Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Fourth Quarter and Full Year 2017 Earnings Call. This call is being recorded. [Operator Instructions]. 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. Good morning, everyone. I'm going to take you through the earnings presentation which is available on our website. Please refer to the disclaimer at the back of the presentation. Starting on Page 1, the firm reported net income of $4.2 billion, EPS of $1.07 and a return on tangible common equity of 8% on revenue of $25.5 billion. The impact of the U.S. tax reform is the one significant item we have this quarter. We reported a $2.4 billion reduction to our fourth quarter net income. Excluding this, our performance would have been $6.7 billion of net income, EPS of $1.76 per share with an ROTCE of 13%.

Similar to the last few quarters, our underlying results were quite strong in the fourth quarter, and highlights included, average core loan growth of 6% year-on-year, bringing us to 8% for the full year; and credit performance continued to be very strong; a good holiday season fueled double-digit growth in Card sales and merchant volumes, each up 13%; our client investment assets were up 17%; we maintained our number one rank in global IBCs and we grew share; and we had record net income and revenue in the Commercial Bank and record revenue and AUM in Asset & Wealth Management.

Before I go into our results, let's spend time on tax reform on Page 2. The $2.4 billion impact of tax reform was largely driven by a deemed repatriation of our unremitted overseas earnings as well as an adjustment to the value of our tax-oriented investments, including affordable housing and energy. These were partially offset by a benefit from the revaluation of our net deferred tax liability. The impact is primarily in Corporate, but as you can see, there was some impact to each of the CIB and the Commercial Bank.

The capital impact is $1.2 billion higher at $3.6 billion or about 25 basis points of CET1. And our effective tax rate will be approximately 19% this year and 20% over the near term, think through 2020, after which, it should start to gradually increase as certain business credits are phased out over time.

While there is now enacted bill, and with that, there's more clarity, there are still a number of open implementation as well as accounting questions that will require clarification. And as such, our estimated impact may be refined in future quarters. That said, I know there are a number of important questions which I'll try and get you clarity on.

First, with respect to the deemed repatriations, the operative word for us is deemed. In many ways, you can think of our unremitted overseas earnings as the equivalent of bricks and mortar being required in order to meet local jurisdictional capital and liquidity requirements. So we do not expect to actually remit anything significant.

Second, although the reduction in the corporate tax rate was 14%, you can see that the reduction in our effective tax rate is only about 10%, given the impact of the geographic mix of our taxable income, the disallowance of FDIC fees and smaller benefits associated with tax-exempt income and other deductions as a result of the lower absolute rate.

Moving on to the BEAT tax, this is an area where there do remain open questions. However, at this point, we do not expect to have a BEAT liability. But if we are wrong, we would not expect it to be material.

Next, the question of whether the benefit will be competed away, and if so, over what time line. Pricing strategy will differ across products. It is true that we operate in competitive and transparent markets, and this means that ultimately, you could expect some of the benefit for the industry will be passed through to our customers over time.

Competition is one key driver, but there are other factors, such as scale, expertise, the breadth of your products and services and the investments that you're making in customer experience, and these matter a lot. And for certain of our businesses, pricing is not necessarily directly or immediately driven by fluctuations in the cost of capital, think flow markets. And remember, we didn't get to price up the changes in market structure and capital and liquidity over the last several years. So it will be nuanced, it will be different across products, and time is a very important dimension. Any competitive dynamic will play out over time.

We are in the process of putting together a cohesive and comprehensive set of long-term and sustainable actions for our employees, for customers and communities in part in response to tax reform. Some of our plans may involve subsidies for lower-income borrowers and support for small businesses. And for these customers and for some others, they may feel a benefit sooner.

With respect to our capital plan, there are no immediate changes to note. This won't change our overall strategy, and remember, the first half of 2018 is governed by last year's CCAR.

Finally, on the potential impact to our businesses, the modernization of the U.S. tax code is a significant step forward for the country and a big win for the economy. And we include an estimated 20 to 30 basis points of growth in the U.S. this year and next. However, clients are still digesting the tax bill, and much like this rate cycle, we haven't seen this movie before. We'll have to watch it play out. There will be pluses and minuses by client and pluses and minuses across the products.

So overall, stepping back, tax reform is a positive. And for our clients, there's more certainty, more clarity, and that should give them confidence to act.

Moving now to Page 3, let's get into some details on the fourth quarter results. Revenue of $25.5 billion was up $1.1 billion or 5% year-on-year as net interest income was up $1.3 billion, mainly reflecting the impact of higher rates and continued strong loan and deposit growth, partially offset by lower NII in Markets. Loan interest revenue was down modestly as growth in Auto as well as Asset & Wealth Management partially made up for lower Market performance. Adjusted expense of $14.8 billion was up 9% year-on-year, reflecting higher compensation expense as well as business growth including Auto lease depreciation.

In the fourth quarter, we took an impairment charge of a little over $100 million related to certain leased asset in the Commercial Bank. And we increased our contribution to the foundation, adding $200 million this quarter.

Credit cost of $1.3 billion were up about $450 million year-on-year. Charge-offs were flat, with an increase in Card being offset by continued decreases across other portfolios. And although net reserve builds this quarter were modest, we saw releases in the fourth quarter of last year of approximately $400 million.

Shifting to the full year on Page 4. We reported net income for the year of $24.4 billion, a return on tangible common equity of 12% and EPS of $6.31. Adjusting for the two front-page significant items that we had this year, being tax reform this quarter and the benefit of the WaMu settlement in the second quarter, our net income would've been another record of $26.5 billion with an ROTCE of 13% and EPS of $6.87.

Revenue crossed back over the $100 billion threshold this year which feels good, $104 billion, up 5%, $4.1 billion of which was higher net interest income in line with guidance, benefiting from higher rates and growth, relatively modest deposit repricing, but pressured by lower Market NII. Noninterest revenue was up $400 million with higher Auto lease income as well as higher fees across the Investment Bank; Asset, Wealth Management; and Consumer, adding $2.6 billion to revenues and more than compensating for headwinds in Home Lending on a smaller market, investments in Card and lower Markets.

We ended the year with adjusted expense of $58.5 billion, but as you can see, we made a total contribution to our foundation this year of $350 million in part in anticipation of tax reform. This brings our adjusted overhead ratio to 57% for the year even as we continue to make very significant investments across the franchise. Credit cost for the year were $5.3 billion, down 1% as the environment remains benign.

Moving on to Page 5, balance sheet and capital. We ended the year with CET1 of 12.1%, down almost 40 basis points versus the prior quarter, about 25 basis points of which related to tax adjustments, and the remainder, loan growth. All the other ratios as well as tangible book value per share also reflected a combination of $6.7 billion of capital distributions and the $3.6 billion impact of tax reform.

Moving on to Page 6 on Consumer & Community Banking. CCB generated $2.6 billion of net income and an ROE of 19%. We continued to grow core loans, up 8% year-on-year, driven by Home Lending, up 13%; and Business Banking, Card and Auto loans and leases were each up 6%. Consumer deposit growth was strong, up 7%, and we believe we are maintaining our sizable lead over the market despite an industry-wide slowdown, given rising rates.

Card sales and merchant processing volumes were each up 13%, driven by continued strength from Card new products as well as ongoing momentum in Merchant Services. In December, we completed the acquisition of WePay, which marks a big step for us into the integrated payment space, allowing us to efficiently provide software-enabled payments to small business clients. And we also completed the renegotiation with Marriott for our co-branded cards, which will make us the largest issuer of the largest co-branded hotel program in the world. For all intents and purposes, we've now finished the renewals of our cobranded card deals.

Revenue of $12.1 billion was up 10% year-on-year. Consumer & Business Banking revenue was up 16% on higher NII, driven by continued margin expansion as well as strong average deposit growth. Home Lending revenue was down 15% on lower net servicing revenue driven by MSR as well as loan spread compression. Our originations were down 16% and the Markets down an estimated 25%. And we gained share, a trend we expect to continue, given our investments. And Card, Merchant Services & Auto revenue was up 11% year-on-year on higher Auto lease income, growth in Card loan balances and margins and lower net acquisition costs.

For the full year, Card revenue rate was 10.6%, in line with our guidance, and we still expect to reach 11.25% in the first half of this year. Expense of $6.7 billion was up 6% year-on-year, driven by higher Auto lease depreciation and continued underlying business growth. The overhead ratio was 55% for the quarter, 56% for the year as the business moved past the impact of investments and started generating positive operating leverage in the second half of '17.

Finally, on credit. Card charge-offs came in line with guidance for the year at 2.95%. The increase in Card charge-offs was predominantly offset by preceding credit performance across other portfolios.

In terms of credit reserve, the net $15 million build this quarter was driven by a $200 million build in Card on growth, offset by releases in Home Lending of $150 million and Auto of $35 million. And as I noted last quarter, Auto trends have stabilized and the industry feels to be on solid footing.

Now turning to Page 7 in the Corporate & Investment Bank. CIB reported net income of $2.3 billion on revenue of $7.5 billion and an ROE of 12%. But revenue was impacted by 2 noteworthy items this quarter, and both of them had an impact in Markets, so I'll start with Markets.

Total Markets revenue was $3.4 billion, down 26% year-on-year. However, Fixed Income Markets included the net impact of tax reform on our tax-oriented investments which was approximately $260 million, accounting for 6% of the year-on-year Markets decline. Additionally, Equity Markets included a notable loss of $143 million on a single margin loan. This accounted for 3% of the year-on-year decline. It's worth noting that the loss appears here in Markets as we elected fair value option on this loan. However, when you do industry comparisons, be aware that others involved in this facility may not have made that same election and may have all of their losses in credit. So in addition, although not in Markets revenues, $130 million of credit cost this quarter was driven by a reserve build related to that same name.

So adjusting for those items, our Markets revenue would have been down 17% year-on-year, which is much closer to the experience up to the beginning of December, when we last spoke publicly.

Fixed income revenue was down 27% adjusted, principally driven by a tough prior year comparison and low volatility and tight credit spreads which have continued into this quarter. Equities revenue was up 12% adjusted against the record fourth quarter of '16. And similar to the past few quarters, the driver of the increase was continued tailwinds from investments in cash, prime and corporate derivatives.

Moving on to banking. We had a record year for total fees and for debt underwriting fees. We maintained our number one rank in global IBCs while growing share and we also ranked number one in North America and EMEA. This quarter, IB revenue was $1.6 billion, up 10% year-on-year, driven by broad strength across capital markets.

Advisory fees were up 2% as we saw good momentum with some large deals closing. We ranked number two for the year in wallet, gaining share. And we completed more deals than any other bank.

Equity underwriting fees were up 14%, with indices up across every region and several at or near all-time highs. We maintained leadership positions in wallet and volumes across every product globally this year. And while we ended up number two in wallet, the distance to number one was only a few basis points.

And debt underwriting fees were up 12% as the market remained receptive to new issuance across high-grade and leveraged finance and refinancing activity was strong. We maintained our number one rank. We gained share, and this year, booked around the most number of deals in the firm's history. The overall pipeline remains healthy and at levels similar to last year. Our balance sheets are strong and market conditions favorable.

Treasury Services revenue of $1.1 billion was up 13%. In addition to higher rates, we continued to see organic growth within the business as the investments we've made over the past several years have improved our clients' experience across the platform.

Security Services revenues of $1 billion was up 14%, driven by rates and balances, with average deposits up 12% year-on-year, and higher asset-based fees on record AUC, given higher market levels globally.

Finally, expense of $4.5 billion was up 8% year-on-year, driven by the relative timing of compensation accruals. The comp-to-revenue ratio for the quarter was 27%; for the year, 28%, broadly in line with prior year.

Moving to Commercial Banking on Page 8. I was another outstanding quarter for the Commercial Bank, with record net income of $957 million, record revenue of $2.4 billion and an ROE of 18%. And for the year, net income and revenue were also records. The business is firing on all cylinders and delivered an ROE of 17%.

For the quarter, revenue included a benefit of a little over $100 million associated with tax reform and in our Community Development Banking business. Even without this benefit, revenue would still be a record, up 14% year-on-year, on higher NII from higher rates as well as deposit and loan growth across businesses.

IB revenue of $587 million was down 3% year-on-year, but still a strong performance. For the full year, we saw record IB revenue of $2.3 billion, up 2%, with particular strength in middle market, which was up over 50%, compensating for a smaller number of large deals. The pipeline and momentum into the first quarter feels good.

Expense of $912 million included an impairment charge, also, of a little over $100 million on certain leased equipment which we expect to sell in the first half of this year. Excluding this, we saw got expense growth of 9% as we executed on our technology and product investments. And this year, we added net 120 new bankers in the business and entered six new markets, giving us a presence in all top 50 MSAs.

Loan balances were up 7% year-on-year, 1% quarter-on-quarter. C&I loans were up 6% year-on-year, driven by continued strength in expansion market and specialized industries. While sequential growth was up a more modest 1%, we are seeing decent deal flow and pipelines are holding steady. Client sentiment continues to be strong, supported by corporate tax reform.

CRE saw growth of 9% year-on-year and 1% quarter-on-quarter, in line with the industry. Multifamily lending continued to see tightened pricing on elevated competition. We remain appropriately focused on client selection, given where we are in the cycle and with particular caution around construction lending.

Finally, credit remains among the best we've seen. This quarter, we saw a benefit of $62 million, largely driven by reserve releases in the Oil & Gas portfolio. And net charge-offs were four basis points.

Leaving the Commercial Bank and moving on to Asset, Wealth Management on Page 9. Asset & Wealth Management reported net income of $654 million with a pretax margin of 30% and an ROE of 28%. Revenue was a record $3.4 billion this quarter, driven by higher management fees on growth in AUM as well as higher NII on deposits and loans. For the full year, net income and revenue were records with a pretax margin of 28% and an ROE of 25%. Expense for the quarter of $2.3 billion was up 8% year-on-year, driven by a combination of higher compensation as well as a gross up for external fees which is offset in revenue.

For the quarter, we saw long-term net inflows of $30 billion with positive flows across all asset classes on continued strong long-term performance. For the full year, we had long-term net inflows of $68 billion, driven predominantly by fixed income, multi-asset and alternatives.

Record AUM of $2 trillion and overall client assets of $2.8 trillion were up 15% and 14%, respectively, year-on-year, reflecting higher market levels globally as well as net inflows. Deposits were down 10% year-on-year, down 2% sequentially, reflecting continued migration into investment-related assets, the vast majority of which we are retaining. And new client flows remain healthy. Finally, we had record loan balances, up 11% year-on-year; including mortgage, up 14%.

Moving to Page 10 and Corporate. Corporate reported a net loss of $2.3 billion, which includes $2.7 billion of the tax reform adjustment. Treasury & CIO's results improved year-on-year, primarily due to the benefit of higher rates.

So finally turning to Page 11 and the outlook. Before I get to specifics, remember, we do have Investor Day coming up in February, so we will be giving you a lot more guidance there. So that leaves me with two structural things to talk about, the first, staying on the theme of tax reform. And lower corporate tax rate in 2018 will have the effect of reducing the tax equivalent adjustments or gross ups in our managed revenues. On a run rate basis, that reduction for the full year will be about $1.2 billion, and more than half of that is in the NII.

Secondly, effective January 1, 2018, a new revenue recognition accounting rule came into effect, which requires certain expenses to be grossed up that were previously recognized as contra expense -- contra revenue. We estimate, for the full year, the impact will increase both revenues and expenses for the firm by another $1.2 billion, the vast majority of which will be in Asset, Wealth Management with a small amount in the CIB.

So for guidance, expect the first quarter NII will be down modestly quarter-on-quarter, reflecting a combination of the lower gross ups I mentioned as well as normal day count which offset the benefits of higher rates and growth. And we estimate the first quarter effective tax rate will be about 17%, reflecting seasonality of stock comp adjustments.

So to wrap up, the end of 2017 was constructive, characterized by strong equity markets; higher interest rates; good economic data globally; decent client activity; high levels of confidence; and, obviously, the enactment of the Tax Cuts and Jobs Act. Against that backdrop, our underlying financial performance in the fourth quarter and 2017 was strong, benefiting from diversification and scale and consistently delivering for our customers and communities, gaining share across our businesses.

Adjusting for significant items in the year, net income and EPS would have been clear records, driving a healthy 13% return on tangible common equity. We're excited about the landscape and the opportunities for our clients in 2018. We will be there for them, and the company is poised to continue to perform.

With that, operator, I will take questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question comes from Erika Najarian of Bank of America.

Erika Najarian

So I do expect you to defer either the response to February 27th, Marianne, but I just had to ask the question. The revenue outlook seems to be quite strong for the banking industry generally in 2018, and many investors were wondering, is the 55% overhead ratio a long-term target for JPMorgan, regardless of the revenue environment? Or could that potentially be better over the short term as we get a boost in the economy from the Tax Act?

Marianne Lake

So I mean, you are right. that's probably more of an Investor Day discussion. But what I would tell you is that when we have given that as our sort of medium-term guidance, in our simulation, we kind of imagined an environment that was more normalized in lots of ways. So we anticipated higher -- more normal interest rates, we anticipated the continuation of somewhat benign credit and we anticipated continuing to invest in the businesses. And you've seen us do it in 2017, and we would expect to do it and more in '18. So certainly, there could be years when we would be below it, and there have been years when we were above it, but I think it's still a decent place for us to be aiming for in the near term.

Erika Najarian

And my follow-up question to that is a lot of investors are excited about the prospect of stronger economic activity in 2018 leading to greater markets activity and greater lending activity. And if you look back into the 1980s, at least for loan growth, loan growth actually stepped down in 1987. And I'm wondering if you could share your insights on how you think those activity trends will shape up in 2018.

Marianne Lake

Yes. So I know that everybody is eagerly awaiting there to be direct and noticeable impacts of tax reform, but we're only a couple of weeks into the year. And so our expectation, as I said before, just really stepping back, is that there it will boost growth in the economy. People have different points of view. Our research team is saying by up to 30 basis points in each of the next two years. But know it could be better than that. We do know that there will be puts and takes across our businesses, but in general, we would expect that the sort of certainty that people have been waiting for, coupled with the confidence that we know they've had, and the need for people to try and deliver growth to their shareholders, should mean that things that they were going to do become more compelling and they might be willing to do more. So I think you'll see the capital markets space potentially react more quickly and I think loan growth may have a bit of a lag, but never say never.

So we just need to, I think, be a little patient to see some of that play out. But sentiment is strong. Cash positions will be improved, profitability will be higher, things that were rich before will be more fairly valued now. And so I think it should be all very constructive. And certainly, we would take the upside, and we support our clients.

Operator

Our next question comes from Jim Mitchell of Buckingham Research.

James Mitchell

Maybe a question on NII, just I want to make sure I understand the moving parts. So if I think about your guidance for the first quarter of down slightly. You have two less days in the quarter, that's maybe almost $300 million sequentially. And then half of the impact from the Tax Act in terms of tax equivalent adjustments is going to be felt in NIIs, that's sort of linear and equal, so that's another $150 million. So if I do the math, is it about a $400 million sort of apples-to-apples benefit from higher rates that you've seen? Is that the way to think about it?

Marianne Lake

It's a good model with just one clarification. So yes, a little more than half of the gross-up adjustment is NII. Yes, it is broadly linear for the sake of argument. So $150 million is not a bad estimate, it's actually more like $160 million, but pretty close. The day count is actually not worth $300 million, it's worth a little bit less than $200 million. So you've got a sort of headwind, for want of a better word, of call it $300 million and change. And then we would have had a combination of the impact of the December hike, with obviously each hike, the impact is less, some growth and other puts and takes. So call it $350 million of a headwind offsetting growth, and the rate hike.

James Mitchell

Right. And just to follow up on -- it seemed like deposit betas actually slowed this quarter. And what do -- you're expecting that to sort of reaccelerate this year. How do we think about, I guess, beyond 1Q in the benefits of rates?

Marianne Lake

So I would say about deposit betas, at this point, you really do have to think about it in a sort of bifurcated way. So firstly, I would say that the cumulative beta we've experienced, and I wouldn't say we've seen it slow down, but it's remained discipline generally. What we've seen so far in the rate cycle is very similar to what we saw in previous rate cycles. So it's not like we learned stunning new news from which we can extrapolate and make changes to our expectations. So we have no real change in the long-term expectations to reprice. And it really is a bit point -- bifurcated. So retail, checking and core savings, there have been little to no movement in the industry. Again, given the absolute level of rates, that would be in line with our expectations. And on the wholesale space, we're definitely in reprice territory. It is accelerating with every hike and it's different across the spectrum. So obviously, more significant in the sort of TS, Securities Services space. So -- but my expectation, just given where we are in the absolute level of rates is that on the retail space, we would still see a lot of discipline in the market in 2018. But ultimately, we haven't changed our expectations that whatever that time line looks like, we're going to get to an overall reprice of above 50%, but we'll have to see.

Operator

Our next question is from Betsy Graseck of Morgan Stanley.

Betsy Graseck

Sorry, I was on mute. It feels like we have a once in a lifetime, or at least in my lifetime, benefit to earnings with this tax change. And we've got a lot of PMs asking the question how our management's going to use that. I saw your comment in the deck that competitive over time, compete away, blah,

blah, blah. But I wonder if you could help give us some insight as to how, at a management level, you're thinking about strategically using this benefit that you're getting in the various buckets of reinvest in tech, reinvest in people, reinvest in clients. Do you feel like it's equal across those? Or is there a skew that you're thinking about to take advantage of this? Because how managements use this benefit is going to be critical for stock performance over the next 2 to 3 years.

Marianne Lake

Yes. So I mean, I'll give you a framework to think about it, if it's helpful. And you can certainly ask a follow-up question. But you are very familiar with the way that we think about sort of our strategy over time and our investment strategy in particular. And investing in our businesses for growth and profitability has always been first and foremost in our minds. And to be honest, we've talked to you before about the fact that we don't constrain ourselves because we have budgetary targets on those activities if we think we can execute well and we see great opportunity. So expect that the first thing that we would do is to continue to lean into the investment opportunities we have writ large. So that's bankers, that's offices, that's global expansion to the degree that that's on the cards. It's digital capabilities, copayments capabilities. It's across all of our businesses. And we've been working even before tax reform on identifying where those opportunities are, and we want to lean into that.

And Jamie said it earlier, we are really pleased that there are some immediate responses for employee benefits. And we will be doing that plus more across our stakeholder constituents. And there will be more to come on that over the next few weeks. And we want to focus on that being, like, comprehensive and sustainable. So we're really trying to be thoughtful about the things that will matter to our employees and to our customers. And then to the degree that we end up still with earnings that were otherwise above plan, then our normal capital strategy comes into play. We've been clear. We think that we are adequately capitalized, that we should expect to have the capital ratio move down slowly over time. And our strategy on potentially continuing to see dividend increases and having repurchase programs that allow us to achieve our target ratio, that hasn't changed. It just might be a bigger dollar number.

Operator

Our next question comes from Ken Usdin of Jefferies.

Kenneth Usdin

Just to move to, I guess, a business question. A couple of things just on the Card business. Just looked like credit continues to be pretty good. You did build the reserve for growth, as you mentioned. But noticed that the Card revenue rate was also still a little bit down. Can you just talk a little bit about your outlook for that Card business as you look forward?

Marianne Lake

Yes. So I'll just deal with the Card revenue rate real quick because I think we sort of gave a little bit of this in the third quarter, that given the Sapphire Reserve product and given the extraordinary success we had with that in the fourth quarter of 2016, there is an annual travel credit renewal that took place in the fourth quarter, which we already told you, which you would expect to see the revenue rate go down. It was contemplated, and which is why our full year revenue rate of 10.6% was in line with our guidance. And as we lap the acquisition costs and reward costs associated with acquiring all of those Sapphire Reserve customers, and for that matter, our other new products, we're going to see that revenue rate get to the 11.25%, if not in the first quarter, in the first half of next year. And you're going to stabilize out at or above that level.

Kenneth Usdin

Okay. And just that's great to hear, that impact. And then just consumer credit, broadly speaking, Auto has continued to look a little bit better and Card's still within reasonable expectations. So a lot of the focus on tax has obviously been on the potential for commercial lending to potentially pick up. How are you guys just thinking about how the consumer behaves and what that means for both consumer loan growth and consumer credit?

Marianne Lake

Yes. So again, it's nuanced, so what I expect though, the first question generally that we're getting is the impact on the housing market given certain specific changes in the tax code. I would say that overall, net-net, we would expect there to be not a significant impact on the housing market and demand nationally, although it could differ by state. So we feel like that's going to hold up nicely. And then you're right. Whether you're talking about consumers or whether you're talking about small businesses, think about the small business environment, this was quite positive for them, so they're going to see higher profitability, higher free cash flow, and to all intents and purposes, the equivalent of an upgrade. So we would be hopeful that, much like the commercial space, that could be the catalyst to see them spend money and hire. And we'll be focusing on that as we think about programs to help. So I think in general, it's going to mean that the already very good credit trends we're seeing will be good for longer.

Operator

Our next question comes from Glenn Schorr of Evercore ISI.

Glenn Schorr

So first question on fixed income. And I guess the question is if not now, when? I mean, the industry's gone down, had this multi-multi-year degraded in revenues for lots of structural and cyclical reasons. We now have -- we're off QE in the U.S., we're raising rates in the U.S. Europe's doing better. They are still on QE and have low to negative rates, but we might get some changes there. Can you talk about your best guesses in terms of the backdrop for this environment for such an important revenue item?

Marianne Lake

Sure. So Glenn, because I feel like in 2017, we spent so much time talking about year-over-year declines in comparable periods, it's helpful to, I think, that back -- remember the full performance for 2017 for fixed income and for equities and to markets in total. And so acknowledging that the first quarter was quite strong, if you look at the last three quarters, we were talking about reasonably quiet environment, low volatility, historically tight spreads. And yet, those businesses individually and together delivered meaningfully above the cost of capital for us. So maybe not at the sort of outperformance level of 2016, but really good performance. So discipline, scale, optionality, those are the ways we think about fixed income business. And so although I don't -- I'm not going to -- I don't have a crystal ball, I can't tell you when there will be a catalyst for change. Fixed income is a little on the counter-cyclical side. There will be change. And we're positioned to continue to be able to grow with our clients. So our businesses are doing well. And can't tell you when things will become more volatile. And obviously, that's always an emotional discussion. But it will happen. And when it does, we will be there to serve our clients and to be there for them.

Glenn Schorr

I appreciate that. Follow-up is on Steinhoff. And I know the -- a, you can't predict fraud. But I'm just curious on that as a business in general, and lots of other banks were involved. But how many other similar types of books are there? And can you talk to the nature of those relationships? Because hindsight's 20/20, and like, wow, that's a lot of leverage to give somebody on a highly active stock. But it's usually just the customer flow, simple in and out facilitation business. So I wonder if you could just talk about it a little bit more.

Marianne Lake

Yes. I mean, this will garner attention because of the sort of sudden and significant decline. And it is by far and away the largest loss in that business that we've seen since the crisis. And know it will happen from time to time, maybe not this significantly or this suddenly. And remember that because we've got that in fair value, we brought that down, down. So that's not a reserve, that's a mark to market on a publicly traded equity at this point that is significantly down. And so I would say while we are obviously disappointed with the outcome, it's the business we're in. It's a large and diversified business, that even after this loss, it's still very profitable. So it's noteworthy because of its size, its rapidity and it's significant. But it's a profitable business. And without sort of laboring the point, obviously, we go through talking about the potential for there to be rifles and sudden-risk situations. And I've talked a little about that in our governance processes. And sometimes, that will happen.

Operator

Our next question comes from Mike Mayo of wells Fargo Security.

Michael Mayo

I just wanted to follow up on the tax question. Jamie says on Page 1 of the release that you'll have an accelerated spend for those tax benefits for employees, customers, communities. And I know you kind of answered that, but so how much of that benefit -- I guess you paid $11 billion in taxes last year and that might have been under $7 billion with the lower rate. So if we assume a $4 billion tax benefit, if that's correct, how much of that would be passed on to the employees, customers and communities versus hitting the bottom line? And then the philosophical question, if Jamie's there, if he could answer after you, should that be crucial for stock performance, how much you allow to fall to the bottom line?

Marianne Lake

Yes. So look, I'm not going to give you, like, quantification, but you're not meaningfully wrong about the sort of assessment you made, which it is a big, significant positive and much of it will fall to our bottom line in 2018 and beyond. And time is an important part to how this plays out. So we want to do really constructive, thoughtful things for all of our constituents, but it won't be the significant portion of that.

James Dimon

Yes. I would just say that we take the $3.5 billion benefit next year. The two major you should in put back of your mind uncertainties, one is the code has to be actually written. And so there'd be a lot of noise going down the road about what that actually means for various industries and stuff like that. And the second area, as spoken by extensively, is competition. Some of it, some will be competed away. So I'm going to -- I'm only telling you because you've got to put it in your mind. I think it's so exuberant that everything, everywhere falls into the bottom line. The second is on our investment. Mary's already spoke that we already are fairly aggressively investing for our future. And in some places, I'm pushing this trade. We can't -- you can only go so fast in hiring new bankers and doing some things, and we may accelerate some of that.

At Investor Day, we'll be quite clear if we change how we look at that kind of thing. And the other one is what are we going to do special to help the United States of America as realty tax change? And we think we should, We think it's very good the other companies have done it. We think it's time that all of America shared broadly. And we're going to have things that we think are good for some employees. But think of also sustainable growth for communities around the world. And so we're going to give you, in the next couple of weeks, some very thoughtful things that we're going to do. And it may very well bite into some of that $3.5 billion, and so be it. That's what we're supposed to do. We're a bank. We're supposed to help support and grow communities. And it will enhance our growth in the future, too, by the way. So it isn't, like, a giveaway, it's kind of a thoughtful flows to how we should use some of this.

Marianne Lake

And I do want to just -- like, there are two other things, just after what Jamie said, which is if some of this is competed away over time and get to lower cost of credit and lower cost of borrowing and improved pricing to our customers and allows them to grow their businesses and spend more strongly, there is a feedback loop. Similarly, if at the end of the day, it results in some higher dividend or repurchases, that also recycles back into the economy. So it was very optimistic for the performance of this company, which is extraordinarily client-centric. So anything that's good for the economy and our clients will continue to drive long-term profitability for the company. That would to be number one. And number two, not to be defensive, but you guys will appreciate this more than anyone almost, is you can do your own math. But if you add up the cost of controlled market structure reform, capital and liquidity, much of which we're entirely supportive of. But if you add up the impact that had on our returns over the last 5 to 10 years, I mean it, in many ways, dwarfs this. So there will be an element of this that goes back into making sure that the banking system is probably covering the cost of equity, and it should.

Michael Mayo

One follow-up on that feedback loop. So you, Marianne or Jamie, a year from now, do you think that the tax code or other factors will result in an increase in capital markets activity, increase in corporate lending and increase in CapEx, which we've been waiting for all decade?

James Dimon

Yes. Again, I think it's really important to note. People focus very much on what happens tomorrow because of tax reform. I think it's a very good thing. You've seen it with corporations, you've seen it with sentiment, you've seen it with people's plans and things like that. I think it's very good. I think the far more important thing is that 20 years ago, our corporate federal estate rate was 40%, the rest of the world was 40%. Over 20 years, they came down to 20% and we stayed at 40%. Over that time, it's driven brains, capital, you see the reinvested money overseas. One of the accounting firms did a study of 5,000 companies that would have been headquartered here, are either headquarter overseas or owned by a foreign company, which I'm not against, it's a huge number. It's the cumulative effect of retained capital and increasing competitive American companies that will drive jobs and ways in the long run. I have absolutely no question that we will be far better off year after year if you're having done this. And it's just impossible to tell exactly what it means this month or this quarter or something like that.

So we're going to be watching, just like you, and waiting just like you. But I hate guessing about the effect, like, on capital markets. I don't know. The fact is we look at capital -- we have fabulous people in sales and trade, fabulous research, great technology capability. In the last five years, we dealt with Dodd-Frank, MiFID, all these rules and regulations, steps, what are the other ones called in Europe, and we've done okay. I look at it as all a big positive. And we'll still be there buying and selling securities for our clients, issuing securities. And yes. I think if we're right about it in improving American competitive growth in the global economy, it will drive just capital markets activity. Let's just wait and see.

Operator

Our next question comes from John McDonald of Bernstein.

John McDonald

Apologies if this is asked. I got cut off for a second. Marianne, was wondering about charge-offs and credit. Things looked good this quarter, for the full year, it came in line with your kind of $5 billion charge-off outlook. Was wondering how you're thinking about the credit environment heading into this year. And if the environment remained strong, do you still have some seasoning that might put some upward pressure on charge-offs, even in a good environment?

Marianne Lake

Yes. So I would say if you look across the consumer sector, x Card, the credit performance is, like, really, really good and should continue to be really good in 2018. So 2018 feels like very strong credit performance in Consumer. In Card, we said at Investor Day, that we would expect to continue to see charge-off rates go up, and we are growing loans. So a combination of those things will mean we'll have higher charge-offs and some reserve builds. I will tell you that we're not seeing anything that isn't in line with our expectation. So this is not normalization deterioration, this is seasoning and maturation of the newer vintages and growth. And so if I sort of sent you back to what we talked about earlier in the year, it's probably closer to 3.25%, but in line with our expectations. So we're expecting very much more of the same in the consumer space. And in the wholesale space, credit is really, really good. And some of the places where we had been watching for there to potentially be stress, fundamentals are improved. And we continue to obviously watch retail and to be cautious, given where we are on certain parts of real estate banking. But we're not seeing any fragility right now in our outlook.

John McDonald

Okay. And then just a follow-up on Card. You've had some good balance growth. Are you seeing any change in propensity to revolve from your customers? Or is your balance growth coming more from new customers? Or is there any increase in kind of revolve rate?

Marianne Lake

So we actually had been on a pretty significant strategic drive to make sure that we had a deeply, deeply engaged customer base. If you go back precrisis and look at the industry, there was also a balance focus and less engaged customers. So we worked really hard over the course of the last many years to drive engagement, which is why you can see that we have a larger share of spend that we do of outstandings, but we've grown both. So we are getting balances from new customers. We are working on making sure that the right customers are revolving. And we're making progress. So year-on-year, we've gained share in both and we'll continue to focus on revolve.

Operator

Our next question comes from Steven Chubak of Nomura Instinet.

Steven Chubak

Marianne, had a question on the tax guidance that you guys have given. The Slide 2 disclosure's really helpful, but I really wanted to dig into the comment on the BEAT provision. You noted that the ultimate impact for your business shouldn't be material, and at the same time, the guidance from some of your foreign bank competitors, suffice it to say, has been much more measured. And I'm wondering if the impact's not that material for you guys but weighs more heavily on the peer set. Do you actually see a market share consolidation opportunity emerging potentially with -- and in particular within the repo and sec lending sides?

Marianne Lake

Yes. So I mean, obviously, the impact is differently situated for the foreign banking set. And I know that there -- as Jamie said, there is still a lot of work to be done in terms of implementation and finalization of the actual code itself. So I don't want to guess on how all that will play out. I certainly don't want to guess about the second order impact of potential consolidation.

Steven Chubak

All right. Fair enough. Well, maybe just try one more on tax specifically relating to CCAR. I'm assuming that the test parameters for '18 are broadly consistent with last year, which I think is most people's general expectation. You have the lower starting capital ratio from the tax hit. Your peers will have the same thing. But within the new tax law, there's also a somewhat complicated element where it eliminates the ability to carry back NOLs against prior period income, which could impact your stressed ratios. And I'm wondering, does that at all inform your outlook for the incoming test? And do you anticipate capital return capacity being more constrained just in light of some of those changes?

Marianne Lake

Okay. That was a lot. So if you assume that the 2018 structure is much like 2017 with a nice healthy caveat that DTAs, DTLs and the impact of them can be volatile based on the scenario, so with that caveat, I would tell you that not carrying back NOLs has a very particular interplay with foreign tax credits, which means it's not really going to affect us in a meaningful way. There are two things that would change, but they also offset. So the two things that would change is your absolute level of losses would be higher as the tax rate is lower, against -- and so that would be a negative. But against that, your NOL carryforward would be lower and that the capital deducts. So in the lore of very big numbers with health warnings, plus or minus, at our low point, we think not a significant impact. And then if you were to take a look at our starting point capital, I'd just make two comments.

The first is, obviously, given all of the conversations we've just had, there is also the strong possibility that we will have higher earnings in the first half of the year and be able to accrete back portions, if not all of that, capital. And secondly, for what it's worth, our actual spot capital ratios were higher than our CCAR outlook was. So both from a starting point and tax effective, I feel okay, but that's a really complicated question, and we need to, like, really work through it.

James Dimon

And there's a new sheriff in town. And they're going to be looking at the whole picture. I think it's probably more important than this one item.

Operator

Our next question is from Gerard Cassidy of RBC.

Gerard Cassidy

Marianne, assuming the economy in 2018, '19 accelerates due to this tax reform, I think it may imply that we would have higher interest rates and possibly a steeper yield curve. Do you guys have any thoughts on what you might do to the interest sensitivity of the balance sheet? Would you change it? Or do you want to just keep it the way it is?

Marianne Lake

Yes. So I mean we -- for what it's worth, you should know our house view on interest rate is for there to be four hikes next year. The Fed says three, the market has two. I would say tax reform and a stronger growth outlook will solidify the path of rate hikes. And so we've been factoring that into our balance sheet positioning anyway. So I would not expect there to be a material change in our strategy.

Gerard Cassidy

Okay. And then in your release in the fourth quarter, you guys said how would the tax change affect your capital distribution plans. And there's no change and the first day of distributions are going to be based on the 2017 CCAR approval. Is that in terms of the payout ratio on this 2017 CCAR, or the nominal dollars? Because obviously, your earnings now are going to be higher in the first half of '18 versus what you got approved for in the CCAR '17, which would imply, if you get the payout ratio constant, you would actually have a higher nominal payout in the first half of '18.

Marianne Lake

Our capital plan approval is on a nominal dollar basis.

Operator

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

Matthew O'Connor

It's probably a bit early to know how to come play this, but as you think about the winners and losers from tax reform, do you think there will be changes in terms of how you come to market, where you come to market? A lot's been written obviously on the impact to some of the high tax states and how money can flow from there to others. And obviously, you're in some high tax states and also in low tax states. And just trying to think through how you might tweak your business model or you have to focus on some of your products in some of those markets.

Marianne Lake

Yes. So as I would say, I mean in essence, time is our friend. So if you go back and obviously, nothing is exactly like this. But if you go back and look at similar empirical evidence, you would say that any influences in terms of migration of flow funds is pretty modest and pretty gradual. And if you think about something as first order as housing in high tax states, well, people are pretty situated where they live with their families and their jobs and higher income borrowers activity is less price-sensitive. So I think lots and lots of things come into play. I think the area that we're getting -- that we're thinking about a little more is what's the optimal financing structure for clients given the changes across the capital market structure. But even in that sense, while you could say that may be more expensive, it's still probably cheaper than equity, and equity may be more seen as fair value. But for JPMorgan, it's core to what we do.

We do cross-border acquisition, acquisition financing, liability management, and those capital structure strategies, we do all of it. So even if the sort of mix and optimal structure change, I think we're pretty well situated. So it's early days to be able to say that we would have strategic changes. I think it's early days. And I would say that if that was to be the case, I would probably expect it to be quite marginal.

Matthew O'Connor

And then how about just more on aggregate on the consumer underwriting side, if you are feeling more positive about the economy, you're seeing the growth in consumer personal income before the tax code here that may accelerate, does that make you more open to loosening underwriting standards a little bit? Do you feel like aggregate standards are still similarly tight versus where they were pre-crisis and there could be some opportunity there for you and others?

Marianne Lake

Yes, I mean, I think that may be a fair observation but I also think, to Jamie's earlier point, as much as we would like to imagine that all of this takes effect immediately, you would need to see the benefit of the environment in the income and spending and profitability and creditworthiness of people before you would be able to lean in for the changes, if necessary, so maybe. But again, I think it's going to be something that will unfold.

James Dimon

Yes. So we haven't changed our stance very much, and the one exception that might change over time, which I hope it does actually, is in mortgage lending, where I think because of the service requirements, capital requirements, reporting requirements and various litigation uncertainty, it has tightened the credit box around people who probably deserve credit, younger people, first-time buyers, prior defaults and -- but that's going to take the agencies working together to set new rules and new guidelines. If that happens, that can actually be good for America. It doesn't not really--

Marianne Lake

And pretty immediate.

James Dimon

Yes, it's not going -- say that again?

Marianne Lake

And pretty immediate.

James Dimon

And pretty immediate. And it's not going back to subprime, it's just opening up the credit box and reducing the cost to the average mortgage, and we're hopeful that the agencies will eventually do that.

Operator

Our next question is from Andrew Lim of Societe Generale.

Andrew Lim

I just wanted to take a devil's advocate for each for a bit. I've looked at the credit markets and the oil cap has increased right across the spectrum, especially at the short turn actually rather than the long end. And I'm thinking that these high-interest rates would feed into high credit losses at some point. I'm wondering if that's part of your thinking, whether that fits into your credit quality models. And if so, at what time -- where do you think that the duration in credit might start to accelerate?

Marianne Lake

So probably it's an important thing because I think it's worth pointing out that there's been a lot of attention on the flatter yield curve, but you're right, it's driven by a higher fountain, which is a sort of good type of flattening, so to speak. And so that's what's been driving sort of NII growth for us. And we do expect that, that will, together with the Fed, normalizing the balance sheet, ultimately end up with a higher long end of the rate. So we're pretty optimistic about that. You're right that at some point, typically, you would see potentially higher rates depending on the speed and inflation and other factors that would be -- precede the potential for a credit cycle. I mean, I suspect this will be no different, but that is not something that we see in our models or in our outlook over the near term. So hopefully, the monetary policy will be gradual, and as expected, and we'll continue to see the front-end raise and everything will be rational, and of course, there could be the prices, but at some point, yes, but not in the near future.

Andrew Lim

Great. Could you say what the average maturity of your corporate loan book is or across the loan book in general?

Marianne Lake

Yes, it differs. So it's shortened--

James Dimon

It's fairly disclosed in the 10-K but it's different for every single product and also changes in interest rates moving around.

Operator

Our next question is from Saul Martinez of UBS.

Saul Martinez

So on your tax Q&A, you mentioned what the impact of tax reform is across different businesses from a growth standpoint, but you also talked about the potential for competition being uncertain in terms of how it impacts different businesses and different products. Can you talk to that a little bit and speak to which products and businesses you see more scope for competition, less scope for competition? And how does that influence how you think about investing in -- across your different businesses?

Marianne Lake

So I would start by saying that I think we showed at the Investor Day last year, and if were to do something similar, maybe we will, it would look very similar today, which is if you go below our top line businesses and the businesses beneath that, so the vast majority of our businesses are more than covering that cost of equity by a fair margin today. So our investment strategy, it wouldn't be directly impacted by marginal changes in pricing and profitability up or down. We're going to continue to invest in everything that we can do well to improve the customer experience and grow the business. So I think we've been pretty consistent on that, not just today but over the course of the last several years. And then I think it is uncertain. And so I would just give you the obvious extremes, which is, if you have four different organizations competing for a single large structure transaction and the cost of capital and taxes are direct input to pricing, I'm sure it will feature in the discussion. And if you are talking about a very, very scale, very, very high-volume business with extraordinarily high margins, it will probably have ultimately -- or at least in the very, very near term, less impact. But again, I actually think people will be quite disciplined how they think about this.

James Dimon

And just to tell you an example away from finance. Utilities already are being put in a position because it's part of the rate base and after-tax return, but they're going to pass it on to consumers, probably 100%. That may be different by state but it either that way. And Marianne spoke about your cap rates and stocks, and obviously, anything in the marketplace have been bid at. In the after-tax rate, you could see a pretty quick effect. It will go all the way to Hershey candy bar. It's not necessarily clear that if you sell candy or cereals and like that, you'll going to have immediate repricing effect because of the tax rate changes. So we run a whole gamut of things. And so we have to wait and see how it works out. At the end of the day, everyone benefits from that growth. And to me that's probably the most important thing.

Saul Martinez

Yes. No. That's helpful. One of the businesses that has been doing extraordinarily -- extremely well in terms of growth and profitability momentum is the Commercial Banking business, and I feel like I ask this every quarter, but I guess the question is what you can do for an encore. It's a relevant part of your earnings now and revenues and a big part of the growth. But can you just talk about to the sustainability of the momentum in terms of balance sheet growth, revenue growth, how much headway is there still to continue to grow in that business?

James Dimon

Decades, Marianne already mentioned that we are now in the top 50 MSAs. We're already getting products and services. We built technology in cash management side. We're doing a better job serving U.S. middle-market companies for their international needs. It can go on for a long time. And we're more competitive. We got very good margins and the cost and investment. People have done a great job. We got specialty finance lines. So it's just more of the same.

Marianne Lake

I think about the Commercial Bank is the absolute nexus of everything we do. It's delivering the whole company to our clients in a way that very few other people can do. And so we've been investing 100 banks in a year for a period of time, opening offices, adding capabilities, focusing on digital, improving the customer experience just like in the rest of our businesses. And so credit aside, where ultimately there will be a cycle and it will be fine. That business is really poised to do very well.

James Dimon

Yes, and I'd just add to that, and we shouldn't leave this call without talking about it. In the custody, in fund services business, we got a great new technology. We've gained -- I think it looks like we've gained a little bit of share in the emerging markets where we are probably a little bit weak. Service levels have gone way up, and I'm embarrassed to say that we weren't particularly good a couple of years ago. In Treasury Services, we're bringing you a new international payment system. The banking is rebuilt in real-time has an overall value, the real-time payment business. What we've done with the -- we feel exceptional with the customer fund services. On the consumer side, we have a whole bunch of -- we look at our digital offerings, it's gone better and better and better. There's a whole bunch more coming. Zelle and QuickPay has done -- I mean, we're not gaining share, we're definitely gaining clients. And so we have barely tried to market that. That's where real-time P2P has opened -- I think our bank has probably now like 30 or 40, it's been eventually.

Marianne Lake

Essentially everyone with a bank account.

James Dimon

Everyone's going to be open up to Zelle and -- and then of course, this year, we have beta ready. We spoke a little bit about online sim mobile banking. And these -- some of these things will all work with really great products and services, and we're pretty excited about it actually.

Operator

Our next question is from Brian Kleinhanzl of KBW.

Brian Kleinhanzl

I just have one quick question on Securities Services. Within there you saw a good growth in your assets, on the custody up over 3% quarter-on-quarter on annualized but the revenues were up less than 1%. Could you -- were there some timing issues with when the AUC came on? And if you can kind of highlight what was the difference between AUC growth and revenue growth this quarter?

Marianne Lake

Yes. So in Securities Services, we make money on NII, we make money on transactions, we make money on AUC. And depending upon whether that's fixed income or equities or whether it's emerging markets for the U.S., we'll drive the extent of that. So it's not like you can take the overall revenue of Securities Services and link it to increases in assets under custody and draw a direct -- I mean, there's obviously a direct relationship but it's not going to necessarily move in line. So I can tell you that looking at that decomposition of what time market levels and higher flows by region and looking at the portion of our revenues that's related to assets under custody that they were in line.

James Dimon

The full year effect doesn't happen in 12 months.

Marianne Lake

It is, exactly.

James Dimon

If you even go up, they go up like $2 trillion and 2/3 of assets going up, but that will take a year before the full year effect of that stuff. So you see partial effect actually flowing into this quarter.