Welcome to JPMorgan Chase's Fourth Quarter and Full Year 2016 Earnings Call. [Operator Instructions]. At this time, I would like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon, and Chief Financial Officer, Marianne Lake. Ms. Lake, please go ahead.

Marianne Lake

Thanks, operator. Good morning, everybody. Happy New Year. I'll take you through the presentation which is available on our website. Please refer to the disclaimer at the back of the presentation.

So starting on page 1, we had a strong end to the year, with record net income for a fourth quarter of $6.7 billion, EPS of $1.71, and return on tangible common equity of 14% on revenue of $24.3 billion, reflecting strong performance broadly across our businesses in a more constructive environment. You'll see on the page, a tax benefit of $475 million included in the result in the CIB, as we were able to utilize certain deferred tax assets. The quarter would have still been a record without that benefit.

Highlights for the quarter included core loan growth of 12% with strength across businesses, continued double-digit consumer deposit growth, ending with deposits over $600 billion, and record card sales volume up 14% on continued strong momentum. In addition, markets revenue was the highest on record for a fourth quarter, up 24% year-on-year, and credit performance remains, strong with net reserve releases across both consumer and wholesale.

Moving on to page 2, and some more detail about the fourth quarter. Revenue of $24.3 billion was up $600 million or 2% year-on-year, driven by net interest income on the back of continued strong loan growth, as well as the impact of higher rates. Non-interest revenue was flat year-on-year, with strength in markets offset by higher card new account acquisition costs.

Adjusted expense of $13.6 billion was flat year-on-year, and this quarter's results included nearly $200 million of after-tax legal expense. Credit costs of $860 million in the quarter included a net reserve release of a little over $400 million across consumer and wholesale. Energy remained stable, and we saw modest releases in both oil and gas and metals and mining.

Shifting to the full year on page 3. Another full year record net income of $24.7 billion, and a return on tangible common equity of 13% on $99 billion of revenue. And while net income was up 1%, our EPS of $6.19 was up more than that as we continued our disciplined capital return to shareholders. Revenue was up $2.5 billion, driven by NII, up $2.7 billion, on the back of loan growth and the impact of higher rates.

Non-interest revenue remained flat year-on-year, reflecting strength in markets and funding card new account acquisitions, as well as lower asset management revenues. Adjusted expense for the year came in at $56 billion as expected, and our adjusted overhead ratio improved to 57%, as we continued to execute on and near the end of our strategic cost programs in CCB and CIB, as well as self-funding incremental investments in growth of nearly $1 billion year-on-year. In addition, legal expense for the year was a modest positive.

Credit costs for the year were $5.4 billion. Net charge-offs of $4.7 billion were in line with guidance, and included $270 million of charge-offs related to oil and gas and metals and mining. And we added $670 million of net reserves, reflecting builds in card and energy, largely offset by releases in mortgage. Finally, net capital distributions for the year were approximately $15 billion, up $4 billion or 37%, including dividends of $1.88 a share, up 9%.

Turning to page 4 and capital. We ended the year above 12% for both standardized and advanced fully phased-in CET1 ratios in line with our expectations. Net capital generation for the quarter were a positive, included a 16 basis point impact of higher rates on investment securities AOCI. The advanced ratio improved primarily due to lower account party and market risk, whereas standardized was up by less, reflecting the impact of high quality loan growth.

We've been disciplined managing our balance sheet, and our average balance sheet for the quarter was a little over $2.5 trillion, and $1.5 trillion of RWA. SLR was down slightly from the prior quarter at 6.5%, as our average balance sheet was higher this quarter, primarily driven by deposit.

Moving on to page 5, and consumer and community banking. Consumer and community banking generated $2.4 billion of net income, and an ROE of 17%. We grew deposits a record $60 billion year-over-year, up 11%, exceeding $600 billion.

Core loans were up 14%, with mortgage up over 20%, but strength across all products, also up 11%, business banking up 9%, and card up 8%.

We saw record card sales volume in the quarter, up 14% marking the strongest growth in a decade. Card new account originations were up 8%. They were up 20% for the full year, driven by strong demand for new products, and nearly 80% of those accounts were opened through digital channels. Merchant processing volumes were up 10% year-on-year, and surpassed the $1 trillion mark last year. And our active mobile customer base continues to grow and was up 16%.

Revenue of $11 billion was down modestly year-on-year, reflecting a reduction in card revenue. Recall that last year included a $160 million gain on the Square IPO. And in addition, strong momentum in card and auto was more than offset by the investments in our card new account acquisitions. Consumer and business banking revenue was up 4% on strong deposit growth, and mortgage revenue was relatively flat as higher production margins and volumes were offset by lower servicing revenue on lower balances.

Expense of $6.3 billion was flat year-on-year, as growth in the business was largely offset by continued expense efficiencies and lower legal. Finally the credit trends in our portfolio remained favorable. We saw net reserve releases in the quarter driven by mortgage on lower delinquencies as well as improving HPI, with releases of $275 million in the PCI portfolio and $150 million in NCI.

On PCI specifically, actual losses have been lower than modeled output, and the release this quarter reflects that trend. We will continue to observe actuals, and recalibrate our models as necessary which may result in future releases. These releases in mortgage were partially offset by a build in card of $150 million, and $50 million in business banking, both on the back of strong loan growth. Charge-offs increased year-over-year driven by card, as newer vintages continue to season in line with our expectations. And in auto, we are watching industry trends in subprime and used car prices, but our heavily prime auto portfolio continues to perform well.

Now turning to page 6, and the corporate investment bank. CIB delivered a very strong result, with net income of $3.4 billion, and an ROE of 20%. Adjusting for legal, tax and credit costs, the ROE was a strong 17% for the quarter. Revenue of $8.5 billion, up 20% year-on-year was our best reported performance ever for a fourth quarter.

As we look at the full year, a moment on lead tables, in banking we ranked number one in global IB fees, and number one in North America and EMEA, and we were the only bank among the top 5 to grow share. In M&A, we continued to rank number two globally, and did more deals than anyone else last year. In ECM, we maintained our number one ranking, improved our share, and we're number one in volume across all products, and in both North America and Europe. And in DCM, we ranked number one across high yield, high grade and loans.

Back to the quarter, IB revenue was $1.5 billion, up 1% year-on-year. Advisory fees were down 17% from a strong prior year quarter, and impacted by lower announced volumes in the first half of last year. Equity underwriting fees were down 5%, a little better than the market with strong performance in North America, and debt underwriting fees were up 32% relative to a weak prior year quarter, on strong flow issuance as well as acquisition financing. Treasury services revenue of $950 million was up 5%, driven by higher rates and operating balance growth, as well as higher fees on increased payment volumes.

Moving on to markets, another strong quarter with the highest revenue on record for a fourth quarter in total, and for each of fixed income and equities. And like last quarter, the strength was broad-based. Revenue of $4.5 billion was up 24% year-on-year, in part flattered by a weaker fourth quarter last year, but on the whole driven by momentum carried forward from the third quarter, and the ability to capture flow from higher volatility and client activity. The back drop was that of a healthier global economic outlook, increased optimism, and global political developments.

More specifically, fixed income revenue was up 31%, as we saw increased client risk appetite for spread product, as well as client's actively hedging commodities in a better energy market. And equities revenue was up 8% reflecting strong performance in derivatives. Credit costs were a benefit of nearly $200 million, primarily driven by oil and gas and metals and mining. And finally, expense of $4.2 billion was down 6% year-on-year, primarily on lower compensation resulting in a comp to revenue ratio of 27% for the full year.

Moving on to page 7, and commercial banking. Another outstanding quarter in commercial banking, with net income of $687 million, record revenue of $2 billion, and an ROE of 16%. Revenue was up 12% and expense down 1%, with an overhead ratio of 38%. Loan growth remains robust, credit performance remains strong, and client sentiment has improved.

Revenue growth was driven by higher deposit NII and loan growth, with loan spreads holding steady, as well as higher IB revenue with good underlying deal flow. For the full year, IB revenue was a record $2.3 billion, up 5% year-on-year as we gained share. Expense was down slightly, with the impact of impairment in the aircraft leasing business last year offset by investments we've made in bankers and technologies this year.

We ended the year with record loan balances of $189 billion, up 14% year-on-year, with growth in both C&I and CRE. C&I loans were up 9%, as the investments we've made in specialized industry coverage, as well as adding over 130 net new bankers this year contributed to growth. And CRE loans were up 19%.

Finally credit performance remains strong, with a net charge-off rate of 11 basis points, driven by a couple of oil and gas names largely reserved for.

And we saw a modest increase in loan loss reserves driven by some ex-client downgrades. In CRE, we had no net charge-offs, and we reiterate three quarters of this portfolio is multi-family lending, to own as a stabilized Class B and C properties in supply-constrained markets. And the remainder is real estate developers that we know well, and we continue to be disciplined, and limit exposures to riskier segments of the market.

Leaving the commercial bank, and moving on to asset management on page 8. Asset management reported net income of $586 million, with a 30% pre-tax margin and an ROE of 25%. Revenue of $3.1 billion was up 1% year-on-year, driven primarily by strong banking results on higher deposit NII and continued loan growth, predominantly offset by prior period asset disposals. Expense of $2.2 billion was down 1% year-on-year.

For the full year, we had long-term net inflows of $23 billion in a challenging environment, driven predominantly by fixed income, multi asset and alternatives. In addition, we gathered $24 billion of liquidity flow this year. However, for the quarter, we saw net long-term outflows of $21 billion, obviously disappointing. But on a more positive note, we saw liquidity inflows of $35 billion this quarter, gaining share and strengthening our leadership position during this period of money market reform.

AUM grew 3% year-on-year, and overall client assets 4% to $1.8 trillion and $2.5 trillion, respectively, driven by net inflows, as well as higher market levels. And our long-term investment performance remained solid, with 80% of mutual fund AUM ranked in the first or second quartile over five years. And we had record loan balances up 4%, and record deposit balances up 9%.

Moving to page 9, and corporate. Treasury and CIO was flat quarter-on-quarter, with a net loss of around $200 million, and other corporate was a loss of $144 million primarily driven by legal expense.

Turning to page 10, and the outlook. Looking forward to the first quarter, expect net interest income for the Firm to be up modestly, reflecting impact of the December rate hike, as well as continued loan growth. For asset management, expect revenue will be slightly less than $3 billion, reflecting seasonality of performance fees. And recall that last year's first quarter included a $150 million gain on the sale of an asset. On expense, expect CCB to be up around $150 million sequentially on higher auto lease depreciation, as well as seasonally higher compensation and marketing, and expect expense in the commercial bank to be up quarter-on-quarter to around $775 million as we continue to invest.

Obviously, we're looking forward to Investor Day, and we'll give you more detailed 2017 guidance then. So to wrap up, a record fourth quarter and a record year, both net income and EPS demonstrating the strength of the platform. We enjoyed revenue growth, we met our expense and capital commitments, increased payouts to shareholders, and generated good returns on higher capital. As we move into the New Year, we remain well-positioned, and are excited about the opportunities to grow the business by serving our clients and communities. With that, operator, we'll take Q&A. Operator?

Question-and-Answer Session

Operator

[Operator Instructions]. Your first question comes from the line of Ken Usdin with Jefferies.

Ken Usdin

Marianne, I was just wondering -- I know you'll give more at Investor Day, but just in terms of that first quarter starting point for NII, and just how it translates between growth in the balance sheet? And then you mentioned the benefit from the rollover in rates, can you help us just try to think about -- just you parse those views out, and think about volume versus rate?

Marianne Lake

Yes. So hey, Ken, you guys have a busy day today. So I would say that in the first quarter is always a quarter in which we have a bunch of different factors. And most notably, you also have day count issues in the first quarter. So I can go through that, but I would say most of the benefit which we expect to be up modestly will be driven by the rate increase, with growth being offset by day count, that's sort of fundamentally how to think about it.

It's probably more instructive to think about the full year. And so if you recall back to the third quarter, just to kind of reorient everyone, at that point when we didn't have the December hike, we said rates flat. So on growth alone, we would expect NII for the full year to be up about $1.5 billion. Obviously, we have had the 25 basis point hike in December. And based upon that alone, so now the new rate's flat, that $1.5 billion would be about 3, a little over 3. So for the full year, we're expecting on the December hike alone, that it would be about half volume and about half rate.

Ken Usdin

And if I could ask a follow-up? Just on the volume side, you had another great year of double-digit loan growth, and obviously, we're at this intersection between kind of the -- what was and then the what will be. Any change to that expectation you could just grow the loan bit book, a core loan book that is, as strongly as you have in the past few years?

Marianne Lake

Yes, so I think the way to think about it, and again, I think we talked a little bit about it last quarter, and you maybe see it in the fourth quarter. So we've been growing our loans in the 10-15%, we revised that to be at the top end of that range so we've been growing at around 15% core loan growth, the fourth quarter was 12%.

So I wouldn't call it a deceleration per se, but know it is a little bit lower so I think going into 2017 our expectation is that we would continue to grow loans strongly but possibly at the lower end of that range rather than the higher and of course, to a degree it will depend upon our mortgage portfolio but we intend to continue to add to that too, so sitting here today I'd say more high single 10% plus or minus and we'll give you more updates at Investor Day.

Operator

Your next question comes from Betsy Graseck with Morgan Stanley.

Betsy Graseck

I just wanted to dig in a little bit on the forward look NII up a bit but also expenses up a bit and I just wanted to understand is that because you've got the opportunity to reinvest in things that you haven't been able to and if you could just speak to what caned of time frame the reinvestment will yield returns because the question I've gotten from people is why aren't you dropping the NII benefit to the bottom line here.

Marianne Lake

So just taking the two things separately, I would say the NII up 5 is dropping to the bottom line but as we, you saw all of our underlying drivers across all of the businesses. Volumes, transactions, everything is growing very strongly and although we still have some work to do to finish the large expense programs we're near the end of that, so just generally speaking, we're continuing to invest in the businesses and we'll see the improvement in our expenses flatten out and start to grow with volumes and that would also support growth in non-interest revenue outside obviously as the card phenomenon we talked to you about.

Betsy Graseck

And then related follow-up has to do with how you're thinking about the excess cash you've got and the balance sheet duration and if there's anything in this new interest rate environment that you would be seeking to optimize your position.

Marianne Lake

Right. So when we think about our investment securities portfolio, we think about it as responding to structural changes in our balance sheet which predominantly is driven by loans and deposits and it's always important to remember because we focus a lot on structural interest rate risk that it also is liquidity and liquidity risk. In this quarter there was a combination of things you saw that we grew deposits at more strongly than loans this quarter so we had some excess cash as well as the fact that rates rose so two things happened in our investment securities portfolio. Mortgages extended and we did add to duration but we have a very disciplined risk Management framework that's been consistent three times based on our expectations to normal rates in the future and we just executed on that strategy.

Betsy Graseck

Okay so no change to duration?

Marianne Lake

Yes, we added to duration in accordance with our framework.

Operator

Your next question comes from the line of John McDonald with Sanford Bernstein.

John McDonald

I was wondering if you could comment a little bit about some more color in card trends, you have exciting new products out there. How are the economics of the sapphire reserve card been coming in relative to your expectations and what factors drove the decision to cut the original promotion back and should that affect your account acquisition costs? Thanks.

Marianne Lake

Great, so obviously, the sapphire reserve card is still quite young or still quite new but relative to our modeled expectations even at the intro promo premium. Things are coming in line or better than our expectations. Now obviously we need to continue to that but we are very encouraged by not only the excitement in our customer base but also the way that the trends are performing in terms of spend and engagement, but when we introduce a new product we intentionally introduce a very exciting premium promo and its intended to generate excitement and I think you would agree it did, so we're delighted with the response that we've had and we've actually kept it up for longer than we initially expected but it's normal for us to come down from those intro rates as the product becomes more mature and that's what we are doing but to be very clear about our expectations of the performance of the card even at 100,000 points.

We still expected the card to be a strong return and very accretive so obviously, at a lower premium it would be more so but one last thing I would say is everybody gets very interested the upfront points. It's our opinion that the real value to consumers of that card happens over time with their spend behavior and to take the points down from 100,000 to 50,000 has less than a 10% reduction in the overall value through the lifetime of the customer on average.

John McDonald

Okay, and just as a follow-up on that, in terms of the card credit quality it's been very good. Would you still expect to see though seasoning as the book matures what kind of outlook would you have on the card charge-offs?

Marianne Lake

So the charge-offs came in for the year at 2.63% which is in line with the guidance that we gave I think in November that Kevin Waters gave. He's given guidance for 2017 as we continue to see the newer vintages season, our 2.75% plus or minus and that's still our expectations, so the newer vintages are performing in line with our expectations.

Operator

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

Erika Najarian

I know that you've said previously that regulatory reform or regulatory relief will unlikely have any fundamental change in terms of how you're thinking about budgeting but I'm wondering if you could help us understand sort of over the past few years how much has regulatory costs grown and has that peaked anyway and can you give us a sense of how that could trend over the next few years either the natural trend of it or what the impact would be of regulatory reform.

Marianne Lake

Yes so I'll give you a couple of things and hopefully that will help. So I think a year or so ago we talked about the fact that I'm going to now talk about cost of controls more broadly than just regulatory, that the cost of controls had increased for the Company by about $3 billion over several years, but that we expected they would peak and start bending down and that is indeed what we have been seeing.

Now I'm not saying that bend down is a sharp bend as we continue to be held to very sort of hard compliance burdens, but nevertheless we are seeing some efficiencies as we mature our processes and automate them. Offsetting against that and one of the reasons why it may be less obvious is that we've continued to increase our spend in cyber security as we want to protect the bank and the customers data.

So naturally, that is happening. We are not going to continue at this point carving out the cost of regulatory or control because that is our operating, our new normal and until we understand whether or not the forward-looking landscape is changed, we won't be able to give you any kind of idea about how and when that will impact our expenses but we will continue to be more and more efficient and certainly, if we are able to take a step back and look at the rules and regulations and the way that they are being implemented and make rational changes to it, if that is something that is allows us to become more efficient then we will certainly do that and keep you informed.

Erika Najarian

Great, and just as a follow-up to John's question on card trends, when you look at the card revenue rate declining about 200 basis points or so year-over-year, is your response to this question essentially implying that we've potentially hit peak promotion in 2016 and perhaps the revenue rate will have some stability to it in 2017?

Marianne Lake

So I think in the conference in November, Kevin Waters said that as we look at the new products and we look at them growing coming out in 2016 and into 2017, we would expect the card revenue rate for the year next year to be about 10.5% after which as the cards and their accounts season and drive revenue growth we should see that continue to trend back up to a level in the past.

Operator

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

Mike Mayo

So Jamie your comment said that the U.S. economy may be gaining momentum. If you can give some of the basis for that comment, is it more risk by investors or more CapEx by companies or is this more hope?

Jamie Dimon

I mean, I think that it's actual detail of Retail spend, auto sales, house prices, household formation, confidence numbers, so I'm not basing it on the market just based if you look at a broad range of things that looks like growth may have gotten a little bit better in the fourth quarter plus if you take a walk around the world, Japan is doing a little better, Europe is doing better in fact one of the IMF came out yesterday and both global growth will tic up next year so it's just those factors.

Mike Mayo

Is that enough for you to say you're going to invest a little bit more or higher more people or expand a little bit more and along those lines, how do you see market share gains potentially?

Jamie Dimon

Not going to change our plans very much because we don't really react that much to the weather, because we grow to add bankers and stuff you know you have to do it through a cycle. I do think of it as regulatory relief. You will see banks be more aggressive in growing opening branches in new cities, adding to Loan Portfolios, seeking out clients they don't have so I'm hoping to see a little bit of that too but they will wait for regulatory relief.

Mike Mayo

Why are you saying this might be a little bit more weather that this might be more sustainable when you say the economy might be turning?

Jamie Dimon

I'm saying we don't react to the small change in the economy to how we grow and expand our business but it looks to us if you look across the broad spectrum, Capital Expenditures, business confidence, consumer confidence, household building, household formation, wage income, unemployment going down, auto sales going up, Retail sales going up it looks like it's stronger not weaker. That's just my own personal belief.

Marianne Lake

And maybe just if we give you a bit of insight into the philosophy about how we do our investment and expense budgeting when we talk to our businesses, regardless to Jamie's point about necessarily whether the external factors are moving, the question is what do we want to do in terms of products and services and technology and bankers and offices that we can execute on well and responsibly and that is typically what defines us not our appetite to investor dollars, so I think we've told you pretty consistently that and you've seen it we added 130 net new bankers, we opened eight offices in the commercial bank, we're investing in technology very, very broadly, payments, digital across the Company so I would say that we don't feel like we've been held back in terms of our appetite to invest because of concern around the economy and in the same way, a more confident outlook in the economy won't step change that but we will continue to look for great investments everywhere we can and make them.

Operator

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

Jim Mitchell

Maybe we could talk a little bit about the Investment Bank. Obviously your peers and a lot of investors have been growing in their optimism for this you're in terms of animal spirits and everything else and just want to get a sense of how you're thinking about it do you share that optimism and any commentary on how we can think about both banking and trading into the New Year with all of the moving parts that we have around policy, etc. Thanks.

Marianne Lake

So I would say just if we separate the two and just talk for one second about banking, you know fundamentals for a solid M&A year are there and obviously there will be puts and takes depending on what happens in the policy and reforms space, but we're optimistic about a solid M&A market but with the continuing trend of fewer mega deals but nevertheless good flow. At ECM looks set to be quite active and the IPO market continuing to recover and debt Capital Markets has a solid pipeline in terms of the refinance arena, but having said that interest rates may have an impact so I think pretty solid pipeline coming into the year but lots of factors will ultimately affect the full year.

With respect to trading, Jamie said that we don't look at the first couple of weeks, but so far so good and what I would tell you is we said this before where a client flow oriented business and there will be a lot of micro and event-driven activity and as long as it's not discontinuous, we should be able to inter immediate transactions with our clients and so far, generally there's been more risk appetite in the investor days but that can change very quickly as we saw in previous quarters so we will be there to support our clients and if they are active, everything should be good but it can change quickly.

Jim Mitchell

And maybe as a follow-up on the expense side. The comp ratio in the Investment Bank dropped around 240 basis points this year or last year. Do you think that's sustainable into 17 assuming flat to up revenues or was there anything unusual in there?

Marianne Lake

So just reminding you about our sort of philosophy on comp revenue, it's just a calculation obviously we pay for shareholder value-added so you need to take into consideration the fact that we've had over time increased capital levels and liquidity levels and that's reflected in a declining overall comp to revenue ratio. I would say that there are three factors to it being lower. The first is the strength in performance and pay outs aren't linear and as you have stronger performance, you would expect to see a lower ultimate outcome but importantly, we were some tail winds in the numbers this year included a stronger dollar so as we pay remember comp to revenue isn't just on the front office compensation, it all supports our salaries [indiscernible] and compensation and we have a large number of people that we pay not in dollars so that was a bit of a tail wind.

Some of that will carry on but maybe not at the same level and we also just did our normal regular hygiene and productivity in terms of the how we think about the workforce and pay. At the end of the day, we pay for performance, we think very competitively to retain for the best team on the street and make sure that our shareholders are getting a fair share of any outperformance.

Operator

Your next question comes from the line of Paul Miller from FBR.

Paul Miller

Jamie, one of the things we're seeing some of the new politicians coming and talking about opening up to credit box especially in the mortgage world that has been really shutdown over the last years, mainly to the rules coming from all of the things, Fannie, Freddie, what type of things do you need to see or do you think they can do to open up that credit box where banks can take more risk and be protected?

Marianne Lake

Simplifying the securitization rules because we've done some securitizations. We think they are each lent but that would open up the market a little bit, clarifying Safe Harbors on certain types of underwriting. For example, it's very hard and risky for a bank to make a loan to first time buyers, former bankruptcies even though it could be very good people with brand new jobs, self-employed it's hard to necessarily do all of the income verification stuff lick that, simplifying servicing, the services standards now have I think nationwide we have 3000 different standards.

It's very costly. It's very expensive. It's kind of risky if you make a mistake the punishment is pretty high and all those things that should be done for the good of the United States of America. Not for the good of JP Morgan Chase and so I do think it's too tight and there's one thing you get around too quickly it will help the housing market a little bit, help the housing formation, reduce the cost of mortgages and make it available to more people.

Operator

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

Glenn Schorr

So I guess the question for either one of you is if we do get some lower taxes and/or better rate environment, I'm curious on your confidence on how much of that can fall to the bottom line because there's a lot of optimism about what can happen, stocks have moved well, we're expecting that to move to the bottom line. There's the big concern that people have is it gets competed away by irrational behavior so curious to get your thoughts on that just big picture in general if things go well how much of that are you repaying?

Marianne Lake

So starting off with sort of interest rates and obviously we've talked for an extended period of time about the fact we've positioned the Company to benefit when rates rise, we built the branches, acquired the accounts, we've built the technology and services so we've been growing our deposits very strongly and we're going to enjoy the benefits of that. With respect to how much will go to the bottom line, we have been we think appropriately conservative when we have given you guidance about ultimately how much incremental NII we would expect in a more normal rate environment. If you go back to Investor Days of past you would see we said when normalized we would expect 10 plus billion dollars and embedded in that are assumptions obviously around rates paid.

We think that rates paid will be higher this time in this cycle than in previous cycles for a bunch of reasons including as you said competition for High Quality liquidity balances, but also we are coming off of zero rates and the improvement in technology so we've been we think appropriately conservative but we'll find out in the fullness of time. So far two rate hikes rates at 50 basis points it's too early and so far, you would expect that to be in there an it's not linear and everything is behaving quite rationally right now, so we in fact if anything a little better than we had modeled so we'll keep watching it and we think we've been thoughtful. We don't know the right answer, and we'll keep you updated as we see how things progress.

Jamie Dimon

And just on the tax side, so you understand generally, yes if you reduce the tax rates all things being equal to 20% of something eventually that increased return will be competed away. That is a good thing, so it's not a good thing for JP Morgan Chase per se but it's a good thing for the world, it's a good thing for growth and a lot of studies actually show the beneficiary of that is wages and so it's important to understand that good tax policy is good for growth and the country in general. It's not just good for companies that will eventually be competed away.

Glenn Schorr

So when should I take that lower tax rate out of my model, kidding.

Jamie Dimon

Listen you aren't going to really know for probably nine months to a year exactly what it is so I wouldn't worry too much about it and just remember the most efficient companies do benefit from things like this more than others.

Glenn Schorr

The real follow-up I had was the concept of interest deduct ability, if that is the means that they use to pay for the tax hikes, it feels to us like a bad thing, I'm just curious on how you think it impacts your franchise from anything from debt underwriting to anything else?

Jamie Dimon

I think if you look at again, there's a lot of wood to be chopped and sausage to be made before tax reform gets done and some of these things are brand new and they've never been talked about or done before so you can read a lot of studies obviously for banks to run net interest income so it doesn't directly change how you look at it so for everybody else it affects complete industries differently. How you leverage differently, utilities will be a different position and unleveraged companies and plus people will be able to convert what would have been interest expense to some other kind of expense so let the work get done before we spend too much time guessing about it.

Marianne Lake

I also think that while interest deductibility is one point repatriation of cash is another point and there are puts and takes and you have to see the whole package before you can see what the net impact is, but ultimately if these things get done rationally and grow the economy then it's good from our franchise just broadly so don't focus on DCM, focus on the whole thing and I think when you get the whole package if it's done well which we hope will happen, then it will be good for the economy, good for our clients and good for our whole franchise.

Operator

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

Matt O'Connor

If I could circle back to the discussion on the net interest income and rate leverage the outlook for net interest income to grow over 3 billion versus 1.5 before the rate increase it's obviously a nice lift for a 25 basis point bump on the shortened, so I guess one, does that include the benefit of longer term rates since they've moved up as well since 9/30 which I assume it does but just to confirm that and secondly what's the leverage to rising rates from here as we think about movements in both short and long end.

Marianne Lake

So yes, Matt it does include the benefit of higher long en rates and if you get the Q an get our disclosure on net income risk you'll get math that looks similar to that $1.5 billion or more, and then with respect of sensitivity from here, clearly it's not linear, so you can see if we just look at the Third Quarter, the first hundred basis points this is an illustration of $2.8 billion, 200 basis points of 4.5 so as we clip away, 25 basis points a time or $2.8 billion will start to come down and so that's broadly the outlook. And the next 10-Q will show the next.

Jamie Dimon

But obviously it's less and less as rates go up. It's not linear, unless we actively change the ratio which we may also do at one point.

Matt O'Connor

And actually my follow-up question, on the size of the balance sheet you did talk about loan growth of about 10% this year, if you look full year 16 versus 15 the balance sheet or the earning assets only rose 1% so maybe tie that into as you think about duration, the fact that you're sitting on a lot of liquidity and cash and how we should think about both overall growth in the balance sheet and then potentially some more remixing.

Marianne Lake

Yes, so what you saw happen in 2016 was not only obviously a rotation from securities and deploying deposits into loans but also we took a very large amount of non-operating deposits out of the balance sheet in 2016 so that is having an impact but we would expect to continue to grow our loans to grow our deposits strongly to manage the overall balance sheet through our investment securities portfolio and from here, if everything continues to be as the market implies we should see margin expansion.

Operator

Your next question comes from the line of Brian Kleinhanzl from KBW.

Brian Kleinhanzl

Just a quick question on the credit and reserve releases as it relates to the energy and metals and mining portfolio. Now that you've actually seen better credit in there how much of the reserves are left in that portfolio and can you still see reserve releases going forward?

Marianne Lake

Yes, so answer is across the metals and mining and energy, we have a little over $1.5 billion of reserves and there is a normal level of reserves that we will have that would be a large chunk of that and as you saw in 2016, we did take charge-offs of a little less than $300 million, so we will continue to likely see on a name specific basis as people work through their business models that there will be more charge-offs but ultimately if anything stays stable or improves, and of course we have to see that be somewhat sustained and find its way flowing through the financial statements of our clients then as we upgrade them god willing then we will see more reserve releases but it's going to take some time and we'll start to see that think about the large reserves we took.

We took them at the tail end of 15 and into 2016 we'll start to see new financial data from our clients, we'll start to do the borrowing base redeterminations and look at the impact of prices on reserves in the Spring so we'll start getting data this year so we may see more releases but it's going to come through over time.

Brian Kleinhanzl

And then also on theory against strong loan growth year-over-year, I understand you're focusing in these housing constraints Markets but is there a limit to how much you can grow in those Markets?

Marianne Lake

Yes, I would say that when I talk about the overall core loan growth going down still being strong, it does reflect the fact that we've been seeing very strong outperformance in our growth over the course of the last couple of years particularly in commercial term lending and while we continue to believe there's great opportunities there, they will be lower so we've been printing in the teens pretty consistently and I would say it will be less and maybe more in the high single-digits but we will keep you updated. There's still plenty of opportunity.

Operator

Your next question comes from the line of Eric Wasserstrom from Guggenheim.

Eric Wasserstrom

Just to follow-up a couple more questions on card. I know you've talked quite a bit about it already. But one of the sort of conventional wisdoms at the moment is that 2016 represented the pinnacle of the intensification of the competitive environment and I just wanted to get your thoughts on whether that's an accurate assessment or not.

Marianne Lake

Well I don't know that I would ever try to decide what moment is the time is the pinnacle but I would say you saw us invest heavily in the business in 2015 and 16 across a number of different fronts. You saw us proactively renegotiating the card program deals for the vast majority of our portfolio and investing very heavily in exciting new products and in both cases while it has had an impact on our revenues in one case in the short-term and another case more structurally in both cases these are still very attractive returns, and so card is still a very attractive ROE business, very important to our customers. We are after deep engaged relationships through time with them and so we are going to continue to invest in growth.

Eric Wasserstrom

Just on that point, the ROA expectations that you have as a consequence of the trends you just underscored do you consider these to be the sustainable as you get back to that 11% kind of revenue yield?

Operator

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

Steve Chubak

I wanted to start off with a big picture question on the trading side. You made some recent remarks talking about the outlook for the FIC business and alluded to roughly half of the declines versus the peak being attributable to cyclical as well as secular factors and a lot of FIC optimism in particular we've spoken with have latched on to your remarks and I was hoping you could provide context as to how you determine the 50/50 split, should we be taking those comments literally and how you're thinking about the FIC fee trajectory overall as those cyclical headwinds are made.

Jamie Dimon

We did try to analyze it because we got asked a lot about what was secular so you could break apart your exotic derivatives, certain types of CDOs. Of course the whole spectrum there are things that disappeared and we would be done no more for better or worse and in some cases like a CDO didn't go away because the person is still a credit buyer so they just went to another product but that was our best estimate.

I don't want to overdo it or anything like that. I also said the actual market making requirements are going to be going up over time talking about 20 years, not the next quarter or next month. Remember we don't run the business next quarter next month, because Assets Under Management are going up and these corporations are going up, fixed income mortgage will go up, need for FX goes up and needs for hedges go up so over time we know there's a cyclical increase and we try to estimate how much is cyclical and there will be a flip side of that and I think you might have gotten to the end of the secular cyclical decline.

Steve Chubak

Thanks, Jamie that's extremely helpful color, and Marianne maybe just switching over to the expense side for a moment. You also provided very helpful detail on some of the drivers of the strong expense progress you've seen in CIB in particular and from what I recall last year's update Daniel actually guided to an expense target of about 19 billion by 2017. It looks lick you've gotten there essentially a year early and I'm wondering whether there are more savings initiatives that have not yet been filtered through and could potentially accrete in coming year.

Marianne Lake

So I will obviously give you a lot more detail about all of this at Investor Day but really quick because I knew the $19 billion would get some excitement. If you go back and talk to yourself to look at the specifics on the slide you should see that the $19 billion that he guided to did have some assumptions about some legal costs in there. The CIB didn't have legal costs in the year and as a result, it's still a little higher on an apples-to-apples basis than that would imply. Additionally I talked about the tail winds in terms of a stronger dollar. Now for full disclosure we have intentionally reinvested some of that but it was a tail wind that meant that apples-to-apples it would still be a little higher. I'd tell you compared to the targets that they set we still have a few hundred million dollars to deliver them and Daniel will go through that at the Investor Day.

Operator

Your next question comes from the line of [indiscernible].

Unidentified Analyst

I was just wondering if you could talk a bit about rate of trading. To my mind, that was a product that's done particularly well this quarter but I was wondering looking forward how you see that performing whether it's supported by what's going on in yield curve or whether do you see that supported more by sort of like one off euphoria around election so maybe that might tail off a little bit and then just moving on from that, how do you view the opportunities for growth in your Capital Markets businesses, your CIB versus say your lending businesses. Are you equally enthusiastic about both given the opportunity sets going forward or do you see something more positive than others?

Marianne Lake

Okay, so just to talk about rate trading for a second. You're right, that it was a part of the strength story in the fourth quarter this year. It was also a strong fourth quarter last year which is pretty much the only reason why we didn't call it out as a bigger driver of the year-over-year growth but it was a strong performance in the quarter and we would expect that to continue at it's much more interesting to for our clients to trade around a moving yield curve and rates above zero so as we see rates normalize we would fully expect that to be ultimately a beneficiary to the franchise in terms of clients trading and positioning and hedging around that over time and so wonder if that would be the case.

In terms of the excitement and enthusiasm of our businesses lending versus we're enthusiastic about all of our businesses and would want to defend share and grow them all, and in the reality of the CIB revenue performance in Markets and in general, it was very strong in 2016, so we will try our hardest to replicate that. But it will be a challenging comparison but we're proud of it, so we gained share competitively over the course of the last couple years and so I don't think you should necessarily expect that we can continue to gain share at that pace but defend that we will.

Unidentified Analyst

It sounds maybe that you'll have the pressures of year on year growth and CIB business but you aren't really highlighting that in terms of your learning businesses which obviously you'd expect further margins to grow the loan books to grow.

Jamie Dimon

I think the better way to look at CIB lending is it's kind of episodic and goes in and out. A lot of corporations don't need to borrow and when they do it may be inconsistent because of M&A or something like that or book will always be driven by certain types of activity so the loan book isn't something the CIB loan book isn't something to say that you're growing. That is more serving clients in the way they need. One of the things I want to point out which is of course all of our businesses but just take trading in particular is we're always creating efficiencies and part of what we invest is big data, processing electronic exchanges, online services, lick I think 97% of FX I think it's 50% or 60% of US interest rate swaps, all these things have become electronic and digitized straight through for clients so that's where some of the investments are going and you'll see more of that not less but it also creates another round of efficiencies every time we do that.

Operator

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

Gerard Cassidy

Can you give us some color, in the past you've talked about in the multifamily I know you commented on that in your prepared remarks on your multifamily book, some of the Markets that you continue to be a little wary of can you give us an update to those types of thoughts?

Marianne Lake

Yes, so we talked before about we had in certain Markets already pulled back not necessarily because you had a crystal ball because we saw them getting saucy before the energy decline, Dallas and Houston would be examples, parts of Brooklyn would be examples of that. I would say watching more carefully, you've seen us. We have that there is some supply coming through in Markets, Seattle, Denver, D.C. , San Francisco, we're still very active but just keeping an eye on those Markets but the supply pipeline while it's real does not look like it did when we saw the real pressure on the Real Estate business back in the 80s and 90s so we're keeping an eye on it.

Gerard Cassidy

And I know you talked about the duration of the securities portfolios it's in line with--

Jamie Dimon

We don't want to give you all of our secrets in that business, we do have much but we're very disciplined about where we see supply and supply and demand and pricing and we would have no problem not going at all. We don't sit at meetings here and say can you go at 10% or 12? No, if we can't meet what we think is proper risk return we aren't going to grow at all. We'll shrink, we have no problem doing that so the other thing I want to point out about CTLs, the exceptional performance of CTL through the last Great Recession. We were really pleased with how that happened so we try to look at all these things through the cycle not just what are they doing in good times.

Gerard Cassidy

Certainly. And Marianne coming back to the investment portfolio, obviously you talked a little bit about the duration. Do you have the actual duration of it in years, this quarter versus the third quarter?

Marianne Lake

We don't disclose that.

Operator

Your next question comes from the line of Matt Bernall from Wells Fargo.

Matt Bernall

Just a quick question for you Marianne, in terms of the mortgage in the overall picture, I understand why you're talking about maybe 10% core loan growth rather than 15% more recently, but just within the residential mortgage portfolio, it looks like that slowed in the fourth quarter, third and fourth quarter from a midteens year-over-year rate to a low single-digit quarter-over-quarter rate. Can you give us a little more color as to what's going on there, are you slowing your purchases of your own originations or is there something else going on there?

Marianne Lake

So there's a couple different things. First of all, about a little more than half of our originations are jumbo. We retain all of those, and then when you look at the conforming space, it's really honestly consistently the best execution decision and so in particularly in this quarter, it speaks a bit more to our correspondent conforming volume, it's the lowest margin product and it does somewhat frequently toggle backwards and forwards in terms of better execution whether we would retain or sell it but we intend to keep adding to our portfolio, we like the mortgage asset classes, even those spreads have compressed in the fourth quarter, OAS and ROEs are holding up so I would expect us to continue to grow it strongly and from quarter to quarter it may go up or down a few percent but over at year we'll continue to add to the portfolio.

Matt Bernall

So no real change in your thinking there?

Marianne Lake

No.

Operator

Your final question comes from the line of [indiscernible].

Unidentified Analyst

The thing that jumped out at me was if you looked at the Asset Management group you had $21 billion of long term product outflows and you had $35 billion in liquidity products inflows, and it seems like now that we're getting past financial crisis when everybody was looking at liquidity, that combining that with continued deposit growth we aren't seeing a change in that perspective but there's still a premium for increasing liquidity still.

Jamie Dimon

I think there was a little bit of that in the fourth quarter, particularly relating to actively managed product. I think you're accurate but we haven't seen everybody else yet but I think you will be true when we see everybody.

Unidentified Analyst

Do you foresee that premium for liquidity lessening as we kind of go into the rerisking of better economy and some things to improve the outlook?

Jamie Dimon

That's a really hard question to answer. I'd have to think about that a little bit.

Unidentified Analyst

And then my last thought was when you look at M&A, we had M&A kind of suppressed when things were more regulatory constrained and the outlook was negative on the overall economy and uncertainty. Now we have this positive uncertainty. Wouldn't that delay some activity for at least a couple quarters for people to kind of see where we are going to end up and see where tax rates are and see what we might get in deregulation that may change perspective on the long term opportunities, so just thought there might be a little pause here.

Marianne Lake

I think that everything is going to end up being reasonably named specific so that may be true in some cases but so from companies and industries where deregulation and what would be more helpful but generally as I said the trend is towards lower sorry less mega deals, more flow and fundamentals are in pretty good shape and then there will possibly be tail winds in terms of tax reform and other things so I think net-net, we think the underlying flow in the M&A market and fundamentals are set to have a pretty positive year.

Unidentified Analyst

I just thought maybe the second half versus the first half but thanks for your response.