Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's fourth quarter 2012 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 Marianne Lake. Mr. Dimon, please go ahead.

Jamie Dimon

Operator, thank you very much. Welcome, everybody, to our fourth quarter call. I just want to start by telling you that Doug Braunstein won't be doing this call. I just want to thank him for his service to the company. I do want to remind people, despite of the fact that the [will] happened during that time, during that time [unintelligible] of that income is something we all are very proud of at this company and so, Doug, thank you for your service if you're listening.

And we've still got Marianne here. Marianne, as some of you may know, Marianne has extensive experience in accounting numbers. She was the controller of the investment bank for several years, so she knows the investment banking wholesale side pretty good.

She was also CFO on the consumer side, so uniquely she's got deep experience in both parts of the company. And so I'm going to turn it over to Marianne. We're thrilled to have you here. So you can take it through the numbers and then we'll take any and all time we need to answer your questions as usual.

[unintelligible], I think the numbers here are really good. I mean, look at the underlying detail of this company: third year, record income, 15% returns in general capital and growth in virtually every single business. We had some negatives like [unintelligible], stuff like that, which over time [reverse]. So Marianne, let me turn it over to you to take it through the details.

Marianne Lake

Thanks, Jamie. Good morning, everyone. This is Marianne. I'm going to take you through the presentation this morning which is available on our website and refer you to the display on the regarding forward-looking statement, which is at the back of the presentation.

And just before we turn to earnings, we also announced today the completion of the board review of CIO and the management task force report. Those reports are available on our website. So with that, we'll turn to page one. The firm generated net income of $5.7 billion for the fourth quarter, or $1.39 a share, on revenue of $24.4 billion, up 10% year on year, and down 6% quarter on quarter.

And on the page, you see we had a few significant items for the quarter, and these [largely] offset each other, and we'll go through them as we go through the presentation. But what you don't see on the page is we also had a number of smaller items, many of which we'll mention when we go through. For example, we made a contribution to our foundation and realized some securities gains this quarter. These smaller items also largely offset slightly to the negative.

So for the full year, we generated record net income of $21.3 billion, or $5.20 a share, on revenue of $100 billion, flat year over year. Return on tangible common equity was 15% for both the quarter and the year, and in fact, as Jamie said, this is the third consecutive year of both record net income and 15% return on tangible common equity.

And before I turn to the businesses, I would characterize the overall performance of the quarter as strong performance across our businesses and highlight four themes. First, the positive trends in market share that we've been seeing continued this quarter. Year over year, we saw strong continued deposit growth of 10%.

Mortgage origination volume is up 33%, and sales volume in card up 9%. Also, the number one ranking in global IDCs including record debt underwriting fees, record assets under custody in CIB, record revenue in commercial banking, and record revenue and AUM in asset management.

Second, we continued to see positive year over year loan growth. On a reported basis, the total loans for the company were up 1%, but excluding runoff portfolios, our core loan growth was 9%, with record loan balances in commercial banking up 14%, record business banking loan balances up 7%, and record asset management loan balances of $80 billion.

Third, strong credit performance continued in our wholesale portfolios, as well as in the core consumable portfolios, which have stabilized at low levels of chargeoff and delinquency. The real estate portfolios continue to show improvement as the housing market continues to recover, but losses are still high.

So finally, we continue to strengthen our capital position, and you can see that if you turn to page four, and I'll take you there. We ended the year with Basel I and Basel III tier one common of $140 billion and we had strong

Basel I and Basel III ratios of 11% and 8.7% respectively -- and to note, the estimate for Basel III of 8.7% includes the full impact of NPR as we understand it -- compared to 8.4% last quarter, and is approximately 150 basis points over last year on a comparable basis. The return on Basel I RWA was 1.9% for the quarter, ex-DVA.

And we added a few points to the bottom of the slide which we think are important, and we'll spend some time at Investor Day going through our balance sheet in more detail. But just some salient points. You can see we have $450 billion of equity and long term debt; under $100 billion of short term debt, which is small relative to our $700 billion of cash, high-quality securities and secured financing; and finally deposits of $1.2 trillion, which fund our $700 billion of loans.

So turning on to the businesses, if you move to page five, consumer and community banking, this includes our consumer and business banking, mortgage banking, card, and auto businesses. There's some stats here that show the strength of our consumer franchise. The combined consumer businesses generated $2 billion of net income for the quarter, on $12 billion of revenue.

We had the number-one ATM network and the number-two branch network, with 150 new branches this year; number two mortgage originator; and number-one card issuer in the U.S. And ended the year with over 100,000 Chase private clients in over 1,200 locations. And we have over 31 million active online and 12 million active mobile customers.

And just another thing that we're particularly proud of this year is a new accomplishment. We achieved the number-one ranking in the American Customer Satisfaction Index survey, for customer satisfaction among large banks.

In the appendix, we included a page on Hurricane Sandy, which I won't take you through, but it was amazing to see how our employees rallied to support our customers. And though the financial impact wasn't significant to the firm, the impact we were able to have on our customers was significant.

So on to page six, consumer and business banking. You can see net income of $756 million on revenue of $4.3 billion, down 1% year on year and sequentially. We continue to see pressure on deposit margins, 12 basis points in the quarter and 32 year on year, which negatively impacts NII, but this continues to be largely offset by deposit growth.

We're growing customer deposits at more than twice the industry average, $0.10 year-on-year. And also in December, we saw the lowest customer attrition rate we've seen in the last 10 years.

And if you take that together with the customer satisfaction results I mentioned earlier, it speaks to the great progress we're making on the customer experience. We're deepening relationships with average balances per account up, customer satisfaction up, transactions per debit card up, active online and mobile customers up.

And just two more revenue drivers this quarter – we had record business banking loan balances of $18.9 million with a strong pipeline and investment sales up almost 50% year-on-year with client investment assets up 15%.

And almost two-thirds of these sales are managed accounts that generate the strong recurring sort of revenues for this business.

Expenses were flat quarter-on-quarter and up slightly year-on-year driven by new branch builds.

Mortgage banking on Page 7, the overall net income for the term mortgage bank was $418 million, and there are a couple of significant items here this quarter, which I'll take you through as we go through the results.

Moving up to the top end production, production pre-tax income of $789 million on strong originations of $51 million, up 33% year-on-year and 8% in the quarter, which reflected strong refi activity as well as an increase in correspondence.

And although margins remain elevated, we expected we did see compression this quarter versus the peaks of last quarter and we do expect them to continue to normalize into 2013.

Production expense this quarter includes a litigation expense which is a part of the significant item for mortgage-related matters that we had on Page 1.

Agency repurchase demands and the outstanding pipeline were both down significantly this quarter and [curates] improved driving low losses, which resulted in a net positive $53 million for the quarter.

[So on] servicing, net servicing results in the portfolio at the end of the fourth quarter include the impact of the acquisition of $70 billion of net life servicing. And just a reminder, it closed late in the quarter.

It's high quality agency servicing with the added benefit of additional [unintelligible] opportunity for us.

Looking at servicing expense, you can see it includes the net charge for the IFR settlement of about $700 million, which is the balance of the significant item for mortgage-related matters.

And just finally on this page, real estate portfolios, you can see pre-tax income of $812 million including net charge-offs of $417 million. Charge-offs for the quarter were positively impacted by adjustments relating to Chapter 7 loans that we wrote down last quarter.

And if you back those adjustments out, charge-offs would have been about $520 million this quarter versus $600 last on an equipment basis and the improvement was driven by lower home equity delinquencies.

Looking at the whole year, we saw significant improvement in charge-offs driven by a 20% to 30% decline in delinquencies and, to a lesser extent, in [unintelligible] house prices.

We expect these positive trends to continue next year, but not necessarily at the same pace as this. And given these trends, we released $700 million of loan loss reserves this quarter, which is also a significant item.

And going forward, you can expect holding that charge-off of $550 million plus or minus going forward.

On Page 8, we'll talk just for a minute on the IFR settlement. The settlement requires us to make a cash payment of about $750 million and also provide modification, short sales and other release commitments of $1.2 billion.

In terms of the earnings impact, we're looking at current period charge but we're going to see significant future run rate savings and here's how you can think about it. In 2012, our run rate expense for the IFR was between $100 million and $150 million a quarter and we expected this to continue at these levels or even higher throughout 2013.

These costs will now be eliminated almost immediately and the remaining work completed by the end of the month. If you exclude both the net settlement costs and also the IFR run rate costs, our servicing expenses would have been around $725 million this quarter, which is obviously still very high relative to our longer-term guidance of $300 million to $350 million a quarter but we expect that to continue to trend down.

And we don't expect any additional costs associated with the settlement in 2013. We already have many programs intended to help borrowers and these are fully in our reserve.

Moving on to card merchant services and auto on Page 9, net income of $840 million, down 20% year-on-year and 12% quarter-on-quarter on revenue of $4.8 billion, flat year on year and up slightly quarter-on-quarter. We saw strong sales volume again in card, up 9% year on year. The revenue rate you see of 12.82% reflects strong interchange revenue and merchant processing fees and low revenue reversals on strong credit performance. And our merchant processing volumes were up 17% year on year.

The net chargeoff rate you see of 3.5% is down slightly quarter on quarter, and down 79 basis points year on year. And we believe we're at or near the bottom here. We took no reserve actions this quarter, but there may be some additional reserve releases in the first half of 2013.

On auto, originations were up 12% year on year, but down 13% quarter on quarter due to seasonality. And a final note on expenses, our fourth quarter expenses were elevated due to the impairment of an asset related to a non-strategic partnership.

Slide 10 and 11, on the corporate and investment bank. Strong results here for our fourth quarter, net income of $2 billion on revenue of $7.6 billion for the quarter, which included DVA of $567 million, which is in the credit adjustment line item. And for clarity going forward, in addition to DVA this line item will also include CDA and related hedges.

So if you focus on the numbers ex-DVA, $2.4 billion of net income on $8.2 billion of revenue, up 19% year on year and down 4% quarter on quarter. And just a reminder, our new reporting here reflects how we manage our clients. The traditional banking relationships are in banking and investor clients in markets and investor services, and we'll talk more about these segments at Investor Day.

Total banking revenue of $3.2 billion is up 29% year on year, driven by higher ID fees of $1.7 billion in the quarter, up over 50% year on year, making this the strongest fee quarter this year, and including record debt underwriting fees.

Total markets and investor services revenue of $5 billion, up 14% year on year, driven by markets revenues of $4.1 billion, up 19% year on year and down 15% quarter on quarter. And just to remind you, this is in line with the better end of guidance we gave you at Goldman Sachs.

It was a solid quarter for fixed income, up 21% year on year, down 15% quarter on quarter across products. A reminder, the impact of the remaining synthetic credit portfolio is included here in the fixed income results, and was a modest loss again this quarter. Progress continues to be made derisking this position.

Equity markets of $895 million, up 11% year on year, down 14% quarter on quarter. The sequential change was primarily due to seasonally slower equity derivatives, with cash equities holding up well.

Just moving onto drivers, and at the bottom, you can see our average [CIB] VAR declined to $106 million this quarter, which is a significant reduction. And although it's not on the page on a spot basis, VAR declined even further, reflecting lower volatility in the look-back period and also the risk reduction in synthetic credit.

We also had record assets under custody of $18.8 trillion, up 12% on the year, and record full year TSS revenues. The comp to revenue ratio, ex-DVA, for the whole business, was 27% for the quarter and 32% for the year. And both for the quarter and the year, comp to revenue ratios, both including and excluding DVA, were basically the same for TSS, VIB, and CIB. And going forward, we expect the combined business, comp to revenue, to be 35% plus or minus.

So just a comment on credit. Trends are stable at low levels, and provisions this quarter benefitted from recoveries and a reduction in the allowance related to restructured, nonperforming loans.

On page 11, just before we leave CIB, there's a few metrics. Number one ranking global IBCs. Number one fixed income markets revenue share through the third quarter of this year. Number one ranking from institutional investor for all American fixed income and equity research. And we've also made progress on our international expansion in the last couple of years. International loans and assets under custody, up 50% and 33% respectively since 2010, and almost half of the revenue this year for CIB was international.

Commercial banking, on page 12. This year was the third consecutive year of record revenue and net income for this business. The quarter saw a net income of $692 million, up 8% year on year and flat quarter on quarter, on record revenue of $1.7 billion and record loan balances.

Fed data shows we're growing our loan balances faster than the industry average, with C&I loan growth up 18% and record middle market loan balances for the 11th consecutive quarter up 14%.

We continue to see competitive pricing pressure but spreads remained stable this quarter and, lastly, we continue to see strong credit performance this quarter.

Asset management, Page 13, continued strong investment performance and long-term inflows drove the third consecutive year of record revenue. For the quarter, net income of $483 million, up 60% year-on-year, and 9% quarter-on-quarter on record revenue of $2.8 billion.

Strong results this quarter driven by higher performance fees and improving markets and net inflows of $32 billion driving AUM growth. This is the 15th consecutive quarter of long-term net inflows for this business.

Other positive trends included loan growth up $20 billion year-on-year, driven by both mortgage and international growth and average deposits of $134 billion, up 10%.

Expenses, up 11% year-on-year due to higher comp expense but the pre-tax margin of 29% was also up.

Moving on to Page 14 and corporate and private equity, overall net income of $500 million for the quarter include private equity net income of $50 million principally on gains of sales.

Treasury and CIO had a net loss of $157 million, which included negative NII due to low rate environment and limited investment opportunity which was partially offset by about $200 million of net security gains and mark to market.

Excluding these gains, treasury and CIO's net loss was about $300 million, in line with our guidance and we're continue to guide to a net loss of $300 million, plus or minus.

And finally, other corporate, net income here is just over $600 million, includes $620 million of tax adjustments, which is our final significant item. It resulted from a reduction in tax rates for the full year and also a number of discrete items, most significantly a tax return adjustment. And although large, these items are not unusual.

The tax adjustment was partially offset by $184 million of additional litigation reserve and, again, if I adjusted the two items I just mentioned, other corporate net income would have been about $100 million and we continue to expect it to run at that level, $100 million, plus or minus going forward. And remember, both treasury, CIO and other corporate results are likely to very quarter-on-quarter.

Moving on to net interest margin, turn to Page 15. You can see firm-wide [unintelligible] declined three basis points and [unintelligible] seven basis points in the quarter. Of note, our NII held up this quarter and [didn't back it through] despite this compression.

There's obviously a number of items affecting [unintelligible], though negative: competitive pressure and the run up of higher yielding loans grow lower loan yields across the board; lower rates in Europe drove lower investment security yields; and the low rate environment continued to impact the investment opportunities.

On the positive, increased hedging and a change in mix reduced the cost of our long-term debt.

Hedge accounting had a mutual impact on [unintelligible] this quarter with some offsets in assets and liabilities and going forward, given the environment, we continue to expect modest pressure on [unintelligible] for the next several quarters.

So just turning on Page 16, our final page, the outlook, we covered most of these items already and we'll provide more detail on our outlook on investor day. But we remain optimistic about 2013 and the continuation of market share gains, positive loan growth and improving credit trends all contributing to our results.

So thank you for joining us and, with that, we'll open up the call for Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of Glenn Schoor – Nomura.

Glenn Schoor – Nomura

So over time, we've talked back and forth about housing improving and you were right and it is improving. But curious if you have any metrics for us on say what's built into the reserve models and how – what kind of sensitivity would you have on say, let's just say hypothetically housing improves 5% in 2013 and again in '14?

Just I don't know if you can put metrics around it but …

Jamie Dimon

Yes, we obviously have to make some assumptions going forward in house prices, and they're not that different than the assumptions you would see that get published by K Shiller, etc. Right now they have a modest increase in home prices in 2013 and 2014. I'll stick with just those two years. But if it was 5% better than that, which is possible, that would run through our books in lower chargeoffs and lower reserves, and just as a rule of thumb, $500 million for one year. A very rough rule of thumb.

Glenn Schoor – Nomura

From what I understand on C card this year, the Fed is going to be taking a closer look at internal stress testing and all the procedures that go around that, and I think you're going to be disclosing some of those results. I'm not front-running what we're going to see, I'm just curious. In general, are we going to see that at the same time? Are we going to see that on a lag basis? And what you plan on disclosing.

Jamie Dimon

No, we're required under Dodd-Frank to disclose our stress test. In March. We're going to do it almost immediately after the Fed's report. And remember, we do hundreds. The Fed is four. So we look at multiple kind of stress tests, and we're going to try to give you a full view of how we look at the company under stress. I should point out that a lot of you did it yourselves in the past. You were pretty accurate, some of you.

Glenn Schoor – Nomura

Maybe the last one, on things related to the liquidation authority. I know we haven't seen the white paper yet, but there's been a lot of back and forth. And I'm not a believer that we're going to get the worst case scenario that some of the people at the FDIC have thought about. But long story short is, as ironic as it is, every bank has spent the last couple of years reducing their subdebt because Basel III doesn't count it. Now, shocker, we're going to have [unintelligible] some more, because LLA's going to want it. Just curious on how much prep you can do ahead of that, and what you're expectations are in terms of a phase-in, if that's going to be impactful in the near term.

Jamie Dimon

Just to give you a view, we have $200 billion of equity and $250 billion of unsecured debt. That's $450 billion. That's a lot of capital before anyone else bears a loss. It's not clear to me that subordinated versus just unsecured, and it would take time to develop those markets. You know, if a bank has 50-50 or obviously it changes the nature a little bit over time.

So it will take time to develop, but I think we're working with the authorities to get it right, to do the analysis right, to have the right numbers. I think you've got a little time before someone says it has to be this amount. Remember, we've got Basel I, Basel II, Basel III, OLA, LCR, NSF. Just, it will take a little bit of time. I do want to point out that we fully intend, in late 2013, to be at 9.5% Basel III, and to be fully compliant with LCR.

Operator

Our next question comes from the line of Brennan Hawken of UBS.

Brennan Hawken - UBS

So, you all are about to start buying back stock here in the first quarter, and the share price is at about $45. Ironically, this is the price point, historically, where there's been an indication of some price sensitivity. So maybe I was hoping for an update on your thinking on that front?

Jamie Dimon

We had given you some numbers in our annual report last year, about where it's a no-brainer to buy back stock, which [unintelligible] has tangible book value. Tangible book value is now $38 or $39, so it's gone up almost $5 this year. So we still think, if you haircut earnings and buy stock at these prices, it's probably still a good deal. We got permission to buy back $3 billion in the first quarter. Obviously it's going to be a little price sensitive, and then CCAR will set what we can buy back for the next four quarters after that.

Brennan Hawken - UBS

So basically we can look at the tangible book value growth versus the last comments, and imply from there?

Jamie Dimon

You can do the same numbers, at today's prices. If you want to be conservative, discount earnings, buy back stock. At the end of a two or three year period, you'll have higher earnings per share, and higher tangible book value per share, even at these prices. Seems like a pretty good deal to me. You have a good company, and you're not going to need the capital down the road. I'm not talking about for one year, but down the road.

Brennan Hawken - UBS

And then the $100-150 million that's coming out of your legacy costs, is that part of that $500 million per quarter that you all have highlighted in the past or is that in addition to that?

Marianne Lake

Yes, think Brennan, about it as all in and we're expecting our run rate in the future to be, I think, $300 million to $350 million, as I said, excluding the items I talked about, including IFR where it's $725 million. We've got a ways to go but it's coming down. But think about it in there.

Brennan Hawken – UBS

And then the comp ratio in CIB is down this year – I should say maybe full year 2012 about 2.5 percentage points from your prior. How should we think about the comp ratio in the IB on a going forward basis? Have we hit a structural shift here?

Jamie Dimon

Well, let me just point out first off that our company is 33%. By the way, I you added back some of the bonuses paid in corporate that don't show up as comp in the IB, it'd be like 35%.

We think that the roundest number is kind of an ongoing run rate. We've got – we have formulas. We don't pay out necessarily by the formula but we have formulas that are capital adjusted, risk adjusted, et cetera, et cetera. That's what really guides you, so it is really done at a much more detailed level [unintelligible] bounce around that 35%.

I should point out that, again, we feel good that our ROE and investment bank was 17% this year. It was 16% or 17% last year and the year before and we're paying our people fair and well. I feel good about that. That's a good thing. That's a good business model to have something like that.

Brennan Hawken - UBS

Sure but probably on the whole upward comp pressure across the street competitively is probably nowhere near as it had been, so improvements and increased cost leverage is probably decently sustainable would you say?

Jamie Dimon

Yes, I think that's probably true and but you know other firms have ratios

50%, 55%. Ours is already fairly low. We want to win in the business. We're going to be competitive in compensation and obviously that'll adjust over time as competition changes.

Brennan Hawken - UBS

And then last one for me, as we start to move forward towards the central clearing of swaps here late in the first quarter of '13, do you maybe have an updated view of what this transition might mean for JPMorgan's big business or your capital markets revenues for 2013?

Jamie Dimon

I was [actually] able to try to give you a better view of that, so there are clearly some negatives and we don't know all the rules, also some positives, so we're in a position between custody and clearing an dour brokerage businesses to provide some of those services to – for investors.

They can allocate capital property, transform the collateral and serve them better. So let the rules come out. Obviously it's going to affect our revenues a bit but there will be opportunities there, too.

Operator

Your next question comes from the line of Betsy Graseck – Morgan Stanley.

Betsey Graseck – Morgan Stanley

Question on LCR, Jamie, you mentioned that you were going to be looking to be 100% compliant by the end of 2013 and I wanted to understand did the bevel release on LCR align with your sense of how it's going to shake out in the US? And I ask because the RMBS looks like it was very tightly worded. So I wondered if there was any caveat to your comment that you'll hit 100% by year-end.

Jamie Dimon

Here's my caveat. We are going to meet LCR this year whatever it is. It doesn't matter to us whether we like it or not.

Now, to answer your question, there was some change in LCR. I think they were good but they still capped the benefit like mortgages and we have almost $90 billion to MBS, so there's government guaranteed MBS. Isn't it what they call a Level 2? And therefore, you're restricted in how much it counts for liquidity.

Now, I – personally, I think that's wrong. But it's OK. We'll live with it. We're moving on. I don't know why the American regulators would agree to that. I mean, government guarantees MBS in a market you want but they treat as liquid and, remember, they already have a 15% haircut. I could argue they don't need any haircut.

But, look, what the changes be (or not), we're going to be compliant. It's not going to affect our earnings that much.

Betsey Graseck – Morgan Stanley

And then just separately a small item, but on mortgages, you talked about the gain on sale that came down on the quarter and that you were looking forward to that normalizing over the course of the next year or so. Could you just give us a sense of how much we're talking about normalizing because we could go back to pre-crisis and some much bigger implication on mortgage revenues than if you're talking about just before long end of the curve started to come down dramatically.

Marianne Lake

We talked about the third quarter peaking over 200 basis points. We saw the margins compressing from 40 or so basis points in the quarter, and we do expect that to continue into 2013, not at that level. If you go back in time, you would see gain on sale margins more in the 65 basis points. I don't know if that's where it will end, but certainly we expect for that to be seen through 2013, but with gaining market share. We hope to keep our volumes up.

Jamie Dimon

And my own feeling is, it will obviously normalize over time, but it may not go that low, because our expenses could also be permanently higher. To be in the business is going to cost more money. And obviously that will be part of what you have to earn back.

Operator

Our next question comes from Ed Najarian of ISI Group.

Ed Najarian - ISI Group

Any update with respect to how quickly you expect your Basel III risk weighted assets to decline? We saw a little bit of a decline this quarter.

Expecting more decline. But is there any change in the outlook for the pace of that decline, or how you're thinking about it?

Jamie Dimon

The number that Marianne showed you is the Basel III, tier one common, was 8.7. If you look at what I call, for the next two years, passive mitigation. That's runoff and what I call normal models. So we still have to get certain models in there that -- And this is not arguing with anybody, just models that should be put in place -- that would add almost 1% to Basel right off the bat. About $100 billion of that would be models. $80-100 billion of that would be models. Part of that's the runoff of some debt or credit which is obviously coming down over time.

The other thing, which I think you're going to see is, you know, we're pushing Basel III down at a very detailed level. I think, over time, you're going to see that drive down Basel RWA even more. And there are things in Basel that I don't know what the future portends. We have $200 billion plus of operational RWA in there now. That's like $16 billion of capital. That's driven very high by obviously the mortgage litigation and stuff like that, some of which will go away. So one day, that $200 billion should come down a lot too. I just don't know the timetable for that.

Ed Najarian - ISI Group

Okay, and then just a quick follow up to that. You mentioned wanting to get to 9.5% by the end of 2013.

Jamie Dimon

I didn't mention it. We are going to get there late in 2013, whatever it takes.

Ed Najarian - ISI Group

Okay. Along with that, we see a number of companies sort of building a little bit, 50 basis points or something like that, of sort of a buffer on the buffer to account for AOCI fluctuation and things like that. For you guys, maybe getting up to 10% or wherever the ultimate endpoint is, is that more of a '14 event? Or is that also something that you would like to get done this year?

Jamie Dimon

Maybe we have to have a buffer. We don't know what the final rules are for capital. So you already have a conservation buffer, to go below what happens. Obviously, OCI could be a big swing. We had modeled that like 300 basis points would be $20 billion after taxes or something like that. But you can handle that too, because it's going to come in overtime, and you can manage your balance sheet going forward, your stock buyback going forward.

So we really need to see the future rules to make that determination. If we need a buffer, we'll have a buffer. Whatever that is, we're going to go there right away too, but we just don't know what it is yet. And we don't know whether CCAR is going to drive capital or the conservation buffer is going to drive capital, or whatever. And we don't know how the [G sif V] exactly works, even though we know with the 2.5% we'll probably find ways to reduce that over time. So we have plenty of capital. Right now, far more than I personally think we need. But we have plenty of capital.

Ed Najarian - ISI Group

Well, I think everyone's trying to sort of do math on how much capital you might return this year. So all of those questions…

Jamie Dimon

Well, unfortunately, that's a one-year thing, okay? And I should point out, before you ask, that when we started the dividends, we said that the intent would be to increase them a little bit every year, so you should have expected to see that. We're going to ask for less capital return from stock buyback than we have in the past.

So I can do $3 billion in the first quarter. We're going to do less, because we've determined -- and this is a board-level determination too --- that we want to get to $9.5 quicker. And we don't exactly know how these stress tests work. So we think, under severe stress, we'd have plenty of capital, but last time the Fed's numbers were very different. We don't understand that. And the way CCAR was done this year, it has even more volatility. Basel 2.5 is far more volatile in how you calculate RWA, OCI, and all that than the old Basel I test. So we're being a little cautious, which I think is what, obviously, the Fed expected people to do.

Operator

Your next question comes from the line of Erica Panella – Bank of America Merrill Lynch.

Erica Panella – Bank of America Merrill Lynch

Some of the push back that I've gotten from some investors in your strong quarter is on the provision rules overall. I guess I want to follow up with

Glenn's question because clearly CIB is unsustainable from a provision basis but it seems like there is still a lot of leverage left on the provision side from CCB.

So Jamie, was your comment that if house prices were up 5% over what's in your model, additional leverage per provision is $500 million per year?

Jamie Dimon

Yes, let me just separate the two. In consumer, credit card is near the end. There could be more but it's near the end. It's really mortgage. Mortgage reserves are going to have to come down as charge-offs come down and charge-offs are going to come down.

That's now – we're not trying to manipulate our earnings or anything like that. They are going to come down. The portfolios are smaller; housing prices are going up. We just don't know exactly the pace they're going to come down.

But remember they're half what they were 1.5 years ago and my guess in a 1.5 years or two years from now they'll be half what they are today, which implies the reserves will come down.

We have $5 billion left and the implied would be $2.5 billion. So really magical there. That's what's in the numbers. It's really a matter of timing, et cetera.

And on the CIB side, it was really --- we had one or two big recoveries, so we did have – what was it, $400 million, but Marianne also pointed out there were some other negatives that could book the CIB too.

So you're right. We're not going to have much reserve take down in CIB but the other negatives won't be there either. So it's a little bit of a wash in CIB, too, from other non-reserve [unintelligible] is up.

Erica Panella – Bank of America Merrill Lynch

And in terms of CIB activity levels, I think that the investor base did expect some strength this quarter more than seasonal. I guess could you give us a sense of whether or not the strong fourth quarter showing is a harbinger for activity levels finally picking up in 2013?

Jamie Dimon

I wouldn't call it a strong fourth quarter showing and we made an assumption that the last two weeks of the year were pretty dead in terms of activity and we were a little bit wrong about that.

But here's what I'd say – and activity now is continuing. It's really strong in the first part of the year. We don't know. But I personally believe that this has been, I think, consistent about this, a cyclical, not a secular change.

We deal with 16,000 investors. Investable assets are going up. They're not going down. Global trade is going up; it's not going down. High net worth assets, I'm talking over 10 years, and so there is a need that people have to buy and sell securities, et cetera, so I think the underlying trend is up and obviously spreads will compress over time. They have, by the way, for 20 years. That'll continue.

And now we've got a bunch of model changes – not models but like business model changes from swaps and derivatives and regulations and we'll adjust all that but you can – there's a chance you're going to wake up one day it'll be a boomer year and no one's going to predict that either.

There's a chance we happen to go into recession that'll get worse. But my attitude is I think we're very well positioned in the business. It's very broad based between FX rates, credits, securitized products, commodities.

It's very global, emerging markets, driven by research, which Marianne mentioned we're number one. So over time it'll grow. I just can't predict what it's going to do next quarter.

Erica Panella – Bank of America Merrill Lynch

Just I wanted to sneak one more in on card. We appreciate the color on sales volume in card and I think there's a thesis out there that if the US consumer is taking home less because taxes are higher but the underlying economy is OK, then that could potentially translate into receivables growth finally. Is that a reasonable leap to make as we look at receivables growth for next year?

Jamie Dimon

Yes. Look, I think the American economy – I said the table is rather well set. Consumers, businesses, housing, small businesses, they're all in pretty good shape. And I think we need good policy, good fiscal policy, but yes.

So we expect to see – we've had, which I think you mentioned, we've had run off in consumer, too. Remember in card, from WaMu and some other stuff and we're running offshore in businesses and certain things we got out of. But you could start to see a little bit of growth now going forward in outstandings, good growth is spending, a little bit of growth in outstandings.

Operator

Your next question comes from the line of John McDonald – Sanford Bernstein.

John McDonald – Sanford Bernstein

Marianne, it looks like your adjusted expenses, ex-litigation, maybe came in around $49 billion or so for the year. Do you have an outlook for this number in 2013? Are you looking for some improvement in that above and beyond what you saved from the foreclosure settlement?

Marianne Lake

We'll do that for you at Investor Day in a lot of detail. I think the way to think about our adjusted expenses going forward, you should think about them being flat to down in terms of direction. And we'll go through all of that for you in February.

John McDonald – Sanford Bernstein

Is that the right number, like flat to down from around that $49 billion or so level?

Marianne Lake

Yeah, around $50 billion.

John McDonald – Sanford Bernstein

And then that excludes litigation. It looks like litigation for the full year came in about $3.7 billion. That's down from $4.5 billion the year before. Do you expect that trend of declining litigation expense in '13?

Jamie Dimon

One day, we hope. [laughter]

Marianne Lake

Yeah, we can't predict the litigation expense. I'm sorry.

Jamie Dimon

The one part that I just want to reiterate is that obviously that's the one that's going to be lumpy, and to be ongoing, except the part relating to mortgages. And we've done a lot of work on, and we're hoping that we're properly reserved there, and they're not going to see duplication of that. And the last couple years of litigation, a lot of it related to mortgages. Not all of it, but a lot of it.

John McDonald – Sanford Bernstein

And then on the buybacks, the first quarter is usually a big issuance quarter for you on shares? But knowing you have approval for $3 billion of gross repurchases, do you expect to have a net reduction in your share count by the end of the first quarter?

Jamie Dimon

You got me there. I think if we buy back $3 billion, and what we issue -- I think your issue amortizes in over time as you issue it. So my guess is it will go down a little bit in the first quarter. When you issue a restricted stock, it doesn't immediately go into fully diluted. That goes in as it amortizes. Remember, this stuff amortizes over three years, generally.

John McDonald – Sanford Bernstein

For 2012, your share count didn't go down. That's because you suspended the buybacks. But you just didn't do enough in the first quarter to take the share count down. I assume you'd like to see it decrease at some level.

Jamie Dimon

If we spend the whole $3 billion, my guess is it will go down, yeah.

John McDonald – Sanford Bernstein

And then when you say you're going to ask for less, just to clarify, you mean you'll ask for less than $3 billion per quarter?

Jamie Dimon

Yes.

John McDonald – Sanford Bernstein

Okay. Last thing, on risk weighted assets, it looks like your assets were up 2%, but Basel III RWA came down. What drove that delta? Are we starting to see the mitigation take effect?

Marianne Lake

I think in part that's it. I can get back to you with more specific details. It did come down slightly in the quarter. It does reflect the combination of our full understanding of all the rules, plus some model changes and everything else in the quarter and BAU activity, but we can get you more detail.

John McDonald – Sanford Bernstein

And one more thing, your net interest income grew in the fourth quarter, despite the NIM headwinds and the runoff. And I understand your NIM percentage outlook, but I guess what helped you grow NII dollars this quarter, and do you think you can grow NII dollars in 2013?

Marianne Lake

We're continuing to grow our deposits very strongly. We continue to grow our loans very strongly. You saw core loan growth up 9%. So all in all, we're generally holding pace with NIM compression and hope to do the same next year, plus or minus.

Operator

Our next question comes from Mike Mayo of CLSA.

Mike Mayo - CLSA

Just first, a factual question. How much were fourth quarter performance fees in asset management?

Jamie Dimon

It was bettered by over $100 million versus the fourth quarter last year. The fourth quarter last year wasn't particularly good, by the way.

Mike Mayo - CLSA

Okay. My main question is, does the CIO incident change how JPMorgan is run? And as you said, you've had record net income, 15% return on tangible equity. I think you said in the past, or someone at JPMorgan at least implied, that the CIO incident shouldn't change things.

On the other hand, you have the new cease and desist orders, regulatory actions by the Fed and the OCC, and this change reporting format is the most radical that's ever been put in place since Jamie you've been CEO, and then all the changes in management. You have a new head of consumer, commercial, investment bank, international, CFO, CIO.

So on the one hand, you highlighted the record net income, I guess my question goes to sustainability of the results over the next several years, given how many people have changed the change reporting format and the regulatory action. Maybe it's like if you're driving on the Long Island Expressway, and you get a ticket for going 80 miles per hour, then you drive 50 miles an hour. Is that just completely off?

Jamie Dimon

Completely off. You raise a lot of subjects. Let me do them one by one. Obviously when you have a problem like the [whale], you have mistakes, which you should acknowledge, and then fix. So we obviously fixed CIO, totally, 100%. People in it, reporting, risk, controls, committees, guidelines. And we don't do synthetic credit there at all. Okay?

But some of those mistakes obviously scared us, and we went and checked everywhere in the company. So we're fixing certain things across the company. Not that they're bad. They're not disasters, but they require fixing.

And so when you have an accident like that, you want to say we're going to use this to get stronger, better, smarter, tougher. And we have to, and we're going to, obviously, meet every demand of the regulators. So we've got real resources doing it, we've already done a lot of it. We're going to continue to do more. So yeah, there were changes from the whale.

Number two, we're in business to build the business over time by serving clients. That's what we do. We take risks, we make loans. You take risks when you invest money. You take risks when you build systems and branches. But that's what we've been doing consistently, and I hope you see, in the underlying numbers, more branches, more bankers, more custody, more trading, more products, more services, more countries, happier clients. In every business. Record results in commercial banking, asset management, and a lot of cross-sell on that. And we're going to do a lot more to describe to you to competitive benefits that we get in this company because the different business units work together and things like that.

So that part of the business hasn't changed. That's why we're here. Even CIO has always been doing that, investing assets conservatively. You have to earn a return on your assets. The thought that you're not going to try to earn a return on your asset such is ludicrous to me. And to manage asset liability exposure generally conservatively. Obviously made a mistake.

And the third thing, the reorganization, that was around the client. That was, if you said rebuild the company from the ground up, you probably would have organized it around the clients, not necessarily by product. It's not that we were bad, or banks were bad, or anything like that. It's that companies acquired mortgage companies, they acquired credit card companies. They acquired retail branches.

The power of that franchise is extraordinary. 40% of our retail branches are credit cards today. A big chunk of our mortgage sales come out of the branches. Most of our small business is served out of the branches. Middle market is served out of the branches. The branches are becoming an enormous competitive advantage for asset management. The commercial bank couldn't survive without them.

So all we did is say, put together those businesses under one roof, where you want to treat the client the way they want to be treated when they come in the front door. Same thing for CIB. The same client set on the investor side and the issuer side, the corporate side. So we go to any country, we serve the big companies, we serve the sovereign wealth funds, we serve the governments. We serve them out of [TS&S], and we serve them out of the investment bank.

All we're doing here is better coordination, which we think will have more cross sell and believe it or not, lower expenses. Plus, it will help us deal with the new regulatory environment. So both of these things are going to help us deal with the new regulatory environment. That's consistent standards across all of the businesses, etc. So that's why we had the reorg.

And management changes, you know, you went through the litany of changes. Just remember, Daniel Pinto has been in that business his whole life. Mike Cavanaugh has been here for many years. He was already running TS&S. Doug Petno has been running the commercial bank for several years now. Gordon Smith and Todd Maclin, you know, we did a little bit faster than we told people. We told people we were going to put that under one roof. Marianne Lake has been the controller, the IB, and the CFO of the consumer bank.

All the people in these jobs have been here a long time, and they're very good. I mean, I think it's an exceptional management team. It is too much turnover. But, again, the way I look at the turnover, if I have 15 people on the operating committee, you should assume that 15-20% every year will turn over. Some years will be zero, and some years will be more. We have reorgs and stuff like that, so a little bit more. Hopefully we're going to have stability.

We've got a great management team. They're working on a lot of different things. Most have been here a long time. And part of it relates to, remember if you were on my board of directors, you would be asking me, in fact instructing me, to make sure you were putting in place, in the big jobs, the people who had to be tested to see if they could do my job. That is, I mentioned this many years ago, job number one. That takes precedence over all other things. But sometimes it leads to turnover. I'm sorry.

Mike Mayo - CLSA

I guess we'll hear more at Investor Day next month, but what are you watching for since there's so much rotation among top managers around the same time? What are you looking for to ensure that this current team will work?

Jamie Dimon

Well, look, you should get to know them, but you can evaluate their quality, their integrity, their brains. And Marianne, of course, has been here a long time. Matt Zames, who's now co-chief operating… and Frank Bisignano, have both been here a long time. So these are long-tenured, very good, respected employees. And so I know it's going to work. Obviously, you have to make that evaluation yourself.

Mike Mayo - CLSA

Then last follow up, does your positioning to ask for less than $3 billion per quarter in buybacks have anything to do with the regulatory actions that recently came about?

Jamie Dimon

Not really. But you know, the CCAR does have this qualitative aspect, which I don't know exactly what that means, but not really. It really related more to the stock price is higher, and the desire to get to 9.5 quicker. And everyone's been doing it, and obviously we shouldn't lag. That's all.

Operator

Our next question comes from Moshe Orenbuch of Credit Suisse.

Moshe Orenbuch - Credit Suisse

Jamie, I was wondering if you could talk just a little bit about, given the strong results that you've got and the hopes of continuing to drive them, which areas you think are the best in terms of where you can see investment in either share gains or growth into 2013?

Jamie Dimon

And just, Mike Mayo, because you had me do a little work after one of your reports came out about stock price. So do this yourself. Take the BankOne stock price from the day before I got there to today, and take JPMorgan's stock price from the day we announced the deal to today. Compare it to the S&P, the bank index, or all other major firms, and it's actually rather good. It outperformed in both cases. The bank by a long shot. In both cases the S&P, not by a long shot, but by a significant margin, and almost most other financial companies. So obviously something's been working a little bit here.

Opportunity? I think the opportunities are fabulous. Next year we're going to focus a tremendous amount of regulatory requirements, these consent orders, getting things done. But also just organic growth. Small business, Marianne mentioned, is up almost everywhere. Partially in Florida and California, where WaMu gave us the opportunity to do that. We opened our 1,000th branch in California. We're still going to open net over 100 branches this year.

Our credit card's been growing. The Chase private client, we've gone from 250 branches to 1,200 with Chase private client. That number is going to go up to 2,000 next year. It's really working. So it's growing dramatically. Our mutual fund complex has been growing. The global corporate bank has opened multiple branches overseas. We've gone from 120 global corporate bankers to 286 or something, and it's going to be north of 300. And it's working.

If you look at investment banking revenues, out of the commercial bank, when we first got here I think it was like $450 million. This year it hit almost $2 billion. and we think the opportunity continues to grow large.

So in almost every single business, we see very good opportunities to grow, and obviously we operate in a difficult world in financial services, but the investment bank has been [unintelligible] the numbers, but we don't see why we can't continue to grow that around the world and serve more clients in more places, like Colombia or some of the emerging markets.

And in commercial banking, we opened branches in states we don't have branches, which has been focused on kind of larger clients and international. That's working well. International commercial banking is working well.

And all these numbers are in here. You can actually go through it too. They're all pretty good. And you're going to see us continue to focus and grow those businesses in a quality way.

Moshe Orenbuch - Credit Suisse

Just as a separate issue, you've obviously responded to the orders from both the SEC and the Fed. Are there any kind of impacts while those are out there until they've kind of deemed them to be kind of fully dealt with? And what's the timeframe for that?

Jamie Dimon

We're already fully engaged in meeting all of those consents. And other regulatory demands. Remember, we have changing rules and requirements. We also have a lot of items that the regulators have asked us to focus on, the consent orders. So yeah, it's a tremendous amount of resource, but it's not going to change numbers you see. It's just a lot of people involved in risk, credit, [unintelligible] compliance, audit, HR, all really involved in getting a lot of this stuff right. And we have to do that. And people in the business too of course.

Operator

Our next question comes from Matt O'Connor of Deutsche Bank.

Matt O'Connor - Deutsche Bank

A couple of questions in the mortgage banking business, and as you think about the mortgage asset. The first one is, what's your appetite, either now or as you look forward, to actually porfolioing some of the mortgages you originate?

Marianne Lake

Yeah, so Matt, you would have seen that we pretty much portfolio all jumbos we originate right now. We price them to great returns, and we will continue to do that. We like that asset. I think, overall, across the firm, we did $5 billion of jumbo this quarter. And so you should expect to see that continue.

Jamie Dimon

I would just add that one of the things you learn to live with a little bit is that you could put a mortgage on your balance sheet, and earn, you know, 3.75 or 4 if it's a jumbo, or something like that. It doesn't have OCI. It holds more capital, but it might be a wiser thing to do than taking the gain on sale and then buying an MBS at 2.25. So there's all these opportunities to think through how to manage in the new world, properly, both for the client, and for the shareholder.

Matt O'Connor - Deutsche Bank

That's really where I was getting to, because I think you have one of the shorter MBS books out there. Obviously has a strong mortgage origination platform, and as we strip out kind of the legacy residential mortgages, what you're left with is not a huge number. So just trying to gauge what the appetite might be.

Jamie Dimon

And that may change over time, and get bigger. So we are doing a little bit more, and right now it's the jumbos, and we've done a little bit of, like C-pluses and stuff like that. But there may be others.

Matt O'Connor - Deutsche Bank

And then maybe somewhat related, as we think about just the underwriting standards in the mortgage business…

Jamie Dimon

I should point out also, we would much prefer loans than securities. Like in commercial bank, credit card, etc. The reason we have securities is we can't generate that kind of loan right now.

Matt O'Connor - Deutsche Bank

And as we think about underwriting standards in the mortgage business, we can see from the average FICO scores that the banks do collectively, that Fannie and Freddie back, still quite high. There's been some good progress with the legacy issues, not just for JP Morgan, but for the industry as a whole, got the new guidance from the CFPB, home prices going up. What else do we need to see for banks to loosen underwriting standards in mortgage a bit?

Jamie Dimon

You know, I think the QM was a really big start, and kind of well though through. But it also needs to be coordinated with Basel III, some of these NPR rules, this whole thing about OCI. So all these things are going to affect mortgage a little bit. And a lot of players are involved in that who have to coordinate it. But I do think over time it will open up the mortgage markets. How [rep and] warranty is going to be handled, etc. [QRM], skin in the game. I think securitization will be important. So, you know, if I was the government, I'd want to get QRM and securitization rules fixed as quickly as I can, to allow people to start.

Operator

Our next question comes from Matt Burnell of Wells Fargo Securities.

Matt Burnell - Wells Fargo Securities

Maybe a question for Marianne. I noticed that the global liquidity balance was up about $50 billion quarter over quarter to just a little bit under $500 billion. Is that in line with your guidance that you're going to meet the LCR requirements by the end of the year? Or is there something else going on there?

Marianne Lake

I would say that's [unintelligible] in line with that. We have excess cash, and excess capacity at central banks, and that's what that reflects.

Jamie Dimon

They're two different numbers, but they move in the same direction. And we'll probably disclose more about that at Investor Day too.

Matt Burnell - Wells Fargo Securities

And how much of an effect, if any, was that on the margin in the quarter?

Marianne Lake

Not much.

Jamie Dimon

The average yield on the investment portfolio is coming down a little bit every quarter. That will continue for a while.

Operator

Your next question comes from Gerard Cassidy of RBC.

Gerard Cassidy - RBC

Could you tell us what the duration on the securities portfolio is?

Marianne Lake

We haven't disclosed it for the fourth quarter.

Jamie Dimon

What was it last time?

Marianne Lake

It was like three.

Jamie Dimon

Interest duration. So it's probably about the same. But I think the important way to look at it is we would benefit from rising rates. So I've always said that that portfolio is subordinated to the interest of the company. It's very short. You couldn't extend that duration on a lot more income, but then we'd be hurt by rising rates. And we break out the earnings risk from rising rates. The whole curve goes up about 100 basis points. It's about a $2 billion plus, pre-tax. And that comes through the investment portfolio and loan repricing, etc.

Gerard Cassidy - RBC

How much would you estimate, at the long end of the curve, would you need to see the long end of the curve go up to mitigate the margin pressure, so that you could actually see maybe margins not go down?

Jamie Dimon

Offhand, it's hard for me to say that, but I'm going to guess it's like 30 or 40 basis points. It's not a lot. To neutralize it. To eliminate. Something like that.

Gerard Cassidy - RBC

The other question, and I apologize if you guys already gave this answer, but what was the gain on sale of mortgages this quarter?

Marianne Lake

The margin?

Gerard Cassidy - RBC

Or the dollar amount?

Marianne Lake

I think it's in the supplement.

Jamie Dimon

It's in the production revenue.

Marianne Lake

Yeah, it's in production revenue, which I think was close to $800 billion.

Jamie Dimon

What was the spread, like 3%? The revenue spread?

Marianne Lake

Revenue was over 3-3.5%...

Jamie Dimon

So take 3.5 times 50…

Marianne Lake

We'll do the math for you.

Gerard Cassidy - RBC

Okay. And then coming back to the return of capital, Jamie, I know at a stock price you're not going to want to buy back your stock. I'm not asking for that stock price. But let's assume for a moment bank stocks do well this year. Your stock gets to that level where you're not real comfortable buying back. Would you guys consider as the excess capital builds up on the balance sheet and the Fed limits your regular dividend to maybe 30% of earnings, would you consider special dividends as an avenue to give back that excess capital if you feel you're not comfortable buying back the stock at the price at some future level?

Jamie Dimon

Well, first of all it's a board-level decision. And in some ways it's a nice problem to have. But the way you set the question up, you almost have no option. You can't buy back stock, and you can't raise your dividends. All you have left is something like that. So we'll get there when we get there. I mean, we need to see all the new rules and how they're going to apply, like this conservation buffer. And we may know more by Investor Day, but when we know more we'll let you know.

Operator

Our next question comes from Christopher Wheeler of Mediobanca.

Christopher Wheeler - Mediobanca

First, on the latest reorganization, I guess that comes really in the light of having completed the integration of both Bear Sterns and Washington Mutual, and makes complete sense. But have you actually set any targets in terms of both the revenue and cost synergies you think you might achieve in the medium-term? That's the first question.

And the second one was on the $80-100 billion of RWA you think you could shed by reworking your models, something, ironically, you've been pretty critical about in the past in terms of the Europeans' view on that. But can you just tell me, is it getting more difficult to do that in the market at the moment when we are getting some pushback from [Bal] on some of the risk weighted asset calculations, or are you finding it pretty straightforward to actually negotiate that?

Jamie Dimon

The first one is, obviously we do budgets and stuff. We put targets in place about things we'd like to accomplish. We're not going to disclose it to you, but I did say that we do think it's going to enhance revenues and reduce expenses a little bit. So a little bit is in there for the CIB and a little bit in there for consumer. And we will disclose more at Investor Day about kind of cross sell and how we look at it, and where we think we can benefit, etc.

And if you look at risk-weighted assets, our balance sheet is $2.4 trillion. We've got $200 billion of money deposited, central banks around the world are in repo. Very short term investments. $350 billion in AA securities, and $400 billion in securities borrowed or resales. We have a really, really liquid balance sheet.

I just mentioned almost a trillion dollars of very short term stuff that's sitting there on our balance sheet on the asset side, and our risk-weighted assets are now $1.65 trillion. They've gone up dramatically, because of Basel 2.5, the fact we don't have certain models in place, but we accept it.

So some of the benefit is going to be, I'm going to call it runoff. Some is from models that the regulators expect people to design and put in place that we don't have yet. We just don't have the history. We haven't done the modeling.

And a lot of that's around credit-related, synthetic credit type stuff, securitizations, and things like that. So we're going to put those in place. And that's not arguing with regulators, they would expect us to do that over time. Obviously, regulators, I know they're going to look at how people do models around the world, and they want it done fairly, etc.

Operator

Our next question comes from Marty Mosby of Guggenheim.

Marty Mosby -Guggenheim

Wanted to ask a detailed question about the mortgage rate purchase expense. You were able to show this quarter that you had a reduction in the reserve of $249 million and only experienced $196 million of losses, so you actually net brought down the impact there and then your outlook you talked about being able to offset future losses with release of reserves, so I wanted to ask that question first and I had one more follow up after that.

Marianne Lake

So just think about purchase, both sides of that we do them separately, so we purchase losses. I told you you'll see demand is down significantly. You'll see the outstanding pipeline down significantly. We've seen (curates) improve and so our realized losses was up $200 million and it is what it is and it's a factor of featured activity obviously.

And it can vary a little. On the repurchase reserve side, it's obviously model driven and we use (input) including things like (curates) so it's not going to be a perfect offset. In this quarter it happened to be slightly more and over the time, over the next few quarters we think they could largely offset but you might see some (inaudible).

Marty Mosby - Guggenheim

So we should see – we've got also an inflexion point here where you think the demands are coming down and improvement of what you're seeing overall but that dream should be somewhat mitigated going forward.

Marianne Lake

Yes, and I would say we're in constant dialogue with the agencies and obviously people ask about behavior and we're in constant dialogue. We think we understand the direction it's going. We're talking about where we are right now and we'll continue to monitor that.

Marty Mosby - Guggenheim

And then, as we look into 2013, I was trying to take a little bit of your outlook and just create a net progression. If you look at the $1 billion that you basically highlighted in margin compression, you have a natural offset that you explained in the servicing expenses for about $400 million.

So if you take your current run rate of operating at $1.35, annualize that to $5.40, you've probably got somewhere between $0.07 and $0.10 worth of negative that comes out of that from netting out the positive that you have in the servicing expenses from margin compression.

If you then loom incrementally for growth, if you also allow the margin compression with loan and deposit growth, then you're being able to generate about $1 billion in incremental just growth and overall balance sheet.

If you look at expense savings and then some reduction shares, you can kind of look at how you would layer in towards something like 10% growth next year as you mirror those moving pieces, so just wanted to make sure we were tracking those and if you had any other thoughts about incremental opportunities to create EPS next year.

Jamie Dimon

I find it tough to respond to that. I think maybe you can call later and get some more feedback on some of the stuff you said. Call Sarah Youngwood at Investor Relations but we – you went through a lot of stuff that is accurate.

Obviously we're in an environment. The environment changes all the time. But we have growth plans everywhere, so it feels like we're sitting on our laurels and just looking at what's going to move compression and stuff like that. So we expect those (earnings) next year. May be wrong, but that's what we expect.

Marty Mosby - Guggenheim

And I guess, Jamie, the bottom line is that you have product growth to offset margin compression but then you've got share repurchase and some efficiencies that create incremental growth. I guess that's the bottom line.

Jamie Dimon

Yes.

Operator

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

Jim Mitchell – Buckingham Research

Can you just give us an update on where you are on the synthetic portfolio? I know you probably don't want to give a dollar amount but is it mostly gone and what's the timeframe of that drag, even if it's a modest drag just having that off the books completely?

Jamie Dimon

I think we said earlier on July 13th we hope it'll be almost a non-issue by the end of the year. I think we're getting there. I think from the day that – and we're not going to give you any more detail I'm about to tell you, so don't ask.

We had modest loss in the fourth quarter. There's no reason not to have any losses going forward. The risk from the day the investment bank got – and they've done a good job continuing to de-risk it – are down I'm going to say another 50%. So obviously there's still risk. It's still a portfolio.

It's got the average duration I'm going to say is 2.5 years left, so if you did nothing, it's going to diminish dramatically over time. But we – I think we've got it well controlled at this point. There could be some volatility because of the nature. It's got some idiosyncratic exposures in there but we think we're fine. We don't think it's anything that anyone needs to worry about anymore.

Jim Mitchell – Buckingham Research

Then maybe just on the deposit growth, I think you were up on a period end basis $54 billion. Is there any way to get a sense of how much of that is sticky or was that just fiscal cliff concern or was it the tag related deposits? Do you have any sense on what was driving that and if it's just more sustainable organic growth?

Jamie Dimon

You've got to do it a little bit by business, because I think in consumer, mostly [sticky], but it's probably a little bit of tag… Give us an estimate for that.

Marianne Lake

Yeah, like $5 billion. Mostly those deposits we would consider core [unsticky].

Jamie Dimon

And you know, TS&S is a lot of seasonal year end deposits, so bouncing all over the place. Asset management, I put in the sticky category. Commercial banking has been kind of flat, but it's sticky. It's flat because their loans are starting to grow, and it's huge. Our commercial has $190 billion of deposits. I think that number was $100 billion three and a half years ago. So they have a lot of money there. We actually expect that might have come down one day, as companies start to grow and expand more aggressively, which would be a good thing.

Operator

Our next question comes from Guy Moszkowski of Autonomous Research

Guy Moszkowski - Autonomous Research

The first question is a little bit short term, so forgive me. But the CSPC, as somebody mentioned earlier, did push back the timing of some of the OTC reforms with respect to central clearing. And definitely the question is, from your point of view, all other things being equal, should we expect stronger fixed income revenues as a result of that in the first half than we otherwise might have?

Jamie Dimon

That's a woulda-coulda-shoulda. I don't know the answer to that question. I think they've been put in place… It depends how they would have ultimately been put in place. So they were delayed, to get more work on how it gets done. I think if they'd been put in place for JPMorgan where the rules constrained us overseas, but didn't constrain other companies overseas, we would be down from what we might now have. If the rules were put in place so we can compete freely in Frankfurt, London, Singapore, and Shanghai, my guess is our U.S. revenues would have been down a little bit, our international revenues would have been up a little bit.

Guy Moszkowski - Autonomous Research

My other couple of questions have to do with your outlook slide. First, corporate private equity, I just want to make sure that there's no distinction that I should read in. When you talk about Treasury and CIO, you talk about the net loss of $300 million plus or minus specifically in the first quarter. When you talk about the other corporate $100 million, you don't mention a timeframe. So does that mean that you expect more potential variability over, say, the course of this year in the Treasury and CIO number than the other number, which is more of a run rate?

Jamie Dimon

No. So, private equity is $8 billion invested. We expect to earn a return on that. We obviously have been getting great return on it. So that's lumpy, but it should be more than $50 million on average. Think of the Treasury as it's NII. It's fairly predictable. NII is fairly predictable by quarter. That number will go down a little bit. That's just how we allocate capital and funds between all the business units. And then how we invest the assets. So we can change that tomorrow by having longer duration of our investment portfolio.

The lumpier part of Treasury and CIO is when we have mark-to-market gains or securities gains. That bounces around a little bit. And again, some of that's discretionary. So we should almost call it a net loss. And that number, I think the $300 million will come down over time, not go up, for a whole bunch of different reasons, which I won't go through right now.

And then the other corporate, that has net allocations, [voly, coly], taxes, all these lumpy items, and we're just trying to tell you, it should be, on average, 100, plus or minus a couple hundred, because of the lumpiness of those items. Like corporate taxes, you know, are lumpy, for a whole bunch of different reasons. And so our numbers would be 100 on average. And we always explain the difference if there's ever a big difference there.

Guy Moszkowski - Autonomous Research

So if I add the two together, and obviously we know there's lumpiness, but just adding those two numbers together at face value, we're talking about a quarterly loss of a couple hundred million. You used to guide to quarterly earnings of I think it was $100-200 million on that kind of combined line. So if I was trying to assess what the swing had been relative to a few years ago, how much of it would you say is just the compression of net interest margins, and how much of it is moving away from some of the exotic investment strategies that CIO used to…

Jamie Dimon

It's got not a damn thing to do with exotic investment strategies. Zero, nada, nothing. Okay? The bulk of those assets always invested conservatively, AA-plus. You know, we have to do it around the world, so deposits around the world, etc. Nothing to do with that. It's all got to do with some of the NIM compression that shows up there, because obviously investment portfolio yield has gone from a little over 2%. It was, you know, 4% three years ago. And how we allocate capital and things like that.

The changes you've seen, some of them are the differences due to regulatory changes of B3, RWA, stuff like that. So we'll try to make this a little bit clearer going forward, but on average, that number will come down, not go up over time.

Guy Moszkowski - Autonomous Research

And then final question I have is just on the firmwide, right below that. You talked about capital allocations a moment ago. It sounds like your LOB return on equity targets are, like you say here, going to come down for some units, and therefore overall. But the corporate guidance is the same. So does that mean that basically all this change is just because you're allocating more capital out to the business units, and you'll have less at the corporate parent? That's the only real change?

Jamie Dimon

Yes. So we allocate the new Basel III operational capital, all that. The capital allocations will go up, mostly to the CIB, by I'm going to say 20% or so, and to the commercial bank by 20% or so, or maybe a little bit more than that. And now, obviously, change the return targets of those units. All to be very healthy. It will just come down. The company will be exactly the same.

I think if we allocate all that stuff intelligently, we'll actually probably end up driving better returns over time, as people learn how to manage a little bit differently. So, again, eventually it will show more. We'll be allocating out, think of it as everything at one point, LCR, [G Sif V]. Basel III, Basel II, whatever comes down the pike, we allocate out, so our managers can manage through it.

And the other thing we haven't decided permanently is how you look at each business. Because my thought has been, but it's open for debate, that the business should be capitalized the way its competitors are going to be capitalized, so they're free to compete in that category. I think the people lump their capital ratios around their competitors. I think it would be very hard, for someone, for example, to run with 7.5% capital and all their competitors are at 10%, or vice versa.

Guy Moszkowski - Autonomous Research

So you're going to move both capital and cost allocations more to each unit being on a standalone basis, is that right?

Jamie Dimon

No, cost is cost. It's nothing to do with that. I'm talking about capital, saying we may capitalize the commercial bank at 8.5% and the investment bank at 10%. It may not be 9.5% for everybody, because they have to compete in different environments. So we haven't figured out exactly how to do that yet.

Operator

And we have no further questions at this time.