Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's fourth quarter 2013 earnings call. This call is being recorded. Your line will be muted for the duration of the call. We will now go live to the presentation. Please stand by.

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

Marianne Lake

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

So if we start on page one, the firm generated net income of $5.3 billion for the fourth quarter, or $1.30 a share, with a return on tangible common equity of 14%, on revenues of $24 billion, down 1% year on year, and up 1% quarter on quarter.

As you see, we had several significant items in the quarter, which I will review as we go through the presentation in more detail, but they include a $1.3 billion gain on the sale of Visa shares and a $0.5 billion gain on the sale of One Chase Manhattan Plaza, both in the corporate segment; as well as $0.8 billion pretax, or a $1.1 billion after-tax impact of legal expense in the quarter, partially booked in mortgage, with the remainder booked in corporate, principally the Madoff settlement recently announced; a $1.3 billion benefit from reduced loan loss reserves in consumer businesses.

And then in addition, CIB's results for the quarter include a $2 billion loss for [DVA] and FVA, or funding valuation adjustment, which I will also come back to in more detail.

The total impact of these items is a negative $0.10 of EPS. So not to diminish their importance, but to illustrate the strength of the core performance of the underlying businesses, if you do adjust our results for these items we would have earned, $5.7 billion less income, $1.40 a share, and a return on tangible common equity of 15%.

So talking about the full year, skipping over page two and straight to page three, reported net income of nearly $18 billion, or $4.35 a share, on revenue of approximately $100 billion, and a return on tangible common equity reported of 11%. Again, if you adjusted for all reported significant items in the year, we would have earned net income of over $23 billion,

$5.70 a share, and a return on tangible common equity of 15%. Again, strong underlying performance for the full year.

Of note, let me talk for a minute about adjusted expenses. You can see on the page that our adjusted expenses, excluding corporate litigation and foreclosure-related matters, are a flat $60 billion. This is in line, albeit at the high end, of our guidance of $59.5 billion to $60 billion for the year. But, included in this number is a total of close to $1 billion of other noncorporate legal expense, which, if we had adjusted, would have left a more core number at just over $59 billion, despite the incremental investment in controls of $1 billion that we made in the year.

So briefly recapping on 2013, clearly a year marked by regulatory developments and significant legal settlements. However, more importantly, also a year in which our businesses, together and individually, performed strongly. We succeeded in further progressing our customer satisfaction agenda and gaining market share across businesses.

2013 saw very strong credit performance across businesses, including significant improvements in mortgage. And finally, we ended the year with strong capital liquidity and margins.

So let's talk about capital on page four. I'm not going to talk much about Basel I except to say that you can see we progressed our ratio in the quarter to 10.7% Basel I tier one common. But importantly, if you look at the middle section, you see that our Basel III tier one common ratio is 9.5%, meeting our year-end target.

Just a few words on the components underlying this ratio. Three things: first, we generated approximately $5 billion of net capital in the quarter. Second, we also saw significant RWA benefit of model and parameter updates, including HPI and lower spreads, as well as portfolio runoff. And third, these positives together, worth over 60 basis points of improvement, were reduced by about 50 basis points due to higher levels of operational risk capital.

The significant increase in operational risk capital this quarter is largely driven by the inclusion of the large legal expense from the prior quarter. We will spend some more time on capital at investor day, but despite headwinds, we still anticipate reaching 10% plus or minus Basel tier one three common by the end of this year.

A quick update on leverage. Both the firmwide and the bank supplementary leverage ratio under U.S. rules increased to 4.7%. I'll come back on the next page to talk about the final Basel SNL framework that was issued this weekend.

During the quarter, the holding company converted [certain] into company debt at the bank into capital, improving the bank's relative ratio. We remain compliant with LCR at the firm level this quarter, including the impact of the proposed new rules, and we continue to have about 19% of available resources relative to risk-weighted assets at the end of the year.

Before we move on, as you know, the Volcker Rule was finalized in the quarter, and having had the opportunity to consider the rule, some thoughts. The certainty provided by having a final rule, and the implementation date of July 15, were welcome.

It is a tough rule, and the regulators have laid out stringent standards for compliance policies, procedures, controls, and testing, which will bring operational challenges to implement. However, we believe that the firm will be materially compliant across our businesses with the rule. We have work to do to get there, but we don't expect any material impact to our results.

Let's take a closer look at the impact of the final SLR framework from this weekend, on [unintelligible]. As you saw, the Basel committee released the framework this weekend, which has gone a long way towards closing the gap relative to the U.S. NPR. And the changes they made are responsive to industry feedback and seem sensitive to potential market impacts.

Our initial analysis estimates that the impact will worsen both the holding company and bank ratios by only approximately 10 basis points relative to U.S. proposed rules, so that would be 4.6% for each of the holding company and the bank.

This impact is primarily driven by a positive related to improved assumptions on unfunded commitments being slightly more than offset by the inclusion of written credit protection provisions, previously not in the U.S. rules.

However, between the likely implementation in the future of NIM for derivatives' potential future exposure and the ability over time for us to improve [unintelligible] for cash collateral, there should be significant improvement opportunity ratio in terms of basis points.

Overall, our leverage action plans don't change materially. We'll be thoughtful and measured about implementation in 2014 and beyond, and our perspective on specific products and businesses is not just driven by capital implications, but also by the importance to the broader franchise and client relationships.

We do expect to reach 5% plus or minus at the holding company by the end of this year and to be compliant at the bank shortly thereafter. The next step is for the U.S. regulators to determine when and if they'll adopt this new denominator, although we feel it's reasonably likely that they will.

In addition, over the weekend there was a consultation paper issued on NSFR. The proposal more closely aligns NSFR to the current evolved LTR framework in terms of definitions and assumptions, which is a positive step. And, based upon the proposal, we estimate that the firm is compliant today with NSFR.

Turning to business performance, let's start with the consumer and community banking on page six. The combined consumer businesses generated $2.4 billion of net income for the quarter on $11.3 billion of revenue with a return on equity of 20%.

A couple of comments on drivers. We continue to make strong progress, as I said, on our customer satisfaction agenda, being recognized by the American Consumer Satisfaction Index for the second year running as number one among the largest banks, as well as number one in small business in three of four regions in the U.S. and number one among large banks for mortgage originations, both by JD Power.

On our retail branch network, we've completed building out our key expansion markets, including California and Florida, and have reached leadership positions in each of our key markets. So we feel good about our footprint at or around this level of 5,600 branches plus or minus, and our focus from here is on optimization, including branch size and usage, and leveraging digital capabilities.

Lastly, our other key business drivers continue to grow strongly, reflecting increased consumer engagement, evidenced by growth in deposits, investments, sales, and processing volumes. And our expenses are down nearly $700 million from last year, primarily due to lower mortgage bank expenses. Across CCB, we've reduced headcount by 16,500 year over year.

Turning to page seven, consumer and community banking generated net income of $780 million and an ROE of 28% on net revenue of $4.4 billion, up 4% and flat with the prior quarter. Net interest income is up 3% year on year, driven by the continued strong growth in deposits, partially offset by spread compression. It's our investment in customer satisfaction, newbuilds, and CPC that is driving this deposit growth, and also the highest account retention rate in a decade.

On the noninterest revenue side, we continue to see strong growth in both debit and investment revenue, with close to $190 billion of client investment assets, up 19% or $30 billion year over year, about half related to market performance and half due to net new money gains.

Expenses are up 3% year on year, reflecting costs relating to the strengthening of the control environment, but have flattened sequentially as we improve efficiency in our same store branches, with starting down by over 6,000 year over year.

Business banking loan balances are flat quarter on quarter and up 1% year on year, and production levels in the pipeline remain stable. However, the environment has been challenging throughout the year due to competitive pressures, and we've maintained a high level of credit discipline. But we're cautiously optimistic that we'll see small businesses start to spend some of their cash reserves in 2014, but growth may be back ended.

Turning to page eight, mortgage banking, overall, mortgage banking net income was $562 million with an ROE of 11%. There are a couple of nonrecurring items this quarter, which I'll explain as we go through the results, but if you look at the top of the page, you'll see production [ex repurchases] with a reported pretax loss of $500 million. But if you look at the table at the top right, we've adjusted for the one-time items, and you can see a loss of $91 million, slightly negative, as expected, and as we guided to.

Revenues in the quarter were down 15% on lower application volumes, down 23%, and from a mix perspective, nearly 60% of loans were purchased loans this quarter, up from a little over 20% the same time last year.

Production expense includes approximately $400 million of non-MBS-related legal expense. This is part of the significant item on the front page. Again, adjusting for this, we're seeing the benefits of actions we've taken to reduce expenses, with adjusted expenses coming down around $80 million quarter over quarter.

Dealing with repurchases, as you know, during the quarter we reached a settlement with the GSEs on agency repurchase exposure. After allowing for the settlement amount, we are releasing a net $130 million of repurchase reserves this quarter, with $90 million being added to compensatory fee reserves as the settlement did not cover these potential fees.

And before moving on to servicing, just looking out to the first quarter of 2014, the overall mortgage market is estimated to be roughly flat versus the fourth quarter. And although we do expect to see some continuation in expense improvement, revenues will continue to be challenged. And we're guiding for the first quarter, similar to the last two quarters, to be slightly negative in pretax productions.

Moving to servicing, pretax income about breakeven in the quarter. Servicing expenses of $663 million includes that $90 million of compensatory fee expense that I just mentioned, which related to loans previously contemplated in the repurchase reserves. Adjusting for this item, our core expenses would have been slightly better than our previous guidance of $600 million for the quarter.

Finally, on real estate portfolio, pretax income of $1.2 billion, including chargeoffs of $167 million and a total reserve release of $950 million. The noncredit impaired reserve release for the quarter was $200 million, reflecting continued improvements in the portfolio, but at a lower rate, but also we released $750 million of reserves in the purchase credit impaired portfolio, given recent significant improvements in HPI forecasts of approximately 5% for our portfolio through 2015.

Turning to page nine, [unintelligible] merchant services and auto, net income of $1 billion, up 23% year on year, with an ROE of 26% or 22% excluding reserve releases, reflecting underlying excellent performance in the business. Consumer spending has been increasing, and we’re seeing strong growth in interchange revenue, reflecting growth in sales volume as well as seasonality in the fourth quarter.

Year over year, growth in both sales and merchant processing volumes was consistently strong at 11% and 14% respectively, with average outstandings flat year over year and quarter over quarter, yields remaining healthy but lower than a year ago.

We do continue to see runoff of high rate and low FICO balances, with a move towards more engaged customers or transactors, which is a positive trend for spend and for credit performance but a negative to yield, and we expect spread compression to continue into 2014.

Net revenues of $4.7 billion, down 3% year over year and up 1% quarter on quarter on seasonality, with a revenue rate of 12.34% for the quarter. Consistent with these portfolio trends, the net chargeoff rate has stayed at historical lows at 2.85% and we released $300 million of loan loss reserves this quarter, given improved delinquencies and portfolio seasoning.

Expenses are up 3% year on year, about 16% quarter on quarter, primarily driven by increased marketing investment spend and costs associated with payments to customers required by a consent order.

A few words on auto. Originations are up 16% year on year, driving loan balances up 5% year on year and outpacing new car sales growth of 5%.

And before we move on, as you know, there were two data security breaches affecting our customers over the last several weeks. We took quick action to protect our customers, and we continue to monitor both situations. The financial impact for the quarter is not significant.

Moving on to slide 10 and the corporate investment bank, the CIB results this quarter include a $1.5 billion loss as a result of implementing the FVA, or funding valuation, framework, as well as a $0.5 billion DVA loss.

On this page, we'll focus on the numbers excluding FVA and DVA, in the table on the top right. And I'll come back to FVA on the next page. So you have net income of $2.1 billion on revenues of $8 billion and an ROE of 15%. And we maintained our number one ranking in both global IBCs and markets revenue, gaining share year over year of over 100 basis points in each.

In banking, total revenue of $3 billion, with IBC slightly ahead of our guidance. IBCs of $1.7 billion for the quarter up 11% quarter on quarter and down 3% year on year, driven by lower debt underwriting compared with a record prior year quarter, partially offset by strength in equity underwriting.

Treasury services revenue of $1 billion, down 7% year on year, driven primarily by the decision to reposition our trade loan portfolio.

Moving on to markets and investor services, our markets revenue of $4.1 billion was flat year on year, also slightly ahead of the guidance we provided in the fourth quarter.

Fixed income markets revenues of $3.2 billion, flat year on year, with continued solid client flows.

And equity markets of $873 million, down quarter on quarter off of a very strong equity derivatives result last quarter, as well as seasonality.

Security services revenue of $1 billion, up 3% year on year, primarily driven by higher custody and fund services revenue on record assets under custody of $20.5 trillion and also on higher deposits.

Just a comment on credit. We continue to see a favorable credit environment with stable credit quality trends, and our provisions continue to benefit from repayments and recoveries. Expenses of $4.9 billion, down 2% both year over year and quarter over quarter, driven by lower compensation.

The comp to revenue ratio, excluding FVA and DVA, was 27% for the quarter, in line with the same quarter last year and 30% for the full year, which is in line with our guidance, albeit at the lower end, on higher capital year over year.

Loan balances are down 7% year on year, flat quarter on quarter, again primarily driven by trade loan balances, which could trend down or continue to trend down as we optimize the portfolio. And at the bottom of the driver section, VAR remains low at $42 million for the quarter.

Turning to page 11, and coming back to the FVA adjustment, we're recording a $1.5 billion loss as a result of implementing a funding valuation, or an FVA, framework for our OTC derivatives and structured notes this quarter, reflecting and industry migration towards incorporating the lifetime cost or benefit of unsecured funding into valuations.

Just a couple of minutes on the background and dealing with why now. To date, there's been no broad consensus that funding should be explicitly incorporated into valuation estimates. However, we believe that market practice for pricing and valuing derivatives has noticeably evolved during 2013 as we've been actively and continuously evaluating the market.

We've now accumulated compelling evidence, both from transactions as well as industry pricing services, that dealers are pricing funding into uncollateralized derivatives with a degree of consistency. This supports incorporating an FVA framework this quarter.

In very simple terms, you can think of FVA, which represents a funding spread over LIBOR, as having the effect of present valuing market funding costs into the value of derivative receivables today. These funding costs otherwise would have affected net income over the life of the derivatives.

Although the FVA framework applies to both assets and liabilities, the adjustment in the quarter is largely related to uncollateralized derivative receivables for two reasons. First, the funding value of collateral is already incorporated in the valuation of collateralized derivatives, and second, credit spreads, which are a significant component of funding spreads, are already recorded on liabilities through DVA.

So in thinking about the size of the adjustments, you have to consider the size, the tenure, the composition of the relative portfolio, as well as the appropriate spread. To give you some context, if you start with derivative receivables net of cash and securities collateral of approximately $50 billion, apply an average duration of approximately five years and a spread of approximately 50 basis points, that accounts for about $1 billion plus or minus the adjustment.

Additionally, although there is a material overlap between DVA and FVA, the remaining difference contributes to the adjustment. So the loss in the quarter represents a transition adjustment to this new framework, and can be thought of a one-time event as we incorporate the concept into the portfolio value.

Going forward, FVA will be incorporated into day one valuation of derivatives and implementing FVA should have the effect of significantly reducing our sensitivity to funding spreads going forward. We'll continue to refine FVA as the framework matures within the industry.

Moving on to page 12, the commercial bank saw a net income of nearly $700 million this quarter on revenue of $1.8 billion, with an ROE of 20%. Revenues were up 6% year on year and 7% quarter on quarter, net interest income increasing by 5% year over year, reflecting a one-time gain of approximately $100 million related to a lending-related workout.

Pricing spreads have continued to tighten across the board. Noninterest revenues were 8% up year on year, driven by record growth IBCs of over $500 million for the quarter.

Our credit book continues to show very strong performance, with a net chargeoff rate of only 7 basis points, as we continue to focus on quality names and a comfortable parting on deals that don't meet our standards.

Expenses were up 9% year on year, continuing to reflect higher product and headcount related expenses, primarily in controls.

Loan balances were up 7% year on year and 1% quarter on quarter. Our commercial real estate businesses continued to outperform the industry, up 15% year on year, 16 consecutive months of growth. But in C&I, overall loan growth remains flat, performing slightly below the industry as client demand continues to be low, competition high, and we remain focused on credit discipline over growth.

While sentiment remains fragile, there are pockets of activity, and we are cautiously optimistic that borrowing demand may improve as confidence in the recovery spreads. But again, that may be back ended in the year as clients are very liquid.

Finally, deposits are up 3% year on year and 4% quarter on quarter, on seasonality.

Page 13, in asset management, continued strong investment performance and long term [unintelligible] drove the fourth consecutive year of record revenue. The quarter saw net income of $568 million, up 18% year over year, with an ROE of 25%.

Record revenues of $3.2 billion, up 15% year on year, are driven by three main factors: strong fund performance as well as long term flows in every single asset class and from every region, overall benefitting from higher markets, and finally a mark-to-market gain from [received cash] on investment.

This is the 19th consecutive quarter of long term inflows, with $16 billion for the quarter, bringing the full year to a total of $90 billion, driving record assets under management of $1.6 trillion, up 12%.

We saw particular strength in multiasset and equities, and achieved number one ranking in 2013 for net flows in active long term mutual funds.

Expenses increased in line with performance of the business. And finally, in banking we continue to see growth across the board, with record loan balances over $95 billion, up 19% year on year.

Page 14. A total net income of nearly $800 million for corporate and private equity for the quarter. In private equity, a relatively quiet quarter, with aggregate results more modest than in prior quarters.

Treasury CIO showed a net loss of $78 million, driven by negative NII of nearly $100 million. But that compares to a run rate of negative NII of approximately $500 million in each of the first two quarters. This improvement reflects the benefit of higher investment security deals, up 50 basis points.

The investment securities portfolio has also been a significant contributor to firm-wide NIM stability, and in the second half of the year we deployed $66 billion growth in new investments, principally mortgages and munis.

Our ending balance of securities classified as held to maturity grew to $24 billion and will continue to grow this quarter. And you should expect CIO treasury NII to reach breakeven in the second half of 2014, all other things equal.

Before I continue, just let me talk for a second about NIM and NII, details of which are in the appendix. Firm-wide NIM, core NIM, and NII were all up slightly quarter over quarter, given market rates, and we expect both NIM and NII to be relatively stable in the near term, with the highest security deals I talked about being largely offset by loan spread compression.

Finally on this page are the corporate, sees a net income of $852 million, and there's a callout on the page. First, a net gain - all of these are after tax - of $800 million on the sale of Visa shares. We were, and we remain, a large Visa shareholder. However, in the quarter we saw the opportunity to risk manage approximately one-third of our Visa price risk exposure. But we clearly retain the ongoing litigation risks, both the ultimate amount and timing of the settlement.

Secondly, a net real estate gain of over $300 million on the sale of One Chase Manhattan Plaza, and these two gains are being offset by nearly $800 million in legal expense, substantially all Madoff related.

In addition, a few positive tax items in the quarter, largely the resupply reserves.

Page 15 in our outlook, to wrap up, we've actually covered all of the items on this page. So wrapping up, just to say that our four leading franchises are all performing very strongly, and we remain focused on serving our clients. We're committed to accomplishing our control agenda and adjusting successfully to the new global financial architecture, and we look forward to diving deeper into all of these things at investor day, which is coming up in a few weeks' time.

With that, thank you, and operator, you could open up the line to Q&A.

Question-and-Answer Session

Operator

[Operator instructions.] Our first question comes from Guy Moszkowski with Autonomous.

Guy Moszkowski - Autonomous Research

Just wanted to talk about the leverage ratio for a moment. You talked about a 10 basis point increase from the latest on Basel, if they do the add-ons. And I guess the big part that's hardest for us to see is really the impact of the CDS non-netting of mismatched maturities on protection bought versus protection sold. Can you give us a sense of what your numbers look like on that basis, so we can try and reconcile to your 10 basis points?

Marianne Lake

Just a quick thing, just to clarify, the 10 basis points is actually lower, not higher. It's a deduct not an add for the new Basel proposals relative to the U.S. rules. So remember, as we've previously been [disclosing] our ratios, we used the U.S. proposed rules that referenced a prior Basel denominator. So it's a 10 basis point worsening.

And you're right that we had two major things contributing to that. We had a positive associated with better assumptions on draws on unfunded commitments, slightly more than offset by a negative on the [unintelligible] protection. We're still working through the final details, but our best estimate is that it's in the mid-20s in basis points, 25 basis points plus or minus.

Guy Moszkowski - Autonomous Research

And can you just give us a sense for what the maturity profile looks like on your CDS protection purchased versus sold? Is there much of a maturity mismatch there? Or is there really not much?

Marianne Lake

If you start with our [gross growth] CDS protection [written], it's about $3.4 trillion. By the time you net that down for maturities, it gets down to a couple hundred billion dollars, but that's still impactful.

Jamie Dimon

Another thing to think about, it will be manageable because this is kind of a static analysis, before we started running the business slightly differently due to it.

Marianne Lake

Right. We saw the proposals as having been thoughtful. And we don't necessarily have to agree with the finer points of all of them, but it doesn't materially change our position or our our thoughts going forward. And as Jamie says, all of our businesses will now socialize and optimize against what we understand of the final rules, when the U.S. regulators adopt them.

Guy Moszkowski - Autonomous Research

On the $60 billion of core expense that you pointed out, on balance having been pretty flat with last year, despite the increases in control environment costs, can you give us a sense of how you currently see that evolving in 2014?

Marianne Lake

We're obviously going to do a bit more of a detailed deep dive on expenses over time at investor day. But for now, what we have said is that you should expect our adjusted expenses for 2014 to remain at or below that level of $60 billion. We also said that in 2014 the continuation of our control agenda is adding an incremental $1 billion over '13. So by remaining flat, we're effectively self-funding that $1 billion. Flat to down.

Guy Moszkowski - Autonomous Research

And how do you get comfortable that by doing that you're not going to eat into revenue growth, by starving other expenses?

Jamie Dimon

We're not starving any expenses. We're just managing it in a disciplined way, the way we've always done it. And if you look at the underlying numbers, there's a lot of growth in the underlying numbers. But it's clearly true that some of the derisking and spinning off OEP and physical commodities will affect revenues a little bit, but obviously profits less.

Marianne Lake

We've always been investing in the businesses and been willing to invest where the business pace and the returns justify that. But we are also finding efficiencies in a combination of the businesses, both consumer and the wholesale businesses, efficiency in the same store branches we talked about. You know, CIB continues on its journey on the back office and front office integration, and obviously mortgage expenses will continue to trend down, both in line with improved credit trends and also as we proactively manage the portfolio. So there's a lot of moving parts, but it's not at the expense of our willingness to invest in the businesses for returns.

Guy Moszkowski - Autonomous Research

And if I can follow up on the mortgage expense comment that you made, more just along the lines of the expenses against the origination franchise, it sounded to me like you may be extending your view of what the timeframe is to kind of get that to steady state, beyond the first quarter? Is that right, or am I misreading that?

Marianne Lake

It's not just about expenses. I think you have to think about the whole equation. We'll see some improvement in the first quarter of 2014, and we'll also continue to work on expense efficiency in the business. But if you look at a market that is currently being estimated at about $1.3 trillion, down from $1.9 trillion - and honestly a couple of weeks ago it was $1.1 trillion, so it's a very small market, one we haven't seen the likes of since the year

2000 - in a market like that, it's very challenging to deliver through the cycle returns. So we went through, over the last few years, years with very strong revenues and margins, and we are in a challenging environment as we look into 2014. But we're working on it.

Guy Moszkowski - Autonomous Research

And the last one for me, you mentioned the impact of operating risk due to the very high level of litigation costs this year. How should we think about that, and how are you thinking about that, with respect to CCAR?

Marianne Lake

The way to think about it in the short term relative to, say, the submission that we just did or in the near future, is that obviously a realized loss experience that is higher than we have previously seen informs your view and judgment as to what you could reasonably expect to happen in a future stress period. So it is fair to say that would drive our expectations for [unintelligible] on operational losses to be slightly higher. Having said that, it's not as if our previous submissions didn't contemplate there to be significant stresses in operating losses. So I would characterize it as incremental and certainly not from a low base. And also remember that every quarter we move forward we generate capital, improve our ratios, so there's lots of moving parts to the ultimate outcome.

Operator

Our next question comes from Betsy Graseck with Morgan Stanley.

Betsy Graseck - Morgan Stanley

I just wanted to follow up on a couple of things. One was on NIM outlook. You did indicate that in the second half of '14 you were expecting that the CIO and treasury income would turn positive, if I read it correctly. And I would think that's a function of your security yields improving. Can you just give us a sense of what the new investment yield is for the security investments that you're making in that book right now relative to what the balances are at?

Jamie Dimon

I think the way you're supposed to look at it is something like $40 billion gets reinvested a year. And the basic assumption you should make is an average duration of three or four years. So think of five-year bonds or something like that. And just use the implied yield curve. [unintelligible] munis or MBS or something like that. The other thing to point out is it's completely dependent upon the decisions we make. We can change that kind of at will if we want to extend or reduce the duration of equity at the company.

Betsy Graseck - Morgan Stanley

And so given your comments that you’re expected to reach breakeven by the second half of ’14, that’s a reflection of higher interest rates, or a change in the way you’re investing the funds?

Jamie Dimon

It’s a little bit of both. It’s mostly just the change in the yield curve.

Marianne Lake

Yeah, we’ll have slower mortgage repayments. We’re able to reinvest at higher yields. We’re reinvesting in high quality assets, munis at high spreads. So it’s both.

Betsy Graseck - Morgan Stanley

And then your other point was you’re going to be taking that better return on that portfolio and using it to be as competitive as you want to be on the loan portfolio, and so expectation is that loan spreads will continue to pull down over the next couple of quarters at least. Can you just give us a sense as to how willing you are to be competitive on price in loan spreads? Should we be expecting that overall NIM compression is what you’re looking for here in the event that you get the quality loan growth you want?

Jamie Dimon

Well, you’ve got to separate the loans. On the commercial side, we’ll obviously be competitive, and we’re not assuming anything heroic in terms of spreads getting worse or better. But they’re low. You could argue down the road they might actually go up a little bit as capital requirements, liquidity requirements go way up. But we’ll be competitive. We’re assuming we’ve got to be competitive in those spreads.

Betsy Graseck - Morgan Stanley

And on the consumer side, card balances have been rewritten post crisis to be variable. Are you anticipating that you’re going to be in a rising rate environment, [in the belly of the curve], raising rates on card portfolio?

Jamie Dimon

Think of the card business as we try to run it fully match funded, so the spreads are about the same. And just remember, something like 65% is at an interest rate, something like 40% is transactor almost locked in rates, which we also match fund.

Betsy Graseck - Morgan Stanley

And then separate topic, just on the security breach that you discussed. You indicated that the card replacements that you've done so far has been de minimis in terms of expense. But could you just speak about it a little bit bigger picture, how you're thinking about fraud in the card space as well as in the debit space?

Jamie Dimon

We have replaced 2 million debit and credit cards I think by the end of this week, to protect our customers. Look, unfortunately, the cybersecurity, as we've now pointed out for a year, is a big deal. It's not going to go away. And all of us have a common interest in being protected. So this might be a chance for retailers and banks to for once work together as opposed to sue each other like we've been doing the last decade. But it's in all of our interest to do it, and I think all the people involved in this know that the third parties, whether it's machines, regional machines, your mainframes, you really have to put an extreme effort into protecting yourself. So this story is not over, unfortunately.

Betsy Graseck - Morgan Stanley

Right, and there's been this debate between tokenization versus chip and PIN, and I'm just wondering do you guys have an angle as to which way you would prefer to see it go?

Jamie Dimon

Honestly, I think you're going to see both. You're going to see chip and PIN in all cards, and then a lot of online type of transactions you're going to see tokenization. They both are very very good technologies to protect consumers and companies from fraud.

Betsy Graseck - Morgan Stanley

And then just last question, on the Visa, did I hear you correctly, Marianne, that you basically realized a third of the economic value in the Visa shares that you have? Is that correct?

Marianne Lake

Yes, that’s correct.

Betsy Graseck - Morgan Stanley

So two thirds left. And when you say economic, you’re talking about net of any hedging?

Marianne Lake

Correct.

Jamie Dimon

There’s an unrealized gain of approximately $3 billion today. It’s on our books at zero. This goes back to when Visa was spun off many, many years ago.

Marianne Lake

But that’s right, Betsy, net of hedging.

Operator

Our next question comes from Glenn Schorr of ISI.

Glenn Schorr - ISI

First question, on FIC in the IB. It’s pretty stable this quarter. As a matter of fact, if you look for the year, it was about in line with last year, which I think once everybody’s done reporting, it will be a pretty good victory. So I guess the question is, there’s a bunch of structural headwinds blowing on the business, and as you do your budgeting - it’s probably done already - can the industry grow with the headwinds on it? In other words, the offset would be better activity levels, steeper curve, things like that. But there’s a bunch of structural headwinds. I’m just curious how you think about it at the high level.

Jamie Dimon

There are some structural headwinds. You’ve seen a lot of adjustment in the marketplace. People have reduced the size of their inventory. But what you don’t know going forward is what’s going to happen to spreads. But I look at it a little bit like the sector’s on a cyclical. There will be headwinds from regulations, etc., but over time assets that people need to manage and buy and sell are going to go up over time, not go down. So what happens in 2014 is hard to say. Our business is fairly diversified, between rates, credit, emerging markets, FX, commodities, etc., which is definitely helping that stability.

Glenn Schorr - ISI

Maybe on a related note, I got a sense with the renewed focus on SLR that there's a renewed attention to compression trades. I'm just curious if that's ongoing, and it could be material in 2014 as this goes on? I know there's a lot of work involved, but the reward is pretty good too.

Marianne Lake

I would say it's ongoing, and it will be benefit. I think material might be a stretch at this point. And it is a lot of work, as you say. So the whole industry is working on that, and us too. We expect it to be beneficial, but not a game-changer.

Jamie Dimon

The SLR at 5% we do not think is going to be an issue for us. We've barely begun to manage it. There are a lot of things you can do in how you change your business. The bank issue is a little bit different, but think of that as more structural. What we did in the bank over the last 20 years, and what we're not going to do in the bank going forward, that will take a little bit longer, but for other reasons. It just takes us longer to change our business model to accommodate it.

Marianne Lake

I also think if you look at the other things I mentioned in terms of opportunities, putting NIM to one side, our estimate of the new Basel rule that we had, we've given you a 10 basis point movement backwards, have a conservative estimate of what we could ultimately achieve over time in terms of the ability to net cash collateral for derivatives, just given certain of the conditions. But again, over time, that will also be manageable, like compression trades and like many of those other things. So we haven't changed our view. We can manage against these targets by doing it thoughtfully and methodically, and not having to [unintelligible].

Glenn Schorr - ISI

Last one for me. You've noted you're 9.5% [unintelligible] tier one common, the 10% year-end target seems completely achievable given your earnings. I'm just curious how you think about balancing the absolute versus the relative meaning. You can get there on an absolute basis no problem. On a relative basis, some other large financial institutions have a little bit more.

Just curious if that matters as you talk about the capital planning process, or when you have enough, it's enough.

Marianne Lake

We said already that we would be willing to run between 10% and 10.5%, so we're on a journey here. We think we can get 10% plus or minus by the end of this year. It could be plus and it could be minus. But we think that at this point, based on what we know, running at that level of buffer or margin should be enough. Obviously we'll be more informed as we go through CCAR processes, but that's our point of view at this point.

Operator

Our next question comes from John McDonald with Sanford Bernstein.

John McDonald - Sanford Bernstein

One more quick follow up on the net interest margin outlook. NIM expected to be flattish. But I wasn't clear if, in the current rate environment, you expected to continue to add investments as you have been doing. And would you expect the net interest income dollars to grow from here as they did slightly this quarter?

Marianne Lake

I talked about the second half of the year growth, adding $66 billion. We've never talked about the second quarter. We added quite a lot in the second quarter. And yes, we have plans to continue to do that in 2014. And yes, we expect our NII dollars to be relatively stable, possibly slightly up over the course of the first half of the year, but relatively stable.

Jamie Dimon

And not [unintelligible] investments. If you look at the balance sheet today, we have almost $350 billion at central banks, mostly the Fed, another $350 billion of very high quality investment securities. And those two things combined equal our loans of $700 billion. So the company is very, very liquid. We don't really need to invest more. It depends on how much we grow deposits.

John McDonald - Sanford Bernstein

And what about just taking advantage of the 10-year yields moving up and your overall sensitivity to higher rates?

Jamie Dimon

I already said what we're going to do is, what you should assume now is that there's implied yield curves and constant reinvestment, but if you had rates move up 100 basis points all at once, we probably would be much more aggressive in doing something like that.

John McDonald - Sanford Bernstein

And then in terms of the litigation reserves, you resolved a number of large issues in the fourth quarter. So two questions here. Can you help us think about how the litigation provision expense might trend in 2014? Should we expect it to be lower than the $800 million? And then second, can you tell us if your range of possible loss has come down from the $6.8 billion that it stood at in October, since you resolved a few big items?

Marianne Lake

Obviously you're going to understand the necessary caveat that we can't predict for you the pattern and the amount of legal expenses in any one quarter or over several quarters. However, it would be fair to say that we would certainly hope that for the full year the full year [unintelligible] the first quarter annualized, but we can't be certain of that. With respect to a reasonably possible loss range, it did come down from $5.7 billion at the end of the third quarter to $5 billion at the end of the fourth quarter, given the legal expense [unintelligible].

John McDonald - Sanford Bernstein

And then the last thing is, you mentioned it a little bit, but can you just give us kind of a philosophy with which you approached this year's CCAR and how you're thinking about balancing your capital achievement goals on the ratios that you talked about with the goal of returning some capital to shareholders?

Marianne Lake

We've done a bunch of math. You can do it based on analysts' estimates. But if you think about we want to get to 10% plus or minus before the end of next year, all other things being equal, that is a priority, but it is not the only priority. And so as we think about our capital plan, we've consistently said - obviously it's a board decision ultimately, and they'll contemplate them in the [unintelligible], of course - but we would like to have the flexibility to be able to potentially increase dividends and also have flexibility to be able to do reasonable repurchases. It wouldn't be unreasonable for you to think about how we thought about this year as being relatively consistent with last.

Operator

Our next question comes from Matt Burnell with Wells Fargo.

Matt Burnell - Wells Fargo Securities

Just a question on the announcement of the potential for selling the prepaid card business. I'm just curious as to what drove that, given that it doesn't appear that it was a scale-related decision, given the size of that business relative to peers. But if you could just provide a little more color as to what you're seeing in that business and what caused you to potentially sell that business?

Jamie Dimon

Every year we try to have a disciplined approach about what we stay in and what we don't, and I think we probably were more disciplined this year about the things we don't need, both from derisking, capital, management focus, controls, etc. If you look at the prepaid card business, we're not dealing directly with customers. It's kind of secondary. It's a complex business, and we were just better off letting someone else do it. It won't affect the four main franchises that Marianne spoke about, that are doing so well. It was just kind of a product we used to do, and so we're not going to do it anymore. And there's a lot of risk associated with it.

Matt Burnell - Wells Fargo Securities

And then just moving on to your comments about being potentially cautiously optimistic about back-end growth for loans, presuming that that's mostly focused on commercial lending. Is it still your view that the canary in the coal mine for seeing that might be slower deposit growth, or in fact negative deposit growth, before you start to see loan growth?

Jamie Dimon

We didn't use the word cautiously optimistic, we're using the word optimistic, because we are actually optimistic. You have a U.S. economy starting to grow. You will see loan growth and volume growth across all of these businesses. We are actually optimistic about the U.S. economy in particular. We spend a lot of time analyzing what rising rates, growth, change of QE3, [unintelligible] will do to the deposits. So it might actually have a diminishing effect on the growth of deposits. But we're happy, [whether we're] still growing share. I'm not sure you're going to see deposits going negative before you see loan growth. I think you're trying to fine tune it too closely there.

Matt Burnell - Wells Fargo Securities

Fair enough. And then just finally, in terms of your outlook for card balances, just trying to take some of the fourth quarter seasonality out of that business, that they have sort of bottomed in terms of the overall balances. Are you equally optimistic for those balances to begin to grow in 2014? Or are you still looking at sort of flattish balances through most of 2014?

Marianne Lake

Remember that in our card business we have both dynamics of core [unintelligible] as well as still some continued runoff. We did reach the inflection point during the second half of 2013 where that runoff was no longer exceeding growth. And so we're set to grow, but very modestly, in 2014.

Jamie Dimon

But more importantly, 93% of the business is rewards. We've had 10% growth in spend, we've had 14% growth in merchant processing. So we are very happy with the card business. It's performing exceptionally well, excellent credit trends. So outstanding growth is less important, but obviously we'd like to see some of that too.

Matt Burnell - Wells Fargo Securities

And then just finally for me, given some of the security breaches, not only in your cards but across a couple of other issuers, have you seen any reduction in consumer spending, potentially related to that via cards, moving to other forms of purchases?

Jamie Dimon

No. Just a little bit relating to Target, but not in general. And a lot of that card growth is coming from P&E and travel and restaurants and things like that.

Operator

Our next question comes from Andrew Marquardt with Evercore Partners.

Andrew Marquardt - Evercore Partners

Regarding expenses, can you remind us where we stand on headcount reductions through '13 and then where you stand in terms of on track for '14?

Marianne Lake

Yeah, just to remind you what we said back in February last year, in the consumer businesses we talked about over the two years, so '13 and '14, mortgage seeing headcount reductions of 13,000 to 15,000, and the consumer businesses, predominantly in the branches, of 4,000.

By the end of 2013, we had seen 16,500 in total. So in the consumer bank, we've actually not only accelerated, but outperforming our expectations in terms of our ability to run those branches efficiently and still maintain very strong customer satisfaction and retention rates.

And then in the mortgage space, we have seen total headcount down 11% year over year against that 13,000 to 15,000 two-year target. So obviously we continue to work on the strategy and the size and our approach to the mortgage market, but obviously relative to those numbers, there's still a little way to go.

And remember that that was both production and servicing. What you saw, given the rate environment in the middle of 2000 and the second half of 2013, is that some of the production related headcount reductions were accelerated. We still have meaningful improvement expected in terms of delinquencies and foreclosures and modifications that will continue to drive costs and headcount down in '14.

Andrew Marquardt - Evercore Partners

And then in terms of the retail branch banking discussion that you had mentioned you're kind of comfortable with the 5,600 branches level that you're at now, and you're focused on optimization going forward, does that imply that you could see additional headcount reductions or shrinkage of the branch network or square footage, as we've seen from others? How should we think about that?

Marianne Lake

Talking about the number of branches, I would think about the fact that, like all those sort of retail distributions, houses will continue to do consolidations and relocations as it makes sense for us to do that in our footprint, and we'll continue to respond to customer preferences, which will mean that over the course of the next decade, we'll be looking at obviously the size of new branches, as branches come up for renovation and release and things like that. But we're not expecting a material change in the number as a macro matter. So 5,600 plus or minus. And it is going to be based on customer preferences.

As it relates to headcount reductions, we're already aggressively looking at the efficiency in our same store branches, and have been very successful. So we are looking at staffing models, physical capabilities, automation. We're on that journey, and we continue to be on it. But I don't see that there's going to be step change relative to our previous expectations. We've already exceeded them. There might be some more, but it's not a step change.

Andrew Marquardt - Evercore Partners

And then lastly, just on credit quality, it feels like, obviously still meaningful reserve releases, so largely in consumer, but is there much left to go in terms of cards or commercial? Is that kind of inflecting, if you will, in terms of the degree of credit leverage that may still be there in terms of reserve release? How should we think about that?

Marianne Lake

Let's start with commercial and say it's plus or minus zero at this point. So I think it's going to be [strong] for long, but that's not really going to be a reserve story for a little while. In the card business, we had been talking about potentially reached bottom for a period of time. We haven't yet, or it doesn't seem we have.

So as we look into 2014, if things do continue to strengthen, it's possible there will be some more releases, but not at the levels that you saw in 2013, so in the first couple of quarters. And usually the first quarter is very instructive on that point. Usually that's when you see a material improvement, if there's going to be one, in terms of [unintelligible] rates.

And then on the mortgage space, two things. We have $2.6 billion of NCI reserves left. We talked before about the fact that we think our more steady run rate number will be between $1 billion and $1.5 billion. So there's another $1 billion or $1.5 billion to come in that space over the course of the next year or so, potentially. Obviously, environment allowing.

And then on the purchase credit impaired portfolios, we have $4.2 billion left after the two releases we just took. But remember that it's a life of loan portfolio. So something would have to change now in the environment, improve, for us to expect to take more releases. It's possible, but we don't expect to be taking releases up to that $4.2 billion.

Operator

Our next question comes from Mike Mayo with CLSA.

Mike Mayo - CLSA

Last quarter you had some tax benefits. Did you have tax benefits this quarter? And can you quantify those?

Marianne Lake

Yes, we did have some tax benefits this quarter. We had about $300 million after tax related to a number of items. State and local tax, some reserve releases. Not one particular thing.

Mike Mayo - CLSA

And what was the loan utilization rate for wholesale or commercial loans?

Marianne Lake

It was just a little over 30%. So low thirties. No change.

Mike Mayo - CLSA

And you said the number of branches shouldn't change a whole lot. If I recall, from an investor day, you had planned on opening a lot of new branches. I thought it was going to be a net increase. So is this a change in your expectations?

Jamie Dimon

Yes.

Marianne Lake

Yes, so we said, I think, at investor day, plus 100, plus or minus, in a year, when Gordon spoke earlier in 2013. We've revisited based upon our assessment of customer preferences and activity and think we've got to the footprint where we are happy at 5,600 plus or minus.

Jamie Dimon

If you look at that back presentation, Gordon goes essentially through branches, branch size, technology, headcounts, and why.

Marianne Lake

Yes, so if you look at that, and then also obviously at investor day we'll go through it some more.

Mike Mayo - CLSA

And then the more general question is, for your outlook you said that NII should be kind of flat, mortgage a little bit lower, and expenses only about flat or maybe lower from that $60 billion, after you eat that extra $1 billion. So it makes a difference how optimistic you are. If you're not optimistic, you might want to cut expenses more. And if you are optimistic, maybe you assume that fees are going to grow a lot more, because I know you were going to have positive operating leverage. So how do you see revenues growing faster than expenses? Is it the fees picking up? Is it expenses going lower? Or how do you get there?

Marianne Lake

It's a bit of both. Just one thing on mortgage, just a tiny clarification. We expect mortgage production to be broadly the same, as we've seen in the second half, but we would expect to see continued improvement in the expense base in the servicing business. But having said all of that, it's a combination of relatively stable but potentially slightly higher NII. Yes, strength in fees on the basis of the strong driver growth that we talked about, and then our $60 billion or less of expenses. So we're working through all of the efficiency opportunities across the businesses, including in the retail space, to be able to deliver positive operating leverage.

Jamie Dimon

I think the way you should look at it too is each of our businesses is always trying to drive efficiency while investing. That doesn't change any particular year. That's kind of a nonstop kind of thing. And you see those efficiencies, because every business has pretty good margins after investing. And sometimes the revenue growth itself is either episodic or the timing isn't exactly the same as you invest. But if you see the drivers, which is deposits, investible assets, asset management, number of corporate clients, market shares, they're all pretty positive.

Mike Mayo - CLSA

Can you just give us a general sense of your outlook for CIB? In the past you've given us a little bit more detail, future expectations. How do you think 2014 is going to be for capital markets? What's your backlog like right now, and why did you lower VAR if your more optimistic?

Jamie Dimon

Well, VAR itself as a calculation is based on a whole bunch of different things. We don't deliberately lower VAR.

Marianne Lake

With VAR, it really is just a feature of two things. If you look at our look back period for VAR, across asset classes, we're at very low levels of volatility. Just across all the asset classes. And that's what's really driving it. If volatility picks up, that could pick up. We're not driving that down. And it's also derisking in SVP. That is a little bit proactive, but it's obviously mostly done now.

Jamie Dimon

If you stay with the volatility like it was 18 months ago, VAR itself would be like 60 or 70, just all on its own. So without changing your position. You know, the hardest business to get a handle on is CIB in terms of the short run. But what we see is investors still have to buy and sell securities. Corporations have ECM and DCM. And you can predict the rolloff, etc. The backlogs are pretty good. You saw a tremendous amount of IPOs in 2013. You saw a lot of debt financings. You've already seen a bunch of M&A earlier this year.

So we don't budget or plan that you're going to have an unbelievable year in CIB. But if you ask me, the long term prospects are good. It's probably the business has to go through the most adjustments to the new regulatory environment, but the long term prospects are pretty good.

Our margins are good, our returns are good. Our comp level is at 30%, down from 38% a couple of years ago, really reflecting higher capital, etc. But at that comp level, we can pay our people well, grow the franchise, grow around the world, serve our clients, and still get decent returns.

So we feel very good about the business, and one of these days, it's going to boom. And you can guess just like I can guess when that might happen, but it will happen one day.

Mike Mayo - CLSA

And then lastly, as it relates to Volcker, you said it should not hurt the results materially going ahead. In the past you said that it might hurt a billion dollars. That was a few years ago. And then another time you said it might even help. I know that was different management at the head then. But now you don't think it should impact things too much?

Jamie Dimon

Volcker, all things being equal, we would say not much. I think when we referred to the $1 billion or $2 billion, we were talking about regulations in general, including derivatives, [SES], clearing houses, and Volcker. And that number, we still kind of have in the back of our mind, but it's hard to tell what the effect of all those things are. The $1 billion to $2 billion I would say was probably in the conservative category.

Mike Mayo - CLSA

And how much of that would be reflected already?

Jamie Dimon

That's the one that's hard to tell.

Marianne Lake

It's very difficult to back [test], because these things are all interrelated. But it's not entirely possible to disentangle everything. But obviously we've gone through some changes in 2013. Some of that will be reflected. But this is a number that we would expect to be reflected, to the degree that it is at all, over the course of the next two years.

Jamie Dimon

And remember, some of those things reduce capital requirements. Some people are making dramatic changes in their business models, which may free up market share for those of us that have additional market share. So it all remains to be seen.

Marianne Lake

And that was also a static analysis.

Jamie Dimon

Some things may reprice a little bit because of the capital liquidity requirements around them. So it all remains to be seen.

Operator

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

Erika Penala Najarian - Bank of America Merrill Lynch

Just had two quick follow up questions. The first is on the expectations for the expense base in CCB. If you take out that $400 million in legal expenses, you're looking at a run rate of $6.9 billion. As you think about where the tailwinds could be for expenses for this year, is it fair to assume that that $6.9 billion quarterly run rate could improve throughout the year this year?

Marianne Lake

I would just reiterate what we previously said, which is if you look at servicing, and in particular the quarterly run rate, which is call it $600 million, in line with our expectations, that's going to continue to trend down towards $500 million by the end of this year in 2014. And then on the production side, while we obviously are going to see our expenses, to a degree, variable with the size of the market, we're continuing to also work on opportunities to make the fixed cost base more efficient. So hopefully we'll deliver some of that in 2014 too. And we'll do a more precise job of [unintelligible] around that at investor day.

Erika Penala Najarian - Bank of America Merrill Lynch

And then just a quick other follow up is a follow up to Guy's question on operational risk capital. You mentioned that there was a 50 basis point haircut due to litigation. Assuming that you're not going to have similar outsized litigation expense going forward, is that 50 basis point something that you can eventually recoup? And how long would that take?

Marianne Lake

That's an excellent question. I would say, assuming we have no significant losses going forward, then we feel like we should be close to our high point, albeit there may be a little bit more in the first half of 2014.

Just two comments on operational risk. The first is, unlike market and credit risk, although all of the parameters and the confidence levels are effectively the same, it doesn't naturally recalibrate itself to changes in the business environment, or to your business mix or model, if you structurally reduce risk. It's very backward-looking, and in that sense it differs because it doesn't recalibrate.

And so as a result, if you just let the models continue to predict, based on historical losses going forward, you would need to be carrying that elevated level of operational risk capital forward for a reasonably long time. It's a one in a thousand year horizon. So think about it in terms of five, ten years, not one or two years.

And so for that reason, we are very interested and working very hard with the industry to try and figure out how to better model changes in the business environment and to model and defend structural and permanent risk changes in our businesses in order to be able to recoup some of that more quickly. But at this point, I would characterize that as work that has not yet been done that is in progress, and so for the foreseeable future it will be elevated.

Operator

Our next question comes from Matt O'Connor with Deutsche Bank.

Matt O'Connor - Deutsche Bank

If we just add up some of the odds and ends of the businesses that you're getting out of for the niche products and the impact of Volcker, is it still a relatively modest amount in aggregate? I think last quarter you had said maybe a few hundred million of revenue give up from the businesses that you're tweaking. And I just wanted to know if that still holds, and if we overlay Volcker, kind of what the all-in number might be.

Marianne Lake

Okay, so put Volcker to one side for a second. We didn't update, obviously, the list. We're going to do that at investor day. We thought about that for you. It's probably more important to think less about revenue but more about the impact on the bottom line given that some of these businesses may not have been returning [unintelligible], and may have been in investment phase and actually not be breaking even.

So I think it's safe to say that if you consider the impact on the bottom line more so than revenues, it's relatively modest, and we'll do work to update you on that. But remember it also is going to do two things, release capital, which will be a positive, and also improve the quality of the businesses and the control environment and the complexity, which will all be positive too.

Matt O'Connor - Deutsche Bank

And then just separately, as you think about kind of potential legal uncertainties or risk going forward, are there a couple that you kind of flag out there that are the ones that we should be watching most closely for the industry, for you guys, like whether it's LIBOR or FX? It feels like you've obviously settled a lot on the mortgage side, a couple of the other big ones that were specific to you? What should we be watching to make sure we have a sense of what's going on?

Jamie Dimon

The ones you all mentioned. We put them on our 10-K.

Marianne Lake

Yeah, it's the ones you mentioned. And if you look at our disclosures on the 10-Q, every quarter the items that we think raise themselves to levels of public disclosure are in that document. So look to last quarter and next quarter and you'll see. But we shouldn't comment specifically.

Matt O'Connor - Deutsche Bank

And nothing maybe [unintelligible] coming out in the 10-K versus the third quarter Q?

Jamie Dimon

I don't think so.

Marianne Lake

No, not at this point. But obviously the K is a few weeks away.

Operator

Our next question comes from Moshe Orenbuch with Credit Suisse.

Moshe Orenbuch - Credit Suisse

On that question about the operational risk capital, isn't it kind of double or triple counting against you when you've got an $8 billion reserve, which actually reduces your capital, and is it fair to say you don't get credit for that $8 billion in your capital base when you think about that operational risk capital?

Marianne Lake

If you think about the basis for capital and put aside whether you like the way it works in a modeled environment, your reserves are for your expected losses, and your capital is for your unexpected losses. So in theory you shouldn't get explicit credit for them.

I think the bigger point for us is if you look at the sorts of things that are driving our capital levels to be as elevated as they are, they are things, for example, like the PLMBS issues, and also certain of the very large mortgage, DOJ, international mortgage settlement, ISFR, [unintelligible] issues.

It's our belief that this firm is not exposed today, or will not be exposed going forward, to those levels of risk at anywhere near that scale going forward. But as I said, we have no ability at this point to scale those back, and that's what we're very focused on.

So it's less really about whether we're getting credit for our reserves, and a little bit more about how we try, in the industry, to evolve the framework in partnership with the regulators and defend over time that there are structural risk reductions that mean those risks are no longer present in that sale.

Moshe Orenbuch - Credit Suisse

Got it. So in the short run, the fact that you settled actually increases the operational risk, but you hope that over the longer term it will decrease it.

Marianne Lake

Yes.

Moshe Orenbuch - Credit Suisse

You had made a brief comment about the equities results, about the comparable periods being higher. Were there any other reasons that equity trading results were kind of down as much as they were?

Marianne Lake

Not specifically. We did fairly well in cash, but our cash platform is not as mature as some others. So I think we would characterize the performance as good, but coming off of, as I said, a very strong quarter for equity derivatives in the third quarter.

Moshe Orenbuch - Credit Suisse

And then any other areas - Gordon Smith has presented a few times and talked about kind of derisking some of his businesses - that we should be looking at for sales?

Marianne Lake

On page 15, I think, last quarter we showed you a bunch of things that we were working on. We didn't replace the page, because it's not meaningfully changed. That's not to say that at the margins we don't continue to look at our businesses in terms of simplification and derisking. So I would say that while there may be things at the margin that we will explore over time, then there's nothing structurally big that you should be aware of. And again, we'll do some more of that for you at investor day.

Operator

Our next question comes from Gerard Cassidy with RBC.

Gerard Cassidy - RBC

You mentioned that your utilization rate in the commercial area is in the low 30% range presently. You also pointed out that you're optimistic about the U.S. economy for this year being stronger, and then the positive impact it will have on loan demand. What do you think the utilization rate could get to by year-end?

Jamie Dimon

I'm going to do just middle market, because that's the one that's kind of at a 30%. Years ago, it used to average a little more like 45%. It looks like, to us, that what you have is they have a lot more deposits, and a lot less utilization. And so obviously they're going to use some of their own money before they borrow against a revolver or something like that. And one day, you would expect it to go up. We're not guessing it's going to happen in 2014. But I would say we'll be sitting here one day, when we've had a very strong economy, it will be 10 points higher.

Gerard Cassidy - RBC

Good. And then on the commercial real estate, as you guys pointed out, you're having real good success in this area. What geographic regions of the country are you seeing the best success? And then second, what product types are you finding are working the best in growing that book?

Jamie Dimon

Well, multifamily is a big portion of that. I would say the major cities is pretty much where you'd say it, son it's hard to answer specifically. I think both the multifamily, and other than real estate loans, it's really the big cities.

Gerard Cassidy - RBC

You also mentioned that you guys have about $350 billion on deposit at the Fed. If the Fed decides to eliminate the interest they pay on those deposits to all the banks, would that change your strategy of keeping that amount up at the Fed?

Jamie Dimon

Sure. I mean, you know, change either that, or how you reimburse clients for deposits, and obviously it will go into how you price and run your business. We're not expecting that to happen, but obviously we would do that. And you have other alternatives. You might invest some of that money elsewhere.

Marianne Lake

And it's also important to point out that a large portion of that $350 billion are deposits or cash that we would consider to be client nonoperational deposits. And as a result, we don't give ourselves any liquidity value for those. So that's why we're putting the [unintelligible] at the Fed.

Gerard Cassidy - RBC

And I may have missed this, but in the card merchant and services auto business, the noninterest expenses for the fourth quarter jumped up to $2.2 billion from the prior quarter's $1.9 billion. They've been flat for the prior three quarters. Any particular reason why there was a jump?

Jamie Dimon

Mostly marketing.

Marianne Lake

Yeah, it's predominantly marketing. And with respect to marketing, it can be lumpy quarter to quarter. So it's not an unexpected number for us. It's just higher in the fourth quarter than it was in the third.

Jamie Dimon

We feel like we've been doing a good job at card acquisition of high quality cards. You see that number, but it's up quite a bit. So we have some good, active programs out there.

Gerard Cassidy - RBC

It looked like in the quarter that you guys bought back about $300 million worth of your stock in this quarter. And since the last CCAR, it's just over $2.2 billion. If I recall, you have an approval for $6 billion. Is it fair to assume that you'll use the next quarter to fill out the rest of that $6 billion? Or is that too optimistic?

Jamie Dimon

Way optimistic.

Marianne Lake

Yeah, I think that would be optimistic. Obviously we'll determine the first quarter, as we go through it, we'll have our [unintelligible]. That's certainly our expectation, and there may be some more, but I don't think you should expect us to catch up completely.

Jamie Dimon

Remember, we want to meet our own objective, the 9.5% or 10%, and obviously the litigation costs hurt our ability to do a little bit of that, so we caught up on that. And also, the stock price is a lot higher than it was when we talked about the best way to buy back some stock. So we always look at that as the important thing. We don't just buy back stock regardless of price. Not that we think it's a bad price, but when it was at $33 a share or whatever, that was an extraordinarily compelling price.

Gerard Cassidy - RBC

You also gave us a little bit of guidance of what we should expect for this year's CCAR, maybe similar to what you did last year. Should we look at it as what you were approved for, or what you actually executed in the repurchases of better guide numbers, since they are quite a bit different?

Jamie Dimon

The board will decide when the time comes, when they look at all the priorities, etc.

Marianne Lake

I would just reiterate what I said before, which is getting to our target ratios is a priority, but it's not the only one. We'll have to see how things play out in 2014. But if you do the math, then you can take your own estimates of what you think we'll earn next year. We should be able to also have the opportunity to take it to buy more than just [unintelligible], so we want that flexibility. That's what we [submitted] for, and we'll obviously manage through each quarter as we see it.

Jamie Dimon

And it may depend on what we sell, how much we can mitigate, what the final rules are and stuff. So there's a lot of moving parts.

Operator

Our next question comes from Derek De Vries of UBS.

Derek De Vries - UBS

Just had a few housekeeping questions left. I think you mentioned the mark-to-market gain in asset management revenues? I'm wondering if you can just quantify that so we can figure that out for our forecast?

Marianne Lake

It's just a little less than $100 million.

Derek De Vries - UBS

And then on the investment bank, on the comp to income ratio, that's clearly at the right end of your guidance. I'm just wondering, has there been any change in the deferred versus expense this year? And then related, do we enter 2014 with a similar amount of awarded not yet expensed?

Jamie Dimon

There's no change.

Operator

Our next question comes from Eric Wasserstrom of SunTrust Robinson Humphrey.

Eric Wasserstrom - SunTrust Robinson Humphrey

I just wanted to follow up on the loan growth expectations. If we adjust for the typical seasonality associated with the credit card loans, which obviously is high in the fourth quarter, it looks like your core growth rate in loans was something like 60 or 70 basis points sequentially, which would obviously translate into roughly a 2.5% annual growth rate.

Marianne Lake

Are you talking about total and core? Or are you talking about reported and card?

Eric Wasserstrom - SunTrust Robinson Humphrey

I'm talking about reported. So it just seems like the 2.5% seems like a fairly robust figure, so I just want to get your view about what the run rate of core loan growth might be.

Marianne Lake

I'm going to try and answer the question, and tell me if I don't. If you look at our actual total loans for the whole firm year over year, our growth reported was 0.6%, so call it just shy of 1%. But underlying that, the core loan growth was about 4%. So I think that as we look forward, we expect core growth to continue at or stronger than those levels. We've reached, as we say in card, the point where, seasonality aside, that inflection point where we should expect net modest growth.

And as I said, we're going to have to all wait and see how client demand plays out in small business in the middle market space, but we are hoping that at the second half of 2014, when the confidence in the economic recovery, we have confidence that when others join us, they will actually start to borrow and spend.

Eric Wasserstrom - SunTrust Robinson Humphrey

So it sounds like, continuing along this trajectory, with potential strength in the back half of next year?

Marianne Lake

Yes, that's our hope.

Eric Wasserstrom - SunTrust Robinson Humphrey

So I'm just trying to reconcile that back to the NII dollar expectations, which seem fairly flat. But if the loan growth continues fairly strong, and the expectation is to continue to play capital into securities opportunistically, and the CIO portfolio is approaching breakeven, why is the expectation not for a stronger net interest income dollar growth?

Marianne Lake

Because we talked earlier about the fact that we've been seeing, and we expect to continue to see, some spread compression in loans that, at this point, in the near term - and we didn't talk about the whole year for 2014, but in the near term - we're expecting the improvement that we would see as a result of higher yields on investment securities, etc., to be largely offset by the compression in loan growth.

Operator

Our next question comes from Ken Usdin of Jefferies.

Ken Usdin - Jefferies & Company

Just two final followups. On the commitment side, as you talked about adjusting the trade book, and as we see the commitments continue to come down, how aggressively are you focusing on the commitment side from here in terms of balancing the long term growth potential versus the risk weightings and capital build?

Jamie Dimon

The way to look at that is that what drives the company is serving clients, and so we don't target, you know, just when we get rid of commitments or something like that. But obviously we've asked all the people and businesses to start to optimize a little bit commitments, balance sheet, LCR, SLR, Basel III. And so you'll probably see a little bit of a squeeze in commitments as they do that. But not at the expense of trying to do a good job for clients.

The other thing that I should point out is some of those commitments are much more capital or liquidity hogs than others. So that's where you're going to see a little bit more of the squeeze.

Ken Usdin - Jefferies & Company

And then just one follow up on the fixed income side within that comment earlier about the runoff businesses. Is there a way you can update how we should think about the potential sale of physical commodities and what proportion it is of the $15.5 billion of FIC revenues this year, and Marianne, to your point about how that is in a relative profitable sense?

Marianne Lake

Let's talk about last year. If you look at 2013 reported, you would have seen that our commodities revenues counted for in the low teens of our markets revenues, but that's on an accounting basis. So that's just a revenue [chore] only. So if you think about the economic revenue, because obviously there's some accounting growth [unintelligible], much smaller number than that. So call it mid single digit, mid to 6-7%. But then it was a business that was in a combination of being built out, so it wasn't fully mature. And also, we're selling parts of the business that are highly [unintelligible] intensive to us. So think about the impact on the bottom line as being considerably more modest and with some capital benefits.

Operator

Our next question comes from Paul Miller from FBR.

Paul Miller - FBR Capital Markets

Most of my questions have been answered, but I wanted to talk a little bit about your mortgage origination platform. It looks like you dropped from about $40 billion to about $23 billion, and your overall market dropped like

25%, and that's like a 40% drop, which drops probably your market share to low 8%. Can you add some color to that? Is that just mainly a function of the refis going away? Should we see an increase in market share down the road?

Marianne Lake

A couple of things. First of all, if you just take the second half versus the first half, we said that we thought that the overall market would be down 30% to 40%. It was down about 33%. So it was in line with our expectations. And our performance was in line with that too. So you've got to remember that the revenue versus loan volume, and how that gets recognized, is some timing differences.

With respect to market share, if you look backwards into '13, the overall size of the market was revised up, which means that our market share was, all other things being equal, just relatively revised down, doesn't change anything. But going forward, our market share will be a factor of obviously the size of the market, but also our pricing discipline to make sure that we want to get an appropriate risk adjusted return. So we would gain share, but only if we can do it getting paid for the risk and the cost of servicing.

Jamie Dimon

And the whole reduction was refi.

Marianne Lake

And the whole reduction was refi. I should say that, yes.

Paul Miller - FBR Capital Markets

And I know you don't want to make any comments about political figures, but now that we've got Mel Watt coming to town, there's probably going to be more focus on extending the credit box than we've seen over the last couple of years, where most companies don't want to really get away from high FICO, high credit quality product. Do you think that Watt can be successful in opening the credit curve? And what type of things would you want to hear where you would start extending the credit box?

Jamie Dimon

I would say that people in the business have been slowly extending the credit box. I'm talking about over the last 18 months. If you look at LCVs, if you go to different cities. I'm not sure you're going to see a dramatic expansion of the credit box, because all the rep and warranty, all the litigation and stuff like that, for anything that's not qualified mortgages.

Marianne Lake

And the qualified mortgages, you know, credit is available. GSE is 90% LTV. On the Ginnie Mae side, you know, close to 100% LTV. So there's credit availability, you just have to have the ability to pay.

Jamie Dimon

And FHA will set its own policy, but even there I think people are going to have a much tighter underwriting than the FHA guidelines, because of how much FHAs cost people.

Operator

Our next question comes from Christopher Wheeler of Mediobanca.

Christopher Wheeler - Mediobanca

The first one, really I suppose, goes back to Sunday and the news that came out [Basel]. For the last 16 quarters, we've been talking about regulation and you've often been quite aggressive in talking about the impact of some of that regulation. But it seems like we've reached a tipping point on Sunday, whereby we've set back from those rules that were suggested in June and came out with something that was sensible, but actually also was going to support the growth of your business, and indeed the growth of the economy. Do you think we're actually at the stage now where we can actually feel that we've got over the worst of the regulation and we can now actually get on with running our and your businesses?

Jamie Dimon

I think we know for the most part the contours of the regulation at this point. Some of the fine tuning still needs to be done. So I think you're going to see a lot of banks globally adjusting to the new financial architecture. And the effect of that will be different in different parts of the world. It's slightly different for certain products, but it will probably be okay in total. It's nice to have the rules, to live with them, and now we've got to push them down and understand them in a little more detail.

Marianne Lake

There's still a few things we're waiting for. I mean, long term debt requirements, something to look out for in the first quarter. But having more clarity is definitely helpful.

Jamie Dimon

You're seeing some people make bigger strategic changes, some are making just small tactical changes. And then we're going to report a lot more what we think the effect of all this is at investor day.

Christopher Wheeler - Mediobanca

And the second question really relates down to the mix of your investment banking revenues. Clearly what we've seen is obviously the downward pressure on fixed income for some time now, for a whole bunch of reasons, some of which you've touched on. But I suppose what a lot of people are talking about is that fixed income will no longer be quite the dominant part of the revenue pool for big investment banks, as it was. But in your case, and one or two other people, obviously it's very important business. Is your view, and perhaps don't just talk about yourself, but the really big players, the very successful players in fixed income, would actually probably be seeking to take share in what is going to be a smaller pot going forward?

Jamie Dimon

I look at it a little bit different. I look at it like the pot will change and adjust to the new world, but from there it will probably grow. Because if you look at underlying numbers, the amount of investable assets around the world is going to double over 10 years, the amount of needs of corporations and sovereigns and supernationals, and ECM/DCM advice will double over 10 years.

So there will be a strong underlying business. Spreads, products, those things have always changed. Spreads have been coming down my whole life, and yet we have a healthy business. So we expect that fixed income, after some adjustment, will be a good business. We think a lot of these trends are cyclical, not secular, and that's how we're positioned for it.

It is possible that, if people leave, and certain things reprice… All businesses have to have a normal return on capital for the average player, otherwise they wouldn't exist. So we do think you'll see some of that. There will be pieces at the [unintelligible] banks, which is fine.

Operator

Our next question comes from Steven Chubak of Nomura.

Steven Chubak - Nomura

I had a couple of questions regarding the Basel SLR. Specifically, Marianne, I wanted to clarify a comment you had made earlier, where it sounded as though you expect the U.S. regulators to adopt the revised Basel framework from over the weekend as a final SLR calculation approach. And I didn't know if that guidance was in the context of the higher 5% SLR requirement, which is being imposed on the U.S. [unintelligible].

Marianne Lake

The reality is, I don't know any more than you do. I just think that given the changes that were made, it seemed to be positive and constructive. There's reason to believe that the U.S. regulators would want to leverage that. I could be wrong. And obviously we did comment letters on the U.S. NPR, but I'm not aware of any specifics on the [quotient].

Jamie Dimon

I'd just add that if you listen to what the regulators said, not this time but going back, they intended to make Basel and U.S. rules common. About the rules. They did not say they intended to have the same percent. So we're just assuming the 5% is going to [stay]. And we think there will be a couple of other adjustments going forward too.

Steven Chubak - Nomura

And then just looking at both the risk based and leverage based ratios, it sounds as though for the SLR there are a lot of mitigation opportunities at your disposal. On a pro forma basis, which ratio do you anticipate will represent the binding constraint on capital return going forward?

Marianne Lake

If you look at the total firm consolidated, then they actually [unintelligible] this quite nicely, if you think about our target for Basel tier one common at 10% or 10.5% and a leverage target of 5% or 5.5%. So I think the leverage ratio feels like, as a consolidated matter, it's a simple fact [unintelligible] as it's supposed to be, not a binding constraint. The devil's in the details. As you push that down, as I said, to the individual business and product, and then obviously consider it in a context of the whole client relationship. I think as we look forward, CCAR is something to be thoughtful about, because it's a stress scenario, it's evolving in terms of the maturity of it, as well as a move over time towards being on a Basel III advanced approach. So if I had to guess, I would say CCAR could be.

Steven Chubak - Nomura

And then transitioning to a risk-based ratio that's maybe not spoken about as often, the tier one capital ratio, that ultimately could compel increased preferred issuance. We did see you tap the market within the first six months of the year, and I didn't know how we should be thinking about the level of preferred issuance you're targeting going forward. Is it consistent with the 150 basis points noted within the Fed's proposal? Or should we be thinking about that differently, i.e. some of the mandated buffer will be met with incremental equity?

Marianne Lake

I would say that our tier one capital needs to be at 11% plus. We said we were going to run at about 10% to 10.5% Basel III tier one common. I would suggest that the gap will be [unintelligible] and maybe more.