2Q19 FINANCIAL RESULTS

EARNINGS CALL TRANSCRIPT

July 16, 2019

JPMorgan Chase & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Second Quarter 2019 Earnings Call. This call is being recorded. Your line will be muted for the duration of the call. We will now go live to the presentation. Please stand by.

At this time, I would like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon, and Chief Financial Officer, Jennifer Piepszak. Ms. Piepszak, please go ahead.

Jennifer A. Piepszak

Chief Financial Officer, JPMorgan Chase & Co.

Thank you, operator, and good morning, everyone. Before I get started, I'd like to thank Marianne for nearly seven years as CFO and for her support of me over many years, but particularly her support during my transition into this role, so a huge thanks to Marianne.

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

And I just want to add my thanks, too. I think, Marianne, as you all know, did a great job. Smart, honest, thoughtful, helped make the company a better company, so all the thanks go out to Marianne and we also all know that Jenn is going to do a great job, too.

Jennifer A. Piepszak

Chief Financial Officer, JPMorgan Chase & Co.

Well, thank you, Jamie. Okay. So, now on to the presentation which, as always, is available on our website and we ask that you please refer to the disclaimer at the back of the presentation.

Starting on page 1, the Firm reported record net income of $9.7 billion – an EPS of $2.82 on revenue of $29.6 billion, with a return on tangible common equity of 20%. Included in these results are tax benefits of $768 million related to the resolution of a number of tax audits. Adjusting for this as well as a few other notable items that largely offset, we delivered an 18% ROTCE this quarter.

Underlying performance for the quarter was strong with highlights, including client investment assets in Consumer Banking up 16%, largely driven by net new money flows. In Card, 11% growth in sales and 8% growth in outstandings. Number one in Global IB fees year-to-date gaining share across all products and regions. Steady results in the Commercial Bank with net income of $1 billion, while continuing to invest in the business. And in Asset & Wealth Management, record long-term inflows, AUM and client assets.

Overall for the Firm, total loan growth was 2% year-on-year, but down 1% sequentially. Important to note here that these variances include the impact of loan sales in Home Lending as we continue to optimize our usage of capital and liquidity across the Firm. Credit performance remained strong across businesses and we delivered another quarter of positive operating leverage.

Now, onto page 2 and some more detail about our second quarter results; revenue of $29.6 billion was up $1.2 billion or 4% year-on-year, as net interest income was up approximately $900 million or 7% on balance sheet growth and mix, as well as higher rates. And noninterest revenue was up approximately $300 million year-on-year, largely driven by the absence of the Card rewards liability adjustment we took in the prior year. Excluding that variance and the other offsetting notable items I mentioned, noninterest revenue was about flat with strong performance in Consumer across Auto Lease, Home Lending production in Consumer & Business Banking, offset by lower Markets revenue and IB fees, as previously guided.

Expenses of $16.3 billion were up 2% related to continued investments in our businesses, partially offset by a reduction in FDIC charges of approximately $250 million. Credit remains favorable with credit costs of $1.1 billion, down 5% year-on-year. In Consumer, credit costs of $1.1 billion were flat, as higher net charge-offs were offset by net reserve releases. And in wholesale, credit performance remains favorable with a net charge-off rate of 8 basis points which was fully reserved for in prior quarters. Once again, we do not see any signs of broad-based deterioration across our portfolios, both Consumer and Wholesale.

Now onto balance sheet and capital on page 3; we ended the second quarter with a CET1 ratio of 12.2%, up more than 10 basis points versus last quarter. In the quarter, the Firm distributed $7.5 billion of capital to shareholders and, as you know, the Fed did not object to our 2019 CCAR capital plans. We are pleased to have significant flexibility with gross repurchase capacity of up to $29.4 billion over the next four quarters and the Board announced its intention to increase the common dividend to $0.90 per share effective in the third quarter.

Now onto page 4 and Consumer & Community Banking; CCB generated net income of $4.2 billion and an ROE of 31%. Loans were down slightly year-on-year, driven by Home Lending down 7% reflecting the loan sales I just mentioned. However, Card loan growth was healthy, up 8%; Business Banking loans were up 2%, and Auto loans and leases were flat.

We saw strong deposit and investment growth year-on-year with deposits up 3% and client investment assets up 16%, growing across both physical and digital channels. Card sales were up 11% as growth remained strong across key products. And across the franchise, active mobile users were up 12% year-on-year, given continued engagement in our new features. For example, customers have opened over 2 million checking and savings accounts digitally, activated over 60 million Chase Offers and our enrollment in Credit Journey now exceeds 18 million.

Revenue of $13.8 billion was up 11%. This increase included two notable items that largely offset. First, the current quarter included a negative MSR adjustment in Home Lending driven by updates to our model inputs. And in the prior year, as I mentioned, we had a rewards liability adjustment in Card of approximately $330 million.

Consumer & Business Banking was up 11% on higher deposit NII driven by margin expansion. Home Lending was down 17%, although excluding the MSR adjustment I just mentioned, revenue would have been up 4% driven by higher net production revenue on better margins and higher volumes, largely offset by lower NII on spread compression and lower balances.

And Card, Merchant Services & Auto was up 18%. Excluding the previously noted rewards liability adjustment, revenue was up 11%, driven by higher card NII on loan growth and margin expansion and the impact of higher auto lease volumes. Expenses of $7.2 billion were up 4% driven by continued investments in the business and higher auto lease depreciation, largely offset by efficiencies and lower FDIC charges. Of note, the overhead ratio was 52% and we delivered significant positive operating leverage.

On credit, this quarter included a reserve release in the Home Lending purchase credit-impaired portfolio of $400 million, reflecting improvements in delinquencies and home prices, which was partially offset by our reserve build in Card of $200 million. This was primarily driven by growth and to a lesser extent mix, as the newer vintages naturally season and become a larger part of the portfolio. Net charge-offs were up $212 million. Excluding the recovery on a loan sale in Home Lending in the prior year, net charge-offs were up $80 million, driven by Card as we continue to grow the portfolio.

Now turning to the Corporate & Investment Bank on page 5, CIB reported net income of $2.9 billion and an ROE of 14% on revenue of $9.6 billion. As a reminder, our performance was particularly strong last year which featured record or near-record revenues in overall IB fees and Equity Markets. With that in mind, for the quarter IB revenue of $1.8 billion was down 9% year-on-year in a market that was also down.

Advisory, Debt Underwriting and Equity Underwriting fees were down 16%, 13% and 11%, respectively, reflecting lower levels of deal activity as well as a 10-year record share in Equity Underwriting in the prior year. It's worth noting on a year-to-date basis, we continued to rank number one overall and have gained share across all products and regions, benefiting from our continued investments in bankers.

In advisory, we grew share in announced deal volumes and announced more deals than any other bank. In debt underwriting, we also ranked number one benefiting from our strong lead-left position in leveraged finance. And in equity underwriting, we have seen significant pickup in activity since the first quarter and we continue to benefit from our leadership positions in Tech and Healthcare where there has been robust activity. Looking forward, the overall IB pipeline is healthy, though lower compared to the elevated activity we saw last year and with fewer acquisition financing and refinancing opportunities in Debt Underwriting. Dialogue with clients remains active and we expect strong deal flow to continue.

Moving to Markets, total revenue was $5.4 billion which was flat year-on-year. Our results include a notable gain in Fixed Income from the IPO of Tradeweb. Excluding this gain, Markets revenue would have been down 6% year-on-year against a strong second quarter performance last year. Fixed Income Markets was down 3% on an adjusted basis with relative weakness in EMEA, partially offset by increased client activity in North America Rates and agency mortgage trading due to the changing rate environment.

Equity Markets was down 12% against a record second quarter last year. Subdued client activity and a tough compare contributed to a year-on-year decline in Equity Derivatives. That said, Cash and Prime remained stable with client balances in prime reaching an all-time high. Treasury Services and Securities Services revenues were $1.1 billion and $1 billion, down 4% and 5% year-on-year, respectively, with organic growth being more than offset by deposit margin compression. As a reminder, similar to last quarter, deposit margin was primarily impacted by funding basis compression rather than client betas, and at the firmwide level there is an offset.

Sequentially, Treasury Services was flat and Securities Services was up 3% on higher balances and fees. Finally, expenses of $5.5 billion were up 2% compared to the prior year, with higher legal expenses partially offset by lower performance-based compensation expense. And the comp-to-revenue ratio for the quarter was 28%.

Now moving on to Commercial Banking on page 6, Commercial Banking reported net income of $1 billion and an ROE of 17%. Revenue of $2.2 billion was down 5% year-on-year, predominantly driven by lower investment banking activity due to our outperformance last year and lower NII on slightly lower deposit balances. Also worth noting here, gross IB revenue of $1.4 billion was up 8% year-to-date on strong syndicated lending and M&A advisory activity, and we continue to progress solidly toward our long-term $3 billion target.

Deposit balances were down 1% year-on-year and, importantly, up 1% sequentially, as balances have largely stabilized in total, although we continue to see migration from noninterest to interest-bearing deposits. Expenses of $864 million were up 2% year-on-year, driven by ongoing investments in banker coverage and technology.

Loans were up 1% with C&I loans being flat or up 3% adjusted for the continued run-off in our tax-exempt portfolio. The story here remains unchanged. We saw solid growth in areas where we've been investing, including expansion markets and specialized industries, offset by lower acquisition-related and short-term financing activity.

CRE loans were up 2%, with modestly higher activity in Commercial Term Lending where clients are taking advantage of lower long-term rates, offset by declines in Real Estate Banking where we continue to be selective given where we are in the cycle. Finally, credit costs were $29 million with a net charge-off rate of 3 basis points.

Now, onto Asset & Wealth Management on page 7, Asset & Wealth Management reported net income of $719 million, with pre-tax margin and ROE of 27%. Revenue of $3.6 billion for the quarter was flat year-on-year, as the impact of higher average market levels was offset by lower investment valuation gains. Expenses of $2.6 billion were up 1% year-on-year, as continued investments in advisors and technology were partially offset by lower distribution fees.

For the quarter, we saw record net long-term inflows of $36 billion driven by Fixed Income, and we had net liquidity inflows of $4 billion. AUM of $2.2 trillion and overall client assets of $3 trillion, both records, were up 7% driven by cumulative net inflows into long-term and liquidity products as well as higher market levels globally. Deposits were up 2% sequentially and up 1% year-on-year, and similar to the Commercial Bank, balances in total have largely stabilized. Finally, we had record loan balances up 7%, with strength in both wholesale and mortgage lending.

Now, onto Corporate on page 8, Corporate reported net income of $828 million, including the vast majority of the tax benefits that I mentioned earlier. Revenue was $322 million, up $242 million year-on-year due to higher net interest income, driven by higher rates and balance sheet mix, partially offset by net losses on legacy private equity investments versus net gains in the prior year. And expenses of $232 million were down $47 million year-on-year.

Finally, turning to page 9 and the outlook; on this page I'll just comment on NII, which should not be surprising given the changes to the rate environment. As you can see, we are updating our 2019 full year NII outlook to about $57.5 billion. The reduction is based on multiple scenarios which assume, among other things, lower long-end rates and up to three rate cuts this year which is consistent with current market sentiment. And as a reminder, this compares to a rate scenario that assumed zero cuts at the time of first quarter earnings.

So, to wrap up, the U.S. consumer remains healthy, overall credit is in great shape and the earnings power of the company is evident. We delivered strong returns this quarter, and the diversification and scale of our business model positions us well to outperform in any environment. Understanding there is some macro uncertainty and potential headwinds from the rate outlook, we still expect to grow the franchise and will continue to strategically invest in our businesses, in technology, bankers and beyond.

And with that, operator, please open the line for Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Jim Mitchell of Buckingham Research.

James Mitchell
Analyst, The Buckingham Research Group, Inc.

Q

Hey. Good morning. I noticed that Card loan growth was particularly strong this quarter. Just wanted to get a sense as what you feel is driving that uptick. And do you think how sustainable is it at sort of 8% year-over-year growth?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure. So, on Card loan growth, we feel very good about what we're seeing there. As we talked about at Investor Day, we have a real opportunity with our existing customers. And we talked about how our existing customers have about $250 billion of borrowing off us. About $100 billion of that is squarely within our existing buy-box. So, you can think of this as highly targeted to high-quality existing customers. And for the first time, we're actually seeing loan growth in Card, the majority of it coming from existing customers versus new customers. And so, we're really shifting the paradigm there and we feel great about being able to harvest the opportunity that we talked to you about at Investor Day.

James Mitchell
Analyst, The Buckingham Research Group, Inc.

Q

All right. And should we expect you to continue to reduce the mortgage footprint in this rate environment?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

So on the Mortgage business, I would say it was a good quarter on the back of the rally. And so, we did see volumes increase and we saw some margin expansion as well, and so obviously highly rate dependent. But I would say the structural challenges in that business remain unchanged. And so, we continue to focus on optimizing the balance sheet across capital and liquidity, and so we're looking at loan sales and thinking about de-risking the portfolio from a servicing perspective. So, good quarter on the back of the rally, but it doesn't change the overall structural challenges.

James Mitchell
Analyst, The Buckingham Research Group, Inc.

Q

Okay. Thanks.

Operator: Our next question is from Erika Najarian of Bank of America.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Hi. Good morning.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Hi, Erika.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Hi. So, I just wanted to go back to what you were saying earlier in that your guide – or your guide lower is including up to three rate cuts this year, which would suggest to me that your net interest income is quite defensive in the face of rate cuts. I guess my first question is, could you give us your primary assumptions for that $500 million swing, particularly on deposit pricing?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.
A

Okay. Sure. So, first I'll take you back to the first quarter where our guidance was $58 billion plus and we talked about some pressure on the long end at that point. That pressure has persisted and, in fact, increased. And so, we pulled the impact of the long end through in terms of our outlook. And then, on the short end, the range of outcomes are obviously quite broad, and so we thought about a range of outcomes of one to three rate cuts. And so, you can think about if it's one cut, $57.5 billion plus and if it's more $57.5 billion minus. And then, based on current implieds, you can think about the third quarter as being $100 million to $150 million below the second quarter and then a bit more than that in the fourth quarter given we would have a full quarter at that point.

Oh, and then in terms of betas, I mean, largely speaking, you can think of betas as being symmetric. And so, on the Consumer side, we saw little reprice on the way up and so there is not a lot of opportunity on the way down. On the Wholesale side, if you look at large institutional businesses like Treasury Services and Securities Services, we are largely at full reprice there, and so there should be opportunity there. And then, in places like the Commercial Bank and Asset & Wealth Management, we are still ahead of what the model would have assumed, but we have started to see reprice pick up there, but importantly I would say we're not going to lose any valuable customer relationships over a few ticks of beta, and so we'll see how it goes.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.
A

That's all embedded in our assumption.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.
A

And that's all embedded in.

Erika Najarian
Analyst, Bank of America Merrill Lynch
Q

Okay. Got it. And just going back to Jim's question, I noticed that investment securities balances continue to go up and mortgage loans were down another 5%. Should we think about this as part of the overall, you were saying, optimizing capital and liquidity and therefore, as we think about it going forward, we could also expect to see perhaps some relief in RWA growth and some relief in the continued reserve release as part of the optimization?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.
A

Sure. So, on the RWA side, yes, that is precisely why we're doing it and so when you see the loan sales in Home Lending, yes, they are offset in securities purchases which are more efficient from a capital perspective as well as a liquidities perspective, so yes. Having said that, on reserves, I mean reserves are not necessarily going to be impacted directly by that because, of course, that will depend upon the environment and the mix of the portfolio that remains.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.
A

And I would just say, our standardized capital ratio is the 12.2%, advanced is 13%. Advanced is obviously a far more important and relevant economic number. It simply does not make sense to own home mortgages when you're constrained by standardized and you can't securitize.

Erika Najarian
Analyst, Bank of America Merrill Lynch
Q

Got it. Thank you.

Operator: Our next question comes from Mike Mayo of Wells Fargo.

Mike Mayo

Analyst, Wells Fargo Securities LLC

Q

Hi. So, the efficiency ratio went from 56% to 55% year-over-year and I guess that's with some accelerated tech spending. So, do you plan to keep this pace of tech spending going? And what's the current update on that tech spending? Where is it connecting? Where is it not connecting? Because I think you said you'd accelerate it for a couple years and maybe we'd see more of the results in 2020, 2021.

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

So, can I just take that one? So, it's about $11.5 billion today. I think it was a little bit lower last year. If we had to say what it's today, for next year it would be something like $11.5 billion and I think it's always becoming more efficient, but you really have in tech is some things are becoming cheaper all the time. And then, you're also investing money all the time which we're going to do regardless of the environment. So, we're not going to cut things we're trying to build like My Rewards programs and My Chase Loan and the Credit Journey because there is a recession or something like that. So, Daniel and Gordon will tell you right now that we can get more efficient spend and we shouldn't tell people we'll spend whatever we want, but we will – you have to spend to win in this business, and we're very efficient. We're very cautious about how we spend in technology. I think we're going to do it, regardless of the environment, and we'll try to get more efficient in tech spend, too.

Jennifer A. Piepszak

Chief Financial Officer, JPMorgan Chase & Co.

A

That's right. And our investments in technology create capacity in terms of productivity to continue to invest and we've talked a lot about AI and machine learning. It's early innings there and there's a lot that we're going to be able to do to invest there and become more productive and then cloud – developers can become more productive using the cloud.

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah. Look, it's amazing, our fraud costs with all the things going on in the world today are down because of effectively for the AI and big data and stuff like that. And so it's hard to compete in that. And with You Invest, you look at our client investment assets grew 16%, a portion of it's You Invest and obviously You Invest costs hundreds of millions of dollars to build. So, you've got to put all these things in perspective about how you try to make the decision going forward.

Mike Mayo

Analyst, Wells Fargo Securities LLC

Q

And then follow-up, Jamie, you mentioned the environment and all the things taking place in the world, how is the environment now? I mean, on the one hand, you have trade war, you have lower interest rates, you have capital markets which are down for the big banks, you have a lot of pessimism. On the other hand, you highlighted your results. When you take the temperature of the environment, what's the temperature?

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

It's not that bad. Uncertainty is a constant, but one thing in life, as you know, is going to be uncertain going forward. And geopolitical tension is kind of a constant. Those things may be a little bit higher now than normal, but I think we see is global growth is north of 3%. You're kind of expect the United States to be about 2.5% this year. The consumer in the United States is doing fine. Business sentiment is a little bit worse, mostly probably driven by the trade war.

And when you travel around the world, Japan is growing and Europe is growing a little bit and Brazil has gone from negative 4% to zero. A lot of countries have opportunity to expand. They're not doing great, but they should be doing better like Mexico and Turkey. So, I wouldn't get too pessimistic yet. And obviously, the Fed will react to what the data they see and I would say it's more important what's going on than just what the Fed does. If the Fed's cutting rates and we go into recession, that's not a good rate cut. If the Fed actually raises rates one day because we're booming, that's not so bad.

Mike Mayo
Analyst, Wells Fargo Securities LLC

Q

All right. Thank you.

Operator: Our next question comes from Glenn Schorr of Evercore ISI.

Glenn Schorr
Analyst, Evercore ISI

Q

Hi. Thanks. I'm not sure if I missed it, but I forget. Total average loans were up 2% year-on-year, but that was impacted by the loan sales. Can you tell us either size of loan sales or what average loan growth was up year-on-year without that?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

So, yeah, there's a few things going on in loan growth, as you say, Glenn. So, we have the loan sales. We also have the run-off of the tax-exempt portfolio. So, you can think about loan growth probably closer to 4%, if you adjust for those items. And importantly, as we always say, loan growth is an outcome, not an input, and we feel good about the loan growth that we're seeing in terms of the areas where we're investing. And then for the full year, you can think about a number if you adjust for the loan sales and ex-CIB of 2% to 3% full year.

Glenn Schorr
Analyst, Evercore ISI

Q

Okay. Appreciate that. And then, just curious on the noninterest-bearing deposits only being down 2% year-on-year, we've seen a lot bigger numbers at some peers. Is that just strength of JPMorgan franchise? Or are you doing anything actively to manage that lack of mix shift?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

So, as I said, we are seeing balances stabilize in the Commercial Bank and AWM. We are still seeing some migration from noninterest-bearing to interest-bearing, but largely we're seeing those balances stabilize. And then we do, of course, have continued growth in the Consumer Bank, and the second quarter is typically seasonally high in the Consumer Bank. So, we have some growth in noninterest-bearing there. And even in the Consumer Bank where we've seen growth decelerate, that's largely as a result of consumer spending, so that feels healthy as well.

Glenn Schorr
Analyst, Evercore ISI

Q

Okay. Maybe last one on – appreciate the guide on 2019. Because it's a half, if you looked forward into 2020 with no incremental rate cuts, is it remotely linear? In other words, if we think about if the ongoing rate and curve environment persists into next year after the two or three cuts this year, are we looking at $1 billion? Or is it way too complex to oversimplify like that?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah, it's probably more complicated, Glenn. And so, just given the range of outcomes are as broad as they are and, importantly, if we're looking at cuts that are insurance cuts that sustain the expansion versus cuts that may be in response to a broader economic slowdown, there are other things that we would be talking about. So, we're not going to give further guidance on the 2020 until we know more.

Glenn Schorr
Analyst, Evercore ISI

Q

Okey-dokey. Thank you. Appreciate it.

Operator: Our next question is from Gerard Cassidy of RBC.

Gerard S. Cassidy
Analyst, RBC Capital Markets LLC

Q

Thank you. Good morning. When you take a look at your Merchant Services business, you had some really strong growth year-over-year. I think it was up 12%. And then your Card volumes, excluding the Commercial Card, were also up very strong. Can you share with us what's driving that strong growth, that double-digit rate of growth?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Thanks for noticing.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Thank you for noticing – I mean, yeah, I would say that is firing on all cylinders. So, it's brand, it's people, it's products. It does certainly help to have the backdrop of a healthy U.S. consumer as well. And, in fact, retail sales this morning looked strong, so we can expect that to continue.

Gerard S. Cassidy
Analyst, RBC Capital Markets LLC

Q

Is it more the market – as you just referenced the retail sales, they were strong, is it more that or are you guys also seeing gains in market share that gives you an added boost?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah, we have taken share, a little bit of share in Card. As you know, we're number one in sales there. I think importantly, what's helpful in Card is that we don't even need to take share to grow just given the secular tailwind that we have in the Card business, so I mean electronification of cash.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

And we're taking share in merchant acquiring.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

And we're taking share in merchant acquiring, yes.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

And we're expecting to take more share in the future.

Gerard S. Cassidy
Analyst, RBC Capital Markets LLC

Q

Speaking of the future, can you guys give us some color on what your first read of Libra is, the Facebook announcement about the payments system that they're going to initiate?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Yeah, so just to put it in perspective, okay, we've been talking about blockchain for seven years and very little has happened and they're going to be talking about Libra three years from now. So, I wouldn't spend too much time on it. We don't mind competition and the request is always going to be the same. The governments are going to – we want a level playing field and governments are going to insist that people who hold money or move money all live according to rules where they have the right amount of controls in place. No one wants to A) defend terrorism or criminal activities and that's going to be true for everybody involved in this, and there's not only banks who have been doing good at their KYC, BSA, AML for a long period of time and those standards, I think what's become for everybody at one point and they should.

Gerard S. Cassidy
Analyst, RBC Capital Markets LLC

Q

Thank you.

Operator: Our next question is from John McDonald of Autonomous.

John Eamon McDonald
Analyst, Autonomous Research

Q

Hi. I wanted to ask about the CCAR and you got a big authorization this year. How did you approach the CCAR plan this year in relation to your long-term CET1 target, the 11% and 12% that you talked about?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure. So, as we think about capital distribution, first we would start by always saying that we prefer to use our capital to invest and grow our businesses, and then to have a competitive and sustainable dividend and only then to return excess capital to our shareholders. And so, we are pleased with the approval and the additional capacity to return that $29.4 billion to shareholders. Having said that, we are still targeting the upper-end of the 11% to 12% range.

We're always going to want to have a management buffer because as I had said, our first priority will always be to invest and grow our businesses. And then, of course, there remains a lot of uncertainty in terms of the regulatory capital framework. And then, importantly, we wouldn't actually need to make that decision for a few more quarters given the way the capital distribution plan is laid out over four quarters, but as of now we are still targeting the upper end of 11% to 12%.

John Eamon McDonald
Analyst, Autonomous Research

Q

Okay. Thanks, Jenn. And any updated thoughts on CECL or could you remind us of what your thoughts on initial impact there? Thanks.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure. So, it hasn't changed from Investor Day. Our range continues to be $4 billion to $6 billion, then we're prepared for the January 1 implementation.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

And just to take this chance, so CCAR is one test a year on stress, we do 120 a week, and so we are always prepared for stress. CCAR has us losing $20 billion or $30 billion over the nine consecutive quarters. I just want to remind you all that the nine quarters after Lehman, the real stress event, we made $20 billion or $30 billion. And CCAR assumes you're going to grow your balance sheet, assumes you got to continue your dividends and stuff like that.

We have plenty of capital. I mean our capital cup runneth over and we further deploy that capital. And remember things like opening branches, every branch will eventually use $10 million of capital, so 400 branches will eventually be $4 billion of capital, so restraints on growth also restrains our capital usage and the ability to finance the U.S. economy. So, we're really optimistic about our ability to somehow use our capital, including that InstaMed acquisition we just did which I think closes sometime soon, so.

Operator: Our next question is from Betsy Graseck of Morgan Stanley.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning. Jamie, you mentioned about blockchain, we've been hearing about it for seven years and not much has happened, but I think you at JPM have built a blockchain solution for at least your correspondent banks, and I guess I wanted to understand where you think you're planning on taking that right now as just a AML and KYC use case. But is that something that you think you could deliver more functionality over time?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

So, we think the blockchain is real and the reason it takes so long is that the people agree to the protocol, people write a lot of code to get into it. The one you're referring to IIN is think of an information network for banks, so right now banks transfer lot of information among each other, think of trade finance and correspondent banking and stuff like that. So, I think we have like 120 banks signed up, we're going to have 400. So, right now it's for bank wholesale use to have immediate information, we all have the same information. You can move things, but eventually you'll be able to move money quicker with data. So, yeah, we're optimistic about that. And we're going to roll it out as soon as we can and constantly test it and make sure it's secure and all that.

I remind people when it comes to moving money, JPMorgan Chase moves $6 trillion a day, quite securely and quite cheaply. So, you got to look at the problem you're trying to solve, but people legitimately said, well, you didn't have real-time payments. That was true. And now we do effectively with Zelle from P2P and now we do effectively with something that's built by – they're called RTP, real-time payments through TCH. So, we are building the things that the future is going to want: APIs, blockchain ledgers that have much more data, real-time movement of money that also goes through floor checks, et cetera. So, we're quite optimistic about it, it's going to take a while to get everyone using it. One day you will have to be opened up to a broader customer set possibly.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

So, one of the things that's coming out in these Senate and House Financial Services, Banking Committee meetings is this desire for real-time payments, a desire for a cheaper solution for payments and that's supposedly what Libra is going to offer, but to your point it seems like you're already doing that. The question is, how do we think about the outlook for interchange? And, what's your strategy towards interchange pricing here as we go over this period?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Interesting you raise, there is real-time P2P, free, safe and secure called Zelle. So, when people say you do it – that's already done. That's not cross border, so there are people who might want to do that cross-border. Remember, cross-border remittances are much, much smaller than the actual use of debit card, credit card, payment systems here. The banking system has built a real-time payments, so that's actually already in use. And to me, the issue there is going to be fraud; to make sure these are real-time payments you also put it through effectively real-time floor checks and stuff like that.

So, in the United States, credit card, debit card, these are – people love these cards. The beneficiary is the consumer. Always remember, that's who we're here to serve. And someone's going to pay you eventually for services provided, but people like their credit cards. They use their credit cards far more than they use their debit cards. I don't remember the last time I used my debit card.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Yeah, but you get rewards, it's great. Okay, thanks.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

And at JPMorgan they'll be getting more free stuff. You get free – you could buy and sell stock for free. We just gave you a very good – it just got rolled out. We only have a few accounts, but robo investing, very cheap, very clear. So, we're going to take and give our clients more and better and faster and cheaper all the time. And now we package that with Sapphire Banking and Sapphire Card or discounts and mortgages, that'll always remain to be seen. But the future's very bright because if we could do more for our customers, that's a very good thing.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.
A

And don't forget, on credit cards you get chargeback rights and you get the float.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.
A

Right. And you get – you go online if you're a Chase customer, you get your FICO score for free. You're going to be able to – we're going to tell customers are great with financial education how they can improve their FICO score. You get offers like the Chase Offers – I mean we don't really market it, but it's really taken off, I mean.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.
A

Sure. But the Chase Offers, we talked about that at Investor Day. It's like a really powerful flywheel where we can deliver value to our large merchant clients in terms of being able to bring a very large customer base to them and then we can deliver that value to our customers at zero cost to us. And so, as I said in the presentation, we've had over 60 million Chase Offers activated. And so, this is really powerful and benefits not just our consumers, but our large merchant clients and at zero cost to us.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC
Q

So, that message of more efficient, less cost, maybe needs to get heard on the Hill as well?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.
A

Yeah. And we talk to the Hill all the time, and a lot of people understand that. And, of course, they always want you to do a better job for consumers with which we agree with them.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC
Q

Yeah, I guess the final question here is just on the under-banked. Is there something or is there an offer that you have for them? Are you considering that? Because that – I'm just thinking about where fintech's trying to exploit you, and I know it's a catch phrase under-banked that is being used by the way, but doesn't necessarily to me seem like it's solving anything for them. But maybe you've got a better solution that we just don't focus on.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.
A

Yeah, so we have – so talking about this JPMorgan Chase, I think 25% of our branches are in LMI neighborhoods and we go to those neighborhoods, we do some philanthropy. We're doing more and more financial education which I think is really important. I just mentioned the FICO score, but the thing is there might be other things we can do. We do Chase chat, so we get people into the branch to educate them about saving, FICO scores, what you're going to do to get a mortgage to buy a house and stuff like that.

And then we have a product which we think is great called Secure Banking. And think of it's a card, but it's the full thing. You can't overdraft, I think it's $4.95 a month, but you can use ATMs. You can have direct deposit. You can do online mobile payments and stuff like that. So, we think that's a great product for the under-banked. I mean, I think that's growing now 25% or – and we kind of pushed that a little bit more. So, we are always trying to compete. And then we also have special – I call it venture banking, the Entrepreneurs of Color Fund. We're making loans, Entrepreneurs of Color that are not traditional bank loans, but helping to grow your businesses. So, we're finding a lot of ways to do it. And a lot of folks in Congress understand that. I would say we're at the forefront of that.

Fintech, of course, all these companies are trying to eat your lunch, and I think that's good. That's called American capitalism, and we have to stay on our toes to compete. But we are – like when Jenn was at Cards, she rolled out last year and announced My Chase Plan and My Chase Loan, so that people can move their credit balances immediately to do what they want to do and do it well. We rolled out Zelle, P2P, that's good for everybody.

So, if you have a bank account, you can move money into your friends and relatives rather than to pay the $10 money changer fees and stuff like that. So, we're all in in trying to do a better job for the American consumer. We think we'll do a great job for them and if we have legitimate complaints, we'll fix it.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

That's right. And you mentioned the 25% in LMI neighborhoods in terms of our branch footprint and in our expansion market, that's 30%.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Thanks.

Operator: Our next question is from Ken Usdin of Jefferies.

Ken Usdin
Analyst, Jefferies LLC

Q

Thanks a lot. Good morning. Just wanted to ask on the balance sheet. Last year, so you've seen a huge jump in the trading-related assets and I know you had the accounting change that you mentioned in the supplement. But could you talk about – is that related to market share gains? Is it related to just specific strategies with regard to managing liquidity? And it doesn't seem to be equally growing on the asset side and the trading liability. So, just can you explain the dynamics behind that and how that adds to the net interest income story? Thanks.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure. So, in terms of the balance sheet growth that you saw quarter-over-quarter, that was primarily related to our balance sheet intensive businesses in Markets businesses. And then, we were down on a spot basis quarter-over-quarter, but we start with deposit growth and so we have had strong deposit growth. And so, you see that reflected on the balance sheet side as well. And you would have seen securities balances up as well and some of that is adding duration and some of that is short duration securities that are higher yielding than IOER. And, yeah, so...

Ken Usdin
Analyst, Jefferies LLC

Q

Okay. So, it is part of the liquidity management strategy. Okay. Then, Jenn, did you say what the amount of the gains that you had on the loan sales this quarter?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Liquidity trade. If you get a higher return on repo, than you get on IOER, you're going to do that. If you get higher return on standardized capital on securities on wholly-owned loans, you're going to do that. And that's what you're seeing on some of these things.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

That's right. And the securities growth, I should have mentioned, loan sales in Home Lending.

Ken Usdin
Analyst, Jefferies LLC

Q

Right. Okay. Got it. That makes sense. And can you tell us what the amount of the gains on the loan sales this quarter were, if they were above trend?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

We haven't disclosed the amount of the gains and we had loan sales in the fourth quarter – the first quarter and the second quarter. The first and second quarter in terms of the notional amount, the first quarter was about $7 billion and the second quarter was about $9 billion. So, just a little bit more.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Beginning of the second quarter they show up in different places, but not much. It's not material.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Yeah. Yeah.

Ken Usdin
Analyst, Jefferies LLC

Q

Got it. And lastly, just any thoughts on the Investment Banking pipeline and just the continuation of the outlook on – across the buckets there? Thanks.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure. So, in terms of the Investment Banking pipeline, I'll just remind you that the third quarter is typically a seasonally lower quarter. And so, sequentially, you should think about IB fees being down a bit. That said, the pipeline is healthy, although off a record performance last year, which is a function of a reversion to more normal levels activity as well as some overhang from macro uncertainty.

In M&A, it still feels very healthy and it's still a space where companies are looking for synergistic opportunities for growth, especially in North America, perhaps Europe a bit more muted. ECM, we had a very strong second quarter, so that will taper off in the second half a bit, but I would say deals are getting done well in the current environment. And then, DCM, DCM will be more subdued, reflecting a slowdown in acquisition financing activity as well as refinancing opportunities, but albeit with a good backdrop for new issuance given the rate environment.

Operator: Our next question is from Matt O'Connor of Deutsche Bank.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

Good morning. So, I realize rate expectations can change quickly, but how do you think about managing the company in a rate environment that follows the curve that's out there for three to four cuts? And you said earlier, you wouldn't cut back on technology, but are there other areas in expenses, do you think about managing the balance sheet and liquidity a little bit different?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure. So, in terms of balance sheet management, we manage the balance sheet in both directions. It's a negatively convexed balance sheet. And so, all else being equal, as rates are declining, we would naturally drift shorter, driven both by assets and liabilities. So, you would expect us to add duration, which we did this quarter, but we're not going to change the way we run the company because of the rate environment.

We're going to continue serving our clients, investing with discipline and managing the balance sheet across all dimensions, that being capital, liquidity and duration.

And then, in terms of expenses, again, we're not going to change the way we run the company, because of an interest rate environment. And I'll just say again that the range of outcomes are very broad here. And so, if we end up with insurance cuts, it's a temporary headwind and if we end up with cuts in response to a broader economic slowdown, there will be a lot more to talk about, but, as Jamie always says, we're not going to change the way we run the company because of the macro environment.

That said, in a broader slowdown, obviously there are natural levers on our volume-related expenses and we re-decision a large part of our investment portfolio on an annual basis. We will always continue to invest in the things that we think are important, but we would have that opportunity, depending upon the opportunity, to take a look at that.

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Remember, in a real recession, there are always opportunities to reduce your costs as vendors fall all over themselves, give you better deals and stuff like that. There're also huge opportunities to spend your money wisely. So, Sapphire Card was birthed in 2009 and you could imagine that we had a great opportunity, but not going to take it. And so, I think you've got to be very careful. Look at it this way, marketing money, is usually better spent in a downturn. The returns are usually double.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

And you talked about the capital and your thought process there. Obviously, the authorization of the buybacks is a very big number. Is it your expectations that you'll use it all or is that still to be determined based on balance sheet growth, stock price and the environment?

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

I would say still to be determined. Our first choice will always be to use our excess capital to invest and grow our business. So, it's still to be determined. Then, as you know, it's over four quarters and so we have time to think about it, but obviously, pleased to have the flexibility.

Matthew Derek O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

Is the timing of that even or is there flexibility there too?

Jamie Dimon
Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

It has been in the past, but we can change that every day.

Operator: Our next question is from Saul Martinez of UBS.

Saul Martinez
Analyst, UBS Securities LLC

Q

Hey. Good morning. Couple of questions. First, on the NII outlook beyond this year and I fully appreciate you're not giving guidance beyond this year, but you do have the guidance from Investor Day out there of a sustainable NII of $58 billion to $60 billion that was said in a very, very different rate environment. If we were to see multiple rate cuts, how do we think about that guidance? And I mean what are some of the moving parts that might get you perhaps to the lower-end of that $58 billion to $60 billion? Is it simply dependent on how the economy responds, deposit pricing? If you can just kind of outline what you think some of those moving parts are.

Jennifer A. Piepszak
Chief Financial Officer, JPMorgan Chase & Co.

A

Sure. So, the guidance we gave at Investor Day, steady-state $58 billion to $60 billion, I would say largely still stands. Importantly, because when we talked about that at Investor Day, we weren't assuming any further benefit from rates. So, we were assuming that any incremental increases in rates would be offset and re-priced. And so, the majority of that growth was going to come from balance sheet growth and mix.

And if you remember the slide, there were a number of arrows on the slide. Even at that time, which was obviously a different rate environment, we were implying that there were a number of different paths to get there. And so, that obviously continues to be true. And so, there may be a different path to get there. It may take a little bit longer, but we still believe in that steady-state number, because we still believe in the growth of the franchise.

Saul Martinez **Q**

Analyst, UBS Securities LLC

Okay. That's helpful. If I could change gears a little bit, you recently announced that you're closing Finn or you closed Finn and I think the stated logic is you learn that millennials don't need a separate brand or experience. But can you just elaborate on the logic there and what you learned from that experience, because it does seem to maybe fly in the face of what some other entities or financial institutions are doing with their digital banking strategy?

Jennifer A. Piepszak **A**

Chief Financial Officer, JPMorgan Chase & Co.

I was just going to say we learned a lot in Finn. You said it that we learned that importantly the power of the Chase brand certainly means that we don't need a separate brand. We also learned about a number of features that our customers love and we were able to reuse those features and port them over to the Chase Mobile app. And so, I think we always need to be testing and learning and doing things like this and not afraid to shut them down when we've learned what we needed to learn and can serve our customers through the primary Chase Mobile app.

Jamie Dimon **A**

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

We learned a lot like how to do digital account openings only digital, because we do have a retail bank and tend to rely on what you already have. So, there're a lot of lessons there. We've always been learning some kind of skunk works and learning some things like that. And so, we don't look at those kind of things like failures at all. That is not how you learn and Jeff Bezos will tell you, well, mistakes are good, mistakes are what make you smarter and better.

And so, I hope we made some really good mistakes that can teach us in all of our business at one point, but people at Finn did great job, they're embedded and by the way, you go open a Chase account now and never go into a branch and you could open, I forget how long it takes to open an account but it takes minutes, to open an account. So, we got much better at digital-only, but we got separated from the physical branch system.

Jennifer A. Piepszak **A**

Chief Financial Officer, JPMorgan Chase & Co.

Yeah. The digital account opening is now about 25% of our new account activity.

Jamie Dimon **A**

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

And we'll be doing that small business and in merchant processing in all these various things.

Saul Martinez **Q**

Analyst, UBS Securities LLC

Got it. Okay. Thanks very much.

Operator: Our next question is from Eric Compton of Morningstar.

Eric Compton

Analyst, Morningstar, Inc. (Research)

Q

Good morning. Thanks for taking my question. So, this question kind of ties into some of the items already mentioned, longer term, kind of tech-focused and also related to Finn. So, there has been some press recently about reasons for closing down the Finn app and one of the items that was mentioned was some of the difficulties banks can potentially run into with their legacy platforms, which for the most part are built on COBOL, which has been around since the 1960s and depending on who you talk to, these legacy platforms can either be like huge problems for banks or not really a big deal.

So, I guess, from the outside, at least from me, it can be kind of hard to tell what really is going on there. So, my question is that, as you complete with fintech firms who are building new platforms from scratch, how do you strategically view dealing with your own legacy platforms? Is there a need to kind of redo these things eventually in order to actually compete with newer tech over time? Do these legacy platforms really hamstring you in anyway or is the hype around those issues really overdone and if so, why? Thanks.

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

A

Well, the hype has been around now for the better part of a decade, right, and we seem to be doing fine, and some of these legacy platforms also is the reason why we have 50 million customers, but it is true that all the time, these platforms are being reformulated and re-factored to be cloud eligible and things like that and those things are more efficient.

So, your costs will go down, your error rates will go down. So, the way I'd look at it a little bit is we run like 6,000 to 7,000 applications. Over time, those are being modernized and being re-factored to be cloud-eligible with our own private cloud or public cloud and yes, they'd be more efficient. There's also tons of new digital platforms, AI, that are built around these things, that do the customer service side that they see. You can open account in minutes, you've got your free credit journey and we can modify some of these things in days and weeks as opposed to years, because you are not a monkeying with the whole legacy system.

And so, it's a little bit of both, but those numbers are embedded in our tech spend, the re-factoring, big data centers now getting better and in AI, they're all in those numbers.

Operator: And we have no further questions at this time.

Jamie Dimon

Chairman & Chief Executive Officer, JPMorgan Chase & Co.

Well, thank you very much. Jenn, you did a great job. We'll talk to you all in a quarter. Thank you.

Jennifer A. Piepszak

Chief Financial Officer, JPMorgan Chase & Co.

Thanks, everyone, and thanks, Jamie.

Operator: Thank you for participating in today's call. You may now disconnect.