Good morning ladies and gentlemen. Welcome to JP Morgan Chase's third quarter 2017 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 JP Morgan Chase's Chairman and CEO, Jamie Dimon, and Chief Financial Officer, Marianne Lake. Ms. Lake, please go ahead.

Marianne Lake

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

The third quarter was generally constructive across businesses and asset classes. Underlying business drivers grew broadly and we maintained or gained share in a competitive environment. The U.S. and global economy continue to grow. Clients are active with demand for credit remaining solid, all in all resulting in 7% growth in net income driven by positive operating leverage as revenue rises and expense remains controlled. On an adjusted basis, this is a clear record for a third quarter.

Of course, against this financial backdrop I want to acknowledge the recent natural disasters. The impact on affected customers, communities and employees has been devastating, and supporting them is our priority as we rebuild. I will note that any financial impact is not significant to our results.

Starting on Page 1, the firm reported net income of $6.7 billion, EPS of $1.76, and a return on tangible common equity of 13% on revenue of $26.2 billion. Highlights for the quarter include average core loan growth of 7.5% year-on-year, and the FDIC recently released its survey showing that the firm has surpassed the competition and now ranks number 1 in total U.S. deposits and in deposit growth, driven by strong consumer deposit growth up 9%.

Client investment assets, credit card sales and merchant volumes were all up 13%, and we continue to rank number one in global IDCs. We had record revenue in the commercial bank and delivered record net income and assets under management in assets and wealth management. The credit environment continues to remain benign across products and portfolios. Card charge-offs were fully in line with our expectations and guidance, and outside of card our charge-off rates remain at historically low levels.

Now turning to Page 2 and some more detail about the third quarter. Revenue of $26.2 billion was up approximately $700 million or 3% year-on-year driven by net interest income up $1.2 billion, reflecting the impact of higher rates and continued loan growth, partially offset by lower markets revenue. Adjusted expense of $14.4 billion was flat to last quarter and to last year if you exclude $175 million of one-time items in CCB in the prior year period. Credit costs of $1.5 billion were up about $200 million year-on-year driven by higher net charge-offs in card, and in the quarter we built card reserves of $300 million primarily due to seasoning of newer vintages. We saw a wholesale release of over $100 million partially driven by select names in the energy sector and reflecting improvements in portfolio quality in commercial real estate.

Shifting to balance sheet and capital on Page 3, what is most notable on this page is that all of the numbers are basically flat quarter-on-quarter with the exception of growth in tangible book value per share, as capital generation was fully offset by distributions, reflecting a payout of above 100% for the first time in a long time, in line with our previous capital plan. From here, we expect the direction of travel for our CET 1 ratio to be lower over time.

Moving on to Page 4 and consumer and community banking, CCB generated $2.6 billion of net income and an ROE of 19%. We continue to grow core loans up 8% year-on-year driven by mortgage up 12% and business banking, card and auto loans and leases were each up 7%. Year-on-year, we saw 13% growth in each of client investment assets, card sales and merchant processing volumes. Nearly half of the growth in investment assets came from net inflows and our deposit margin continued to expand, up 6 basis points this quarter.

Revenue of $12 billion was up 6% year-on-year. Consumer and business banking revenue was up 15% on higher NII, approximately equally due to margin expansion as well as strong average deposit growth. Mortgage revenue was down 17% on loan spread and production margin compression as well as lower net servicing revenue driven by the MSR. Underlying that decline, the mortgage business is performing well relative to the market. Our originations are down only 1% versus the market down an estimated 15% as we gain share and purchase.

Finishing up on revenue, card, commerce solutions and auto revenue was up 7% as higher auto lease income and growth in card loan balances outpaced the continued impact of investments in new account acquisitions. Expect CCSA fourth quarter revenue to be relatively flat sequentially as higher net interest income will be offset by the anniversary net impact of Sapphire reserve last year.

Expense of $6.5 billion was flat year-on-year or up 3% excluding the one-time items I mentioned. Higher auto lease depreciation and continued underlying business growth were partially offset by lower marketing expense. The overhead ratio was 54% for the quarter as positive operating leverage despite significant investment in the business moves us closer to our medium term target.

Finally on credit performance, in terms of net charge-offs, as I said, card increased in line with expectations and guidance, and in auto charge-offs included approximately $50 million of a catch-up reflecting regulatory guidance on the treatment of customer bankruptcies. Excluding this, the loss rate in auto was only 41 basis points. In general, it feels like the auto market has plateaued at current levels with inventory, incentives, used car prices and SAW all having stabilized over the last few months. In terms of credit reserves, are previously mentioned, we built $300 million in card reserves in the quarter as we grow, and although there were no mortgage reserve actions, portfolio quality improvements allowed us to absorb the expected impact of the hurricanes into our current reserves.

Now turning to Page 5 and the corporate and investment bank, CIB reported net income of $2.5 billion on revenue of $8.6 billion and an ROE of 13%. The third quarter of 2016 revenue in both IBCs and markets benefited from a number of (indiscernible) events and higher levels of volatility, creating tough comparisons across the board. This quarter in banking, IB revenue of $1.7 billion was strong and relatively flat from last year's record levels. Year-to-date, we've gained some share and maintained our number one ranking in global IBCs. We also rank number one in North America and EMEA.

We printed record advisory fees for third quarter, up 14% on broad strength across sectors and deal sizes particularly in Europe, making up for a smaller wallet in North America. Equity underwriting fees were down 21%; however, we rank number one in wallet, number of deals and volumes globally for the quarter and for the year to date. The market remains active and the pipeline healthy. In debt underwriting, there was a reasonably high run rate coming into the quarter and we broadly maintained it, landing fees slightly down year-on-year and quarter-on-quarter driven by strong re-pricing and refinancing activity and high yield bond issuance. We rank number one in fees year-to-date and gained share overall and across products.

Treasury services revenue of $1.1 billion was up 15%, and while higher rates are a driver, we are also seeing positive momentum in organic growth in the business globally as our clients are responding favorably to the investments we've made in our platform and products.

Moving on to markets, total revenue was $4.5 billion, down 21% year-on-year against an impressive third quarter of 2017 in a quieter and very competitive environment. Fixed income revenue was down 27%, a solid performance given a backdrop of low volatility and tight spreads. At the risk of laboring the point, you may recall that we gained 240 basis points of share in FIC in the third quarter of ’16, which will mean our year-on-year decline will look larger than most.

Equities revenue was down 4% but underneath that is a diversification story. Consistent with last quarter, lower flow and exotic derivatives activity was substantially offset by strength in cash and prime, which continues to be a bright spot throughout this year.

Before I move on, the fourth quarter environment so far feels consistent with the second and third with no obvious catalysts on the horizon for that to change, but of course change it could, so it’s worth pointing out that the fourth quarter last year was also a record for a fourth quarter since the crisis and as such, we expect next quarter’s markets revenues to be lower year-on-year.

Securities services revenue of $1 billion was up 10% driven by rates and balances, with average deposits up 15% year-on-year as well as by higher asset-based fees on market levels globally. Finally, expense of $4.8 billion was down 3% year-on-year driven by lower compensation expense on lower revenues, and the comp to revenue ratio for the quarter was 27%.

Moving to commercial banking on Page 6, another excellent quarter in this business with net income of $881 million with record revenue and an ROE of 17%, and although we recognize that our results are flattered by a benign credit environment, the performance is very strong and broad-based and is driven by the investments we’ve been making in the business, the differentiated path on capabilities we can offer our clients, and our commitment to business discipline.

Revenue grew 15% year-on-year driven by deposit NII and on higher loan balances with overall spreads remaining steady, and while IB revenue was down some year-on-year, we grew 9% sequentially with particular strength in middle market, which is starting to feel like a trend. Expense of $800 million was up 7% on continued investment in the business focused on technology as well as banker coverage, having added over 200 bankers since the beginning of 2016; and since our investment agenda is ongoing, expect fourth quarter expenses to remain at about this level.

Loan balances were up 10% year-on-year and 1% quarter-on-quarter. C&I loans were up 8% year-on-year driven by strength in expansion markets and specialized industries, but were flat sequentially in line with the industry on flat utilization despite decent deal flow and stable pipelines. Commercial real estate saw growth of 13% year-on-year and 2% quarter-on-quarter, and although growth rates are decelerating, we continued to outpace the industry; however, we remain very disciplined in client selection, products and pricing, and are sticking to what we know well.

Finally, credit costs were a benefit of $47 million, predominantly driven by commercial real estate. Credit performance remains strong with the net charge-off rate of 4 basis points.

Leaving the commercial bank and moving onto asset and wealth management on Page 7, asset and wealth management reported record net income of $674 million with pre-tax margin of 33% and an ROE of 29%. Revenue of $3.2 billion was up 6% year-on-year driven by higher market levels and by strong banking results on higher deposit NII. Expense of $2.2 billion was up 2% year-on-year driven by a combination of higher compensation and higher external fees for which there is an offset in revenue.

This quarter, we saw net long term inflows of $21 billion with positive flows across fixed income, multi-asset and alternatives being partially offset by outflows in equity products. We also saw net liquidity inflows of $5 billion and continued to increase our global market share. Record AUM of $1.9 trillion and overall client assets of $2.7 trillion were up 10% and 9% respectively year-on-year on higher market levels globally, as well as net inflows. Deposits were down 6% year-on-year and 4% sequentially, reflecting continued migration from deposit accounts into investment-related assets as we are retaining the vast majority of these balances. Finally, we had record loan balances up 10% year-on-year driven by mortgage up 19%.

Moving to Page 8 and corporate, corporate posted net income of $78 million, treasury and CIO's results improved year-on-year primarily due to the benefit of higher rates, and you'll remember that last quarter other corporate included a legal benefit which is driving the quarter-on-quarter decline you see on the page.

Finally, turning to Page 9 and the outlook, all of NII, expense, charge-off and loan growth remain broadly in line with previous guidance, so to wrap up, this quarter and this year we continued to consistently deliver for our clients, our businesses are performing strongly across the board, maintaining or gaining share. Our financial performance clearly demonstrates the power of the platform, the benefits of diversification and of scale, as well as an investment strategy focused on long-term growth and profitability. We remain very well positioned to continue to benefit in a growing global economy.

Operator, we can open up the lines to questions.

Question-and-Answer Session

Operator

[Operator instructions]

Our first question comes from the line of Betsy Graseck.

Betsy Graseck

Hi, good morning. How are you?

Marianne Lake

Very well, how are you?

Betsy Graseck

Good. Two questions, one on the revenue lift in the consumer and community bank. I know on Slide 4, you highlighted that the 6% up year-on-year is driven by the higher NII and deposit margin expansion. Could you just describe a little bit if this is just the start of an improvement in transfer pricing that the consumer banking division is benefiting from, and is there a lag that we should expect would continue to drive up this revenue lift over the next several quarters?

Marianne Lake

Betsy, there's no change in our transfer pricing methodology or even the way we compute it. It's to do, as you appreciate, with obviously higher rates and the fact that we are in a very disciplined environment at this point in deposit re-price. We would expect to continue to see the margin expand over the course of the next several quarters, but we would also expect to continue to drive higher NII as we're growing our deposits. (Indiscernible).

Betsy Graseck

Right, but that FTP methodology should continue to drive up margin, deposit margin over the next couple quarters?

Marianne Lake

Yes.

Betsy Graseck

Okay. Then the second question is just how you're dealing with the Equifax fallout. The question here is does the breach that occurred drive any changes to how you are assessing credit requests that come in, how you're filtering for what you perceive as fraud risk, and how you're managing the book of outbound credit requests that you're looking for from a proactive perspective on your loan book?

Marianne Lake

Yes, so I think the way to think about it, not to diminish the importance of any individual breach or situation, is that we are honestly under constant attack, both in a more general side but also from a fraud perspective, and so while we always react and learn lessons from every individual situation, this is not the first breach nor will it be the last breach, so as a result we have been constantly evolving and refining the way we think about fraud prevention, detection, underwriting, continuing to move to multi-factor protocols around customer identification, looking to leverage all of our data to better inform our underwriting decisions. So the reality is that as important as it is and as much as we--as each individual breach could impact the overall equation, we have had to evolve over an extended period to the position that we're in now, and so as a direct result of this, there won't be specific meaningful changes but a continuous evolution. So when we are looking, whether it's at sending out preapprovals or marketing offers or receiving inbound applications, we are increasingly looking at a number of different data points and facts to be able to identify the customer and understand the application.

Jamie Dimon

And just to add, as part of a breach, so if your name was taken and we know that, Social Security, a driver's license, we can put in a lot of enhanced controls if we do about your name specifically. We don't have to rely on those things. With reduced reliance, we can greatly, dramatically increase anti-fraud on your accounts, so we do that and dramatically diminish any effect on our customers.

Marianne Lake

Yes, and the reality, Betsy, is that we've kind of operated over an extended period now on the presumption that while we happen to know about this breach, there will be others either right now that we don't know about or over time, and so we have to be proactive, not reactive, and we'll obviously look to learn anything we can but we continue to evolve, so that we can use all of the information at our fingertips. As a practical matter, we are not seeing a specific increase in fraud.

Betsy Graseck

As a result, expense impact, loan growth impact, de minimis from your perspective?

Marianne Lake

Correct, correct. As a result, we're already spending the money that we need to spend to keep hopefully ahead of the curves on all of these things. Our operating losses are--I will say that the combination of all of the information that had been compromised over the course of the last several years has put pressure on fraud costs, but nothing incremental from this, and so no, no impact on expenses or loan growth that would be measurable.

Operator

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

Erika Najarian

Yes, good morning. I wanted to follow up to your responses, Marianne, on no pressure on deposit pricing. I'm wondering if you could, especially in light of your deposit growth strength and especially in the consumer, give us a sense on how re-pricing trends are today in terms of the consumer, wealth management versus wholesale deposits.

Marianne Lake

Yes, so look, obviously apart from the rate hike in June, nothing has really happened much since last quarter, and so the landscape is looking pretty similar, and not because that's surprising, so I'll come back to that in a second, which is to say that there's been very little to no movement in the re-pricing of deposit accounts. There's been some incremental movement in certain savings and CDs, but nothing systematic in the consumer space, but that's pretty much as we would have expected with rates at these absolute levels. So at some point in time, and that may be a couple, three more rate hikes from now, the dynamics may start to change, and so we haven't changed our perspective about what we think the ultimate re-price will look like.

In asset wealth management, the story on deposit pricing is somewhat similar - a little bit more movement, but nothing particularly meaningful or dramatic. The story there is very much again as expected. At these levels of rates, you are seeing customers start to make choices to move certain of their deposit balances into investment assets. That's normal migration that we expected and that we've modeled, and we are retaining those balances, so we are starting to see some of the dynamics we expected play out. That started happening at the beginning of the year and has continued to progress.

Then in the wholesale space, there is a spectrum as well, so I would start with we're firmly on a re-price journey in wholesale, no doubt, and depending on where you are in the spectrum it ranges from the smaller and lower middle market companies, where the re-price is modest but present, to the higher end where it's reasonably high.

So overall, if I step back--so that's where are. If I step back and say have we learned something new in this cycle that we didn't know, the answer is no, not really. If you look at the first four rate hikes of the previous normalization cycle, the overall cumulative deposit re-price was pretty much the same as it is now, so we continue to believe that the dynamics that we've been talking about over the last several years and that we've expected will play out. They may not play exactly as we have them modeled, but they will ultimately play out that way and we have appropriately conservative re-price assumptions.

Erika Najarian

Got it. My follow-up question on that is you're one of the few firms that have been really talking about anticipating the impact from a Fed balance sheet reduction over the next several years. The question I often get from investors is obviously in particular, retail is valuable not just for the price of it today but on an LCR basis, and how would you respond to the question, you know, given the 6% growth in digital in the consumer bank and 12% growth in mobile, does technology help with the stickiness of the consumer deposits, or does it potentially aid in the velocity of switching?

Marianne Lake

So at the risk of hedging, it's actually a bit of both. The reality is there's always been two different camps on the re-price area for consumer. There's been the camp of acute market awareness, low for long, technology advancements allow movement of money to be easier, competition for retail deposits and good liquidity deposits is high, therefore re-price higher. The counter to that, which has merit and which we are seeing to a degree, is customers feel that they're weighing a more balanced scorecard of things when they chose where to keep their deposits, and customer satisfaction, the suite of products and simplicity, the digital and online offerings as well as the safety, security and brand all matter, and price is a factor but not the only one.

So I would say we certainly feel that having a leading digital capability is critical to our overall customer franchise, and it will in all likelihood have an impact on stickiness of deposits because customers value that kind of convenience very highly.

I would also say one other thing about where we are right now, is that as you know, as much as you're right about the potential demand for the sort of high liquidity value deposits, there's a lot of excess liquidity in the banking system and although loan growth is solid, it's solid, so we aren't seeing a frenzy, albeit that we're very proud of our deposit growth.

Operator

Our next question comes from Mike Mayo of Wells Fargo Securities.

Mike Mayo

Hi, can you hear me?

Marianne Lake

Yes, welcome back.

Mike Mayo

Thank you. My question is on the consumer and community bank, a three-part question. First, what percent of your customers have online bill pay? I'm trying to get back to that stickiness of the deposits.

Marianne Lake

I don't have that off the top of my head, but we can get back to you.

Mike Mayo

Okay, can you give a ballpark? I don't think you've disclosed that before. Like, to the nearest quarter, or--?

Marianne Lake

Here's what we'll do. I fear if I give you a ballpark, I'll get it wrong. While we're on the call, we'll get someone to send the details and let you know.

Mike Mayo

Okay, and then the second part is you're talking--the deposit beta has been lower. You gave your caveat, but mobile bank customers are up 12% year over year. Why do you still need 5,200 branches? Isn't this a good time to close branches when deposit competition isn't as tough as it might be in the future?

Marianne Lake

We're doing a bit of all of the above, so I'll start with the comment which you (indiscernible) before but which we still strongly defend, which is that branches still matter, that 75% of our growth in deposits came from customers who have been using our branches, that on average a customer comes into our branches multiple times in the quarter. I know that all sounds like old news, but it's still new news or current news, so the branch distribution network matters.

Customer preferences are changing and we are not being complacent to that, so we are underneath the overall 5,000-plus branches continuing to consolidate, close, move, grow, change all of our branches in line with the opportunity in the markets that we're in. So net for the year, we'll be down about 125 branches. We've closed more than that, consolidated some and added some, so we're not being complacent to the consumer preference story, but branches still matter a lot and we're building out all of the other sort of omni-channel pieces, as you know, so that we have the complete offering. If the customer behaviors start changing in a more accelerated fashion, we will respond accordingly.

Operator

Our next question comes from Ken Usdin of Jefferies.

Ken Usdin

Hi, good morning Marianne and Jamie. A question first on the loan side on the yields. Last quarter they held flat, and this quarter they're up 16 basis points. I just wonder if you could help us understand, was that more just the mechanics of timing of hikes moving through your variable rates? Is it any element of pricing or any other things you could just help us understand why we saw that great nice improvement there?

Marianne Lake

Yes, so I would characterize this as over the two quarters of normal, so you may recall last quarter there were a couple of things that we talked about. First was that there was a $75 million one-time interest adjustment in mortgage which artificially reduced loan yields for the quarter, and secondly that seasonality and mix in card similarly. So we would normally in the law of extraordinarily big numbers expect for a 25 basis point rate hike that we'd see about 10-ish basis points of improvement in loan yields across the whole portfolio - we didn't see that last quarter. What you're seeing this quarter is the reversal of those factors and the normal benefit of the June rate hike.

Ken Usdin

Got it, okay. My second question, with the card build, you took the reserve for card to around 3.3%. I know you had talked about staying below a 3% card loss rate for this year, but I'm just wondering as we get into next year, you kind of had a medium term idea of 3 to 3.25, how are you feeling about that in terms of the seasoning of the card book and loss rates?

Marianne Lake

Yes, so as we look at the loss rates for this year, they're coming in as we expected at less than 3%, and as we look out to next year, based on what we know today, it's still in that 3 to 3.25% range, albeit maybe at the higher end of that range, so it's broadly in line with our expectations. So the reserve build--and you know, in the consumer space, we move our reserves not in dollar increments, but the reserve build is about a little less than one-third on the growth and a little more than two-thirds on normalization of rates.

Operator

Our next question comes from Glenn Schorr of Evercore ISI.

Glenn Schorr

Hello. I don't know, maybe it's a little nitty gritty, but you're definitely the person for this. Point to point, the yield curve was about the same--10-year was about the same to point; however, throughout the quarter, the curve was much flatter. I'm just curious if that has any dampening effect in any given quarter, and maybe the better way to ask it is could it have a little bit more of a positive run rate as we go forward?

Marianne Lake

Yes, so a couple of things. The first is just to repeat the standard, just as a sort of macro matter, we're more sensitive to the short end of rates than to the long end of rates, particularly over any short period of time, so intra-quarter volatility in the 10-year, while it's not nothing, is unlikely to have a material impact on our run rate. Clearly an overall generally flatter long end of the curve in general on average through the year, all other things being equal, it will have had a dampening pressure on our expectations, and it's part of the reason why they went from 4.5 to 4, not the only ones, as we progressed through the year. But generally speaking, intra-quarter volatility is not something that would have a meaningful impact on our run rate.

Glenn Schorr

Okay, cool. In terms of the loan growth, I think it's completely normal to see some moderation, and you're still doing reasonably better than the industry. I'm curious on the main source of the moderation ticking down a little bit, and then more importantly, is it too soon to ask if any of this talk on tax reform and decent economic data is having a pick-up in the conversations on the loan growth side?

Marianne Lake

Okay, so on the first, I think it is quite important to not look at the average and to kind of decompose it into constituent parts, because we've talked before about the fact that we use our balance sheet strategically in the CIB, but loan growth is not really a thing there, and so this quarter we saw no loan growth in CIB, so no big deal, but it means that that 7.5% core growth for the whole portfolio would have been outside of CIB, closer to 9, so start with that.

Consumer has been pretty consistent, so across the consumer space, whether it's our jumbo mortgages, whether it's the business banking, card, auto loans and leases, they've been growing at reasonably solid and consistent high single digit territory, or even low double digit for mortgage over the last several quarters. At this point, we don't really see anything that is suggesting that that will moderate meaningfully. So where you're seeing--and similarly in asset wealth management on the banking side.

So really, where you're seeing the growth moderate is in commercial, and it's in both the C&I loans and the commercial real estate loans, and they each have a story. With the C&I loans for us, the story is about moving from meaningfully outperforming the industry to being more in line with the industry, so over the course of the last couple of years as we've added expansion markets, opened new offices, added a couple hundred bankers, developed our specialized industry coverage models, we've been growing meaningfully better than the industry, and so you see that even in this quarter in our year-on-year growth of 8% as compared to the quarter-on-quarter growth, where it's flatter. That, to me, is really a factor of the fact that in this space in the cycle, our clients have strong balance sheets, they have a lot of liquidity, they have had access to the capital markets, and so GDP plus growth is not unlikely to be a level for the foreseeable future.

With commercial real estate, it's slightly different. We're still outpacing the industry, but we've kind of gone from very strong to strong, and we would continue to expect that to slowly moderate. That's a number of things - it's from higher rates, it's actually a lot of competition, and then it's also about clients and activity given where we are in the cycle, so we are being very cautious about new deals that we add to the pipeline and the client selection that we have. So all of those factors, I think, weigh into the commercial real estate space.

Tax reform, so fiscal stimulus, the reality right now is although I think everyone, and ourselves included, are hopeful, obviously that tax reform is done for the right reasons and that the economy responds accordingly, at this point it's not front and center in the dialog we're having with our clients about whether they should or shouldn't do a strategic deal or take an action, so I would say it is neither holding up business nor spurring business, but that could change. So at this point, I'd say it's a factor but not a driving factor, and that could change.

Operator

Our next question comes from Jim Mitchell of Buckingham Research.

Jim Mitchell

Yes, good morning. Maybe just a quick question on the outlook on the net interest margin. Should we still expect some grinding higher of asset yields, even without rate hikes? How do we think about that trajectory, assuming we don't get any more rate hikes from here?

Marianne Lake

Well, we'll just deal with the fourth quarter because I think the landscape of rate hikes for 2018 is an open question. We would expect loan yields to hold relatively flat, all other things being equal. It's a very competitive environment. We aren't seeing--you know, we're seeing some pressure in commercial real estate spreads, we're seeing generally spreads holding up, but I would expect competitive pressures to keep loan yields relatively flat.

Jim Mitchell

Okay, and on the reserve build outlook, should we still expect it to kind of track with growth and keep the reserve ratio similar in cards to where we are now, or do you still anticipate some additional building? How do we think about? And if you could size the hurricane impact, that would be great, this quarter.

Marianne Lake

Yes, so we are--at this point, we are at that 3% charge-off rate, rising to 3 to 3.25 next year and growing, so you should continue to expect that we'll be adding to reserves. Our outlook for reserve add next quarter is below this quarter, but obviously we'll continue to observe that.

With respect to the hurricanes, right now in this quarter's results in the credit lines in mortgage particularly and to a much lesser degree in wholesale, we've effectively built $55 million of reserves. To sort of contextualize that, we have used our unfortunate experiences of Sandy and Andrew and other natural disasters to calibrate the assumptions we're using. At this point, it's early to be able to say how the losses will actually manifest themselves. It could be that it's lower than that, but that's our sort of central case right now, $50 million in mortgage and just a handful of million in the wholesale space.

Operator

Our next question comes from John McDonald of Bernstein.

John McDonald

Hi, good morning. Marianne, I was wondering if you could discuss how you're balancing all the investments you're doing in IT and business growth with the efficiency mindset that you guys always have. I guess one of the frameworks is if I look at the three-year simulation you provided in February, a lot of the expense growth seems to happen this year - we have kind of a $2 billion increase in adjusted expense in post-2017. The expense growth looks very modest, so maybe you could just talk a little bit about the leverage you're using to keep expenses in check as you're doing all the investments.

Marianne Lake

I'd just start with a bit of a philosophical discussion, which is it is our opinion that now, as much if not more so than ever, the investments we're making in technology will effectively breed and deliver the efficiency, so to the degree that we are able to find incremental investments or accelerate them, we'll be willing to do that. Our expense numbers in our outlook have never been targets, so that's the sort of mental, philosophical point of view, that we would deliver any technology innovation and investments that we could execute well that we think would be either accretive to our returns through revenues or efficiency.

Specifically when you look at the simulation, just as a point of technicality, in 2018, probably middle to third quarter of 2018, we are expecting that the FDIC (indiscernible) will reach its level at which the surcharge will be able to be reduced. That's a meaningful positive for us, and so if you look at the implied growth and expenses from '17 through the medium term, they are larger than it implies, but if we found the opportunity to do more or to accelerate more, we would do it and explain it to you, so we'll come back to that at investor day.

John McDonald

Okay, thanks. Then just a follow-up, you mentioned the card revenue run rate has moved up again nicely this quarter. It seems like you might be able to get your target by the early half of next year. Is there upside to that revenue run rate target? Are things coming in better than expected in terms of the moderation of promo rates and things like that, or maybe you could just give a little color there?

Marianne Lake

Yes, I think--so when we did some (indiscernible) at the end of last year, I think that we said that we'd expect the revenue rate for the full year this year to be 10.5%, and it would be a little better than that. The revenue rate increase in the quarter speaks to a little bit of spread and a little bit of lower (indiscernible). It will go down next quarter because of the fourth quarter effect of the Sapphire reserve travel credit for an overall, call it 10.6 for the year. But yes, we do expect to hit the 11.25% in the first half of next year, and we've reached the inflection point end of the second quarter and into the third quarter where growth is offsetting the impact of the significant upfront investments in Sapphire reserve, so we'll see revenues grow from here.

Operator

Our next question is from Saul Martinez of UBS.

Saul Martinez

Hi, good morning. Following up, Marianne, on the commercial banking business, you've had--you've obviously had very good momentum there over the last couple years, and you did talk about credit dynamics and moderation in credit growth, and sort of a normalization back towards industry trends. Can you just comment a little bit more broadly about some of the initiatives you've had there from a revenue standpoint, whether it be the middle markets initiative, growth in IB, international and whatnot? Your earnings growth has obviously been very, very strong in this business and it's starting to move the needle a little bit, but if you can just give us a little bit of color on the opportunity set you see there.

Marianne Lake

Yes, so I'll just start with credit for a second, because although we absolutely expect at some point that we're going to see normalization of credit, we haven't seen that yet - I just want to make that clear. We are appropriately cautious and staring at everything, but we're not seeing any deterioration or any thematic fragility in our portfolio that we're concerned about at this point.

With respect to the revenue side of the story and the efficiency side, it really is a story of all of the things you mentioned sort of all coming together at the same time, so we have been adding to--we have our expansion markets from the WaMu acquisition, we've been adding new markets and opening offices, we've been adding bankers, and as you know--

Jamie Dimon

We're in all 50 of the top MSAs now.

Marianne Lake

Yes, we are in all 50 of our top MSAs now, and we've been adding bankers. As you know, when you add all of these investments, for a period of time when they are still in the build-up mode, you don't see that drop to the bottom line or to the top line, and now we're starting to see our bankers hit their stride, become very productive, balances are building.

Then, I would also say that this is at the epicenter of delivering the whole platform to our clients, so if you think about what we're able to offer our clients in terms of international capabilities, banking coverage across industries, core cash, global payments, we have a platform offering I think that is--well, it's certainly complete and it's somewhat differentiated.

Then a third thing I would say is that it's a buttoned up business. We have been looking at efficiency and expenses and really working on making sure that through the simplification processes that we went through in 2013, '14 and '15, that we are focusing all of our efforts on our core strategic clients, and it's paying off.

Saul Martinez

That's great. I guess sort of a related question on the commercial banking business that's a little bit of a follow-up as well on tax reform, obviously Congress--or the administration, House Ways and Congress released a blueprint so Congress can now start to flesh out a tax plan, and obviously there's a lot of uncertainty as to the content, the timing - heck, whether it even happens or not. But if we do see something that is sensible, however you want to define it, how quickly do you think that we could start to see that beating through into better sentiment and ultimately into better demand, or increased demand for credit?

Marianne Lake

Yes, so I would say--and like you said, there's so many uncertainties that it's almost talking about hypotheticals at this point, as encouraged as we are with the ongoing dialog. My view is sentiment is relatively high, in fact it's picked up slightly over the course of the last short while, so from that vantage point we're in a position of strength. There would necessarily be some lag, so whether that is a couple of quarters or longer, but certainly in the foreseeable future you would hope to be able to see increased demand and confidence leading to action.

Operator

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

Matt O'Connor

Good morning. Could you just talk a bit about how you're managing the excess liquidity? You've obviously continued to build cash, the securities book has shrunk - it makes sense give the flatter yield curve, but you've combined that with the still good deposit trends and the slowing loan growth, and obviously a challenge as you think about protecting them going forward. So maybe just talk about the dynamics there and how you're thinking about the yield curve, how to manage that.

Marianne Lake

Yes, so I'll start with the excess liquidity question, because while we feel very, very good about our liquidity position, and you will have seen in the recent disclosures where everyone is positioned, and necessarily even if LCR was the only consideration people would want to be running a buffer to LCR, so--but LCR is not the only consideration, and the other most notable one I would point out to you would be resolution planning. So know that when we have our overall liquidity position, we've taken into consideration a combination of constraints, and so what may look excess on one lever may not be as excess on another.

The second I would say is that when we look at the deployment of (indiscernible), we look at it in the context of our target for what we want the duration of equity for the company to be over the course of normalization in rates, and obviously it's not just about liquidity, it's also about duration. So we're comfortable with our liquidity position, we have a framework for deploying it and for thinking about the spot and forward-looking duration of the company. That's not to say that we are not opportunistic in taking advantage of moves that are technical in the long end of rates to either deploy or to un-deploy, dry powder, and we still have some. So it's more than just liquidity, it's also duration, and we've taken the overall (indiscernible) in our expectations and our targets into consideration, albeit that we still have some dry powder.

Jamie Dimon

And we've maximized between loans, securities.

Marianne Lake

Yes.

Matt O'Connor

Then just to follow up on that rate sensitivity, you mentioned before or you reiterated before you're more levered to the short end of the curve. If we get continued increases on the short end of the curve but the 10-year doesn't go anywhere, is that still NIM accretive as it's been thus far?

Marianne Lake

So it will be over the short while, and our full expectation outside of any other like stimulation is that as the front end of rates goes up and as gradual QE unwind happens, that you're going to see the long end of rates go up, albeit more slowly. So it's pretty typical at this point in the normalization cycle to have a curve flatten - that's what we're seeing, that's what we would expect. I would expect to continue to see the long end rise, and yes, it should be NIM accretive.

Operator

Our next question is from Gerard Cassidy of RBC.

Gerard Cassidy

Good morning, Marianne. You touched on this a little bit, but maybe you can give us a little more color. You mentioned in your opening remarks you increased your market share in investment banking. Can you share with us, are you getting a bigger wallet share or are you winning more customers, and also some of your competitors are still struggling, is that also a factor?

Marianne Lake

I would say it's wallet share, it's blocking and tackling. We did pretty well in Europe but there is still a lot of competition, so I would say it's less about the specifics of any one competitor because the environment is pretty competitive, and just about sort of reasonably broad strength.

Two things that I would also point out is, first, in equity underwriting, similar to in FIC, we gained a couple hundred basis points of share in the third quarter of last year, so on an apples to apples basis to where we would normally expect our share to be, we're still doing very well.

Jamie Dimon

I would just say I think competition is fundamentally fully back. It's not that they're--or most of these players are all out there, some specialized in certain areas, but it's fully competitive, and you have new entrants soon like the Chinese banks, etc.

Gerard Cassidy

Very good. Possibly Jamie, if you want to weigh in on this, what's your read of the new treasury report on changes coming in the capital markets that was released in early October? Any specific items in there that you guys looked at that, that would be specifically beneficial that you'd like to see changed, and what's the probability of it happening and could it happen sometime next year?

Marianne Lake

Okay, that was a lot. So look, first of all, we welcomed the report and it's a long report, a couple hundred pages. There's a lot of recommendations, very comprehensive, so kudos to the treasury for delivering it. We are supportive of those recommendations kind of writ large, and I think the most important thing to remind you is that this is not about materially changing the legislative landscape. It's about recalibrating, sensibly recalibrating the specifics of individual rules over time. So we're still digesting the report, but we are supportive. It is very comprehensive and it could be very beneficial to the liquidity and depth of the capital markets, which is what we should all hope for, and not contrary to safety and soundness. So in that sense, very supportive, all good.

It's going to be complicated and it will take time, but the will is there, and so whether it's the administration or the regulators, there's a general recognition that there's the ability and the appetite to want to make rational change, and so if that helps to grow the economy and all the things that come with that, we're working as constructively as we can on that.

Operator

Our next question is from Steven Chubak of Nomura Instinet.

Steven Chubak

Hi. Jamie, I was actually hoping that you could update us on your efforts to launch your online brokerage offering. It's something you had mentioned in your last letter. I was curious, since it comes up with investors quite often, how you view the opportunity set in that business for JP, whether it's an effort to just build a moat around your current client cash balances and maybe fill a void, or is your intention to become a bit more disruptive in the space and actually attract many more customers and potentially even offer more aggressive pricing and terms?

Jamie Dimon

Yes, so we're building obviously--we're kind in beta platforms, we're trading and investing in things like that, and also the P2P (indiscernible) is doing quite well. We look at all those things as things you want to--from the client standpoint, you want to offer the client. At one point, we'll be talking about more testing what we think might or might not work, and then we'll give you more of a strategic view of that, probably around investor day.

Steven Chubak

Got it, okay. Marianne, just wanted to follow up on some of the discussion around excess liquidity management. I appreciate the fact that you guys certainly want to be conservative in thinking about duration and maybe taking a more holistic view of the asset side of the balance sheet, but looking at the LCR disclosures and just given the stark contrast in terms of how much you have parked in the way of excess reserves and relatively low levels of NBS compared with your peers, how you're thinking about duration management and whether you do have additional capacity to actually remix some of that cash of the Fed into higher yielding NBS, especially as we think about the Fed balance sheet unwind dynamics.

Marianne Lake

We have a fairly large mortgage loan portfolio in addition to having a large portfolio in our investment securities in NBS, so we are already reasonably equivalently mixed in terms of our percentage of mortgage exposure to our total assets or loans to the competitive landscape. Trust me when I tell you that you talk about excess liquidity because of LCR, and we are thinking about more than just LCR, and we do--as I said, while we do maintain a short position and the cost of being short is relatively cheap, we don't have the kind of capacity to invest $100 billion-plus in NBS right now, or anything that's meaningful like that to generate higher returns without blowing through our duration targets.

Operator

Our next question is from Brian Kleinhanzl of KBW.

Brian Kleinhanzl

Hi, good morning Marianne. Just a quick question on loan growth. You had another decent quarter of good growth in residential mortgage. Maybe looking across consumer, is there anywhere where you've had to kind of open up the credit box in order to get growth there? I know you mentioned that loan yields are expected to be tight on competition, and I think (indiscernible), but have you had to go down market at all for loan growth?

Marianne Lake

No, we haven't. As we talked about before, a while ago we made some surgical changes to our credit box in the card space, but that's, if anything, I would say incredibly granular, incredibly surgically tightening, not the reverse. Whether that's in card, in certain micro cells, or whether that's in auto, I would say we've been pretty conservative and we're probably doing at the very margins a little bit of tightening.

Brian Kleinhanzl

Okay, thanks.

Operator

Our next question is from Andrew Lim of Société Générale.

Andrew Lim

Hi, good morning. Thanks for taking my questions. I was wondering if you could talk a bit more about the quantum and timing of return of excess capital. Of course, one of your notable competitors has given a very detailed strategy of how to do this by the end of 2019. Are you in a situation to adopt a similar strategy/

Marianne Lake

Well I mean, congratulations to them if they have a high degree on what 2018 CCARs will look like. I will tell you this - we said very clearly that we feel that the company should operate within the range of 11 to 12.5%. We feel like it should be lower in that range, and having a capital plan approved as $19.4 billion of share buybacks over the next four quarters and over 100% payout based on analyst estimates is a start. So nothing has changed about that objective, but we would want to be measured about the pace at which we do it until we have a bit more final clarity on what the new generation of capital rules will look like, so we hopefully will know more as we go into the next cycle of capital planning. We haven't changed our point of view that we should be able to continue that journey down into the range, and that would be our objective.

To tell you that we can give you the road map for that today, I think is not accurate. But you can do--you can and you have done your own math. Look at our earnings outlook in your models and payouts of over 100%, and you can see that we can move down in that same time frame to something much lower than we are now, if not towards the bottom. But that's not to say that we will be able to do that - we need to go through tests.

Andrew Lim

Okay, fair enough. Thanks. A different question - (indiscernible) is high on everybody's minds. I think everyone is focused on the impact on equity research and FIC research, but there's broader implications possibly for how that might impact FIC trading, and not just from your own point of view but also from the point of view of clients who might not be compliant by the end of the year. How does that weigh on your mind, and what impacts could we expect there?

Marianne Lake

I think I got that. So the compliance burden and the readiness and work to be ready is a significant heavy (indiscernible), as you say, for all market participants, so there is the possibility that effective at the beginning of the year, there will be ongoing work that needs to get done. We feel like we're reasonably well positioned to defend our position, but there's no doubt that over the course of the year and beyond that people get clearer and clearer on transparency and cost to execute versus advice, versus content, that there may be competitive dynamics that change, and we feel like we've been building for the last several years to be ready for those dynamics. So there could be some bumps, but I don't think it's anything that we're concerned about at this point, and we will all learn a little more as we go through 2018.

Operator

Our next question is from Marty Mosby of Vining Sparks.

Marty Mosby

Thanks. Good morning, Marianne. I was going to ask you about the credit. You pulled out and highlighted auto after we went through kind of an episode of possible deterioration. You put that together with energy and what we experienced last year, those are our first two pressure points on the credit cycle, and really we've come through without any real heartburn from either. Does that tell us something about the de-risking and underwriting discipline that the banks in particular have adopted since the financial crisis?

Marianne Lake

You know, I would say that for sure has to be part of it, and even with the auto situation, what you're seeing is, I think, a marketplace that is much more responsive . So while we felt like we got ahead of the issues and tightened early, you've seen the sort of industry generally move in that direction. I think there's no doubt that the environment in totality with capital liquidity controls regulation has led to higher quality loan books, so yes, we have been pressure tested. Energy was a one in a 100 year flood, and I think the industry and specifically our portfolio performed really quite well.

Now that's not to say that there isn't a point of pain out there somewhere that we won't see; we just feel like we'll be in a position to get through that.

Marty Mosby

Then (indiscernible) deposit growth, what we saw is you kind of layer deposits in institutional deposits, corporate deposits, retail deposits. We're starting to see a little bit of a pressure and a sense of institutional deposits in wealth management began to decline. Corporate and retail still show a lot of strength. Just kind of think about that dynamic, because that's really where you begin to see pressure on betas, is typically when you see pressure on volumes, and we just haven't seen it in the core deposit base yet. So a premium for liquidity that's been kind of pushed into those core customers from corporate and retail, things should be pretty persistent, which would mean the duration and the length and the growth of deposits will be much longer than what we probably anticipated before?

Marianne Lake

Yes. Yes, all of the above. I would tell you that we are seeing that rotation start. If you go back even three years ago, we kind of gave you an outline of what would happen. We said we were going to see rotation from the high wealth segment into investment assets, followed ultimately by the consumer space. We'll see retail deposits move into money funds, we'll see outflows of wholesale (indiscernible) deposits as the Fed shrinks its balance sheet, but those things are going to play out over the course of the next--you know, depending on the rate curve, over the course of the next two to four years, so we've begun to see it. It should be expected. I don't think it tells us anything new or different necessarily at this point.

Operator

Our next question is from Mike Mayo of Wells Fargo Securities.

Mike Mayo

Hi, a follow-up question. So card revenues are tracking well, per your other comments, but year-over-year card spend growth has moderated some. Can you talk about the trends with the Sapphire reserve card?

Marianne Lake

Yes, so look, our card spend growth at 13% up year-on-year is still very strong, so when we say moderated, it's from very strong to very strong, and it is in part due to the number of new products we've had. So we would continue--the Sapphire reserve card spending engagement is very strong, and we're very pleased with it, so I wouldn't say it's a moderation necessarily. It's just at these very high levels, slightly higher to very strong is still a great story.

Marty Mosby

It was such a great deal a year ago. What's the attrition like with the customers?

Marianne Lake

If you think about our first acquisitions were in August and September, so we're kind of at the early stages. So far very encouraging, so far better than our expectations, but a little early to sort of draw some conclusions on it, but very encouraging.