Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Third Quarter 2016 Earnings Call. This call is being recorded. Your line will be mute 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 Chief Financial Officer, Marianne Lake. Ms. Lake, please go ahead.

Marianne Lake

Thank you. Good morning, everyone. I am going to take you through the earnings presentation, which is available on our website. Please refer to the disclaimer at the back of the presentation.

Starting on page one and taking a look at the quarter, we had strong performance in each of our businesses despite the continuation of reasonably challenging conditions. And bringing it altogether, this quarter's result was clean with no significant items and with the Firm reporting net income of $6.3 billion, EPS of a $1.58, and the return on tangible common equity of 13% on $25.5 billion of revenue.

Highlights of the quarter include the highest reported revenue for third quarter in the CIB with IB fees up 15% and markets revenues up 33%, with strong performance across the board, robust core loan growth for the Company of 15% on the back of sustained demand across businesses, and the continuation of strong credit performance including a net release for oil and gas. Card sales are back to double-digit growth year-on-year and we saw a strong positive market reaction to new proprietary products. And finally, we had record consumer deposit growth up 11%.

Before I move on, we recently submitted our 2016 resolution filing. The Board and management believe that we submitted a credible plan and more than met the requirement for the October submission. It was a tremendous effort across the Company involving all businesses and functions, and we took many significant actions, perhaps most notably improving the Firm's overall liquidity and prepositioning our material legal entities for both liquidity and capital. We determined this is in the best interest of the Company, albeit at some cost. And we took many other important actions which hopefully you've had a chance to review in our public filings.

Moving back to the quarter, moving on to page two, revenue of $25.5 billion was up $2 billion year-on-year or up 8%. On the back of continued strong growth in core loans, net interest income was up $700 million and is trending for the full year to be above the $2.5 billion guided last quarter. Non-interest revenue was up $1.3 billion driven by strong performance in the CIB. Adjusted expense of $14.5 billion was up $500 million, both year-on-year and quarter-on-quarter, largely driven by two notable expense items in consumer, which I'll talk about later, as well as the increase in FDIC surcharge which took effect this quarter and some higher marketing expense. Credit cost of $1.3 billion in the quarter includes consumer reserve build of $225 million, primarily card, but against that we have a net reserve release in wholesale for oil and gas of about $50 million.

So, as I said, net income was $6.3 billion and while down 8% year-on-year, you will recall that there were a number of significant items in last year's results, most notably significant tax benefit. If you adjust for tax, legal expenses and credit reserves, net income is up over $800 million year-on-year.

Dealing with oil and gas here, we're encouraged by how quickly investor sentiment and risk appetite for the sector returned as the outlook for both oil and gas prices continued to improve. Capital market opened more broadly to these clients and we experienced lower draws against our facilities than previously anticipated.

So, a combination of pay downs opportunistic loan sales and select upgrades more than offset the impact of downgrades. If the environment remains broadly consistent with today, we would not expect further significant builds in the fourth quarter for energy.

Moving to page three and capital, key takeaways from this page, capital and leverage ratios were broadly flat quarter-on-quarter with the CET1 ratio of 11.9%, as net capital generation was offset by strong loan and commitment growth. Our spot balance sheet closed a little over $2.5 trillion, principally a result of strong deposit growth, as well as liability action taken to raise liquidity in the context of resolution, which also drove up liquid assets. While HQLA was up $23 billion quarter-on-quarter, our liquid assets were up significantly more than that. As I said liquidity at the bank is not included in reported HQLA. Finally, we returned $3.8 billion of net capital to shareholders including $2.1 billion of net repurchases and common dividends of $0.48 a share.

Moving onto page four and consumer and community banking. Consumer and community banking generated $2.2 billion of net income and an ROE of 16%. We continued to experience record deposit growth more than twice the industry average, up 11% year-on-year. More than half of that growth is from existing customers. And based on the FDIC survey for 2016, we were number one in absolute growth and grew share in each of our top 30 markets. Core loan growth remained strong at 19%. And while it's primarily driven by mortgage, we also saw 14% growth in auto, 9% in business banking and 7% in card loans.

Card new account originations were up 35% with strong demand for Sapphire Reserve and Freedom Unlimited and with more than three quarters of new accounts being opened through digital channels. Card sales volume was up double-digit this quarter and we expect share gains to accelerate.

So to close on drivers, we saw merchant processing volumes up 13% and our active mobile customer base up 17%. Revenue of $11.3 billion was up 4% year-on-year. Consumer and business banking revenue was also up 4% on the back of strong deposit growth. Mortgage revenue was up 21% on higher MSR risk management but also on higher production margins and growth in NII as we continue to add high quality loans to our portfolio.

Card, commerce solutions and auto revenue was down 1% as a strong momentum in card and auto volumes and balance growth was offset by higher card origination cost and the remaining impact of co-brand renegotiations. And while the new account origination costs do cause a near-term drag on revenues, it’s a high cost problem to have as we expect these accounts will be strongly accretive over time.

Looking forward, assuming strong demand for Sapphire Reserve through the fourth quarter, we would expect revenues for CCSA to be down about $200 million quarter-on-quarter on higher acquisition costs but it will clearly be dependent on the number of new accounts originated. Expense of $6.5 billion is up year-on-year, as I said, driven by two notable items, totaling a $175 million as well as the increased FDIC surcharge. The first item relates to liabilities assumed for a merchant in bankruptcy and the second is a modest increase in reserve for mortgage servicing. Underlying this expense performance is an incremental investment of $250 million in marketing and auto lease growth which is in line with investor day guidance and largely self-funded with expense efficiency.

Finally, the credit environment remains favorable. In cards, we built $200 million of reserve this quarter, reflecting growth in the portfolio including newer vintages which have a higher loss rate than the portfolio average, consistent with our discussion during the second quarter and consistent with how we underwrite the loans. And in auto, we built $25 million of reserves on the back of high quality loan growth.

Now, turning to page five and the corporate and investment bank. Total revenues of CIB of $9.5 billion, up 16% year-on-year was the best reported performance for a third quarter and included the highest IB fees on record for third quarter too, up 15% with strong market performance across the board, revenues up 33%. Expense was down 20% year-on-year on lower legal costs but also with strong expense discipline more broadly. Coupled with solid credit performance, including a modest reserve build for oil and gas here, the business delivered a pretty clean $2.9 billion of net income and a 17% ROE this quarter.

Diving deeper, IB revenue of $1.7 billion was up 14% year-over-year with strong performance across products. We ranked number one in Global IB fees maintaining share on a year-to-date basis, and ranked number one in North America and EMEA. Advisory fees were up 8% year-over-year and we continued to rank number two globally and have done more deals than anyone else so far this year.

In equity underwriting, fees were 38% year-on-year. With the stable market backdrop and strong investor demand, issuance was up across products and particularly in IPOs. We ranked number one in wallet globally and in North America and EMEA and we also ranked number one on a number of deals basis for overall ECM and IPOs.

Debt underwriting had the highest third quarter on record with strong market-wide bond issuance, record high grade bond supply in August and yields near record lows. Fees were 12% from a high watermark last year and we ranked number one.

In terms of outlook, given the strength this quarter, we expect IB fees to be down in the fourth quarter sequentially but relatively flat year-on-year. Markets revenue of $5.7 billion was up 33% year-on-year. Clients were active and risk management conditions were favorable. Fixed income revenue was up 48% compared to a weaker third quarter last year. Rates was a standout in terms of performance this quarter as markets stayed active post Brexit with good client flow, as well as anticipation of an uncertainty around central bank actions. Currencies in emerging markets matched a very strong third quarter last year but was slowed down slightly. And credit and securitized products came back from a weak prior period with a recovery in the energy sector and central bank actions motivating clients to put money to work, producing a much more constructive market making and new issuance environment resulting in a particularly strong quarter.

Equities revenue was up 1% compared to a strong third quarter last year with Asia matching last year's strong performance and strength in North America flow derivatives offsetting weakness in cash volume. Taking treasury services and security services revenues together, each were over $900 million with strong forward pipelines and levers to higher rates.

Moving on to page six and commercial banking. Commercial banking reported record net income of $778 million on revenue of $1.9 billion and an ROE of 18%. Revenue was up 14% year-on-year, driven by a trifecta of NII on loan growth, higher deposit spreads, as well as higher IB revenues.

Loan growth continues to be strong across both C&I and CRE, outperforming the industry. C&I loans were up 10% year-on-year, despite competition for quality loans as the investments that we've been making this year are delivering results. We've added over a 100 net new bankers, opened seven new offices and further built out our specialized industry coverage. And we've added nearly 600 new relationships in middle market this year.

CRE loans grew 19%, reflecting strong originations in both commercial term lending and real estate banking. We're also seeing stable to improving new loan spreads. IB revenue was up 57%, in part driven by a few large transactions but bringing year-to-date IB revenues closer to flat versus last year, which is a strong performance. Expense growth of 4% is driven by our investments. And as I said, these investments are already paying off. Finally, credit performance remains strong with a net charge-off rate of 10 basis points, roughly half of which was driven by oil and gas. In addition, you see further reserve releases for oil and gas here as I mentioned earlier. Outside of energy, credit quality is good and the commercial real estate portfolio had no net charge-offs during the quarter.

Leaving the commercial bank and moving on to asset management on page seven. Asset management reported net income of $557 million with a 29% pretax margin and an ROE of 24%. Revenue of $3 billion was up 5% year-on-year, driven primarily by strong banking results on higher loan and deposit spreads. Expense to $2.1 billion was up slightly year-on-year and up 2% sequentially on higher incentive compensation. We saw positive long-term flows of $19 billion with strength in multi assets including the benefit of a large mandate this quarter, as well as inflows and alternatives in fixed income, partially offset by outflows in equity products.

In addition, we were the beneficiary of the $22 billion of liquidity flow this quarter, capturing more than our share of many in motion given money market reform. AUM grew 4% and overall client assets 5% to $1.8 trillion and $2.4 trillion respectively driven by market as well as long-term flows. Our long-term investment performance remained solid with 80% of mutual fund AUM ranked in the first or second quartiles over five years. Lastly, we had record loan balances of $114 billion, up 5% year-on-year, driven by mortgage.

Skipping over page eight and corporate where the results were very close to home and where there are no significant items to highlight, so turning to page nine and the outlook. Looking forward to the fourth quarter, expect net interest income to be up modestly quarter-on-quarter on continued strength in loan growth, even as we digest the incremental cost of resolution based liquidity actions, which will be pulling in our run rate in the fourth quarter. Expect non-interest revenues to be down quarter-on-quarter based upon our current outlook for IB fees and assuming flat year-on-year markets revenues, also including higher card acquisition costs and seasonally lower mortgages. All else equal, expect NII to come in at $50.5 billion plus or minus for the full year, market dependent. Finally, expect adjusted expense in the fourth quarter to be flat year-on-year, bringing full year expense in at approximately $56 billion consistent with our guidance and self funding the consumer items I mentioned.

So to wrap up, strong performance whichever you look at to this quarter. We're continuing to demonstrate that our operating models and our platform is working for our clients, that our scale across businesses gives us operating leverage and that our investments through time are paying off. And while as a Company, we are proud of this quarter's performance and in particular proud of the growth in the underlying business drivers, we take a long-term disciplined view and remain focused on delivering excellent customer experience, strong execution, particularly in risk management and expenses so that we can continue to deliver best-in-class performance.

With that, operator, please open up the line and we can take questions.

Question-and-Answer Session

Operator

[Audio Gap] from CLSA.

Marianne Lake

Good morning, Mike.

Mike Mayo

Hi. Can you talk about the competitive environment in capital markets? I mean, you had a strong growth. Is that due to better markets, better share or both?

Marianne Lake

So, I think there is three things -- three or four things to mention. The first is that I would say that the industry generally had a pretty weak third quarter last year. And so, when you think about the year-over-year comparison, we are little flattered by last year's performance, not necessarily more so than our peers but nevertheless we are. And then, we talked about the fact that this quarter the conditions were relatively favorable broadly and compare and contrast that last year where there were pockets of activity in client flow but there were also pockets where people were really sitting on their hands and not transacting. So, I think client flow quite broadly across the environment would characterize the quarter.

In terms of the competitive performance, I would say it feels like we did well. Obviously we're the first to report, apart from Citi this morning. It feels like we did relatively well. So, we may have gained some share, certainly, hopefully the momentum in terms of the business we've been building in the way we are serving our clients, will serve us in that capacity, not just this quarter but through time. But obviously that can be a bit of volatility in the market share space. So, we prefer to look at it more through time and we feel pretty good about the performance.

Mike Mayo

Specifically versus the European banks, so are you looking to use your balance sheet more to gain share?

Marianne Lake

So, I would say, we don't specifically target a competitive set to -- but, I will tell you that our balance sheet, we talked about it many times on this call before, that we do have the capacity to put our balance sheet and our resources to work for our clients, for our best clients and we think about using those resources in the context of overall relationship. So, if any peer is more leverage constrained and has less access, we may have competitive advantage. And certainly, we will continue to make those resources available to our clients.

Operator

Your next question comes from the line of Glenn Schorr from Evercore ISI.

Marianne Lake

Hi Glenn.

Glenn Schorr

Hi. Thanks very much. I'm curious on card delinquencies picking up. I know you've been guiding towards that but when you see, it is the only part of credit that has anything but great trends. You mentioned on your comments newer vintages will have a higher loss rate than the portfolio average. Do you mind just drilling down a little bit more color on what exactly is driving that; is that going down credit a little bit or is that just expected season, as you thought?

Marianne Lake

So, I don't know Glenn if you recall, we had a bit of discussion about this last quarter and sort of guided to the fact that we would expect to see our loss rates go up slowly, I mean partly because obviously 250ish basis points, I think we could call that pretty low historically. But also because over the course of the last couple of years, we have been changing the mix of our originations a bit to the prime, near prime space and still completely within our credit risk appetite and at risk-adjusted margins that are better than the portfolio average. So, we're getting paid for that. So, we are doing it within our risk appetite doing it judiciously. But as a result, as those vintages become a higher percentage of our overall population, they will have a gentle upward pressure on the charge-off rate.

So, what we're seeing in terms of the delinquency uptick and the charge-off gradual increases completely in line with how we underwrote those loans and our expectations. And so, as you look forward for us over the course for the next several quarters and we would expect those phenomena to generally continue again slowly, we're growing our portfolio, we're going to see the seasoning of those vintages as the mix increases and as they become more seasoned, cause us to build a reserve but for the right reason.

Glenn Schorr

Fair enough. Just one follow-up if I could get a just a high level comment on has anything materially changed in terms of rate or curve sensitivity as you remix the portfolio and as you're getting all this great loan growth? I'm just curious on current positioning.

Marianne Lake

No, nothing significant, Glenn. No significant changes to our sensitivity.

Operator

Your next question comes from Betsy Graseck from Morgan Stanley.

Betsy Graseck

I had a question on the Card strategy. And I know -- we all know that you've created the closed loop and you're using that in part, it seems to drive really efficient pricing in the marketplace on the credit card products. What I am obviously seeing is an increase in share on card issuance; you're taking some nice share in the merchant space as well. I just want to understand what the goal is and how far you're willing to push this market share versus ROA, ROE.

Marianne Lake

So, I would say that all of the things that you mentioned whether it's closed loop network, whether it's our new proprietary products whether it's our investments in the technology platform and the business merchant services are all at good returns that ultimately will drive the business to be profitable in the future as it has been in the past. So, we haven't given specific guidance for ROE part of this business but nothing has changed over the medium term for what we think that the performance of the business would be.

Betsy Graseck

So, is it fair to suggest that part of the market share improvement here is coming from some give-up of profitability? And the underlying question is really how much market share do you want in this business? You are already at 18% to 22% market share of the credit card space, depending on which numbers you want to use.

Marianne Lake

Yes. I mean, it's a very competitive business and it's very profitable. So, all other things being equal, we would like to continue to gain share.

Operator

Your next question comes from the line of Ken Usdin from Jefferies.

Ken Usdin

Marianne, just wondering, you mentioned that part of the increase in consumer cost this quarter was planned investments and that you're continuing to self fund. I am just wondering as you think forward and we get past this good gear that you've had, will that be kind of underlying expectation for you guys, again with the understanding that the revenue environment will always take things up or down; but do you have an aspiration that you can continue to keep costs flat?

Marianne Lake

So, I mean, look, we haven't given specific cost guidance going out beyond this year at this point. But our objective will remain consistent with those that we stated previously, which is we continue to try and become more efficient across our businesses. As you know, we're at the tail end but not finished on a couple of large expense programs in our largest businesses, so that we create capacity to be able to invest in the businesses broadly whether that's in products and marketing and investment in innovation all of which we're doing as much as we can as long as we do it well. And so, it's going to come down to if we think we have investment opportunities that we can execute well that have an appropriate return, we would like to keep doing that. And in order to have the right to do it, we would like to become more and more efficient in our core business operations. So, we haven't actually given guidance, I think I would characterize it as expenses under control, creating capacity to invest but we will decision investment based upon their merits and obviously explain them to you in the future at Investor Day if not on other venues.

Ken Usdin

And if I can come back to another investment day point from earlier this year, you'd mentioned that you'd felt comfortable with an 11% CET1; you plan to get to your CET1 to 12%; you are at 12.1% now already. Just within the construct of Governor Tarullo's recent commentary, does 11% still feel like the right time; did you sense anything from the commentary that would change your philosophy around where you'd like to live in that potential comment you made at February to potentially go above 100, if in fact this was the right mechanism?

Marianne Lake

So, first of all, I would say that based upon the speech, and obviously you know that there are still some unanswered questions with respect to specific parts of the proposal, which I'll come back to. But based upon the speech moving to a baseline minimum standard is more consistent with how we think about our capital management policy and using the capital stack add-up using our G-SIB Score and our stress drawdown, actually you would come out with a sort of capital constraint on the CCAR that's pretty much on top of our regulatory capital minimum. So in that sense, because of the offset, because of the lack of balance sheet growth, lack of RWA growth and the curtailment of capital distributions, we've actually ended up in a place where we look to be approximately equally bound based on last year's test by both of those two measures, which is a place we played in for a while. We've been -- as we talked about before, we've been bound by many constraints, somewhat equally over a period of time and striving to sort of operate within that constraint and maximize shareholder value. And I think we think we don't know obviously how funding or liquidity shock will be incorporated. And in any case, this is not for the 2017 CCAR cycle. So, it's a whole cycle away from now. And we will be operating in 2017 under the same basic test construct that we have previously. And so, I don't think it's a clear and present danger necessarily that we will be able to look at payout ratios that are above top end of our range. Meanwhile we are at the top end of our range now.

Operator

Your next question comes from the line of Jim Mitchell from Buckingham Research.

Jim Mitchell

Maybe just a quick follow-up on FICC in your commentary and maybe a broader -- maybe you can have a broader commentary around how the widening LIBOR or rising LIBOR yields helped your businesses across the board in FICC or anywhere else. Just help us understand how that's playing through the income statement.

Marianne Lake

Yes. So, I'll just -- generally speaking with respect to our rate sensitivity, as I think you know we are most sensitive to the front end of the curve but to IOER and prime. So, we do have LIBOR based assets but also liabilities. Good examples would be commercial loans on the asset side or long-term debt on the liability side but our notational mismatch is not particularly big. And so, as a consequence, impact of LIBOR curve move has been not very significant on our P&L, we wouldn't expect it to be. I will say that the LIBOR moves were one of the features that our rate business had a perspective around and they got good client flow in and around that trade. And so, it was one of the catalysts, one of many, but one of the catalysts that we point to in terms of ability for rates to monetize flow as we had a lot of client flow around that condition. But I wouldn't put a number on it for you.

Jim Mitchell

And maybe just a follow-up on deposits; you guys have had very good trends in retail. But on the institutional side, there was quite a bit of flow, looked like as well. Any particular drivers there; was it money market reform helping the flows in institutional or something else?

Marianne Lake

We obviously did get some good inflows, liquidity flows in terms of money market reform into our government funds but we also have been very focused in our other wholesale businesses on continuing to attract operating deposits. And so, as I look at our overall strong deposit growth, I wouldn't say it was equally but it was pretty much equally wholesale operating and retail deposit growth. So, we feel good about both of those.

Operator

Your next question comes from Matt O’Connor from Deutsche Bank.

Matt O’Connor

In light of some of the selling issues over at Wells Fargo, I was just wondering if you’ve thought about reevaluating how you approach the consumer, how you compensate staff; and this was obviously not a JPMorgan specific question, but just for the overall industry I think it’s something that folks are wondering about. There is clearly some stuff that’s black and white that you shouldn’t do but I think we also worry that there might be some gray areas that are somewhat less known. So, just how are you thinking about the way you conduct business and compensate staff in light of what’s going on?

Marianne Lake

So, I might just give for context, remind you or maybe you recall that for a number of years now for a fairly long time,, we’ve been standing up at Investor Day and other venue saying that customer experience is the central tenant for how we think about engaging with all of our clients but certainly our retail clients in the branches. And we’ve been very, very focused on investing in customer experience broadly defined and have made great progress I think in doing that. And also we had talked about the fact that what we are looking for very, very clearly is deep customer relationship engaged customers who want to be primary bank, we want to gather a deeper share of wallet, so balances not necessarily products. And so again, remember saying cross-sell is an outcome, it’s not an objective. And that’s certainly the philosophy with which we have designed our compensation and performance structures for the branches. And we review them regularly, at least annually to make sure that they continue to be aligned with our objectives and again objectives about the engaged relationship with customers, good customer experience in the right product, all the right reasons the right way.

And so, as we think about those objectives and how we’ve designed our plan and as we look inward not just and obviously because of the news now but also regularly in our BAU capacity, we feel like our plans are designed to incent those behaviors.

Operator

Your next question comes from Erika Najarian from Bank of America.

Erika Najarian

Just a question on back to CIB, you had a slide during Investor Day that showed a walk to $19 billion of expenses by 2017. If some of the factors that you mentioned that drove revenues into CIB higher repeat for 2017; is that $19 billion number still achievable or I guess a better way to ask it, will any incremental revenue uplift from here fall to the bottom-line?

Marianne Lake

So, obviously, first of all, I would say we are on -- I'll tell you, we are on track with respect to the commitments that Daniel made to you to deliver over time the $2.8 billion of expense saves. While we are not finished yet, we are substantially through that program. So, it's moved from being a plan through execution to being in the later stages of execution. So, we feel very good about that which means that all other things equal that $19 billion is still a reasonable level of expense target. However, obviously we pay for performance. And so, clearly, if we have significant outperformance next year relative to our expectations at the time of setting those plans, there would be some variable costs associated with it. But for every dollar of outperformance, the variable cost may not always be the same. Obviously, it also depends upon the mix and the payout ratios and all those sorts of things. But a large, large portion of it would be -- it would be obviously as you know incredibly accretive because we will be leveraging all of our scale. So, the only variable cost would really be comped largely.

Erika Najarian

And just as a follow-up to that -- a follow-up to Ken's question actually. He mentioned the stress capital buffer. Outside of the static balance sheet and capital distribution offset, is there an element to this in terms of just getting better at the test that you could do to reduce that stress capital buffer without actually taking risk down significantly?

Marianne Lake

So, first of all, based upon last year's results for us, we are at the flow for the stress floor for the stress capital buffer, not to suggest by the way that we wouldn't continue to want to properly understand and better understand how we can through time make sure that we are performing the best we can on the stress within our risk appetite. So, we are at that floor right now. So, within those home strengths, what we're trying to be, within our risk appetite manage risk properly, but also add shareholder value. We have to carry that capital anyway. So, we would want to use it, but use well.

Operator

Your next question comes from Paul Miller from FBR.

Tim Hayes

Hi. This is Tim Hayes for Paul Miller. Can you give any color on your outlook for margin throughout 2017? To me, fed commentary suggests that rates could remain low and potentially hover around these levels over the next 12 months. So, how can we think about your NIM in that type of scenario? And then, what would a December rate hike do for your outlook?

Marianne Lake

Okay. So, for your purposes, I'm going to talk about NII; we don't really manage to NIM, but you can obviously back into it. So, if we ended up in a situation right now where rates are flat throughout all of 2017 which for what it's worth I don't think is pretty much anyone's central expectations right now. But if we were rate flat, you've seen us grow our core loans and our loan balances pretty strongly, pretty consistently across businesses. And while we may not be able to replicate $0.15 core loan growth forever, certainly we can continue to grow our loans. So on that stuff, mix shift away from securities over time, we should be able to deliver $1.5 billion of incremental NII next year rate flat. You know that if rates are -- if we're fortunate enough for the right reasons that we see a hike this year, at the end of this year and get the full benefit of that next year it will be higher than that. And you've seen our earnings and risk disclosures; they've been pretty close to $3 billion number on a 100 basis-point move for a while most of which is front end.

Tim Hayes

Okay, thank you. And then switching gears, your CRE and C&I lending was pretty strong this quarter. And regulators have obviously grown a little bit more cautious on those segments. So, just kind of if you could give any color for your outlook on lending to those segments going forward?

Marianne Lake

Yes. So, we're aware obviously of the riskier types of CRE lending, the types of lending that attract scrutiny and for reasonable reasons considering how they performed in past cycles. We are also mindful of where we are in the cycle and take that into consideration in our underwriting. So, we have and continue to avoid and what I would characterize as the riskier segments and those segments that performed poorly in previous cycles. So, we really stick to our knitting if that's an American expression, in terms of continuing to do what we're good at within our risk appetite. And so, if you think about our commercial real estate growth, commercial term lending is about three quarters of our portfolio. And you know that we're very focused on smaller loan size, Class B, Class C properties with low vacancy rate. So, rent stabilized, supply constraint markets, underwrite to LTVs, good debt service coverage, we look at forward rates and current rents. And so, we really have expertise in a specific niche and we compete on speed and certainty of execution, not on credit and structure. So, we feel pretty good about our exposures and even in the more traditional real estate banking space and we have avoided riskier segments with limited construction lending exposure, home builders, minimal exposure; we're pretty disciplined about it.

Operator

Your next question comes from Eric Wasserstrom from Guggenheim.

Eric Wasserstrom

Marianne, at a conference just before the end of the quarter, another bank talked about improving underwriting conditions in the auto lending space, particularly sort of in the mid to lower FICO range. Are you seeing anything similar?

Marianne Lake

So, we are a primarily prime lender in auto. We are the number one prime lender. We actually have the lowest share in sub-prime among the national banks. So, it's less than 5% of our origination. So, I wouldn't speak specifically to underwriting in the lower FICO sectors, not where we play at this point.

Eric Wasserstrom

Sure. I think the reference was to below 700, which includes the bottom end of the prime segment, which has been an area of intense competitive focus; I am just wondering if you've seen anything in that segment.

Marianne Lake

So, not that I would comment on except for we have recently decided to pull back on 84 months plus term loans on all FICO bands just as where we are in the cycle as we see the risks of that type of lending. So, we continue to calibrate our underwriting but I wouldn't comment on seeing anything specifically.

Eric Wasserstrom

And is that influencing your reserve expectations for consumer at all?

Marianne Lake

Auto?

Eric Wasserstrom

Yes.

Marianne Lake

We've built $25 million of reserve this quarter for auto and we expect to continue. We think that auto opportunity is still strong and we have a great franchise, we have great manufacturing partnerships that are growing strongly too. So, as we grow that portfolio, I would expect us to continue to grow reserves modestly in 2017. However, we are expecting charge-offs to stay under control.

Operator

Your next question comes from the line of Steve Chubak from Nomura.

Steve Chubak

Marianne, I appreciated your remarks on the latest guidance from Tarullo relating to G-SIB capital. One of the questions we've been getting from a lot of folks is because this SEB is calculated based on stress losses year-to-year and historically CCAR results have been pretty volatile, I am wondering how you are thinking about the appropriate management cushion or buffer above the minimum. Historically, it had been about 50 bps just for AOCI volatility and maybe operational risk losses. But, do you now have to also handicap CCAR volatility when thinking about that cushion?

Marianne Lake

So, you're right and obviously even specifically for JPMorgan, if you look our stress results that [indiscernible] by the fed over the course of last three years has been reasonable volatility. And clearly it's not the case that we will expect it to be complete. And I would not expect to see the same levels of volatility going forward as we've seen historically as the test has as you know over time occasionally included new not insignificant features. And while that may continue to be the case, I would think that there'd be a bit more stability. But, we haven't actually gone through and finalized our thinking about what the buffers would look like.

Steve Chubak

And one more question just thinking about capital management priorities. Given that the new proposal, as you noted, allows for curtailment of the buyback or termination of the buyback and then curtailment of the dividend halfway through the test, do these changes as well as the softening of the 30% dividend cap alter your thinking about how you prioritize buybacks versus dividends?

Marianne Lake

Before I talk about the prioritization of capital distributions, I would just start by saying our capital management policies prior to this year's CCAR and these year's resolutions had us making those actions regardless of whether they were allowed to be reflected in a test. And obviously as part of the resolution planning, we have revised our policies to include more granular triggers. So, our policies do with some specificity run pretty granularly through time through a stress speak to the sorts of actions that we would be leaning into and taking even if they don't get reflected in the test.

With respect to the prioritization, look, the soft cap on dividend has been lifted. Dividends are ultimately at still a cost of the baseline minimum standard. So, there will be possibly some natural constraint there. It hasn't changed at this point anyway, the Board's determination or management's determination about the order of priority we would like to continue to have the capacity to grow our dividends. And I think even though there may be some natural constraints, I think it would be above 30.

Operator

The next question comes from Gerard Cassidy from RBC.

Gerard Cassidy

I just had a question. You pointed out that about three quarters of your credit card acquisitions organic growth coming through mobile channels or digital channels I should say. Can that be moved over to other consumer products or is it just unique to credit cards that you are going to be able to generate that much growth through the digital channel?

Marianne Lake

So, we are very focused across spectrum of our businesses on developing better digital capabilities to allow seamless engagement with customers and acquisition through digital channels. There are complexities associated with documentation and standards for know your customer and anti money laundering that we're continuing to work through but ultimately it should be achievable and we're working on it. So, we one of the things that we've previously mentioned is that majority of our consumer accounts are opened in branches. One of the reasons among others why branches have been important to us as well as advice centers and we will continue to work on trying to see how far and how fast we can move people to be able to have a better digital experience opening accounts with us.

Gerard Cassidy

And then as a follow-up, obviously third quarter results in investment banking were very strong, fourth quarter seasonally is weaker than third quarter as you pointed out. Are there any other reasons why you think the fourth quarter numbers may be weaker than the third quarter other than the traditional seasonality?

Marianne Lake

I would just -- I'd start by pointing out that about all of the businesses -- all of our businesses, not just the ones that I talked about at the high level, not just macro spread equity, but even if you go a level below that quite granular, all of our businesses did really quite well this quarter. So, not to overuse the phrase, firing on all cylinders but it really was pretty consistent. And normally you might see pockets of more strength or less strength. So, I think it would be hard to imagine replicating this kind of strength through time consistently. But the fourth quarter is seasonally low; we have no reason to expect that it would not be.

Operator

Your next question comes from Betsy Graseck from Morgan Stanley.

Betsy Graseck

Hey, I just wanted to follow up on FRTB and Basel IV and how you're thinking about the implications for JPM at this stage?

Marianne Lake

So, there isn't a whole lot of really -- it's clearly news but as we think about all of the FRTB; we talked about before modest and manageable; nothing about that has changed for us, but obviously there are the advanced and standardized credit operational proposals out there. The most important thing that we yet to really -- and there are pluses and minuses in it and it's different for us and others maybe but the one thing that we haven't really heard about yet that is how it will all be calibrated. And calibration will be very important. So, we are expecting to hear over the course of the next short while, and maybe that will be delayed from just given some of the discussions and we'll update you when we hear a bit more about how it will going to come together. But right now, it's still little unclear.