We're investing in technology very, very broadly, payments, digital, across the company. So I would say that we don't feel like we've been held back in terms of our appetite to invest because of concern around the economy. And in the same way, a more confident outlook in the economy won't step-change that, but we will continue to look for great investments everywhere we can and make them.

<Q - James Mitchell>: Maybe we could just talk a little bit about the Investment Bank. Obviously, your peers and a lot of investors have been growing in their optimism for this year in terms of animal spirits and everything else, and I just wanted to get a sense of how you're thinking about it. Do you share that optimism, and any commentary on how we can think about both banking and trading into the new year with all the moving parts that we have around policy et cetera? Thanks.

<A - Marianne Lake>: I would say if we separate the two and just talk for one second about Banking, the fundamentals for a solid M&A year are there, and obviously there will be puts and takes depending on what happens in the policy and reform space. But we're optimistic about a solid M&A market but with the continuing trend of fewer mega-deals but nevertheless good flow. ECM looks set to be quite active and the IPO market continuing to recover. And Debt Capital Markets have a solid pipeline in terms of the refinance arena, but having said that, interest rates may have an impact. So I think pretty solid pipeline coming into the year, but lots of factors will ultimately affect the full year.

With respect to trading, as Jamie said, we don't look at the first couple of weeks, but so far so good. And what I will tell you is, we've said this before. We're a client flow oriented business, and there will be a lot of micro and event-driven activity. And as long as it's not discontinuous, we should be able to intermediate transactions with our clients. And so far, generally there's been more risk appetite in the investor base, but that can change very quickly, as we saw in previous quarters. So we will be there to support our clients. And if they're active, everything should be good, but it can change quickly.

<Q - James Mitchell>: Okay, that's helpful. And maybe as a follow-up, on the expense side, the comp ratio in the Investment Bank I think dropped around 240BPS this year or last year. Do you think that's sustainable into 2017 assuming flat to up revenues, or was there anything unusual in there?

<A - Marianne Lake>: So just reminding you about our philosophy on comp-to-revenue, comp-to-revenue is just a calculation. Obviously, we pay for shareholder value added. So you need to take into consideration the fact that we've had over time increased capital levels and liquidity levels, and that's reflected in a declining overall comp-to-revenue ratio.

I would say that there are three factors to it being lower. The first is the strengthened performance. Payouts aren't linear. And as you have stronger performance, you would expect to see lower ultimate outcome. But importantly, some tailwinds in the numbers this year included a stronger dollar. So as we pay – remember, comp-to-revenue isn't just on the front office compensation. It's all support staff salaries, benefits, and compensation, and we have a large number of people that we pay not in dollars. So that was a bit of a tailwind. Some of that will carry on but maybe not at the same level. And we also just did our normal regular hygiene and productivity in terms of how we think about the workforces and pay. At the end of the day, we pay for performance. We pay, we think very competitively to retain the best team on the Street and make sure that our shareholders are getting a fair share of any outperformance.

<Q - Paul J. Miller>: Hey, Jamie, one of the things that we're seeing some of the new politicians coming in and talking about opening up the credit box, especially in the mortgage world that has really been shut down over the last years, mainly due to the rules coming from all the things, Fannie, Freddie, CFPB. What type of things do you need to see or you think they can do to open up that credit box where banks can take more risk and be protected?

<A - Jamie Dimon>: Simplifying the securitization rules because we've done some securitizations. We think they're excellent, but that would open up the market a little bit. Clarifying Safe Harbors on certain types of underwriting; for example, it's very hard and risky for a bank to make a loan to first-time buyers, former bankruptcies, even though they could be very good people with brand new jobs. Self-employed, it's hard to do all the income verification and stuff like that. Simplifying servicing, the servicing standards now have – I think nationwide we have 3,000 different standards. It's very costly. It's very expensive. It's kind of risky. If you make a mistake, the punishment is pretty high. And all those things, that should be done for the good of the United States of America, not for the good of JPMorgan Chase.

And so I do think it's too tight. And I think there's one thing that if you get around to it quickly, it will help the housing market a little bit, it will help housing formation. It will reduce the cost of mortgages. It will make it available to more people.

<Q - Glenn Schorr>: So I guess the question for either one of you is if we do get some lower taxes and/or a better rate environment, I'm curious on your confidence on how much of that can fall to the bottom line because there's a lot of optimism about what can happen if stocks have moved well. We're expecting that to move to the bottom line. The big concern that people have is that it gets competed away by irrational behavior. So I'm curious to get your thoughts on that, just big picture in general. If things go well, how much of that do you retain?

<A - Marianne Lake>: So starting off with interest rates, and obviously we've talked for an extended period of time about the fact that we've positioned the company to benefit when rates rise. We built the branches. We acquired the accounts. We've built the technology and the services. So we've been growing our deposits very strongly, and we're going to enjoy the benefits of that.

With respect to how much will go to the bottom line, we have been we think appropriately conservative when we've given you guidance about ultimately how much incremental NII we would expect in a more normal rate environment. If you go back to Investor Days of past, you would see that we said when normalized, we would expect 10-plus billion dollars. And embedded in that are assumptions obviously around rates paid. We think that rates paid will be higher this time in this cycle than in previous cycles for a bunch of reasons including, as you said, competition for high-quality liquidity balances. But also we are coming off of zero rates and the improvement in technology. So we've been we think appropriately conservative, but we'll find out in the fullness of time.

So far, to what rate hikes, absolute rates are at 50BPS, it's too early. And so far, you would expect there to be convexity in that and it's not linear, and everything is behaving quite rationally right now. So in fact, if anything, it's a little better than we had modeled. So we'll keep watching it, and we think we've been thoughtful. We don't know the right answer, and we'll keep you updated as we see how things progress.

<A - Jamie Dimon>: Just on the tax side so people understand generally, yes, if you reduce the tax rates, all things being equal to 20% or something, eventually that increased return will be competed away.

<A - Marianne Lake>: Yes.

<A - Jamie Dimon>: That is a good thing. It's not a good thing for JPMorgan Chase per se, but it's a good thing for the world. It's a good thing for growth. And a lot of studies actually show the beneficiary of that is wages. And so it's important to understand that good tax policy is good for growth and the country in general. It's not just good for companies, so it will eventually be competed away.

<Q - Glenn Schorr>: So when should I take that lower tax rate out of my model? Kidding.

<A - Jamie Dimon>: Listen, you're not going to really know for probably nine months to a year exactly what it is, so I wouldn't worry too much about it. Just remember, the most efficient companies do benefit from things like this, more than others.

<Q - Glenn Schorr>: The real follow-up I had was the concept of interest deductibility, if that is the means that they use to pay for the tax hikes, it feels to us like a bad thing. I'm just curious on how you think it impacts your franchise from anything from debt underwriting to anything else.

<A - Jamie Dimon>: I think if you look at – again, there's a lot of wood to be chopped and sausage to be made before tax reform gets done. And some of these things are brand new, they've never been talked about or done before. So you're going to read a lot of studies in the next six months. Obviously, interest deductibility, for banks, it comes from net interest income, so it doesn't directly change how you look at it. For everybody else, it affects complete industries differently. How you leverage differently, utilities will be in a different position than unleveraged companies, and plus I think people are going to be able to convert what would have been interest expense to some other kind of expense. So let the work get done before we spend too much time guessing about it.

<A - Marianne Lake>: I also think that while interest deductibility is one point, repatriation of cash is another point. And there are puts and takes, and you have to see the whole package before you can see what the net impact is. But ultimately, if these things get done rationally and grow the economy, then it's good for our franchise just broadly. So don't focus on DCM; focus on the whole thing. And I think when you get the whole package, if it's done well, which we hope will happen, then it will be good for the economy, good for our clients, and good for our whole franchise.

<Q - Matthew Derek O'Connor>: If I can circle back to the discussion on net interest income and the rate leverage, I think the outlook for net interest income to grow over $3B vs. the $1.5B before the rate increase, that's obviously a nice lift for just a 25 basis point bump on the short end. So I guess, one, does that include the benefit of longer-term rates since they've moved up as well since 9/30, which I assume it does, but just to confirm that? And then secondly, what's the levers to rising rates from here as we think about movements on both the short and long end?

<A - Marianne Lake>: Okay. So yes, Matt, it does include the benefit of higher long-end rates. And if you get the 10-Q and get our disclosed earnings at risk and do some math, you'll get pretty close to numbers that look similar to that $1.5B or more.

And then with respect to rate sensitivity from here, clearly it's not linear. So you can see if we just look at Q3, the first 100BPS, this is an illustration, it's $2.8B, 200BPS is $4.5B. So as we clip away 25BPS at a time, our $2.8B will start to come down, and so that's broadly the outlook.

<A - Jamie Dimon>: The next 10-Q will show the next round.

<A - Marianne Lake>: The 10-Q will show the next...

<A - Jamie Dimon>: But obviously it's less and less as rates go up. It's not linear.

<Q - Matthew Derek O'Connor>: And then just...

<A - Jamie Dimon>: Unless we actively change duration, which we may also do at one point.

<Q - Matthew Derek O'Connor>: And that's actually going to my follow-up question. On the size of the balance sheet, you did talk about loan growth of about 10% this year. If we look full-year 2016 vs. 2015, the balance sheet or the earning assets only rose 1%. So maybe to tie that into as you think about duration the fact that you're sitting on a lot of liquidity and cash, and how we should think about both overall growth on the balance sheet and then potentially some more remixing.

<A - Marianne Lake>: So what you saw happen in 2016 was not only obviously a rotation from securities and deploying deposits into loans, but also we took a very large amount of non-operating deposits out of the balance sheet in 2016. So that is having an impact, but we would expect to continue to grow our loans, to grow our deposits strongly, to manage the overall balance sheet through our investment securities portfolio. And we know from here if everything continues to be as the market implies, we should see margin expansion.

<Q - Brian Kleinhanzl>: Hey, just a quick question on the credit and the reserve release as it relates to the energy and the metals and mining portfolio. Now that you've actually seen some better credit in there, how much of the reserves are left in that portfolio? And can you still see reserve releases going forward?

<A - Marianne Lake>: So the answer is across metals and mining and energy, we have a little over $1.5B of reserves. That is a normal level of reserves that we will have that would be a large chunk of that. And as you saw, in 2016 we did take charge-offs of a little less than $300mm. So we will continue to likely see on a name-specific basis as people work through their business models that there will be more charge-offs. But ultimately, if energy stays stable or improve, and of course we have to see that be somewhat sustained and find its way flowing through the financial statement of our clients, then as we upgrade them, God willing, then we will see more reserve releases. But it's going to take some time. We'll start to see some of that.

Think about the large reserves we took. We took them at the tail end of 2015. And into 2016, we'll start to see new financial data from our clients. We'll start to do the borrowing base redeterminations and look at the impact of prices on reserves in the spring. And so we'll start getting some data this year. And so we may see some more releases, but it's going to come through over time.

<Q - Brian Kleinhanzl>: Okay, thanks. And then also on CRE again strong loan growth y-over-y. I understand that you're focusing in these housing-constrained markets, but is there a limit to how much you can grow in those markets?

<A - Marianne Lake>: Yes, I would say that when I talk about the overall core loan growth going down, still being strong, it does reflect the fact that we've been seeing very strong outperformance in our growth over the course of the last couple of years, particularly in commercially term lending. And while we continue to believe there's great opportunity there, they will be lower. So we've been printing in the teens pretty consistently, and I would say it will be less red hot and maybe more in the high single digits, but we're going to keep you updated.

<Q - Eric Wasserstrom>: Marianne, just to follow up with a couple more questions on Card, I know you've talked quite a bit about it already. But one of the conventional wisdoms at the moment is that 2016 represented the pinnacle of the intensification of the competitive environment. I just wanted to get your thoughts on whether that's an accurate assessment or not.

<A - Marianne Lake>: I don't know that I would ever try to decide what moment in time is the pinnacle. But I would say you saw us invest heavily in the business in 2015 and 2016 across a number of different fronts. You saw us proactively renegotiating card program deals for the vast majority of our portfolio and investing very heavily in exciting new products. And in both cases, while it has had an impact on our revenues, in one case in the short term, another case more structurally, in both cases these are still very attractive returns. And so card is still a very attractive ROE business, very important to our customers. We're after deep, engaged relationships through time with them, and so we are going to continue to invest in growth.

<Q - Eric Wasserstrom>: Great. And just on that point, the ROA expectations that you have or the consequence of the trends you just underscored, do you consider these to be sustainable as you get back to that 11% revenue yield?

<A - Marianne Lake>: At this point, yes.

<Q - Steven Chubak>: I wanted to start off with a big picture question on the trading side. You made some recent remarks talking about the outlook for the FICC business and alluded to roughly half of the decline vs. the peak being attributable to cyclical as well as secular factors. And a lot of FICC optimists in particular that we've spoken with have really latched on to your remarks. And I was hoping you could provide some context as to how you determined the 50:50 split. Should we be taking those comments so literally, and how you're thinking about the FICC fee pool trajectory overall as some of those cyclical headwinds abate?

<A - Jamie Dimon>: We did try to actually analyze it because we got asked a lot about what was secular. So you can break apart your exotic derivatives, certain type of CDOs. Across the whole spectrum, there were things that disappeared and would be done no more, for better or for worse. In some cases, by the way, a CDO didn't go away because [ph] the person (49:40) is still a credit buyer, so they just went to another product. But that was our best estimate. I don't want to overdo it or anything like that.

I also said that the actual market-making requirements are going to be going up over time. I'm talking about over 20 years. I'm not talking over the next quarter or next month. And remember, we don't run the business for next quarter or next month because assets under management are going up, the needs of corporations are going up, the fixed income market is going to go up, the needs for FX are going up, and the needs for hedging are going up. So over time, we know there's going to be a cyclical increase. And we are just trying to estimate how much of the downturn is cyclical. And so there will be a flip side of that, and I think you might have gotten to the end of the secular and the cyclical decline.

<Q - Steven Chubak>: Thanks, Jamie. That's extremely helpful color. And, Marianne, maybe just switching over to the expense side for a moment, you also provided some very helpful detail on some of the drivers of the strong expense progress that you've seen in CIB in particular. And from what I recall in last year's update, Daniel [Pinto] actually guided to an expense target of about $19B by 2017. It looks like you've gotten there essentially a year early. And I'm wondering whether there are more savings initiatives that have not yet been filtered through and could potentially accrete in the coming year.

<A - Marianne Lake>: So we'll obviously give you a lot more detail about all of this at Investor Day. But really quick, because I knew the $19B would get some excitement, if you go back and torture yourself to look at the specifics on the slides, you should see that the $19B that he guided to did have some assumptions about some legal costs in there. The CIB didn't have legal costs in the year. And as a result, it's still a little higher on an apples-to-apples basis than that would imply.

Additionally, I talked about the tailwinds in terms of a stronger dollar. Now, for full disclosure, we have intentionally reinvested some of that, but it was a tailwind that meant that apples-to-apples it would still be a little high. I would tell you that compared to the targets that they set, we still have a few hundred million dollars to deliver on, and Daniel will go through that at Investor Day.

<Q - Andrew Lim>: I was just wondering if we could talk a bit about Rates trading. To my mind, that was a product that has done particularly well this quarter. But I was wondering looking forward how you see that performing, whether it supports it by what's going on in the yield curve or whether you see that supported more by one-off euphoria around the election, so maybe that might tail off a little bit.

And then just leading on from that, how do you view the opportunities for growth in your capital markets businesses, your CIB vs. your lending businesses? Are you equally enthusiastic about both? And given the opportunities in that going forward, do you see something more positive than that?

<A - Marianne Lake>: Okay, to just talk about rate trading for a second, you're right. It was a part of the strength story in Q4 this year. It was also a strong fourth quarter last year, which is pretty much the only reason why we didn't call it out as a bigger driver of the y-over-y growth. But it was a strong performance in the quarter, and we expect that to continue. It's much more interesting for our clients to trade around a moving yield curve and rates above zero. So as we see rates normalize, we would fully expect that to be ultimately a beneficiary to the franchise in terms of clients trading and positioning and hedging around that over time. And so we're hopeful that that would be the case.

In terms of the excitement and enthusiasm of our businesses' lending - we're enthusiastic about all of our businesses and would want to defend share and grow them all. The reality of the CIB revenue performance in Markets and in general, it was very strong in 2016, so we will try our hardest to replicate that. But it will be a challenging comparison but we're proud of it. So we gained share competitively over the course of the last couple years, and so I don't think you should necessarily expect that we continue to gain share at that pace, but defend it we will.

<Q - Andrew Lim>: It sounds maybe you're [indiscernible] (54:18) pressures of the year-on-year growth when you've got CIB business, but you're not really highlighting that in terms of your lending businesses, which obviously you'd expect for the margins to grow there, the loan books to grow.

<A - Jamie Dimon>: I think the better way to look at CIB lending is, it is episodic and goes in and out. A lot of corporations don't need to borrow, and when they do, it may be inconsistent. It might be because of M&A or something like that, or a bridge book will always be driven by certain types of activities. So the loan book isn't something – the CIB loan book isn't something you're going to say that you need it growing. That is more serving clients in the way they need.

One other thing I just want to point out, which is across all of our businesses but just take trading in particular, is we always create efficiencies. Part of what we're investing in big data, straight-through processing, electronic exchanges, online services, I think 97% of FX, I think it's 50% or 60% of U.S. interest rate swaps. All these things have become electronic and digitized straight through for clients. So that's where some of the investments are going. And you're going to see more of that, not less. But it also creates another round of efficiencies every time we do that.

<Q - Gerard Cassidy>: Good. Can you give us some color? In the past, you've talked about – in the multifamily, I know you've commented on that in your prepared remarks, on your multifamily book. Some of the markets that you continue to be a little leery of, can you give us an update to those types of thoughts?

<A - Marianne Lake>: Yes, so we talked before about we had in certain markets already pulled back, not necessarily because we had a crystal ball, but because we saw them getting frothy before the energy decline. Dallas and Houston would be examples. Parts of Brooklyn would be examples of that. I would say watching more carefully, you've seen as we have that there is some supply coming through in markets, Seattle, Denver, D.C., San Francisco. We're still very active there, but just keeping an eye on those markets. But the supply pipeline, while it's real, does not look like it did when we saw the real pressure on the term lending business and the real estate business back in the 1980s and 1990s. So we're keeping an eye on it.

<Q - Gerard Cassidy>: Okay, great. And I know you talked about the duration of the securities portfolio, that's in line...

<A - Jamie Dimon>: I just wanted to add. We don't want to give you all of our secrets in that business, why we do so well at it. But we're very disciplined about where we see supply and supply and demand and pricing, and we would have no problem not growing at all. We don't sit in meetings here and say could you grow it 10%? Can you grow it 12%? No, if we can't meet what we think is a proper risk/return, we're not going to grow at all, no strength. We have no problem doing that.

The other thing I want to point out about CTLs, the exceptional performance of CTL through the last Great Recession. We were really pleased with how that happened. So we try to look at all these things through the cycle, not just what are they doing in good times.

<Q - Gerard Cassidy>: Certainly. And, Marianne, coming back to the investment portfolio, obviously you talked a little bit about the duration. Do you have the actual duration of it in years this quarter vs. Q3?

<A - Marianne Lake>: We don't disclose that.

<Q - Matthew Hart Burnell>: Just a quick question for you, Marianne. In terms of the mortgage, in the overall picture I understand why you're talking about maybe 10% core loan growth rather than 15% more recently. But just within the residential mortgage portfolio, it looks like that slowed in Q4, third and fourth quarter from a mid-teens y-over-y rate to a low single-digit q-over-q rate. Can you give us more color as to what's going on there? Are you slowing your purchases of your own originations, or is there something else going on there?

<A - Marianne Lake>: Look, there are a couple different things. First of all, about a little more than half of our originations are jumbo. We retain all of those. And then when you look at the conforming space, it's really honestly consistently a best-execution decision. And so particularly in this quarter, it speaks a bit more to our correspondent conforming volume. It's the lowest margin product, and it does somewhat frequently toggle backwards and forwards in terms of best execution whether we would retain or sell it. But we intend to keep adding to our portfolio. We like the mortgage asset classes. Even though spreads have compressed in Q4, OAS and ROEs are holding up, and so I would expect us to continue to grow it strongly. And from quarter-to-quarter it may go up or down a few percent, but over a year we'll continue to add to the portfolio.

<Q - Matthew Hart Burnell>: Okay, so no real change in your thinking there?

<A - Marianne Lake>: No.

<Q - Marty Mosby>: The thing that jumped out at me was if you looked at the Asset Management group, you had $21B of long-term product outflows and you had $35B of liquidity products inflows. And it seems like now that we're getting past the financial crisis when everybody was looking at liquidity, combining that with continued deposit growth, we're not seeing a change in that perspective, but there's still a premium for increasing liquidity still.

<A - Jamie Dimon>: I think there was a little bit of that in Q4, particularly linked to actively managed product. I think you're accurate. We haven't seen everybody else yet, but I think it will be true when we see everybody.

<Q - Marty Mosby>: Do you foresee that premium for liquidity lessening as we go into the re-risking of a better economy and some things that have improved the outlook?

<A - Jamie Dimon>: That's a really hard question to answer. I'd have to think about that a little bit.

<Q - Marty Mosby>: And then my last follow-up was when you look at M&A, we had M&A suppressed when things were more regulatory constrained and the outlook was a negative on the overall economy, not an uncertainty. Now we have this positive uncertainty. Wouldn't that delay some activity for at least a couple of quarters for people to see where we're going to end up and see where tax rates are and see what we might get a deregulation that might change their perspective on their long-term opportunities? So I just thought there might be a little pause here.

<A - Marianne Lake>: I think everything is going to end up being reasonably name-specific. That may be true in some cases for some companies and industries where deregulation will be more helpful. But generally, as I said, the trend is towards lower – sorry, less mega-deals, more flow and the fundamentals are in pretty good shape, and then there will possibly be tailwinds in terms of tax reform and other things. So I think net-net, we think the underlying flow in the M&A market and the fundamentals, et cetera, have a pretty positive year.

<Q - Marty Mosby>: I just thought maybe the second-half vs. H1 but thanks for your response.