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

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

Marianne Lake

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

Starting on page one, the firm reported record net income of $9.2 billion and EPS of $2.65 and record revenue of nearly $30 billion with a return on tangible common equity of 19%. The results this quarter was strong and broad-based.

The highlights include core loan growth ex-CIB at 5%, with loan trends continuing to progress as expected. Credit performance remained strong across businesses. We saw record client investment asset in consumer of over $300 billion and record new money flows this quarter, and double digit growth in both card sales and merchant processing volumes, up 10% and 13% respectively.

We ranked number one in Global IB fees and gained meaningful share, which are well above 9% this quarter.

In the commercial bank we had record growth IB revenue, in asset and wealth management record AUM and client assets and the firm delivered another quarter of strong positive operating leverage.

Turning to page, two and talking into more detail about the third quarter, revenue of $29.9 billion was up $1.3 billion or 5% year-on-year, driven by net interest income which was up $1.1 billion or 8% on higher rates as well as balance sheet growth and mix.

Non-interest revenue was up slightly as reported, but excluding fair value gains on the implementation of a new accounting standard last year, NII would have been up 5%, reflecting auto lease growth and strong investment banking fees and while market revenue was lower, there were other items more than offsetting.

Expense of $16.4 billion was up 2% relating to continued investments we are making in technology, real-estate, marketing and front office, partially offset by a reduction in FDIC fee charges of a little over $200 million.

Credit remained favorable across both Consumer and Wholesale. Credit costs of $1.5 billion were up $330 million year-on-year driven by changes in wholesale reserves. In Consumer charge-offs were in line with expectations and there were no changes to reserves this quarter.

In Wholesale, we had about a $180 million of credit costs, driven by reserve sales on select C&I client downgrades and recall that there was a net release last year related to energy. Once again these downgrades were idiosyncratic. It was a handful of names and across sectors. Net reserve sales of this order of magnitude are extremely modest given the size of our portfolio and we are not seeing signs of deterioration.

Moving on to page three, and balance sheet and capitals. We ended the quarter with a CET1 ratio of 12.1%, up modestly from last quarter, with a benefit of strong earnings and the AOCI gains given rallying rates being partially offset by slightly higher risk-weighted assets.

RWA is up primarily due to high accounts cost of credit on trading activity, but notably this quarter being offset by lower loans across businesses on a spot basis.

Quarter-on-quarter loans were down in Home Lending as a result of a loan sale transaction in the CIB as a result of a large syndication and in Card and Asset & Wealth Management seasoning.

Also in the page total assets are up over $100 billion quarter-on-quarter, basically driven by higher CIB trading assets in part and normalization from lower levels at the end of the year given market conditions. Lower end of period loans are partially offset by treasury balances, including higher security. In the quarter the firm distributed $7.4 billion of canceled shareholders, including $4.7 billion of share repurchases, and our pre-submitted our 2019 CCAR capital plan for the Federal Reserves.

Moving to Consumer & Community Banking on page four, CCB generated net income of $4 billion and an ROE of 30%, with consumers remaining strong and confident. Core loans were up 4% year-on-year, driven by Home Lending and Products both up 6% and business banking up 3%. Deposits grew 3%, in line with our expectation and we believe we continue to outperform.

Client investment assets were up 13% driven by record new money flows reflecting both across physical and digital channels including new invest. We also announced plans to open 90 branches this year in new markets.

Revenues of $13.8 billion was up 9%; Consumer & Business Banking revenue up 15% on higher deposit NII driven by continued margin expansion; Home Lending revenue was down 11%, driven by net serving revenue on both lower operating revenue and MSR, but notably while volumes are down production revenue is up nicely year-on-year on disciplined pricing.

And product Merchant Services & Auto revenue was up 9% driven by higher Card NII on loan growth and margin expansion and higher auto lease volumes. Expense of $7.2 billion was up 4%, driven by investments in the business and also lease depreciation, partly offset by expense efficiencies and lower FDIC charges.

On Credit, net charge-offs were flat as lower charge-offs in Home Lending and Auto were offset by higher charge-offs in Card on loan growth. Charge-off rates were down year-on-year across lending portfolios.

Now turning to page five under Corporate & Investment Bank. CIB reported net income of $3.3 billion and an ROE of 16% on strong revenue performance of nearly $10 billion. For the quarter IB revenues of $1.7 billion was up 10% year-on-year and outside of an accounting nuance, all of advisory, DTM and total IB fees would have been record for our first quarter.

Advisory fees were up 12% in a market that was down, benefiting from a number of larger deals closing this quarter. We ranked Number one in announced dollar volumes and gained nearly a 100 basis points of wallet share.

Debt underwriting fees were up 21%, also outperforming a market that was down, driven by large acquisition financing deals and our continued strong lead-left positions in leverage finance. We maintained our number one rank and gained well over 100 basis points of share.

And Equity underwriting fees were down 23%, but in the market down more as a combination of the government shutdown, uncertainty around Brexit and residual impact from December volatility weighed on issuance activity across the regions in the first quarter. But already in the second quarter we've seen a major recovery in US IPO volumes back to normalized levels and we are benefiting from our leadership in the technology and Healthcare sectors which again dominate the calendar.

Moving to markets, total revenue was $5.5 billion, down 17% reported was down 10% adjusted to the impact of the accounting standards last year that I referred to. Big picture, on a year-on-year we basis we are challenged by a tough comparison. Backlog in the first quarter of '18 was reported, clients were active and we saw broad based strength in performance which a clear record in equity last year.

In contrast this quarter started relatively slowly and overhanging uncertainties kept flying from the slide lines despite and recovered in more favorable environments.

And with that in mind I would characterize the results are solid and a little better than we thought at Investor Day just a few weeks ago, largely due to a better second half of March. And for what it's worth so far, the environment in April, sales general constructed but it's too early to draw any conclusion in terms of P&L.

Fixed income markets revenue was down 8% adjusted, driven by lower activity, particularly in rates and in current fees and emerging markets, which normalized following a strong prior year. However we did see relative strengths in credit trading and strong flow, as well as in commodity.

Equities revenue was down 13% adjusted, seeking more to the record prior year quarter and this quarter's performance, which was still generally strong across products. Although it got off to a somewhat slower start, cash in particular nearly matched last year's exceptional results.

Treasury services revenue was $1.1 billion, up 3% year-on-year, benefitting from higher balances and payments volume, being partially offset by deposit margin compression. Security services revenue was a $1 billion, down 4% as organic growth was more than offset by fee and deposit margin compression, lower market levels and the impact of the business exist. Of note, deposit margin in both treasury services and security services is impacted by funding basis compression rather than client basis and at the firm wide level there is an offset.

Finally, expense of $5.5 billion was down 4% driven by lower performance based compensation and lower FDIC charges, partially offset by continued investments in the business. The comps and revenue ratio for the quarter was 30%.

Moving to commercial banking on page 6. A strong quarter for the commercial bank with net income of $1.1 billion and an ROE of 19%. Revenue of $2.3 billion was up 8% year-on-year on strong investment banking performance and higher deposit NII. Record Gross IB revenue of over $800 million was up more than 40% year-on-year due to several large transactions, and the pipeline continues to stay robust and active.

Deposit balances were down 5% year-on-year and 1% sequentially, as migration of non-operating deposits to higher yielding alternatives has decelerated and we believe it’s largely behind us. From here we expect deposits to stabilize given the benign rate outlook. Expense of $873 million was up 3% year-on-year as we continue to invest in the business and the banker coverage and in technology.

Loans were up 2% year-on-year and flat sequentially. C&I loans were up 2% or up 5% adjusted for the continued runoff in our tax exempt portfolio. We continue to see solid growth across expansion market and specialized industries. CRE loans were up 1% as competition remained elevated and we continued to maintained discipline given where we are in the cycle. Finally credit costs of $90 million was predominantly driven by higher reserves from select client downgrades and net charge offs were only 2 basis points on strong underline performance.

Before we go on, I want to address the perceived seat gap between our reported C&I growth statistics and those that we all see in the fed weekly data. If we look across all of our hotel business, we also show strong growth year-on-year at about 8%, but there are three comments I would make; the first is that there can be reasonable noise in the fed weekly data; second, CIB is a big contributor for us, and CIB loan growth this quarter was supported by robust acquisition financing and higher market loans. And third, as previously noted, the definition of C&I for the Feds does not include our tax reform portfolio, which has seen significant year-on-year declines given tax reforms.

So while it’s true that the Fed base was showing strong growth year-on-year and apples-to-apples ROE, in the domain stream middle market lending phase we are seeing good, mid-single digit demand in line with our expectation.

Moving on to assets and Wealth Management on page seven. Assets and Wealth Management reported net income of $661 million with a pretax margin of 24% and an ROE of 25%. Revenue of $3.5 billion for the quarter was flat year-on-year as lower management fees on average market levels, as well as lower growth brokerage activity were offset by higher investment valuation gains.

Expense of $2.6 billion was up 3% year-on-year but continued investment in our business, as well other headcount related expenses were partially offset by lower external fees. For the quarter we saw net long-term inflows of $10 billion with strength in fixed income, partially offset by outflows from other asset classes. Additionally we have net liquidity outflows of $5 billion.

AUM of $2.1 trillion and overall client assets of $2.9 trillion were both records of 4% driven by cumulative net inflows into liquidity and long term products and with third quarter market performance nearly offsetting fourth quarter declines.

Deposits were up 4% sequentially on seasonality and down 4% year-on-year, reflecting continued migration into investments, although decelerating as we continue to capture the vast majority of inflows. Finally we had record loan balances up 10% with strength in both wholesale and mortgage lending.

Moving to page eight in corporate. Corporate reported a net income of $251 million with net revenue of $425 million, compared to a net loss of over $200 million last year. The increase was driven by higher NII on higher rates, as well as cash deploying opportunities in the treasury. And recall last year we had nearly $250 million of net losses on security sales relative to a small net gain this quarter. Expenses of $211 million is up year-on-year and includes the contributions to the foundation of $100 million this quarter.

Concluding on page nine, to wrap up this is a sort of quarter that really showcases the strengths of the firms operating model, benefiting from diversification and scale and our consistent investment agenda. We delivered record revenue and net income in a clean first quarter performance despite some hangover from the fourth quarter.

Underlying drives across our businesses continue to propel us forward and in March and coming into April the economic backdrop feels increasingly constructed, client sentiment has recovered and recent global data shows encouraging momentum.

Deposits grew is only six weeks behind us, so our guidance for the full hasn't changed. We do remain well positioned and optimistic about the firm's performance.

With that operator, we'll take questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Your first question comes from a line of John McDonald with Autonomous.

John McDonald

Hi, good morning. Marianne you had good expense control this quarter and your Jamie's letter you show goals of improving the efficiency ratio on each of the main business units for the next few years. Just kind of wondering what's driving that? Is there any kind of cresting of investment spend that's going to occur in 2020 or is this just kind of positive operating leverage carrying through.

Marianne Lake

Hey John. So I would say just big picture it’s a combination of both obviously. We told at Investor Day about the fact that you know we're always going to make the net investment, the net incremental investment decision base based on its own merits, but in total with the amount we’re spending now and the amount of dollars that rolled off every year that get repositioned for investment.

We feel like we should see our net investment spend reach a reasonable plateau over the course of the next several years and so that is positive. Obviously a lot of the investments that we've been making in technology you know are also not only to do with customer service and risk management and revenue generation, but that also has to do with operating efficiency and we would also expect to start to see some of that drive, you know operating leverage. But it’s also the case that we are looking for revenue growth, so it’s a combination of both.

John McDonald

Okay, and then just on the NII outlook, it's reassuring to be able to hold the Investor Day outlook of the $58 billion for this year even though your curves flattened, there was some concerns there. What are the dynamics that enable you to keep the guidance even with the change in curve that we are seeing?

Marianne Lake

Yeah, so I mean the first I would say is that you know, we probably said it before and we’ve seen these periods where you get kind of short term fluctuations in the curve is that, it’s a big dangerous to chase it up and down every month or so. And so in the big picture we said, you know $58 billion plus. Yes, it’s true that a persistence that the curve would have a small net drag on Carry and we are not immune to that. So there is a little bit of pressure as a result of that, if it is persistent at this level throughout the year, but you know we continue to grow our loans and our deposits and against that, there is a mixed bag of lower for longer.

So while we may not have a tailwind of higher rates, we also may not have the same kinds of pressures that we would see on you know basis necessarily and while now longer and the rates maybe a net small drag in the short term on earnings, that's a credit on the balance sheet and you could argue a patient FED and lower rates for longer may elongate the cycle. So net-net there are pluses and minuses. I would say there may be some pressure and as a results that if it's persistent, but its modest.

Operator

Your next question comes from a line of Mike Mayo with Wells Fargo.

Mike Mayo

Hi! You mentioned consumer deposit growth is outperforming where you get average consumer deposits up over $20 billion year-over-year, so those are the numbers. I just – I was hoping for a little bit more on the why, and to what degree does that reflect your build out of branches, how is that deposit growth going, how much of this is related to digital banking and then how much would be due to simply a perception that you have superior strength, I know that came up during the CEO hearing, the IMS study saying that you get a benefit due to a perception of being too big to fail? Thank.

Marianne Lake

Yeah, so look I will say there's lots of different opportunities for people to get ensured deposits. So you know, we'll come back to the other point, but all of that plays a piece. So you record that we build a large number of branches following the financial crisis as we densified our position in new markets being California and Florida and Nevada and the like and so we do have a decent portion of our branches that are still in their maturation phase and so we are definitely seeing you know some growth in deposits there.

By also firmly believing we talked about it many, many times that we've been investing you know consistently over the last decade in customer experience, customer satisfaction in our consumer bank is at an all-time high and continues to increase consecutively. Digital products, new products and services, value propositions to our customers, convenience, new market, all of which I think are you know increasingly important to our customers, as well as obviously you know not a number of other factors.

So you know to me it's a combination of all of the above and less so you know at this point of perception of a flight to quality, the people have a lot of choices.

Year-over-year I would say you know we are see deposit growth grow exactly in line with our expectations, but this year the slowdowns speaks a little bit more as far as we can see to higher consumer spend and are little bit less to do with deposit flows out to rate-seeking alternatives. So customers are voting with their business, they are brining deposits to us and I think it speaks to a combination of the investments we are making and also including any branches.

Mike Mayo

So how much in that deposit growth is due to digital banking? Can you quantify that or give us a ballpark figure?

Marianne Lake

Well I can tell you that – and so it's not just about deposit growth as well remember. It's also about investment assets and we talked about our digital offerings providing headwinds there. So I don't have a breakout for you; we can follow up. You know it deepens at our branch, both you know the reason why we continue to believe in a fiscal and digital you know combined channel presence, both are important, but we can get back too.

Operator

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

Glenn Schorr

Hi, thanks very much. On sec services I heard you loud and clear about the funding basis compression being part of the answer on rev's down. Could you talk about the business exit? I wasn't aware that and how big that is and then flip to the better side, you also did mention that organic growth. We haven't heard too much since the big trillion dollar win, but I know there is stuff going on underneath the covers. Talk about what type of business you are winning there?

Marianne Lake

Yeah. So on the business aspect, this is you know – it's sort of a feature of always talking about year-over-year. To me this feels like really old news. It was a U.S broker-dealer exit that we talked about many quarters ago, but obviously we are still on a year-over-year basis for another couple of quarters going to see the impact of that on our revenues. It's about just over $20 million year on year revenues negative impact, but it's you know relatively speaking old news in terms of the exit that took place last year.

Lower market levels were about an equivalent drag on the revenues. And then we are seeing solid underlying growth, but this is a very competitive environment and as we are growing our asset from – you know our custody asset and as we are growing and winning new mandate, these are under competitive pressures and it also depends on mix. And so there is a bunch of factors going on.

What we are focused on is so both of these businesses that the long term growth opportunities are very big and the organic growth and the underlying businesses are performing well, and even with these revenue pressures we are focuses on continuing to drive efficiencies and these are good ROE businesses, you know above mid-teens.

I'm sorry, can I just make one more comment? I didn't say this on the digital space, but you know I think it's important as we think going forward that you know as we think not just about our digital assets, the digital account openings and that is being a feature of how we are attracting new accounts 25% of checking production, 40% of savings production, now able to be open digitally. So increasingly digital will be a driver, but we will get back to you with that.

Glenn Schorr

Marianne, just one quick qualifier on the seven hour marathon the other day in DC. Besides finding out Jamie's a capitalist, that's shocking news, one of the risks that I think that the group talked about was in the private credit markets and non-bank lending and I just wanted to get a little qualifier of that – I'm pretty sure you didn't mean the exposure JP Morgan has to those, it's just more risk being taken, but if you can just expand on that, that would be helpful.

Marianne Lake

Yeah and for sure, the comment is more about the overall risk in the environment and not about our risk to you know those sectors and our risks are all the things that we've always told you about which are relatively modest, relatively senior, well secured, well diversified. We look at you know losses under a variety of such scenarios are manageable.

The comments are really about the percentage of leverage lending or the percentage of some of our businesses that have now been taken outside of the banking market, and while you know we wouldn't say necessarily that that's systemic, being not systemic and suggesting that there won't be problems are two different things. Not all non-banks are situated similarly, so there are some healthy fighting, well-capitalized, well and responsibly run companies, and there are some others who may not be standing at the end of another downturn.

So the real question for all of this business that has migrated outside of banks, is you know how much of it will be unable to be rolled over, refinanced on the same terms and with the same prices as it is now? So it's not about us, but it's about understanding that we would want to be able to be there to support and intermediate within these markets going forward. But for a variety of reasons whether it's structured, whether it's capital liquidity pricing, that may not be as easy as it sounds in a downturn for portions of that market.

Jamie Dimon

Yeah, so can I just take the big numbers, put those rolling, so obviously regulators keep an eye on it, and we are not particularly worried about it, but just to give you some facts. The banks – there’s a $2.3 trillion. The banks have generally the senior piece or the A piece of about $800 billion or $900 billion.

Then institutional investors, some of them are quite right. You know these are life insurance companies, funds, etcetera, owned BPs about $900 billion, and there's $500 billion what they call direct, and think of these as large funds. For the most part large funds, some are very capable, very bright, they have long-term capital.

In the institutional piece that I mentioned, a lot of them are CLOs. I know that people are worried about that, but if you actually look at the CLOs, there’s more equity in those CLOs, they are more funded and both the direct piece and the CLO piece is more capital, permanent capital, so the system is okay. It's just getting bigger as more outside and regulated judgment. It should be something that should be watched, but it's not a systemic issue at this point.

Operator

The next question comes from the line of Betsy Graseck with Morgan Stanley.

Betsy Graseck

Hi, good morning.

Marianne Lake

Good morning.

Betsy Graseck

I had a question for Jamie. Jamie, in the shareholder letter, you mentioned because of some significant issues around mortgage that you are intensely reviewing your role in origination servicing and holding mortgages, and the odds are increasing that we will need to materially change our mortgage strategy going forward. Could you give us some color and context for that statement and what kind of things you're thinking about there?

Jamie Dimon

Yeah. So if you look at the business, I mean it is just costly. You have 3,000 federal and state origination and servicing requirements; it is litigious. Just look at history, you can see that, and it's becoming a huge -- non-banks are becoming competitors, and they don't have the same regulations, the same requirements in the servicing or production. So you're having that issue of servicing itself is a hard asset.

So we just, we just want to – we know it's an important thing for a bank. We also want – and also we standardized capital since a lot of banks are constrained by generalized capital; it's just a capital pod. Far more than it should be, if you look at it relative to the real risk embedded in holding mortgages.

So we just want to have our eyes open, look at that, go through every piece, and structure it in a way that we're very happy going forward. We don't mind the volatility; we don't mind staying in the business, but you got to look at that and ask a lot of questions about whether banks should even be in it.

Betsy Graseck

Okay. And then, separate topic, but just a question I wanted to ask because I got a couple of questions on it yesterday. The whole group of CEOs was asked, who do you think could succeed you? Would a woman or would a person of color succeed you? And I don't think you raised your hand. I just wanted to understand why and just hear from you, you know why you answered the question that way?

Jamie Dimon

Yeah. So what I should have said is that we don't comment on or speculation on succession plan. That's a Board level issue. It's not something you do in Congress, where you play your hand out in Congress. But also I was confused by the question likely without a timetable. So we have exceptional women, and my successor may very well be a woman or it may not and it really depends on the circumstance of time, and it might be different if it's one year from now versus five years from now, so that's all that was.

I think a bunch of people were kind of confused and saying what you would likely mean was stuff like that. So I mean still go and work in other several people on the operating committee who can succeed me.

Betsy Graseck

Thanks, I appreciate that. That's the answer I expected you we're going to give, but wanted to hear it from you, so I appreciate that. Thanks.

Jamie Dimon

You're welcome.

Operator

Your next question comes from the line of Steven Chubak with Wolfe Research.

Steven Chubak

Hi. I just wanted to follow-up on the remarks on the mortgage business. We did see a healthy decline in resi mortgage loans and Marianne, I know you spoke at Investor Day of the balance sheet optimization strategy which could drive more growth in securities versus loans. I'm wondering, is that what's really driving the slowdown that we saw in resi loan growth and maybe more broadly how we should think about core loan growth or a sustainable pace of core loan growth in 2019?

Marianne Lake

Yeah. So mortgages in 2018-2019 are the epicenter of it, for mortgage. So the market itself is more year-on-year. It's about 15% smaller, because notwithstanding all of the discussion about lower rates and still higher year-on-year than they were this time last year. So that obviously is having an impact and as we've been -- and we're down similarly.

So we've added about $6 billion of core mortgage loans to our portfolios. But against that, as you saw last year, we did a number of loan sales and we did another sale again in the first quarter and that speaks to optimizing the balance sheet. We're trying to take loans off of our balance sheet, core loans of our balance sheet, and sell them if we can reinvest in agency MBS and non-resi assets that has better capital liquidity characteristics.

So it's going to be a little bit harder to look at the trend. You're going to need to look at things grow. So we are originating high quality loans. We are adding a number of loans to our portfolio; we're distributing based on better execution as that would go, but we will continue to optimize our balance sheet.

Steven Chubak

Very helpful, and just a follow-up for me on CCAR. The Fed released a document recently highlighting the changes to the loss models this year, including some higher Card and Auto losses in the upcoming exam. I'm just wondering, how does that inform the way you're thinking about capital return capacity. And are you still confident in that sustainability of 75% to 100% net payout as well as the 11% to 12% CET1 target?

Marianne Lake

Yeah. So I didn't hear the second part of the question on losses, which losses were up this year that you were mentioning, but here is what I would say.

Steven Chubak

The Card and Auto losses.

Marianne Lake

Yeah. So I applaud transparency for sure and we love to be able to get more detail as we think about the way that the Fed model losses for our portfolios. And we've been observing that over time. Necessarily, it's the case that the Federal Reserve models are typically less granular and less tied to our specific risks necessarily, because they are industry wide.

Net-net, it doesn't change our point of view that as we're at 12.1% CET1 right now, so arguably little bit above the high end of our range and continuing to grow earnings that we ought to be able to distribute a significant portion of earnings, but we always invest in our businesses first.

So, we are growing our businesses responsibly. Every time we're adding branches, we're adding customers, we're adding advisors across our businesses. But to the degree that we have excess earnings, we'll continue to distribute them and the ranges that we gave you at the end of February, nothing changed.

Operator

The next question comes from the line of Brian Kleinhanzl with KBW.

Brian Kleinhanzl

Hi. Good morning, Marianne. A quick question – I know you mentioned that the increase in NPLs within Wholesale was again idiosyncratic, but last quarter there was also an increase and it was five credits last quarter. Is there a way you can give more color as to the specific drivers in there? I know you said in the past that you expect to normalize that you're off a low base. I got that, but I mean just a little bit of additional color perhaps?

Marianne Lake

Yeah. So, the color is there is really no color, which is to say if you were to go back over the course of the last eight quarters and take oil, gas, energy releases out, you would've seen you know quarters where reserve builds were close to home and other quarters where there are $100 million in between. So there's always been the propensity for there to be one or two or three or four downgrades.

The thing we look for is whether or not as we look at the portfolio of facilities we have, whether we're seeing pressure on corporate margins and free cash flow, and whether we're seeing that broadly across the sectors and companies we're banking and we're just not.

So, it's not to say that we aren't playing close attention to real estate given where we are in the cycle – it's not to say, we're playing close attention to retail, but the color is there is no real color that these are genuinely a handful of names across a handful of sectors as was true last quarter. And even if you look quarter-over-quarter-over-quarter there's no trend to call out and we have a large wholesale lending portfolio. These are extremely modest in the context of that.

And remember every quarter, like we talk about a few, because it's non-zero, but we downgrade and upgrade hundreds of facilities every quarter, and it's not just downgrades, it's upgrades, and they are approximately of equal measure. So we're looking very carefully at it. I think we understand why people are questioning, concerned, and these are cyclical businesses and the cycle will turn, but we're not seeing it yet.

Brian Kleinhanzl

Okay. And then a separate question in the mortgage banking; it looks like gain on sale margins were at a high point as over the last five years this quarter. Was that something in the market? Something with the rates or was there a one-off impacting that number this quarter?

Marianne Lake

So, you may recall that we did a mortgage loan sale last quarter and realized -- and as geography. In the Home Lending business when we do these mortgage loan sales because we're match funded, net-net there's very little P&L. But last quarter, there was a loss in NIR and an offset in rate funding in NIR, this quarter there's a gain.

So you've got a loss quarter, gain this quarter, both small, but nevertheless that's driving the majority of the production margin going up. But in addition, if you just strip all that noise out, which is not material, but nevertheless significant quarter-over-quarter, we are seeing better revenue margins on better pricing.

Brian Kleinhanzl

Okay. Great, thank you.

Operator

Your next question comes from the line of Gerard Cassidy with RBC.

Gerard Cassidy

Good morning, Marianne.

Marianne Lake

Good morning.

Gerard Cassidy

Can you share with us -- obviously you've got your de novo branching strategy moving forward. And what have you guys discovered and how long does it take for the branches to reach breakeven and then eventually get to your desired return on investment numbers?

Marianne Lake

Yeah. So we're really, really excited to be able to open these branches in these markets and serve more customers across the United States. But when you talk about branches, you are talking about investment for the long-term, and when I say long-term, multiple years, decades. So with respect to the new markets that we're entering, these are extremely nascent investments, the branches, in many cases we haven't even broken ground on.

However that said, early indications, very, very early indications are strongly positive. We're seeing a lot of excitement in the market. We're seeing new accounts in production, a little better than we would have expected at this very early stage.

On the whole, you see branches break even over several years and mature in terms of deposit and investments and relationships closer to 10 years or below that.

Gerard Cassidy

Very good, and then following up on some comments you made at Investor Day, and I believe touched on today about technology spending. If I recall correctly, next year technology spending should be self-funding and stabilized at just about where you are today. When you compare it to the past five years, what has changed with the growth trajectory of technology? Nominal dollars has now kind of stabilized versus what it was like again in the past five years?

Marianne Lake

So, I just want to reiterate something that I want to make sure you guys completely internalize, which is we believe given the level of spend and the continued efficiency we're getting out of each dollar of spend that overall our net investment should be more flat going forward than they have in the past, but we will continue to look at every investment on its own merit.

With that said, we've been growing our technology spend, and in particular we've been growing the portion of it that is invested in changing the bank. And that runs the gamut from platform modernization and cloud to controls and security and customer experience and digital, R&D and the whole lot.

It's a large number, and each year a lot of the dollars that we've been investing roll off and we get the ability to redecision and reinvest them. So, this is not that we're going to be doing anything other than continuing to invest very, very heavily in the agenda, and in particular in the technology agenda. It's just that each year [Audio Gap] and we'll continue to make the right decisions, and we see that being flatter going forward than it has been.

Gerard Cassidy

Thank you.

Marianne Lake

And we're getting more efficient. So in the past the way the technology was delivered was very different, and the more that we're in, our modern virtualized cloud-ready way with new technology, each dollar of technology is more productive.

Gerard Cassidy

Great, thank you.

Operator

Your next question comes from the line of Al Alevizakos with HSBC.

Alevizos Alevizakos

Hi. I've got a quick question and a follow-up basically. My question is on the Treasury Services, year-on-year the growth going from double-digit you just grow to 3% where apparently the volumes remained healthy, but the margins started to deteriorate. I wonder how you feel going into the remaining of 2019, especially given that the trade talks are still ongoing and therefore volumes could actually be a bit more problematic. Do you still believe that we can go back to kind of double-digit growth year-on-year for the remaining quarters?

And my follow-up question is, we talked about change the bank versus run the bank for IT budget. Can you give us a number just to get the indication of how much you're spending on innovation? Thank you.

Marianne Lake

Yes. Okay, so first point on Treasury Services last year revenue growth was in double digits. You're right, this quarter fixed on year-on-year. I mentioned earlier that for both of our wholesale businesses we happen to have basis compression between the funding spreads that we provide to the businesses and pricing declines and so that is just given where rates have moved maybe a headwind this year as the segment results are reported, but for the company it's obviously net zero.

The more important point is that organic growth underlying all of that balances and payments is holding up very well and we do expect that to continue. So you will see margins really compressed on that. It's not speaking to deposit flows, it's not speaking to volumes and it's not speaking to escalating payouts at this point. So we feel good about the underlying organic growth in the business.

With respect to technology spend, you'll recall last year we were kind of 60-40 run the bank, change the bank, and it's more 50-50 this year, so $11.5 billion of spend about half and half.

Alevizos Alevizakos

Thank you very much.

Marianne Lake

Remember, in the change of the bank it runs the whole gamut from platforms and controls to customer experience, digital, data, R&D, so it's the whole spectrum.

Operator

Your next question is from the line of Matt O'Connor with Deutsche Bank.

Matt O'Connor

Good morning. I just wanted to follow up on the net interest income, and it came in a lot better than expected this quarter. Is there anything that's lumpy or one-time that you'd flag? Because if you annualize it, you're already above the full year target of $58 billion plus and obviously there's day count drag this quarter and really just puts and takes with rates and balance sheet growth, but it seems like the guidance is conservative versus where you're at right now.

Marianne Lake

Okay, so we did slightly better in the first quarter, two things driving it. One is small but nevertheless is arguably non-recurring, which is we talked about the fact that overall in the company when we do these loan sales, that net-net there may be a small residual gain or loss that resides in Treasury and it was a small gain in the first quarter in NII, call it $50 million approximately.

And then in addition we talked in the fourth quarter about the fact that we were seeing the opportunity to deploy cash in short duration liquid investments that was high-yielding than IOER, that continued into the first quarter. So we did benefit from that and it may or may not continue, but we're not necessarily expecting that to continue all the way through.

So I would say that day count was a drag. As you look forward with some opportunities, honestly obviously I do see that there is a risk associated with the flat yield curve, not big, but nevertheless net neutral to downward pressure or downward pressure, its long end rates stay lower for longer.

As we don't have the tailwind anymore from higher rates and we continue to process the December rate hike, you could see more rates paid to a little bit more into second quarter, so there are risks and opportunities. We still think it's a decent outlook, but I don't think it's conservative. I think its -- $58 billion is straight down the middle at this point. The trouble with the yield curve is it can fluctuate dramatically over the short-term and we shouldn't over-interpret or over chase it. At this point I think it's a decent estimate and we'll continue to update you.

Matt O'Connor

Okay. And then just on the repositioning of the balance sheet and the approach to adding securities. Are you thinking any differently going forward than maybe you were six weeks ago? You clearly seem more positive on the macro and obviously things can change there, but are you approaching from the balance sheet management a little bit differently, given may be more positive macro outlook?

Marianne Lake

Well, I mean we only spoke to you most recently about six weeks ago. So, the sort of overall answer is, no, not really. We expected at that point that we would have a patient fed. It turns out that all the central banks are pointing to being a little bit more dovish, which couldn't generally be constructive for the environment and for credit risk on the balance sheet.

Obviously the curve being flatter is not sort of a compelling situation to add more duration, but there's natural drift in our balance sheet there. So overall very little, we feel good about the credit. The curve is flat and we'll continue to manage the overall environment and company as we see the economy unfold.

Matt O'Connor

Okay, thank you.

Operator

Your next question comes from the line of Erika Najarian with Bank of America.

Erika Najarian

Yes, hi, good morning. I just wanted to follow-up, Marianne on the comments. In the backdrop for lower rates for longer, could you give us a sense on how you're thinking about your deposit strategy in retail and wholesale? In other words, I know you discussed some dynamics on pricing for the first quarter, but when do you expect competition to taper off and do banks have room to actually lower deposit costs if the rate curve stays this way for a prolonged period of time?

Marianne Lake

So, I'll just put the big contextual answer will always be the same, which is when we think about our strategy around deposits and deposit pricing, it is 100% driven by what we're observing and our consumer behavior than what we're seeing in deposit flows. And so that's the environment that we look at to determine what's happening, and you know you've seen naturally over the course of the last couple of years as rates have been rising that we've seen flows of deposits to higher yielding alternatives, whether it's investments or whether it's more recently in CDs, and that may continue; we'll continue to watch that.

It is our expectation that rates will be relatively stable from here in terms of the short end, and it's the short end that predominantly drives the sort of deposit pricing agenda. So even if the curve is flatter, as long as it's because the front end is stable, I don't necessarily see deposit costs going down, but we're going to continue to watch our customer behaviors and deposit flows and respond accordingly.

Erika Najarian

Thank you. And my follow-up question is, we heard you loud and clear during your prepared remarks that the increase in wholesale non-accruals was idiosyncratic, and I'm wondering as we look at a tick-up in non-accrual loans in the Corporate & Investment Bank for the past two quarters, are we just in the part of the cycle where we're just growing from a low base or should we expect a step-down in the second quarter in non-accruals similar to how we saw last year?

Marianne Lake

There are a couple of situations that we would expect to maybe not be present in the second quarter, but I would say it's a feature more of extremely low base and so from that any movement whether they are up or down, it's somewhat exaggerated. But we would continue to call the credit environment benign.

Erika Najarian

Great, thank you.

Operator

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

Ken Usdin

Thanks. Marianne just if I could ask you, you mentioned that there are some signs that the economy is strengthening, and I wanted to just ask you to – can you split that between just what you're seeing on the consumer side versus the wholesale corporate side in terms of, the spend numbers are obviously still double-digit year-over-year, some others have talked about a little bit of a slowdown, you are just still saying quite good. And then there is this unevenness about just CapEx and spending and corporate side. So just could you just kind of walk us through just where you're seeing pockets of relative strength and improvement?

Marianne Lake

Yeah, I mean I think that as it relates to U.S. and in particular looking at the U.S. consumer, you've got all of jobs more recently, Auto, Housing, spend, all generally encouraging and holding up well and robust and whether it's double-digits or whether it's not, we're continuing to see that - and can see the confidence by the way, which is still very high and has recovered from any sort of hangout from the equity market actions over the four quarters.

So for us, U.S. Consumer has always been strong and confident and even if we're not all-time high and confidence is still very high, and generally the beta is - and even some like housing and also that hasn't necessarily been super strong, is looking encouraging.

And then on the global front, it is a little harder, but as you look at some of the areas that have been struggling a bit, and Europe would be a good example, we would think that in the first quarter sort of transitory factors around social unrest and politics in Brexit, and they seem to be fading a little, business confidence has recovered a little, businesses are still spending on labor, so generally a good side of the underlying confidence notwithstanding any kind of sentiment numbers.

And even there there's job growth, there's wage growth you know helped by dovish monetary policy and general financial conditions having increase and eased. So, I think, generally we feel optimistic across the Consumer and the rest of the sector, albeit it's sort of green shoots on the wholesale buy. So, t's early, but it's what we were expecting to see and so it will continue.

Ken Usdin

Yeah, and one follow-up just on Investment Banking business. You had mentioned that the pipelines look good and obviously we've seen the reopening of the ECM market. Your general outlook just again on that global point about the, bit unevenness between US and global. Just how do you feel about the advisory backdrop and obviously some big deals on the tape again today? But had it been a little bit of an air pocket here partially probably because of the soft fourth quarter, but how is that side of the business you're feeling and sounding from a backlog perspective?

Marianne Lake

Yeah. So, I would say that a couple of things. Obviously there were some deals that moved into the first quarter out of the second half of 2018 and so we did benefit from that.

But just as a general market matter, M&A is still attractive in a low growth environment, albeit a growth environment, investors are still constructive. North America, which is by far the biggest market for M&A is still healthy and so, Europe was a big driver last year and Europe has been a sharp drop off in volumes and wallet and so that may continue, although we have a pretty good position there. So I would say that the pipeline is down, but still M&A is attractive and people are looking for synergistic growth.

Ken Usdin

That makes sense. Thanks very much.

Operator

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

Jim Mitchell

Hey, good morning. Maybe just a follow-up on the NII outlook. I mean I think we've talked about a flat curve. What kind of levers do you have to pull if we were to see what some are speculating. It doesn't sound like you're in that camp, but if you were to get a rate cut, how do you manage that? How do you think the balance sheet reacts and NII reacts to a potential for rate cut over the next 12 months?

Marianne Lake

Right. So the market which is usually more, you know I would say pessimistic, but more in that camp, they are still only expecting and ease at the end of the year, so we are not by the way as you point out. So, I think for 2019's NII outlook, it's not a clear and present danger and there will be a need.

Obviously we have on the way up on rates been over-indexed to total end rates and so clearly if we were to have any, it would have an impact on our NII. If we felt generally that that was the direction that the economy and rates were going in, then it might change our view on how we position the balance sheet. But right now, the fed is on course. Right now that's constructive for corporate deposit margins, constructive for credit, and generally constructive for how we're positioned on the balance sheet.

Jim Mitchell

It's still you like you have room to, I guess, extend duration to kind of protect NII and NIM if that would happen?

Marianne Lake

Yes, yes, we do.

Jim Mitchell

Okay. Alright, thank you very much.

Operator

Your next question comes from the line of Saul Martinez with UBS.

Saul Martinez

Hi, good morning. I wanted to follow-up on Matt's question on sort of idiosyncratic items in the quarter and lumpiness. This is obviously a pretty strong quarter from an earnings standpoint, earnings well ahead of my estimates and consensus, especially in CCB, but there weren't a lot of obvious non-core items really called out.

So Marianne, can you just comment on the sustainability of the results and whether there is some idiosyncratic things that weren't necessarily called out during the call. You mentioned corporate, cash deployment revenues really high relative to historical levels there. So are there any sort of idiosyncratic items that call in the question how sustainable the results are?

Marianne Lake

So first of all just sort of big pic, first of all really high I think is a bit of an overstatement – higher I think is fair. No, not really if there were, you know we would have called them out. There are a few little things, so I'm just going to call out a few of the things that we have mentioned. We contributed $100 million to the foundation this quarter. Net-net legal was a very, very small, but nevertheless positive this quarter, so there's a few little bits and pieces like that.

But if you look at revenue performance, we did a little better across the board than you all were expecting. We did better in IBCs and we gained a lot of share; we did a little better in markets; we did a little better in NII, so we just got a little bit of a wind on our backs sort of phenomenon.

Probably my best answer to you is, as happy as we are with the performance, and we are gaining share and continuing to see our underlying drivers propel us forward and the momentum we got in our businesses, we are not making material changes to our full year outlook.

So we'll still see how markets performed for the year. We do still expect, as Dimon mentioned at Investor Day, that while we feel great about our positioning in investment banking in the first quarter. Coalition is still expecting the wallet to be down between 5% and 10% year-on-year. So, we do expect to gain share to help offset that, but last year was a record.

So we haven't changed our full year guidance at all yet. We'll take this as a very good down payment to that. And if markets are constructive and wallet expands we'll benefit from that, but…

Saul Martinez

Okay. No that's...

Marianne Lake

We're not leading it across and changing everything.

Saul Martinez

That's helpful. I'll change gears a little bit. Any update on distressed capital buffer, what the fed is thinking there and when you think we could see a little bit more details or a little bit more clarity on the proposal?

Marianne Lake

So the best I know, there is a chance, but not necessarily a probability that there could be an SCB proposal for 2020 CCAR. So there's a set of meetings or a meeting that's coming up sometime in the summer that I think might be an important moment. But we continue to work as constructively as we can to help understand the better way to bridge growth capital together with point-in-time capital, but it's complicated.

You know as we said the most important thing is not to issue an SCB proposal, it doesn't deal with the entire landscape of capital and look at it cohesively. So we're talking about GSIB, we're talking about minimums, we're talking about Basel, we're talking about SCB, it's complicated. I'd say there's a chance but not a probability that we might have something in time for 2020 CCAR.

Saul Martinez

Got it. Thanks a lot.

Operator

Your next question comes from the line of Marty Mosby of Vining Sparks.

Marianne Lake

Good morning, Marty.

Marty Mosby

Thanks for taking the questions. Hey, good morning. First I want to ask as going to CCAR, now we're getting into that season again, one of the things that I think has an impact is that, what we had was a significant 30% plus growth in earnings last year. So if you kind of look at the plan for your capital going forward, and you think of holding payout ratios so to say they were just constant, doesn't that kind of presume that you have kind of some wind behind the sales just to increase fairly significantly just off the increase in earnings last year?

Marianne Lake

I mean yes, yes. If you look at payout ratios, obviously it's sort of described as a percentage, then we said over the longer term, we'd expect to payout in a benign environment between 75% and 100%, and analysts have estimates of 90% plus. And obviously as earnings grow, that would be a bigger dollar number.

But again, we'll always calibrate that relative to our opportunity to invest in our businesses and its capacity not a promise. So we'll continue to see how the whole environment unfolds. But you're right, as earnings continue to grow, a strong payout ratio, we're above the top end of our capital range. So we are starting at a robust level, would be a higher dollar number, yes.

Marty Mosby

And then, Jamie, I was just curious. I think one of the issues facing the industry, and just we get pushed from the outside is that the cycle is 10 years old and my thought is that that internal time clock is just off this time. And so if we look at it, I think there's things that you're seeing or Marianne that you see inside the company that probably dispel that the recession is kind of on the horizon. So just wanted to get your comment on that as well? That's my follow-up question. Thanks.

Marianne Lake

Yeah Marty, go ahead Jamie.

Jamie Dimon

Yes, some sort of number that's out that’s there in Australia had growth for 28 years. And just so I'm saying in notional, but you have to have a recession. Now they've had a lot of back winds, there's growth in Asia and stuff like that. But if you look at the American economy, the consumer's in good shape, the balance sheet's in good shape, people are going back to the workforce. Companies have plenty of capital, and capital expenditure is still up year-over-year, little bit less this quarter than last quarter.

Our capital is being retained in the United States. Business confidence and consumer confidence are both rather high and not all-time peaks, rather high. So you can just easily, it can go on for years. There's no law that says it has to stop.

We do make a list, and look at all the other things, geopolitical issues, lower liquidity. So there may be a confluence of events that somehow caused the recession, but it may not be in 2019, 2020, 2021. Obviously at one point though there will probably be something, and yeah I think the bigger short-term risk would be something to go wrong in China, the trade issues in China. So, I just wouldn't account them to having to be a recession in the short run, couple of years.

Marty Mosby

I agree, thanks.

Operator

Question comes from the line of Andrew Lim with Société Générale.

Andrew Lim

Hi, morning. Thanks for taking my questions. So my first question is on the end-of-period loans. So if we look across the board, it looks like there are some contraction there on a quarter-to-quarter basis of about 3% of 4%. And I was just wondering if you saw that as a one quarter issue relating to what happened in 4Q '18 and if you can give some color maybe on the quarters ahead speaking to company CEOs where you secrets reemerging again.

Marianne Lake

Yes. So quarter-on-quarter – and I think I mentioned a couple of these things, but across our businesses for a variety of reasons on an end-of-period basis loans are down. So like stepping through them, the first one I would point out is mortgage, and we just talked about that I think earlier in the call, which is we continue to originate mortgage loans and continue to distribute them on portfolio. We did do a loan sale, which is part of the discussion that we've been having with you about optimizing our balance sheet. We did a sale at the end of the quarter, so that's impacting mortgage loans.

In the CIB and one of the reasons why we call out core loan growth ex-CIB is because we don't consider CIB loans core, it’s because they are just by their nature often times more episodic and lumpy, and so we did see a large funded syndicated loan at the end of last quarter which was fully syndicated into the first quarter.

And then, in our other businesses in Asset & Wealth Management, a bit of seasonality, a few pay-downs in Card seasonality. So it's just sort of combination of factors, but I would say two drivers, CIB and Home Lending, CIB on sort of a large syndication, Home Lending on the loan sale.

Going forward we'll continue to optimize the loan versus security part of our balance sheet as best we can for cash and liquidity purposes. But just underlying core business demand for bank balance sheet lending, you know I look at the middle-market space and say, we're still seeing solid demand. It is in our investment areas and our expansion markets and specialized industries that we're still growing that portion of our loans in the mid-single digits year-on-year.

Andrew Lim

Yes. Great, thanks. So my following question is on.

Marianne Lake

Before you go into, there are going to be other areas where we just won't roll out. I mean in Commercial Real Estate, you see loan growth is much lower; it's very competitive; its prices have come down. We continue to provide financing and funding for our core loans, but we're not going to chase it down and similarly Auto.

Andrew Lim

Sure. Okay, thanks. So my follow-on question is on CLOs. So as some Japanese institutions are big buyers of U.S. highly rated CLOs, but a few weeks ago the Japanese FSA introduced some new rules saying that there had to be 5% risk retention by U.S. issuers in order for the Japanese institutions to buy them. So I'm just wondering if you're seeing yet any change in demand from Japanese institutions and likewise on the other side if there is any change in behavior from U.S. CLO issuers in terms of trying to integrate 5% risk retention.

Marianne Lake

It’s a great question. The answer I'm going to give you is not that I'm aware of at this time, but I'll have to follow up with you. Jamie are you aware? No? Sorry Andrew, we'll come back to you. Not that I'm aware of, but it is a good, but nevertheless quite detailed question.