2023 INVESTOR DAY- FIRM OVERVIEW

TRANSCRIPT

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JPMorgan Chase & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the stage Daniel Pinto, President and Chief Operating Officer of JPMorgan Chase and CEO, Corporate & Investment Bank.

Daniel Pinto

President & Chief Operating Officer, JPMorgan Chase & Co. and Chief Executive Officer of the Corporate & Investment Bank

Welcome. Good morning. How are you guys doing this morning? I will start with an overview of the firm and then Jeremy will discuss our financials and our outlook. And then I will return a bit later with a presentation on the Corporate & Investment Bank with my partners.

So you will hear today from senior leaders across the company about our technology agenda and about our businesses and priorities all across. Okay. So you have seen a version of this slide almost every year and it's intentional. We have a proven operating model and this is based essentially in four pillars – it's to be complete, to be global, to be diversified and operate at scale.

We deliver for our clients in any environment while generating good returns for our shareholders. We have exceptional client franchise and a broad set of products and services. We had built a great culture, a fortress balance sheet and a strong risk management and a strong controls environment. We are constantly invested in the future while we are also being focused on managing our expenses. On the investments in technology that we are powering, we are powering the business to the great customer experience though innovation, talent acquisition, development and retention.

We are also proud to support our communities. And we have incorporated in our operating model our sustainable practices and in the way that we run businesses on a day-to-day basis. So we have leading positions across all four lines of business in a very, very competitive environment. A few highlights to mention: in starting with the Consumer Bank, number one, deposit franchise in the country. Market share has grown around 400 basis points in the last 10 years. We are the top U.S. credit card issuer. And one of our biggest areas of growth is Wealth Management in the United States. You see here our assets have quadrupled over the last 10 years and growing fast.

The Corporate & Investment Bank has four great franchises: Investment Banking, Markets, Payments and Securities Services, all of those increasing market share over the year, and nothing of that would have happened without the collaboration that we have with Doug Petno's group, the Commercial Bank.

The same for the Commercial Bank, a great business that we have, also benefit from the partnership with the Investment Bank, is clearly the number one multifamily lender in the country, and they have grown IB revenues from $1.6 billion to $3 billion, almost double. And their clients, they are big clients of the Payments organization that the Payments business in the Commercial Bank has gone from $2.7 billion to $5.9 billion. The Asset & Wealth Management division, also very strong, the number one rated Private Bank in the world.

Client assets have grown from $2 trillion to $4 trillion, and 90% of our funds are performing better than the peer median. And they have 18 years (sic) [19 years] of positive net inflows. While each business is successful in itself, there is room for growth and expansion. Our four main businesses do not operate in isolation. There are many opportunities that can be unlocked by collaborating across. I will talk more about that in a minute.

So having in mind, the four pillars of our strategy, this slide shows the depth of our franchise. The benefit of having a diverse business that delivers through cycles. On the left, you can see how revenues continue growing in different market environments. For example, in 2020, while interest rates were low, therefore NII was challenged, revenue generated, fees generated from the mortgage company, to refinancing a new origination, from the Investment Banking fees, from the Asset & Wealth Management and a very strong performance of Markets produced growth despite the situation with NII and exactly the opposite happened in 2022, where essentially the Investment Bank wallet collapsed to 2019 levels, and the mortgage origination and refinancing pretty much stopped, reduced substantially and NII compensated for that.

On the right hand side of the page, you can see the completeness of our offering. And combined with our strong investments in technology, we can deliver a very wide range of product for our clients. Most of our product offerings are in leading market positions, but there are some where we have opportunities, as I mentioned, Wealth Management, Connected Commerce and areas of Payments all across the company, there are areas where we can do better. And we talked last year about our new initiative, that is the retail bank in Europe, in the U.K. and it's going well. It's going according to the plan.

So, deposits have gone from $10 billion to close to $20 billion. Clients, the customers have pretty much tripled to 1.6 million, of which one million are active and we are processing roughly one million transactions a day. And we continue expanding our product offering and regional footprint. We said last year we were going to constrain the cash burn of this business to around $450 million. And we are focused on that while we are investing, so – and this is happening, even this year may come up a bit better than that.

So being global is our core strength. We serve our clients in more than 100 countries around the world (sic) [operate in more than 100 global markets]. At scale is very, very important in these businesses. These businesses are very expensive to run and at scale allow you to be profitable and profitability allow you to invest and investments allow you to grow and provide better services to our clients. So let's talk about how we serve our customers and clients. We have a unique ability to deepen client relationships and build new ones across all lines of business. Our business model is set up to serve clients as they grow and as their needs evolve. We see millions of customers through our Chase branches and digital offering, and we also work with the wealthiest individuals in the country. So we cover the whole footprint.

So we bank millions of small businesses in retail and we bank thousands of middle market companies, and those companies as they become bigger, they get to use the services of the Corporate & Investment Bank. Our people know how to work together and know how not to work in silos. We are proud of our culture that supports partnership across LOB and makes possible to deliver great client experiences to our clients. This integration, experience and institutional knowledge is part of our secret sauce for success. Approximately 30% of our leaders have experience in different businesses or in different functions, and that helps through their careers to have a very good attitude to our collaboration.

We also are very focused on creating a balance of products, being focused on products and clients and regional oversight. In the United States, it’s done through the market leadership teams that make sure that all this set of products that goes into the regions, they get the regional flavor and they are delivered in a way that is helpful and effective to our clients. The same role is being performed by the senior country officers and the regional head, internationally. So all this is great. Our technology investment is what is powering all of this, day in and day out.

On the right side of this slide, we can see how our businesses come together to strengthen our value proposition. Regardless of where clients sit, they get the best products and services from our complete offering. So the green marks on the right hand side of the page show where the primary coverage of those clients are and where the primary products that they consume are. And the blue checkmarks, it shows how the company comes together, offering to those clients cross-LOB solutions, regardless of where those clients are primarily covered.

So that gives us a massive competitive advantage. For example, for individuals, talking again about the Wealth Management business, as you can see it’s a big priority for us, they get the benefit of a great investment – Wealth Management, Private Bank services and some of the broad organization of the Private Bank is helping to develop products in the Wealth Management division. The same for the small business and middle market companies, depending on the size, they get the benefit of advice, access to capital markets, hedging solutions to clients or payment solutions from Payments.

We are very focused on servicing our clients, but we also focus in the environment that we are operating. We have been very resilient and we are confident that we can continue to deliver for our clients and shareholders regardless of the economic environment of the time. We cannot ignore that there are plenty of challenges at this time and sources of uncertainty. On the macro side, what we are seeing today, the global economy is doing fine. The U.S. economy at the moment is doing fine, as the consumer, but we see signs of the deterioration – slowdown in the economy, some indicators, and also consumers, gradually the buffers that they built in their savings through the pandemic are being eroded.

The very high speed of increase in interest rates, persistent inflation, tight labor markets, and we are going through a process of normalization of monetary policy. That is probably the biggest that we’ve ever seen with unforeseen consequence. We also see a massive expansion of fiscal deficit in most of our countries and the increase in debt. So that is – it may not be a problem now, but debt sustainability is something that everyone should keep in mind as debt to GDP is growing everywhere around the world. So with all this, it is very unlikely that we are not going to have a recession of some sort. How deep or not it needs to be, time will tell. But coming from Argentina, I have lived inflation and hyperinflation, I can tell you that recession is a good price to pay to put inflation back to the tighter levels. Inflation is terrible for society, particularly the lower segments of that society.

And as a company, obviously, we have our central case, a scenario that we drive the company day in and day out, but we are constantly looking at the details and being prepared in case the scenarios are worse than what we are planning. So, the other challenge is geopolitics. Clearly, geopolitics has been an issue. The terrible war between Ukraine and Russia that we don't know how long it will take and we don’t know if there will be an escalation. It's something that is sad and is staying there, and the increasing tension between China and the U.S., that is something that we have to learn to live with because it's not resolvable. But hopefully through dialogue, that tension becomes constructive and it doesn't go beyond that what it has to be.

There is some regulatory uncertainty. In a month, we will get the result of our CCAR submission. We don't have clarity yet about the last implementation, the endgame of Basel III. Most likely it will create some increase in capital for us and all that has happened in the last several weeks in the banking sector here and in Europe is likely to have sound regulatory reaction to it and I’m sure we are not going to be immune to that.

With all the uncertainties out there, we remain focused on protecting and supporting our clients and the firm and contributing to the safe, sound and resilient financial system. Cybersecurity, risk management and technology are critical to those efforts. These things are expensive, but it's a price that we all need to pay and give us for sure a competitive advantage going forward.

As while every employee is responsible, to uphold the control environment standards of the company, we have thousands of people dedicated to these efforts to minimize fraud and cyber risk, to protect client data and assets, and to comply with anti-money laundering laws and know your client protocol. Our strong commitment for this effort was evident during the last several weeks during the disruption that we saw in the banking system. So we onboarded mainly in the Commercial Bank, in the Private Bank, but pretty much all across the company, thousands and thousands of clients coming from some of the banks that failed.

And we have done all that without compromising our risk standards and controls environment. We also executed in the First Republic transaction, and that was very impressive to see how close to 800 people or a 1,000 people across the company came together to be prepared in case we have to incorporate this company, from the economic model, to the assessment of risk, to an implementation plan that is extremely detailed, and we knew exactly what we were going to do in case the company would join us, what we were going to do every single day going forward. I think that this was JPMorgan Chase at its best.

So at the same time, we are committed to advancing a sustainable and inclusive economy and helping our clients to achieve their sustainable goals. We recognize the role we play in advancing this agenda. We believe it's the right thing to do for our communities, for our customers and for the planet. In 2022, we continued to make progress on our $2.5 trillion 10-year sustainable development target. Today, we have financed or facilitated more than $480 billion towards our goal, including $176 billion in support of the $1 trillion green objective, $204 billion in development finance in emerging economies, and $102 billion towards economic inclusion.

And we believe our business is better when the economy is more inclusive. We remain committed to advancing racial equity in the communities we serve at our company. We are reporting nearly $29 billion progress towards a $30 billion racial equity commitment. This progress in 2022 was related to affordable rental housing preservation and home ownership refinancing. We intend to continue this effort beyond the current program.

Before I turn it over to Jeremy, this last slide shows the strong track record of this company. We have a 9% compound annual growth rate in tangible book value per share since 2024 (sic) [2004]. That is 400 basis points ahead of most of our peers. Our success in 2022 include $132 billion of revenues, $38 billion of net income and a return on tangible common equity of 18%. Looking forward, we will maintain our strategy. We will focus on execution in our culture, risk management, expense discipline and innovation. The power of our investments, our diversification and the scale of the business we run will drive the future success of the company.

So, I will pass it over to Jeremy now. Thank you.

Operator: Welcome to the stage Jeremy Barnum, Chief Financial Officer.

Jeremy Barnum

Chief Financial Officer, JPMorgan Chase & Co.

Okay. Thank you, Daniel. Three months ago, I would have gone through this page fairly quickly, but what's happened since then serves as a reminder of the importance of our fortress principles. Starting with liquidity on the left, while HQLA is what matters for some of our regulatory ratios, we also find it useful to look at a more holistic measure of liquidity resources, including unencumbered marketable securities. That number has increased by $600 billion since 2019. One way to think about the story over the last couple of years is that system-wide deposits increased a lot as a result of QE during COVID and banks had to decide what to do with the money.

In our case, we saw deposit net inflows of about $800 billion split roughly equally between retail and wholesale. When you compare that to the $600 billion increase in total liquidity resources, you can see that our deployment strategy in response to the elevated deposit growth of the pandemic era has been very conservative. And as the evolution of both our NIM and our fair value disclosures highlights, the duration of our deployment was also quite short. On the right, we remind you once again of the staggering amount of capital that we have.

In the middle of the page, you have our first quarter reported numbers. We did, in fact, use some balance sheet resources to do the First Republic deal, 40 basis points of CET1, as well as some usage of LCR capacity. On the LCR front, the combination of liquidity usage for First Republic and normal course liquidity consumption means we expect bank LCR to be in the high-120s at second quarter earnings, still very comfortably above requirements. And let me expand for a second on the use of balance sheet resources I just mentioned.

Jamie always says that excess capital is just future earnings and I think this is a nice example of that. The conservative positioning of the balance sheet allowed us to do the First Republic transaction and deploy that 40 basis points of excess capital and some of our excess liquidity at extremely attractive returns, not only well above what would be implied by share buybacks, but also significantly better than our 17% through the cycle target. So, if at any point in the future, we choose to build up capital a little bit, just keep that in mind.

Now moving on to the outlook. Since we just updated our 2023 NII guidance at first quarter earnings, I'm starting to explain from there. Excluding the impact of First Republic, the $81 billion has not changed meaningfully and the drivers are essentially the same and are listed on the left.

Now turning to the impact of the First Republic transaction, we are expecting a full year NII contribution of approximately $3 billion, and as a result, we are updating the 2023 NII ex markets outlook to approximately $84 billion. In addition, you'll recall that our medium-term expectation for NII ex markets across a range of potential scenarios was around the mid-70s. Jenn and Marianne will touch on this in their section, but we are currently very focused on preserving and rebuilding the core deposit franchise we acquired while we figure out how to incorporate the best elements of the First Republic customer experience cost effectively. In light of that, how much of the $3 billion increase I just mentioned flows into that medium-term run rate remains to be seen. In addition to the deposit franchise, we've acquired a portfolio of assets at attractive yields, which will contribute to NII for some time, but not forever.

Furthermore, as I just mentioned, the net assets are consuming excess liquidity capacity, some of which prior to the transaction was assumed to be deployed in our medium-term outlook. So, for all these reasons, I would caution you against simply adding that $3 billion to the mid-70s number. While we're at it, I know many of you think the $500 million of net income contribution we mentioned when we announced the deal is conservative. We agree and have acknowledged as much. Either way, though, starting today, the First Republic franchise is embedded in our forward guidance and you will see the bottom line impacts flow through our reported results. So if we wind up doing better than we assumed, great.

On the right, we remind you once again of how sensitive our overall NII outlook is to various drivers. Among other considerations is the pace of QT and the size and terms of RRP. So on the next page we have a bit more detail on those points. Everyone is very focused on deposit outflows to money market funds these days and how that interacts with QT and RRP. So let's take a second to review the flows. I'll start by reminding you that if not for RRP, bank deposits flowing into money market funds would not necessarily change system-wide deposits. But to the extent that money fund inflows are invested into RRP, system-wide deposits shrink.

Given the relatively attractive yield of RRP in an environment short of treasury collateral, deposit inflows into money funds that eventually land in RRP have been a significant headwind for system-wide deposits. On a related point, there's recently been an increased use of home loan advances by banks. The issuance of the discount notes to fund those advances will also drain deposits, unless discount note buyers are taking down RRP to make room – which is ultimately a relative value decision and highlights how the pricing of RRP is a key factor in the current deposit dynamics. The rest of the outside boxes make the well-known points that, all else equal, QT shrinks deposits and credit extension increases them.

In the middle of the page, you can see how these dynamics have reduced the balance of commercial bank deposits by about $1 trillion since December of 2021. Looking ahead, we don't claim any unique insights. All else equal, the Fed's balance sheet continues to get smaller. So as long as our RRP remains attractive relative to other short-term investment options, we are not assuming that reductions in RRP will mitigate downward pressure from QT. As a result, we expect system-wide deposits to continue declining. In light of these pressures, it's therefore important to reiterate our deposit strategy. We will fight to keep primary banking relationships, but we are not going to chase every dollar of deposit balances.

Moving on to expenses, excluding First Republic, the $81 billion expense outlook that we reiterated at earnings has not changed, and the overall themes remain consistent with what they were when we originally provided the guidance in our fourth quarter earnings call. In terms of First Republic, we expect the impact of the transaction to increase expenses by about $3.5 billion this year. As a result, we are updating our 2023 outlook to approximately $84.5 billion.

When comparing this to the increase in our NII guidance, keep in mind that there will also be higher NIR coming mostly from the wealth business. Also, recall that when we announced the deal, we estimated about $2.5 billion of pre-tax integration costs. We're currently assuming that about half of the integration expense will be incurred this year. As we continue integrating the First Republic franchise, we expect to have choices about the service model, which may result in higher expense, all else equal. But if that's the case, the expense will come with additional revenue and be accretive to what we previously announced.

Finally on 2023, our current guidance does not include the FDIC special assessment related to the failures of Silicon Valley and Signature Bank. Based on the methodology and the recently proposed rule from the FDIC, we expect our total cost will be about $3 billion pre-tax, which will likely be accrued in 2023, subject to the finalization of the proposal. It's too early to guide to 2024 expenses today, but we've included several considerations on the page. And as always, if there are opportunities for additional investments that make sense, we will take them and explain them to you.

The next slide has more detail on investments. This page is just meant to serve as an anchor point for the detail you will hear directly from our technology and business leaders today. The themes are broadly consistent with what we've been talking about over the last year, so I won't go through the details. I do, however, following on the comments that Daniel just made, want to highlight International Consumer, which is the gray bar in the New and Expanded Businesses section. The initiative remains broadly on track, with the time to breakeven being consistent with what we said at last year's Investor Day.

Moving on to capital. The events of March have raised new questions about potential changes to capital and liquidity requirements, which might or might not be significant for us, but which in any case, we will process in due course. For today, let's focus on the Basel III endgame proposal, which we expect any day now, as well as the holistic review. Of course, even once we get the release, changes won't be immediate, since it takes time to move from NPR to final rule to implementation as we emphasize in the timelines at the bottom. Elsewhere on the page, we're showing you these dials representing the different pieces of the framework that might change.

Without going through each one, the overall point is that there are at least six distinct moving parts in the interaction between the Basel III endgame and the holistic review. And each of those inputs will require agreement among a different set of regulators. As the rules are released for comment, you can rest assured that we will be advocating forcefully for our points of view. We feel strongly that we have more than enough capital and that the GSIB framework is conceptually flawed, among many other issues. Still, for planning purposes, we have to prepare for the possibility that the end result of this process is an increase in capital requirements. So with this in mind, let's turn to the future on the next page.

What is clear as you take a step back is that some of the outcomes that could emerge on the capital front could render certain of our products fundamentally economically unviable when burdened with even higher capital requirements. And if we have to make those decisions, we will. No one should doubt the real impact of these ever increasing capital requirements on the availability of products and services. But if the better answer is to keep our footprint roughly the same and simply operate with more capital, our organic capital generation gives us a great deal of flexibility to do that.

For the avoidance of doubt, this page is anchored on analyst estimates. You'll see the walk includes the 40 basis point impact of First Republic. It's worth noting that even after that impact, our pro forma CET1 ratio for the first quarter would be very close to our 1Q24 target of 13.5%. So, as we look forward, that means that between now and the first quarter of next year, according to your estimates, we have about $20 billion of excess capital available to address increased FDIC expense, potential changes to requirements, as well as growth. The remainder would be available to retain or distribute. Whether we choose to distribute or retain at any given point in time, will depend on circumstances, keeping in mind that the points I made at the outset that retained capital is future earnings.

Now turning to credit. On credit, there's not much new to say here today. As we said at earnings, we are currently reserved for a weighted average peak unemployment of 5.8%, which is consistent with our somewhat cautious view of the outlook. This is also a good place to remind you that we need to take an allowance against the First Republic portfolio, which we currently estimate at around $1 billion. On net charge offs, the big picture story also hasn't changed. Marianne will give more detail on consumer credit in her section, but broadly, we are still seeing normalization, not deterioration. And in light of the intense focus on CRE, Doug will have some additional detail on that in his section.

Now turning to the outlook for ROTCE. Over the last couple of quarters, the question has come up a couple of times about return expectations in a variety of recessionary scenarios. And Jamie suggested that we would share some of our analysis on Investor Day. So here we go. Of course, every recession is unique, and as recent events have reminded us, we should always expect the unexpected. But here we attempted some simplified analysis of different types of recessionary scenarios, and with all the obvious caveats, what sort of returns might be expected in each of them.

On the right hand side of the page, you can see a chart with different colors and curves. They are generated from a relatively simple, top down model that tries to capture major economic drivers of performance, which we then run through different scenarios of rates, credit losses, growth and market volatility. If we start from 2022 full year results, you can see many of the scenarios go up recognizing the very strong recent sequential performance and the full year NII and expense guidance you already have. But as we look further into the future, starting with the grey scenario, you can see how in a normal recession the expected return would be below the target, but still healthy. And just to be clear, a normal recession is not the Fed's severely adverse scenario, and there's also not the pandemic experience, which was unusual in a variety of ways. But it's also not the very mild recession that the current market consensus reflects.

And then as you move from the grey scenario to some of the shallower and milder scenarios, you can see that many of them produce returns that are slightly better, in some cases consistent with our through the cycle target. Again, take all of this with a grain of salt. On the left hand side of the page, we remind you of the various drivers that will affect performance, each of which interacts differently with the economic scenario. But ultimately, the point is simple, the company is resilient, and we believe we are well positioned for a broad range of environments.

So to wrap up, we continue to believe in our 17% through the cycle target which is well supported by our recent results. And as we go into a more challenging environment, it's important to remember that some years may be better than 17%, while others will be worse. But through all environments, we will remain focused on the core strategic priorities and operating principles that have served us well over a long period of time. We are complete, global, diversified and operate at scale. And as Daniel mentioned, our ongoing focus on investing prudently for the future sets us up well for continued success.

And with that, let's welcome Lori to the stage.

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