Good morning, ladies and gentlemen. And welcome to the JPMorgan Chase's Fourth Quarter 2014 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 standby.

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

Marianne Lake

Thank you, operator. Good morning everyone. I am going to take you through the earnings presentation, which is available on our website. Please refer to the disclaimer regarding forward-looking statements which is at the back of the presentation.

Starting on Page 1, the Firm reported net income of $4.9 billion and EPS of $1.19 and the return on tangible common equity of 11% on $23.6 billion of revenue for the quarter. Included in our results with total legal expense of $1.1 billion or approximately $1 billion after tax, in large part an incremental amount for FX.

As we go through the presentation, I'll call out other notable items. For your reference, we've included the EPS impact of those here in the front page. In total, they contributed a net positive $0.12 to EPS. So adjusting for legal expenses as well as these items give net income of $5.5 billion and an EPS of $1.33 reflecting solid co performance.

I am going to skip over Page 2 and I am going to go straight to the full year result on Page 3. The Firm reported record net income of nearly $23 billion and record EPS of $5.29 and return on tangible common equity of 13% on nearly $98 billion of revenue. Excluding legal expense which remains elevated, net income for the year were $24 billion and return on tangible common equity 14%. You can see on the page of the bottom that adjusted expense $58.4 billion in line with guidance, and down $150 million from the prior year despite the impact of incremental cost of control as well as continuing to invest in our businesses.

A final couple of points for the year. Core loan growth was strong at 8% year-on-year and net capital distribution for the year was approximately $10 billion including record dividend of $6 billion.

Turning to Page 4. The Firm's fully phased in as on CET1 ratio was 10.1% flat to last quarter. With earnings and portfolio run off offset by capital distribution and an increase in risk-weighted asset, were dominantly driven by high account party credit risk. In terms of 2015 outlook, we expect to add

50 basis points or more to this ratio. Similarly, the Firm's fully phased in standardized ratio not on the page also remained flat at 10.5%. The Firm's SLR was 5.6% and the bank's SLR improved to 5.9%. And given the recent FSB proposal which added our best estimate of TLAC at approximately 15% excluding Basel which will be refined as the rules are finalized.

Moving on to Page5. And we before we move into each of the businesses, this quarter we changed the presentation of preferred dividend in our lines of business and show the impact here on the page. For the company, preferred dividend was and continues to be below the line. However, we historically allocated the cost of preferred stock to the businesses as net interest expense or contra revenue. With the corresponding positive impact in corporate NI. In order to have a cleaner trends and better pay comparability, we are now presenting preferred dividend below the line at each of our LOBs, which is particularly important given recent increases in preferred issuance. You can see on the slide and the change in methodology has no impact on Firm wise financials, no on LOB returns on equity. But LOB revenue net income and overhead ratios improve, additionally the adjusted affects contra revenue ratio in the CIB. So from here throughout this presentation and also in the supplement, all numbers in all periods consistently reflect this change.

Moving on the business performance. On Page 6, the Consumer & Community Bank. The combined business is generated $2.2 billion of net income for the quarter. And an ROE of 16% on nearly $11 billion of revenue. Excluding the impact of losses related to non core portfolio exits in card the ROE was 18%. Consumer & Community Banking continues to deliver strong underlying performance, maintaining our number one ranking in customer satisfaction among largest bank for the third year in a row by ACSI. And in addition, we continue to deepen relationship with our customers. Average deposits were up 8% year-on-year with both across regions and markets. Record plan investment assets were up 13%. Our active mobile customer base was up 22% and credit card sales volume was up 10% on strong new account originations. Across CCB, we outperformed our expense target for the year and have reduced headcount by 12,000 this year exceeding Investor Day guidance by roughly 4,000 and over the last three years headcount is down approximately 32,000 across the consumer businesses.

Turning to Page 7, Consumer & Business Banking. For the fourth quarter CBB generated net income of $861 million up 8% year-on-year and an ROE of 31% on improved operating leverage. Net interest income was relatively flat year-on-year but down slightly quarter-on-quarter on low deposit margin. For the first quarter of 2015, we expect continue to put compression in CBB deposit margin driven by lower investment rate will drive a modest decline in NI quarter-over-quarter. Noninterest revenue continued to grow up 6% across investment, debit and other fees. With the addition of approximately 700,000 net new households. And expense was relatively flat with efficiencies self-funding fund investment.

Finally, in business banking the momentum we have seen in recent quarters continued with loan origination for the quarter of $1.5 billion, up 18% year-on-year. Businesses remain relatively optimistic and banker performance continues to improve.

Mortgage Banking on Page 8. Overall Mortgage Banking net income was $338 million for the quarter and a 7% ROE. We reduced expenses for the year by $2.3 billion, outperforming our $2 billion target. Moving to the top of the page, production pretax income excluding repurchase was slightly positive for the quarter which was better than guidance on higher volumes and revenue margins. The origination market was more robust due to strong rate rally but we estimate it was down about 5% quarter-on-quarter seasonally. Against which our originations were $23 billion, up 8% quarter-on-quarter reflecting corresponding share gains in jumbo and conventional. So this quarter we increased volumes, we gained approximately 100 basis points of market share estimated and realized higher revenue margins. Expenses were flat quarter-on-quarter despite the increase in volumes and we continue to focus on controlling costs.

On to servicing, net servicing related revenue of $624 million was down slightly quarter-on-quarter on low balances with servicing expense of $560 million also down slightly. On real estate portfolios, we continued to add high quality loan to our portfolio. We added another $10 billion this quarter, up from $7 billion last quarter. Recorded net charge-offs of $111 million and reserve releases of $100 million in the non credit impaired portfolio. Lastly, headcount was down over 7,500 for the year and approximately 22,000 over the last three years.

Moving on to Page 9. Card, Merchant Services and Auto net income of $980 million, down 7% year-on-year with an ROE of 20%. If you exclude reserve releases, net income was up 2%. The strong momentum in our business continues with very strong spend as well as card balance growth of $3 billion in the year. Revenue of $4.5 billion was down 4% year-on-year, but up 1% adjusting for losses related to portfolio exit that went through the quarter's result. With an adjusted revenue rate for card shown on the page of 12.2% in line with our guidance. Strong loan and sales growth was offset by spread compression and higher acquisition cost as we continue to add more customers. In 2015, expect a revenue rate to remain at the low end of our target range of 12% to 12.5%. Expense was down 6% year-on-year predominantly driven by remediation cost included in the prior period.

In Card, we led the industry for the 27th consecutive quarter gaining nearly 500 basis points of share during the same period. And this quarter, we saw sales growth of 10%, driven by enhanced client acquisition and reward strategies. In Merchant services volume was up 13% year-on-year driven by continued strong sales performance. And in auto, result continues to reflect steady growth in new vehicle sales as well as stable used car value. This was a 13th consecutive quarter of loan and lease growth with average balances up 5% year-on-year. And coming into this year, the pipeline is strong which reflects continued strength in the auto market. Finally, on credit, in card we continue to see improvements in early delinquency and we released $150 million of reserve this quarter. You can see the net charge-off rate adjusted for portfolio exit was down slight at 248 basis points. In 2015, expect the charge-off rate to decline modestly. For auto, credit losses were higher on balance growth and as a charge-off rate start to trend off from historical lows.

Now moving on to Page 10. Corporate & Investment Bank. CIB reported net income of $972 million and an ROE of 5% on $7.4 billion of revenue for the quarter. Adjusting for legal expense, ROE would have been 11% for the quarter and 13% for the year. In banking, IB fees were $1.8 billion, up 8%. We continue to ranked number one in Global IBCs per Dealogic, number one in the U.S. and we moved up to number one in EMEA this year. Record debt underwriting was driven by M&A related financing, strong advisory fees for the quarter contributed to the full year increase, up 24%. And equity underwriting was down from a strong quarter last year, but in line with the overall decline in market issuance. We continue to procure on more deals than any other firm for both the quarter and the year. And the fee pipeline continues to be strong into 2015 with the favorable environment generally across most products. Treasury services revenue was up 3% and lending related revenue of $264 million was down $129 million year-on-year given mark-to-market gains in the prior year. Moving on to markets revenue of $3.6 billion, down 13% year-on-year, but as guided excluding business simplification, the core business was down 5%. Fixed income was $2.5 billion, down 14% excluding business simplification, driven primarily by lower result in credit related and securitized products and with rate markets remaining challenging. However, currencies in emerging market had a strong quarter with higher volatility leading to increased productivity and our remaining financial commodities business is doing well. In equities we saw strong performance for the quarter, up 25% year-on-year at $1.1 billion. Derivatives was very strong, one of the best fourth quarter in recent years largely driven by Asia as plan activity increased on central bank action. Cash was solid, driven primarily by EMEA on the back of a strong ECM result. With respect to markets revenue for the first quarter of 2015, business simplification will continue to drive a negative year-on-year variance. For the quarter approximately $500 million or 10% with the corresponding expense decline of approximately $300 million. Securities services revenues of $1.1 billion, was up 6% year-on-year including high NI on high average deposit. Asset under custody were $20.5 trillion, flat year-on-year with market appreciation largely offset by significant client exit. Credit adjustments and other shows a loss driven by net CVA losses as well as the inclusion of nonrecurring DVA/FVA valuation adjustments totaling approximately $200 million. Moving on to expenses, total expenses up 14% year-on-year, compensation was down 6% from the fourth quarter of 2013 and down 4% for the year, with a comp to revenue ratio for the year of 30%. The increase is driven by non comp; none comp expense primarily by over $900 million of legal expense as well as higher control related expenses with those being partially offset by business simplification.

Moving on to Commercial Banking on Page11. This quarter saw net income at $693 million with an ROE 19% on $1.8 billion of revenue. Revenue was up 4% sequentially and flat year-on-year excluding the one time proceed of approximately $100 million from a lending related workout that was included in the prior year. Continued deal compression in our lending but as well as the impact of business simplification, it is being offset by higher loan and deposit balances. Quarter-on-quarter, revenue increased on better fee revenue and was incredible story for investment banking this quarter with record gross revenue of $557 million, up 11% year-on-year and quarter-on-quarter. For the full year, Commercial Banking client generated $2 billion of investment banking revenue for the Firm, reaching our goal. Expense was in line with guidance, slightly higher year-on-year and flat quarter-on-quarter due to the ongoing investment in controls. In loan balances, we saw an increase of $4.7 billion, our best quarter of growth since 2011, driven by strong performance in our commercial real estate businesses as well as both in C&I portfolio this quarter. Our CRE have now grown for 15 consecutive quarters and for the quarter grew 4% ahead of the industry. C&I loans grew 3% this quarter in line with the industry and with pipelines remaining solid. Finally in terms of credit performance an exceptional year, another single digit net charge-off rate for the quarter at eight basis point and a slight net recovery position for the full year.

Moving on to Page 12. A solid quarter in Asset Management with net income of $540 million on $3.2 billion of revenue. Last year included a mark-to-market gain of approximately $100 million. Adjusting for that revenue was up 4%, expense of $2.3 million was up 3% and net income up 5% on positive operating leverage.

This quarter marks the 23rd consecutive quarter of long-term net inflow at $10 billion driving AUM of $1.7 trillion, up 9% year-on-year. And we achieved the number one ranking in 2014 for global net inflow in active long-term mutual fund. We continue to see strength in our multi asset and fixed income flows and although smaller equity inflows outpaced the industry. Banking had record loan balances up 11% year-on-year with growth coming from both U.S. and international market and record deposit up 6%. As reported client assets of $2.4 trillion were up 2% both year-on-year and quarter-on-quarter, but excluding business simplification client assets would have been up 8% year-on-year. Lastly, for the full year, we will continue strong investment performance. This was a second consecutive year of long-term net inflows of over $80 billion. Driving a fifth year of record revenue and second year of record net income, with 23% ROE and 29% pretax margin. AUM loans and deposits were also record for the year.

Turning to Page 13. Corporate & Private Equity. Private Equity reported $107 million of net income primarily driven by private equity gain of approximately $450 million, partially offset by a little over $200 million of related goodwill impairment. This past Friday we completed the spin off of one equity partner and the investment professionals have formed the new independent company OEP Capital Advisors. At the same time, we closed on the sale of a portion of our private equity portfolio through a group of private equity firm. OEP Capital Advisors will continue to manage both the investments we sold as well as the investments we've retained. And closing this transaction had no significant impacts to fourth quarter financials. Treasury and CIO reported a net loss of $205 million, but remember this is after the impact of the change in how we allocate preferred dividend. Firm NI was $11.3 billion flat quarter-on-quarter. And finally in other corporate, net income was $645 million, including in this result were tax related benefit of approximately $500 million, partially offset by contribution we made to our foundation of approximately $150 million and close to $100 million pretax of legal expense.

So to wrap up 2014 was a record year for both net income and EPS, with the 13% return on tangible common equity despite elevated legal expenses and despite headwinds from capital market, mortgage and the low interest rate environment. We maintained excellent customer satisfaction result and we gained share in many of our businesses. Delivered on our commitment including business simplification, control and expense discipline and we also met our capital target for the year while returning $10 billion of net capital to shareholders.

So with that we will open to Q&A operator. You can open up the line.

Question-and-Answer Session

Operator

[Operator Instructions] Thank you. Your first question comes from the line of Betsy Graseck with Morgan Stanley.

Betsy Graseck

Hi, good morning. Hi, okay, so a couple of questions. One is on the GSIB proposal. Obviously, it looks like you are at the 450 over the 7% minimum. And I know we can't exactly see because we don't have all the rules around the short-term whole sale funding rule but I am wondering will you line up in that bucket if you are close to the low end of that range? Is there anything that you could do to move down a bucket?

Marianne Lake

So, Betsy, obviously two things. The first thing is that the most important time period when this is going to matter is when its in full and compliance and through the transition period in 2017 and 2018. So result in the 450 bucket as we understand is based on 2013 results that we had to work over the quarter next three years to make sure we are maximizing every basis point of GSIB and every dollar of capital to the fullest extent to deliver return. So rather say that to move down a bucket it is in general term is fairly significant thing to do. Just given the types of things are driving the overall score. But we are not complacent about it. We worked a near extreme granularity to make sure that from the very first basic point that we are certain we are maximizing the return opportunity for that within the context of the bucket we are in. So it would not be a trivial exercise to move down but we are focused on making sure that we are optimizing the resources that are our most binding constraint.

Betsy Graseck

Right. It is a bit of challenge because it is relative to global peer so how do you run the business, the follow on question is how you run the business when you have been used to trying a gain as much market share as you can but now gaining market share kind of works against you on this G-SIFI?

Marianne Lake

I think it is probably worth mentioning that while we were in the -- or look like we might be in the highest bucket relative to our peers, there were peers that were in higher bucket and they are not constrained by GSIB but CCAR. So it is likely to be the case. We continue to believe it is likely to be the case that you're going to see the differential in required capital for a variety of reasons not being as wide as might be implied by the GSIB. And so the key question is whether we are delivering the right shareholder value and incremental capital which we clearly thing we are and can continue to do. And so it is -- we are trying to thread the needle as you say about making sure that we are as focused as we can on maximizing the use of that scarce resource but within the bucket that we end up being wherever that might be, that our key priorities to deliver the highest ROE and the shareholder value we can, particularly in the world where others maybe more constrained by balance sheet or leverage. So it is a fine dance and it's what we are working through. We'll obviously keep you updated as we continue to progress our plan.

Betsy Graseck

Okay. I assume we'll hear more on Investor Day.

Operator

And your next is from the line of John McDonald with Stanford Bernstein.

John McDonald

Hi, Marianne. Just kind of following up on Betsy's questions. Your hope is to grow or I guess your expectation is to grow the common equity Tier 1 from the 10.1 today to -- did you say 50 basis points this year you hope to add to that?

Marianne Lake

Yes. 50 basis points or possibly more.

John McDonald

Okay. And I guess could you give us some sense of what the assumption embedded in there are in terms of RWA mitigation, I guess kind of street estimate and earnings and some expectations for capital return? And I guess is that pace enough to get what you see as the new GSIB buffers where it look to us you might have to be at 11.5, 12 or is just a timing question? And you have time to get to 11.5, 12. If you could walk through that would be helpful. Thanks.

Marianne Lake

Okay. Let me start at the beginning which is -- if you look at our Basel III advanced RWA on the slide, it is just little over $1.6 trillion, when we were in Investor Day, last year we said that we expected to be able to provide reduction to that by the end of 2015 to get the number closer to $1.5 trillion on the back of near model related benefit and et cetera. It is still the case, so that's the direction we will move in whether we get exactly to $1.5 trillion or slightly over will depend on the timing of some of those benefits but that's direction where we are going. So call it from a little over $1.6 trillion to a little over $1.5 trillion and we will give you an update at Investor Day. With respect to the assumptions, at the end of the day we generate a lot of capital and if we need to comply more quickly than we intend to do then we can clearly pull those levers. But we have always over the last couple of years have the approach of wanting to have a reasonable sense of urgency but a measured pace to get in where we need to be over the course of a transition period as well as preserving the optionality to continue to increase dividend and do buybacks. That continues to be generally our philosophy. And if you take, I think I said this before and don't read anything into this with respect to capital asks or anything else but if you take analysts estimate for the next two three years and take a $1.5 trillion or even slightly higher RWA basis, you can continue to add 50 basis points of capital a year as well as have meaningful buyback and capital distribution capacity. And 50 basis points a year from a little over 10% over three or four years get see to the other side of 11.5. So that just an illustration of capacity we have not necessarily a sort of commitment in terms of glide path but that's the basis upon which we feel like we will be able to add 50 basis points this year which is on a fully phased and advanced basis which is we think an appropriate glide path.

Jamie Dimon

And we haven't really started to manage GSIFI which we are going to do now.

John McDonald

Okay. And just a follow up on that is on TLAC. You mentioned in some of the notes here that you might feel any potential short fall to the current TLAC with additional common equity tier 1 which I assume you mean as opposed to kind of debt issuance or preferred, just wondering why you think that would be the best approach since you might already being building set one for GSIB buffer.

Jamie Dimon

John, she didn't say that. We are going to meet our common Tier 1 with the bucket we think is appropriate and we would fill the rest of TLAC with debt, supporting debt or preferred we need to.

Marianne Lake

Yes. I think, John, it is something you are looking at that we confused you; I apologize for that -- for the purpose of clarity. We expect to grow into GSIB buffer which would be at two different TLAC with common equity and whatever they got maybe when the rules are finalized on TLAC somewhere between nothing and something more meaningful, that's likely to be in debt issuance.

John McDonald

Okay, got it. That's what I thought. I was just looking at that footnote 10 on page 20 maybe we just we could take a look at that afterwards.

Marianne Lake

I apologize. We will take a look at that.

Operator

Next question is from the line of Guy Moszkowski with Autonomous Research.

Guy Moszkowski

Good morning. Just wanted to talk about expenses and initially focusing on the litigation charge of $1 billion after tax. It is pretty clear as you said that the bulk of it goes to the investment bank and that it affects as you said but should this give us a sense that you now feel that it is reasonable that you have reasonable and probably basis to think in terms of what your settlement would be --say with the DOJ or are there other elements that drove the increment?

Marianne Lake

So, Guy, both the reserves that we take in the quarter represents our best estimate based upon facts and circumstances, as you know that must be the end of the quarter with respect to ongoing dialogue and investigations but they are not concluded so as much as we would like to, we can give you no assurances with respect to the final conclusion. And that's really what we can say about where we are on the FX matter.

Guy Moszkowski

Okay. And then more broadly on expense, just given that we've seen another decline in net interest margin that we've got flattening yield curve environment and quite a bit of sluggishness elsewhere. And of course all the regulatory capital requirements that continue to build. Should we expect that revisit your $58 billion-ish expense target in someway to bring that meaningfully down?

Marianne Lake

So just one quick thing on NIM before I talk about expense. Just --we kind of manage the NIM -- NIM can be reasonably volatile purely as a feature of the amount of cash that we have in our balance sheet. What you saw this quarter in terms of NIM which was five or six basis points decline whether you are looking at firm or core, is in very large part driven by incremental cash balances close to $50 billion.

Guy Moszkowski

Which leave there for days.

Marianne Lake

Some of which there for days, some of which is an accretive from an NI perspective will be at modestly. So I think the more important measure for us anyway quarter-over-quarter is that our NI was flat. So and then just in terms of the flattening yield curve, we are more geared towards and so right to move and we still expecting that to happen in second half of the year. And so what really matter for us is Fed funds not withstanding the overall yield curve. With respect to expenses, yes, we will give you more updates at Investor Day. But I can continue to reiterate what we said in the past which is we would continue to expect to push our adjusted expense absolute dollars downwards over the course of the next several years. And in combination with hopefully an improving economy and better interest rate move towards the 55% plus or minus -- the 55% over head ratio over the medium term. So you would expect-- you should expect our adjusted expenses in 2015 to be down, but we continue to have albeit that we reach the peak in second half of the year, we continue to have elevated cost of control and some of that leverage will be more in 2016 and 2016 than in 2015.

Operator

Your next question comes from the line of Mike Mayo with CLSA.

Mike Mayo

Hi, I'm following up on the expense question. If you look at slides 2 and 3, it looks like your adjusted efficiency ratio of 61% in the fourth quarter and 60% for the year got worse from 59% either the prior quarter or prior year. So it's gone the wrong direction and I thought you said that you had some peak in costs in midyear and I hear what you're saying about guidance at Investor Day and adjusted expenses in 2015 down, but can you give any more ins and outs on why you think the efficiency ratio on a core basis should improve?

Marianne Lake

So a little bit it was driving efficiency ratio in second half versus the first half is seasonality in revenues and year-on-year revenues were down slightly. So obviously it is a little bit elevated relative to 59% to 60% ratio but obviously the absolute dollars on a downward trend. And hopefully what we are going to see in combination over the course of the next year or two is we will continue to look at efficiency in our controlled spend. As I say we are going to be looking at that in 2015 relative to the exit 2014 right. So you are going to see more of that leverage in 2016 and 2017. We will continue to bring mortgage cost down, cost within the branches down and but affecting against that hopefully we will have stronger performance in some of our businesses and show some expense growth. So overall trending down and but revenues are positive story and they were down year-on-year.

Mike Mayo

It's been three years kind of stalled progress with overall efficiency. I know you have some of your reasons with regulatory costs. You mentioned 2016 and 2017 benefits, but can investors see an improvement in efficiency expenses for revenues in 2015?

Marianne Lake

Well, so, Mike, we will give you the low down at our Investor Day, you will see absolute reduction in dollars and we will give you the outlook for the efficiency ratio then.

Operator

Next question comes from the line Matt O'Connor with Deutsche Bank.

Matt O'Connor

Good morning. You had some good loan growth in consumer and in particular credit card in the fourth quarter. I'm just wondering how much of that is kind of normal seasonality versus maybe some strengthening underlying demand for the consumer.

Marianne Lake

So I would say a bit of both actually, as obviously as you articulate, we do seasonality but we did reach an inflection point during the year where we started to see more -- a little bit more demand anyway to greater extension. But I'd say our outlook for credit card outstanding gross for 2015 is sort of modest low single digit growth not higher than that. So a little bit of both and but we are flatted by seasonality in terms of the fourth quarter.

Matt O'Connor

Okay, then just separately in terms of the sharp decline in energy in general and I guess oil specifically, how do we think about some of the puts and takes with your customer base? Obviously, this should be good for the consumer maybe mixed for corporates and institutional. There might be some risk to certain countries. Like how should we think about this holistically and how do you try and stay on top of this?

Marianne Lake

So JPMorgan taking in three pieces. Yes, we think it's very good for the consumer on balance and also for the economy on balance despite strengthening dollar. So we think that the consumer spend, consumer even quite expenses likely to be positive as a result. From a trading perspective there are pluses and minuses. The oil price volatility contributed to the softer quarter in the credit space, but was hopeful as it related to the currency the commodity space so in fact net-net mutual to maybe even slightly favorable. And then with respect to our traditional credit exposure to the sector, it is about 5% of our overall credit exposure and well secured top of the capital structure where it is name by name analysis that we do. We feel comfortable with where we are right now. It is cyclical business and we are expecting downgrade but we are not facing any meaningful issues in the face right now. Overall, oil is a reasonable positive for the economy and consumer and so for JPMorgan from the financial perspective a modest issue, positive or negative.

Operator

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

Erika Najarian

Yes, good morning. My primary question is there's clearly been a lot of ink spilled recently in conversations again about a potential breakup of JPMorgan, especially relative to the higher capital buffers that could come from the Fed. And I guess, Jamie, could you remind us of how you're thinking about the benefits of keeping the franchise consolidated for the shareholders versus some of the conversation that investors are having today about breaking up or shrinking the bank in order to step down on your capital buffers?

Jamie Dimon

Yes. So first I dispute the fact that some investors, there are some people wrote about it as a possibility because of excess capital and that's true, you have to hold more capital, things be equal, it will reduce your returns. But even the people wrote about that, talk about these superior franchises, the benefits of synergies, the good the company brings to there. So the first way to look at a business first and foremost has been and always will be what do you for customers. Not what you do for yourself and your return et cetera. And on the customer franchise and every business were gaining shares, we have good returns, we've got good market shares. We've got good customer sat levels. The synergies are huge, both expense and revenue synergies et cetera and some not all disappear under the various schematics of a breakup or something like that. That's number one. And the question is now you are bearing after capital, how bad is that relative to that and for the most probably we will able to manage that. We've talked about products repricing and managing GSIB, managing CCAR, managing LCR, managing SLR and we are going to maintain the franchise, manage it-- we still think we get good returns. Now there is a point to which the capital drag would be so high that you may want to consider alternatives, but just remember they are not simple. Like anything you do, every company will have to have cash management, global tradability, every company general ledgers and HR things and data centers and nerve data centers inside the security and it just-- it isn't that simple process. But so far the company has earned good returns in all these businesses to wrap this crisis. And I am going back to 2010, 2011 and 2012 and that's a sign of stability. In fact, even Mike Mayo had a report which there is a slide that shows the volatility of returns. And we among the lowest with the better returns. So that is proving it. but the model works in the business standpoint, yes, we have to carry more capital and will manage that over time.

Marianne Lake

Erika, just add to that, we are still in a period of flux as it relates to in a broadly rule, not just capital rule and we are in a period that got to relate to the competitive environment. And it would be for us, it would premature to take these strategic decisions that we don't think would add shareholder value in what is a very sort of challenging influx and cyclical low for the environment. So we preserve optionality. We think we are generating significant shareholder value, significant synergies and any discount could arrive regardless.

Jamie Dimon

And remember the capital stuff is not an element is not -- what they are doing now is not a size of riskiness; this company has been a fortress company. It has delivered decline, so its diversification is the reason why you said less volatility of earnings, was able go through crisis and never loss money ever, not one quarter. And so in the real life crisis gets fine, any future crisis we are going to do fine. There is reason you have big global multi national banks. And they are so big global multi national including government. This company movies $6 trillion to $10 trillion a day, you are not going to do that as a small bank. And you are not going to syndicate out of $20 billion bridge loan and you can't do certain things globally in 20 countries if you are in 20 countries. So you got to figure out what model you have and does it make sense. And it's not necessary comparable to all other companies. So all model make sense to you, you have seen return in it.

Erika Najarian

Understood. And just a follow-up question to that, Marianne, if we look at the GSIB scoring process not the proposed Fed process and we think about the five pillars that drive the buffers, it seems like if we look at publicly available data that where JPMorgan really sticks out is under the complexity pillar. Is there any way to move that down without giving up significant meaningful revenue and is that the bucket of focus in terms of potentially managing buffers from here?

Marianne Lake

So you are right the complexity bucket does stick out. Just for what it look, we are looking at each bucket and we are looking at a very granular level because obviously we need to look at the whole thing in combination. And the complexity bucket, Jamie said I think earlier, if he didn't I just repeat. OTC derivatives, there is now drives a large chunk of it. Clearly, we are going to do everything we can in terms of netting and housekeeping and everything to reduce stock meaningfully is to have a meaningful impact on our client flow business. Level three assets is second piece and obviously to the degree that those things are -- by definition they are less liquid and so a result --

Jamie Dimon

Does that not make them bad?

Marianne Lake

That does not make them bad. They are just less liquid and as a result we obviously will take a look at whether or not there is opportunity to reduce that. But again it is also relative to market size. And then finally our AFS portfolio which to have in a complexity bucket is not intuitive to all of us and over time that may reduce but right now it is a very core part of how we think about structuring the interest rate, risk management of our balance sheet. So we are going to look at it but we are going to get very, very granular. And there is no silver bullet.

Jamie Dimon

I'd add so years we can drive it down without damaging the franchise.

Marianne Lake

Right. It is about looking at the first 10-20 basis points not the last three or four.

Operator

Your next question is from the line of Glenn Schorr with Evercore ISI.

Glenn Schorr

Hi, thanks. Can we revisit the energy conversation for a sec? I mean in my experience when any asset class falls this much so quickly, it's usually pretty bad and I heard your comments and I completely agree that it's great for the consumer and net-net positive, but am I doing the math right? If it's 5% of your outstanding, is that on the $743 billion of loans?

Jamie Dimon

That's commercial.

Glenn Schorr

Commercial, okay. Because what I want to get at is you made a comment it's 5% of outstandings; a lot of it is secured. I'm sure you have some reserves against it. It's just -- it seems like an odd thing. I know it's early and we'll see if it stays down here, but it seems like a big deal and yet it doesn't seem like a big deal to you guys. So I just want to make sure that we talk about what your exact exposures are and why you feel better than most people I talk to.

Marianne Lake

So our exposures are about $46 billion, about 5%, there are just no credit portfolio and about two -- 70% of its investment grade about, two third is in the sort of CIB, so these are large well capitalized company. And the others are in the commercial bank, name by name we understand that what looks like these are asset based loans, top of the capital structure, names we know and we are going to see downgrades and we are not suggesting that there isn't going to be some stress and we don't where oil may bottom. But, yes, we do have reserves. We have reserves based upon a long history of day that include cycles; it seems cycles before like this. And so we will take downgrade maybe --we may need to take more reserve but it doesn't feel like it say very significant issue or imminent series of charge -off rates now.

Jamie Dimon

For us there will be companies that are more invested in oil that may have different issues. And then there is a secondary effect which obviously you all can predict like Russia, Venezuela. So, Russia, we have exposure. Venezuela virtually none and other countries. And there is another secondary effect. If you are talking about commercial or even consumer real estate, Dallas, Denver, Houston. As you saw in 1986, 1989 and those all slight negative. But not again -- for us they are not mutual, very well diversified. And for us who have the other side. General consumer credit will be better not worse. And you can argue and I don't spend too much time on it. But that even retail will be better. There are whole bunch other beneficiaries of this change of credit. So some will be worse and some will be better, so for net-net for us it's just not that big deal. It is a perfect legitimate thing we all be concerned about for companies which are very concentrated in oil or even commercial real estate companies concentrated in oil areas. So that's not something that we need to worry about.

Marianne Lake

So we are watching it closely and to Jamie's point, we are paying attention to our real estate portfolios in those geographies so that's going to be overall sector on geographical differences and how to this plays out and we are paying attention to that.

Jamie Dimon

It is a good example of diversity helps, yes.

Glenn Schorr

Yes. I appreciate that. The only related follow-up I have is I don't know if the same thing is happening in oil. I know in and around October 15 when we had wild swings in the 10-year, people talked about less liquidity at the banks being a partial contributor. I'm curious to see if you think there's something to do with that on the oil side too because everybody's been downsizing commodities. And then the bigger question is does anybody care about it, are the regulators watching and paying attention and do you think some of this is contributing to the bigger volatile swings we're seeing?

Marianne Lake

On the first point, I think there is probably some true to the less liquidity but it is more about over supply and lack of global growth simulating demand than it is I think a liquidity story from a capital market perspective. Sorry, Jamie, you are going to --

Jamie Dimon

I would just add that when you are look at -- I am surprised that people so surprised when commodity moves like this. Commodities move like this my whole life. And obviously the supply and demand imbalance and Marianne mentioned that United States supply has gone up by 5 million barrels a day for the last five or six years. People are little surprised that the production that was positive about Libyan, Iran and Iraq and some other places, a lot of people need oil revenues but the other things that surprise people with slightly increased demand, not I say slightly China and some other places and the other one that surprised people is OPEC. Instead of OPEC making some kind of move to reduce supply they didn't. But to me oil commodities have kind of evolve to, oil is at even more evolve to so in the oil business you got to prepare for something like that. That is the way it is going to be. And that's the way for to us like. And yes speculation, inventory and all these things may affect in the short run. Remember, there is a focal point at which oil, the margin with dollar can be produced and I think our economies says that's $75 oil deep drilling in the Gulf of Mexico and around the world. And one data recover that because the world still will use more oil and need more oil et cetera and in the meantime you got to manage around the volatility and I don't think any of that had to do with trading. Not a -- but had to do with fundamental supply demand and balances and people getting prepared for it and taking views and not us, I am talking about oil companies and you read about countries who hedged it and countries who didn't and companies who hedged, companies who didn't and I think it is a legitimate concern about liquidity in markets that when we have volatile markets or violent markets, how much liquidity will remain but I think you there you are talking more about-- which you saw a little bit in treasuries but it is about credit. And it's possible. We just don't really know. So we are little worried about it. But we will there hopefully making healthy mortgage for our clients when the times come.

Operator

Your next question comes from the line of Matt Burnell with Wells Fargo Securities.

Matt Burnell

Good morning. Marianne, I just wanted to follow up on some of the regulatory discussion that we've had. You mentioned back in December that you felt that even though at the 11.5% buffer there may not be as big a difference in terms of capital requirements between you and some of your US peers as the initial numbers may initially indicate. It sounded like that may have been a focus on the short-term wholesale funding buffer, which obviously hasn't been released. You mentioned in December you felt that that would be around 50 basis points in terms of at least a starting point for you all. Is it your sense that there could be calibrations above and below your level of 50 basis points or do you think at this point it could be a blanket number across all of the big banks?

Marianne Lake

No. Look obviously we need to get clear on what the final rules and calculation that's like; I don't see it being blanket number. I think it is pretty evidence that it intended to be least measured relative to the size, if the one measure that's not measured relative to a market share but relative to the size of your operation and so consequently depending upon how the math works out, it could be differentiation for other people. But my comment were not necessarily driven by whether or not somebody else going to be more punitive, will penalize by short-term wholesale funding but by the fact that GSIB hasn't been and it is unlikely to be the binding constraint for some our competitors. For some of those it CCAR stress, for some it is leverage on CCAR stress and as a result they already are running at or above the level that maybe implied and that may continue to increase. So here we have a situation where the transition period the glide path is a four year period where it temporary run looking to put a glide path together that measures all of our objective over the next few years where others are after approaching 11%. So we will see obviously had phased out in the medium term or in short term I should say, certainly in the short term we have a reasonably level playing field. And the competitive landscape is changing and we are working very hard to make sure we are maximizing a return on every dollar we had.

Jamie Dimon

And the reason it went for 2.5 to 4 wasn't because a short term also funding because it doubled, it basically doubled the number on a new methodology. And so and I think when you spoke at 50 base point above you also made a short term wholesale funding buffer, you terminate buffer over required number to handle volatility.

Marianne Lake

Yes. So the buffer yes totally volatility driven, the 50 basis point is the best estimate of what the short term wholesale contribute to the --

Jamie Dimon

Added to it, yes. That is GSIB requirement also.

Marianne Lake

We will say, my view it is not a blanket though you could see some people differentiated in that sense.

Matt Burnell

Fair enough. And then, Marianne, just for a follow-up, in terms of your outlook for GDP, I think in December you also mentioned that you expected around 3% GDP growth is kind of your operating assumption. A little stronger in the second half than the first half. Given your comments on when you think rates are going up, it doesn't sound like that has changed very much, but given your conversations about oil and some of the other growth numbers that have come out, has that changed very much?

Marianne Lake

So I mean obviously if you get sort of granular --

Jamie Dimon

We moved into 3.1%

Marianne Lake

Obviously if you get granular to different specific and countries you have a different answer but as a general matter, no, as a general matter for U.S. 2015 over 2014 according to 2.5% and globally closer to 3%.

Operator

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

Gerard Cassidy

Thank you. Good morning. Jamie, you were very clear on the success of the global franchise that you guys have built and the success that you've been having with it. Is there any evidence that you're seeing some pricing increases or you can generate some pricing increases because of this franchise? And if not yet, what do you think it's going to take where you'll be able to really get some better pricing because of the value of the franchise that you present to your customers?

Jamie Dimon

Yes, so it's a tough question to answer. We've seen some pricing changes in trade finance a little bit in prime broker not really in credit but I do think that you are going to see some in credit. So over time but that's not because of JPMorgan. That's just because the market is going to reprice some of these things it is more expensive to do. And we do expect that will happen somewhere over time. And remember the other thing which is really important, we manage this by client. So you can actually do a better job in LCRG, SIFI, CCAR by client and not change pricing just change mix. And so we are working 100 different ways to figure how to get good returns to shareholders while doing a good job for clients. Remember, we have more opportunities to do that. So whenever we talked to a client they don't want some of our balance sheet capability but they -- and they maybe willing to do other business with you to make sure they get it, even the pricing doesn't change and it might be good for us.

Gerard Cassidy

And then as a follow-up, in the Corporate & Investment Bank, the world now has been operating under the Volcker rules since July of 2014. Can you share with us is there any secular trends that you're seeing because of that? And I noticed that your compensation expense as a percentage of revenue was a real low 27% versus 35% a year ago. Is that reflective of the changes because of the Volcker rule?

Jamie Dimon

I mean it just a Volcker rule, so we have accommodated Volcker rule which we have to do in private equity and investment and hedge funds and Marianne mentioned that we closed the sale of couple of billion at private equity stuff. And even the CLO issue is a very temporary thing. The only question the CLO is should people be forced to sell greater than the -- they are all going to run off in three to seven years. So not a question of bank -- and that is not a material issue to us, we are going to accommodate that. The other thing that's important of Volcker is now the remaining one. How it affects market making and obviously they are the clients are going to be concerned. Do you have a good market making? There are always rules around. It would accommodate those reporting, your client demand, aged inventory, different ways of reporting volatility in trading, and now you have capital liquidity, all the trading is try to get make it safer but also so people can markets and we hope at the end day that will happen. If there needs to be adjustments because new clients are going to say, this isn't working for us. The other thing I'll mention about liquidity, spreads are kind of the same in credit. But the size you can trade is much smaller which to me it is early indicator if something goes wrong, you are going to have gap that spreads quicker and wider than it might have before. So but at the end of the day we hoped to be able to be a good market maker, earned returns for shareholders and obviously we got-- we have to playing out probably Volcker and all the other regulations stored in them.

Marianne Lake

I think the thing to -- think about when you look at the come to revenue ratio just for the purpose of clarity if you look at the fourth quarter of last year excluding DVA and FVA, it was above 20 % to 26%, closer to in line year-over-year and that's evidence when you look at the full year ratio of last year 31% to 30%. So they are with the low end of our range of 30% but within the range relative to the performance and there was a big negative impact in the CPI on a revenue basis last year with DVA /FVA.

Jamie Dimon

And I just say that we always allocated capital to investment bank. And we've had HBA adjusted returns and stuff like that. So as you allocate more capital all things being equal that number comes down a little bit. As you kind of disciplined and try to do that properly.

Operator

Your next question comes from the line of Steve Chubak with Nomura.

Steve Chubak

Hi, good morning. So first question I have is on actually the debt capital markets business. Clearly, the results were quite impressive in the quarter. Certainly better than what the public proxy suggested and I was hoping you could give some additional color as to what drove this strength and then maybe how that informs your outlook in 2015 given that, on the last earnings call, Marianne, you noted that there could be some pressure on that business certainly going into next year or now this coming year?

Marianne Lake

Well, I mean I think if you look at the 2015 dynamics there is going to be three principal things, 2014 was a year of larger deals, and 2015 is still got a good pipeline. So we are expecting to have reasonably strong -- at least start the year and probably strong year. And it is very driven in the fourth quarter and likely to continue to be so by sort of M&A related financing and so the downside we talked about is just less sort of maturities to be refinanced but nevertheless some. But we are going to continue to have support from the M&A side with respect to be fairly strong in 2015. So you got some puts and takes for what we think is going to be a solid to good year in 2015 maybe not, and maybe not a record but certainly a good year.

Jamie Dimon

And so JPMorgan maintained a number one share in Global Investment grade, number one share in Global high yield, number one share in loans indication and which we hoped to maintain next year too. And those are very powerful positions to have.

Steve Chubak

Certainly. And switching gears for a moment just back to the capital discussion, I just wanted to get a better understanding as to what drove the RWA inflation in the coming quarter. It sounded as though it was really primarily a function of counterparty credit risk inflation. I just wanted to get a better sense as to whether that was driven by some of the pressures on the corporates in the oil and energy space and also whether your $1.5 trillion target that you reaffirmed, whether that does contemplate the potential risk for further inflation in the coming quarters if those pressures continue.

Marianne Lake

So just I mean certainly well I think to put into context I think that the RWA growth was $12 billion so nevertheless a growth but not a huge number up. A chunk of is with regular way CVA which just in part has got to do with just no more market dynamics right now and spreads wider and volatility higher but a chunk of it is unrelated to that. And as we look forward to the end of next year at $1.5 trillion, well just to be clear I think I said $1.5 trillion or maybe slightly higher but nevertheless in a lot of big numbers the same trajectory, it more at risk from just the timing of our ability to execute on granular segmented model, model approval and internally with regulators than necessarily any sort of market dynamic not withstanding that will factor in. So I would say the bigger risk to achieving that unless sort of market pricing impact from CVA but more so ability for us to get the right timing of that model benefit.

Jamie Dimon

Then I think like two thirds of model and one thirds is run off stuff, we know that's going to happen. And other thing as Marianne mentioned the advanced we are at 10.1% just generalize with 10.5% and yes the advance will change, spreads gap out, advance will go up but standardized won't. So eventually we think standardized can become the binding constraint not advanced.

Operator

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

Ken Usdin

Thanks, good morning. My question was on the Consumer & Community Banking business. There are a couple of moving pieces this quarter with the sale of the card results, but also underneath that it looked like a couple of the fee-related areas might have been a little soft. I was just wondering if you can try to disaggregate that for us and was there anything that was also more of a one-time in nature or seasonal about those businesses this quarter.

Marianne Lake

So obviously we talked about the cards portfolio that's driving some revenue decline also some elevated credit charge-offs. We have been experience and I think we guided to the low end of our 12.5% revenue rate change and we guided to that last quarter, the quarter before at a 12.2% in that range and what we are experiencing is spread compression is largely offsetting the strong interchange and other fee growth from the product volume, but when you acquire new customers and you pay the premium to acquire new customers that gets amortized to your results in the first year. So in years when you are net acquiring new customers, you will have a small net drag on your fees and on your revenue rate resulting from amortizing those premiums for the benefit of those strong relationships and the increased outstanding and spend sales volumes you get in future years. So we have been on a journey for the last two years and we continue to be on it way, there is some impact associated from the fact that we are now acquiring new customers each of which we believe returns hurdle for us or more than hurdle for us is accreted over a period.

Ken Usdin

Okay. So it's a today versus tomorrow thing. And then on a follow-up, coming back to the energy discussion, you mentioned that it would be net to the consumer business and I just wanted to ask you to flesh that out for us. As you think about the benefits that you'd expect to get from the decline in oil prices, is it growth, is it spend, is it credit? How would you disaggregate that and give us an understanding of either magnitude or just time to see that benefit?

Jamie Dimon

I wouldn't spend too much time trying to build this into your models if I were you, but it is quite clear that when you add $800 a year to the consumer cash flow statement that they consumers on average spend most of that. And I think you are seeing it in spend. And you are seeing in car sales, and you are seeing in retail spend, you've seen it -- and it is also quite clear it helps consumers. It helps their credit. I mean broadly. I mean we are not going out and saying that we are going to reduce credit cost and auto card and a bunch of stuff by kind of 15 basis points. I mean just you know it is going to be there. Just like you know was there when they are in the flipside. People spent a lot of time talking about how much gas price is hurting consumers and why shares down at Walmart, Family Dollar store et cetera. This is just the flipside of that.

Marianne Lake

And if you just look at the consumer spending specific, if you look at four quarter analyzed up 4.7% is the best consumer spend basis in 2003. So it is already taking effect in consumer spend and the disposable income as you say we are already expecting a new cost sales to grow next year but all of this is going to support the continued strong that we see in consumer.

Operator

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

Jim Mitchell

Good morning. Just want to follow up on the card fee income discussion. If you looked at your new accounts opened year-over-year, you were flat. You're starting to seem -- you seem like you're starting to lap that higher amortization of acquisition costs. So is it fair to assume that we are at least getting closer to an inflection point where we're going to see fee incomes more track more closely with growth in spend or is there something else going on there?

Marianne Lake

So you are right we are close to where -- we are close to lapping the acquisition cost dynamic not discloses but in the near future. But what you are going to continue to see is that we have a portfolio that in one off and as those lows run off they were loans that were high up and high rate loans than the ones we are originating right now. And as a result you are going to continue to see some spread compression in 2015 again against which you are going to see strong interchange. So I would say, yes, ultimately and in the fullness of time you are going to start to see the interchange growth outpace the spread compression but for a period of time there going to be somewhat of wash.

Jim Mitchell

Right, but I was just speaking specifically to the fee income where you were down I think 7% year-over-year. I would think that would start to turn positive at some point.

Marianne Lake

Yes.

Jim Mitchell

Okay, fair enough. And maybe just one quick question on the expense side. You talked about the simplification impact on revenues and expenses. You're still at sort of a net negative about $200 million pretaxes. Should that get closer to zero? Is it just it takes a little longer to get the expenses out versus the revenues or is that going to be a permanent drag?

Marianne Lake

So there is a -- overall the rate of income asset is not ultimately going to be necessarily zero, but when you think about in the context of the capital and the relative returns, it was not accretive our returns. And so we have the differential between 500 and 300 for the full year, it is still not zero. There is a slight lack. Clearly the slight lack taking out the expenses and but this is overall small net income impact but for overall mutual to positive benefit on the return.

Jim Mitchell

Okay, got you, thanks.

Marianne Lake

And regard these all that, remember, that our rationale for business simplification included a bunch of different reasons included activities that were core to our core clients' activities that were outsized in terms of operational and other risks as well as those that were returning hurdles. So there are other reasons to simply your business and they will have other ancillary benefit.

Operator

Your next question is from the line of Brennan Hawken with UBS.

Brennan Hawken

Good morning. A quick question on derivatives and equities. You guys highlighted the strength there. Were there any one-timers in those results because it certainly seemed like 4Q was volatile. Also did the uptick in equities VAR have anything to do with the revenue trends there?

Marianne Lake

So no specific one time items in the derivative and equities derivate performance. And the uptick VAR has to do generally speaking with high levels of volatility that it does with anything in terms of risk direction.

Jamie Dimon

Equity derivatives largely Japan and Europe and Asia, they increase --

Marianne Lake

South Asia, yes.

Brennan Hawken

And that's true across --

Jamie Dimon

That's the actual volatile -- is an example of volatility did actually help.

Marianne Lake

If you look at equities in total and particularly in the prime space, there was a small one time item but not in the derivative space.

Brennan Hawken

Got it. And that change in VAR due to volatility was sort of across the board in the buckets, not just in the equities VAR?

Marianne Lake

It is not a significant increase in VAR but yes we had -- you see increase in CPG VAR, on spread widening and volatility increase in equities, I mean just year-over-year and quarter-over-quarter we have seen an increase in volatility.

Brennan Hawken

Okay. And then sticking with capital markets, thinking about how we're starting the current quarter, it does feel a lot like deja vu here in the beginning of the fourth quarter where the markets are beginning with some pretty unconstructive volatility. I know we're very, very early going, but is that a fair comparison to make and are we starting off on a pretty tough foot here? Obviously there's a lot of road to hoe here, but any comments on that would be helpful.

Marianne Lake

I mean this quarter more than any quarter, it is like really honestly too early to make any comments of any note regarding trading performance particularly given that the holiday sale mid week, so reality the situation is dramatically nothing has changed from the end of the fourth quarter, but there is no big new news in the first few days of trading.

Brennan Hawken

Great. Last small cleanup one on capital markets. I know you've mentioned that there's going to be a lag from business simplification, but was any of the declines in comp in CIB tied to business simplification here? Just trying to think about how much of that drop might have been due to some other items aside from --

Jamie Dimon

It got year on clean up; it had nothing to do with business simplification.

Brennan Hawken

Perfect, thanks.

Marianne Lake

And I think if you look at our revenues excluding SVA/DVA year-over-year that's on reasonably line with comp.

Operator

And your next question is from the line of Paul Miller with FBR.

Paul Miller

Yes, thank you very much. On the mortgage banking side, you're definitely picking up market share from probably your -- you were shedding market share up until probably the second quarter of this year and one of the chatters out there is that you've gotten more aggressive in the correspondent markets and the comment you made, Jamie, back in I think June of this year was that you wanted to get out on -- maybe not get out of, but lessen your exposure to those low FICO, high LTVs, i.e. FHA loans. I was wondering if you are still trying to lower your market share in FHA loans. Can you make some comments about being more aggressive on the correspondent side too?

Jamie Dimon

I think they are two different issues. One is the correspondent business, properly done is fine and obviously we do look at their credit underlying because we had a back up over that 5 to 10 years correspond single loan over business and if we did a bad job we had pay for that. So you have to be more careful and do business with a proper kind of people. We have reduced our share of FHA loan just because the ongoing two reasons. One is the ongoing liability in the production side where the insurance was worthless over time. And the second is the just to cost to servicing FHA loans when they are going default and they have a much higher chance of going to default than not. So those are two reasons to do less. And that maybe I'll change over time but we are still in the same place in that.

Marianne Lake

And just on the share gains, they are in jumbo and commercial conforming loans not in the government space. So, yes, we are -- we are competing aggressively on price but with the right capital allocation with the right hurdle. And these are loans that are very high quality that we are willing to put on our balance sheet done with correspondence that we have confidence in the financial status off.

Paul Miller

And then some of the rule -- on a follow-up -- some of the rule changes you're seeing coming out of GSEs that try to spur I guess loan demand is you're seeing the GSEs starting to do 3% down payment loans. Is that something that JPMorgan would go down underwritten correctly or is that just too risky?

Marianne Lake

So I mean the GSE, you could always get loan up to 97% in the government space because in the agency space with mortgage insurance we've seen some movement from the FHA on GSEs and mortgage insurance payment. All of which I think is intended to try and help credit availability which we would generally support. It doesn't change our strategy, however, which is that we are much more focused on originating in the very high quality jumbo and conventional conforming space. But, yes, probably underwritten we will do agency loans in the programs that they have available.

Operator

And your next question comes from the line Eric Wasserstrom with Guggenheim Securities.

Eric Wasserstrom

Good morning. Just a couple of follow-up questions. Marianne, you talked about some of the loan growth that you've experienced and expect to continue to experience and also the driver of the RWA reductions. But can you just help us understand what we should expect from your GAAP balance sheet given that a portion of the RWA reduction sounds like it is coming from runoff?

Marianne Lake

Yes, I mean look we have over the last I think two years and a quarter two plus years or so, we've seen an inflow of cash of between $300 billion and $400 billion on our balance sheet. And so our balance sheet size has grown slightly over the course of the last several quarters in the last year. But the vast majority of the growth is driven by incremental cash and there are two principal reasons for that. One is as we have been looking to become compliant with our and with U.S. rules on liquidity which we are compliant with -- and this was happened for a while, but the other is also that we've been receiving increased non operational cash flow and whole supply and so to the degree that cash is accretive from NI perspective and that we on balance sheet or leverage constraint and it is a key part of relationship with that client. That may not be a bad thing. And but to the degree that it is not a key part of the relationship that we are going to be disciplined about trying to manage that balance. So I would say underlying that we would expect our balance sheet to not be growing and certainly not significantly but cash can be the volatile factor.

Eric Wasserstrom

Sure. I guess I was thinking about it more from the perspective of the loan portfolio. It sounds like the expectation is --.

Marianne Lake

Yes, so we saw loan growth year-over-year 8% gross, 3% reported. We feel pretty good about the demand for loan across our business, particularly those have been performing strongly now consistently like business banking like prime mortgage on the portfolio, commercial real estate even also and we are continue to be optimistic about C&I and even cards. So, yes, we would expect to see robust loan growth into next year and hopefully on the back of a continued improvement in the economy.

Eric Wasserstrom

Got it. So if I were to summarize all of the guidance that you gave today with those comments, it sounds like the expectation is for modestly higher net interest income, fee income reflecting whatever volatility we suffer from in the capital market space, an absolute decline in operating expense, but likely some increase in the provision. Is that generally correct?

Marianne Lake

I do the NI one for you and on the back of robust loan demand and rising rates in the second half of the year which is our current central case and we would expect NI to be up in the second half of the year, flattish in the first half of the year, obviously those two things, if they payout then that wouldn't be the case. And I like you draw your end conclusion on rest of it.

Jamie Dimon

You're using the implied curve effectively so that changes and obviously you will expect second half of the year.

Operator

Your next question comes from the line of Chris Kotowski with Oppenheimer & Co.

Chris Kotowski

You've been consistent about -- on the issue of dividing the firm up into constituent companies about the strategic benefits of it all, but I wonder if you've done any contingency planning on what if it ever came to the fact that it was too much of a drag to keep it all together? And I guess the question I have is, is it even possible to unscramble the egg and specifically the issue I'm wondering about is you've got over $160 billion of debt at the parent company level. If you were to break the Company up into a consumer bank, a wholesale bank and an asset management business just for argument's sake, is there a way to fairly allocate that debt to the three various lines of business or how would one even go about that?

Jamie Dimon

Look the unscrambling, it would be extraordinarily complex. And it would be extraordinarily complex in debt, in systems and technology and people and where certain things go and the businesses would start competing with each other right away which I think is perfectly reasonable if they are all separates in the loan and so look we are very conscious of the narrative which had become out there about this but it is far more complex than that. The right way to look at it as we have this great franchises, we have a lot of time to manage through this. And that is our objective not unscrambling egg. We are going to manage through it and we can manage almost every single part of it over I think over a long period like five or seven years. Don't think of over six months or a year. There is nothing we couldn't settle in it, drive down, sell, manage and that would be probably far easier than the alterative. Even if it led to lower growth but it wouldn't necessarily to lower returns. So just keep in mind that obviously we can do the right things at the end of day for shareholders. It might be lower growth and better returns and managing through then not doing certain things at all. Marianne mentioned for example the amount of deposits we take in. Or it might be that we limit and restrict in our deposit we take at quarter end. We do it accommodate clients but all those non operation deposit will directly into the Federal Reserve. That's what Marianne said. We do it and maybe make some Fed gains 25 basis points there and maybe paying the client something. There are some clients we don't charge to take the quarter end. And they are doing business with us and we don't want their quarter end balances. So we have a lot of leverage, we have a lot of time and we will do it very intelligently over time. Not just damages franchises because of current narrative. And the other thing I want to point out about the current narrative which kind of surprises me that people don't mention, when you all talked about P/Es and some of the parts P/Es are temporary. P/Es change over time and the real question we should asking is, is the E going to be much higher or much lower under scenario A or B not just what the P/E going to be. So that gives a lot of scenario, your Es going to be held lot lower. And that towards the effect of the P/E change. And PE itself is temporary. JPMorgan is already earning, it is across the capital and you compare it to P/Es to lot of cousin who aren't earnings across the capital. I mean people expecting the dramatic growth in earnings which they will. And so you -- it is just-- you really got to have much more forward looking view over P/Es would be, what values would be, what earnings would be, what the franchise would be than just some of the parts breakup based on current P/Es and false comparison. Just some of the people out there feel a comparative, they are not real comparisons. We are not in the same business as those people so but we are sure conscious. It is not to say we are not going to do the right things for shareholders over time. We will, there are other ways to do it. And the other thing which I think is important too is that we compete globally. Remember, we have to be very conscious who we are competing with and what they are going to do over time. And my guess is you can have some very large, very tough global competition over the next 20 years. They are not going to wait, they may have currently lower G50 charges but I am not sure if can be true 10 years from now. Now particularly the Chinese banks get bigger and bigger and some other global competitors decide they wanted to be in there global businesses.

Operator

Your next question comes from the line of David Hilder of Drexel Hamilton.

David Hilder

Good morning. Thanks very much. On the question of legal costs, and I realize you'll refresh your disclosure in the 10-K, but can you say anything about whether there are other cases or buckets of cases out there that have the potential to cost $1 billion in any one quarter?

Marianne Lake

No. I would refer you to -- I mean if you look at 10-Q from last quarter that would give you a sense for the things that are outstanding. We will obviously update and refresh in the K but I am not going to discuss specifically all of the remaining cases.

Jamie Dimon

David, I think again in either way people, I know we know we caused problem if you all because we have just one big quarter by quarter type stuff, I wouldn't look at this is quarter by quarter issue. If you owned a 100% of this company, the better way to look at it is, it is going to cost us several billion dollars more of somehow plus or minus another couple of billion before we get to normal-- what I call normalized legalized basis. We disclosed all that stuff in 10-K. And I think our RPL, if you ask me it is actually fairly decent way to look at what those might be. And we give you an RPL number which is something has not gone to the P&L which possible and we can't make something which is lumpy not lumpy and we can't make something which we can bucket and putting out, if you could we would all the reserves now they were done. We can't.

David Hilder

Understood. Thanks very much and for your comments on the --

Jamie Dimon

It is a number and the important part is the shareholder, I want to deal with that acknowledge our mistakes, try to have fortress controlled balance sheet, try to stop stepping and in dog shit which we do every now and then. And build the customer franchise the important part. When you have a market cap of $230 billion, I want to make that worth $500 billion, 10 years from now. The several billion dollars that we are going to have to pay for legal of this-- and we want to fix it. And it is unfortunate we do these to you all but it is unavoidable right now.

David Hilder

Right. Well, I would agree with all of that. Thanks very much.

Operator

Your next question comes from the line of Nancy Bush with NAB Research, LLC.

Nancy Bush

Good morning. Two questions. Marianne, we had some numbers last week that indicated rising delinquency in auto loan portfolios and I think your commentary about your losses this quarter kind of confirm that. Are the numbers right now aberrational or is this a seasoning trend or how do you see this?

Marianne Lake

Yes, so I mean I can talk for JPMorgan very specifically that we are seeing the charge-off rate, remember we've had charge-off rates for the auto business that have been relatively low for an extended period and now we are seeing them revert back to something more normal. And when we think about pricing the business and through the cycle, we concentrate on more normal level of charge-off. So this isn't surprising to us. Having said that what we are also seeing in terms of just the broad competitive space is, is not a rationality necessarily but longer duration, higher LTV more sub prime origination. And JPMorgan, we are low LTV than the industry and very concentrated on the near and super prime space. So as a part of that we are just not participating in but even for our own portfolio, you are going to see some of those charge-off rate trends up to something a bit normal but that's how we think about the business through the cycle.

Nancy Bush

Do you feel confident that this is not sort of the canary in the coal mine with regard to perhaps other consumer segments?

Marianne Lake

I mean I hate to say I'm confident about anything but that's not our expectations

Jamie Dimon

Again it is very good question into the full year went into the mortgage thing. We are sub prime was an early indicator freedom prime. But when we look at credit card, we don't think it is early indicator credit card. We will be very conscious. As Marianne said, auto did unbelievably well through the crisis, shockingly well, we will all say so maybe there is return to norm. But we are going to be paying a lot of attention.

Marianne Lake

And the lines where origination now that the very further right side of 700 FICO loans with LTV zone and the industry loan is 100%.

Nancy Bush

Jamie, one final, hopefully final question on the breakup issue. We all listen to what you say about the strategic value of your businesses and the complementary nature of the businesses, et cetera. And it all sounds very logical. But in Washington, there is still a belief that your company in its present form is a danger to the global financial system. Is there any -- in your view, is there any level of capital that is going to mitigate the too big to fail issue or does it go beyond that?

Jamie Dimon

I think, Nancy, views and facts are completely different, okay. This company was a -- what was a port in the storm in the real crisis in 2008 and 2009. And that was after we booked --, we had no issues whatsoever. Okay, we had a lot more capital now, we are more conservative now. We've got less credit exposure to percentage of balance sheet. We got less risk to the percentage of balance sheet, got more long-term debt, we got more liquid assets. We got more -- so it is even more too today. The fact is the company is a powerful thing. People when they talk about risk, they are just talking about stock-- lot of they feel look at the size there, it scares them. I completely understand that. But that isn't the determinant and I don't think we should be making shareholder decision based on views the people don't mess like really no. And so if the regulators then they want JPMorgan to be split up then that's what have to happen. We can't fight this federal government. That's their intend to-- maybe their intend what it is, if you are going to carry more capital, you got a modest value business model over time to carry capital. That one we think that we can earn a superior return still versus other banks and carry the higher capital and modify our business model over time without taking drastic action. And remember, again, you got to look forward in this. America has been the leader in global capital market to the last 50 or 100 years, it is part of the reason the country is so strong. I look as a matter of public policy. I wouldn't want to see the next JPMorgan Chase to be a Chinese company. And because someone is to be serving the global multi national around the world and all the things that mean the knowledge and experience and research and capabilities and so I think if you look ahead 10 years, you are going to have large global companies to compete. And you may have to be slightly small we might otherwise have been so be it. But if you can do that and do it good return for shareholders we should do that.

Operator

And your next question is from the line of Gerard Cassidy with RBC.

Gerard Cassidy

Thank you. Marianne, can you tell us -- obviously, you've built up your HQLA in the quarter and your net interest margin came down. How much of the margin pressure was due to the increase in the HQLA?

Marianne Lake

So I will tell you that - and to answer the question maybe just slightly differently but with the same basic point that we have -- we added the resorting increasing cash of about $45 billion or little bit more than $45 billion in the quarter and not drove the vast majority of the five to six basis points decline in them.

Gerard Cassidy

And are you guys -- I notice that the deposits at the central banks as you pointed out grew very largely in the quarter. Is this a level that now you're satisfied with? And also connected with that, what as outsiders should we look at that will drive the LCR ratio either higher or lower in terms of your calculation that you're going to be doing on a quarterly basis going forward?

Marianne Lake

So what it takes, what we have in deposit with the central bank, if any deposits that we have that is excess operating or none operating that we don't think has any significant or any liquidity value to the company. On the whole there is a rule on deposit with central bank and earning a very small amount of interest income, and there are some parts and they try net-net for something slightly accretive. And so that was driving the amount of cash to the degree that we have more non operating cash that would drive that. We complaint with LCR under the U.S. rules with appropriate but modest buffer right now. And that based upon what we think is a fairly forward leaning point of view about what true operating deposit really are. So as we think about what the cashes is in customer's account like really require to operate our businesses and know more. So we think we got a forward leaning point of view on that. So I think the rules for the U.S. final and I think our ratio for U.S. LCR right now will be stable for a period of time. And if there any changes either to the U.S. rule which we don't have any line of sight on or if we are required to make changes or require to make changes to our own internal liquidity framework that could cause us to add liquidity but that's something that will inform you as we go through time.

Jamie Dimon

If you look at our balance sheet, okay, we got always real stuff; we have always $500 billion at central bank around the world. We have like $300 billion plus of AA + securities of very short duration. We have like $300 billion of repo on security and stock borrow which is all secured in commodities by top credit with the proper haircut and stuff like that. And with our capital base of equity and capital $200 billion preferred stock of $30 billion TLAC of debt of $150 billion plus, our loan is just $700 billion which probably always been riskiest part of our balance sheet. And it would achieve like

70 and so this balance sheet, this company is unbelievable.

Gerard Cassidy

Totally agree. One last thing on those deposits of the central banks, I know some of the big custody banks indicated that they were going to charge their customers that have euro deposits because the ECB is now charging for the deposits at the ECB. Did you guys do that in the quarter and if so how did the customers react when you passed on that cost to them?

Marianne Lake

So for Fed institutions and non bank -- for bank and non bank financial institutions, yes, we passed on the over night rate for our customers and it is basically on their operating cash flow. So it is what we are doing is passing through the cost, if operating cash for their business so there was --

Jamie Dimon

In euro.

Marianne Lake

Yes, in euro. So there was no significant reaction at all. It is market --

Jamie Dimon

It is very hard; I mean not going to be taking deposit at a loss. That is just very temporary to help our client. So I think everyone understand that.