JPMORGAN CHASE & CO
Form 10-Q
August 02, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
Quarterly report pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2017	Commission file number 1-5805

JPMorgan Chase & Co.
(Exact name of registrant as specified in its charter)

Delaware	13-2624428
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
270 Park Avenue, New York, New York	10017
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (212) 270-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
x Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x		Accelerated filer	o
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes x No

Number of shares of common stock outstanding as of June 30, 2017: 3,518,964,410

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JPMorgan Chase & Co.
Consolidated financial highlights
(unaudited)

As of or for the period ended, (in millions, except per share, ratio, headcount data and where otherwise noted)						Six months ended June 30,	
	2Q17	1Q17	4Q16	3Q16	2Q16	2017	2016
Selected income statement data							
Total net revenue	$25,470	$24,675	$23,376	$24,673	$24,380	$50,145	$47,619
Total noninterest expense	14,506	15,019	13,833	14,463	13,638	29,525	27,475
Pre-provision profit	10,964	9,656	9,543	10,210	10,742	20,620	20,144
Provision for credit losses	1,215	1,315	864	1,271	1,402	2,530	3,226
Income before income tax expense	9,749	8,341	8,679	8,939	9,340	18,090	16,918
Income tax expense	2,720	1,893	1,952	2,653	3,140	4,613	5,198
Net income	$7,029	$6,448	$6,727	$6,286	$6,200	$13,477	$11,720

Earnings per share data							
Net income: Basic	$1.83	$1.66	$1.73	$1.60	$1.56	$3.49	$2.92
Diluted	1.82	1.65	1.71	1.58	1.55	3.47	2.89
Average shares: Basic	3,574.1	3,601.7	3,611.3	3,637.7	3,675.5	3,587.9	3,693.0
Diluted	3,599.0	3,630.4	3,646.6	3,669.8	3,706.2	3,614.7	3,721.9
Market and per common share data							
Market capitalization	321,633	312,078	307,295	238,277	224,449	321,633	224,449
Common shares at period-end	3,519.0	3,552.8	3,561.2	3,578.3	3,612.0	3,519.0	3,612.0
Share price:[a]							
High	$92.65	$93.98	$87.39	$67.90	$66.20	$93.98	$66.20
Low	81.64	83.03	66.10	58.76	57.05	81.64	52.50
Close	91.40	87.84	86.29	66.59	62.14	91.40	62.14
Book value per share	66.05	64.68	64.06	63.79	62.67	66.05	62.67
Tangible book value per share (“TBVPS”)[b]	53.29	52.04	51.44	51.23	50.21	53.29	50.21
Cash dividends declared per share	0.50	0.50	0.48	0.48	0.48	1.00	0.92
Selected ratios and metrics							
Return on common equity	12 %	11 %	11 %	10 %	10 %	11 %	10 %

(“ROE”)							
Return on tangible common equity (“ROTCE”)[b]	14	13	14	13	13	14	12
Return on assets	1.10	1.03	1.06	1.01	1.02	1.07	0.97
Overhead ratio	57	61	59	59	56	59	58
Loans-to-deposits ratio	63	63	65	65	66	63	66
High quality liquid assets (“HQLA”) (in billions)[c]	$577	$528	$524	$539	$516	$577	$516
Common equity Tier 1 (“CET1”) capital ratio[d]	12.6%	12.5%	12.4%	12.0%	12.0%	12.6%	12.0%
Tier 1 capital ratio[d]	14.4	14.3	14.1	13.6	13.6	14.4	13.6
Total capital ratio[d]	16.0	15.6	15.5	15.1	15.2	16.0	15.2
Tier 1 leverage ratio[d]	8.5	8.4	8.4	8.5	8.5	8.5	8.5
Selected balance sheet data (period-end)							
Trading assets	$407,064	$402,513	$372,130	$374,837	$380,793	$407,064	$380,793
Securities	263,458	281,850	289,059	272,401	278,610	263,458	278,610
Loans	908,767	895,974	894,765	888,054	872,804	908,767	872,804
Core loans	834,935	812,119	806,152	795,077	775,813	834,935	775,813
	824,583	805,382	799,698	779,383	760,721	815,034	749,009

Average core loans							
Total assets	2,563,174	2,546,290	2,490,972	2,521,029	2,466,096	2,563,174	2,466,096
Deposits	1,439,473	1,422,999	1,375,179	1,376,138	1,330,958	1,439,473	1,330,958
Long-term debt(e)	292,973	289,492	295,245	309,418	295,627	292,973	295,627
Common stockholders' equity	232,415	229,795	228,122	228,263	226,355	232,415	226,355
Total stockholders' equity	258,483	255,863	254,190	254,331	252,423	258,483	252,423
Headcount	249,257	246,345	243,355	242,315	240,046	249,257	240,046
Credit quality metrics							
Allowance for credit losses	$14,480	$14,490	$14,854	$15,304	$15,187	$14,480	$15,187
Allowance for loan losses to total retained loans	1.49%	1.52%	1.55%	1.61%	1.64%	1.49%	1.64%
Allowance for loan losses to retained loans excluding purchased credit-impaired loans(f)	1.28	1.31	1.34	1.37	1.40	1.28	1.40
Nonperforming assets	$6,432	$6,826	$7,535	$7,779	$7,757	$6,432	$7,757
Net charge-offs(g)	1,204	1,654	1,280	1,121	1,181	2,858	2,291
Net charge-off rate(g)	0.54%	0.76%	0.58%	0.51%	0.56%	0.65%	0.54%

(a) Share prices are from the New York Stock Exchange.

(b) TBVPS and ROTCE are non-GAAP financial measures. For further discussion of these measures, see Explanation and Reconciliation of the Firm’s Use of Non-GAAP Financial Measures and Key Financial Performance Measures on pages 15–17.

(c) HQLA represents the amount of assets that qualify for inclusion in the liquidity coverage ratio ("LCR"). For additional information, see HQLA on page 67.

(d) Ratios presented are calculated under the Basel III Transitional capital rules and for the capital ratios represent the lower of the Standardized or Advanced approach as required by the Collins Amendment of the Dodd-Frank Act (the "Collins Floor"). See Capital Risk Management on pages 42–48 for additional information on Basel III and the Collins Floor.

(e) Included unsecured long-term debt of $221.0 billion, $212.0 billion, $212.6 billion, $226.8 billion and $220.6 billion at June 30, 2017, March 31, 2017, December 31, 2016, September 30, 2016 and June 30, 2016, respectively.

(f) Excluded the impact of residential real estate purchased credit-impaired ("PCI") loans, a non-GAAP financial measure. For further discussion of these measures, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures and Key Performance Measures on pages 15–17. For further discussion, see Allowance for credit losses on pages 63–65.

(g) Excluding net charge-offs of $467 million related to the student loan portfolio transfer, the net charge-off rates for both the three months ended March 31, 2017 and six months ended June 30, 2017 would have been 0.54%.

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INTRODUCTION

The following is management's discussion and analysis ("MD&A") of the financial condition and results of operations of JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm") for the second quarter of 2017.

This Form 10-Q should be read in conjunction with JPMorgan Chase's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the U.S. Securities and Exchange Commission ("2016 Annual Report" or 2016 "Form 10-K"), to which reference is hereby made. See the Glossary of terms and acronyms on pages 168–175 for definitions of terms and acronyms used throughout this Form 10-Q.

The MD&A included in this Form 10-Q contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the current beliefs and expectations of JPMorgan Chase's management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. For a discussion of certain of those risks and uncertainties and the factors that could cause JPMorgan Chase's actual results to differ materially because of those risks and uncertainties, see Forward-looking Statements on page 82 of this Form 10-Q and Part I, Item 1A, Risk Factors, on pages 8–21 of JPMorgan Chase's 2016 Annual Report.

JPMorgan Chase & Co., a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States of America ("U.S."), with operations worldwide; the Firm had $2.6 trillion in assets and $258.5 billion in stockholders' equity as of June 30, 2017. The Firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing and asset management. Under the J.P. Morgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world's most prominent corporate, institutional and government clients.

JPMorgan Chase's principal bank subsidiaries are JPMorgan Chase Bank, National Association ("JPMorgan Chase Bank, N.A."), a national banking association with U.S. branches in 23 states, and Chase Bank USA, National Association ("Chase Bank USA, N.A."), a national banking association that is the Firm's credit card-issuing bank. JPMorgan Chase's principal nonbank subsidiary is J.P. Morgan Securities LLC ("JPMorgan Securities"), the Firm's U.S. investment banking firm. The bank and nonbank subsidiaries of JPMorgan Chase operate nationally as well as through overseas branches and subsidiaries, representative offices and subsidiary foreign banks. One of the Firm's principal operating subsidiaries in the United Kingdom ("U.K.") is J.P. Morgan Securities plc, a subsidiary of JPMorgan Chase Bank, N.A.

For management reporting purposes, the Firm's activities are organized into four major reportable business segments, as well as a Corporate segment. The Firm's consumer business is the Consumer & Community Banking ("CCB") segment. The Firm's wholesale business segments are Corporate & Investment Bank ("CIB"), Commercial Banking ("CB"), and Asset & Wealth Management ("AWM"). For a description of the Firm's business segments, and the products and services they provide to their respective client bases, refer to Note 33 of JPMorgan Chase's 2016 Annual Report.

EXECUTIVE OVERVIEW

This executive overview of the MD&A highlights selected information and does not contain all of the information that is important to readers of this Form 10-Q. For a complete description of the trends and uncertainties, as well as the risks and critical accounting estimates affecting the Firm and its various lines of business, this Form 10-Q should be read in its entirety.

Financial performance of JPMorgan Chase (unaudited)	Three months ended June 30,			Six months ended June 30,		
As of or for the period ended, (in millions, except per share data and ratios)	2017	2016	Change	2017	2016	Change
Selected income statement data						
Total net revenue	$25,470	$24,380	4 %	$50,145	$47,619	5%
Total noninterest expense	14,506	13,638	6	29,525	27,475	7
Pre-provision profit	10,964	10,742	2	20,620	20,144	2
Provision for credit losses	1,215	1,402	(13)	2,530	3,226	(22)
Net income	7,029	6,200	13	13,477	11,720	15
Diluted earnings per share	$1.82	$1.55	17	$3.47	$2.89	20
Selected ratios and metrics						
Return on common equity	12 %	10 %		11 %	10 %	
Return on tangible common equity	14	13		14	12	
Book value per share	$66.05	$62.67	5	$66.05	$62.67	5
Tangible book value per share	53.29	50.21	6	53.29	50.21	6
Capital ratios[(a)]						
CET1	12.6%	12.0 %		12.6 %	12.0 %	
Tier 1 capital	14.4	13.6		14.4	13.6	
Total capital	16.0	15.2		16.0	15.2	

(a) Ratios presented are calculated under the Basel III Transitional capital rules and represent the Collins Floor. See Capital Risk Management on pages 42–48 for additional information on Basel III.

Comparisons noted in the sections below are calculated for the second quarter of 2017 versus the prior-year second quarter, unless otherwise specified.

Firmwide overview

JPMorgan Chase reported strong results in the second quarter of 2017 with record net income of $7.0 billion, or $1.82 per share, on net revenue of $25.5 billion. The Firm reported ROE of 12% and ROTCE of 14%.

- Net income increased 13%, reflecting higher net revenue, lower income tax expense, and lower provision for credit losses, largely offset by higher noninterest expense.
- Total net revenue increased 4%. Net interest income was $12.2 billion, up 8%, primarily driven by the net impact of higher interest rates and loan growth, partially offset by declines in Markets net interest income. Noninterest revenue was $13.3 billion, up 2%, driven by a legal benefit in Corporate related to a settlement with the Federal Deposit Insurance Corporation (“FDIC”) receivership for Washington Mutual and with Deutsche Bank as trustee to certain Washington Mutual trusts, higher Banking revenue in the CIB, higher auto lease income, and higher revenue in AWM. These increases were predominantly offset by higher Card new account origination costs, lower Mortgage Banking revenue and lower Markets revenue in the CIB.
- Noninterest expense was $14.5 billion, up 6%, reflecting the absence of a legal benefit recorded in the prior-year quarter, as well as higher auto lease depreciation and FDIC-related expenses.
- The provision for credit losses was $1.2 billion, a decrease from $1.4 billion. This quarter included a net reduction in the allowance for credit losses in the wholesale portfolio of $241 million driven by Oil & Gas, Natural Gas Pipelines and Metals & Mining, offset by a net addition to the allowance for credit losses in the consumer portfolio of $252 million driven by Card.

- The total allowance for credit losses was $14.5 billion at June 30, 2017, and the Firm had a loan loss coverage ratio, excluding the PCI portfolio, of 1.28%, compared with 1.40%. The Firm’s nonperforming assets totaled $6.4 billion at June 30, 2017, a decrease from $7.8 billion.
- Firmwide average core loans increased 8%.

Selected capital-related metrics

- The Firm added to its capital, ending the second quarter of 2017 with a TBVPS of $53.29, up 6%.
- The Firm’s Basel III Fully Phased-In CET1 capital was $187 billion, and the Standardized and Advanced CET1 ratios were 12.5% and 12.7%, respectively.
- The Fully Phased-In supplementary leverage ratio (“SLR”) was 6.6% for the Firm and 6.7% for JPMorgan Chase Bank, N.A. at June 30, 2017.

ROTCE and TBVPS are considered non-GAAP financial measures. Core loans and each of the Fully Phased-In capital and leverage measures are considered key performance measures. For a further discussion of each of these measures, see Explanation and Reconciliation of the Firm’s Use of Non-GAAP Financial Measures and Key Performance Measures on pages 15–17, and Capital Risk Management on pages 42–48.

Lines of business highlights

Selected business metrics for each of the Firm's four lines of business are presented below for the second quarter of 2017.

CCB ROE 17%	• Average core loans up 9%; average deposits of $640 billion, up 10% • 28.4 million active mobile customers, up 14% • Credit card sales volume up 15% and merchant processing volume up 12%
CIB ROE 15%	• Maintained #1 ranking for Global Investment Banking fees with 8.3% wallet share YTD • Banking revenue up 17%; Markets revenue down 14%
CB ROE 17%	• Record revenue and net income of $2.1 billion (up 15%), and $902 million (up 30%), respectively • Average loan balances of $198 billion, up 12%
AWM ROE 27%	• Record net income of $624 million, up 20%; revenue of $3.2 billion, up 9% • Average loan balances of $122 billion, up 9% • Assets under management (“AUM”) of $1.9 trillion, up 11%; 77% of mutual fund AUM ranked in the 1st or 2nd quartile over 5 years

For a detailed discussion of results by line of business, refer to the Business Segment Results on pages 18–40.

Credit provided and capital raised

JPMorgan Chase continues to support consumers, businesses and communities around the globe. The Firm provided credit and raised capital of $1.2 trillion for wholesale and consumer clients during the first six months of 2017:

- $131 billion of credit for consumers
- $11 billion of credit for U.S. small businesses
- $413 billion of credit for corporations
- $605 billion of capital raised for corporate clients and non-U.S. government entities
- $38 billion of credit and capital raised for U.S. government and nonprofit entities, including states, municipalities, hospitals and universities

2017 outlook

These current expectations are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on the current beliefs and expectations of JPMorgan Chase’s management and are subject to significant risks and uncertainties. These risks and uncertainties could cause the Firm’s actual results to differ materially from those set forth in such forward-looking statements. See Forward-Looking Statements on page 82 of this Form 10-Q and Risk Factors on pages 8–21 of JPMorgan Chase’s 2016 Annual Report. There is no assurance that actual results for the full year of 2017 will be in line with the outlook set forth below, and the Firm does not undertake to update any of these forward-looking statements to reflect the impact of circumstances or events that arise after the date hereof.

JPMorgan Chase's outlook for the remainder of 2017 should be viewed against the backdrop of the global and U.S. economies, financial markets activity, the geopolitical environment, the competitive environment, client activity levels, and regulatory and legislative developments in the U.S. and other countries where the Firm does business. Each of these interrelated factors will affect the performance of the Firm and its lines of business. The Firm expects it will continue to make appropriate adjustments to its businesses and operations in response to ongoing developments in the legal and regulatory, as well as business and economic, environment in which it operates.

Firmwide

- Management expects 2017 net interest income to increase by approximately $4 billion compared with the prior year, depending on market conditions.
- The Firm continues to take a disciplined approach to managing its expenses, while investing in growth and innovation. As a result, Firmwide adjusted expense in 2017 is expected to be approximately $58 billion (excluding Firmwide legal expense).
- The Firm continues to experience charge-off rates at or near historically low levels, reflecting favorable credit conditions across the consumer and wholesale portfolios. Management expects total net charge-offs of approximately $5 billion in 2017, excluding net charge-offs of $467 million related to the write-down of the student loan portfolio in the first quarter of 2017.
- Management expects average core loan growth of approximately 8% in 2017.

CCB

- In Card, management expects the portfolio average net charge-off rate to increase in 2017, but remain below 3% for the year, reflecting continued loan growth and the seasoning of newer vintages, with quarterly net charge-off rates reflecting normal seasonal trends.

CIB

- Management expects Investment Banking fees in the second half of 2017 to be lower compared to a strong prior-year period.

CONSOLIDATED RESULTS OF OPERATIONS

This section provides a comparative discussion of JPMorgan Chase's Consolidated Results of Operations on a reported basis for the three and six months ended June 30, 2017 and 2016, unless otherwise specified. Factors that relate primarily to a single business segment are discussed in more detail within that business segment. For a discussion of the Critical Accounting Estimates Used by the Firm that affect the Consolidated Results of Operations, see pages 77–79 of this Form 10-Q and pages 132–134 of JPMorgan Chase's 2016 Annual Report.

Revenue

	Three months ended June 30,			Six months ended June 30,		
(in millions)	2017	2016	Change	2017	2016	Change
Investment banking fees	$1,810	$1,644	10 %	$3,627	$2,977	22 %
Principal transactions	3,137	2,976	5	6,719	5,655	19
Lending- and deposit-related fees	1,482	1,403	6	2,930	2,806	4
Asset management, administration and commissions	3,824	3,681	4	7,501	7,305	3
Securities gains/(losses)	(34)	21	NM	(37)	72	NM
Mortgage fees and related income	404	689	(41)	810	1,356	(40)
Card income	1,167	1,358	(14)	2,081	2,659	(22)
Other income[(a)]	1,472	1,261	17	2,242	2,062	9
Noninterest revenue	13,262	13,033	2	25,873	24,892	4
Net interest income	12,208	11,347	8	24,272	22,727	