Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Second Quarter 2017 Earnings Call. This call is being recorded. Your line will be muted for the duration of the call. We will now go live to the presentation. Please stand-by.

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

Marianne Lake

Thanks operator and 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 one, the firm reports a record net income of $7 billion, EPS of $1.82 and a return on tangible common equity of 14% on revenue of $26.4 billion. Included in the result is a legal benefit of approximately $400 million after tax from a previously announced settlement involving the FDIC's Washington Mutual receivership.

Other notable items predominantly net result changes and legal expense were a small net negative this quarter, so underlying adjusted performance was really strong and highlights of the quarter include average core loan growth of 8% year-on-year, reflecting continued growth across products; double-digit consumer deposit growth; strong card sales, up 15%; and Merchant volume up 12%; number one, global IB fees up 10% and we delivered record net income in both Commercial Banking and in Asset & Wealth Management.

Moving on to Page 2 and some more details about the quarter, revenues of $26.4 billion was up $1.2 billion or 5% year-on-year with the increase predominantly in net interest income up approximately $900 million reflecting continued loan growth and the impact of higher rates. Fee revenue was up $300 million year-on-year, but adjusting for one-time items in both years was down modestly. With lower fixed income markets, mortgage and card revenue, all as guided being offset by strong fee revenue growth across remaining businesses.

Adjusted expense of $14.4 billion was up a little less than $400 million year-on-year with auto leases being the biggest driver, but also increasing the impact of the FDIC surcharge and broader growth being offset by lower compensation. Credit cost of $1.2 billion were down $187 million year-on-year on new reserve build. And a net reserve build in Consumer of a little over $250 million driven by card was offset by a net release in wholesale of a little under $250 million driven by Energy. Anticipating you may have questions given the recent Gas & Oil prices, I would emphasize that we guided to expect reserve releases given we started the year with $1.5 billion of energy related reserves and with oil prices having found a lower but seemingly stable level we feel appropriately reserved.

Shifting to balance sheet and capital on Page 3. You can see in the red circle on the page here that we ended the quarter with binding fully phased in CET 1 12.5% under the standardized approach with the improvement being primarily driven by capital generation offset by net loan growth. We've been hovering around the inflection point under the Collins Floor for a while now and expect standardized to remain our binding constrain from here. Given that, we've replicated this page under standardized rules in the appendix, please read.

Balance sheet, risk weighted assets and SLR, all remained relatively flat from the prior quarter and while not on the page, I would also note that we remained compliant with all liquidity requirements. We were pleased to announce growth repurchase capacity of up to $19.4 billion over the next four quarters and the Board announced its intention to increase common stock dividends 12% to $0.56 a share effective in the third quarter. In addition, we recently submitted our 2017 resolution plan which we believe fully addresses outstanding regulatory feedback.

Moving on to Page 4 and Consumer & Community Banking. CCB generated $2.2 billion of net income and an ROE of 16.5%. We continue to grow core loans up 9% year-on-year driven by strength in mortgage up 12%, card and business banking were each up 8% and auto loans and leases were also up 8% driven by strong lease performance from our manufacturing partners. Deposit rate continues to be strong up 10% year-on-year with household retention remaining at historically high levels. Before improvement in our deposit margin up 16 basis points. Sales growth in card was very strong again this quarter up 15% as new accounts mature and merchant processing volumes grew double-digits up 12%.

Revenue of $11.4 billion was flat year-on-year, but recall that last year included a net benefit of about $200 million principally driven by the Visa Europe gain. So excluding that revenue was up modestly. Consumer & Business banking revenue was up 13% on both strong deposit growth and margin expansion.

Mortgage revenue was down 26% and higher rates drove higher funding cost which together with lower MSR risk management and lower production margins the pressure on mortgage revenue year-over-year.

In addition, revenue increase and a reduction of approximately $75 million to net interest income related the capitalized interest on modified loans. And card commercialization and auto revenue was down 3%, but if you exclude the non-core items I mentioned was up 2%. With NII growth on higher loan balances and higher auto lease income predominantly offset by the continued impact of investments in card new account acquisitions. Expense of $6.5 billion was up 8% year-on-year on higher auto lease depreciation, higher marketing expense and continued underlying business growth.

Finally on credit performance, card services drove higher net charge-offs year-on-year, but still within our guidance for the full year of less than 3%. Net reserve builds were around $250 million building $350 million in card, $50 million in business banking and 25 million in auto, in part due to loan growth and in part higher loss rates in card. This was partially offset by a release of $175 million in mortgage reflecting continued improvement in home prices and lower delinquencies.

To touch on consumer delinquency trends in particular in card we were seeing some early signs of normalization which are generally in line with our expectations and our credit risk appetite and in auto our trends are relatively flat.

Now turning to Page 5 on the Corporate Investment Bank. CIB reported net income of $2.7 billion on revenue of $8.9 billion and an ROE of 14.5%. In banking, IB revenue of $1.7 billion was up 14% year-on-year with strong performance across products and particular strength in DCM. We ranked number one in global IB fees and number one in North America and EMEA. We were also number one in ECM and DCM globally and each case gaining share for the first half of this year.

Advisory fees were up 8% benefiting from a large number of deals closing this quarter. Equity underwriting fees were up 29% better than the market, but relative to a weak prior year quarter. With a strong market backdrop and supported valuations we saw continued momentum in global issuance especially IPOs. And debt underwriting fees were up 5% from a strong quarter last year driven by the high flow volume of repricing and refinancing activity even with fewer large acquisition financings.

In terms of the outlook, we expect IB fees in the second half of the year to be down year-on-year given that we had the highest IB fees on records for the third quarter last year. That said, overall sentiment remains positive, ECM issuance is expected to continue given the stable market backdrop and the M&A backlog is healthy with conditions remaining constructive for refinancing activities.

Treasury Services revenue of $1.1 billion was up 18% driven by higher rates as well as operating deposit growth. Lending revenue of $373 million was up 35% reflecting lower mark-to-market losses on hedges of accrual lends.

Moving on to Markets, total revenue was $4.8 billion down 14% year-on-year. Fixed income revenue was down 19% with decent performance across products relative to a very strong second quarter last year which was driven by higher levels of volatility and activity broadly, including as a result of Brexit. This quarter conversely can be characterized by a lack of idiosyncratic events resulting in sustained low volatility, reduced flows and continued credit spreads tightening, all of which impacted activity levels in rates, credit rating and commodities.

Emerging market performance was relatively stronger on a weaker dollar and lower rate as well as some regional events. Equities revenue was down 1%. In derivatives on the structured side we did quite well and outperformed and on the flow end we held our own in a quiet and therefore challenging environment. Prime is a bright spot as we are realizing the benefit of the investments we've been consistently making.

Before I move on, I would also like to remind you that the third quarter of 2016 markets revenue was also a record since 2010, in fact it was about a billion dollars more than the average of the previous five years. And so while that is in the guidance it is context as this quarter has felt quiet more like prior years.

Securities services revenue of $982 million was up 8% driven by higher rates and higher asset based fees on higher market levels and remember the second quarter benefits from dividend seasonality. Finally expense of $4.8 billion was down 5% year-on-year driven by lower compensation expense and the comp to revenue ration for the quarter was 28%.

Moving on to Page 6 and Commercial Banking. Another quarter of excellent performance with record revenue and net income and an ROE of 17%. Revenue grew 15% driven by the deposit NII as the rate environment continues to be favorable and on higher loan balances with spreads remaining steady. IB revenue was down due to the lack of large deal activity during the quarter, but underlying flow activity was solid across products as momentum continued and forwards pipelines appeared strong.

Expense of $790 million was up 8% and we expect this to grow moderately in the second half as we continue to execute on the investments in bankers and technology that we outlined at investor day. Loan balances were up 12% year-on-year and 3% quarter-on-quarter. C&I loans were up 4% sequentially ahead of the industry on broad based growth across market and within specialized industries. CRE showed growth of 2% in line with the industry but below last year's pace on reduced origination activity as we continue to be selective at this stage in the cycle. Finally, credit performance remained very strong with a net charge-off rate of 2 basis points.

Leaving the Commercial Bank and moving on to Asset & Wealth Management on Page 7. Asset & Wealth Management reported record net income of $624 million with pretax margin of 32% and an ROE of 27%. Revenue of $3.2 billion was up 9% year-on-year driven primarily by higher market levels but also strong banking results on higher deposit NII. Expense of $2.2 billion was up 4% year-on-year driven by a combination of higher external fees and compensation on higher revenue.

This quarter, we saw net long term inflows of $9 billion with positive flows across multi-assets, fixed income and alternatives being partially offset by outflows in equity products. We saw net liquidity outflows of $7 billion largely due to the Pacific client deal related cash needs. Record AUM of $1.9 trillion and overall client assets of $2.6 trillion were both up 11% year-on-year on high market levels.

Deposits were flat year-on-year and down 5% sequentially reflecting the beginning of balance migration into investment related assets as expected and those balances remained with us. Finally, loan balances were up 9% year-over-year driven by mortgage up nearly 20%.

Moving on to Page 8 and Corporate. Corporate reported net income of $570 million which includes the legal benefit I mentioned earlier of $645 million in revenue or $400 million after tax. And a reminder, this is the same $645 million that was publicly announced in August 2016 and represents partial reimbursement for costs that we previously incurred and paid that remained the responsibility of the WaMu receivership.

Finally turn to Page 9 and the Outlook. Starting with the quarter we guided second quarter NII to be up about $400 million from the third quarter given the rate hike, but you'll see that the NII deposits increased by only $150 million while we did fully realize the expected benefit of higher rate and continued growth, against that we had the one-time $75 million mortgage adjustment as well as lower CIB markets NII. These effects together with modest downward pressure from lower tenure rate with all other things equal point to a full year number of closer to $4 billion up, while this is in the previous 4.5, but with the potential to be higher if we continue to benefit from tailwinds of lower deposit re-price.

So you will see, we have adjusted the guidance on the page, but it will be market dependent and any near-term forecast is sensitive to a number of factors none of which changes our conviction that we will ultimately deliver $11 billion plus of incremental NII as rates normalize and we are well on our way.

On expense, we continue to expect full year adjusted expense of $58 billion. Second quarter was in line with our expectations and our guidance as a little better than $14.5 billion which is also where we expect the third quarter to come in. Finally, we have revised our full year core loan growth down to 8% year-over-year with a couple of comments.

First, we are seeing slightly lower growth than we expected, coming into the year, it is only modestly lower and more importantly, we remain encouraged by the consistency and breadth of client demand across products. Secondly, we noted that mortgage could be a big driver and with a smaller market and a more competitive environment fewer loans have met our hurdle rate. And of course we remain appropriately focused on quality and not quantity of growth and as such loan growth is an outcome, not target.

So to wrap up, we are very pleased with the firm's performance this quarter with all of our businesses showing broad strength. We maintained or improved leadership positions and are delivering the benefits to both clients and shareholders of our operating model and our continued investments. We remain encouraged by the growth outlook for the global economy and expect continued solid growth here in the U.S., which positions us well going forward.

And with that operator, you can open up the line to Q&A.

Question-and-Answer Session

Operator

[Audio Gap] Line of Glenn Schorr with Evercore ISI.

Glenn Schorr

Hello there. How are you?

Marianne Lake

Good.

Glenn Schorr

During the quarter that Jamie had made a comment on potential disruptions related to the unwinding of the U.S. balance sheet, and I'm just curious, it's supposed to be slow and deliver, but I'm curious, how you think that impacts liquidity, the yield curve, trading, that participates in and is there anything you can do to protect JPMorgan against those disruptions?

Marianne Lake

Yes, I would just stop for a second to just point out what Jamie actually said was, this is uncharted territory. It's not something that we've seen before and so while it is the case that the Fed is communicating clearly and has every intention to make this gradual and predictable things can change and we should be prepared for that, not to say that that would have a particularly significant impact necessarily on JPMorgan, but that that would just be a downside risk, not a probability.

So on the balance sheet, it is still the case that we expect to start seeing normalization in the balance sheet, in September, if not in September by the end of this year with the actually calling for the next rate hike in December the market is calling for March of next year. And as we said the communication has been pretty consistent and pretty clear across the Fed space, which is to say that is mostly price into the market at this as far as we can tell.

And so based upon what we've understood moving we could, we would see the balance sheet shrink about $1.5 trillion over about the next four years. So that would ultimately slow growth not stock price and if we saw a $1.5 trillion come out of the Fed's balance sheet empirical evidence would suggest that we don't see dollar for dollar reduction in deposits.

So if you just pick a point between 500 and a $1 trillion of deposit outflows at our 10% market share that would be about $75 billion over full-year. So it would slow growth. It would not stop growth and it is what we've been expecting and what we've been talking about now for an extended period and gradual is good enough. In respect of which deposits we would like to see, so that's the sort of growth scenario.

In terms of liquidity, again evidence would suggest and we've been communicating this quite clearly that we think preponderance of that deposit outflow would be wholesale deposits and that would be non-operating deposits and those are deposits we ascribe little to no liquidity value to. And so assuming that we're close to right, we would see those deposits ultimately leave the system, but it wouldn't affect materially if at all our liquidity position.

So ultimately the yield curve has priced I think all of this in. What I think the Fed has been clear about is that they expect the balance sheet or hope the balance sheet to be in the background and to use short rate as their primary monetary policy tool and so as a result, we would ultimately expect to see perhaps the flattening yield curve, but with the front end ultimately putting the long end up and you heard the Chair Yellen talk about being conscious of the shape of the curve as they go about normalization. I think you may have asked something else, did I missed anything?

Glenn Schorr

No that was absolutely awesome. I do have one tiny follow up. You always get a little more than you wanted. Thank you. The one tiny followup Marianne is I just want to make clear that the whole $4 billion versus $4.5 billion and you spelled out what happened in the quarter, it sounded like most of that full year guidance happened in this second quarter, but I just want to clarify that in terms of the second half NII, but do you think it's overly different from where we were a quarter ago?

Marianne Lake

No that’s correct. We saw that compared to $400 million expectation, we were up $150 million, so it would be fair to say that most of it was in this quarter. We had also - when we gave the last guidance of 4.5, we pointed out the tenure was low and that that was ultimately pressuring that 4.5, so it really isn't that significant of a change.

The only thing I would caution you to remember is that when we think about asset sensitivity, we think about NII, market NII which we wouldn't consider to be in a traditional sense cool, can exhibit volatility geographically with NIR. If you think about a market making business where we can have assets altering of NII hedged by derivatives that ultimately have enough to NIR, we actually think about that in total revenue numbers, so there could be a little noise in there, but no I'm not expecting there to be significant changes.

But I think what this - what this makes me realize acutely is that no good deed ever goes unpunished and chasing our tails re-forecasting the full year NII every three quarters isn’t as important or every quarter isn’t as important as keeping our eye on the long term, which is nothing has changed, we are absolutely realizing the benefits we expected in the banking book assets and liabilities, and that means that our long-term projections will be good and the path is a little bit less important.

Operator

And your next question comes from Ken Usdin from Jefferies.

Ken Usdin

Hi good morning, Marianne. So thanks for that clarity on the trading related NII. I wanted to follow up on the loan yield side, which were not much moves and you mentioned the $75 million in mortgage. Can you just help us walk through the loan portfolio and whether you're seeing the assets move and whether there is a lag or whether there's any spread compression underneath that?

Marianne Lake

Yes so, I understand why you’re asking. If you look at the loan yields relatively flat or even slightly down, if you adjust for the mortgage it would be flat, if you decompose them into wholesale versus retail, we are absolutely seeing all of the yield improvement on the wholesale side about 10-ish basis points. And on the consumer side at this with respect to this quarter, there was some mix impacts in the card business as we saw higher level of transactions and still feel the sting. So it’s not to say that the loan yields aren’t moving in line with our expectations and they are, but mix will matter for any one quarter.

Ken Usdin

Okay. So would that naturally say that as we go forward that should, if they're moving the right way mix adjusted they should kind of move the right way from here?

Marianne Lake

Yes that’s right and if you look back last quarter they did too.

Ken Usdin

Yes.

Marianne Lake

Which is that we have a couple of opposing things going on this quarter.

Ken Usdin

Understood, okay and then my second question is, it was nice to see the card revenues on the fee side and the revenue capture rate moves towards the way you've been saying, it actually eclipsed the 10.5 you had said for the year already. Can you just help us understand like how we turn the corner then on card income and your expectations for that going forward? Thanks.

Marianne Lake

Yes. So obviously one of the biggest drivers over the last recent while in card revenues has been the extraordinary success we've had in capturing new Chase Sapphire Reserve accounts. And so the end of third quarter, but importantly both the fourth quarter and the first quarter were extraordinary in terms of the number of accounts we acquired and of course we amortized or contra revenue out those expenses over one year.

So at 10.5% revenue rate right now and with those having adjusted the premium with those originations stabilizing out into the second quarter, we will see ultimately will lap that impact a year from now and will see our revenue rates that are improving from here towards 11.25% that we sort of guided to in the medium term and we expect to get to that point all other things being equal kind of mid next year.

And of course that is one facet, we’re also seeing significant momentum on the sales front, obviously as a result of those accounts we're growing core loans 8% and so we're having higher NII on those balances. So there's a lot of dry powder. We just need to get past these account acquisition costs, which we will. And I was still compelled to point out that these are extraordinarily good customers, their characteristic, their engagement, their spend, these are the customers that everybody wants to acquire. We now have them and we intend to deepen relationships with them.

Operator

Our next question comes from Betsy Graseck of Morgan Stanley.

Betsy Graseck

Hi good morning.

Marianne Lake

Good morning, Betsy.

Betsy Graseck

Thanks. Hey two questions, one on M&A strategy, there was some discussion that maybe you were interested in acquiring something that's not really the question to comment on that specific rumor, but more in this regulatory environment and the changes that we've had already, do you feel like there is a little more flexibility for your strategic actions or outlook than maybe a year ago?

Marianne Lake

So I would characterize our strategy as unchanged. We've always been pretty consistent over an extended period that we would prioritize first and foremost strategic investments for growth in our businesses be that organic or otherwise.

And obviously you've seen us reinvesting, whether it's in growing loans or introducing new products, hiring bankers, opening offices in our expansion markets and the like. But yes, it's been heavily skewed to being organic over the most recent while. We've also been pretty clear and active I would say in terms of partnering with, investing in, collaborating with partners that can accelerate our growth potential.

So we would always be interested, whether that's FinTech or otherwise in getting capabilities that allow us to accelerate to our growth potential. We don't have big gaps, but we would always be interested in that. Having said that, I'm not going to comment on the size of the regulatory environment except to say you should expect for any of these events or transactions will have the appropriate regulators that we have conversation with regulators at the appropriate time.

Betsy Graseck

Second question is on a little bit of a ticky-tacky but on FASB. They're working on changing some of the hedge accounting rules and I wondered how you're thinking about areas in your balance sheet. You might be able to utilize that in a way that makes your business more efficient, I don't know if that's something that you're thinking about?

Marianne Lake

Yes, so obviously we are supportive of the new hedge accounting rules and it will allow us to consider taking advantage of hedge accounting a wider set of products than we currently do, but we actually have reasonably limited hedge in effect in our P&L right now. So from a practical perspective, it won’t make a big difference to the business, but it is more flexibility in terms of the scope and we’re looking at that.

Jamie Dimon

I would just add as a policy matter, we make economic decisions not accounting decisions. So accounting is a fiction and as Marianne spoke about the credit card, you expensed the acquisition cost over 12 months, the benefit comes over seven years. So we make huge investments all the time based on economics. We will never make a decision based upon accounting and then we'll describe it to our shareholders to understand why we’re doing what we’re doing.

Betsy Graseck

Right.

Operator

Our next question comes from John McDonald of Sanford Bernstein.

John McDonald

Hi, Marianne. I wanted to ask about the credit cards, the outlook for charge-offs remains the same at about below 3% for the year and you are about 3% now in the first half. So maybe you're expecting a little bit of improvement in the back half of the year, is that seasonal?

Marianne Lake

Yes, it's seasonality. So you see in the first half around that guidance level, we would expect that to go down slightly from seasonality in the second half or full year a bit below 3.

John McDonald

And then at Investor Day, the outlook for the medium-term was not much higher 3 to 3.25, does that allow for the seasoning over the next year or two of all the growth that you've had and allow for some normalization too, is that enough cushion to get all that in there?

Marianne Lake

So, I would say obviously any time you reach an inflection point you need to be cautious about understanding the pace of change for at least for 2018 3 to 3.5 feels right. I think when you get beyond that we'll be updating you with our views as we experience that more in reality, it doesn't feel significantly different from that. But I think 2018 is a good number and 2019 we'll update you.

John McDonald

Okay, thanks.

Operator

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

Erika Najarian

Yes, good morning. I just wanted to follow up to the questions that Glenn and Ken had on margin. Marianne, could you give us a little bit of insight on how deposit rate has trended wholesale versus retail during the quarter? And also just going back to your comments, if the Fed balance sheet reduction drives wholesale deposits out of the system, can we assume that, that should not affect deposit rate negatively for JPMorgan?

Marianne Lake

Yes, okay. So just talk about what we've seen so far I think the industry has been really quite disciplined, which is what we would have expected at this early stage of a normalization in terms of the rate cycle. It is a tale of two cities. We said this quarter, the wholesale price necessarily experiences higher reprice more quickly and we are seeing that pretty much in line with our expectations. It matches; you need to get granular, the type of deposits that planned segmentation it matches, so in wholesale price we are seeing it, we're on that journey.

In the retail space we haven't seen that yet. So while there have been small changes in the industry in CDs there is nothing in checking or savings, but again I'll just point out to you that we wouldn't have expected that to be disciplined yet in the cycle. And I would say with respect to deposit basis and the Fed balance sheet if we are right and we believe will be close to right and that we see the wholesale non-operating deposits flowing out of the system assuming everybody else has reached the same conclusion then it shouldn't really materially impact the liquidity position of financial institutions. And if you couple that with the expectation of a very gradual and measured pace which gives people a lot of time and opportunity to plan accordingly, we wouldn't expect there to be a significant impact on basis if any.

Erika Najarian

Thank you. And my second question, you mentioned in the beginning of the call that standardized will ultimately be your CET 1 binding constraints. And I'm wondering if you were allowed to flowed off your current off risk floor and I think it's a $400 billion. Does that mean standardize is your constraint that being able to floor it off the floor and model out your off risk, may not be an incremental source of capital because standardized is binding?

Marianne Lake

Yes, I would say, first of all I would say focusing on any one, so we will be very supportive of changes to how operation of the capital is treated under rate capital rules, but I think focusing on one facet and not the whole thing is unlikely to be the only one thing changes. So we'd like to see changes made over time, but for the foreseeable future as we are growing our loans quite strongly and these are extraordinarily high quality loans where the differential between advanced and standardized is quite big, we still expect standardized to bind us.

Jamie Dimon

And I should point out the standardized were 100% in United States, in Europe we're talking about 75%. So there will be some changes over time in how well these capital ratios get calculated for international competitiveness reasons.

Marianne Lake

Yes, so whether it's because the operational risk will change or whether it's because the standardized rules become at least somewhat more risk sensitive there should be changes over time, but I think for the foreseeable future this is what we expect.

Operator

Our next question comes from Saul Martinez of UBS.

Saul Martinez

Hi, good morning. First question is on Commercial Banking, can you just comment a bit on the sustainability of the growth in profitability, you've had this your earnings are up 30% year-on-year, loan growth C&I 9%, CRE up 15% and we're not talking about small numbers anymore. I think your loan book now is about $200 billion in commercial banking and can you just talk about some of the initiatives that you've discussed that the middle market the BIB, and how sustainable that is, and whether, how whether you're comfortable with the risk profile of the book you have there because you are growing quickly? It is a big book now and you're certainly growing faster than the industry.

Marianne Lake

Yes, so I would, I will start with if you go back a couple of years ago 2013, 2014, 2015 when we were doing our business simplification agenda and derisking and uplifting the controlled environment in the Commercial Bank was blocking and tackling and doing a lot. We were really focused and we talked, I think all the way back in 2015 that there were outbound calls, opening offices, hiring bankers and if you waited a minute you'd see that come into our results and this is sort of fruits of that labor. So I do think it is sustainable. There's nothing in these results that is particularly noisy outside of reserve releases, which I'll come back to.

I would also say the partnership between the Commercial Bank and the IB in terms of covering our clients, the introduction of 16 specialized industries, which is an advantage we can bring to our clients nationally and in fact globally the other competitors can’t bring, all of those things sets us up for continued solid growth.

With respect to loan growth, I would say if you look at our C&I loans this quarter as an example was pretty broad based. There wasn't a specific in the middle market that wasn't a specific industry or market segment that was strong, but over the last - stronger, I should say, but over the last few years, a lot of our growth has been driven by the investments we've been making in the expansion markets.

So we got into the new markets with the WaMu acquisition. We continue to build out those markets, add bankers, open offices and that has been a source of growth for us that perhaps others haven't been able to enjoy and also, as I said, specialized industry and then…

Jamie Dimon

That is what we said, I think we're in all major 50 markets now unlike retail or one day we will embark an expansion in cities we're not in and the products set is just fabulous. We're adding more and more online things. We're adding simpler and faster credit approvals. We're adding, making it easier to do merchant processing when you sign up for middle market loans. The online systems are great. So all that stuff I think this is going to grow over a long period of time. And thanks for pointing out how well it did. I hope that you are listening congratulations.

Saul Martinez

Yes, no problem.

Marianne Lake

The only thing I would say on commercial real estate just because I think it's really important is, commercial real estate it depends what you do and more than half of our commercial real estate closure is commercial term lending. It's a very specific strategy. We don’t deviate from that strategy and I would just point you because it was interesting to me, if you look at the Feds CCAR stress results the commercial real estate across the industry and look at how our results compared to others, I think you can hopefully get somewhat more comfortable and we are very comfortable with what we have right now. Now that said, the [indiscernible] did benefit from reserve releases and benign credit and at some point there will be a cycle, but the risk appetite we have in the way we have managed with discipline, we are very happy with that.

Jamie Dimon

And the IB, brining JPMorgan investment banking to Chase corporate clients we still think there's a long way to go.

Saul Martinez

That's great. Thank you. If I can follow up with a bigger picture question and Jamie, you've been, correct me if I'm wrong, you've been pretty vocal about believing that the underpinnings of our economy are healthy and strong and not buying into the whole secular stagnation argument, but at what point does political dysfunction and political paralysis really start to dent that confidence and because you've also indicated that we do need structural reform to lift trend growth, whether it's infrastructure cash from whatever it is, and can you just comment on that? And I guess, as an adjunct to that, what are your conversations with clients like, is there a risk that is materializing that clients are also starting to become more frustrated with the lack of progress politically?

Jamie Dimon

I would look at it the other way around. So we've - since the great recession okay, which is now eight years old, we've been growing 1.5% to 2% in spite of stupidity and political gridlock because the American business sector is powerful and strong and is going to grow regardless. From to wake up in the morning, the want to feed their kids, they want to buy a home, they want to do things. It's the same with American businesses, might what I'm saying is that it will be much stronger growth had we made intelligent decisions and we were not gridlocked.

And thank you for pointed it out because I'm going to be a broken record until this gets done. We are unable to build bridges, we're unable to build airports or industries. School kids are not graduating. You know, I was just in France. I was recently in Argentina. I was in Israel, I was in Ireland. We met with the Prime Minister of India and China. It's amazing to me that every single one of those countries understands that practical policies that promote business and growth is good for the average citizens of those countries for jobs and wages and it's somehow this great American free enterprises and we no longer get it.

And so, my view is that and corporate taxation is critical to that by the way. We've been driving capital and bringing it overseas, which is why this $2 trillion sitting overseas benefiting all these other countries and stuff like that. So if we don't get it, if we don't get our act together we could still grow, obviously it's unfortunate but it's hurting us.

It's hurting the body of politics, it's hurting the average American that we don't have these right policies and so no, in spite of gridlock we will grow at 1.5% to 2%. I don't buy the argument that we'll relegate this forever, we're not. And you know if this administration can make breakthroughs in taxes and infrastructure regulatory reform we have become the most one of most bureaucratic confusing litigious societies on the planet.

It's almost an embarrassment being an American citizen travelling around the world and listening to the stupid shit we have to deal with in this country. And you know at one point we all have to get our act together or we will do what we're supposed to do to the average Americans. And unfortunately people write about the things like it's for corporations. It's not for corporations, competitive taxes are important for business and business growth, which is important for jobs and wage growth. And honestly, we should be winging that along, but every single one of you every time you talk to clients.

Marianne Lake

And then I would just say that in terms of how our clients are behaving and how the dialogue is going, whether you look at middle market, you Corporate Banking, M&A it's not to say that the possibilities of reform and the impacts that could have isn't a part of the dialogue, but they are fundamentally really just getting on with things and services. The client has a compelling strategic deal to be done or some spending or hiring or growth then they are pretty much getting on with it, which is why we're seeing solid growth.

Operator

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

Matt O'Connor

Good morning.

Marianne Lake

Good morning, Matt.

Matt O'Connor

You guys obviously had a very big approval for share buybacks on the latest CCAR here and I just wanted your thoughts on terms of using it all given where your stock price is, given loan growth has slowed a tad and given the flatter yield curve mix buying securities is less interesting, how do you put that all together?

Marianne Lake

Yes. So look, obviously you know the deal with CCAR people which is capacity is not necessarily a commitment to utilize it although we are as we fairly clearly articulated at our Investor Day and as you see in the numbers here, that we are at 12.5% in terms of our CET 1 and we believe we ought to be able to over time operate the company lower than that within the range of 11% to 12.5% albeit that we will take time to do that.

So we're in the market buying our stock every day, you know we're at 1.8 times value you saw in gaining shareholder assets. We still think that there is significant value in the stock. We believe in the earnings power and the franchise that we have here. And so not to say that we would utilize all the capacity because other things can come up, but we've put in the request based upon our desire to want to ultimately move lower.

Jamie Dimon

Yes and this is very important policy issues here too. So our preference is always to build organically, to not buyback stock, but to build branches and grow and lend more. But there's an argument that people are making that banks can't lend it and even if there is excess lending capabilities, they wouldn’t have done it and that is not true.

The counterfactual would have been that if banks can freely use their capital and their liquidity five years ago, they would have been a lot more lenient in the system. And that we pointed out two areas where it would have taken place, one is mortgages where regulators have held back lending to first-time buyers, immigrants, self-employed, buyer defaults, et cetera and the second is small business, whereas it’s not existing small businesses, think of the start-up small businesses and that they are having a hard time getting capital maybe at community bank level et cetera. The counterfactual would have been that $1 trillion or $2 trillion would have been lent out had these rules been changed five years ago. That is the counterfactual. It’s not that, well the banks wouldn’t have lent the money. And so again, there is a false notion that all this didn’t hold back the economy, yes it did.

Matt O'Connor

Okay. Thank you.

Operator

Our next question comes from Gerard Cassidy of RBC.

Gerard Cassidy

Thank you, good morning Marianne.

Marianne Lake

Good morning, how are you?

Gerard Cassidy

Good. Can you give us some color Federal Reserve Chairwomen Yellen indicated that she sees that there could be some relief on the horizon for the banks and one of the areas that's been talked about is change in the calculation of the SLR. If you guys modelled out what that could do to your SLR and then how that may change your view on capital going forward, if there are changes where for example, they take the cash sitting that's sitting at the central banks out of the equation?

Marianne Lake

Yes. So obviously, they haven't been specific although the Treasury report had some ideas. They haven’t been specific about what the calibration would look like and whether there would be recalibration to the numeric and the denominator or one or the other. Clearly, we've been pretty clear that we think cash at central banks shouldn't necessarily be included and there are other things, different people have different opinions, so we've done the calculations.

I would just point you back to the fact that we have some 20 potentially binding constraints right now of which leveraging a variety of forms is part of that, so to the degree that we get the opportunity to recalibrate that, it could have impact on the margin, but we take all of those things into consideration when we think about the direction of travel of the company. So we’re being as social as we can. We're not specifically leverage constrained right now that doesn't mean we're not supportive of making those changes and we will obviously model it out. But we take the potential for those changes into consideration when we think about the direction we grow our businesses.

Gerard Cassidy

Very good. And then as a followup, coming back to credit cards, obviously the Sapphire has been a huge success in growing your business there. The acquisition costs higher today than when you compare them to maybe two or three years ago and in that vein, when you guys look at the economics of putting on new cards is the net present value or whatever measure you use to determine the economics has that improved, stayed the same or weakened from maybe a year or two ago?

Marianne Lake

So I think, I want to point out something because I know the Sapphire reserve gets a significant amount of attention for obvious and good reasons, but it is only one product in a platform of successful products both proprietary and co-brand. And so in reality, while we obviously do all the modeling and the math it is not about what the cost of any one individual card acquired is or the NPV about how the portfolios ultimately together could perform over time and it's still very early on Sapphire reserve. I mean it’s not even a year old yet and these are portfolios and products that develop and season over time and as I said these are extraordinary good customer relationships.

So you know, we've done a bunch of things in the card business over the last few years. We've renegotiated our co-brands that was ultimately with lower economics, but still very good economics. We’ve been out on the front foot issuing new products, not just Sapphire reserve, but Freedom Unlimited, the Amazon Prime Card, Inc. And so we think about everything in the total portfolio and its collective performance over time and its still generating very good returns.

Jamie Dimon

I just mentioned about the regulatory SLRs, so looking at it very broadly, if you look at - it's not just capital liquidity but mortgage rules, requirements, capital liquidity collateral rules, where collateral can be used and not used. If these things were just calibrated differently, the cost of credit will go down, swap prices go down, mortgage will become more available, the cost of mortgage will come down and those are kind of important in total if they’re done right and without changing at all the rest of the system in fact the system is healthier, if the economy is healthier.

Operator

Our next question comes from Steve Chubak of Nomura Instinet.

Steve Chubak

Hi, good morning. So Marianne, I wanted to start off with sort of with a question on liquidity. You spoke of how the Fed balance sheet unwind should have little impact on your LCR, but just given the strength of your liquidity position and the significant excess reserves that you have at the Fed how should we be thinking about the current capacity to deploy some of that excess into higher yielding MBS and maybe what is your appetite to redeploy just given some of the tougher liquidity treatment for Agency MBS in particular?

Marianne Lake

So when we think about the liquidity position of this company we're obviously managing not just regulatory requirements but also to what we will ultimate duration of equity and position of our balance sheet to be through the cycles. So if you take into consideration not just the amount of liquidity we have and how that could be utilized, but also the mortgage portfolio, we have agency MBS. So all of that goes into our determination and we will continue to add to duration opportunistically when it makes sense to do it and manage our balance sheet with discipline.

Steve Chubak

Okay, understood. And then just one more question from me, just on capital targets. I appreciate all the detail Marianne you provided indicating that over time there could be a path or trajectory towards getting to the lower end of that 11% to 12.5% range. I'm just wondering, given the very favorable CCAR results we saw this year coupled with some of the Treasury reforms have been outlined, is there the potential for you to actually manage to a target even below that 11% especially if gold-plating surcharges impact goes away?

Marianne Lake

Yes so I would, I would start by saying that a lot can change between now and the next cycle of CCAR or the next two cycles of CCAR and so we never did actually say that we necessarily wanted to get below into the range, but operate for the short to medium term within the range, while we let all of the potential changes to the sort of regulatory environment with large play out.

And so, as to whether or not over time there is a sort of recalibration of whether 11% is on minimum that will play out over time. So for the next one or two cycles of CCAR this cycle and the next one I would just expect that we want to be on a measured pace to be within the range to allow us to better understand all of the changes that will take place over time and make appropriate decisions. I wouldn't start imagining necessarily how low that goes, I think we would want to operate with sufficiency of capital and liquidity.

Operator

Our next question comes from Andrew Lim of SocGen.

Andrew Lim

Hi there. Thanks for taking my questions. Just coming back to the Treasury's proposals for the new calculation of the SLR can you give any color as to whether that's actually even possible within the glib context as to how the Basel Committee and wouldn’t want harmonization across the whole world. And of course if it did happen, then you’d have a massive advantage along with other U.S. banks versus other European investment banks.

Marianne Lake

So I would say of course it is possible. We've seen a number of situations where implementing global standards in the U.S. have deferred in meaningful ways from how they've been implemented elsewhere. You have rarely seen that B2B advantage of the U.S. and the SLR is no exception. So while that maybe recalibrations of either the numerator or denominator, you know, know that to the European 3% standard are current depositary institutions are held with 6% standard. So there's plenty of room for there to be adjustments before it would create an unlevel playing field.

And my suspicion is there would also be adjustments elsewhere and it's supposed to be as I think Jamie Dimon said a backdrop not binding in the way that it has become. So I think the answer is yes, but we will see.

Jamie Dimon

Okay, the key point Marianne said is almost every single thing that's been done in America added to Basel requirements, the gold plating, SLR, calculation of LCR, calculation of stress, GSIB, almost every single thing. And remember America doesn't have to listen to Basel either, and you may, we may have noticed that basically France, Germany, India, China, all time Basel they better take a deep breath and stop doing it more with what they’re doing.

Andrew Lim

Great, thanks. And just a followup question also on the reduction in the Op risk and I mean you talked about advances for standardized funds, I mean, looking at the CCAR your SLRs are binding constraint that isn’t that really a moot argument, a none argument really as to whether that happens or not, i.e. if you reduce your Op risk it doesn't really change your excess capital?

Marianne Lake

So, look there are a number of different people talking about the forward-looking standard for operational risk, Basel under Basel's 3.5 or 4 or whatever is talking about there were some proposals in the choice act. So there's no question that there should be a re-visitation of the mechanisms to calculate operational risk and then you're right, the way that all of these will ultimately interplay with each other matters and so from a pure stress test perspective, at the margin, we had a little bit more binding constraint on leverage than CET 1.

But if you look at just what, what we could run the company at if CCAR was the only constraint it would be lower than where we are. So, it's a complicated dynamic of trying to make sure that we are maximizing against all of these constraints and not just the mathematical ones, but also the operational and practical ones. So I mean, it's necessary to go back and rethink the calculation of operational risk just because it's the right thing to do and ultimately how that plays out into how we optimize against our constraint is less of what we focus on.

Operator

Our next question comes from Betsy Graseck of Morgan Stanley.

Betsy Graseck

Oh hey, just two other quick things, one on the accounting with hedged just to get back on it will affect the question also was, was there any opportunity for your clients too because if there is an opportunity for say institutions to hedge their books of business more that could feed into your revenues?

Marianne Lake

I wouldn't imagine. It is not going to change our risk management strategy in a meaningful way, so, I would imagine it would be...

Jamie Dimon

The [indiscernible] corporations. The new hedging rules will affect other corporate or non-banks.

Betsy Graseck

Yes, in the sense that you can potentially hedge your commodity risk, so wouldn't that be something?

Jamie Dimon

We haven't looked at whether it creates more demand from the corporate sides, we'll look at that Betsy.

Betsy Graseck

Yes, okay. And then, is there a timeframe here where you have to start telling us what your LCR is? I wasn't sure if that was coming up soon was that this quarter or next quarter or is just been put on hold?

Marianne Lake

No, it is still this quarter and there are requirements to make public disclosures in August, so depending on whether you make them in your Q, in your pillar 3 or not will determine whether it's the beginning or middle or end of August. We as you know have as an industry being quite public about the fact that we think - by the way we provide an extraordinary amount of real time granular, same day granular information on the liquidity [indiscernible] in order for them to be able to properly supervise not just after the system.

And so, we believe the regulators do have and can have anything they need when they need it. It's just a question about whether there is any added benefit of those information being made public, near real-time. While it wouldn't matter today, when everyone is running very significant liquidity surpluses it could have unintended consequences if we're in an environment that was more stressful than we are today. So, right now the requirement is that we have to disclose, I suspect although we've asked for a delay as an industry that we might have to disclose, we will continue to debate, I think with regulators the merits of those public disclosures over time.

Betsy Graseck

I guess that, I'm just thinking that there is the opportunity to show us the non-operating deposits going away, which would help people understand the strength of deposit franchise?

Marianne Lake

Yes and I mean, I would suggest although it's not something we tell you every quarter that we've been pretty forthcoming about showing you the level of our deposits and the split, at least Investor Day now and then between operating and non-operating deposits and as we start to see the impact of the Fed balance sheet unwind in the light, we will – we will be very forthcoming. We tried to be incredibly transparent and we will take that under advisement regardless of what the regulatory disclosures are about the quality of our deposit franchise. But we have I think periodically been more to disclosed this than most in terms of the quality of our deposits.

Jamie Dimon

You could see that we have $500 billion of cash, $300 billion of securities, $300 billion of repo, I mean this is a pretty liquid company. The liquid is any bank I have ever seen on this planet.

Marianne Lake

And we have moved $200 billion of non-operating deposits proactively, so we manage it very carefully.

Jamie Dimon

Yes there is nothing, what happened because of all this reflects JPMorgan much and the very important LCR is not, it doesn't affect us. We're fine disclosing whether they want to disclose. It's an issue of whether the monetary, whether it is good for monetary policy and will it cause a problem, not for us, for the system when there's a crisis. Like do they want banks to use the liquidity or not, very simple because the answer is you've got to maintain over 100% then you can’t use your liquidity that's what it means. And so, they said publicly, some have said there is quite legal below 100 and we're saying well, what bank is going to be the first to go 100. And so it’s kind of a policy issue. Whatever happens, we're completely fine at JPMorgan. If I were the regulators, I wouldn't want to put myself in that kind of a position.