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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's Second Quarter 2017 Earnings Call. This call is being recorded. (Operator Instructions) We will now go live to the presentation. Please stand by.

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

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

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 at the back of the presentation.

Starting on Page 1. The firm reported record net income of $7 billion, EPS of $1.82 and a return on tangible common equity of 14% on revenue of $26.4 billion. Included in the result is a legal benefit of approximately $400 million after tax from a previously announced settlement involving the FDIC's Washington Mutual receivership.

Other notable items, predominantly net reserve changes and legal expense, were a small net negative this quarter. So underlying adjusted performance was really strong. And highlights for the quarter include: average core loan growth of 8% year-on-year, reflecting continued growth across products; double-digit consumer deposit growth; strong card sales, up 15%, and merchant volume, up 12%; #1 Global IB fees, up 10%; and we delivered record net income in both Commercial Banking and in Asset & Wealth Management.

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

Adjusted expense of $14.4 billion was up a little less than $400 million year-on-year, with auto leases being the biggest driver, but also including the impact of the FDIC surcharge and broader growth being offset by lower compensation.

Credit costs of $1.2 billion were down $187 million year-on-year on [lower] reserve builds as a net reserve build in Consumer of a little over $250 million, driven by Card, was offset by a net release in Wholesale of a little under $250 million, driven by Energy.

Anticipating you may have questions, given the recent stress in oil prices, I would emphasize that we guided to expect reserve releases, given we started the year with $1.5 billion of energy-related reserves. And with oil prices having found a lower but seemingly stable level, we feel appropriately reserved.

Shifting to balance sheet and capital on Page 3. You can see in the red circle on the page here that we ended the quarter with binding fully phased-in CET1 of 12.5% under the standardized approach, with the improvement being primarily driven by capital generation, offset by net loan growth. We've been hovering around the inflection point under the Collins Floor for a while now and expect standardized to remain our binding constraint from here. Given that, we've replicated this page under standardized rules in the appendix for you to read.

Balance sheet, risk-weighted assets and SLR all remained relatively flat from the prior quarter. And while not on the page, I would also note that we remain compliant with all liquidity requirements. We were pleased to announce growth repurchase capacity of up to $19.4 billion over the next 4 quarters. And the board announced its intention to increase common stock dividends 12% to $0.56 a share effective in the third quarter. In addition, we recently submitted our 2017 resolution plan, which we believe fully addresses outstanding regulatory feedback.

Moving on to Page 4 and Consumer & Community Banking. CCB generated $2.2 billion of net income and an ROE of 16.5%. We continue to grow core loans, up 9% year-on-year, driven by strength in Mortgage, up 12%; Card and Business Banking were each up 8%; and auto loans and leases were also up 8%, driven by strong lease performance from our manufacturing partners.

Deposit growth continues to be strong, up 10% year-on-year, with household retention remaining at historically high levels. We saw improvement in our deposit margin, up 16 basis points. Sales growth in Card was very strong again this quarter, up 15%, as new accounts mature. And merchant processing volumes grew double digits, up 12%.

Revenue of $11.4 billion was flat year-on-year. But recall that last year included a net benefit of about $200 million, principally driven by the Visa Europe gain. So excluding that revenue, it was up modestly.

Consumer & Business Banking revenue was up 13% on both strong deposit growth and margin expansion. Mortgage revenue was down 26% as higher rates drove higher funding costs, which, together with lower MSR risk management and lower production margins, put pressure on mortgage revenue year-on-year. In addition, revenue included a reduction of approximately $75 million to net interest income related to capitalized interest on modified loans.

And Card, Commerce Solutions & Auto revenue was down 3%, but if you exclude the noncore items I mentioned, was up 2%, with NII growth on higher loan balances and higher auto lease income, predominantly offset by the continued impact of investments in Card new account acquisitions. Expense of $6.5 billion was up 8% year-on-year on higher auto lease depreciation, higher marketing expense and continued underlying business growth.

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

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

Now turning to Page 5 and the Corporate & Investment Bank. CIB reported net income of $2.7 billion on revenue of $8.9 billion and an ROE of 14.5%. In Banking, IB revenue of $1.7 billion was up 14% year-on-year, with strong performance across products but particular strength in DCM. We ranked #1 in Global IB fees and #1 in North America and EMEA. We were also #1 in ECM and DCM globally, in each case gaining share for the first half of this year.

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

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

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

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

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

Before I move on, I would also like to remind you that the third quarter of 2016 markets revenue was also a record since 2010. In fact, it was about $1 billion more than the average of the previous 5 years. And so while that isn't guidance, it is context as this quarter has felt quiet, more like prior years.

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

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

Expense of $790 million was up 8%, and we expect this to grow modestly in the second half as we continue to execute on the investments in bankers and technology that we outlined at Investor Day.

Loan balances were up 12% year-on-year and 3% quarter-on-quarter. C&I loans were up 4% sequentially, ahead of the industry, on broad-based growth across markets and within specialized industries. CRE saw a growth of 2%, in line with the industry, but below last year's pace on reduced origination activity as we continue to be selective at this stage in the cycle. Finally, credit performance remained very strong with a net charge-off rate of 2 basis points.

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

This quarter, we saw net long-term inflows of $9 billion with positive flows across multi-asset, fixed income and alternatives being partially offset by outflows in equity products. We saw net liquidity outflows of $7 billion, largely due to specific client deal-related cash needs. Record AUM of $1.9 trillion and overall client assets of $2.6 trillion were both up 11% year-on-year on higher market levels. Deposits were flat year-on-year and down 5% sequentially, reflecting the beginning of balance migration into investment-related assets, as expected, and those balances remained with us. Finally, loan balances were up 9% year-on-year, driven by mortgage, up nearly 20%.

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

Finally, turning to Page 9 and the outlook. Starting with the quarter, we guided second quarter NII to be up about $400 million from the first quarter, given the rate -- the March rate hike, but you'll see that the NII for the quarter increased by only $150 million. While we did fully realize the expected benefit of higher rates and continued growth, against that, we had the onetime $75 million mortgage adjustment as well as lower CIB market NII.

These effects, together with modest downward pressure from lower 10-year rates, with all other things equal, point to a full year number of closer to $4 billion up rather than the previous $4.5 billion, but with a potential to be higher if we continue to benefit from tailwinds of lower deposit reprice. So you will see we have adjusted the guidance on the page, but it will be market-dependent. And any near-term forecast is sensitive to a number of factors, none of which changes our conviction that we will ultimately deliver $11 billion plus of incremental NII as rates normalize, and we are well on our way.

On expense, we continue to expect full year adjusted expense of $58 billion. Second quarter was in line with our expectation and our guidance at a little better than $14.5 billion, which is also where we expect the third quarter to come in.

Finally, we have revised our full year core loan growth down to 8% year-over-year, but a couple of comments. First, we are seeing slightly lower growth than we expected coming into the year, it is only modestly lower. And more importantly, we remain encouraged by the consistency and breadth of client demand across products.

Secondly, we noted that mortgage could be a big driver. And with a smaller market and a more competitive environment, fewer loans have met our hurdle rate. And of course, we remain appropriately focused on quality and not quantity of growth. And as such, loan growth is an outcome, not a target.

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

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

(technical difficulty)

QUESTIONS AND ANSWERS

Operator

Line of Glenn Schorr with Evercore ISI.

Glenn Paul Schorr *Evercore ISI, Research Division - Senior MD, Senior Research Analyst and Fundamental Research Analyst*

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

Marianne Lake *JPMorgan Chase & Co. - CFO and EVP*

Yes. I would just stop for a second to just point out that what Jamie actually said was, "This is uncharted territory. It's not something that we've seen before." And so while it is the case that the Fed is communicating clearly and has every intention to make this gradual and predictable, things can change, and we should just be prepared for that. Not to say that, that would have a particularly significant impact necessarily on JPMorgan but that, that would just be a downside risk, not a probability. So on the balance sheet, it's still the case that we expect to start seeing normalization in the balance sheet in September; if not in September, by the end of this year. And we're still actually calling for the next rate hike in December; the market is calling for March of next year. And as we said, the communication has been pretty consistent and pretty clear across the Fed space, which is to say that it's mostly priced into the market at this point as far as we can tell. And so based upon what we've understood, all things equal, we would see the balance sheet shrink about $1.5 trillion over about the next 4 years. So that would ultimately slow growth, not stop growth. And if we saw $1 billion -- sorry, $1.5 trillion come out of the Fed's balance sheet, empirical evidence would suggest that we don't see dollar-for-dollar reduction in deposits. So if you just pick a point between $500 billion and $1 trillion of deposit outflows, at our 10% market share, that would be about $75 billion over 4 years. So it would slow growth. It would not stop growth. And it is what we've been expecting and what we've been talking about now for an extended period, and gradual is good in that sense. In respect of which deposits we would like to see, so that's the sort of growth scenario. In terms of liquidity, again, evidence would suggest, and we've been communicating this quite clearly, that we think the preponderance of that deposit outflow would be wholesale deposits and that would -- it would be nonoperating deposits. And those are deposits we ascribe little to no liquidity value to. So assuming that we're close to right, we would see those deposits ultimately leave the system, but it wouldn't affect materially, if at all, our liquidity position. So ultimately, the yield curve has priced, I think, all of this in. What I think the Fed had been clear about is that they expect the balance sheet or hope the balance sheet to be in the background and to use short rates as their primary monetary policy tool. And so as a result, we would ultimately expect to see perhaps a flattening yield curve, but with the front end ultimately pulling the long end up. And you heard Yellen -- Chair Yellen talk about being conscious of the shape of the curve as they go about normalization. I think you may have asked something else. Did I miss anything?

Glenn Paul Schorr *Evercore ISI, Research Division - Senior MD, Senior Research Analyst and Fundamental Research Analyst*

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

Marianne Lake *JPMorgan Chase & Co. - CFO and EVP*

No, we -- that's correct. If you saw the -- compared to a $400 million expectation, we were up $150 million. So it would be fair to say that most of it was in this quarter. We had also -- when we gave the last set of guidance at $4.5 billion, we pointed out that the 10-year was low and that, that was ultimately pressuring that $4.5 billion. So it really isn't that significant of a change. The only thing I would caution you to remember is that when we think about asset sensitivity and we think about NII, market NII, which we wouldn't consider to be, in a traditional sense, core, can exhibit volatility geographically with NIR. If you think about a market-making business where we can have assets that are throwing off NII hedged by derivatives that ultimately have an offset in NIR, we actually think about that in total revenue numbers. So there could be a little noise in there, but no, I'm not expecting there to be significant changes. But I think what this makes me realize acutely is that no good deed ever goes unpunished. And chasing our tails, reforecasting the full year NII every 3 quarters isn't as important -- or every quarter isn't as important as keeping our eye on the long term, which is nothing has changed. We are absolutely realizing the benefits we expected in the banking book assets and liabilities, and that means that our long-term projections will be good and the path is a little bit less important.

Operator

And your next question comes from Ken Usdin from Jefferies.

Kenneth Michael Usdin *Jefferies LLC, Research Division - MD and Senior Equity Research Analyst*

I want to follow up on the loan yield side, which were not much moved. You mentioned the $75 million in mortgage. Can you just help us walk through the loan portfolio and whether you're seeing the assets move, whether there's a lag or whether there's any spread compression underneath that?

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

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

Kenneth Michael Usdin ***Jefferies LLC, Research Division - MD and Senior Equity Research Analyst***

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

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

Yes, that's right. And if you look back last quarter, they did, too. It's just that we've had a couple of opposing things going on this quarter.

Kenneth Michael Usdin ***Jefferies LLC, Research Division - MD and Senior Equity Research Analyst***

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

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

Yes. So obviously, one of the biggest drivers over the last recent while in card revenues has been the extraordinary success we've had in capturing new Chase Sapphire Reserve accounts. And so the end of the third quarter both -- importantly, both the fourth quarter and the first quarter were extraordinary in terms of the number of accounts we acquired. And of course, we amortize or contra revenue out those expenses over 1 year. So at 10.5% revenue rate right now and with those -- having adjusted the premium with those originations stabilizing out into the second quarter, we will see ultimately -- we'll lap that impact a year from now. And we'll see our revenue rate start improving from here towards the 11.25% that we sort of guided to in the medium term. And we expect to get to that point, all other things equal, kind of mid-next year. And of course, that's just one facet. We're also seeing significant momentum on the sales front. Obviously, as a result of those accounts, we're growing our core loans, up 8%. And so we're having higher NII on those balances. So there's a lot of dry powder. We just need to get past these account acquisition costs, which we will. And I always feel compelled to point out that these are extraordinarily good customers. Their characteristics, their engagement, their spend, these are the customers that everybody wants to acquire. We now have them, and we intend to deepen relationships with them.

Operator

Our next question comes from Betsy Graseck of Morgan Stanley.

Betsy Lynn Graseck ***Morgan Stanley, Research Division - MD***

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

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

So I would characterize our strategy as unchanged. We've always been pretty consistent over an extended period that we would prioritize, first and foremost, strategic investments for growth in our businesses, be that organic or otherwise. And obviously, you've seen us be investing, whether it's in growing loans or introducing new product, hiring bankers, opening offices in our expansion markets and the like. But yes, it's been heavily skewed to being organic over the most recent while. We've also been pretty clear and active, I would say, in terms of partnering with, investing in, collaborating with partners that can accelerate our growth potential. So we would always be interested, whether that's fintech or otherwise, in getting capabilities that allow us to accelerate our growth potential. We don't have big gaps, but we would always be interested in that. Having said that, I'm not going to comment on the state of the regulatory environment except to say you should expect, for any of these events or transactions, that we would have the appropriate regulators at the -- conversation with regulators at the appropriate time.

Betsy Lynn Graseck ***Morgan Stanley, Research Division - MD***

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

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

Yes. So obviously, we are supportive of the new hedge accounting rules, and it will allow us to consider taking advantage of hedge accounting for a wiser set of products than we currently do. But we actually have reasonably limited hedge ineffectiveness in our (inaudible) right now. So from a practical perspective, it won't make a big difference to the business, but it is more flexibility in terms of the scope. And we're looking at that.

James Dimon ***JPMorgan Chase & Co. - Chairman, CEO & President***

I would just add, as a policy matter, we make economic decisions, not accounting decisions. Accounting is a fiction. And Marianne spoke about the credit card. You expense the acquisition costs over 12 months. The benefit comes over 7 years. So we make huge investments all the time based on economics. We will never make a decision based upon accounting. And then we'll describe it to our shareholders to understand why we're doing what we're doing.

Operator

Our next question comes from John McDonald of Sanford Bernstein.

John Eamon McDonald ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst***

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

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

Yes, it's seasonality. So you've seen the first half at or around that guidance level. We would expect that to go down slightly just from seasonality in the second half for a full year a bit below 3%.

John Eamon McDonald ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst***

And then at Investor Day, the outlook for the medium term was not much higher, 3% to 3.25%. Does that allow for the seasoning over the next year or 2 of all the growth that you've had and allow for some normalization, too? Is that enough cushion to get all that in there?

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

So I would say, obviously anytime you reach an inflection point, you need to be cautious about understanding the pace of change. For -- at least for 2018, 3% to 3.25% feels right. I think as -- when you get beyond that, we'll be updating you with our views as we experience a bit more in reality. It doesn't feel significantly different from that, but I think 2018 is a good number. And 2019, we'll update you.

Operator

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

Erika Najarian ***BofA Merrill Lynch, Research Division - MD and Head of US Banks Equity Research***

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

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

Yes. Okay, so just talk about what we've seen so far, I think the industry has been really quite disciplined, which is what we would have expected at this early stage of a normalization in terms of the rate cycle. It is a tale of 2 cities. We've said that (inaudible) the wholesale space necessarily experiences higher reprice more quickly, and we are seeing that pretty much in line with our expectations. It matters, you need to get granular. The type of deposit, that client segmentation, it matters. So in the wholesale space, we're seeing it. We're on that journey. In the retail space, we haven't seen that yet. So while there have been small changes in the industry in CDs, there's been nothing in checking or savings. But again, I'd just point out to you that we wouldn't have expected there to be at this point yet in the cycle. And I would say, with respect to deposit betas and the Fed's balance sheet, if we are right, and we believe we'll be close to right, and that we see the wholesale nonoperating deposit flowing out of the system, assuming everybody else has reached that same conclusion, then it really shouldn't materially impact the liquidity position of financial institutions. And if you couple that with the expectation of a very gradual and measured pace, which gives people a lot of time and opportunity to plan accordingly, we wouldn't expect there to be a significant impact on betas, if any.

Erika Najarian ***BofA Merrill Lynch, Research Division - MD and Head of US Banks Equity Research***

And my second question, you mentioned in the beginning of the call that standardized will ultimately be your CET1 binding constraint. And I'm wondering, if you were allowed to float off your op -- current op risk floor, and I think it's still $400 billion, does that mean, if standardized is your constraint, that being able to float off the floor and model out your op risk may not be an incremental source of capital because standardized is binding?

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

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

James Dimon ***JPMorgan Chase & Co. - Chairman, CEO & President***

And as you pointed out, the standardized were 100% in the United States. In Europe, they're talking about 75%. So there are -- will be some changes over time in how all these capital ratios get calculated for international competitiveness reasons.

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

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

Operator

Our next question comes from Saul Martinez of UBS.

Saul Martinez ***UBS Investment Bank, Research Division - MD and Analyst***

First question is on Commercial Banking. Can you just comment a bit on the sustainability of the growth in profitability you've had there? Your earnings are up 30% year-on-year; loan growth, C&I, 9%; CRE, up 15%. And we're not talking about small numbers anymore. I think your loan book now is about $200 billion in Commercial Banking. And can you just talk about some of the initiatives that you've discussed of the Middle Market, the IB and how sustainable that is and whether you're comfortable with the risk profile of the books you -- of the book you have there? Because you are growing quickly, it is a big book now, and you're certainly growing faster than the industry.

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

Yes. So I would start with, if you go back a couple of years ago, 2013, '14, '15, when we were doing our business simplification agenda and derisking and uplifting the controlled environment, the Commercial Bank was blocking and tackling and doing a lot of inwardly focused work. And we talked, I think, all the way back in 2016, that there were outbound calls, opening offices, hiring bankers, and that if you waited a minute, you'd see that come to our results. And this is the sort of fruits of that labor. So I do think it is sustainable. There's nothing in these results that is particularly noisy outside of reserve releases, which I'll come back to. And I would also say the partnership between the Commercial Bank and the IB in terms of covering our clients, the introduction of 16 specialized industries, which is an advantage we can bring to our clients nationally and, in fact, globally, that other competitors can't bring, all of those things set us up for continued solid growth. With respect to loan growth, I would say, if you look at our C&I loans, this quarter, as an example, was pretty broad based. There wasn't a specific -- in the Middle Market, there wasn't a specific industry or market segment that was strong. But over the last -- stronger, I should say.

But over the last few years, a lot of our growth has been driven by the investments we've been making in the expansion markets. So we got into some new markets with the WaMu acquisition. We continued to build out those markets, add bankers, open offices. And that has been a source of growth for us that perhaps others haven't been able to enjoy. And also, as I said, specialized industries. And then...

James Dimon ***JPMorgan Chase & Co. - Chairman, CEO & President***

And I would just add, we -- I think we're in all major 50 markets now, unlike retail, where, one day, we'll embark on an expansion in cities we're not in. And the product set is just fabulous. We're adding more and more online things. We're adding simpler and faster credit approvals. We're adding -- making it easier to do merchant processing when you sign up for Middle Market loans. The online systems are great. So all that stuff, I think is -- this is going to grow for a long period of time.

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

All right. And then...

James Dimon ***JPMorgan Chase & Co. - Chairman, CEO & President***

And thanks for pointing out how well it did. And Doug Petno, if you're listening, congratulations.

Saul Martinez ***UBS Investment Bank, Research Division - MD and Analyst***

Yes. No problem.

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

And then the only thing I would say on commercial real estate, just because I think it's really important, is commercial real estate, it depends what you do. And more than half of our commercial real estate exposure is Commercial Term Lending. It's a very specific strategy. We don't deviate from that strategy. And I would just point to you, because it was interesting to me, if you look at the Fed's CCAR stress results for commercial real estate across the industry and look at how our results compared to others, I think you can hopefully get somewhat more comfortable, and we are very comfortable with what we have right now. Now that said, the performance this quarter did benefit from reserve releases and benign credit, and at some point, there will be a cycle. But the risk appetite we have and the way we've managed with discipline, we're very happy with that.

James Dimon ***JPMorgan Chase & Co. - Chairman, CEO & President***

And the IB, bringing JPMorgan Investment Banking to Chase corporate clients, we still think has a long way to go.

Saul Martinez ***UBS Investment Bank, Research Division - MD and Analyst***

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

James Dimon ***JPMorgan Chase & Co. - Chairman, CEO & President***

I would look at it the other way around. So we've, for -- since the Great Recession, okay, which is now 8 years old, we've been growing at 1.5% to 2% in spite of stupidity and political gridlock because the American business sector is powerful and strong and is going to grow regardless -- when they wake up in the morning, they want to feed their kids, they want to buy a home, and they want to do things. It's the same with American businesses. My -- what I'm saying is that it would be much stronger growth had we made intelligent decisions and were there not gridlock. And thank you for pointing it out because I'm going to be a broken record until this gets done. We are unable to build bridges. We're unable to build airports. Our inner city schoolkids and are not graduating. I was just in France. I was recently in Argentina. I was in Israel. I was in Ireland. We met with the Prime Minister of India and China. It's amazing to me that every single one of those countries understands that practical policies that promote business and growth is good for the average citizens of those countries, for jobs and wages, and that somehow this great American free enterprise system, we no longer get it. And so my view is it -- and corporate taxation is critical to that, by the way. We've been driving capital and bringing it overseas, which is why there's $2 trillion sitting overseas, benefiting all these other countries and stuff like that. So if we don't get our act together, we can still grow. I would say it's unfortunate, but it's hurting us. It's hurting the body politic. It's hurting the average American that we don't have these right policies. And so no, in spite of gridlock, we'll grow at -- we can grow at 1.5% or 2%. I don't buy the argument that we're relegated to this forever; we're not. And if this administration can make breakthroughs in taxes and infrastructure, regulatory reform -- we have become the most -- one of the most bureaucratic, confusing, litigious societies on the planet. It's almost an embarrassment being an American citizen traveling around the world and listening to the stupid (expletive) we have to deal with in this country. And at one point, we all have to get our act together or we won't do what we're supposed to do for the average Americans. And unfortunately, people write about the thing like it's for corporations. It's not for corporations. Competitive taxes are important for business and business growth, which is important for jobs and wage growth. And honestly, we should be ringing that alarm bell, every single one of you, every time you talk to a client.

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

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

Operator

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

Matthew D. O'Connor ***Deutsche Bank AG, Research Division - MD in Equity Research***

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

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

Yes. So look, obviously, you know the deal with CCAR approvals, which is it is capacity. It's not necessarily a commitment to utilize it, although we are -- as we fairly clearly articulated at Investor Day and as you see in the numbers here, we are at 12.5% in terms of our CET1. And we believe we ought to be able to, over time, operate the company lower than that, within the range of 11% to 12.5%, albeit that we would take time to do that. So we're in the market buying our stock every day. We're at 1.8x tangible book value. So in Jamie's shareholder letter, we still think that there's significant value in the stock. We believe in the earnings power in the franchise that we have here. And so I'm not to say that we will utilize all the capacity because other things can come up, but we put in the request based upon our desire to want to ultimately move lower.

James Dimon ***JPMorgan Chase & Co. - Chairman, CEO & President***

Yes. And there's a very important policy issue here, too. So our preference is always to build organically, to not buy back stock but to build branches and grow and lend more. But there's an argument that people are making that banks can't lend it, and even if there is excess lending capability, they wouldn't have done it. And that is not true. The counterfactual would have been, had banks been free to use their capital and their liquidity 5 years ago, there would have been a lot more lending in the system. And we've pointed out 2 areas where it would have taken place. One is mortgages, where regulations have held back lending to first-time buyers, immigrants, self-employed, prior defaults, et cetera. And the second is small business, where it's not existing small businesses, think of it as start-up small businesses and that they are having a hard time getting capital maybe at the community bank level, et cetera. The counterfactual would have been that $1 trillion or $2 trillion would have been lent out had these rules been changed 5 years ago. That's the counterfactual. It's not that, well, the banks wouldn't have lent the money. And so again, there's a false notion that all this stuff didn't hold back the economy. Yes, it did.

Operator

Our next question comes from Gerard Cassidy of RBC.

Gerard S. Cassidy ***RBC Capital Markets, LLC, Research Division - Analyst***

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

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

Yes. So obviously, they haven't been specific. Although the Treasury report had some ideas, they haven't been specific about what the calibration would look like and whether there would be recalibration to the numerator and the denominator or one or the other. Clearly, we've been pretty clear that we think cash at central banks shouldn't necessarily be included, and there are other things. Different people have different opinions. So we've done the calculations. I would just point you back to the fact that we have some 20 potentially binding constraints right now, of which leverage in a variety of forms is part of that. So to the degree that we get the opportunity to recalibrate that, it could have impact at the margin. But we take all of those things into consideration when we think about the direction of travel of the company. So we're being as thoughtful as we can. We are not specifically leverage constrained right now. That doesn't mean we're not supportive of making those changes and we will obviously model it out. But we take the potential for those changes into consideration when we think about the direction we grow our businesses.

Gerard S. Cassidy ***RBC Capital Markets, LLC, Research Division - Analyst***

Very good. And then as a follow-up and coming back to credit cards, obviously the Sapphire has been a huge success in growing your business there. Are the acquisition costs higher today than when you compare them to maybe 2 or 3 years ago? And in that vein, when you guys look at the economics of putting on new cards, is the net present value or whatever measure you use to determine the economics, has that improved, stayed the same or weakened from maybe a year or 2 ago?

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

So I think -- I want to point out something because I know that Sapphire Reserve gets a significant amount of attention for obvious and good reasons. But it is only one product in a platform of successful products, both proprietary and co-brand. And so in reality, while we obviously do all the modeling and the math, it's not about what the cost of any one individual card acquired is or the NPV of that, it's how the portfolios ultimately together perform over time. And it's still very early on Sapphire Reserve. I mean, it's not even a year old yet. And these are portfolios and products that develop and season over time. And as I said, these are extraordinarily good customer relationships. So you know we've done a bunch of things in the card business over the last few years. We've renegotiated our co-brands. That was ultimately with lower economics but still very good economics. We've been out on the front foot issuing new products, not just Sapphire Reserve but Freedom Unlimited, the Amazon Prime card, Ink. And so we think about everything in the total portfolio and its collective performance over time, and it's still generating very good returns.

James Dimon ***JPMorgan Chase & Co. - Chairman, CEO & President***

Let me just mention about the regulatory SLR. So looking at it very broadly, if you look at -- it's not just capital liquidity but mortgage rules, requirements, capital liquidity, collateral rules, what collateral can be used and not used, if these things were just calibrated differently, the cost of credit would go down, swap spreads would go down, mortgage would become more available, the cost of mortgage will come down. And those are kind of important in total if they're done right without changing at all the risk to the system. In fact, the system is healthier if the economy is healthier.

Operator

Our next question comes from Steven Chubak of Nomura Instinet.

Steven Joseph Chubak ***Nomura Securities Co. Ltd., Research Division - VP***

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

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

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

Steven Joseph Chubak ***Nomura Securities Co. Ltd., Research Division - VP***

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

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

Yes. So I would start by saying that a lot can change between now and the next cycle of CCAR or the next 2 cycles of CCAR. And so we never did actually say that we necessarily wanted to get the low end of the range but just to operate for the short and medium term within the range while we let all of the potential changes to the sort of regulatory environment at large play out. And so as to whether or not, over time, there's a sort of recalibration of whether 11% is our minimum, that will play out over time. So for the next 1 or 2 cycles of CCAR, this cycle and the next one, I would just expect that we want to be on a measured pace to be within the range to allow us to better understand all of the changes that will take place over time and make appropriate decisions. I wouldn't start imagining necessarily how low that goes. I think we would want to operate with a sufficiency of capital and liquidity.

Operator

Our next question comes from Andrew Lim of SocGen.

Andrew Lim ***Societe Generale Cross Asset Research - Equity Analyst***

Just coming back to the Treasury's proposals for the new calculation of the SLR. Can you give any color as to whether that's actually even possible within the glib context as to how the Basel Committee wouldn't want harmonization across the whole world? Of course, if it did happen, then you would have a massive advantage along with other U.S. banks versus other European investment banks.

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

So I would say, of course, it's possible. We've seen a number of situations where implementing global standards in the U.S. have differed in meaningful ways from how they've been implemented elsewhere. You have rarely seen that be to the advantage of the U.S., and the SLR is no exception. So while there may be recalibrations of either the numerator or denominator, know that to the Europeans, 3% standard. Our current depository institutions are held to a 6% standard. So there's plenty of room for there to be adjustments before it would create an unlevel playing field. And my suspicion is there will also be adjustments elsewhere. And it's supposed to be, as I think Chairman -- Chairwoman Yellen said, a backstop, not binding in the way that perhaps it has become. So I think the answer is yes, but we'll see.

James Dimon ***JPMorgan Chase & Co. - Chairman, CEO & President***

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

Andrew Lim ***Societe Generale Cross Asset Research - Equity Analyst***

Great. And just a follow-up question also on the reduction in the op risk. I mean, you talked about advances for standardized, but I mean, looking at CCAR, your SLR is a binding constraint there. So isn't it really a moot argument, a non-argument really, as to whether that happens or not, i.e., if you reduce your op risk, it doesn't really change your excess capital?

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

And so -- sorry, go ahead.

James Dimon ***JPMorgan Chase & Co. - Chairman, CEO & President***

Go ahead, go ahead.

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

No. So look, there are a number of different people talking about the forward-looking standard for operational risk, Basel -- under Basel III.5 or IV or whatever is talking about it, there were some proposals in the CHOICE Act. So there's no question that there should be a revisitation of the mechanism to calculate operational risk. And then you're right, the way that all of these rules ultimately interplay with each other matters. And so from a pure stress test perspective, at the margin, we had a little bit more binding constraint on leverage than CET1. But if you look at just what we could run the company at if CCAR was the only constraint, it would be lower than where we are. So it's a complicated dynamic of trying to make sure that we're maximizing against all of these constraints and not just the mathematical ones but also the operational and practical ones. So I mean, it's necessary to go back and rethink the calculation of operational risk just because it's the right thing to do. Ultimately, how that plays out into how we optimize against our constraints is less of what we're focused on.

Operator

Our next question comes from Betsy Graseck of Morgan Stanley.

Betsy Lynn Graseck ***Morgan Stanley, Research Division - MD***

Just 2 other quick things. One, on the accounting with hedge, just to get back on that a little sec, the question also was, was there any opportunity for your clients, too, because if there is an opportunity for, say, institutions to hedge their books of business more, that could feed into your revenues?

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

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

James Dimon ***JPMorgan Chase & Co. - Chairman, CEO & President***

Just the (inaudible) corporations, though. The new hedging rules would affect other corporations are nonbanks.

Betsy Lynn Graseck ***Morgan Stanley, Research Division - MD***

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

James Dimon ***JPMorgan Chase & Co. - Chairman, CEO & President***

We haven't looked at whether it creates more demand from the other -- from the corporate side. So we'll look at that and see.

Betsy Lynn Graseck ***Morgan Stanley, Research Division - MD***

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

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

No. It is still this quarter. There are requirements to make public disclosures in August. So depending on whether you make them in your Q, in your Pillar 3 or not will determine whether it's the beginning or middle or end of August. We, as you know, have -- as an industry, are being quite public about the fact that we think -- by the way, we provide an extraordinary amount of real-time granular -- same-day granular information on liquidity to our regulators in order for them to be able to properly supervise not just us but the system. And so we believe the regulators do have and can have anything they need when they need it. It's just a question about whether there is any added benefit of those informations being made public near real time. While it wouldn't matter today when everyone's running very significant liquidity surpluses, it could have unintended consequences if we were in an environment that was more stressful than we are today. So right now, the requirement is that we have to disclose. I suspect, although we've asked for a delay, as an industry, that we might have to disclose. We will continue to debate, I think, with regulators the merits of those public disclosures over time.

Betsy Lynn Graseck ***Morgan Stanley, Research Division - MD***

I get that. I'm just thinking that there's the opportunity to show us the nonoperating deposits going away, which would help people understand the strength of the deposit franchise.

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

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

James Dimon ***JPMorgan Chase & Co. - Chairman, CEO & President***

And knowing that, you could see that we have $500 billion of cash, $300 billion of securities, $300 billion of repo. I mean, it's a pretty liquid company, as liquid as any bank I've ever seen on this planet. And...

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

And we removed $200 billion of nonoperating deposits proactively. So we manage it very carefully.

James Dimon ***JPMorgan Chase & Co. - Chairman, CEO & President***

Yes. There's nothing that would happen because of all this that would affect JPMorgan that much. And the very important thing about LCR, it's not -- we -- it doesn't affect us, okay? We're fine disclosing whatever they want us to disclose. It's an issue of whether the monetary -- whether it's good for monetary policy. And would it -- will it cause a problem, not for us, for the system when there's a crisis. Like do they want banks to use their liquidity or not? Very simple. Because if the answer is you've got to maintain over 100%, then you can't use your liquidity. That's what it means. And then so they -- and they've said publicly -- some of have said publically that, "Well, if there's a crisis, we'll let you go below 100%." And we're saying, "Well, what bank is going to be the first to go below 100%?" And so it's kind of a policy issue. Whatever happens, we're completely fine at JPMorgan. If I were the regulators, I wouldn't want to put myself in that kind of position.

Operator

And we have no further questions.

James Dimon ***JPMorgan Chase & Co. - Chairman, CEO & President***

Okay.

Marianne Lake ***JPMorgan Chase & Co. - CFO and EVP***

Thank you.

James Dimon ***JPMorgan Chase & Co. - Chairman, CEO & President***

Thank you very much.

Operator

This concludes today's conference call. You may now disconnect.