Company Name: JPMorgan
Company Ticker: JPM US
Date: 2018-01-12
Event Description: Q4 2017 Earnings Call

Market Cap: 392,044.29
Current PX: 112.99
YTD Change($): +6.05
YTD Change(%): +5.657

Bloomberg Estimates - EPS
Current Quarter: 2.217
Current Year: 8.810
Bloomberg Estimates - Sales
Current Quarter: 27278.750
Current Year: 108466.071

Q4 2017 Earnings Call

Company Participants

- Marianne Lake
- Jamie Dimon

Other Participants

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

MANAGEMENT DISCUSSION SECTION

Marianne Lake

Financial Highlights

Net Income and EPS

- Starting on page 1, the firm reported net income of $4.2B, EPS of $1.07 and a return on tangible common equity of 8% on revenue of 25.5B
- The impact of U.S. tax reform is the one significant item we have this quarter
- We recorded $2.4B reduction to our fourth quarter net income
- Excluding this, our performance would’ve been $6.7B of net income, EPS of $1.76 per share with an ROTCE of 13%

Core Loan Growth and Client Investment Assets

- Similar to the last few quarters, our underlying results were quite strong in Q4 and highlights included average core loan growth of 6% year-on-year, bringing us to 8% for the full year, and credit performance continues to be very strong
- A good holiday season fueled double-digit growth in card sales and merchant volumes, each up 13%

- And client investment assets were up 17%
- We maintained our number one rank in global IB fees and we grew share, and we had record net income and revenue in the Commercial Bank and record revenue and AUM in Asset & Wealth Management

Tax Reform

- Before I go into our results, I'll spend time on tax reform on page 2
- The $2.4B impact of tax reform was largely driven by a deemed repatriation of our unremitted overseas earnings as well as an adjustment to the value of our tax-oriented investments, including affordable housing and energy
  - These were partially offset by a benefit from the revaluation of our net deferred tax liability
- The impact is primarily in corporate, but as you can see, there was some impact to each of the CIB and the Commercial Bank

Tax Rate

- The capital impact is $1.2B higher at $3.6B or about 25BPS of CET1
- And our effective tax rate will be approximately 19% this year and 20% over the near term, think through 2020, after which it should start to gradually increase as certain business credits are phased out over time
- While there is now an enacted bill, and with that there's more clarity, there are still a number of open implementations as well as accounting questions that will require clarification, and as such, our estimated impact may be refined in future quarters
  - That said, I know there are a number of important questions which I'll try and get you clarity on
- First, with respect to the deemed repatriation, the operative word for us is deemed
- In many ways you can think of our unremitted overseas earnings as the equivalent of bricks and mortar, being required in order to meet local jurisdictional capital and liquidity requirements
  - So we do not expect to actually remit anything significant

FDIC Fees

- Second, although the reduction in the corporate tax rate was 14%, you can see that the reduction in our effective tax rate is only about 10%, given the impact of the geographic mix of our taxable income, the disallowance of FDIC fees and smaller benefit associated with tax exempt income and other deductions as a result of the lower absolute rate

BEAT Tax

- Moving on to the BEAT tax
- This is an area where there do remain open questions, however, at this point we do not expect to have a BEAT liability
- But if we were wrong, we would not expect it to be material

Pricing Strategy

- Next, the question of whether the benefit will be competed away, and if so, over what timeline
- Pricing strategy will differ across products
- It is true that we operate in competitive and transparent markets and this means that ultimately you could expect some of the benefit for the industry will be passed through to our customers over time
- Competition is one key driver but there are other factors such as scale, expertise, the breadth of your products and services and the investments that you're making in customer experience, and these matter a lot

Cost of Capital

- And for certain of our businesses, pricing is not necessarily directly or immediately driven by fluctuations in the cost of capital, think flow markets
- And remember we didn't get to price up the changes in market structure and capital and liquidity over the last several years
- So it'll be nuanced, it'll be different across products and time is a very important dimension
- Any competitive dynamics will play out over time

Tax Reform

- We are in the process of putting together a cohesive and comprehensive set of long-term and sustainable actions for our employees, for customers and communities, in part, in response to tax reform
- Some of our plans may involve subsidies for lower income borrowers and support for small businesses
- And for these customers and for some others, they may feel a benefit sooner

Capital Plan

- With respect to our capital plan, there are no immediate changes to note
- This won't change our overall strategy, and remember, H1 2018 is governed by last year's CCAR

U.S

- Finally, on the potential impact to our businesses, the modernization of the U. S. tax code is a significant step forward for the country and a big win for the economy, and we include an estimated 20 to 30BPS of growth in the U.S. this year and next
- However, clients are still digesting the tax bill, and much like this rate cycle, we haven't seen this movie before
- We'll have to watch it play out
  - There will be pluses and minuses by clients and pluses and minuses across the products
- So overall, stepping back, tax reform is a positive, and for our clients, there's more certainty, more clarity and that should give them confidence to act

Q4 Results

Revenue and Adjusted Expense

- Moving on to page 3, let's get into some details on Q4 results
- Revenue of $25.5B was up $1.1B or 5% year-on-year as net interest income was up $1.3B, mainly reflecting the impact of higher rates and continued strong loan and deposit growth, partially offset by lower NII in markets
- Non-interest revenue was down modestly as growth in auto as well as Asset & Wealth Management partially made up for the lower Markets performance
- Adjusted expense of $14. 8B was up 9% year-on-year, reflecting higher compensation expense as well as business growth including auto lease depreciation

Credit Costs and Charge-Off

- In Q4, we took an impairment charge of a little over $100mm related to certain leased asset in the Commercial Bank, and we increased our contribution to the Foundation, adding $200mm this quarter
- Credit costs of $1.3B were up about $450mm year-on-year
- Charge-offs were flat with an increase in Card being offset by continued decreases across other portfolios. And although net reserve builds this quarter were modest, we saw releases in Q4 last year of approximately $400mm

Net Income

- Shifting to the full year on page 4
- We reported net income for the year of $24.4B, a return on tangible common equity of 12% and EPS of $6.31
- Adjusting for the two front-page significant items that we had this year, being tax reform this quarter and the benefit of the WaMu settlement in Q2, our net income would have been another record of $26.5B with an ROTCE of 13% and EPS of $6.87
- Revenue crossed back over the $100B threshold this year which feels good, $104B, up 5%, $4.1B of which was higher net interest income, in line with guidance; benefiting from higher rates and growth; relatively modest deposit repricing; but pressured by lower Markets NII

Noninterest Revenue

- Non-interest revenue was up $400mm with higher auto lease income as well as higher fees across the Investment Bank, Asset & Wealth Management and Consumer, adding $2.6B to revenues and more than compensating for headwinds in Home Lending on a smaller market, investments in Card and lower markets

Adjusted Expense

- We ended the year with adjusted expense of $58.5B, but as you can see, we made a total contribution to our Foundation this year of $350mm, in part, in anticipation of tax reform
- This brings our adjusted overhead ratio to 57% for the year, even as we continue to make very significant investments across the franchise
- Credit costs for the year were $5.3B, down 1%, as the environment remained benign

Balance Sheet and Capital

- Moving on to page 5, balance sheet and capital
- We ended the year with CET1 of 12.1%, down almost 40BPS vs. the prior quarter, about 25BPS of which related to tax adjustments, and the remainder, loan growth
- All the other ratios as well as tangible book value per share also reflected a combination of $6.7B of capital distributions and the $3.6B impact of tax reform

Consumer & Community Banking

- Moving on to page 6 on Consumer & Community Banking
- CCB generated $2.6B of net income and an ROE of 19%
- We continued to grow core loans, up 8% year-on-year; driven by Home Lending, up 13%; and Business Banking, Card and Auto loans and leases were each up 6%
- Consumer deposit growth was strong, up 7%, and we believe we are maintaining our sizable lead over the market despite an industry-wide slowdown given rising rates
- Card sales and merchant processing volumes were each up 13%, driven by continued strength from Card new products as well as ongoing momentum in Merchant Services

Acquisition of WePay

- In December, we completed the acquisition of WePay, which marks a big step for us into the integrated payments space, allowing us to efficiently provide software-enabled payments to small business clients
- And we also completed the renegotiation with Marriott for our co-branded cards, which will make us the largest issuer of the largest co-branded hotel program in the world
- For all intents and purposes, we've now finished the renewals of our co-branded card deals

Margin Expansion

- Revenue of $12.1B was up 10% year-on-year
- Consumer & Business Banking revenue was up 16% on higher NII, driven by continued margin expansion as well as strong average deposit growth
- Home Lending revenue was down 15% on lower net servicing revenue driven by MSR as well as loan spread compression
- Our originations were down 16% in a market down an estimated 25%
- And we gained share, a trend we expect to continue given our investments

Card, Merchant Services & Auto

- And Card, Merchant Services & Auto revenue was up 11% year-on-year on higher auto lease income, growth in Card loan balances and margin, and lower net acquisition costs
- For the full year, Card revenue rate was 10.6%, in line with our guidance, and we still expect to reach 11.25% in H1 this year

- Expense of $6.7B was up 6% year-on-year, driven by higher auto lease depreciation and continued underlying business growth
- The overhead ratio was 55% for the quarter, 56% for the year, as the business moved past the impact of investments and started generating positive operating leverage in H2 2017

Credit

- Finally, on credit
- Card charge-offs came in line with guidance for the year at 2.95%
- The increase in Card charge-offs was predominantly offset by pristine credit performance across other portfolios. In terms of credit reserves, the net $15mm build this quarter was driven by $200mm build in Card on growth, offset by releases in Home Lending of $150mm and Auto of $35mm
- And as I noted last quarter, Auto trends have stabilized and the industry feels to be on solid footing

Corporate & Investment Bank

- Now turning to page 7 and the Corporate & Investment Bank
- CIB reported net income of $2.3B on revenue of $7.5B and an ROE of 12%
- But revenue was impacted by two noteworthy items this quarter and both of them had an impact in markets, so I'll start with markets
- Total markets revenue was $3.4B, down 26% year-on-year
- However, Fixed Income Markets included the net impact of tax reform on our tax-oriented investments which was approximately $260mm, accounting for 6% of the year-on-year Markets decline
  - Additionally, Equity Markets included a notable loss of $143mm on a single margin loan
- This accounted for 3% of the year-on-year decline
- It's worth noting that the loss appears here in markets as we elected fair value option on this loan

Markets Revenue

- However, when you do industry comparisons, be aware that others involved in this facility may not have made that same election and may have all of their losses in credit
- So in addition, although not in markets revenue, $130mm of credit costs this quarter was driven by a reserve build related to that same name

Fixed Income Revenue

- So adjusting for those items, our markets revenue would have been down 17% year-on-year which is much closer to the experience up to the beginning of December when we last spoke publicly
- Fixed income revenue was down 27% adjusted, principally driven by a tough prior year comparison and low volatility and tight credit spreads which have continued into this quarter
  - Equities revenue was up 12% adjusted, against a record Q4 2016

- And similar to the past few quarters, the driver of the increase was continued tailwinds from investments in Cash, Prime and corporate derivatives

Banking

- Moving on to Banking
- We had a record year for total fees and for debt underwriting fees
- We maintained our number one rank in global IB fees while growing share and we also ranked number one in North America and EMEA.
  - This quarter, IB revenue was $1.6B, up 10% year-on-year, driven by broad strength across capital markets
- Advisory fees were up 2%, as we saw good momentum with some large deals closing
- We ranked number two for the year in wallet gaining share and we completed more deals than any other bank

Underwriting Fees

- Equity underwriting fees were up 14% with indices up across every region and several at or near all-time highs
- We maintained leadership positions in wallet and volume across every product globally this year
- And while we ended up number two in wallet, the difference to number one was only a few basis points
- And debt underwriting fees were up 12% as the market remained receptive to new issuance across high grade and leveraged finance and refinancing activity was strong
  - We maintained our number one rank, we gained share, and this year bookran the most number of deals in the firm's history

Treasury Services

- The overall pipeline remains healthy and at levels similar to last year as balance sheets are strong and market conditions favorable
- Treasury Services revenue of $1.1B was up 13%
- In addition to higher rates, we continued to see organic growth within the business, as the investments we've made over the past several years have improved our clients' experience across the platform
- Securities Services revenue of $1B was up 14%, driven by rates and balances with average deposits up 12% year-on-year and higher asset based fees on record AUC given higher market levels globally
- Finally, expense of $4.5B was up 8% year-on-year, driven by the relative timing of compensation accruals
- The comp-to-revenue ratio for the quarter was 27%; for the year, 28%, broadly in line with prior year

Commercial Banking

- Moving to Commercial Banking on page 8
- It was another outstanding quarter for the Commercial Bank with record net income of $957mm, record revenue of $2.4B and an ROE of 18%

- And for the year, net income and revenue were also records
- The business is firing on all cylinders and delivered an ROE of 17%
- For the quarter, revenue included a benefit of a little over $100mm associated with tax reform and in our Community Development Banking business
- Even without this benefit, revenue would still be a record, up 14% year-on-year on higher NII from higher rates as well as deposit and loan growth across businesses

IB Revenue

- IB revenue of $587mm was down 3% year-on-year but still a strong performance
- For the full year, we saw record IB revenue of $2.3B, up 2% with particular strength in middle Markets which was up over 50%, compensating for a smaller number of large deals
- The pipeline and momentum into Q1 feel good

Impairment Charge

- Expense of $912mm included an impairment charge also of a little over $100mm on certain leased equipment which we expect to sell in H1 this year
- Excluding this, we saw expense growth of 9% as we executed on our technology and product investments
- And this year, we added net 120 new bankers in the business and entered six new markets, giving us a presence in all top 50 MSAs
- Loan balances were up 7% year-on-year, 1% quarter-on-quarter
- C&I loans were up 6% year-on-year, driven by continued strength in expansion markets and specialized industries
  - While sequential growth was up a more modest 1%, we are seeing decent deal flow and pipelines are holding steady
- Client sentiment continues to be strong supported by corporate tax reform

CRE

- CRE saw growth of 9% year-on-year and 1% quarter-on-quarter, in line with the industry
- Multifamily lending continued to see tightened pricing on elevated competition
- We remain appropriately focused on client selection given where we are in the cycle and with particular caution around construction lending
- Finally, credit remains among the best we've seen
  - This quarter, we saw a benefit of $62mm, largely driven by reserve releases in the Oil & Gas portfolio
- And net charge-offs were 4BPS

Asset & Wealth Management

- Leaving the Commercial Bank and moving on to Asset & Wealth Management on page 9

- Asset & Wealth Management reported net income of $654mm, with a pre-tax margin of 30% and an ROE of 28%
- Revenue was a record $3.4B this quarter, driven by higher management fees on growth in AUM as well as higher NII on deposits and loans

Net Income and Revenue

- For the full year, net income and revenue were records with a pre-tax margin of 28% and an ROE of 25%
- Expense for the quarter of $2.3B was up 8% year-on-year, driven by a combination of higher compensation as well as a gross up for external fees which is offset in revenue

Long-Term Performance

- For the quarter, we saw long-term net inflows of $30B with positive flows across all asset classes on continued strong long-term performance
- For the full year, we had long-term net inflows of $68B, driven predominantly by fixed income, multi-asset and alternatives
- Record AUM of $2 trillion and overall client assets of $2.8 trillion were up 15% and 14%, respectively, year-on-year, reflecting higher market levels globally as well as net inflows
- Deposits were down 10% year-on-year, down 2% sequentially, reflecting continued migration into investment-related assets, the vast majority of which we are retaining and new client flows remain healthy
- Finally, we had record loan balances, up 11% year-on-year, including mortgage up 14%

Corporate

- Moving to page 10 and Corporate
- Corporate reported a net loss of $2.3B, which includes $2.7B of the tax reform adjustment
- Treasury and CIO's results improved year-on-year, primarily due to the benefit of higher rates

Outlook

Tax Rate

- So finally turning to page 11 and the outlook
- Before I get into specifics, remember, we do have Investor Day coming up in February, so we will be giving you a lot more guidance there
- So that leaves me with two structural things to talk about, the first staying on the theme of tax reform, a lower corporate tax rate in 2018 will have the effect of reducing the tax equivalent adjustments or gross ups in our managed revenues
- On a run rate basis, that reduction for the full year will be about $1.2B and more than half of that is in NII

Contra Revenue

- Secondly, effective January 1, 2018, a new revenue recognition accounting rule came into effect, which requires certain expenses to be grossed up that were previously recognized as contra revenue
- We estimate for the full year, the impact will increase both revenues and expenses for the firm by another $1.2B, the vast majority of which will be in Asset & Wealth Management, with a small amount in the CIB
- So for guidance, expect Q1 NII will be down modestly quarter-on-quarter, reflecting a combination of the lower gross-ups I mentioned, as well as normal day count which offset the benefits of higher rates and growth
- And we estimate Q1 effective tax rate will be about 17%, reflecting seasonality of stock comp adjustments

Summary

So to wrap up, the end of 2017 was constructive, characterized by strong equity markets, higher interest rates, good economic data globally, decent client activity, high levels of confidence and, obviously, the enactment of the Tax Cuts and Jobs Act

Against that backdrop, our underlying financial performance in Q4 and 2017 was strong, benefiting from diversification and scale and consistently delivering for our customers and communities, gaining share across our businesses

Adjusting for significant items in the year, net income and EPS would have been clear records, driving a healthy 13% return on tangible common equity

- We're excited about the landscape and the opportunity for our clients in 2018

We will be there for them, and the company is poised to continue to perform

QUESTION AND ANSWER SECTION

<Q - Erika Najarian>: So, I do expect you to defer the response to February 27, Marianne, but I just had to ask the question. The revenue outlook seems to be quite strong for the banking industry generally in 2018, and many investors were wondering, is the 55% overhead ratio a long-term target for JPMorgan regardless of the revenue environment or could that potentially be better over the short term as we get a boost in the economy from the Tax Act?

<A - Marianne Lake>: So I mean, you are right. That's probably more of an Investor Day discussion. But what I would tell you is that when we have given that as our sort of medium-term guidance in our simulation, we kind of imagined an environment that was more normalized in lots of ways. So we anticipated higher, more normal interest rates, we anticipated the continuation of somewhat benign credit and we anticipated continuing to invest in the businesses, and you've seen us do it in 2017 and we would expect to do it and more in 2018. So, certainly, there could be years when we would be below it and there have been years when we're above it but I think it's at a decent place for us to be aiming for in the near term.

<Q - Erika Najarian>: Thank you. And my follow-up question to that is a lot of investors are excited about the prospect of stronger economic activity in 2018, leading to greater markets activity and greater lending activity. And if you look back to the 1980s, at least for loan growth, loan growth actually stepped down in 1987. And I'm wondering if you could share your insights on how you think those activity trends will shape up in 2018?

<A - Marianne Lake>: Yes. So I know that everybody is eagerly awaiting there to be direct and notable impact of tax reform but we're only a couple of weeks into the year. And so our expectation is, as I said before, just really stepping back is that it will boost growth in the economy. People have different points of view. Our research team is saying by up to 30BPS in each of the next two years but it could be better than that.

We do know that there will be puts and takes across our businesses, but in general, we would expect that the certainty that people have been waiting for, coupled with the confidence that we know they've had and the need for people to try and deliver growth to their shareholders, should mean that things that they were going to do become more compelling and they might be willing to do more.

So I think you'll see the capital market space potentially react more quickly. And I think loan growth may have a bit of a lag, but never say never. So we just need to, I think, be a little patient to see some of it play out, but sentiment is strong, cash positions will be improved, profitability will be higher. Things that were rich before will be more fairly valued now. And so I think it should be all very constructive, and certainly, we would take the upside and we support our clients.

<Q - James Mitchell>: Maybe a question on NII. Just I want to make sure I understand the moving parts. So if I think about your guidance for Q1 down slightly, you have two less days in the quarter. That's maybe almost $300mm sequentially. And then half of the impact from the Tax Act in terms of tax equivalent adjustments is going to be felt in NIIs that's sort of linear and equal, so that's another $150mm. So if I do the math, is it about $400mm sort of apples-to-apples benefit from higher rates that you've seen? Is that the way to think about it?

<A - Marianne Lake>: It's a good model with just one clarification. So, yes, a little more than half of the gross-up adjustment is NII. Yes, it is broadly linear for the sake of argument. So $150mm is not a bad estimate. It's actually more like $160mm but pretty close.

The day count is actually not worth $300mm. It's worth a little bit less than $200mm. So you've got a sort of headwind, for want of a better word, of call it $300mm and change. And then we would have had a combination of the impact of the December hike with obviously each hike the impact is less, some growth and other puts and takes. So call it $350mm of a headwind offsetting growth and the rate hike.

<Q - James Mitchell>: Great. Just to follow up on, seemed like deposit betas actually slowed this quarter. And what do – you're expecting that to sort of reaccelerate this year? How do we think about I guess beyond Q1 and the benefits of rates?

<A - Marianne Lake>: Yeah. So I would say about deposit betas, at this point you really do have to think about it in a sort of bifurcated way. So firstly, I would say that the cumulative beta we've experienced, and I wouldn't say we've seen it slow down, but it's remained disciplined, generally.

What we've seen so far in the rate cycle is very similar to what we saw in previous rate cycles. So it's not like we've learned stunning new news from which we can extrapolate and make changes to our expectations. So we have no real change in the long-term expectations to reprice. And it really is, at this point, bifurcated. So retail, checking and core savings there's been little to no movement in the industry. But again, given the absolute level of rates that would be in line with our expectations. And on the Wholesale space, we're definitely in reprice territory. It is accelerating with every hike and it's different across the spectrum. So obviously, more significant in the sort of TS, Securities Services space.

But my expectation, just given where we are, in the absolute level of rates is that on the retail space, we would still see a lot of discipline in the market in 2018. But ultimately, we haven't changed our expectations but whatever that timeline looks like, we're going to get to an overall reprice of above 50% but we'll have to see.

<Q - Betsy Graseck>: It feels like we have a once-in-a-lifetime, or at least in my lifetime, benefit to earnings with this tax change. And we've got a lot of PMs asking the question how are managements' going to use that. I saw your comment in the deck that competitive over time, competed away, blah, blah, blah. But I really wonder if you could help give us some insight as to how at a management level you're thinking about strategically using this benefit that you're getting in the various buckets of reinvest in tech, reinvest in people, reinvest in clients? Do you feel like its equal across those? Or is there a skew that you're thinking about to take advantage of this? Because how managements use this benefit is going to be critical for stock performance over the next two to three years.

<A - Marianne Lake>: Yes. So I'll give you a framework to think about. If it's helpful, then you can certainly ask a follow-up question. But you are very familiar with the way that we think about sort of our strategy over time and our investment strategy in particular, and investing in our businesses for growth and probability has always been first and foremost in our minds. And to be honest, we've talked to you before about the fact that we don't constrain ourselves because we have budgetary targets on those activities, if we think we can execute well and we see great opportunity.

So expect that the first thing that we would do is to continue to lean into the investment opportunities we have writ large. So that's bankers, that's offices, that's global expansion to the degree that that's on the cards. It's digital capabilities, payments capabilities, it's across all of our businesses. And we've been working even before tax reform on identifying where those opportunities are and we want to lean into that.

We will also, and Jamie said it earlier, we are really pleased that there are some immediate responses for employee benefits and we will be doing that plus more across our stakeholder constituents, and there'll be more to come on that over the next few weeks. And we want to focus on that being quite comprehensive and sustainable so we're really trying to be thoughtful about the things that will really matter to our employees and to our customers.

And then to the degree that we end up still with earnings that were otherwise above plan, then a normal capital strategy comes into play. We've been clear. We think that we are adequately capitalized, that we should expect to have the capital ratio move down slowly over time. And our strategy on potentially continuing to see dividend increases and having repurchase programs that allow us to achieve our target ratio, no, that hasn't changed. It just might be a bigger dollar number.

<Q - Ken Usdin>: Just to move to, I guess, a business question. A couple of things just on the Card business. Just looked like credit continues to be pretty good. You did build the reserve for growth, as you mentioned but noticed that the Card revenue rate was also still a little bit down. Can you just talk a little bit about your outlook for that Card business as you look forward?

<A - Marianne Lake>: Yes. So I'll just deal with the Card revenue rate real quick because I think we sort of gave a little bit of this in Q3 that given the Sapphire Reserve product and given the extraordinary success we had with that in Q4 2016, there is an annual travel credit renewal that took place in Q4 which we already told you that you would expect to see the revenue rate go down. It was contemplated which is why our full year revenue rate of 10.6% was in line with our guidance.

And as we lap the acquisition costs and reward costs associated with acquiring all of those Sapphire Reserve customers and for that matter, our other new products, we're going to see that revenue rate get to the 11.25%, if not in Q1, in H1 next year, and stabilize out at or above that level.

<Q - Ken Usdin>: Okay. That's great to hear that's intact. And then just consumer credit, broadly speaking, Auto has continued to look a little bit better and Card still within reasonable expectations. So a lot of the focus on tax has obviously been on the potential for commercial lending to potentially pick up. How are you guys just thinking about how the consumer behaves and what that means for both consumer loan growth and consumer credit? Thanks.

<A - Marianne Lake>: Yes. So, again, it's nuanced. So the first question generally what we're getting is the impact on the housing market, given certain specific changes in the tax code. I would say that overall net-net, we would expect there to be not a significant impact on the housing market and demand nationally, although it could differ by state. So we feel like that's going to hold up nicely.

And then you're right. Whether you're talking about consumers or whether you're talking about small businesses – think about the small business environment – this was quite positive for them. So they're going to see higher profitability, higher free cash flow and to all intents and purposes, the equivalent of an upgrade. So we would be hopeful that much like the commercial space, that could be the catalyst to see them spend money and hire and we'll be focusing on that as we think about programs to help. So I think in general, it's going to mean that the already very good credit trends we're seeing will be good for longer.

<Q - Glenn Schorr>: So first question on fixed income. And I guess the question is if not now, when? I mean, the industry has gone down. Had this multi-multi-year degraded in revenues for lots of structural and cyclical reasons. We now have – we're off QE in the U.S., we're raising rates in the U.S. Europe's doing better. They are still on QE and have low to negative rates but we might get some changes there. Can you talk about your best guesses in terms of the backdrop for this environment for such an important revenue item? Thanks.

<A - Marianne Lake>: Sure. So, Glenn, I want to – because I feel like in 2017, we spent so much time talking about y-over-y declines in comparable periods, it's helpful to I think step back and just look at the full performance for 2017 for Fixed Income and for Equities and for markets in total. And so acknowledging that Q1 was quite strong, if you look at the last three quarters, we were talking about reasonably quiet environment, low volatility, historically tight spreads. And yet, those businesses individually and together delivered meaningfully above the cost of capital for us. So, maybe not at the sort of outperformance level of 2016, but really good performance. So discipline, scale, optionality, those are the ways we think about the Fixed Income business. And so although I don't have a crystal ball, I can't tell you when there will be a catalyst for change, Fixed Income is a little on the countercyclical side. There will be change, and we're positioned to continue to be able to grow with our clients.

So our businesses are doing well. And I can't tell you when things will become more volatile, and obviously, that's always an emotional discussion. It will happen, and when it does, we'll be there to serve our clients and to be intermediaries for them.

<Q - Glenn Schorr>: I appreciate that. Follow Up is on Steinhoff, and I know that A, you can't predict fraud. But I'm just curious on that as a business in general, and lots of other banks were involved. But how many other similar types of books are there? And can you talk to the nature of those relationships? Because hindsight's 20/20, you're like, wow, that's a lot of leverage to give somebody on a highly active stock. But it's usually just a customer flow, simple in and out facilitation business. So I wonder if you could just talk about it a little bit more.

<A - Marianne Lake>: Yes. I mean this one will garner attention because of the sort of sudden and significant decline. And it is by far and away the largest loss in that business that we've seen since the crisis. And it will happen from time to time, maybe not this significantly or this suddenly. And remember that because we've got that in fair value, we brought that down, down. So that's not a reserve. That's a mark-to-market on a publicly traded equity at this point that is significantly down.

And so I would say while we're obviously disappointed with the outcome, it's the business we're in. It's a large and diversified business that, even after this loss, is still very profitable. So it's noteworthy because of its size, its rapidity, and its significance, but it's a profitable business. And without sort of laboring the point, obviously, we go through talking about the potential for there to be rifles and sudden risk situations. And I'm thoughtful about that in our governance processes and from time to time, it will happen.

<Q - Mike Mayo>: I just wanted to follow up on the tax question. Jamie says on page one of the release that you'll have an accelerated spend for those tax benefits for employees, customers, and communities. I know you kind of answered that. But so how much of that benefit – I guess you paid $11B in taxes last year and that might have been under $7B with the lower rate. So if we assume $4B tax benefit, if that's correct, how much of that would be passed on to the employees, customers and communities vs. hitting the bottom line?

And then the philosophical question, if Jamie's there, if he could answer after you, should that be crucial for stock performance, how much will you allow to fall to the bottom line?

<A - Marianne Lake>: Yes. So look, I'm not going to give you like a quantification but you're not meaningfully wrong about the sort of assessment you made which is a big significant positive and much of it will fall to our bottom line in 2018 and beyond. And time is an important part to how this plays out. So we want to do really constructive, thoughtful things for all of our constituents but it won't be the significant portion of that.

<A - Jamie Dimon>: Yes. I would just add that we have – take the $3.5B tax benefit next year. There are two major – you should put in the back of your mind uncertainties. One is the code has to be actually written. And so there'd be lot of noise going down the road about what that actually means for various industries and stuff like that. And the second Marianne spoke extensively is competition. Some of it somewhere will be competed away. I'm only telling you this because you've got to put it in your mind, don't get so exuberant that everything everywhere falls to the bottom line.

The second is on our investment. Marianne's already spoke that we already are fairly aggressively investing for our future, in some places it's like pushing a string, we can only go so fast in hiring new bankers and doing some things, and we may accelerate some of that. At Investor Day, we'll be quite clear if we change how we look at that kind of thing.

And the other one is what are we going to do special to help the United States of America as a result of the tax change and we think we should. We think that it's very good that other companies have done it. We think it's time that all of America share broadly and we're going to have things that we think are good for some employees. I think of also sustainable growth for communities around the world.

And so we're going to give you in the next couple of weeks some very thoughtful things that we're going to do and it may very well bite into some of that $3.5B, and so be it. That's what we're supposed to do. We're a bank. We're supposed to help support and grow communities. And it will enhance our growth in the future, too, by the way. So this isn't like a giveaway. It's kind of a thoughtful approach to how we should do some of this.

<A - Marianne Lake>: And I do want to just like there are two other things just to add to what Jamie said, which is if some of this is competed away over time and get to lower cost of credit and lower cost of borrowing and improved pricing for our customers and allows them to grow their businesses and spend more strongly, there is a feedback loop. Similarly, if at the end of the day, it results in some higher dividend or repurchases, that also recycles back into the economy. So we are very optimistic for the performance of this company, which is extraordinarily client-centric, that anything that's good for the economy and our clients will continue to drive long-term profitability for the company. So that will be number one.

And number two, not to be defensive, but you guys would appreciate this more than anyone almost is you can do your own math. But if you add up the cost of controls market structure reform, capital and liquidity, much of which we're entirely supportive of. And if you add up the impact that had on our returns over the last 5 to 10 years, I mean it in many ways dwarfs it. So there will be an element of this that goes back in to making sure that the banking system is properly covering cost of equity and it should.

<Q - Mike Mayo>: One follow-up on that feedback loop. So you Marianne or Jamie, a year from now, do you think that the tax code or other factors will result in an increase in capital markets activity, increase in corporate lending and increase in CapEx which we've been waiting for all decade?

<A - Jamie Dimon>: Again, I think it's really important to note, what people are focusing on is very much like what happens tomorrow because of the tax reform. And I think it's a very good thing. You've seen it with corporations. You've seen it with sentiment. You've seen it with people's plans and things like that. I think it is very good. I think the far more important thing is that 20 years ago, our corporate federal and State rate was 40%, the rest of world was 40%. Over 20 years they came down to 20% and we stayed at 40%.

Over that time, it's driven brains, capital, you see the reinvested money overseas. One of the accounting firms did a study that 5000 companies that would have been headquartered here are either headquartered overseas or owned by foreign companies, which I'm not against, but it's a huge number.

It's the cumulative effect of retained capital and increasing competitive American companies that would drive jobs and wages in the long-run. I have absolutely no question that we would be far better off year-after-year having done this. And it's just impossible to tell exactly what it means, this month or this quarter or something like that. So we're going to be watching just like you and waiting just like you. But I hate guessing about the effect like on capital markets, I don't know. The fact is – we look at capital markets, we have fabulous people in Sales and Trading, fabulous Research, great technological capability. In the last five years, we've dealt with Dodd-Frank, MiFID, all these rules and regulations, SEFs. What are the other ones called in Europe? And we've done okay. I look at it as all a big positive and we'll still be there buying and selling securities for our clients, issuing securities. And yeah, I think if we're right about it in improving American competitiveness in growth and the global economy, it will drive capital markets activity. Let's just wait and see.

<Q - John McDonald>: Apologies if this is asked, I got cut off for a second. Marianne I was wondering about charge-offs and credit. Things look good this quarter. For the full year it came in line with your kind of $5 billion charge-off outlook. I was wondering how you're thinking about the credit environment heading into this year. And if the environment remains strong do you still have some seasoning that might put some upward pressure on charge-offs even in a good environment?

<A - Marianne Lake>: Yeah. So I would say if you look across the Consumer spectrum, ex Card, the credit performance is like really, really good and should continue to be really good in 2018. So 2018 feels like very strong credit performance in Consumer.

In Card, we said at Investor Day that we would expect to continue to see charge-off rates go up and we are growing loans. So a combination of those things will mean we'll have higher charge-offs and some reserve build. I would tell you that we're not seeing anything that isn't in line with our expectation. So this is not normalization deterioration. This is seasoning and maturation of the newer vintages and growth.

And so if I sort of sent you back to what we talked about earlier in the year, it's probably closer to 3.25%, but in line with our expectations. So we're expecting very much more of the same in the Consumer space. And in the Wholesale space, credit is really, really good.

And some of the places where we had been watching for that to be essentially be stressed, the fundamentals have improved, and we continue to obviously watch retail, and to be cautious given where we are on certain parts of real estate banking, but we're not seeing any fragility right now in our outlook.

<Q - John McDonald>: Okay. And then just a follow-up on Card. You've had some good balance growth. Are you seeing any change in propensity to revolve from your customers or is your balanced growth coming more from new customers or is there any increase in kind of revolve rate?

<A - Marianne Lake>: So, we actually had been on a pretty significant strategic drive to make sure that we had a deeply, deeply engaged customer base. If you go back pre-crisis and look at the industry, there was lots of balance parkers and less engaged customers. So we worked really hard over the course of many years to drive engagement which is why you can see that we have a larger share of spend than we do of outstandings, but we've grown both.

So we are getting balances from new customers. We are working on making sure that the right customers are revolving and we're making progress. So year-on-year, we've gained share in both and we'll continue to focus on revolve.

<Q - Steven Chubak>: Hi. Marianne, I had a question on the tax guidance that you guys have given. The slide 2 disclosure is really helpful, but I really wanted to dig into the comment on the BEAT provision. You know that the ultimate impact for your business shouldn't be material, and at the same time the guidance from some of your foreign bank competitors, suffice it to say, has been much more measured.

And I'm wondering if the impact's not that material for you guys, but weighs more heavily on the peer set. Do you actually see a market share consolidation opportunity emerging potentially with – and in particular within the repo and securities lending sides?

<A - Marianne Lake>: Yeah. So I mean, obviously, the impact is differently situated for the foreign banking set. And I know that – as Jamie said there's still a lot of work to be done in terms of implementation and finalization of the actual code itself. So I don't want to guess on how all that will play out. I certainly don't want to guess about the second order impact of potential consolidation.

<Q - Steven Chubak>: All right. Fair enough. Well, maybe just try one more on tax specifically relating to CCAR. I'm assuming that the tax parameters for 2018 are broadly consistent with last year, which I think is most people's general expectation. You have the lower starting capital ratio from the tax hit. Your peers will have the same thing. But within the new tax law, there's also a somewhat complicated element where it eliminates the ability to carry back NOLs against prior period income which could impact your stressed ratios. And I'm wondering does that at all inform your outlook for the upcoming test. And do you anticipate capital return capacity being more constrained just in light of some of those changes?

<A - Marianne Lake>: Okay. There's a lot. So if you assume that the 2018 structure is much like 2017 with a nice healthy caveat that DTA details and the impact of them can be volatile based on the scenario. So with that caveat, I would tell you that not carrying back NOLs has a very particular interplay with foreign tax credits which means it's not really going to affect us in a really meaningful way. There are two things that would change but they also offset. So the two things that would change is your absolute level of losses would be higher as the tax rate is lower but a gate into that would be a negative. But against that, your NOL carryforward would be lower and that's a capital deduct. So in the law of very big numbers with health warnings, plus or minus, at our low point, we think not a significant impact.

And then if you were to take a look at our starting point capital, I'd just make two comments. The first is, obviously, given all of the conversations we've just had, there is also the strong possibility that we will have higher earnings in the first half of the year and be able to accrete back portions, if not all of that, capital. And secondly, for what it's worth, our actual spot capital ratios were higher than our CCAR outlook was.

So for both from a starting point and tax perspective, I feel okay, but that's a really complicated question and we need to like really work through it.

<A - Jamie Dimon>: And there's a new sheriff in town and they're going to be looking at the whole picture. I think it's probably more important than this one item.

<Q - Gerard Cassidy>: Marianne, assuming the economy in 2018, 2019 accelerates due to this tax reform, I think it may imply that we would have higher interest rates and possibly a steeper yield curve. Do you guys have any thoughts on what you might do to the interest sensitivity of the balance sheet? Would you change it? Or do you want it just keep the way it is?

<A - Marianne Lake>: Yeah. So, what it's worth, you should know our house view on interest rates is for there to be four hikes next year. The Fed dots says three, the market has two. I would say tax reform and a stronger growth outlook will solidify the path of rate hikes. And so we've been factoring that into our balance sheet positioning anyway. So I would not expect there to be a material change in our strategy.

<Q - Gerard Cassidy>: Okay. And then in your release in the fourth quarter, you guys said how would the tax change affect your capital distribution plans and there's no change. The first half of distributions are going to be based on the 2017 CCAR approval. Is that in terms of the payout ratio on this 2017 CCAR or the nominal dollars because, obviously, your earnings now are going to be higher in the first half of 2018 versus what you got approved for in the CCAR 2017, which would imply if you kept the payout ratio constant you would actually have a higher nominal playing out in the first half of 2018.

<A - Marianne Lake>: Our capital plan approval is on a nominal dollar basis.

<Q - Matthew O'Connor>: It's probably a bit early to know how to play this. But as you think about the winners and losers from tax reform, do you think there will be changes in terms of how you come to market, where you come to market? A lot's been written – and obviously, on the impact to some of the high tax states and how money can flow from there to others. And obviously, you're in some high tax states and also in low tax states. And just trying to think through how you might tweak your business model or if the focus on some of your products in some of those markets?

<A - Marianne Lake>: Yeah. So I would say, I mean in essence, time is our friend. So if you go back and look at – and obviously, nothing is exactly like this. But if you go back and look at similar empirical evidence, it would say that any influences in terms of migration of flow funds is pretty modest and pretty gradual.

And so – and if you think about something as first order as housing and high tax states, people are pretty situated where they live with their families and their jobs and higher income borrowers are typically less price sensitive. So I think lots and lots of things come into play.

I think the area that we're thinking about a little more is what's the optimal financing structure for clients given changes across the capital markets structure. But even in that sense, well, you could say, debt may be more expensive. It's still probably cheaper than equity and equity may be more seen as fair value but for JPMorgan, it's core to what we do. We do cross-border execution, acquisition financing, liability management, bespoke capital structure strategies. We do all of it. So even if the sort of mix and optimal structure change, I think we're pretty well situated. So, it's early days to be able to say that we would have strategic changes. I think it's early days. And I would say that if that was to be the case, I would probably expect them to be quite marginal.

<Q - Matthew O'Connor>: And then how about just more on aggregate on the consumer underwriting side, if you are feeling more positive about the economy, you're seeing the growth in consumer personal income before the tax cut here and that might accelerate. Does it make you more open to loosening underwriting standards a little bit? I feel like in aggregate, standards are still fairly tight vs. where they were pre-crisis and there could be some opportunity there for you and others.

<A - Marianne Lake>: Yeah, I mean, I think that may be a fair observation but I also think, to Jamie's earlier point, as much as we would like to imagine that all of this takes effect immediately, you would need to see the benefits of the environment in the income and spending and profitability and creditworthiness of people before you would be able to lean into the changes, if necessary, so maybe. But again, I think it's going to be something that will unfold.

<A - Jamie Dimon>: Yeah. So and we haven't changed our standards very much. And the one exception that might change over time, which I hope it does actually is in mortgage lending...

<A - Marianne Lake>: Yes.

<A - Jamie Dimon>: ...where I think because of servicer requirements, capital requirements, reporting requirements, various litigation, uncertainty, it has tightened the credit box around people who probably deserve credit, younger people, first time buyers, prior defaults. But that's going to take the agencies working together to set new rules and new guidelines. If that happens, that can actually be really good for growth in America. And it doesn't really – it's not...

<A - Marianne Lake>: And pretty immediate.

<A - Jamie Dimon>: Yeah. Say again?

<A - Marianne Lake>: And pretty immediate.

<A - Jamie Dimon>: And pretty immediate. And it's not going back to subprime, it's just open up the credit box and reducing the cost of the average mortgage, and we're hopeful that the agencies will eventually do that.

<Q - Andrew Lim>: I just want to take a devil's advocate approach for a bit. I've looked at the credit markets and the yield curve has increased right across the spectrum, especially at the short end actually rather than the long end. And I'm thinking that these high interest rates would feed into high credit losses at some point. I'm wondering if that's part of your thinking, whether that feeds into your credit quality models. And if so, perhaps at what time would you think that that deterioration in credit might start to accelerate?

<A - Marianne Lake>: So a couple of things. Just one thing because I think it's worth pointing out that there's been a lot of tension on a flatter yield curve, but you're right, it's driven by a higher front end which is a sort of good type of flattening, so to speak. And so that's what's been driving sort of NII growth for us. And we do expect that that will, together with the Fed normalizing its balance sheet, ultimately end up with higher long end of rates. So we're pretty optimistic about that.

You're right that at some point, typically, you would see potentially higher rates depending on the speed and inflation and other factors would precede the potential for a credit cycle. I mean, I suspect this will be no different, but that is not something that we see in our models or in our outlook over the near term. So hopefully, the monetary policy will be gradual, and as expected, and we'll continue to see the front end raise and everything be rational, and of course, there could be surprises. But at some point, yes, but not in the near future.

<Q - Andrew Lim>: Great. Could you say with that what the average maturity of your corporate loan book is or across the loan book in general?

<A - Marianne Lake>: It differs. So it's shortened...

<A - Jamie Dimon>: It's fully disclosed in the 10-K but it's different for every single product and it also changes as interest rates move around.

<Q - Saul Martinez>: So on your tax Q&A, you mention what the impact of tax reform is across different businesses from a growth standpoint, but you also talk about the potential for competition being uncertain in terms of how it impacts different businesses and different products. Can you talk to that a little bit and speak to which products and businesses you see more scope for competition, less scope for competition? And how does that influence how you think about investing across your different businesses?

<A - Marianne Lake>: So I would start by saying that I think we showed at Investor Day last year and if we were to do something similar, maybe we will, it would look very similar today, which is if you go below our top line businesses to the businesses beneath that, the vast majority of our businesses are more than covering their cost of equity by a fair margin today. So our investment strategy, it wouldn't be directly impacted by marginal changes in pricing and profitability up or down. We're going to continue to invest in everything that we can do well to improve the customer experience and grow the business.

So I think we've been pretty consistent on that, not just today but over the course of the last several years. And then I think it is uncertain. And so I would just give you the obvious extremes, which is, if you have four different organizations competing for a single large structured transaction and the cost of capital and tax is a direct input to pricing, I'm sure it will feature in the discussion. And if you are talking about a very, very scaled, very, very high-volume business with extraordinarily tight margins, it will probably have ultimately, or at least in the very, very near term, less impact. But again, I actually think people will be quite disciplined how they think about this.

<A - Jamie Dimon>: Can I give you an example away from finance? Utilities already are being put in a position because as part of the rate base and after-tax return, that they're going to pass it on to customers, probably 100%. That may be different by state, but think of it that way.

And Marianne spoke about cap rates and stuff, and obviously, anything in the marketplace is being bid at and the after-tax rate, you could see a pretty quick effect. But go all the way to Hershey candy bar. It's not necessarily clear that if you sell candy or cereal, something like that, you're going to have an immediate repricing effect because of a tax rate change.

And so we run a whole gamut of things. And so we just have to wait and see how it works out. At the end of the day, everyone benefits from more growth, and to me that's probably the most important thing.

<Q - Saul Martinez>: Yes. No. That's helpful. One of the businesses that has been doing extraordinarily – extremely well in terms of growth and profitability momentum is the Commercial Banking business, and I feel like I ask this every quarter, but I guess the question is what you could do for an encore.

It's a relevant part of your earnings now and revenues and big part of the growth. But can you just talk to the sustainability of the momentum in terms of balance sheet growth, revenue growth, how much headway is there still to continue to grow in that business?

<A - Jamie Dimon>: Decades. Decades. Marianne already mentioned that we are now in the top 50 MSAs. We're already getting products and services. We built technology on cash management side. We're doing a better job serving U.S. middle-market companies for their international needs. It can go on for a long time.

<A - Marianne Lake>: Right.

<A - Jamie Dimon>: And we're competitive. We've got very good margins and we're constantly investing in the business. People have done a great job. We've had a specialty finance lines. So it's just more of the same.

<A - Marianne Lake>: And think about the Commercial Bank is the absolute nexus of everything we do. It's delivering the whole company to our clients in a way that very few other people can do. And so we've been investing 100 bankers a year for a period of time, opening offices, adding capabilities, focusing on digital, improving the customer experiences like in the rest of our businesses. And so credit aside, where ultimately, there'll be a cycle and it will be fine, that business is really poised to do very well.

<A - Jamie Dimon>: I'd just add to it. We shouldn't leave this call without talking about it. In the Custody and Fund Services business, we've added great new technology. We've gained – I think it looks like we've gained a little bit of share in the emerging markets where we were probably a little bit weak. Service levels have gone way up and I'm embarrassed to say that we weren't particularly good a couple of years ago.

In Treasury Services, we're building new international payment systems. The banking industry has built a real-time – hasn't been all rolled out yet, a real-time payments business. What we've done with Aladdin, we feel exceptional about in Custody and Fund Services. On the Consumer side, we have a whole bunch of – if you look at our digital offerings, it's gotten better and better and better. There's a whole bunch more coming. Zelle and Chase QuickPay have gone – we're not gaining share but we're definitely gaining clients. And we've barely started to market that. That's where real-time P2P has opened – how many banks are part of it now like 30 or 40 but it's going to eventually be...

<A - Marianne Lake>: Pretty much everyone with a bank account.

<A - Jamie Dimon>: Everyone's going to be open up to Zelle and then of course, this year we have beta already. We spoke a little bit about online Finn, mobile banking. Some of these things may all work but they're really great products and services and we're pretty excited about it actually.

<Q - Brian Kleinhanzl>: I just had one quick question on Security Services. Within there, you saw good growth in your assets under custody up over 3% quarter-on-quarter un-annualized, but the revenues were up less than 1%. Was there some timing issues when the AUC came on? Can you highlight what was the difference between the AUC growth and revenue growth this quarter?

<A - Marianne Lake>: Yes. So in Security Services we make money on NII, we make money on transactions, and we make money on AUC. And depending upon whether that's fixed income or equities or whether it's emerging markets or the U.S., will drive the extent of that. So it's not like you can take the overall revenue of Security Services and link it to increases in assets under custody and draw a direct – I mean there's obviously a direct relationship, but it's not going to necessarily move in line. So I can tell you that looking at that decomposition of what's higher market levels and higher flows by region and looking at the portion of our revenues that's related to assets under custody that they were in line.

<A - Jamie Dimon>: And the full year effect doesn't happen in 12 months.

<A - Marianne Lake>: Exactly.

<A - Jamie Dimon>: It even would go up, they'd be up like $2 trillion and two-thirds of assets going up, but it'll take a year before the full year effect of that's felt. So you just see partial effects actually flowing into this quarter.