# JPMorgan Chase (JPM) Earnings Report: Q4 2015 Conference Call Transcript

The following JPMorgan Chase conference call took place on January 14, 2016, 08:30 AM ET. This is a transcript of that earnings call:

**Company Participants**

- Marianne Lake; JPMorgan Chase; CFO
- Jamie Dimon; JPMorgan Chase; Chairman, CEO
- Brennan Hawken; UBS; Analyst

**Other Participants**

- Mike Mayo; CLSA; Analyst
- John McDonald; Sanford C. Bernstein; Analyst
- Ken Usdin; Jefferies; Analyst
- Glenn Schorr; ISI; Analyst
- Brian Foran; Autonomous Research; Analyst
- Betsy Graseck; Morgan Stanley; Analyst
- Steve Chubak; Nomura Securities; Analyst
- Eric Wasserstrom; Guggenheim; Analyst
- Jim Mitchell; Buckingham Research; Analyst
- Erika Najarian; BofA Merrill Lynch; Analyst
- Matt O'Connor; Deutsche Bank; Analyst
- Gerard Cassidy; RBC; Analyst
- Paul Miller; FBR; Analyst

MANAGEMENT DISCUSSION SECTION

**Operator**:

Welcome to JPMorgan Chase's fourth quarter 2015 earnings call.

This call is being recorded.

(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** (CFO):

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

Starting on page 1, the firm reported net income of $5.4 billion, EPS of $1.32, and a return on tangible common equity of 11% on $23.7 billion of revenue. Included in the results is legal expense of $400 million after-tax for a range of matters, and we continue to put some issues behind us. This is reflected in a reduction of more than $1 billion to our reasonably possible loss estimate this quarter.

In addition, we recognized the benefit of a settlement reached of $300 million after-tax, which related to moneys owed to Washington Mutual, in connection with a failed savings and loan institution. We've shown this on the page as legal related, and the benefits recorded in revenue in Corporate.

Much like we saw in the third quarter, the overall Company's performance benefited from diversification across our businesses. We saw strong growth in Consumer drivers, on the back of improvement in the US economy, in large part generating core loan growth of 16% for the Company.

Global markets remained challenged across a number of fronts, leading to lower client activity and lower inventory. Against this backdrop, the CIB delivered solid performance across products. And in the quarter, we continued our trend of strong balance sheet, capital and expense discipline, and exceeded targets.

Shifting to the full year's results, if you skip over page 2, on page 3, the firm earned record net income of $24.4 billion, and record EPS of $6 a share. And a return on tangible common equity of 13.5% on revenue of nearly $97 billion. Revenue was down 1%, or $1.3 billion, driven by non-core items, most notably by business simplification in the Investment Bank, and also in private equity. Adjusted, our underlying businesses were up modestly.

We're very happy with our expense story for the year. We delivered adjusted expense of $56 billion, down $2.4 billion, and a 2 percentage point decrease in adjusted overhead ratio. And while we did have a modest benefit from the strengthening dollar this year, we also self funded incremental investments.

Credit performance was strong, in line with our expectations, with net charge-offs at $4.1 billion. With obviously the biggest area of stress in Wholesale being Oil & Gas, against which we built about $550 million in reserves this year, including $124 million this quarter. And as the outlook for oil has weakened, we would expect to see some additional reserve built in 2016, but prices would need to remain at this level for an extended period for them to be significant.

We also built $68 million of reserves in metals and mining, including $35 million this quarter. We're watching this sector closely, and similarly, if commodity prices remain at current levels, we would expect some additional reserve build, but would not expect them to be significant. Finally, net capital distributions for the year were approximately $11 billion, including dividends of $1.72 a share.

Turning to page 4. Starting on the top left, overall, our average balance sheet is down $100 billion year on year, and our spot balance sheet down over $200 billion, with of course the biggest driver being the reduction of approximately $200 billion of Wholesale nonoperating deposits, ultimately reflected in lower cash balances. In addition, you can see notable reductions in all other balance sheet categories, except for loans, which reflects the 16% core loan growth we achieved.

Some portion of the other Wholesale balance reductions were purposeful and will be sticky, particularly the decrease in short-term Wholesale funding balances. The remainder resulted from volatile markets and general deleveraging, driving risk off and lower inventory across products. As client demand for leverage grows, we will likely out put some of that balance sheet back to work.

Moving to the right. The story on deposits continues to be a very positive one, as we delivered some incremental reductions in nonoperating balances, while consistently growing retail and operating deposits. On the bottom left, overall NII was up about $300 million, driving a 7 basis point improvement in NIM. The increase in NII reflects a mix shift to loans, but also includes gains on certain securities and the impact of the rate move in December on this quarter's NII was not significant.

Looking forward to the first quarter, expect firm NII and NIM to be flat to up slightly on higher rates and mix, substantially offset by the absence of those security gains, as well as normal seasonal day count. However, for the full year, with the December rate hike alone, so in a rate flat scenario, together with the loan growth that we have seen and expect, we would expect to deliver about $2 billion of incremental NII.

Perhaps the highlight of this page, on the bottom right, is that based upon the actions we've taken throughout the course of 2015, we believe that we have just reached the 3.5% Method 2 G-SIB bucket, and that we are in or close to the 2% Method 1 G-SIB bucket. So the task ahead is to solidify this position, which we'll talk more about at Investor Day.

Turning to page 5. We're ending the year well ahead of our capital targets, with the firm's advanced fully phased in CET1 ratio at 11.6%, and our standardized fully phased in ratio at 11.7%. The improvement to both ratios was driven by net capital generation, along with an overall reduction in risk weighted assets. With net loan growth being more than offset by lower market risk, reductions in derivatives, as well as secured financing balances and these deliver a more meaningful reduction under the standardized approach. But with reference to my earlier comments on redeploying balance sheet, a portion of this reduction will likely reverse in the near future.

Firm and Bank SLR were at 6.5% and 6.6%, respectively. Finally, we returned $2.6 billion of net capital to shareholders this quarter, including $1 billion of net repurchases, and common dividends of $0.44 a share.

Let's turn to page 6, and Consumer and Community banking. The combined Consumer businesses generated $2.4 billion of net income, on revenue of $11.2 billion, and an ROE of 18% for the quarter. And full-year expense was down by nearly $1 billion, or half of our commitment, if you adjust for legal, and $150 million of incremental investments this year. Going forward, we will look for opportunities to further reinvest.

You can see headcount was down by 12,000 for the year, and nearly 43,000 since 2012. The fundamental business drivers remain strong. Year over year, average loans were up 11%, with core loans up 25% driven by mortgage, but with strength across products. Average deposits were up 10%. We added nearly 600,000 households, and our active mobile customer base continues to grow, up 20%, to roughly 23 million customers, the largest of the major US banks.

Moving to page 7, Consumer and Business Banking. CBB generated strong results for the quarter, with net income of $968 million, and an ROE of 32%, on relatively flat revenue of $4.6 billion. Although NII was flat quarter on quarter, it was down 5% year on year on spread compression, largely offset by that 10% deposit growth.

And excluding an $85 million gain on the sale of a branch, non-interest revenue was down 3% seasonally and up 4% year on year, driven by higher service fees and strong debit volume. We expect NIR to show normal seasonal declines in the first quarter. Expense was down 3% year on year on lower headcount from branch efficiency. And additionally, client assets were up 2%, and Business Banking average loan balances up 6%.

Next, Mortgage Banking on page 8. Overall net income was $266 million, originations in the quarter were $23 billion, down seasonally, and we continued to add high-quality loans to our balance sheet, $16 billion for the quarter, and totaling $70 billion for the full year. Total revenue of $1.7 billion increased 8% sequentially, on strong loan growth, as well as on higher MSR risk management.

For the full year, our non-interest revenue was down relative to 2014 by $1.2 billion, broadly in line with our guidance and that downward trend will continue, as servicing balances continue to decline, and as we expect production margins will compress in the smaller market. We expect the decline in 2016 to be around $700 million.

Expense of $1.2 billion ticked up this quarter, related to exiting the OCC's consent order, but it was down 10% year on year, as we continue to manage costs. Finally, on credit, net charge-offs of 13 basis points reflects the quality of our portfolio.

Moving on to page 9, Card, Commerce Solutions and Auto. Overall net income of $1.2 billion, and an ROE of 24%.

Revenue was $5 billion, up 10% year on year, driven principally by two nonrecurring items. The first was a loss in the prior year of over $200 million that related to non-core portfolio exits, and a gain we saw this quarter of about $160 million, on the IPO of Square. Adjusted the revenue rate was 11.9%. And in terms of core performance, business drivers were strong, and growth offset the impact of co-brand renewals on non-interest revenues, while driving growth in NII.

Year over year, we saw growth of 12% in auto, loan and lease balances, 6% in card sales volumes, 3% in cards core loans, as well as 12% and 14% in merchant processing volumes and transactions, respectively. Expense of $2.2 billion, flat quarter on quarter, but up 4% year on year, reflected higher depreciation on auto lease growth. And we expect expense to be relatively flat into the first quarter, as we continue to invest.

While on auto, 2015 set a record for new car sales, with strength in the fourth quarter continuing through December. And we gained nearly 40 basis points of share year over year, with the strength of our manufacturing partnerships driving growth.

Finally, on credit, in auto, net charge-offs were 50 basis points, and while higher, they were still below our long-term expectations. And in cards, the net charge-off rate was 242 basis points for the quarter, 251 for the year. And given our underwriting discipline, client selection and the improving economy, we expect net charge-offs to stay at these levels in 2016.

Now turning to page 10, and the Corporate & Investment Bank. CIB reported net income of $1.7 billion, on revenue of $7.1 billion, and an ROE of 10%. In Investment Banking for the full year, we continued to rank number one in global IB fees, and number one in North America and EMEA.

In M&A, we maintained our number two ranking, and grew wallet share by 50 basis points. In ECM, we ranked number one globally, up from number three last year. And in DCM, we ranked number one across high yield, high grade and loans.

Banking revenue for the quarter of $1.5 billion was down 11%, driven by lower debt underwriting fees. It was another outstanding performance in advisory fees, up 43% for the quarter, in a market that was down 12, largely driven by North America. Equity underwriting fees were down 4% in a market down 12, with the US remaining somewhat slow, but a resurgence of large transactions in Europe and Asia. And debt underwriting fees were down 43% from a record last year, where we saw an unprecedented number of large fee events.

Treasury services revenue was flat quarter on quarter, but down 4% year on year on lower deposit spreads. In markets, a number of factors contributed to a quiet fourth quarter overall, across products. Investor risk appetite was significantly dampened by a series of market events, and clients retrenched and de-risked early. With that backdrop, the markets businesses delivered $3.6 billion in revenue, in line with our expectations and normal seasonal trends, with adjusted revenues down 16% sequentially and 1% year on year.

In Fixed Income, rates markets were up, given US and ECB monetary policy actions, offset by year-on-year declines in currencies in emerging markets, as the strong dollar and emerging markets uncertainty [things] persisted as well as the Commodities on reduced hedging and declines in credit on all those same things, plus a number of single-name corporate events. Equities delivered solid results, flat excluding the exit of broker dealer services last year, with strong performance in Europe being offset by lower deal flow in North America and Asia, compared to a strong prior year.

With respect to the first quarter, reflecting low levels of client activity, we were light risk going into the year end, and inventory was low and so far, our trading businesses are performing well. But as you know, it is early, and it's difficult to predict how the quarter will play out.

Security services revenue was $933 million, in line with guidance, given the continued impact of lower emerging markets on asset-based fees. For the first quarter, expect revenue to be approximately $900 million, which includes seasonality.

On credit, we saw a reserve build of $76 million, which included $63 million related to Oil & Gas. Finally, expense of $4.4 billion was down 20% year on year, mainly driven by lower legal, the comp to revenue ratio was 26% for the quarter, and 30% for the full year.

Moving on to page 11 and the Commercial Bank. The Commercial Bank generated net income of $550 million, on revenue of $1.8 billion, and an ROE of 15%. Revenue was up sequentially, but relatively flat year on year, with NII up 3% on higher loan balances, despite spread compression, offset by lower IB revenue from a strong quarter last year. However, for the full year, it was a record for Investment Banking, with gross revenue of $2.2 billion, up 10% from 2014.

Expense of $750 million included $50 million of impairment on leased Corporate aircraft. On the reassessment of residual values, the remaining balance sheet value of this portfolio is modest.

We saw record average loan balances of $166 billion, up 14% year on year, with growth in Commercial Real Estate of 17% exceeding the industry, as we continue to invest in this business and gain share. In C&I, loans were up 11%, largely driven by Corporate client banking on the back of several large transactions.

Finally, credit performance of the portfolio does remain strong, with only 4 basis points of net charge-offs. However, we did add $100 million to reserves, $60 million of which relates to Oil & Gas and $26 million for Metals & Mining.

Moving on to page 12, Asset Management. Asset Management reported net income of $500 million, with a 27% pretax margin and 21% ROE, on revenue of $3 billion, down 5% year on year, driven by lower performance fees in alternatives. Expense of $2.2 billion was also down 5% year on year, roughly equally explained by lower performance fee-driven compensation, as well as a benefit from refining the value of the health of that asset. Assets under management of $1.7 trillion, and client assets of $2.4 trillion, were down 1% and 2% year over year, respectively.

We saw mixed flows in the fourth quarter, resulting in long-term net outflows of $9 billion, with solid inflows in equities being more than offset by weakness in Fixed Income and the loss of select mandates. However, we had strong long-term investment performance, with 80% of mutual fund AUM ranked in the first or second quartiles over five years, which should be supportive of future flows And for the full year, we had positive long-term inflows of $16 billion. In lending, we had record balances of $110 billion, up 7% year on year, driven by both mortgage, as well as traditional loans.

Turning to page 13 and Corporate. Treasury and CIO reported net income of $138 million for the quarter. Included in this result, there is a pretax benefit of $178 million, relating to certain securities held at a discount, that were called at par. And this was in our NII. Other Corporate net income of $84 million included a net benefit of $60 million after-tax, for the legal related matters we discussed earlier, as well as a contribution to our foundation this quarter of $150 million pretax.

Turning to page 14. I've given you some guidance throughout the presentation, and this page is for your reference. Obviously, when we get to Investor Day, we will give you a comprehensive outlook for each of our businesses for the year.

So in summary, a solid quarter, and a record for the full year, both in terms of net income and EPS, which even on higher capital, translates to a good return on tangible common equity of 13.5%. We exceeded our targets on expense management, generating positive operating leverage and improving our adjusted overhead ratio by 2 percentage points. Delivered strong core loan growth of 16%, materially changed the mix of our deposit base, including growing retail deposits at 10%, and made meaningful progress on our balance sheet, our G-SIB surcharge, and capital levels.

With that, Operator, we'll take Q&A.

**Operator**:

Brennan Hawken with UBS.

**Brennan Hawken** (Analyst):

Good morning, Marianne.

**Marianne Lake** (CFO):

Good morning.

**Brennan Hawken** (Analyst):

So, I'm curious about whether or not you all have seen the stress we've seen in some of the credit and equity markets, and some of the volatility impacting M&A velocity appetite, amongst Boards and C-suites, broadly, in your conversations and throughout the IB?

**Marianne Lake** (CFO):

So, again, I would say that the pipeline coming into 2016 in M&A was good, solid, up, in fact. Obviously, volatility can dampen the confidence of Boards and CEOs. Dialogues are pretty active, and we think the types of deals that we'll see in 2016 will look different. But I think, in the first couple of weeks, it's not been particularly strong, and we do need to see some of the stability come back, I think, for us to really see that conversion start to pick up.

**Brennan Hawken** (Analyst):

And just by different, is that a reference to size, or can you be a bit more specific on what you mean?

**Marianne Lake** (CFO):

Yes, less mega-deals, more mid-sized deals, more cross border. It's a little different. Actually, more deal count, less big mega-deals, could be very constructive for revenue, but we're likely to see it be a little bit different in 2016. But honestly, the pipeline is good, and -- yes.

**Brennan Hawken** (Analyst):

Okay. (multiple speakers) That's helpful.

**Marianne Lake** (CFO):

North America will be a tough comp. It was very strong in 2015, but Europe could be very constructive.

**Brennan Hawken** (Analyst):

Terrific. Helpful. And then, you referenced energy prices staying this low would lead to a significant reserve build, you expect, in your energy book. Can you maybe give a little bit more color around that? How would you define significant? And how long would oil need to stay down here, in order to see some of that reserve action?

**Marianne Lake** (CFO):

Yes. So, the way we do our reserves, just for context, because I think it's important is, obviously the oil price outlook is important and instructive. And it's very clearly going to drive how we think about probabilities of default and loss, given [default for] certain of our customers.

But I think it's also the case, just for context, to know that it is very name-by-name specific. Specific conditions at clients matter greatly. And so when we do these estimates, they are directionally correct, and order of magnitude correct. But that's just for context.

Oil -- we said last quarter, if oil reached $30 a barrel, and here we are, and stayed there for, call it, 18 months, you could expect to see reserve builds of up to $750 million. And that assessment hasn't fundamentally changed.

So, it is not the current market expectation that oil will flatline. It is the expectation, right now, that there will be a modest recovery. Based upon that, we would expect to take some additional reserves, but for them to be more modest, less significant. But that's the range; if oil's at $30 and stays here for a long time, up to $750 million.

QUESTIONS & ANSWERS

**Operator**:

(Operator Instructions)

Mike Mayo with CLSA.

**Mike Mayo** (Analyst - CLSA):

Hi. I wanted to follow up on the Oil & Gas question. It just seems as though $124 million in additional provisions for Oil & Gas could be low, at least based on the one-year forward prices for oil, which are still in the $30s. And so, my question is for Jamie. As you look back, how does the Oil & Gas situation today compare to prior periods of stress? We have 2002; we had the TMT meltdown.

When you were at Bank One, you reduced the lines of credit. You got ahead of that early. In 2007, you weren't exactly at the start, but then you adjusted and you said -- hey, this is a big issue.

And now we have Oil & Gas, which could be another industry-specific stress, and you're only taking additional provisions of $124 million. Is that going to be enough? And one year from now, are you going to look back and say -- whoops, we didn't get ahead of this enough.

**Jamie Dimon** (Chairman, CEO):

I think, first, I'd say we try to be very conservative, always, and so we're not trying to put up as little as possible. You know me, I'd put up more if I could. But accounting rules dictate what you can do.

And these are baskets of -- the real risk is in producing wells, cash flows are down. Surprisingly, the cost of getting the oil out of the ground has also dropped dramatically, and probably much more than most of us would have expected.

So, you take these producing wells, you take the cash flow, you discount it at 8% or 9%, you lend against it. And so these are our forecasts.

And our energy book isn't that large, relative to JPMorgan Chase . We're not worried about the big oil companies. These are mostly the smaller ones that you're talking about these reserve increases on.

**Marianne Lake** (CFO):

I also think, Mike, just --

**Jamie Dimon** (Chairman, CEO):

And the forward curve is -- the end of the year, for 2016, I think is more like [$41] or [$42], or something like that.

**Marianne Lake** (CFO):

Yes, it's [$48]. So, hey, Mike, the other thing to know about the profile of reserves -- three things. The first is, it's not linear.

So, just the oil price decline, and the decline in the forward curve that we saw into December and to the end of the year, that's the impact it had on our reserves. It's fallen significantly in the first two quarters. That was not a knowable condition, and we can't reserve for that at the end of the year. That's why we said we would expect to take some more reserve increases in the next couple of quarters.

But again, it's a name-specific thing. And lots of other conditions at clients matter, including their hedging, their cash flows, the level of security, all those things.

**Mike Mayo** (Analyst - CLSA):

And how do you use CDS to help protect yourself on that portfolio?

**Jamie Dimon** (Chairman, CEO):

We don't.

**Mike Mayo** (Analyst - CLSA):

Okay, you don't. And then, the last follow-up: Do you intend to keep lending to the Oil & Gas companies, as they run into problems? On the one hand, you have the risk of throwing good money after bad. On the other hand, if you stop lending as much, and you have the high-yield market retreating, and you have private equity firms retreating, maybe it becomes a liquidity crisis for some of the oil companies.

So, which is it? Do you lend more or less to the Oil & Gas sector?

**Jamie Dimon** (Chairman, CEO):

First of all, the oil folks have been surprisingly resilient. And remember, these are asset-backed loans, so a bankruptcy doesn't necessarily mean your loan is bad.

So, you have to be a little bit careful in -- and it's also, Mike, a philosophical thing. A bank is supposed to be there for clients in good times and bad times. So, it's not a trading market, where you try to support clients.

So, to the extent we can responsibly support clients, we're going to. And if we lose a little bit more money because of it, so be it.

And we've done that around the world. We did it in 2007 and 2008 and 2009. We try to do it responsibly. If banks just completely pull out of markets every time something gets volatile and scary, you'll be sinking companies left and right.

**Operator**:

John McDonald with Sanford Bernstein.

**John McDonald** (Analyst - Sanford C. Bernstein):

Hi, good morning. Marianne, was wondering if you could remind us where you are on your expense reduction targets in the Consumer and the Investment Bank? And how does that translate to some thoughts about the expected trajectory of total Firm-wide expenses for this year?

**Marianne Lake** (CFO):

Yes, so, let me just deal with where we are against our targets. So, the most notable targets were $2 billion in the Consumer businesses in 2017 versus 2014, and $2.8 billion in the CIB in 2017 versus 2014.

You probably heard my comment, but to clarify, on an apples-to-apples basis, we're halfway through on Consumer. We've done $1 billion this year. You don't see that 100% translate into the results, partly because of legal expense, which is not something that we particularly can predict, and hopefully won't be there forever. Also, because we intentionally decisioned in 2015, in the fourth quarter in particular, or mostly, to increase our investments in the Consumer businesses by $150 million.

So, we've achieved the $1 billion. We chose to reinvest a portion of it. Another $1 billion we're on track for. We will potentially reinvest some of that, too. And Gordon and we will talk to you about the basis for that at Investor Day.

On the $2.8 billion in the CIB, we're $1.3 billion through at the end of the year. And we talked before about the fact that the first $1.3 billion is largely on business simplification. We've had the revenue decline. We need to have the expense decline, and we've worked hard to deliver that, and we have.

The next chunk is to do with technology and operations and infrastructure and organization, and it's harder. And so, we will continue with them on track to deliver it, but it's going to be a job through 2016 and into 2017.

**John McDonald** (Analyst - Sanford C. Bernstein):

And how does that all net in to an outlook for this year, if you're willing to give us some thoughts on that?

**Marianne Lake** (CFO):

Yes, I can give you some thoughts that won't totally satisfy you, which is our core expenses will continue to trend down, on the back of delivering against them. But we will make investment decisions that we think are good for the Company, accretive for shareholders, that will re-spend some of that money. And so we'll give you that shrink and grow at Investor Day.

**Operator**:

Ken Usdin with Jefferies.

**Ken Usdin** (Analyst - Jefferies):

Thanks. Good morning. I was wondering if you could talk to us a little bit about the benefits from rates, as they come through? Obviously, your commentary that NII will be even flattish in the first quarter, adjusted for day count, and even with some securities gains in the numbers this quarter, presumes a nice helper from that first move.

And you guys were really conservative on your deposit beta thoughts, when you talked about them previously. I know, probably you haven't seen much change yet. But how are you expecting the deposit behavior to act? And has there been any change to your modeling expectations about what might come through, as we get through the first couple of hikes?

**Marianne Lake** (CFO):

So, just on NII, yes, we are seeing, embedded in that NII, flat to up slightly. We are seeing a nice lift associated with the rate hike in December across businesses, as well as the continued benefit of the mix towards loans in our balance sheet. But we were flatted in our NII this quarter by $178 million on securities gains in CIO. So, that's going to mean the comparison is challenging, and then day count is obviously seasonal.

So, that's the dynamic. We are seeing the rate benefit. We do expect to see it, as I said in my remarks, for the full year.

Look, we think we are appropriately conservative on deposit [beta's]. It is not -- it is way too early to have any idea. There's -- virtually nothing has moved yet. And so, our job, and what we are doing, is paying very close attention to the competitive landscape.

These deposits that we're talking about, that have the high beta's, are valuable deposits with valuable clients for us, and we want to be competitive and pay fair rates. But it's so early in the movie that we haven't changed much in our modeling assumptions.

**Ken Usdin** (Analyst - Jefferies):

Okay. And my second question -- if I can ask an ex-energy credit question? A lot of concerns are that we're going to get into some type of broader deterioration, of which your numbers showed no signs of heading towards. What are you looking for? Are you seeing any signals of ex-energy changes in either delinquencies or watch trends? And are you still comfortable with that low [4%s] type of charge-off expectation that you guys had talked about previously? Thanks.

**Marianne Lake** (CFO):

So, energy, Metals & Mining, we're watching very closely, industries that could have knock-on effects like industrials and transportation. But we're not seeing anything broadly, in our portfolio, right now.

We're just watching very closely, which is why -- now, obviously, you can take our reserve build number, and you can say it's almost substantially all made up of Oil & Gas and Metals & Mining. And behind the scenes, we've had upgrades and downgrades of a number of other different companies, across sectors, but nothing particularly thematic yet. But we're watching.

**Jamie Dimon** (Chairman, CEO):

I would just point our that Credit Card, Commercial Bank, middle market, large corporate credit is as good as it's ever been. So obviously, it's going to get a little bit worse. I wouldn't call it a cycle, per se.

If you have a recession, yes, you will see a normal cyclical increase in all those losses. We're not forecasting a recession. We think that the US economy looks pretty good at this point.

**Operator**:

Your next question --

**Marianne Lake** (CFO):

Based on that, with the obvious caveat of what happens with oil prices and energy over the course of the near future, yes, we would still expect our charge-offs to be relatively low.

**Operator**:

Glenn Schorr with ISI.

**Glenn Schorr** (Analyst - ISI):

Hi, thank you. So, I think you talked about some of this, Marianne, in terms of the Method 2 G-SIB surcharge now estimated at 3.5%. I'm just curious -- I think, if the numbers are right, you took down notionals, and that there's booked $3.4 trillion, $21 billion in level 3 assets, $50 billion in non-op deposits.

You've said that you don't want to be an outlier, so you're whittling that down. I'm curious of the driving force behind it. What kind of revenue give-up there is, in such a move like this, because we like it. And thoughts on the go-forward?

**Marianne Lake** (CFO):

Yes, so, look, we talked about achieving 4% last quarter, I think; and for disclosure, we were quite close to 3.5%. At that point, it becomes increasingly compelling to want to look at the margin, for what you could do to get within the bucket. And so that is what we did in the fourth quarter, is spend time really focusing on getting to that achievable boundary, which we thought at that point it was.

And remember, it's not nothing, in the year, that we started the year thinking we would exit $100 billion of non-operating deposits. And while there still could be some volatility in that number, of course, we've almost doubled that -- or doubled that, in fact.

So, we got some wind to our backs in doing it. It's also the case that, when you get the entire Business and Company attuned to the sense of urgency and desire to want to be increasingly efficient in this way, that, at the margin, in a 100 different things, little benefits accrue.

So, look, we're at about 3.5% -- we're just inside the 3.5% bucket, as best we estimate it. It's not as much important whether we're basis points or surcharge points below or above. It's much more what we do now to get safely in the bucket. And that's going to still take work. So that's why -- we'll obviously talk to you more about this at Investor Day.

In terms of the give-up, from an economics perspective, we wouldn't have done it at any cost. We have done it because we think it is important to do, because we think it's going to be constructive for the Company, and because the revenue give-ups were not significant. But they weren't zero, either. But to be able to reduce a constraint that is, in one way or another, likely to bind us -- or in multiple ways, in fact, likely to bind us, it was a, I think, very good trade.

**Jamie Dimon** (Chairman, CEO):

It was done, effectively, client by client.

**Marianne Lake** (CFO):

Yes.

**Jamie Dimon** (Chairman, CEO):

To make sure we were trying to do the right things for our clients; not just jamming our balance sheet down and hurting people.

**Glenn Schorr** (Analyst - ISI):

Fair enough. I just have one quick follow-up, on Ken's last question: If two-thirds of the economy is consumer-led, you look at all your early-stage delinquencies, like Ken said. And, Jamie, to your comments, things look okay. I hate putting words in your mouth, but what do you think the disconnect, then, is, between what's going on in the markets versus what's going on in the trends in your Business, both in terms of growth and forward-looking credit looks?

**Jamie Dimon** (Chairman, CEO):

The US economy has been chugging along at 2% to 2.5% growth for the better part of five years now. In the last two years, it has created 5 million jobs. If you look at the actual household formation -- car sales, wage, people working -- it still looks okay.

Corporate credit is quite good. Small business formation -- it's not back to where it was, but it's quite good. Household formation's going up.

So obviously, market turmoil, we all look at it every day. But I'm not sure most of the 143 million Americans look at it that much, who have jobs; and you have a big change in the world out there. People are getting adjusted to China slowing down. When you have commodity prices go down like that, there are big winners and losers.

The oil companies are the losers; consumer is a benefit. Brazil gets hurt. India benefits. South Korea benefits. Japan benefits. And those cause troubling waters. And hopefully, this will all settle down, and it's not the beginning of something really bad.

**Operator**:

Brian Foran with Autonomous.

**Brian Foran** (Analyst - Autonomous Research):

Hi. The disclosure around the Oil & Gas is really helpful. And I was wondering if you could just walk through something similar on Metals & Mining? So, you gave us the -- I think you said $68 million of full-year reserve build, and you gave us the not-significant, if things stay where they are. Can you give us the balance?

And then, is there a comparable $500 million to $750 million stress test for Oil & Gas, or stress case? Is there a comparable -- what is the stress case, if broader Commodities, and Metals & Mining, comes in worse?

**Marianne Lake** (CFO):

Okay. So our total reserves, on balance sheet, for Metals & Mining, or notwithstanding we built $60 million-odd this year, is over $200 million. So the coverage ratio is pretty good.

The exposure is about -- I haven't got the precise numbers in front of me. They're [about] a third the size of our exposure to Oil & Gas, so about 2% of our overall wholesale credit exposure; so, considerably more modest. Which is why, if energy prices and general commodities weakness and stress stayed where it is right now, even for an extended period, we would think that the incremental reserves would be considerably more modest.

**Jamie Dimon** (Chairman, CEO):

And it's also -- that one is mostly name by name.

**Marianne Lake** (CFO):

Yes, for sure.

**Jamie Dimon** (Chairman, CEO):

It's not big asset-based reserves. It's just -- they're big corporate credits, name by name.

**Marianne Lake** (CFO):

And for both Oil & Gas and Metals & Mining in our portfolio, Oil & Gas is close to 60% investment grade, and Metals & Mining about half.

**Brian Foran** (Analyst - Autonomous Research):

And then on -- I guess staying with credit -- on home equities and the whole issue of free cash from interest [home-made] amortizing, can you lay out how it's progressed, relative to your expectations so far? And also remind us how big the allocation of the reserve is against that?

And I guess, not to lead the witness, but is that an area where things are trending, early days, better than expected, and could provide some buffer against, maybe, anything else that happens on the C&I side?

**Marianne Lake** (CFO):

Yes, so, with respect to home equity [re-class], remember, the majority of the problematic home equity underwriting was 2005 through 2008. So here we are, at the beginning of 2016, with [pig filling the python]. But we're monitoring it closely, and we have some re-class that have happened.

Obviously, interest rates are low. Home price appreciation, on the other hand, is your friend. So there are puts and takes.

We've been monitoring it, I would say, at the margin, or more than at the margin, at the early stages, coming in better than we had modeled. And remember, from an incurred loss perspective, we would consider these re-class risks to be largely incurred, so we've tried to reserve them, to the best of our ability. So we feel good about our reserve. I don't think we've disclosed them. But so far, from a performance perspective, I would say slightly better than our models. But we continue to monitor it, because it's still relatively early.

**Operator**:

Betsy Graseck with Morgan Stanley.

**Betsy Graseck** (Analyst - Morgan Stanley):

Hi, good morning.

**Marianne Lake** (CFO):

Good morning.

**Betsy Graseck** (Analyst - Morgan Stanley):

Marianne, I know that the Basel Committee put our their fundamental review of the trading book proposal this morning. So, clearly, no one's had time to really go through it in detail. However, I'm sure you have already gone through the prior proposals, and done the QIS for the last couple of years. The proposal is better than what had been -- the ruling is better than what the proposal -- the most recent one had been.

Just wanted to get a sense from you, as to how you can manage to this 2019 implementation time frame? Are there things set in motion already? Or is this something that you would start from here? And if you could just give us some broad strokes on how you think about overall impact, that would be helpful.

**Marianne Lake** (CFO):

So obviously, you'll forgive me because we've been on calls since it came out. But, yes, we have been working on this for years.

The problem with this particular rule is that, as you stated, based upon the four QIS's that were done, there were some, I would characterize, significant challenges, with respect to the rules as written. And we were expecting there to be a number of meaningful changes, and there have been; in many cases, meaningful improvements.

But it's very technical, and there's been a lot of changes, so we need to sift through it to figure out, net-net everything. Although it is clear that net-net, despite the fact of the stated intention of the committee wasn't necessary to increase market risk capital across the industry, it will be higher. But by how much, it's really going to need to be sifted through.

And for that same reason -- for both those same reasons, I'm sorry -- for the reason that the rule has not been stable and there have been significant questions, many of which have been either addressed or partially addressed, and many, I guess, that have not, it would have been premature to have taken any actions in advance of figuring out where this has landed. And, as you know, the period to comply is three years. So it's more of a start from here, to figure out how to manage with this, after we've sifted through the details.

So, I wish I were able to give you a little bit more of a detailed answer, but we're going to need to take the time to go through it.

**Betsy Graseck** (Analyst - Morgan Stanley):

Right, I totally understand that. And I guess my basic question is: There's -- you can take action, as opposed to just deal with what the current decision would be for you. There are actions that you can take to reduce the impact?

**Marianne Lake** (CFO):

There are always actions that we can take to reduce the impact. And so, we have to think about them in the context of our overall capital optimization program.

And, again, if there are -- if some of the things that we hoped -- and I -- honestly, I've been on calls since it came out. So, if some of the things that we hoped were going to be addressed have not, they could have had, or may have, meaningful impact on specific types of activity. And we will have to react accordingly. And, yes, we will take actions, if that's the right answer. I wish I could give you more details, but we just need to go through it.

**Operator**:

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

**Steve Chubak** (Analyst - Nomura Securities):

Good morning.

**Marianne Lake** (CFO):

Good morning.

**Steve Chubak** (Analyst - Nomura Securities):

I had a couple of questions on capital. The first relates to the RWA progress, which did surprise positively in the year, by about $50 billion ahead of expectations. And I was just hoping you can give a better sense, Marianne, just given some of your prepared remarks, as to how much of that incremental $50 billion reduction was a function of more proactive mitigation efforts?

Maybe even tied to the G-SIB mitigation efforts that you guys had talked about, which should presumably remain in the run rate, versus balance sheet shrinkage that may be due to the risk loss environment that we're experiencing today?

**Marianne Lake** (CFO):

Yes, so, I would say that, based upon our fourth-quarter balance sheet, given that market risk was a driver, given that balance sheet levels was a driver, particularly on standardized, we could give back, on standardized, as much as 10 to 20 bps of capital, of the 10.7% capital accretion.

But the bigger point, on the RWA outlook, is that we expect to be bound, over the medium term, by standardized. And standardized is going to always have a neutral to upwards pressure, as we continue to grow these high-quality loans.

So, even though the RWA, being at the $1.5 trillion-ish sooner than we expected, is obviously good news. Regardless of how much of that may, in the short term, revert, our job is going to be to continue to become more efficient, to try and keep it there, just given the natural upward pressure of the standardized calculations. We can become more efficient in advance, but we're unlikely to be bound by it in the medium term. So, that's what we're focused on.

So, I wouldn't take the $1.5 trillion, and read through that we'll be continuing to decline from here on standardized. We'll be continuing to work hard to make sure that we can grow those loans that we love, but that have (inaudible) [risk weights] under a standardized basis.

**Steve Chubak** (Analyst - Nomura Securities):

Understood, Marianne. That's very helpful.

And then, maybe just switching gears to the G-SIB surcharge, clearly the progress surprised positively, getting down to that 3.5%. I was just wondering how you guys are thinking about establishing minimum capital targets? I recognize you'll likely lay that out at Investor Day.

Just want to get a better sense as to what methodology are you employing, in terms of thinking about a management buffer? And all the different binding constraints that you have to manage to day-to-day? And thinking about through-the-cycle target that you guys would like to manage to?

**Marianne Lake** (CFO):

Okay. If I miss something at the end, remind me.

In terms of how we think about buffers, just really conceptually, the Firm manages, and the Board has set for the Firm, a risk appetite. That risk appetite has a number of features, and capital depletion in a stressed environment is one of them. And so, when we think about setting buffers, we think about it just broadly in the context of allowing ourselves enough room to absorb losses that are within our risk appetite, and not have to take premature actions, from a capital perspective.

So -- but having said that, our buffer has been pretty consistent, at the 50-basis-point level, for a reasonable period of time. And we'll update you on all of that at Investor Day.

With respect to our targets, it's a little bit more complicated than minimum regulatory capital, because as you say, we're bound, potentially, by multiple constraints, and one of them may be CCAR. Plus -- it is CCAR, I should say. Because as you know, the first two quarters of this year, our capital distribution plans have already been approved. And we haven't done CCAR, so this is not any kind of prediction, but it wouldn't surprise you to know that it's unlikely that we will pay out 100% of our earnings in CCAR, going forward.

So, we are on a path to continue to accrete capital, though we would like to move up in our pay-out range. So, given that we're still moving towards our 12% target, and we will update you if any of that changes at Investor Day. We're also, as you know, potentially going to understand whether or not the Fed changes any of the CCAR parameters, and whether that has an impact.

So, at the moment, the best we know is that we're going to continue to accrete capital, albeit more slowly, as we hope to move up in the pay-out range, but we haven't done CCAR yet. And that's if the rules don't change. So, 12% it is for now.

**Operator**:

Eric Wasserstrom with Guggenheim Securities.

**Eric Wasserstrom** (Analyst - Guggenheim):

Thanks. Marianne, if I could just clarify your NII comment from the very beginning of the call, do I understand correctly that the $2 billion of incremental NII that you've cited is just a function of the repricing dynamics, as they move through your balance sheet, rather -- or is there also, I guess, a contribution from loan growth?

**Marianne Lake** (CFO):

It's both. So, think about -- in a [rate-sat] scenario, when you can pick whether you believe the market -- whether you think the market is -- or whether you believe the [FONC docs]. And I think it's going to be data dependent, so we're not going to have a stated opinion on that.

But because of the mix in our balance sheet in 2015, as well as our expectation of continued loan growth, we would expect mix to contribute about half of that. And defer 25 basis points about the next half because we are more sensitive to the front end of rates in the first 25 basis points. And you can see that in our earnings and risk disclosures. So -- even if we see nothing else.

Now, obviously, we believe, and the market believes that you're going to see a couple more hikes. That would be, on average, another 25 basis points, and that would be incremental NII again.

**Eric Wasserstrom** (Analyst - Guggenheim):

Great. Thank you. And so, I know we just touched on RWAs, but how do you suggest we think about GAAP assets for this year?

**Marianne Lake** (CFO):

I would say I would think about them in a somewhat similar directional way, given that our balance sheet ended below $2.4 trillion, a little bit of it market delivered, a lot of it purposeful. But we do intend to continue to gather deposits and extend loans, and while you're -- and portfolio loans, as well. So, while you will see some securities balances decline and the like, I would say again, net modest growth, but modest, and very lending driven.

**Operator**:

Jim Mitchell with Buckingham Research.

**Jim Mitchell** (Analyst - Buckingham Research):

Good morning. I just wanted to -- I had a follow-up question on Fixed Income trading. I think Dan Pinto has talked about benefits from higher rates. And so, I guess number one, I wanted to see if you had any thoughts on that? Have you seen any initial benefits to spreads in the FICC trading market, with the first rate hike?

And in contrast, you've had a couple of competitors announce -- or at least it's reported -- that they're cutting headcount. That seems to be a little bit in contrast to the expectation that Fixed Income could pick up with higher rates. So, if you could talk through your thoughts on Fixed Income?

I do notice that you did mention 1Q is off to performing well, so maybe that's part of it, too. But if you could help on that, that would be great.

**Marianne Lake** (CFO):

Okay. So, in terms of the impact of rates, obviously there was a lot of monetary policy confusion. Broadly, in the fourth quarter, the ECB underwhelmed the Fed, was (inaudible). So there was a lot of confusion. But by the time the rate hike happened, it was obviously pretty well understood. We did see strong activity, or strong client activity, relatively speaking, on the back of that in the rates business, more so than necessarily about spreads.

With respect to the Fixed Income business, we've always been very disciplined about how we think about the staffing levels and the expenses in that business. We've managed it very carefully. The compensation has come down across the trading businesses, and it wouldn't surprise you that some of that -- a lot of that has been in Fixed Income. And our business is at scale and productive. So --

**Jim Mitchell** (Analyst - Buckingham Research):

All right. So, you still feel pretty comfortable with your outlook that things could improve, and market share gain potential, as competitors pull back?

**Jamie Dimon** (Chairman, CEO):

You've seen, in Fixed Income -- we have a very good Fixed Income operation globally, around the world. Rates themselves don't filter through FICC trading directly. I think what Danny was talking about is, if you have healthy economies and confident investors, you have more volume in things like that.

We do see a little bit of repricing taking place, in prime broker, repo, conduit, and some of those things run through FICC. So, that is going to take place as the world adjusts to all the new capital requirements.

And obviously, there's a lot of seasonality in the business, which we've experienced for the last decade.

**Operator**:

Erika Najarian with Bank of America Merrill Lynch.

**Erika Najarian** (Analyst - BofA Merrill Lynch):

Hi, good morning. My questions have been asked and answered.

**Marianne Lake** (CFO):

Thanks, Erika.

**Operator**:

Matt O'Connor with Deutsche Bank.

**Matt O'Connor** (Analyst - Deutsche Bank):

Hi. If we look at credit spreads in the bond market, even ex-energy, they've widened considerably. And I'm wondering if this has resulted in wholesale credit being repriced at all? I realize the bond market doesn't set bank loan pricing, but just wondering if you've been able to reprice some of the wholesale customers, or expect being able to do so?

**Jamie Dimon** (Chairman, CEO):

No, we've seen no real repricing in loans on the balance sheet. You have seen a little bit of -- people are getting other revenues to make up for their credit exposure.

**Marianne Lake** (CFO):

Yes. Think about the bank loans as being relationship loans that need to be in the context of [broader] relationship, and everybody is competing for them.

**Jamie Dimon** (Chairman, CEO):

They barely repriced in 2008 and 2009. Banks were continuing to lend at the existing price. But that was because they -- these were long-term relationships. The bank loan market does not reprice like the markets do.

**Matt O'Connor** (Analyst - Deutsche Bank):

I guess I wonder why. We saw pricing in the debt markets come in considerably over the last several years. C&I pricing came in. I realize it might take some time. But I would think there's the opportunity for at least some repricing around the edges; no?

**Jamie Dimon** (Chairman, CEO):

We haven't seen it.

**Marianne Lake** (CFO):

Also, it's very, very competitive. Everybody has been chasing these loans, and so that's a factor, too. So, we haven't seen it yet.

**Jamie Dimon** (Chairman, CEO):

And then, if you -- the number in middle market lending, if I remember correctly, if you look at it by client, 60% of the revenues are not loan related. So, clients -- they also know what their relationship is to the bank. And while we need to make a good return on capital, the capital applied to the client is only partially loan related. And that capital, on its own, doesn't earn an adequate return. Simple lending, on its own, is generally not an adequate return business.

**Operator**:

Gerard Cassidy with RBC.

**Gerard Cassidy** (Analyst - RBC):

Thank you. Good morning. Jamie, to follow up on your comments about maybe some better pricing in prime brokerage and repo because of the capital requirements, or requiring you guys to raise prices, can you expand upon that? Do you see it growing, where you could get even better pricing going forward, because of less competition? Can you give just more color there?

**Jamie Dimon** (Chairman, CEO):

I think the better way to look at it is that people seem, in certain of our businesses -- and I mentioned those, and there are some other ones -- capital has been deployed, people have adjusted to the new rules, and you've seen pricing go up. Whether it goes up a lot -- I wouldn't count on it going up a lot more from there.

The markets are going to be competitive at that point. But use of balance sheet, the cost has gone up; not loans, but most of the other stuff.

**Marianne Lake** (CFO):

And remember, we think about our prime brokerage business going hand in glove with equity.

**Jamie Dimon** (Chairman, CEO):

That's correct.

**Marianne Lake** (CFO):

And so, while the repricing is helpful, and does -- at the margin, everybody is going to continue to always observe their pricing. We've built our platform internationally; Europe, we are seeing strong demand for our [synthetic pull-outs]. In Asia, we're adding clients -- we've got the wind to our backs.

So, it's an important business to our clients. You're right, there are some other people, potentially, not going to be as aggressive. And if we can take share, we certainly will.

**Gerard Cassidy** (Analyst - RBC):

Great. And then the follow-up question is: Obviously, the FASB is coming out this quarter with the new loan loss reserve methodology -- the current expected credit loss versus what we're using today -- obviously, the incurred loss model. There's going to be a true-up for everybody. Have you guys given any thought that, when this goes into place, when you may take that true-up? Assuming they say you have to implement it by 2019, or something like that, would you do it much before that, or can you give us some thoughts on your thinking about what's going to happen?

**Marianne Lake** (CFO):

Obviously, we expect any transition adjustment to go through equity. If we are able to adopt it early, we might do that. I'm not aware that we are. But I could be wrong about that.

**Operator**:

Your last question comes from the line of Paul Miller with FBR Capital Markets.

**Paul Miller** (Analyst - FBR):

Thank you very much. We know that you implemented a new disclosure form in the Mortgage Banking space tread. Did that have any -- you guys had very good Mortgage Banking results. Did that have any impact whatsoever on your operations in the Mortgage Bank?

**Marianne Lake** (CFO):

So, yes, obviously, it was -- I think if you add up [cleared plus] other servicing rules, print them out, put them on the floor and stand them next to me, they're a foot taller. So they are very complicated. There's a lot of operational complexity to complying, and we're working very hard at doing that.

I will say, in the quarter, we did -- as part of being cautious about making sure that we're complying, our cycle times were a couple days -- a few days worsened. And so, volumes, our origination volumes, are a little lower than we would have otherwise seen; not a lot. And that's just timing, and it's just days. But not really from a financial results perspective, because of the way we recognize the revenue.

So, I would call it a little bit of teething problems -- across the industry, by the way, not just us -- nothing significant. We are going to get the work finished, and so it's tough, but it is what it is.

**Paul Miller** (Analyst - FBR):

And then a follow-up question on your portfolio: You look like you grew your residential loans by about $11 billion. Last quarter, you said it was a mix between agency and jumbo. If a big chunk of it's agency, can you give us your thoughts on portfolio of that agency product?

**Marianne Lake** (CFO):

Yes, so, it's about 60% jumbo, 40% agency or conventional conforming, and it's a better execution decision. So, when we look at the better economics between selling or portfolio-ing the mortgage, we'll generally choose the better economics. But we also prefer the annuity nature of the NII -- the lower servicing risk, and the better capital efficiency.

So, it has been the case, over the course of the last several quarters, that it has been the best execution to portfolio these mortgages. And actually, they are generating a nice return on equity.

**Operator**:

And you do have a follow-up question from John McDonald with Sanford Bernstein.

**John McDonald** (Analyst - Sanford C. Bernstein):

One quick follow-up, Marianne: You've had some pretty big tax gains the last couple quarters, running below 30% of your tax rate. At some point, do you pull forward future benefits, and run with a higher tax rate in the future?

**Marianne Lake** (CFO):

So we have had pretty big tax gains over the course of the last -- most notably, obviously, last quarter, over the course of the last couple of years. Most of those related to the, call it, 2003 through 2008 tax periods, when we were going through the financial crisis. And so, some of the matters were more complex, and we took appropriate reserving decisions on that.

There are many less of those very complicated matters ahead of us, and so we wouldn't expect to see the same sort of size of tax benefits going forward as we've seen in the past. But we had some this quarter. So, we'll have a few. And generally speaking, they are, because of the nature of the reserving for tax, generally speaking, we take a conservative approach and the bias to the positive. But it could be much more plus or minus zero, at this point.

**John McDonald** (Analyst - Sanford C. Bernstein):

So, what's your natural tax rate, if you don't have those? Is it around 30%? Or is it closer to --

**Marianne Lake** (CFO):

30%.

**John McDonald** (Analyst - Sanford C. Bernstein):

Thanks.

**Operator**:

You have another follow-up question from the line of Brian Foran with Autonomous.

**Marianne Lake** (CFO):

Hi, Brian.

**Brian Foran** (Analyst - Autonomous Research):

I was wondering if I could just sneak in on credit cards. Do you think the competitive environment has hit a plateau? And on co-brands, are there any large upcoming repricing events? And is there any bigger than a bread box size you can give on [Marriott]?

**Marianne Lake** (CFO):

So, do I think it's plateaued? I think it remains incredibly competitive in card generally, in particular in the co-brand space. So, plateaued at a very competitive level, I suppose.

But in terms of -- I'm not going to talk about any specific names, actually, Brian, in terms of the potential for repricing. It's an important part of our Business, and we're going to defend our Business.

**Brian Foran** (Analyst - Autonomous Research):

Thank you very much.

**Operator**:

Your next question is a follow-up question from Gerard Cassidy with RBC.

**Marianne Lake** (CFO):

Hi, Gerard.

**Gerard Cassidy** (Analyst - RBC):

Thank you. Hi, Marianne. If the regulators lift the dividend pay-out ratio in this year's CCAR to 40%, would you guys consider lifting your dividend pay-out ratio something closer to that?

**Marianne Lake** (CFO):

It's a Board decision, and so, neither have we received that guidance from the regulators, nor have we done CCAR, and had that discussion yet with the Board. But we have generally said that the Board likes to have the flexibility to increase dividends over time, and we have had our dividend most recently at or close to that soft cap.

So, we would love that capacity, and I would imagine that, over time, it may be used. But again, it is a Board decision, not a management decision.

**Gerard Cassidy** (Analyst - RBC):

Thank you. And then just one last follow-up: On the G-SIB buffer, obviously you guys have done an incredible job in bringing it down to where it is today. When do you expect the regulators to put you into that bucket, assuming you guys are obviously looking at the same types of numbers?

**Marianne Lake** (CFO):

From -- we do everything pro forma. So, first of all, I would say the following. Right now, my understanding -- and if I'm wrong, forgive me -- is that it's your spot balance sheet two years prior that would drive your G-SIB two years forward. But the reality, if you ask my opinion, given that we're going to be reporting quarterly going forward, and because of the likelihood that G-SIB may or may not feature into CCAR, I think it's going to be less important, necessarily, what you are at any one moment in time, but where you are projecting to be or stay.

So, I suspect that we will get the benefit, potentially, of this, not today. We just closed our balance sheet. But I think that it's going to need to be a little bit more dynamic going forward, as it gets potentially introduced into stress test.

**Gerard Cassidy** (Analyst - RBC):

Great. Thank you.

**Marianne Lake** (CFO):

But I don't know that.

**Operator**:

At this time, there are no further questions.

**Marianne Lake** (CFO):

Thank you, everyone.

**Operator**:

This concludes today's conference call.