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JPMorgan Chase & Co. *(JPM)*

Business Update Call

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MANAGEMENT DISCUSSION SECTION

Operator: Please stand by. We are about to begin. This call is being recorded. Your lines will be muted for the duration of the call. Please stand by.

At this time, I would like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon. Mr. Dimon, please go ahead.

Jamie Dimon

Operator, thank you. Good afternoon, everybody. I would like to thank you all for joining on short notice. I want to update you on a few items that we have in our just filed 10-Q.

Specifically, we had given prior guidance that Corporate – that net income in the Corporate segment – notice it's not the corporation, it's one of the segments – ex Private Equity and litigation would be approximately plus or minus $200 million. This includes the CIO's overall performance.

We currently estimate this number to be minus $800 million after-tax. This change is due to two items, both in CIO this quarter – I'm going to get back to give you pre-tax numbers now – slightly more than $2 billion trading loss on our synthetic credit positions and a $1 billion of securities gain, largely on the sale of credit exposures.

I want to remind you that CIO has over $200 billion in its investment portfolio and unrealized gains as of March 30th of $8 billion. CIO manages all its exposures in total as a whole, and it doesn't in light of the Firm's total requirements.

We are also amending a disclosure in the first quarter press release about CIO's VAR, Value-at-Risk. We'd shown average VAR at 67. It will now be 129. In the first quarter, we implemented a new VAR model, which we now deemed inadequate. And we went back to the old one, which had been used for the prior several years, which we deemed to be more adequate. The numbers I just gave are effective March 30th, the first quarter.

Regarding what happened, the synthetic credit portfolio was a strategy to hedge the Firm's overall credit exposure, which is our largest risk overall in its trust credit environment. We're reducing that hedge. But in hindsight, the new strategy was flawed, complex, poorly reviewed, poorly executed and poorly monitored. The portfolio has proven to be riskier, more volatile and less effective than economic hedge than we thought.

What have we done? We've had teams from audit, legal, risk and various control functions all from corporate involved in an extensive review of what happened. We have more work to do, but it's obvious at this point that there are many errors, sloppiness and bad judgment. I do remind you that none of this has anything to do with clients.

We've had many lessons learned and we've already changed some policies and procedures, as we've gone along. In addition, you should know that all appropriate corrective actions will be taken, as necessary, in the future. Most important, some of our best talent from across the company, particularly traders and risk managers, are fully engaged in helping to manage the portfolio.

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The portfolio still has a lot of risk and volatility going forward. So how are we going to manage that? So, number one, we're going to manage it to maximize the economic value for shareholders. What does that mean? It means that we're not going to do something stupid. We're willing to hold as long as necessary inventory, and we're willing to bear volatility.

Therefore, the volatility for the rest of this quarter and next quarter or so will be high. It could cost us as much as $1 billion or more. Obviously, we're going to work hard to have that not be a negative at all. But it is risky, and it will be for a couple of quarters.

Clearly, markets' and our decisions will be a critical factor here. Hopefully, this will not be an issue by the end of the year, but it does depend on the decisions and the markets – the decisions we make in the markets we have.

However unfortunate this event is, I do want to put this in perspective. One of the reasons we keep a fortunate balance sheet is to handle surprises, although this is not the kind of surprise we wanted to have. Our Basel I ratio will stay very strong and it doesn't change at all as a result of – March 31 result is, our Basel III ratio, which remembers a rough estimate anyway will be amended down to 8.2% from 8.4% effective March 30. We will however in the future continue to meet our very conservative targets for both Basel I and Basel III.

While we don't go – I also want to say, while we don't give overall earnings guidance and we are not confirming current analyst estimates, if you did adjust current analyst estimates for the loss, we still earned approximately $4 billion after-tax this quarter give or take.

Neither of these things absorbs us from blame. So speaking for the Senior Management team and myself, while we can't assure you we won't mistakes, we will – we can assure you we are going to try not to. These were grievous mistakes, they were self inflicted, we were accountable and we happened to violate our own standards and principles by how we want to operate the company. This is not how we want to run a business.

We will discuss all these matter and more and in fulsome detail on our second quarter analyst call and we are going to take some questions on this call. I do want to tell you now we are not going to take questions about specific risk positions, strategies or specific people.

Finally, however unfortunate incident is, we will do what we always do, we admit it, we will learn from it, we will fix it, we will move on, hopefully in the end, it will make us a better company. We are business to serve clients and nothing here distracts all the great things that our 203,000 employees around the world do every day for our clients and communities.

So thank you for spending a little time with us and we'll be happy to take a few minutes of questions.

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QUESTION AND ANSWER SECTION

Operator: Your first question is from Glenn Schorr with Nomura.

Glenn Schorr — Q

Hi thanks. Just curious on when this was caught, if it wasn't caught internally or caught by a regulator when you update the regulators, when you talk to the rating agencies, just curious on how all inner workings works?

Jamie Dimon — A

You should assume that we try to keep our readers update about what we know and when we know it and it's just a constant practice of the company. And when I said, it was caught, we started dig into this more and more, most of things were bearing big losses in the second quarter. And of course, when you start to see something like that you act probably – obviously we should have acted sooner.

Glenn Schorr — Q

So I am not clear when did the losses accumulate? In other words was this something that happened most recently or this was an era in the past and is just updating your risk amount now?

Jamie Dimon — A

There were small ones in the first quarter, but real ones that we talked about the $2 billion were all in the second quarter. And it kind of grew as the quarter went on. And obviously it got our attention, that and other things, which come to our attention.

Glenn Schorr — Q

Got it. Okay, thanks, Jamie.

Jamie Dimon — A

You are welcome.

Operator: Your next question is from Guy Moszkowski with Bank of America Merrill Lynch.

Jamie Dimon — A

Hey, Guy. Guy?

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Operator: Guy, your line is open. Please make sure that your line is not muted. There is no response from Guy. So we will move to the next question, that question is from Matt Burnell with Wells Fargo Securities.

Matthew Burnell — Q

Good afternoon, Jamie. Just two interrelated question, does this change your capital plan for 2012, or does this have any effect of the regulatory plan that submitted earlier this year to the regulators?

Jamie Dimon — A

No. I do want to say one other thing that a lot of us have analysis week, buy-side and sell-side and we feel terrible because we obviously knew a lot but because of FD we couldn't say anything. So on behalf of all of the JPMorgan people who did that and I personally know that it's the [indiscernible] this week we do obviously apologize for that.

Matthew Burnell — Q

Thank you.

Operator: Your next question is from Moshe Orenbuch with Credit Suisse.

Moshe Orenbuch — Q

Great, thanks. Was that – the 1 billion of securities gain you said was related to that coming out of CIO was that part of the same reduction and could you talk a little bit about the process of kind of mitigating the risk of the balance of the next couple of quarters?

Jamie Dimon — A

Yeah, we wanted to reduce our overall credit exposure and there were AFS securities in CIO gains we sold those and took gains.

Moshe Orenbuch — Q

And in terms of the process of getting the exposure down over the next several quarters, I mean can you talk a little bit about – about how that...

Jamie Dimon — A

We're going – we have the top teams involved we've reviewed a couple of – probably a couple of times a day at this point and I've always said that the principle wise how we're going to do that. Maximize economic value, volatility obviously you can lose more money and I mean I can repeat it five times but that's what we're going to do.

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Moshe Orenbuch — Q

Okay, thanks.

Jamie Dimon — A

Yeah.

Operator: Your next question is from Matt O'Connor with Deutsche Bank.

Jamie Dimon — A

Hi, Matt.

Matthew O'Connor — Q

Hi. I hope this is another stupid question but I guess when I sit back and I think about the earnings power and all the moving pieces of your company my first thought is on a net basis $1 billion I guess I still like the message maybe it's worst than what the numbers are and I'm trying to better understand you know why you felt like you need to disclose it in the Q, what's – because last quarter you had 2.5 billion of litigation and you absorbed that then some.

Jamie Dimon — A

Yeah.

Matthew O'Connor — Q

So it just seems like...

Jamie Dimon — A

No, it's a very good question and that fact is, first of all – we've already said it could get worse and it's been going on for a little bit, unfortunately. That's number one. Number two is, so soon after the end of the first quarter when we basically gave you different kind of guidance.

And number three just what to tell you what we know, we're not telling its worse, not could I completely agree what you said. It's not going to stop us to building a great company. But it's unfortunate and of course it's going to raise questions and we just want to answer those as best we can.

Matthew O'Connor — Q

Okay. Thank you.

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Operator: Your next question is from John McDonald with Sanford Bernstein.

John McDonald — Q

Yes.

Jamie Dimon — A

Hi, John.

John McDonald — Q

Yeah. Hi, Jamie. So just – while we have you, did – was there any other items in the Q that changed in terms of your outlook not having any chance to go through it yet?

Jamie Dimon — A

I don't know it they were running it on CNBC, the litigation and potential future, but I think it was like almost the same number from the past. And I think most of the guidance was approximately the same, right?

A

A little bit of guidance around the investment bank trading and...

Jamie Dimon — A

Right, okay.

A

And mortgage margin?

John McDonald — Q

Okay. No, change on your expense. You're still looking to keep you adjusted at the 49 billion this year?

Jamie Dimon — A

There was – yeah, there was no comment in there at all.

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John McDonald Q

Okay. So we should assume you're still shooting for that?

Jamie Dimon A

Well, of course. Yeah. But that can change too, but yes.

John McDonald Q

Okay. And then, any – too early to kind of just think about a broader rethinking of CIO and how it's structured or how you managed the risk that you're looking to hedge there. Is it too early on that or any comments just from a big picture there?

Jamie Dimon A

Yeah, so all – remember all banks have fairly big – all banks have portfolio and big banks have basically large portfolios. You have to invest excess cash, have invested around the world in deposits and remember the CIO has done a great job for a long extended period of time. This was a unique thing we did and obviously it had a lot of problems and we are changing appropriately as we are getting our hands around it, but we are going to have a CIO who is going to have talented people there, continue to do what they've always done.

John McDonald Q

Okay. And a last thing, the $800 million for this quarter, that's only for this quarter, you are not talking about continuing we will see on the future quarters but that's just for this quarter right.

Jamie Dimon A

It's this quarter currently. So we were telling you, there is going to be a lot of volatility here and could easily get worse this quarter or better, but could easily get worse and the next quarter we also think we have a lot of volatility next quarter. I am not going to update about number changes a lot. We are not going to make calls every time the number moves around, by $0.5 billion.

John McDonald Q

Okay. Thanks.

Jamie Dimon A

Okay. Yes.

Operator: Your next question is from Bill Rubin from BlackRock.

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Bill Rubin Q

Yes. I don't know if this was asked or ranched [ph] yet, but this doesn't change anything with the c-core [ph] capital plan or the buyback capability at all, does it?

Jamie Dimon A

I don't think so because our capital is strong, we are going to meet all our commitments, we can handle highly stressed environment, so no, we don't think so.

Bill Rubin Q

So you can be in the market tomorrow after this?

Jamie Dimon A

I believe so.

Bill Rubin Q

Okay. Thanks.

Jamie Dimon A

My general counsel is sitting right here, so he would have kicked me if I was wrong.

Bill Rubin Q

Thank you.

Operator: Your next question is from Guy Moszkowski with Bank of America Merrill Lynch.

Guy Moszkowski Q

Hi hopefully this will work better.

Jamie Dimon A

Hey Guy, did you hear my little apology?

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Guy Moszkowski

Q

No, I didn't. But I didn't hear anything for a few minutes. So – but, thank you.

Jamie Dimon

A

I apologize. When you were here, I knew you were here and I didn't have – obviously I couldn't tell you about this and, of course, I feel terrible about that.

Guy Moszkowski

Q

Well, that's okay. Thank you. Listen, I'd really like to understand what type – why you felt that you needed to add this kind of synthetic credit exposure? Were you...

Jamie Dimon

A

Okay.

Guy Moszkowski

Q

Were you not esteemed that you had enough exposure through core lending businesses, and what was going on?

Jamie Dimon

A

Exactly. The original premise of the synthetic credit exposure was to hedge the company in a stress credit environment. Our largest exposure is credit across all forms of credit. So we do look at the fat tails that would affect this company. That was the original proposition for this portfolio.

In re-hedging the portfolio, I've already said, it was a bad strategy. It was badly executed. It became more complex. It was poorly monitored. We don't – obviously, we don't have to do anything like this at all, if we don't want. And I understand you can ask that question. So I don't want to give you specifics because we've already said we're not going to talk about the actual positions or anything like that.

Guy Moszkowski

Q

And, Jamie, the $1 billion that you referred to in your prepared remarks about – of incremental loss potential, is that the max that you envision above and beyond this sort of net $800 million...

Jamie Dimon

A

No.

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Guy Moszkowski

Q

... after-tax number?

Jamie Dimon

A

No. That is – I said the volatility could easily be that. Obviously, it could be worse than that. We're going to manage this for economics. Hopefully, by the end of the year, it's the hope that this won't be a significant item for us. We want to maximize the economic value of these positions and not panic to do anything stupid. Therefore, we're willing to bear volatility.

Guy Moszkowski

Q

And the final question is how liquid do you view these exposures as being? In other words, granted you don't want to, you know, make economically silly decisions and just cut it off right here, but how easy would it be for you to exit completely and just call it a day and be done with it?

Jamie Dimon

A

I think, I have already said, I am not going to talk about specific risk positions at all.

Guy Moszkowski

Q

Okay, I am not asking specific positions just liquidity.

Jamie Dimon

A

Yet, you are getting specific. We will do what we have to do to maximize the shareholder value. We've got to stay in power and we are going to use it.

Guy Moszkowski

Q

Okay, fair enough. And thanks very much and thanks for putting me back in the queue. Appreciate it.

Operator: Your next question is from Brennan Hawken with UBS.

Brennan Hawken

Q

Hi. Just kind of curious to the extend that you can comment, if you – if the regulators are aware of this and whether there has been any regulatory response, if there is heaven forbid any kind of vocal related implications on this matter?

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Jamie Dimon

A

I think you should assume, I can answer this 100 times, you should assume that we keep our regulators up to date. That is a policy of the company. Sometimes you don't give them great information, we don't have great information. You can assume they are up to date. They will take their own point of view on this.

Brennan Hawken

Q

Okay. I just didn't know whether they made...

Jamie Dimon

A

We always said, this violates our principles whether or not it violates Volcker principles and you know we want to run and build a great company. We do believe we need to have the ability to hedge in a CIO type position and that Volcker allows that. This trading may not violate the Volcker rule but it violates the diamond principle.

Brennan Hawken

Q

Okay. And you had mentioned that this was a new strategy that you had decided to exit, is it possible for you to let know how new that strategy was?

Jamie Dimon

A

Not new, it was the – I said new but what I meant is it was the strategy to reduce the credit hedge. So it's kind of a new strategy was devised. And as I already said it was poorly constructed and poorly monitorial that and that's the place over the course of less couple of months.

Brennan Hawken

Q

And the implication I guess might have been that there was all this fresh speculation about certain trading individuals out of London where some staff fairly new that came into execute this new or this some of this new angle and are those folks no longer in that that's been retriggered I think you said, right?

Jamie Dimon

A

No, no nothing new folks a little bit to do with the Oracle the press so it was somewhat related to that it's obviously more than that but somewhere related to that. And I also think we acted a little too defensively to that.

Brennan Hawken

Q

Okay, thanks for the color.

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Jamie Dimon A

Yeah.

Operator: Your next question is from Mike Mayo with Credit Agricole Securities.

Mike Mayo Q

Hi.

Jamie Dimon A

Hi.

Mike Mayo Q

How much of the $2 billion trading loss is due to terrible execution which you mentioned versus the environment you seem to be implying none of this is due to the environment?

Jamie Dimon A

No, no I'm sorry. I think in hindsight their strategy that execution obviously the environment because these are mark to market positions. So obviously that. I just don't want to make excuses and start talking about market and dislocational stuff like that because that's truly just an excuse.

Mike Mayo Q

And so would this be a JPMorgan specific issue or is there a chance to others also have some losses on similar positions?

Jamie Dimon A

I don't know just because we are stupid doesn't mean everybody else was. I have no idea what the people are doing.

Mike Mayo Q

And just in real simple terms in six weeks you lost $2 billion so – and as simple as you can simple it what went wrong?

Jamie Dimon A

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You already mentioned, there're huge moves in the market place, is a – we made this position more complex. The strategy was barely executed, barely monitored. And like I repeated 800 times, I'm not going to get into too more specifics than that.

Mike Mayo Q

And you mentioned...

Jamie Dimon A

But Mike, we will be – I already said, at the end of the quarter we will be talking more about this to satisfy your needs and ours.

Mike Mayo Q

And you – can you say what recon [ph] this was done and you're not going to disclose any of that?

Jamie Dimon A

Global.

Mike Mayo Q

Global. And what caused you to change the VaR model in the first place? I mean you had something that was working and you changed it.

Jamie Dimon A

There are constant changes and updates to models, always trying to get them better than they were before. That is an ongoing procedure.

Mike Mayo Q

And this is kind of sensitive, but you've – probably just helping the company of having – being great risk managers and this is mistake and you'll – as you say, you'll learn from that. But is there any sense that the mistake made in the CIO office could also be in place where at JPMorgan?

Jamie Dimon A

Mike, we operate in a risk business and obviously it puts egg on our face and we deserve any criticism we get, so feel free to give it to us. We'll probably agree with you. But we think we run a pretty good company, with pretty good risk controls and pretty risk management. We are not in a business where we're not going to make mistakes; we are going to make mistakes.

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We've always said that, hopefully this small, hopefully few and far between. I'm sorry, could never promise you no mistakes. This one, we will put in egregious category and I understand full why you or anybody else will question us generally.

Mike Mayo Q

And lastly, just one last follow-up. You said you had some smaller losses in the first quarter whether – even in retrospect were there any sings that perhaps you should have paid more attention to looking back?

Jamie Dimon A

Yes. In retrospect, yes.

Mike Mayo Q

What would those be?

Jamie Dimon A

Trading losses.

Mike Mayo Q

Okay. So actually...

Jamie Dimon A

There is some stuff in the newspaper and bunch of other stuff.

Mike Mayo Q

Got it.

Jamie Dimon A

Hindsight is – even in hindsight, it's not 20/20. But with hindsight, yes, obviously, we should have been paying more attention to it.

Mike Mayo Q

All right. Thank you.

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Jamie Dimon

A

Yeah. You're welcome.

Operator: Your next question is from Chris Kotowski with Oppenheimer.

Chris Kotowski

Q

Yeah. Hi. You said that you still have an $8 billion gain in the AFS securities portfolio. So should we assume that that's the combination of some gains and sort of the plain vanilla investment portfolio securities that you normally have and then a negative position here?

Jamie Dimon

A

No. The $8 billion – the synthetic credit is mark-to-market. There are no unrealized gains or losses. The AF portfolio is held at cost. The $8 billion is an unrealized gain in the AFS portfolio. And if you go to our 10-Q, you could see exactly where those gains reside as of December 31st.

Chris Kotowski

Q

Okay.

Jamie Dimon

A

Okay. They're in positions all over from mortgages, etcetera.

Chris Kotowski

Q

All right.

Jamie Dimon

A

And we can take some of those gains...

Chris Kotowski

Q

Okay.

Jamie Dimon

A

We can take some of those gains, and we can take them to offset this loss. We can take them because we want to reduce other exposures. But usually, it's tax inefficient. So we're very careful about taking gains.

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Chris Kotowski Q

Right. And so when you said this quarter there was $1 billion of gains and a $2 billion trading loss, the $1 billion of gains, that was in other portfolios. It had nothing to do with these.

Jamie Dimon A

No. The $1 billion of gains is in the AFS portfolio. On March 31st, it had an $8 billion unrealized gain. We realized $1 billion of it, bringing it down to $7 billion, but it's higher today than it was then. So it should be something 7-plus right now.

Chris Kotowski Q

Okay. And I have a feeling, I know the answer, but obviously in a skittish world where people are always worked about exposures to pigs and all these kinds of things and there is always a feeling that one can rarely get the real exposures, is there any way you can draw a box around how big the bread box is and...

Jamie Dimon A

I've already done that for you, to the extent I am going to do it.

Chris Kotowski Q

Okay. Thank you.

Jamie Dimon A

You're welcome.

Operator: Your next question is from Keith Horowitz with Citigroup.

Keith Horowitz Q

Hey Jamie. Thanks for coming clean on this and I think it's important that you did, I guess the question I really had is you are open about the strategy that was poorly monitored, but the real question I guess I had is do you feel that the hedge put on, the position put on, was the intention really to hedge or do you feel like the person you put it on, his intention for profits [ph] or to make sure...

Jamie Dimon A

It's been on for a long time, it actually made money. I won't talk about what it did, it actually did quite well. It was there to deliver a positive result in a quite stressed environment and we feel we can do that and make some net

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income. And that was – and in the process of changes new environments, new markets and all that, I've already described the outcome.

Keith Horowitz Q

So we had a stressed environment in terms of credit and so this is where your strategy [ph] didn't work but you feel that as you go back and put money more in quarter back and you look at how the position got so big, do you feel that it was done with the intention of trying to hedge the tail risk for JPMorgan?

Jamie Dimon A

I know it was done with the intention to hedge the tail risk for JPMorgan, but I am telling you, it morphed over time and the new strategy which was meant to reduce the hedge overall made it more complex, more risky and it was unbelievably ineffective. And poorly monitored and poorly constructed and poorly reviewed and all that.

Keith Horowitz Q

Okay. The other thing on that is you had guidance of 200 million per quarter for corporate and its mostly for 2012 but as you kind of think longer term for that business line is that a business line you still think will continue to make money or is this kind of meant to be more just hedge...

Jamie Dimon A

It's not a business line for the most part it is net corporate expenses which move around we always give you what we think that number is going to be so you can put in your models. And it's the net income that is not allocated from CIO's portfolio to the businesses. The net income from CIO's portfolio is allocated on the consistent basis and this is the net residual space here. There are also other things in corporate that run through this. You know there is just a lot of things that run through corporate. So as you know the 200 million was its kind of a guidance that bounce around overtime.

Keith Horowitz Q

And then the last question is I guess when you thought about the business when you took over and you thought about this corporate line business is going to shape up investment office do you feel like the mandate has changed over the last five years or do you feel that the mandate is still the same as it was five years ago?

Jamie Dimon A

You know a little change I mean first of all when we got here remember the portfolio went from $150 billion to 300 there were a lot of cash coming in which we had to invest. And we did – I think we improved – I read somewhere that we made it more aggressive I wouldn't call more aggressive I would call better which we added different types of people, talented people and stuff like that. That is what we were supposed to do. We will manage that fixed income portfolio to maximize the returns to the shareholders and we've been very, very careful. So look at all the things we've done we've been very careful. So if you look at all of the things we've done, we've been very careful and, I think, quite successful. And this is obviously not in that category.

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Keith Horowitz

Q

Okay. Thank you.

Jamie Dimon

A

All right. I should point out to all the folks on the phone, you could see – you can go to the 10-Q and see what people have those portfolios. And some banks do some things and some do others, but to invest it in actual [ph] deposits, you buy securities. That's been going on for 100 years in banking.

Operator: [Operator Instructions] Your next question is from Nancy Bush with NAB Research.

Jamie Dimon

A

Hey, Nancy.

Nancy Bush

Q

Good afternoon. Obviously, Jamie, the timing of this could not be much worse. And I kind of go back to the Volcker issue. If Dick Durbin stands on the floor of the Senate tomorrow and says this is why we need the Volcker Rule, what's your replay?

Jamie Dimon

A

It is very unfortunate. But the fact of it is this does not change analyses, facts, detailed argument. It is very unfortunate. It plays right into all the hands of a bunch of pundits out there, but that's like not to do with that.

Nancy Bush

Q

Okay. Thank you.

Operator: There are no further questions at this time.

Jamie Dimon

Folks, thank you very much. We're sorry to have to call you on a short notice for something like this, but we appreciate you taking the time. Thank you.

Operator: Thank you for participating in today's teleconference. At this time, you may now disconnect.

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