JPMORGAN CHASE & CO
Form 10-Q
May 10, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 March 31, 2012	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.
T 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).
T Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer T Accelerated filer o
Non-accelerated filer (Do not check if a smaller reporting company) o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes T No

Number of shares of common stock outstanding as of April 30, 2012: 3,806,666,475

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JPMorgan Chase & Co.
Consolidated financial highlights
(unaudited)
(in millions, except per share, headcount and ratio data)

As of or for the period ended,	1Q12	4Q11	3Q11	2Q11	1Q11
Selected income statement data					
Total net revenue	$26,712	$21,471	$23,763	$26,779	$25,221
Total noninterest expense	18,345	14,540	15,534	16,842	15,995
Pre-provision profit[a]	8,367	6,931	8,229	9,937	9,226
Provision for credit losses	726	2,184	2,411	1,810	1,169
Income before income tax expense	7,641	4,747	5,818	8,127	8,057
Income tax expense	2,258	1,019	1,556	2,696	2,502
Net income	$5,383	$3,728	$4,262	$5,431	$5,555
Per common share data					
Net income per share: Basic	$1.31	$0.90	$1.02	$1.28	$1.29
Diluted	1.31	0.90	1.02	1.27	1.28
Cash dividends declared per share[b]	0.30	0.25	0.25	0.25	0.25
Book value per share	47.60	46.59	45.93	44.77	43.34
Tangible book value per share[c]	34.91	33.69	33.05	32.01	30.77
Common shares outstanding					
Average: Basic	3,818.8	3,801.9	3,859.6	3,958.4	3,981.6
Diluted	3,833.4	3,811.7	3,872.2	3,983.2	4,014.1
Common shares at period-end	3,822.0	3,772.7	3,798.9	3,910.2	3,986.6
Share price[d]					
High	$46.49	$37.54	$42.55	$47.80	$48.36
Low	34.01	27.85	28.53	39.24	42.65
Close	45.98	33.25	30.12	40.94	46.10
Market capitalization	175,737	125,442	114,422	160,083	183,783
Selected ratios					
Return on common equity ("ROE")	12 %	8 %	9 %	12 %	13 %
Return on tangible common equity ("ROTCE")[e]	16	11	13	17	18
Return on assets ("ROA")	0.96	0.65	0.76	0.99	1.07
Return on risk-weighted assets[e]	1.76	1.21	1.40	1.82	1.90
Overhead ratio	69	68	65	63	63
Deposits-to-loans ratio	157	156	157	152	145
Tier 1 capital ratio	12.6	12.3	12.1	12.4	12.3
Total capital ratio	15.6	15.4	15.3	15.7	15.6
Tier 1 leverage ratio	7.1	6.8	6.8	7.0	7.2
Tier 1 common capital ratio[f]	10.4	10.1	9.9	10.1	10.0
Selected balance sheet data (period-end)					
Trading assets	$456,000	$443,963	$461,531	$458,722	$501,148
Securities	381,742	364,793	339,349	324,741	334,800
Loans	720,967	723,720	696,853	689,736	685,996
Total assets	2,320,330	2,265,792	2,289,240	2,246,764	2,198,161
Deposits	1,128,512	1,127,806	1,092,708	1,048,685	995,829
Long-term debt	255,831	256,775	273,688	279,228	269,616
Common stockholders' equity	181,928	175,773	174,487	175,079	172,798
Total stockholders' equity	189,728	183,573	182,287	182,879	180,598

Headcount	261,453	260,157	256,663	250,095	242,929
Credit quality metrics					
Allowance for credit losses	$26,621	$28,282	$29,036	$29,146	$30,438
Allowance for loan losses to total retained loans	3.63%	3.84%	4.09%	4.16%	4.40%
Allowance for loan losses to retained loans excluding purchased credit-impaired loans[(g)]	3.11	3.35	3.74	3.83	4.10
Nonperforming assets[(h)]	$11,953	$11,315	$12,468	$13,435	$15,149
Net charge-offs	2,387	2,907	2,507	3,103	3,720
Net charge-off rate	1.35%	1.64%	1.44%	1.83%	2.22%

(a) Pre-provision profit is total net revenue less noninterest expense. The Firm believes that this financial measure is useful in assessing the ability of a lending institution to generate income in excess of its provision for credit losses.

(b) On March 13, 2012, the Board of Directors increased the Firm's quarterly stock dividend from $0.25 to $0.30 per share.

(c) Tangible book value per share and ROTCE are non-GAAP financial ratios. ROTCE measures the Firm's earnings as a percentage of tangible common equity. Tangible book value per share represents the Firm's tangible common equity divided by period-end common shares. For further discussion of these ratios, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 12–13 of this Form 10-Q.

(d) Share prices shown for JPMorgan Chase's common stock are from the New York Stock Exchange. JPMorgan Chase's common stock is also listed and traded on the London Stock Exchange and the Tokyo Stock Exchange.

(e) Return on Basel I risk-weighted assets is the annualized earnings of the Firm divided by its average risk-weighted assets.

(f) Basel I Tier 1 common capital ratio ("Tier 1 common ratio") is Tier 1 common capital ("Tier 1 common") divided by risk-weighted assets. The Firm uses Tier 1 common capital along with the other capital measures to assess and monitor its capital position. For further discussion of Tier 1 common capital ratio, see Regulatory capital on pages 42–44 of this Form 10-Q.

(g) Excludes the impact of residential real estate purchased credit-impaired ("PCI") loans. For further discussion, see Allowance for credit losses on pages 70–72 of this Form 10-Q.

(h) Prior period amounts have been revised to include both defaulted derivatives and derivatives that have been risk rated as nonperforming; in prior periods only the amount of defaulted derivatives was reported.

INTRODUCTION

This section of the Form 10-Q provides management's discussion and analysis ("MD&A") of the financial condition and results of operations of JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm"). See the Glossary of terms on pages 168–171 for definitions of terms 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. Such 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. For a discussion of such risks and uncertainties, see Forward-looking Statements on page 84 and Part II, Item 1A: Risk Factors, on page 175 of this Form 10-Q, and Part I, Item 1A, Risk Factors, on pages 7–17 of JPMorgan Chase's Annual Report on Form 10-K for the year ended December 31, 2011, filed with the U.S. Securities and Exchange Commission ("2011 Annual Report" or "2011 Form 10-K"), to which reference is hereby made.

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 has $2.3 trillion in assets and $189.7 billion in stockholders' equity as of March 31, 2012. The Firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing, asset management and private equity. 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 bank with U.S. branches in 23 states, and Chase Bank USA, National Association ("Chase Bank USA, N.A."), a national bank 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 Ltd., a subsidiary of JPMorgan Chase Bank, N.A.

JPMorgan Chase's activities are organized, for management reporting purposes, into six business segments, as well as Corporate/Private Equity. The Firm's wholesale businesses comprise the Investment Bank, Commercial Banking, Treasury & Securities Services and Asset Management segments. The Firm's consumer businesses comprise the

Retail Financial Services and Card Services & Auto segments. A description of the Firm's business segments, and the products and services they provide to their respective client bases, follows.

Investment Bank

J.P. Morgan is one of the world's leading investment banks, with deep client relationships and broad product capabilities. The clients of the Investment Bank ("IB") are corporations, financial institutions, governments and institutional investors. The Firm offers a full range of investment banking products and services in all major capital markets, including advising on corporate strategy and structure, capital-raising in equity and debt markets, sophisticated risk management, market-making in cash securities and derivative instruments, prime brokerage, and research.

Retail Financial Services

Retail Financial Services ("RFS") serves consumers and businesses through personal service at bank branches and through ATMs, online banking and telephone banking. RFS is organized into Consumer & Business Banking and Mortgage Banking (including Mortgage Production and Servicing, and Real Estate Portfolios). Consumer & Business Banking includes branch banking and business banking activities. Mortgage Production and Servicing includes mortgage origination and servicing activities. Real Estate Portfolios comprises residential mortgages and home equity loans, including the PCI portfolio acquired in the Washington Mutual transaction. Customers can use more than 5,500 bank branches (third largest nationally) and more than 17,600 ATMs (largest nationally), as well as online and mobile banking around the clock. More than 33,400 branch salespeople assist customers with checking and savings accounts, mortgages, home equity and business loans, and investments across the 23-state footprint from New York and Florida to California. As one of the largest mortgage originators in the U.S., Chase helps customers buy or refinance homes resulting in approximately $150 billion of mortgage originations annually. Chase also services more than 8 million mortgages and home equity loans.

Card Services & Auto

Card Services & Auto ("Card") is one of the nation's largest credit card issuers, with over $125 billion in credit card loans. Customers have over 64 million open credit card accounts (excluding the commercial card portfolio), and used Chase credit cards to meet over $86 billion of their spending needs in the three months ended March 31, 2012. Through its Merchant Services business, Chase Paymentech Solutions, Card is a global leader in payment processing and merchant acquiring. Consumers also can obtain loans through more than 17,200 auto dealerships and 2,000 schools and universities nationwide.

Commercial Banking

Commercial Banking ("CB") delivers extensive industry knowledge, local expertise and dedicated service to more than 24,000 clients nationally, including corporations, municipalities, financial institutions and not-for-profit entities with annual revenue generally ranging from $10 million to $2 billion, and nearly 35,000 real estate investors/owners. CB partners with the Firm's other businesses to provide comprehensive solutions to meet its clients' domestic and international financial needs, including lending, treasury services, investment banking and asset management.

Treasury & Securities Services

Treasury & Securities Services ("TSS") is a global leader in transaction, investment and information services. TSS is one of the world's largest cash management providers and a leading global custodian. Treasury Services ("TS") provides cash management, trade, wholesale card and liquidity products and services to small- and mid-sized companies, multinational corporations, financial institutions and government entities. TS partners with IB, CB, RFS and Asset Management businesses to serve clients firmwide. Certain TS revenue is included in other segments' results. Worldwide Securities Services holds, values, clears and services securities, cash and alternative investments for investors and broker-dealers, and manages depositary receipt programs globally.

Asset Management

Asset Management ("AM"), with assets under supervision of $2.0 trillion, is a global leader in investment and wealth management. AM clients include institutions, retail investors and high-net-worth individuals in every major market throughout the world. AM offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity products, including money-market instruments and bank deposits. AM also provides trust and estate, banking and brokerage services to high-net-worth clients, and retirement services for corporations and individuals. The majority of AM's client assets are in actively managed portfolios.

EXECUTIVE OVERVIEW

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

Economic environment

The global economy expanded moderately in the first quarter of 2012, but regional growth trends diverged. In the U.S., labor market conditions continued to improve as companies added jobs at the fastest pace since the spring of 2006, the total amount of hours logged by workers accelerated, weekly layoffs continued to move lower, and the unemployment rate, although elevated, declined. Household spending continued to advance and business fixed investment, although soft in recent months, remained solid. The mild winter reduced household utility bills and freed up resources for other spending, and retail sales grew steadily. At the same time, sales of motor vehicles, a benchmark of consumer confidence, grew faster than the industry expected. The housing sector remained depressed but the drag on the economy is easing and builder sentiment improved. Longer-term inflation expectations remained stable, even with recent increases in oil and gasoline prices.

Strains in global financial markets eased following measures taken by the European Central Bank ("ECB") in the fourth quarter of 2011 to support bank lending and money market activity. However, Europe's financial crisis continued to pose significant downside risks to the economic outlook as economic activity in Europe continued to contract at a moderate rate and the growth of emerging European economies slowed significantly. Growth in the Asian region slowed in some areas but that region's economies continued to expand at a solid pace.

The Board of Governors of the Federal Reserve System (the "Federal Reserve") maintained the target range for the federal funds rate at zero to one-quarter percent and began to offer guidance that economic conditions are likely to warrant exceptionally low levels for the federal funds rate, at least through late 2014.

Financial performance of JPMorgan Chase

	Three months ended March 31,					
(in millions, except per share data and ratios)	2012		2011		Change	
Selected income statement data						
Total net revenue	$26,712		$25,221		6	%
Total noninterest expense	18,345		15,995		15	
Pre-provision profit	8,367		9,226		(9	)
Provision for credit losses	726		1,169		(38	)
Net income	5,383		5,555		(3	)
Diluted earnings per share	1.31		1.28		2	
Return on common equity	12	%	13	%		
Capital ratios						
Tier 1 capital	12.6		12.3			
Tier 1 common	10.4		10.0			

Business overview

JPMorgan Chase reported first-quarter 2012 net income of $5.4 billion, or $1.31 per share, on net revenue of $26.7 billion. Net income declined by $172 million, or 3%, compared with net income of $5.6 billion, or $1.28 per share, in the first quarter of 2011. ROE for the quarter was 12%, compared with 13% for the prior-year quarter. Results in the first quarter of 2012 included the following significant items: $1.8 billion pretax benefit ($0.28 per share after-tax increase in earnings) from the reduction in the allowance for loan losses, related to mortgage and credit card loans; $1.1 billion pretax benefit ($0.17 per share after-tax increase in earnings) from the Washington Mutual bankruptcy settlement, in Corporate; $2.5 billion pretax expense ($0.39 per share after-tax reduction in earnings) for additional litigation reserves, predominantly for mortgage-related matters, in Corporate; and $0.9 billion pretax loss ($0.14 per share after-tax reduction in earnings) from debit valuation adjustments ("DVA") in the Investment Bank, resulting from tightening of the Firm's credit spreads.

The decrease in net income from the first quarter of 2011 was driven by higher noninterest expense, largely offset by higher net revenue. The increase in net revenue was driven by higher mortgage fees and related income and a $1.1 billion benefit from the Washington Mutual bankruptcy settlement, partially offset by lower principal transactions revenue, driven by a $907 million loss from DVA. The increase in noninterest expense was predominantly driven by higher compensation and noncompensation expense, including $2.5 billion of additional litigation reserves, predominantly for mortgage-related matters.

Results in the first quarter of 2012 reflected positive credit trends for the consumer real estate and credit card portfolios. Estimated losses declined for these portfolios, and the Firm reduced the related allowance for loan losses by a total of $1.8 billion in the first quarter. However, costs and losses associated with mortgage-related issues continued to negatively affect the mortgage business. Trends in the Firm's credit metrics across the wholesale portfolios were stable and continued to be strong. Firmwide, net charge-offs were $2.4 billion for the quarter, down $1.3 billion from the first quarter of 2011, and nonperforming assets were $12.0 billion, down 21%. Based upon regulatory guidance issued in the first quarter of 2012, the Firm began reporting performing junior liens that are subordinate to senior liens that are 90 days or more past due as nonaccrual loans, a component of nonperforming assets. For more information on the new regulatory guidance, see Consumer Credit Portfolio on pages 60–69 of this Form 10-Q. Total firmwide credit reserves at March 31, 2012, were $26.6 billion, resulting in a loan loss coverage ratio of 3.11% of total loans, excluding the PCI portfolio.

While several significant items affected the Firm's results, overall, the Firm's performance in the first quarter was solid. The Investment Bank, in particular, reported strong results driven by continued leadership and improved market conditions. Consumer & Business Banking within Retail Financial Services increased average deposits by 8% compared with the first quarter last year; Business Banking loan originations were up 8% as well. Mortgage Banking (also within Retail Financial Services) application volume increased 33% from the prior-year quarter, and Retail channel originations were a record, up 11% from the prior-year quarter. In the Card business, credit card sales volume (excluding Commercial Card) was up 12% compared with the first quarter of 2011. Commercial Banking reported its seventh consecutive quarter of loan growth, including record middle-market loans. Treasury & Securities Services reported record assets under custody of $17.9 trillion, and Asset Management reported record assets under supervision of $2.0 trillion. The first quarter was also the twelfth consecutive quarter of positive long-term flows into assets under management.

During the first quarter of 2012, the Firm provided credit and raised capital of over $445 billion for its commercial and consumer clients. This included more than $4 billion of credit to U.S. small businesses, up 35% compared with the prior year. The Firm originated more than 200,000 mortgages in the first quarter and remains committed to helping struggling homeowners; JPMorgan Chase has offered more than 1.3 million mortgage modifications since 2009, and has completed more than 490,000.

JPMorgan Chase continued to strengthen its balance sheet, ending the first quarter with Basel I Tier 1 common capital of $128 billion, or 10.4%, up from $123 billion, or 10.1% at year-end 2011. The Firm estimated that its Basel III Tier 1 common ratio was approximately 8.2% at March 31, 2012. (The Basel I and III Tier 1 common ratios are non-GAAP financial measures, which the Firm uses along with the other capital measures, to assess and monitor its capital position.) For further discussion of the Tier 1 common

capital ratios, see Regulatory capital on pages 42–45 of this Form 10-Q. During the first quarter of 2012, the Board of Directors of JPMorgan Chase increased the Firm's quarterly common stock dividend to $0.30 per share, an increase of $0.05 per share. The Board of Directors also authorized a new $15 billion common equity repurchase program, of which up to $12 billion of repurchases is approved for 2012 and up to $3 billion is approved for the first quarter of 2013.

The discussion that follows highlights the performance of each business segment compared with the prior year and presents results on a managed basis. Managed basis starts with the reported results under the accounting principles generally accepted in the United States of America ("U.S. GAAP") and, for each line of business and the Firm as a whole, includes certain reclassifications to present total net revenue on a fully taxable-equivalent ("FTE") basis. For more information about managed basis, as well as other non-GAAP financial measures used by management to evaluate the performance of each line of business, see pages 12–13 of this Form 10-Q.

Investment Bank net income decreased from the prior year as lower net revenue and a lower benefit from the provision for credit losses were partially offset by lower noninterest expense. Net revenue included the $907 million loss from DVA. Excluding the DVA impact, net revenue was approximately flat to the level in the prior year. Fixed Income and Equity Markets revenue decreased slightly, excluding DVA, compared with the prior year and reflected continued solid client revenue. Investment banking fees also decreased. Lower compensation expense drove the decline in noninterest expense from the prior-year level.

Retail Financial Services reported net income in the current quarter compared with a net loss in the prior year, driven by higher net revenue and a lower provision for credit losses. Growth in net revenue was driven by higher mortgage fees and related income, partially offset by lower net interest income, resulting from lower loan balances due to portfolio runoff, and lower debit card revenue. The provision for credit losses was a benefit in the first quarter of 2012, compared with an expense in the prior year, and reflected lower net charge-offs and a $1.0 billion reduction of the allowance for loan losses, due to lower estimated losses as mortgage delinquency trends improved.

Card Services & Auto net income decreased compared with the prior year reflecting a higher provision for credit losses. The current-quarter provision reflected lower net charge-offs and a reduction of $750 million to the allowance for loan losses due to lower estimated losses. The prior-year provision included a reduction of $2.0 billion to the allowance for loan losses.

The decline in net revenue was driven by lower net interest income, reflecting lower average loan balances and narrower loan spreads, partially offset by lower revenue reversals associated with lower charge-offs. Credit card sales volume, excluding the Commercial Card portfolio, was up 12% from the first quarter of 2011. The increase in noninterest expense was primarily due to an expense related to a non-core product that is being exited.

Commercial Banking net income increased, driven by an increase in net revenue, partially offset by higher noninterest expense and an increase in the provision for credit losses. The increase in revenue reflected higher net interest income driven by growth in liability and loan balances, largely offset by spread compression on liability and loan products. The increase in noninterest expense primarily reflected higher headcount-related expense.

Treasury & Securities Services net income increased as higher net revenue was largely offset by higher noninterest expense. Treasury Services drove the increase in net revenue, with higher deposit balances and higher trade finance loan volumes contributing to revenue growth in the business. Worldwide Securities Services net revenue increased modestly compared with the prior year. Assets under custody were a record $17.9 trillion, up 8% from the prior year. Higher noninterest expense was primarily driven by continued expansion into new markets.

Asset Management net income decreased, reflecting higher noninterest expense and lower net revenue. The modest decline in net revenue was primarily due to lower credit-related fees, lower performance fees, lower brokerage commissions and narrower deposit spreads. The decline was predominantly offset by higher deposit and loan balances, net inflows to products with higher margins, and higher valuations of seed capital investments. Assets under supervision at the end of the first quarter of 2012 were a record $2.0 trillion, an increase of $105 billion from the prior year. Assets under management of $1.4 trillion were also a record. Both increases were due to net inflows to long-term products and the impact of higher market levels. In addition, deposit and custody inflows contributed to the increase in assets under supervision. The increase in noninterest expense was due to higher headcount-related expense.

Corporate/Private Equity reported a net loss in the first quarter of 2012 compared with net income in the first quarter of 2011. Net income and revenue in Private Equity declined, driven by lower private equity gains due to the absence of prior-year valuation gains on private investments. Corporate reported a net loss, driven by higher litigation reserves, predominantly for mortgage-related matters, partially offset by a $1.1 billion benefit from the Washington Mutual bankruptcy settlement.

2012 Business outlook

The following 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 84 and Risk Factors on page 175 of this Form 10-Q.

JPMorgan Chase's outlook for the remainder of 2012 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 linked factors will affect the performance of the Firm and its lines of business.

In the Consumer & Business Banking business within RFS, the Firm estimates that, given the current low interest rate environment, spread compression will likely negatively affect 2012 net income by approximately $400 million for the full year. In addition, the effect of the Durbin Amendment will likely reduce annualized net income by approximately $600 million.

In the Mortgage Production and Servicing business within RFS, revenue in 2012 could be negatively affected by continued elevated levels of repurchases of mortgages previously sold, predominantly to U.S. government-sponsored entities ("GSEs"). Management estimates that realized mortgage repurchase losses could be approximately $350 million

per quarter in 2012. Also for Mortgage Production and Servicing, management expects the business to continue to incur elevated default and foreclosure-related costs including additional costs associated with the Firm's mortgage servicing processes, particularly its loan modification and foreclosure procedures. (See Mortgage servicing-related matters on pages 67–69 and Note 16 on pages 144–146 of this Form 10-Q.) In addition, management believes that the high margins experienced in the first quarter of 2012 will not be sustainable over time.
For Real Estate Portfolios within RFS, management believes that quarterly net charge-offs could be less than $900 million. Given management's current estimate of portfolio runoff levels, the existing residential real estate portfolio is expected to decline by approximately 10% to 15% in 2012 from year-end 2011 levels. This reduction in the residential real estate portfolio is expected to reduce net interest income by approximately $500 million in 2012. However, over time, the reduction in net interest income is expected to be more than offset by an improvement in credit costs and lower expenses. In addition, as the portfolio continues to run off, management anticipates that approximately $1 billion of capital may become available for redeployment each year, subject to the capital requirements associated with the remaining portfolio.

In Card, the net charge-off rate for the credit card portfolio could decrease in the second quarter of 2012 to approximately 4.25%.

The currently anticipated results of RFS and Card described above could be adversely affected by further declines in U.S. housing prices or increases in the unemployment rate. Given ongoing weak economic conditions, combined with a high level of uncertainty concerning the residential real estate markets, management continues to closely monitor the portfolios in these businesses.

In IB, TSS, CB and AM, revenue will be affected by market levels, volumes and volatility, which will influence client flows and assets under management, supervision and custody. For the IB, the second quarter of 2012 has started weaker than the seasonally strong first quarter. CB and TSS will continue to experience low net interest margins as long as market interest rates remain low. In addition, the wholesale credit environment will influence levels of charge-offs, repayments and the provision for credit losses for IB, CB, TSS and AM.

In Private Equity, within the Corporate/Private Equity segment, earnings will likely continue to be volatile and be influenced by capital markets activity, market levels, the performance of the broader economy and investment-specific issues.

In Corporate, within the Corporate/Private Equity segment, net income (excluding Private Equity results and litigation expense) for the second quarter is currently estimated to be a loss of approximately $800 million. (Prior guidance for Corporate quarterly net income (excluding Private Equity results, litigation expense and nonrecurring significant items) was approximately $200 million.) Actual second quarter results could be substantially different from the current estimate and will depend on market levels and portfolio actions related to investments held by the Chief Investment Office (CIO), as well as other activities in Corporate during the remainder of the quarter.

Since March 31, 2012, CIO has had significant mark-to-market losses in its synthetic credit portfolio, and this portfolio has proven to be riskier, more volatile and less effective as an economic hedge than the Firm previously believed. The losses in CIO's synthetic credit portfolio have been partially offset by realized gains from sales, predominantly of credit-related positions, in CIO's AFS securities portfolio. As of March 31, 2012, the value of CIO's total AFS securities portfolio exceeded its cost by approximately $8 billion. Since then, this portfolio (inclusive of the realized gains in the second quarter to date) has appreciated in value.

The Firm is currently repositioning CIO's synthetic credit portfolio, which it is doing in conjunction with its assessment of the Firm's overall credit exposure. As this repositioning is being effected in a manner designed to maximize economic value, CIO may hold certain of its current synthetic credit positions for the longer term.

Accordingly, net income in Corporate likely will be more volatile in future periods than it has been in the past.

The Firm faces a variety of exposures resulting from repurchase demands and litigation arising out of its various roles as issuer and/or underwriter of mortgage-backed securities (“MBS”) offerings in private-label securitizations. It is possible that these matters will take a number of years to resolve and their ultimate resolution is currently uncertain. Reserves for such matters may need to be increased in the future; however, with the additional litigation reserves taken in the first quarter of 2012, absent any materially adverse developments that could change management’s current views, JPMorgan Chase does not currently anticipate further material additions to its litigation reserves for mortgage-backed securities-related matters over the remainder of the year.

Regulatory developments

JPMorgan Chase is subject to regulation under state and federal laws in the U.S., as well as the applicable laws of each of the various other jurisdictions outside the U.S. in which the Firm does business. The Firm is currently experiencing a period of unprecedented change in regulation and supervision, and such changes could have a significant impact on how the Firm conducts business. The Firm continues to work diligently in assessing and understanding the implications of the regulatory changes it is facing, and is devoting substantial resources to implementing all the new rules and regulations while meeting the needs and expectations of its clients. The Firm expects heightened scrutiny by its regulators of its compliance with new and existing regulations, and expects that regulators will more frequently bring formal enforcement actions for violations of law rather than resolving those violations through informal supervisory processes. While the Firm has made a preliminary assessment of the likely impact of these anticipated changes, the Firm cannot, given the current status of the regulatory and supervisory developments, quantify the possible effects on its business and operations of all of the significant changes that are currently underway. For further discussion of regulatory developments, see Supervision and regulation on pages 1–7 and Risk factors on pages 7–17 of JPMorgan Chase's 2011 Form 10-K.

CONSOLIDATED RESULTS OF OPERATIONS

The following section provides a comparative discussion of JPMorgan Chase's Consolidated Results of Operations on a reported basis for the three months ended March 31, 2012 and 2011. 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 80–82 of this Form 10-Q and pages 168–172 of JPMorgan Chase's 2011 Annual Report.

Revenue

	Three months ended March 31,		
(in millions)	2012	2011	Change
Investment banking fees	$1,381	$1,793	(23)%
Principal transactions	3,382	4,745	(29)
Lending- and deposit-related fees	1,517	1,546	(2)
Asset management, administration and commissions	3,392	3,606	(6)
Securities gains	536	102	425
Mortgage fees and related income	2,010	(487)	NM
Credit card income	1,316	1,437	(8)
Other income	1,512	574	163
Noninterest revenue	15,046	13,316	13
Net interest income	11,666	11,905	(2)
Total net revenue	$26,712	$25,221	6%

Total net revenue for the first quarter of 2012 was $26.7 billion, an increase of $1.5 billion, or 6%, from the prior-year quarter. Results were driven by higher mortgage fees and related income in RFS and a $1.1 billion benefit from the Washington Mutual bankruptcy settlement. The increase was partially offset by lower principal transactions revenue in Corporate/Private Equity and IB.

Investment banking fees for the first quarter of 2012 decreased compared with the prior year, in particular, for debt underwriting and equity underwriting, as well as advisory fees, due primarily to lower industry-wide volumes. For additional information on investment banking fees, which are primarily recorded in IB, see IB segment results on pages 15–17, and Note 6 on page 110 of this Form 10-Q.

Principal transactions revenue, which consists of revenue from the Firm's market-making and private equity investing activities, decreased compared with the first quarter of 2011, driven by lower market-making revenue and lower private equity gains. Principal transactions revenue included a $907 million loss from DVA on certain structured notes and derivative liabilities resulting from the tightening of the Firm's credit spreads. Excluding DVA, principal transactions revenue was down slightly, with continued solid client revenue, and particularly strong results in rates-related and equity products. Lower private equity gains were primarily due to the absence of prior-year valuation gains on private investments. For additional information on

principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 15–17 and 33–34, respectively, and Note 6 on page 110 of this Form 10-Q.

Lending- and deposit-related fees remained relatively unchanged compared with the prior year. For additional information on lending- and deposit-related fees, which are mostly recorded in RFS, CB, TSS and IB, see RFS on pages 18–24, CB on pages 27–28, TSS on pages 29–30 and IB on pages 15–17 of this Form 10-Q.

Asset management, administration and commissions revenue decreased compared with the first quarter of 2011, reflecting lower brokerage commissions in IB and AM; lower asset management fees in AM, driven by lower performance fees, partially offset by net inflows to products with higher margins. For additional information on these fees and commissions, see the segment discussions for
AM on pages 31–32, and Note 6 on page 110 of this Form 10-Q.

Securities gains increased compared with the level in the first quarter of 2011, primarily due to the repositioning of the investment securities portfolio in response to changes in the current market environment and to rebalancing exposures. For additional information on securities gains, which are mostly recorded in the Firm's Corporate/Private Equity segment, see the Corporate/Private Equity segment discussion on pages 33–34, and Note 11 on pages 113–117 of this

Form 10-Q.
Mortgage fees and related income increased compared with the first quarter of 2011. Higher production revenue (excluding repurchase losses), contributed to the increase in mortgage fees and related income, reflecting wider margins, driven by market conditions and product mix, and higher volumes, due to a favorable refinancing environment. In addition, the prior year included a $1.1 billion decrease in the fair value of the mortgage servicing rights (“MSR”) asset for the estimated impact of increased servicing costs. For additional information on mortgage fees and related income, which is recorded primarily in RFS, see RFS’s Mortgage Production and Servicing discussion on pages 20–22, and Note 16 on pages 144–146 of this Form 10-Q. For additional information on repurchase losses, see the Mortgage repurchase liability discussion on pages 38–41 and Note 21 on pages 150–154 of this Form 10-Q.
Credit card income decreased in the first quarter of 2012, due to lower debit card revenue, reflecting the impact of the Durbin Amendment, and to a lesser extent, lower revenue from fee-based products. The decline was partially offset by lower partner revenue-sharing due to the impact of the Kohl’s portfolio sale on April 1, 2011, as well as higher net interchange income associated with higher customer transaction volume on credit cards. For additional information on credit card income, see the Card and RFS segment results on pages 25–26, and pages 18–24, respectively, of this Form 10-Q.

Other income increased in the first quarter of 2012, driven by a $1.1 billion benefit from the Washington Mutual bankruptcy settlement. For additional information on the bankruptcy settlement, see Note 2 on pages 90–91 and Note 23 on pages 154–163, respectively, of this Form 10-Q.

Net interest income decreased in the first quarter of 2012 compared with the prior year, primarily driven by lower loan yields due to changes in portfolio mix and market rates, and higher long-term debt cost. The decrease was partially offset by higher average loan balances, in particular, in the wholesale businesses, lower interest-bearing deposit cost and higher levels of investment securities. The Firm's average interest-earning assets were $1.8 trillion for the first quarter of 2012, and the net yield on those assets, on a FTE basis, was 2.61%, a decrease of 28 basis points from the first quarter of 2011.

Provision for credit losses

	Three months ended March 31,		
(in millions)	2012	2011	Change
Wholesale	$89	$(386)	NM %
Consumer, excluding credit card	1	1,329	(100)
Credit card	636	226	181
Total consumer	637	1,555	(59)
Total provision for credit losses	$726	$1,169	(38)%

The provision for credit losses declined by $443 million compared with the first quarter of 2011. The consumer, excluding credit card, provision for credit losses decreased, reflecting a $1.0 billion reduction in the allowance for loan losses, due to lower estimated losses in the non-PCI residential real estate portfolio as delinquency trends improved. The wholesale provision for credit losses was $89 million, compared with a benefit of $386 million in the first quarter of 2011; the prior year reflected a reduction in the allowance for loan losses due to an improvement in the credit environment. The current-quarter credit card provision reflected lower net charge-offs and a reduction of $750 million to the allowance for loan losses due to lower estimated losses; the prior-year provision included a reduction of $2.0 billion to the allowance for loan losses.

For a more detailed discussion of the loan portfolio and the allowance for credit losses, see the segment discussions for RFS on pages 18–24, Card on pages 25–26, IB on pages 15–17 and CB on pages 27–28, and the Allowance for credit losses section on pages 70–72 of this Form 10-Q.

Noninterest expense

	Three months ended March 31,		
(in millions)	2012	2011	Change
Compensation expense	$8,613	$8,263	4 %
Noncompensation expense:			
Occupancy	961	978	(2)
Technology, communications and equipment	1,271	1,200	6
Professional and outside services	1,795	1,735	3
Marketing	680	659	3
Other[(a)]	4,832	2,943	64
Amortization of intangibles	193	217	(11)
Total noncompensation expense	9,732	7,732	26
Total noninterest expense	$18,345	$15,995	15 %

(a) Included litigation expense of $2.7 billion and $1.1 billion for the three months ended March 31, 2012 and 2011, respectively.

Total noninterest expense for the first quarter of 2012 was $18.3 billion, up by $2.4 billion, or 15%, from the comparable quarter in 2011. The increase was driven predominantly by additional litigation expense.

Compensation expense increased from the prior year, due to investments in sales force and new branch builds in RFS, and increased headcount in AM, partially offset by lower compensation expense in IB.

The increase in noncompensation expense in the first quarter of 2012 primarily reflected $2.5 billion of additional litigation reserves, predominantly for mortgage-related matters, in Corporate, partially offset by lower expense for foreclosure-related matters in RFS. Other contributors to the increase included the impact of continued investments in the businesses and higher servicing expense (excluding foreclosure-related matters) in RFS.

Income tax expense

(in millions, except rate)	Three months ended March 31, 2012	2011
Income before income tax expense	$7,641	$8,057
Income tax expense	2,258	2,502
Effective tax rate	29.6 %	31.1 %

The decrease in the effective tax rate compared with the prior year was primarily the result of lower reported pretax income in combination with changes in the mix of income and expenses subject to U.S. federal, state and local taxes, and to increases in tax-exempt income and business tax credits. These factors were partially offset by the tax effect of the Washington Mutual bankruptcy settlement, which is discussed in Note 2 on pages 90–91 and in Note 23 on pages 154–163 of this Form 10-Q. The current and prior year periods include deferred tax benefits associated with state and local income taxes and tax benefits associated with the resolution of tax audits.

EXPLANATION AND RECONCILIATION OF THE FIRM’S USE OF NON-GAAP FINANCIAL MEASURES

The Firm prepares its consolidated financial statements using U.S. GAAP; these financial statements appear on pages 85–89 of this Form 10-Q. That presentation, which is referred to as “reported” basis, provides the reader with an understanding of the Firm’s results that can be tracked consistently from year to year and enables a comparison of the Firm’s performance with other companies’ U.S. GAAP financial statements.

In addition to analyzing the Firm’s results on a reported basis, management reviews the Firm’s results and the results of the lines of business on a “managed” basis, which is a non-GAAP financial measure. The Firm’s definition of managed basis starts with the reported U.S. GAAP results and includes certain reclassifications to present total net revenue for the Firm (and each of the business segments) on a FTE basis. Accordingly, revenue from investments that receive tax credits and tax-exempt securities is presented in the managed results on a basis comparable to taxable

investments and securities. This non-GAAP financial measure allows management to assess the comparability of revenue arising from both taxable and tax-exempt sources. The corresponding income tax impact related to tax-exempt items is recorded within income tax expense. These adjustments have no impact on net income as reported by the Firm as a whole or by the lines of business.

Management also uses certain non-GAAP financial measures at the business-segment level, because it believes these other non-GAAP financial measures provide information to investors about the underlying operational performance and trends of the particular business segment and, therefore, facilitate a comparison of the business segment with the performance of its competitors. Non-GAAP financial measures used by the Firm may not be comparable to similarly named non-GAAP financial measures used by other companies.

The following summary table provides a reconciliation from the Firm’s reported U.S. GAAP results to managed basis.

	Three months ended March 31,					
	2012			2011		
(in millions, except ratios)	Reported results	Fully taxable-equivalent adjustments[a]	Managed basis	Reported results	Fully taxable-equivalent adjustments[a]	Managed basis
Other income	$1,512	$ 534	$2,046	$574	$ 451	$1,025
Total noninterest revenue	15,046	534	15,580	13,316	451	13,767
Net interest income	11,666	171	11,837	11,905	119	12,024
Total net revenue	26,712	705	27,417	25,221	570	25,791
Pre-provision profit	8,367	705	9,072	9,226	570	9,796
Income before income tax expense	7,641	705	8,346	8,057	570	8,627
Income tax expense	$2,258	$ 705	$2,963	$2,502	$ 570	$3,072
Overhead ratio	69 %	NM	67 %	63 %	NM	62 %

(a) Predominantly recognized in IB and CB business segments and Corporate/Private Equity.

Tangible common equity (“TCE”), ROTCE, tangible book value per share (“TBVS”), and Tier 1 common under Basel I and III rules are each non-GAAP financial measures. TCE represents the Firm’s common stockholders’ equity (i.e., total stockholders’ equity less preferred stock) less goodwill and identifiable intangible assets (other than MSRs), net of related deferred tax liabilities. ROTCE measures the Firm’s earnings as a percentage of TCE. TBVS represents the Firm's tangible common equity divided by period-end common shares. Tier 1 common under Basel I and III rules are used by management, along with other capital measures, to

assess and monitor the Firm’s capital position. TCE, ROTCE, and TBVS are meaningful to the Firm, as well as analysts and investors, in assessing the Firm’s use of equity. For additional information on Tier 1 common under Basel I and III, see Regulatory capital on pages 42–45 of this Form 10-Q. In addition, all of the aforementioned measures are useful to the Firm, as well as analysts and investors, in facilitating comparisons with competitors.

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Average tangible common equity

	Three months ended March 31,	
(in millions)	2012	2011
Common stockholders' equity	$177,711	$169,415
Less: Goodwill	48,218	48,846
Less: Certain identifiable intangible assets	3,137	3,928
Add: Deferred tax liabilities[a]	2,724	2,595
Tangible common equity	$129,080	$119,236

(a) Represents deferred tax liabilities related to tax-deductible goodwill and to identifiable intangibles created in nontaxable transactions, which are netted against goodwill and other intangibles when calculating TCE.

Core net interest income

In addition to reviewing JPMorgan Chase's net interest income on a managed basis, management also reviews core net interest income to assess the performance of its core lending, investing (including asset/liability management) and deposit-raising activities, excluding the impact of IB's market-based activities. The table below presents an analysis of core net interest income, core average interest-earning assets, and the core net interest yield on core average interest-earning assets, on a managed basis. Each of these amounts is a non-GAAP financial measure due to the exclusion of IB's market-based net interest income and the related assets. Management believes the exclusion of IB's market-based activities provides investors and analysts a more meaningful measure to analyze non-market related business trends of the Firm and can be used as a comparable measure to other financial institutions primarily focused on core lending, investing and deposit-raising activities.

Core net interest income data[a]

	Three months ended March 31,		
(in millions, except rates)	2012	2011	Change
Net interest income – managed basis	$11,837	$12,024	(2)%
Impact of market-based net interest income	1,569	1,834	(14)
Core net interest income	$10,268	$10,190	1
Average interest-earning assets – managed basis	$1,821,513	$1,686,693	8
Impact of market-based earning assets	490,750	520,924	(6)
Core average interest-earning assets	$1,330,763	$1,165,769	14 %
Net interest yield on interest-earning assets – managed basis	2.61 %	2.89 %	
Net interest yield on market-based activity	1.29	1.43	
Core net interest yield on core average interest-earning assets	3.10 %	3.54 %	

(a) Includes core lending, investing and deposit-raising activities on a managed basis, across RFS, Card, CB, TSS, AM and Corporate/Private Equity, as well as IB credit portfolio loans.

First quarter of 2012 compared with the first quarter of 2011

Core net interest income increased by $78 million to $10.3 billion, and core average interest-earning assets increased by $165.0 billion to $1,330.8 billion. The increases in net interest income and interest-earning assets were driven by higher levels of deposits with banks and other short-term investments due to wholesale and retail client deposit growth. The core net interest yield decreased by 44 basis points to 3.10%, driven by lower yields on loans and investment securities due to change in portfolio mix, and higher levels of deposits with banks and other short term investments.

Other financial measures

The Firm also discloses the allowance for loan losses to total retained loans, excluding residential real estate PCI loans. For a further discussion of this credit metric, see Allowance for Credit Losses on pages 70–72 of this Form 10-Q.

BUSINESS SEGMENT RESULTS

The Firm is managed on a line-of-business basis. The business segment financial results presented reflect the current organization of JPMorgan Chase. There are six major reportable business segments: the Investment Bank, Retail Financial Services, Card Services & Auto, Commercial Banking, Treasury & Securities Services and Asset Management, as well as a Corporate/Private Equity segment.

The business segments are determined based on the products and services provided, or the type of customer served, and reflect the manner in which financial information is currently evaluated by management. Results of the lines of business are presented on a managed basis. For a definition of managed basis, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures, on pages 12–13 of this Form 10-Q.

Description of business segment reporting methodology

Results of the business segments are intended to reflect each segment as if it were essentially a stand-alone business. The management reporting process that derives business segment results allocates income and expense

using market-based methodologies. For a further discussion of those methodologies, see Business Segment Results – Description of business segment reporting methodology on pages 79–80 of JPMorgan Chase's 2011 Annual Report. The Firm continues to assess the assumptions, methodologies and reporting classifications used for segment reporting, and further refinements may be implemented in future periods.

Business segment capital allocation changes

Each business segment is allocated capital by taking into consideration stand-alone peer comparisons, economic risk measures and regulatory capital requirements. The amount of capital assigned to each business is referred to as equity. Effective January 1, 2012, the Firm revised the capital allocated to certain businesses, reflecting additional refinement of each segment's estimated Basel III Tier 1 common capital requirements and balance sheet trends. For further information about these capital changes, see Line of business equity on page 45 of this Form 10-Q.

Segment Results – Managed Basis

The following table summarizes the business segment results for the periods indicated.

Three months ended March 31,	Total net revenue			Noninterest expense			Pre-provision profit/(loss)[b]		
(in millions)	2012	2011	Change	2012	2011	Change	2012	2011	Change
Investment Bank[a]	$7,321	$8,233	(11)%	$4,738	$5,016	(6)%	$2,583	$3,217	(20)%
Retail Financial Services	7,649	5,466	40	5,009	4,900	2	2,640	566	366
Card Services & Auto	4,714	4,791	(2)	2,029	1,917	6	2,685	2,874	(7)
Commercial Banking	1,657	1,516	9	598	563	6	1,059	953	11
Treasury & Securities Services	2,014	1,840	9	1,473	1,377	7	541	463	17
Asset Management	2,370	2,406	(1)	1,729	1,660	4	641	746	(14)
Corporate/Private Equity[a]	1,692	1,539	10	2,769	562	393	(1,077)	977	NM
Total	$27,417	$25,791	6%	$18,345	$15,995	15%	$9,072	$9,796	(7)%

Three months ended March 31,	Provision for credit losses			Net income/(loss)		
(in millions)	2012	2011	Change	2012	2011	Change
Investment Bank[a]	$(5)	$(429)	99%	$1,682	$2,370	(29)%
Retail Financial Services	(96)	1,199	NM	1,753	(399)	NM

Card Services & Auto	738	353	109	1,183	1,534	(23)
Commercial Banking	77	47	64	591	546	8
Treasury & Securities Services	2	4	(50)	351	316	11
Asset Management	19	5	280	386	466	(17)
Corporate/Private Equity[(a)]	(9)	(10)	10	(563)	722	NM
Total	$726	$1,169	(38)%	$5,383	$5,555	(3)%

(a) Corporate/Private Equity includes an adjustment to offset IB's inclusion of a credit allocation income/(expense) to TSS in total net revenue; TSS reports the credit allocation as a separate line item on its income statement (not within total net revenue).

(b) Pre-provision profit is total net revenue less noninterest expense. The Firm believes that this financial measure is useful in assessing the ability of a lending institution to generate income in excess of its provision for credit losses.

INVESTMENT BANK

For a discussion of the business profile of IB, see pages 81-84 of JPMorgan Chase’s 2011 Annual Report and the Introduction on page 4 of this Form 10-Q.

Selected income statement data

	Three months ended March 31,		Change
(in millions, except ratios)	2012	2011	
Revenue			
Investment banking fees	$1,375	$1,779	(23)%
Principal transactions[(a)]	3,210	3,398	(6)
Asset management, administration and commissions	565	619	(9)
All other income[(b)]	268	380	(29)
Noninterest revenue	5,418	6,176	(12)
Net interest income	1,903	2,057	(7)
Total net revenue[(c)]	7,321	8,233	(11)
Provision for credit losses	(5)	(429)	99
Noninterest expense			
Compensation expense	2,901	3,294	(12)
Noncompensation expense	1,837	1,722	7
Total noninterest expense	4,738	5,016	(6)
Income before income tax expense	2,588	3,646	(29)
Income tax expense	906	1,276	(29)
Net income	$1,682	$2,370	(29)%
Financial ratios			
Return on common equity	17 %	24 %	
Return on assets	0.86	1.18	
Overhead ratio	65	61	
Compensation expense as a percentage of total net revenue	40	40	

(a) Principal transactions included DVA related to derivatives and structured liabilities measured at fair value, DVA (losses) were $(907) million and $(46) million for the three months ended March 31, 2012 and 2011, respectively.

(b) All other income included lending- and deposit-related fees. In addition, IB manages traditional credit exposures related to Global Corporate Bank (“GCB”) on behalf of IB and TSS, and IB and TSS share the economics related to the Firm’s GCB clients. IB recognizes this sharing agreement within all other income.

(c) Total net revenue included tax-equivalent adjustments, predominantly due to income tax credits related to affordable housing and alternative energy investments as well as tax-exempt income from municipal bond investments of $509 million and $438 million for the three months ended March 31, 2012 and 2011, respectively.

The following table provides IB's total net revenue by business.

	Three months ended March 31,		Change
(in millions)	2012	2011	
Revenue by business			
Investment banking fees:			
Advisory	$281	$429	(34)%
Equity underwriting	276	379	(27)
Debt underwriting	818	971	(16)
Total investment banking fees	1,375	1,779	(23)
Fixed income markets[(a)]	4,664	5,238	(11)
Equity markets[(b)]	1,294	1,406	(8)

Credit portfolio[c][d]	(12)	(190)	94
Total net revenue	$7,321	$8,233	(11)

(a) Fixed income markets primarily include revenue related to market-making across global fixed income markets, including foreign exchange, interest rate, credit and commodities markets. Includes DVA gains/(losses) of ($352) million and $95 million for the three months ended March 31, 2012 and 2011, respectively.

(b) Equity markets primarily include revenue related to market-making across global equity products, including cash instruments, derivatives, convertibles and Prime Services. Includes DVA gains/(losses) of ($130) million and ($72) million for the three months ended March 31, 2012 and 2011, respectively.

(c) Credit portfolio revenue includes net interest income, fees and loan sale activity, as well as gains or losses on securities received as part of a loan restructuring, for IB's credit portfolio. Credit portfolio revenue also includes the results of risk management related to the Firm's lending and derivative activities. Includes DVA gains/(losses) of ($425) million and ($69) million for the three months ended March 31, 2012 and 2011, respectively. See pages 58–59 of the Credit Risk Management section of this Form 10-Q for further discussion.

(d) IB manages traditional credit exposures related to GCB on behalf of IB and TSS, and IB and TSS share the economics related to the Firm's GCB clients. IB recognizes this sharing agreement within all other income.

Quarterly results

Net income was $1.7 billion, down 29% from the prior year. These results reflected lower net revenue and a lower benefit from the provision for credit losses, partially offset by lower noninterest expense. Net revenue was $7.3 billion, compared with $8.2 billion in the prior year, and included a $907 million loss from DVA, compared with a $46 million loss in the prior year. Excluding the impact of DVA, net revenue was $8.2 billion and net income was $2.2 billion.

Investment banking fees were $1.4 billion (down 23%), which consists of debt underwriting fees of $818 million (down 16%), equity underwriting fees of $276 million (down 27%), and advisory fees of $281 million (down 34%) primarily due to lower industry-wide volumes. Combined Fixed Income and Equity Markets revenue was $6.0 billion, down 10% from the prior year, and included DVA losses of $352 million in Fixed Income Markets and $130 million in Equity Markets. Excluding the impact of DVA, Fixed Income and Equity Markets combined revenue was $6.4 billion, down 3% from the prior year, with continued solid client revenue, and particularly strong results in rates-related and equity products. Credit Portfolio

reported a loss of $12 million, and reflected DVA losses of $425 million, which more than offset net interest income and fees on retained loans, and credit valuation adjustment ("CVA")gains net of hedges.
The provision for credit losses was a benefit of $5 million, compared with a benefit in the prior year of $429 million. The ratio of the allowance for loan losses to end-of-period loans retained was 2.06%, compared with 2.52% in the prior year.
Noninterest expense was $4.7 billion, down 6% from the prior year, driven by lower compensation expense. The ratio of compensation to net revenue was 35%, excluding DVA.
Return on equity was 17% (23%, excluding DVA) on $40.0 billion of average allocated capital.
Selected metrics

	As of or for the three months ended March 31,		
(in millions, except headcount)	2012	2011	Change
Selected balance sheet data (period-end)			
Total assets	$812,959	$853,452	(5)%
Loans:			
Loans retained[(a)]	67,213	52,712	28
Loans held-for-sale and loans at fair value	5,451	5,070	8
Total loans	72,664	57,782	26
Equity	40,000	40,000	—
Selected balance sheet data (average)			
Total assets	$789,569	$815,828	(3)
Trading assets-debt and equity instruments	313,267	368,956	(15)
Trading assets-derivative receivables	76,225	67,462	13
Loans:			
Loans retained[(a)]	66,710	53,370	25
Loans held-for-sale and loans at fair value	2,767	3,835	(28)
Total loans	69,477	57,205	21
Adjusted assets[(b)]	559,566	611,038	(8)
Equity	40,000	40,000	—
Headcount	25,707	26,494	(3)%

(a) Loans retained included credit portfolio loans, leveraged leases and other held-for-investment loans.
(b) Adjusted assets, a non-GAAP financial measure, equals total assets minus: (1) securities purchased under resale agreements and securities borrowed less securities sold, not yet purchased; (2) assets of consolidated variable interest entities ("VIEs"); (3) cash and securities segregated and on deposit for regulatory and other purposes; (4) goodwill and intangibles; and (5) securities received as collateral. The amount of adjusted assets is presented to assist the reader in comparing IB's asset and capital levels to other investment banks in the securities industry. Asset-to-equity leverage ratios are commonly used as one measure to assess a company's capital adequacy. IB believes an adjusted asset amount that excludes the assets discussed above, which were considered to have a low risk profile, provides a more meaningful measure of balance sheet leverage in the securities industry.

Selected metrics

	As of or for the three months ended March 31,		
(in millions, except ratios)	2012	2011	Change
Credit data and quality statistics			
Net charge-offs/(recoveries)	$(35)	$123	NM %
Nonperforming assets:			
Nonaccrual loans:			
Nonaccrual loans retained[(a)]	695	2,388	(71)
Nonaccrual loans held-for-sale and loans at fair value	182	259	(30)
Total nonaccrual loans	877	2,647	(67)

Derivative receivables[b]	317	180	76
Assets acquired in loan satisfactions	79	73	8
Total nonperforming assets	1,273	2,900	(56)
Allowance for credit losses:			
Allowance for loan losses	1,386	1,330	4
Allowance for lending-related commitments	530	424	25
Total allowance for credit losses	1,916	1,754	9
Net charge-off/(recovery) rate[c]	(0.21)%	0.93%	
Allowance for loan losses to period-end loans retained	2.06	2.52	
Allowance for loan losses to nonaccrual loans retained[a]	199	56	
Nonaccrual loans to period-end loans	1.21	4.58	
Market risk-average trading and credit portfolio VaR – 95% confidence level			
Trading activities:			
Fixed income	$60	$49	22
Foreign exchange	11	11	—
Equities	17	29	(41)
Commodities and other	21	13	62
Diversification benefit to IB trading VaR[d]	(46)	(38)	(21)
Total trading VaR[e]	63	64	(2)
Credit portfolio VaR[f]	32	26	23
Diversification benefit to total other VaR[d]	(14)	(7)	(100)
Total trading and credit portfolio VaR	$81	$83	(2)%

(a) Allowance for loan losses of $225 million and $567 million were held against these nonaccrual loans at March 31, 2012 and 2011, respectively.

(b) Prior period amounts have been revised to include both defaulted derivatives and derivatives that have been risk rated as nonperforming; in prior periods only the amount of defaulted derivatives was reported.

(c) Loans held-for-sale and loans at fair value were excluded when calculating the net charge-off/(recovery) rate.

(d) Average value-at-risk (“VaR”) was less than the sum of the VaR of the components described above, due to portfolio diversification. The diversification effect reflects the fact that the risks were not perfectly correlated. The risk of a portfolio of positions is therefore usually less than the sum of the risks of the positions themselves.

(e) Trading VaR includes substantially all market-making and client-driven activities as well as certain risk management activities in IB, including the credit spread sensitivities of certain mortgage products

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and syndicated lending facilities that the Firm intends to distribute; however, particular risk parameters of certain products are not fully captured, for example, correlation risk. Trading VaR does not include the DVA on derivative and structured liabilities to reflect the credit quality of the Firm. See VaR discussion on pages 73–75 and the DVA sensitivity table on page 75 of this Form 10-Q for further details.

(f) Credit portfolio VaR includes the derivative CVA, hedges of the CVA and the fair value of hedges of the retained loan portfolio, which are all reported in principal transactions revenue. This VaR does not include the retained loan portfolio, which is not reported at fair value.

Market shares and rankings[(a)]

	Three months ended March 31, 2012		Full-year 2011	
	Market Share	Rankings	Market Share	Rankings
Global investment banking fees[(b)]	7.9%	#1	8.0%	#1
Debt, equity and equity-related				
Global	7.2	1	6.7	1
U.S.	11.7	1	11.1	1
Syndicated loans				
Global	9.0	2	10.9	1
U.S.	16.0	2	21.2	1
Long-term debt[(c)]				
Global	7.1	1	6.7	1
U.S.	11.4	1	11.2	1
Equity and equity-related				
Global[(d)]	8.6	3	6.8	3
U.S.	11.3	3	12.5	1
Announced M&A[(e)]				
Global	22.3	1	18.5	2
U.S.	21.7	1	27.1	2

(a) Source: Dealogic. Global Investment Banking fees reflects ranking of fees and market share. Remainder of rankings reflects transaction volume rank and market share. Global announced M&A is based on transaction value at announcement; because of joint M&A assignments, M&A market share of all participants will add up to more than 100%. All other transaction volume-based rankings are based on proceeds, with full credit to each book manager/equal if joint.

(b) Global Investment Banking fees rankings exclude money market, short-term debt and shelf deals.

(c) Long-term debt rankings include investment-grade, high-yield, supranationals, sovereigns, agencies, covered bonds, asset-backed securities ("ABS") and mortgage-backed securities; and exclude money market, short-term debt, and U.S. municipal securities.

(d) Global Equity and equity-related ranking includes rights offerings and Chinese A-Shares.

(e) Announced M&A reflects the removal of any withdrawn transactions. U.S. announced M&A represents any U.S. involvement ranking.

According to Dealogic, the Firm was ranked #1 in Global Investment Banking Fees generated during the first three months of 2012, based on revenue; #1 in Global Debt, Equity and Equity-related; #1 in Global Long-Term Debt; #2 in Global Syndicated Loans; #3 in Global Equity and Equity-related; and #1 in Global Announced M&A, based on volume.

International metrics	Three months ended March 31,		
(in millions)	2012	2011	Change
Total net revenue[(a)]			
Europe/Middle East/Africa	$2,400	$2,592	(7)%

Asia/Pacific	758	1,122	(32)
Latin America/Caribbean	339	327	4
North America	3,824	4,192	(9)
Total net revenue	$7,321	$8,233	(11)
Loans retained (period-end)[(b)]			
Europe/Middle East/Africa	$16,358	$14,059	16
Asia/Pacific	7,969	5,472	46
Latin America/Caribbean	3,764	2,190	72
North America	39,122	30,991	26
Total loans	$67,213	$52,712	28 %

(a) Regional revenue is based primarily on the domicile of the client and/or location of the trading desk.
(b) Includes retained loans based on the domicile of the customer.

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RETAIL FINANCIAL SERVICES

For a discussion of the business profile of RFS, see pages 85-93 of JPMorgan Chase's 2011 Annual Report and the Introduction on page 4 of this Form 10-Q.

Selected income statement data

Three months ended March 31, (in millions, except ratios)	2012	2011	Change
Revenue			
Lending- and deposit-related fees	$748	$736	2 %
Asset management, administration and commissions	527	485	9
Mortgage fees and related income	2,008	(489)	NM
Credit card income	315	537	(41)
Other income	126	111	14
Noninterest revenue	3,724	1,380	170
Net interest income	3,925	4,086	(4)
Total net revenue	7,649	5,466	40
Provision for credit losses	(96)	1,199	NM
Noninterest expense			
Compensation expense	2,305	1,876	23
Noncompensation expense	2,653	2,964	(10)
Amortization of intangibles	51	60	(15)
Total noninterest expense	5,009	4,900	2
Income/(loss) before income tax expense/(benefit)	2,736	(633)	NM
Income tax expense/(benefit)	983	(234)	NM
Net income/(loss)	$1,753	$(399)	NM
Financial ratios			
Return on common equity	27 %	(6)%	
Overhead ratio	65	90	
Overhead ratio excluding core deposit intangibles[(a)]	65	89	

(a) RFS uses the overhead ratio (excluding the amortization of core deposit intangibles ("CDI")), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation would result in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this method would therefore result in an improving overhead ratio over time, all things remaining equal. This non-GAAP ratio excluded Consumer & Business Banking's CDI amortization expense related to prior business combination transactions of $51 million and $60 million for the three months ended March 31, 2012 and 2011, respectively.

Quarterly results

Retail Financial Services reported net income of $1.8 billion, compared with a net loss of $399 million in the prior year.

Net revenue was $7.6 billion, an increase of $2.2 billion, or 40%, compared with the prior year. Net interest income was $3.9 billion, down by $161 million, or 4%, largely reflecting lower loan balances due to portfolio runoff. Noninterest revenue was $3.7 billion, an increase of $2.3 billion, driven by higher mortgage fees and related income, partially offset by lower debit card revenue.

The provision for credit losses was a benefit of $96 million compared with provision expense of $1.2 billion in the prior year. The current-quarter provision reflected lower net charge-offs and a $1.0 billion reduction in the allowance for loan losses, due to lower estimated losses as mortgage delinquency trends improved. The prior-year provision for credit losses reflected higher net charge-offs. See Consumer Credit Portfolio on pages 60–69 of this Form 10-Q for the net charge-off amounts and rates.

Noninterest expense was $5.0 billion, an increase of $109 million, or 2%, from the prior year.

Selected metrics

As of or for the three months ended March 31, (in millions, except headcount and ratios)	2012	2011	Change	
Selected balance sheet data (period-end)				
Total assets	$269,442	$289,336	(7	)%
Loans:				
Loans retained	227,491	247,128	(8	)
Loans held-for-sale and loans at fair value[(a)]	12,496	12,234	2	
Total loans	239,987	259,362	(7	)
Deposits	413,901	379,605	9	
Equity	26,500	25,000	6	
Selected balance sheet data (average)				
Total assets	$271,973	$297,938	(9	)
Loans:				
Loans retained	230,170	250,443	(8	)
Loans held-for-sale and loans at fair value[(a)]	15,621	17,519	(11	)
Total loans	245,791	267,962	(8	)
Deposits	399,561	371,787	7	
Equity	26,500	25,000	6	
Headcount	134,321	118,547	13	

(a) Predominantly consists of prime mortgages originated with the intent to sell that are accounted for at fair value and classified as trading assets on the Consolidated Balance Sheets.

As of or for the three months ended March 31, (in millions, except ratios)	2012		2011		Change	
Credit data and quality statistics						
Net charge-offs	$904		$1,199		(25	)%
Nonaccrual loans:						
Nonaccrual loans retained	8,191		8,278		(1	)
Nonaccrual loans held-for-sale and loans at fair value	101		150		(33	)
Total nonaccrual loans [(a)(b)(c)(d)]	8,292		8,428		(2	)
Nonperforming assets[(a)(b)(c)(d)]	9,109		9,632		(5	)
Allowance for loan losses	14,247		15,554		(8	)
Net charge-off rate[(e)]	1.58	%	1.94	%		
Net charge-off rate excluding PCI loans[(e)]	2.20		2.72			
Allowance for loan losses to ending loans retained	6.26		6.29			
Allowance for loan losses to ending loans retained excluding PCI loans[(f)]	5.22		6.02			
Allowance for loan losses to nonaccrual loans retained[(a)(d)(f)]	104		128			
Nonaccrual loans to total loans[(d)]	3.46		3.25			
Nonaccrual loans to total loans excluding PCI loans[(a)(d)]	4.71		4.47			

(a) Excludes PCI loans. Because the Firm is recognizing interest income on each pool of PCI loans, they are all considered to be performing.

(b) Certain of these loans are classified as trading assets on the Consolidated Balance Sheets.

(c) At March 31, 2012 and 2011, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $11.8 billion and $8.8 billion, respectively, that are 90 or more days past due; and (2) real estate owned insured by U.S. government agencies of $1.2 billion and $2.3 billion, respectively. These amounts were excluded from nonaccrual loans as reimbursement of insured amounts is proceeding normally. For further discussion, see Note 13 on pages 118–135 of this Form 10-Q, which summarizes loan delinquency information.

(d) For more information on the new reporting of performing junior liens that are subordinate to senior liens that are 90 days or more past due based on new regulatory guidance issued in the first quarter of 2012, see Consumer Credit Portfolio on pages 60-69 of this Form 10-Q.

(e) Loans held-for-sale and loans accounted for at fair value were excluded when calculating the net charge-off rate.

(f) An allowance for loan losses of $5.7 billion and $4.9 billion was recorded for PCI loans at March 31, 2012 and 2011, respectively; these amounts were also excluded from the applicable ratios.

Consumer & Business Banking
Selected income statement data

Three months ended March 31, (in millions, except ratios)	2012	2011	Change

Noninterest revenue	$1,585	$1,757	(10)%
Net interest income	2,675	2,659	1
Total net revenue	4,260	4,416	(4)
Provision for credit losses	96	119	(19)
Noninterest expense	2,866	2,799	2
Income before income tax expense	1,298	1,498	(13)
Net income	$774	$893	(13)
Overhead ratio	67%	63%	
Overhead ratio excluding core deposit intangibles[(a)]	66	62	

(a) Consumer & Business Banking uses the overhead ratio (excluding the amortization of CDI), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. See footnote (a) to the selected income statement data table on page 18 of this Form 10-Q for further details.

Quarterly results

Consumer & Business Banking reported net income of $774 million, a decrease of $119 million, or 13%, compared with the prior year.

Net revenue was $4.3 billion, down 4% from the prior year. Net interest income was $2.7 billion, relatively flat compared with the prior year, driven by the effect of higher deposit balances, predominantly offset by the impact of lower deposit spreads. Noninterest revenue was $1.6 billion, a decrease of 10%, driven by lower debit card revenue, reflecting the impact of the Durbin Amendment.

The provision for credit losses was $96 million, compared with $119 million in the prior year. Net charge-offs were $96 million, compared with $119 million in the prior year.

Noninterest expense was $2.9 billion, up 2% from the prior year, due to investments in sales force and new branch builds.

Selected metrics As of or for the three months ended March 31, (in millions, except ratios and where otherwise noted)	2012		2011		Change	
Business metrics						
Business banking origination volume	$1,540		$1,425		8	%
End-of-period loans	17,822		16,957		5	
End-of-period deposits:						
Checking	159,075		137,463		16	
Savings	200,662		180,345		11	
Time and other	35,642		44,001		(19	)
Total end-of-period deposits	395,379		361,809		9	
Average loans	17,667		16,886		5	
Average deposits:						
Checking	147,455		131,954		12	
Savings	197,199		175,133		13	
Time and other	36,121		45,035		(20	)
Total average deposits	380,775		352,122		8	
Deposit margin	2.68	%	2.88	%		
Average assets	$30,857		$29,409		5	
Credit data and quality statistics						
Net charge-offs	$96		$119		(19	)
Net charge-off rate	2.19	%	2.86	%		
Allowance for loan losses	$798		$875		(9	)
Nonperforming assets	$663		$822		(19	)
Retail branch business metrics						
Investment sales volume	$6,598		$6,584		—	
Client investment assets	147,083		138,150		6	
% managed accounts	26	%	22	%		
Number of:						
Branches	5,541		5,292		5	
Chase Private Client branch locations	366		16		NM	
ATMs	17,654		16,265		9	
Personal bankers	24,198		21,894		11	
Sales specialists	6,110		5,039		21	
Client advisors	3,131		3,051		3	
Active online customers (in thousands)	17,915		17,339		3	
Active mobile customers (in thousands)	8,570		6,025		42	
Chase Private Clients	32,857		4,829		NM	
Checking accounts (in thousands)	27,034		26,622		2	

Mortgage Production and Servicing

Selected income statement data Three months ended March 31, (in millions, except ratios)	2012	2011	Change
Mortgage fees and related income	$2,008	$(489)	NM%
Other noninterest revenue	123	104	18
Net interest income	177	271	(35)
Total net revenue	2,308	(114)	NM
Provision for credit losses	—	4	NM
Noninterest expense	1,724	1,746	(1)
Income/(loss) before income tax expense/(benefit)	584	(1,864)	NM
Net income/(loss)	$461	$(1,130)	NM
Overhead ratio	75%	NM	
Functional results			
Production			
Production revenue	$1,432	$679	111
Production-related net interest & other income	187	218	(14)
Production-related revenue, excluding repurchase losses	1,619	897	80
Production expense	573	424	35
Income, excluding repurchase losses	1,046	473	121
Repurchase losses	(302)	(420)	28
Income before income tax expense	744	53	NM
Servicing			
Loan servicing revenue	1,039	1,052	(1)
Servicing-related net interest & other income	112	156	(28)
Servicing-related revenue	1,151	1,208	(5)
MSR asset modeled amortization	(351)	(563)	38
Default servicing expense[(a)]	890	1,078	(17)
Core servicing expense[(a)]	261	248	5
Income/(loss), excluding MSR risk management	(351)	(681)	48
MSR risk management, including related net interest income/(expense)	191	(1,236)	NM
Income/(loss) before income tax expense/(benefit)	(160)	(1,917)	92
Net income/(loss)	$461	$(1,130)	NM

(a) Default and core servicing expense includes an aggregate of approximately $200 million and $650 million for foreclosure-related matters for the three months ended March 31, 2012 and 2011, respectively.

Selected income statement data Three months ended March 31, (in millions)	2012	2011	Change
Supplemental mortgage fees and related income details			
Net production revenue:			
Production revenue	$1,432	$679	111 %
Repurchase losses	(302)	(420)	28
Net production revenue	1,130	259	336
Net mortgage servicing revenue:			
Operating revenue:			
Loan servicing revenue	1,039	1,052	(1)
Changes in MSR asset fair value due to modeled amortization	(351)	(563)	38
Total operating revenue	688	489	41
Risk management:			
Changes in MSR asset fair value due to inputs or assumptions in model	596	(751)	NM
Derivative valuation adjustments and other	(406)	(486)	16
Total risk management	190	(1,237)	NM
Total net mortgage servicing revenue	878	(748)	NM
Mortgage fees and related income	$2,008	$(489)	NM

Quarterly results

Mortgage Production and Servicing reported net income of $461 million, compared with a net loss of $1.1 billion in the prior year.

Mortgage production-related revenue, excluding repurchase losses, was $1.6 billion, an increase of $722 million, or 80%, from the prior year, reflecting wider margins, driven by market conditions and product mix, and higher volumes, due to a favorable refinancing environment, including the impact of the Home Affordable Refinance Programs (“HARP”). Production expense was $573 million, an increase of $149 million, or 35%, reflecting higher volumes and a strategic shift to the Retail channel, including branches, where origination costs and margins are traditionally higher. Repurchase losses were $302 million, compared with repurchase losses of $420 million in the prior year. Mortgage production reported pretax income of $744 million, an increase of $691 million from the prior year.

Mortgage servicing-related revenue was $1.2 billion, a decline of 5% from the prior year, as a result of a decline in third-party loans serviced. MSR asset amortization was $351 million, compared with $563 million in the prior year; this reflected reduced amortization as a result of a lower MSR asset value. Servicing expense was $1.2 billion, a decrease of $175 million, or 13%, from the prior year. Foreclosure-related matters, including adjustments for the global settlement with federal and state agencies, resulted in approximately $200 million of additional servicing expense. The prior-year servicing expense included

approximately $650 million related to foreclosure-related matters. MSR risk management income was $191 million, compared with a loss of $1.2 billion in the prior year. The prior year MSR risk management loss included a $1.1 billion decrease in the fair value of the MSR asset for the estimated impact of increased servicing costs. Mortgage servicing reported a pretax loss of $160 million, compared with a pretax loss of $1.9 billion in the prior year. See Note 16 on pages 144–146 of this Form 10-Q for further information regarding changes in value of the MSR asset and related hedges.

Selected metrics As of or for the three months ended March 31, (in millions, except ratios and where otherwise noted)	2012	2011	Change

Selected balance sheet data			
End-of-period loans:			
Prime mortgage, including option ARMs[(a)]	$17,268	$14,147	22 %
Loans held-for-sale and loans at fair value[(b)]	12,496	12,234	2
Average loans:			
Prime mortgage, including option ARMs[(a)]	17,238	14,037	23
Loans held-for-sale and loans at fair value[(b)]	15,621	17,519	(11)
Average assets	58,862	61,354	(4)
Repurchase reserve (ending)	3,213	3,205	—

(a) Predominantly represents prime loans repurchased from Government National Mortgage Association ("Ginnie Mae") pools, which are insured by U.S. government agencies. See further discussion of loans repurchased from Ginnie Mae pools in Mortgage repurchase liability on pages 38–41 of this Form 10-Q.

(b) Predominantly consists of prime mortgages originated with the intent to sell that are accounted for at fair value and classified as trading assets on the Consolidated Balance Sheets.

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Selected metrics As of or for the three months ended March 31, (in millions, except ratios and where otherwise noted)	2012		2011		Change	
Credit data and quality statistics						
Net charge-offs:						
Prime mortgage, including option ARMs	$—		$4		NM %	
Net charge-off rate:						
Prime mortgage, including option ARMs	—	%	0.12	%		
30+ day delinquency rate[(a)]	3.01		3.21			
Nonperforming assets[(b)]	$708		$658		8	
Business metrics (in billions)						
Origination volume by channel						
Retail	$23.4		$21.0		11	
Wholesale[(c)]	—		0.2		NM	
Correspondent[(c)]	14.2		13.5		5	
CNT (negotiated transactions)	0.8		1.5		(47	)
Total origination volume	$38.4		$36.2		6	
Application volume by channel						
Retail	$40.0		$31.3		28	
Wholesale[(c)]	0.2		0.3		(33	)
Correspondent[(c)]	19.7		13.6		45	
Total application volume	$59.9		$45.2		33	
Third-party mortgage loans serviced (ending)	$884.2		$955.0		(7	)
Third-party mortgage loans serviced (average)	892.6		958.7		(7	)
MSR net carrying value (ending)	8.0		13.1		(39	)
Ratio of MSR net carrying value (ending) to third-party mortgage loans serviced (ending)	0.90	%	1.37	%		
Ratio of loan servicing revenue to third-party mortgage loans serviced (average)	0.47		0.45			
MSR revenue multiple[(d)]	1.91x		3.04x			

(a) At March 31, 2012 and 2011, excluded mortgage loans insured by U.S. government agencies of $12.7 billion and $9.5 billion, respectively, that are 30 or more days past due. These amounts were excluded as reimbursement of insured amounts is proceeding normally. For further discussion, see Note 13 on pages 118–135 of this Form 10-Q which summarizes loan delinquency information.

(b) At March 31, 2012 and 2011, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $11.8 billion and $8.8 billion, respectively, that are 90 or more days past due; and (2) real estate owned insured by U.S. government agencies of $1.2 billion and $2.3 billion, respectively. These amounts were excluded from nonaccrual loans as reimbursement of insured amounts is proceeding normally. For further discussion, see Note 13 on pages 118–135 of this Form 10-Q which summarizes loan delinquency information.

(c) Includes rural housing loans sourced through brokers and correspondents, which are underwritten and closed with pre-funding loan approval from the U.S. Department of Agriculture Rural Development, which acts as the guarantor in the transaction.

(d) Represents the ratio of MSR net carrying value (ending) to third-party mortgage loans serviced (ending) divided by the ratio of loan servicing revenue to third-party mortgage loans serviced (average).

Real Estate Portfolios

Selected income statement data Three months ended March 31, (in millions, except ratios)	2012	2011	Change

Noninterest revenue	$8	$8	— %
Net interest income	1,073	1,156	(7)
Total net revenue	1,081	1,164	(7)
Provision for credit losses	(192)	1,076	NM
Noninterest expense	419	355	18
Income/(loss) before income tax expense/(benefit)	854	(267)	NM
Net income/(loss)	$518	$(162)	NM
Overhead ratio	39 %	30 %	

Quarterly results

Real Estate Portfolios reported net income of $518 million, compared with a net loss of $162 million in the prior year. The increase was driven by a benefit from the provision for credit losses, reflecting an improvement in credit trends.

Net revenue was $1.1 billion, down by $83 million, or 7%, from the prior year. The decrease was driven by a decline in net interest income, resulting from lower loan balances due to portfolio runoff.

The provision for credit losses reflected a benefit of $192 million, compared with provision expense of $1.1 billion in the prior year. The current-quarter provision benefit reflected lower charge-offs as compared with the prior year and a $1.0 billion reduction of the allowance for loan losses due to lower estimated losses as delinquency trends improved. See Consumer Credit Portfolio on pages 60–69 of this Form 10-Q for the net charge-off amounts and rates.

Nonaccrual loans were $7.0 billion at both March 31, 2012 and 2011. Based upon regulatory guidance issued in the first quarter of 2012, the Firm began reporting performing junior liens that are subordinate to senior liens that are 90 days or more past due as nonaccrual loans. For more information on the new reporting of performing junior liens that are subordinate to senior liens that are 90 days or more past due based on the new regulatory guidance, see Consumer Credit Portfolio on pages 60–69 of this Form 10-Q.

Noninterest expense was $419 million, up by $64 million, or 18%, from the prior year due to an increase in servicing costs.

PCI Loans

Included within Real Estate Portfolios are PCI loans that the Firm acquired in the Washington Mutual transaction. For PCI loans, the excess of the undiscounted gross cash flows expected to be collected over the carrying value of the loans (the “accretable yield”) is accreted into interest income at a level rate of return over the expected life of the loans. The net spread between the PCI loans and the related liabilities are expected to be relatively constant over time, except for any basis risk or other residual interest rate risk that remains and for certain changes in the accretable yield percentage (e.g., from extended loan liquidation periods and from prepayments). As of March 31, 2012, the remaining weighted-average life of the PCI loan portfolio is expected to be 7.9 years. The loan balances are expected to decline more rapidly over the next three to four years as the most troubled loans are liquidated, and more slowly thereafter as the remaining troubled borrowers have limited refinancing opportunities. Similarly, default and servicing expense are expected to be higher in the earlier years and decline over time as liquidations slow down.

To date the impact of the PCI loans on Real Estate Portfolios’ net income has been negative. This is due to the current net spread of the portfolio, the provision for loan losses recognized subsequent to its acquisition, and the higher level of default and servicing expense associated with the portfolio. Over time, the Firm expects that this portfolio will contribute positively to net income.

For further information, see Note 13, PCI loans, on pages 132–133 of this Form 10-Q.

Selected metrics

As of or for the three months ended March 31,(in millions)	2012	2011	Change	
Loans excluding PCI				
End-of-period loans owned:				
Home equity	$75,207	$85,253	(12	)%
Prime mortgage, including option ARMs	43,152	48,552	(11	)
Subprime mortgage	9,289	10,841	(14	)
Other	692	801	(14	)
Total end-of-period loans owned	$128,340	$145,447	(12	)
Average loans owned:				
Home equity	$76,600	$86,907	(12	)
Prime mortgage, including option ARMs	43,701	49,273	(11	)
Subprime mortgage	9,485	11,086	(14	)
Other	707	829	(15	)
Total average loans owned	$130,493	$148,095	(12	)
PCI loans				
End-of-period loans owned:				
Home equity	$22,305	$23,973	(7	)
Prime mortgage	14,781	16,725	(12	)
Subprime mortgage	4,870	5,276	(8	)
Option ARMs	22,105	24,791	(11	)
Total end-of-period loans owned	$64,061	$70,765	(9	)
Average loans owned:				
Home equity	$22,488	$24,170	(7	)
Prime mortgage	14,975	16,974	(12	)
Subprime mortgage	4,914	5,301	(7	)
Option ARMs	22,395	25,113	(11	)
Total average loans owned	$64,772	$71,558	(9	)
Total Real Estate Portfolios				
End-of-period loans owned:				
Home equity	$97,512	$109,226	(11	)

Prime mortgage, including option ARMs	80,038	90,068	(11	)
Subprime mortgage	14,159	16,117	(12	)
Other	692	801	(14	)
Total end-of-period loans owned	$192,401	$216,212	(11	)
Average loans owned:				
Home equity	$99,088	$111,077	(11	)
Prime mortgage, including option ARMs	81,071	91,360	(11	)
Subprime mortgage	14,399	16,387	(12	)
Other	707	829	(15	)
Total average loans owned	$195,265	$219,653	(11	)
Average assets	$182,254	$207,175	(12	)
Home equity origination volume	312	249	25	

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Credit data and quality statistics

As of or for the three months ended March 31, (in millions, except ratios)	2012		2011		Change	
Net charge-offs excluding PCI loans:						
Home equity	$542		$720		(25	)%
Prime mortgage, including option ARMs	131		161		(19	)
Subprime mortgage	130		186		(30	)
Other	5		9		(44	)
Total net charge-offs	$808		$1,076		(25	)
Net charge-off rate excluding PCI loans:						
Home equity	2.85	%	3.36	%		
Prime mortgage, including option ARMs	1.21		1.32			
Subprime mortgage	5.51		6.80			
Other	2.84		4.56			
Total net charge-off rate excluding PCI loans	2.49		2.95			
Net charge-off rate – reported:						
Home equity	2.20	%	2.63	%		
Prime mortgage, including option ARMs	0.65		0.71			
Subprime mortgage	3.63		4.60			
Other	2.84		4.56			
Total net charge-off rate – reported	1.66		1.99			
30+ day delinquency rate excluding PCI loans[a]	5.32	%	6.22	%		
Allowance for loan losses	$13,429		$14,659		(8	)
Nonperforming assets[b][c]	7,738		8,152		(5	)
Allowance for loan losses to ending loans retained	6.98	%	6.78	%		
Allowance for loan losses to ending loans retained excluding PCI loans	6.01		6.68			

(a) The delinquency rate for PCI loans was 21.72% and 27.36% at March 31, 2012 and 2011, respectively.

(b) Excludes PCI loans. Because the Firm is recognizing interest income on each pool of PCI loans, they are all considered to be performing.

(c) For more information on the new reporting of performing junior liens that are subordinate to senior liens that are 90 days or more past due based on new regulatory guidance issued in the first quarter of 2012, see Consumer Credit Portfolio on pages 60-69 of this Form 10-Q.

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CARD SERVICES & AUTO

For a discussion of the business profile of Card, see pages 94–97 of JPMorgan Chase's 2011 Annual Report and the Introduction on page 4 of this Form 10–Q.

Selected income statement data

	Three months ended March 31,		
(in millions, except ratios)	2012	2011	Change
Revenue			
Credit card income	$948	$898	6 %
All other income	303	149	103
Noninterest revenue	1,251	1,047	19
Net interest income	3,463	3,744	(8)
Total net revenue	4,714	4,791	(2)
Provision for credit losses	738	353	109
Noninterest expense			
Compensation expense	486	459	6
Noncompensation expense	1,447	1,352	7
Amortization of intangibles	96	106	(9)
Total noninterest expense	2,029	1,917	6
Income before income tax expense	1,947	2,521	(23)
Income tax expense	764	987	(23)
Net income	$1,183	$1,534	(23)
Financial ratios			
Return on common equity	29 %	39 %	
Overhead ratio	43	40	

Quarterly Results

Net income was $1.2 billion, a decrease of $351 million, or 23%, compared with the prior year. The decrease reflected a higher provision for credit losses, driven by a lower reduction in the allowance for loan losses compared with the prior year.

Net revenue was $4.7 billion, a decrease of $77 million, or 2%, from the prior year. Net interest income was $3.5 billion, down $281 million, or 8%, from the prior year. The decrease was driven by lower average loan balances and narrower loan spreads, partially offset by lower revenue reversals associated with lower net charge-offs. Noninterest revenue was $1.3 billion, an increase of $204 million, or 19%, from the prior year. The increase was driven by lower partner revenue-sharing, reflecting the impact of the Kohl's portfolio sale on April 1, 2011, and higher net interchange income, partially offset by lower revenue from fee-based products.

The provision for credit losses was $738 million, compared with $353 million in the prior year. The current-quarter provision reflected lower net charge-offs and a reduction of $750 million to the allowance for loan losses due to lower estimated losses. The prior-year provision included a reduction of $2.0 billion to the allowance for loan losses. The Credit Card net charge-off rate[1] was 4.37%, down from 6.81% in the prior year; and the 30+ day delinquency rate[1] was 2.55%, down from 3.55% in the prior year. The Auto net charge-off rate was 0.28%, down from 0.40% in the prior year.

Noninterest expense was $2.0 billion, an increase of $112 million, or 6%, from the prior year, primarily due to an expense related to a non-core product that is being exited.

[1] Includes loans held-for-sale, which are non-GAAP financial measures. Management uses this as an additional measure to assess the performance of the portfolio.

Selected metrics As of or for the three months ended March 31,

(in millions, except headcount and ratios)	2012		2011		Change	
Selected balance sheet data (period-end)						
Total assets	$199,579		$201,179		(1	)%
Loans:						
Credit Card	125,331		128,803		(3	)
Auto	48,245		47,411		2	
Student	13,162		14,288		(8	)
Total loans	$186,738		$190,502		(2	)
Equity	$16,500		$16,000		3	
Selected balance sheet data (average)						
Total assets	$199,449		$204,441		(2	)
Loans:						
Credit Card	127,616		132,537		(4	)
Auto	47,704		47,690		—	
Student	13,348		14,410		(7	)
Total loans	$188,668		$194,637		(3	)
Equity	$16,500		$16,000		3	
Headcount	27,862		26,777		4	
Credit data and quality statistics						
Net charge-offs:						
Credit Card	$1,386		$2,226		(38	)
Auto	33		47		(30	)
Student	69		80		(14	)
Total net charge-offs	$1,488		$2,353		(37	)
Net charge-off rate:						
Credit Card[(a)]	4.40	%	6.97	%		
Auto	0.28		0.40			
Student	2.08		2.25			
Total net charge-off rate	3.19		4.98			

Selected metrics	As of or for the three months ended March 31,		
(in millions, except ratios and where otherwise noted)	2012	2011	Change
Delinquency rates			
30+ day delinquency rate:			
Credit Card[b]	2.56 %	3.57 %	
Auto	0.79	0.97	
Student[c]	2.06	2.01	
Total 30+ day delinquency rate	2.07	2.79	
90+ day delinquency rate – Credit Card[b]	1.37	1.93	
Nonperforming assets[d]	$242	$275	(12)%
Allowance for loan losses:			
Credit Card	$6,251	$9,041	(31)
Auto and Student	1,010	899	12
Total allowance for loan losses	$7,261	$9,940	(27)
Allowance for loan losses to period-end loans:			
Credit Card[b]	5.02 %	7.24 %	
Auto and Student	1.64	1.46	
Total allowance for loan losses to period-end loans	3.91	5.33	
Business metrics			
Credit Card, excluding Commercial Card			
Sales volume (in billions)	$86.9	$77.5	12
New accounts opened	1.7	2.6	(35)
Open accounts[e]	64.2	91.9	(30)
Merchant Services			
Bank card volume (in billions)	$152.8	$125.7	22
Total transactions (in billions)	6.8	5.6	21
Auto and Student			
Origination volume (in billions)			
Auto	$5.8	$4.8	21
Student	0.1	0.1	—

(a) Average credit card loans include loans held-for-sale of $821 million and $3.0 billion for the three months ended March 31, 2012 and 2011, respectively. These amounts are excluded when calculating the net charge-off rate.

(b) Period-end credit card loans include loans held-for-sale of $856 million and $4.0 billion at March 31, 2012 and 2011, respectively. No allowance for loan losses was recorded for these loans. These amounts are excluded when calculating delinquency rates and the allowance for loan losses to period-end loans.

(c) Excludes student loans insured by U.S. government agencies under the Federal Family Education Loan Program ("FFELP") of $1.0 billion at both March 31, 2012 and 2011, that are 30 or more days past due. These amounts are excluded as reimbursement of insured amounts is proceeding normally.

(d) Nonperforming assets exclude student loans insured by U.S. government agencies under the FFELP of $586 million and $615 million at March 31, 2012 and 2011, respectively, that are 90 or more days past due. These amounts are excluded as reimbursement of insured amounts is proceeding normally.

(e) The reduction reflects the impact of portfolio sales.

Card Services supplemental information

	Three months ended March 31,			
(in millions)	2012	2011	Change	
Noninterest revenue	$949	$782	21	%
Net interest income	2,928	3,200	(9	)
Total net revenue	3,877	3,982	(3	)
Provision for credit losses	636	226	181	
Total noninterest expense	1,636	1,555	5	
Income before income tax expense	1,605	2,201	(27	)
Net income	$979	$1,343	(27	)

COMMERCIAL BANKING

For a discussion of the business profile of CB, see pages 98–100 of JPMorgan Chase's 2011 Annual Report and the Introduction on page 5 of this Form 10-Q.

Selected income statement data

	Three months ended March 31,		
(in millions, except ratios)	2012	2011	Change
Revenue			
Lending- and deposit-related fees	$276	$264	5 %
Asset management, administration and commissions	36	35	3
All other income[(a)]	245	203	21
Noninterest revenue	557	502	11
Net interest income	1,100	1,014	8
Total net revenue[(b)]	1,657	1,516	9
Provision for credit losses	77	47	64
Noninterest expense			
Compensation expense	246	223	10
Noncompensation expense	345	332	4
Amortization of intangibles	7	8	(13)
Total noninterest expense	598	563	6
Income before income tax expense	982	906	8
Income tax expense	391	360	9
Net income	$591	$546	8
Revenue by product			
Lending	$892	$837	7
Treasury services	602	542	11
Investment banking	120	110	9
Other	43	27	59
Total Commercial Banking revenue	$1,657	$1,516	9
IB revenue, gross[(c)]	$339	$309	10
Revenue by client segment			
Middle Market Banking	$825	$755	9
Commercial Term Lending	293	286	2
Corporate Client Banking	337	290	16
Real Estate Banking	105	88	19
Other	97	97	—
Total Commercial Banking revenue	$1,657	$1,516	9
Financial ratios			
Return on common equity	25 %	28 %	
Overhead ratio	36	37	

(a) CB client revenue from investment banking products and commercial card transactions is included in all other income.

(b) Total net revenue included tax-equivalent adjustments from income tax credits related to equity investments in designated community development entities that provide loans to qualified businesses in low-income communities, as well as tax-exempt income from municipal bond activity, totaling $94 million and $65 million for the three months ended March 31, 2012 and 2011, respectively.

(c) Represents the total revenue related to investment banking products sold to CB clients.

Quarterly results

Net income was $591 million, an increase of $45 million, or 8%, from the prior year. The improvement was driven by an increase in net revenue, partially offset by higher expense and an increase in the provision for credit losses.

Net revenue was a record $1.7 billion, an increase of $141 million, or 9%, from the prior year. Net interest income was $1.1 billion, up by $86 million, or 8%, driven by growth in liability and loan balances, largely offset by spread compression on liability and loan products. Noninterest revenue was $557 million, up by $55 million or 11%, compared with the prior year, driven by increased deposit-and lending-related fees, higher investment banking revenue, increased community development investment-related revenue, and higher other revenue.

Revenue from Middle Market Banking was $825 million, an increase of $70 million, or 9%, from the prior year. Revenue from Commercial Term Lending was $293 million, an increase of $7 million, or 2%, compared with the prior year. Revenue from Corporate Client Banking was $337 million, an increase of $47 million, or 16% from the prior year. Revenue from Real Estate Banking was $105 million, an increase of $17 million, or 19% from the prior year.

The provision for credit losses was $77 million, compared with $47 million in the prior year. Net charge-offs were $12 million (0.04% net charge-off rate) compared with net charge-offs of $31 million (0.13% net charge-off rate) in the prior year. The allowance for loan losses to end-of-period loans retained was 2.32%, down from 2.59% in the prior year. Nonaccrual loans were $1.0 billion, down by $951 million, or 49% from the prior year, as a result of commercial real estate repayments and loans sales.

Noninterest expense was $598 million, an increase of $35 million, or 6% from the prior year, primarily reflecting higher headcount-related expense.

Selected metrics

(in millions, except headcount and ratios)	As of or for the three months ended March 31, 2012	2011	Change	
Selected balance sheet data (period-end)				
Total assets	$161,741	$140,706	15	%
Loans:				
Loans retained	114,969	99,334	16	
Loans held-for-sale and loans at fair value	878	835	5	
Total loans	$115,847	$100,169	16	
Equity	9,500	8,000	19	
Period-end loans by client segment				
Middle Market Banking	$46,040	$38,618	19	
Commercial Term Lending	39,314	37,677	4	
Corporate Client Banking	17,670	12,705	39	
Real Estate Banking	8,763	7,535	16	
Other	4,060	3,634	12	
Total Commercial Banking loans	$115,847	$100,169	16	
Selected balance sheet data (average)				
Total assets	$161,074	$140,400	15	
Loans:				
Loans retained	112,879	98,829	14	
Loans held-for-sale and loans at fair value	881	756	17	
Total loans	$113,760	$99,585	14	
Liability balances	200,178	156,200	28	
Equity	9,500	8,000	19	
Average loans by client segment				
Middle Market Banking	$45,047	$38,207	18	
Commercial Term Lending	38,848	37,810	3	
Corporate Client Banking	17,514	12,374	42	
Real Estate Banking	8,341	7,607	10	
Other	4,010	3,587	12	
Total Commercial Banking loans	$113,760	$99,585	14	
Headcount	5,612	4,941	14	

(in millions, except headcount and ratios)	As of or for the three months ended March 31, 2012	2011	Change	
Credit data and quality statistics				
Net charge-offs	$12	$31	(61	)%
Nonperforming assets				
Nonaccrual loans:				
Nonaccrual loans retained[(a)]	972	1,925	(50	)
Nonaccrual loans held-for-sale and loans held at fair value	32	30	7	
Total nonaccrual loans	1,004	1,955	(49	)
Assets acquired in loan satisfactions	60	179	(66	)
Total nonperforming assets	1,064	2,134	(50	)
Allowance for credit losses:				

Allowance for loan losses	2,662	2,577	3
Allowance for lending-related commitments	194	206	(6)
Total allowance for credit losses	2,856	2,783	3
Net charge-off rate[(b)]	0.04 %	0.13 %	
Allowance for loan losses to period-end loans retained	2.32	2.59	
Allowance for loan losses to nonaccrual loans retained[(a)]	274	134	
Nonaccrual loans to total period-end loans	0.87	1.95	

(a) Allowance for loan losses of $163 million and $360 million was held against nonaccrual loans retained at March 31, 2012 and 2011, respectively.
(b) Loans held-for-sale and loans at fair value were excluded when calculating the net charge-off rate.

TREASURY & SECURITIES SERVICES

For a discussion of the business profile of TSS, see pages 101–103 of JPMorgan Chase's 2011 Annual Report and the Introduction on page 5 of this Form 10-Q.

Selected income statement data

Three months ended March 31, (in millions, except ratio data)	2012	2011	Change
Revenue			
Lending- and deposit-related fees	$286	$303	(6)%
Asset management, administration and commissions	654	695	(6)
All other income	127	139	(9)
Noninterest revenue	1,067	1,137	(6)
Net interest income	947	703	35
Total net revenue	2,014	1,840	9
Provision for credit losses	2	4	(50)
Credit allocation income/(expense)[(a)]	3	27	(89)
Noninterest expense			
Compensation expense	732	715	2
Noncompensation expense	728	647	13
Amortization of intangibles	13	15	(13)
Total noninterest expense	1,473	1,377	7
Income before income tax expense	542	486	12
Income tax expense	191	170	12
Net income	$351	$316	11
Financial ratios			
Return on common equity	19%	18%	
Pretax margin ratio	27	26	
Overhead ratio	73	75	
Pre-provision profit ratio	27	25	
Revenue by business			
Worldwide Securities Services ("WSS")			
Investor Services	$783	$745	5
Clearance, Collateral Management and Depositary Receipts	179	204	(12)
Total WSS revenue	$962	$949	1
Treasury Services			
Transaction Services	$893	$765	17
Trade Finance	159	126	26
Total TS revenue	$1,052	$891	18

(a) IB manages traditional credit exposures related to GCB on behalf of IB and TSS, and IB and TSS share the economics related to the Firm's GCB clients. Included within this allocation are net revenue, provision for credit losses and expenses. IB recognizes this credit allocation as a component of all other income.

Quarterly results

Net income was $351 million, an increase of $35 million, or 11%, from the prior year.

Net revenue was $2.0 billion, an increase of $174 million, or 9%, from the prior year. Treasury Services net revenue was $1.1 billion, an increase of $161 million, or 18%. The increase was driven by higher deposit balances and higher trade finance loan volumes. Worldwide Securities Services net revenue was $962 million, an increase of 1% compared with the prior year.

TSS generated firmwide net revenue of $2.7 billion, including $1.7 billion by TS; of that amount, $1.1 billion was recorded in TS, $602 million in CB, and $69 million in other lines of business. The remaining $962 million of firmwide net revenue was recorded in Worldwide Securities Services.

Noninterest expense was $1.5 billion, an increase of $96 million, or 7%, from the prior year. The increase was primarily driven by continued expansion into new markets.

Selected metrics

As of or for the three months ended March 31, (in millions, except headcount data and where otherwise noted)	2012	2011	Change	
Selected balance sheet data (period-end)				
Total assets	$66,732	$50,614	32	%
Loans[(a)]	41,173	31,020	33	
Equity	7,500	7,000	7	
Selected balance sheet data (average)				
Total assets	$64,559	$47,873	35	
Loans[(a)]	40,538	29,290	38	
Liability balances	356,964	265,720	34	
Equity	7,500	7,000	7	
Headcount	27,765	28,040	(1	)
WSS business metrics				
Assets under custody (“AUC”) by assets class (period-end) (in billions)				
Fixed income	$11,332	$10,437	9	
Equity	5,365	5,238	2	
Other[(b)]	1,171	944	24	
Total AUC	$17,868	$16,619	8	
Liability balances (average)	125,088	82,724	51	
TS business metrics				
TS liability balances (average)	231,876	182,996	27	
Trade finance loans (period-end)	35,692	25,499	40	

(a) Loan balances include trade finance loans and wholesale overdrafts.

(b) Consists of mutual funds, unit investment trusts, currencies, annuities, insurance contracts, options and nonsecurities contracts.

Selected metrics As of or for the three months ended March 31, (in millions, except ratio data, and where otherwise noted)	2012		2011		Change	
Credit data and quality statistics						
Net charge-offs	$—		$—		NM%	
Nonaccrual loans	5		11		(55	)
Allowance for credit losses:						
Allowance for loan losses	69		69		—	
Allowance for lending-related commitments	14		48		(71	)
Total allowance for credit losses	83		117		(29	)
Net charge-off rate	—	%	—	%		
Allowance for loan losses to period-end loans	0.17		0.22			
Allowance for loan losses to nonaccrual loans	NM		NM			
Nonaccrual loans to period-end loans	0.01		0.04			
International metrics						
Net revenue by geographic region[(a)]						
Asia/Pacific	$353		$276		28	
Latin America/Caribbean	82		76		8	
Europe/Middle East/Africa	668		630		6	
North America	911		858		6	
Total net revenue	$2,014		$1,840		9	
Average liability balances[(a)]						
Asia/Pacific	$50,197		$39,123		28	
Latin America/Caribbean	11,852		12,720		(7	)
Europe/Middle East/Africa	127,794		108,997		17	
North America	167,121		104,880		59	
Total average liability balances	$356,964		$265,720		34	
Trade finance loans (period-end)[(a)]						
Asia/Pacific	$18,140		$14,607		24	
Latin America/Caribbean	6,040		4,014		50	
Europe/Middle East/Africa	9,972		5,794		72	
North America	1,540		1,084		42	
Total trade finance loans	$35,692		$25,499		40	
AUC (period-end)(in billions)[(a)]						
North America	$9,998		$9,901		1	
All other regions	7,870		6,718		17	
Total AUC	$17,868		$16,619		8	

(a) Total net revenue, average liability balances, trade finance loans and AUC are based on the domicile of the client.

Selected metrics Three months ended March 31, (in millions, except where otherwise noted)	2012	2011	Change	
TSS firmwide disclosures[(a)]				
TS revenue – reported	$1,052	$891	18	%
TS revenue reported in CB	602	542	11	
TS revenue reported in other lines of business	69	63	10	
TS firmwide revenue[(b)]	1,723	1,496	15	
WSS revenue	962	949	1	

TSS firmwide revenue[b]	$2,685	$2,445	10
TSS total foreign exchange (“FX”) revenue[b]	137	160	(14)
TS firmwide liability balances (average)[c]	432,299	339,240	27
TSS firmwide liability balances (average)[c]	557,142	421,920	32
Number of:			
U.S.$ ACH transactions originated	1,019	992	3
Total U.S.$ clearing volume (in thousands)	32,696	30,971	6
International electronic funds transfer volume (in thousands)[d]	75,087	60,942	23
Wholesale check volume	589	532	11
Wholesale cards issued (in thousands)[e]	24,693	23,170	7

(a) TSS firmwide metrics include revenue recorded in CB, Consumer & Business Banking and AM lines of business and net TSS FX revenue (it excludes TSS FX revenue recorded in IB). In order to capture the firmwide impact of TS and TSS products and revenue, management reviews firmwide metrics in assessing financial performance of TSS. Firmwide metrics are necessary in order to understand the aggregate TSS business.

(b) IB executes FX transactions on behalf of TSS customers under revenue sharing agreements. FX revenue generated by TSS customers is recorded in TSS and IB. TSS total FX revenue reported above is the gross (pre-split) FX revenue generated by TSS customers. However, TSS firmwide revenue includes only the FX revenue booked in TSS, i.e., it does not include the portion of TSS FX revenue recorded in IB.

(c) Firmwide liability balances include liability balances recorded in CB.

(d) International electronic funds transfer includes non-U.S. dollar Automated Clearing House (“ACH”) and clearing volume.

(e) Wholesale cards issued and outstanding include stored value, prepaid and government electronic benefit card products.

ASSET MANAGEMENT

For a discussion of the business profile of AM, see pages 104–106 of JPMorgan Chase's 2011 Annual Report and the Introduction on page 5 of this Form 10-Q.

Selected income statement data

	Three months ended March 31,			
(in millions, except ratios)	2012	2011	Change	
Revenue				
Asset management, administration and commissions	$1,621	$1,707	(5	)%
All other income	266	313	(15	)
Noninterest revenue	1,887	2,020	(7	)
Net interest income	483	386	25	
Total net revenue	2,370	2,406	(1	)
Provision for credit losses	19	5	280	
Noninterest expense				
Compensation expense	1,120	1,039	8	
Noncompensation expense	586	599	(2	)
Amortization of intangibles	23	22	5	
Total noninterest expense	1,729	1,660	4	
Income before income tax expense	622	741	(16	)
Income tax expense	236	275	(14	)
Net income	$386	$466	(17	)
Revenue by client segment				
Private Banking	$1,279	$1,317	(3	)
Institutional	557	543	3	
Retail	534	546	(2	)
Total net revenue	$2,370	$2,406	(1	)
Financial ratios				
Return on common equity	22 %	29 %		
Overhead ratio	73	69		
Pretax margin ratio	26	31		

Quarterly results

Net income was $386 million, a decrease of $80 million, or 17%, from the prior year. These results reflected higher noninterest expense and lower net revenue.

Net revenue was $2.4 billion, a decrease of $36 million, or 1%, from the prior year. Noninterest revenue was $1.9 billion, down by $133 million, or 7%, primarily due to lower credit-related fees and lower performance fees, partially offset by net inflows to products with higher margins and higher valuations of seed capital investments. Net interest income was $483 million, up by $97 million, or 25%, due to higher deposit and loan balances, partially offset by narrower deposit spreads.

Revenue from Private Banking was $1.3 billion, down 3% from the prior year. Revenue from Institutional was $557 million, up 3%. Revenue from Retail was $534 million, down 2%.

The provision for credit losses was $19 million, compared with $5 million in the prior year.

Noninterest expense was $1.7 billion, an increase of $69 million, or 4%, from the prior year, due to increased headcount-related expense.

Selected metrics

Business metrics	As of or for the three months ended March 31,		
	2012	2011	Change

(in millions, except headcount, ranking data and where otherwise noted)						
Number of:						
Client advisors[a]	2,832		2,719		4	%
Retirement planning services participants (in thousands)	1,926		1,604		20	
% of customer assets in 4 & 5 Star Funds[b]	42	%	46	%		
% of AUM in 1st and 2nd quartiles:[c]						
1 year	64		57			
3 years	74		70			
5 years	76		77			
Selected balance sheet data (period-end)						
Total assets	$96,385		$71,521		35	
Loans[d]	64,335		46,454		38	
Equity	7,000		6,500		8	
Selected balance sheet data (average)						
Total assets	$89,582		$68,918		30	
Loans	59,311		44,948		32	
Deposits	127,534		95,250		34	
Equity	7,000		6,500		8	
Headcount	17,849		17,203		4	

(a) Effective January 1, 2012, the previously disclosed separate metric for client advisors and JPMorgan Securities brokers were combined into one metric that reflects the number of Private Banking client-facing representatives.

(b) Derived from Morningstar for the U.S., the U.K., Luxembourg, France, Hong Kong and Taiwan; and Nomura for Japan.

(c) Quartile ranking sourced from: Lipper for the U.S. and Taiwan; Morningstar for the U.K., Luxembourg, France and Hong Kong; and Nomura for Japan.

(d) Includes $4.5 billion of prime mortgage loans reported in the Consumer loan portfolio at March 31, 2012.

Selected metrics

Business metrics	As of or for the three months ended March 31,		
(in millions, except headcount, ranking data and where otherwise noted)	2012	2011	Change
Credit data and quality statistics			
Net charge-offs	$27	$11	145 %
Nonaccrual loans	263	254	4
Allowance for credit losses:			
Allowance for loan losses	209	257	(19)
Allowance for lending-related commitments	5	4	25
Total allowance for credit losses	214	261	(18)
Net charge-off rate	0.18 %	0.10 %	
Allowance for loan losses to period-end loans	0.32	0.55	
Allowance for loan losses to nonaccrual loans	79	101	
Nonaccrual loans to period-end loans	0.41	0.55	

Assets under supervision

Assets under supervision were a record $2.0 trillion, an increase of $105 billion, or 6%, from the prior year. Assets under management were a record $1.4 trillion, an increase of $52 billion, or 4%, from the prior year. Both increases were due to net inflows to long-term products and the impact of higher market levels. Custody, brokerage, administration and deposit balances were $631 billion, up by $53 billion, or 9%, due to deposit and custody inflows

Assets under supervision

March 31, (in billions)	2012	2011	Change
Assets by asset class			
Liquidity	$492	$490	— %
Fixed income	355	305	16
Equity and multi-asset	417	421	(1)
Alternatives	118	114	4
Total assets under management	1,382	1,330	4
Custody/brokerage/administration/deposits	631	578	9
Total assets under supervision	$2,013	$1,908	6
Assets by client segment			
Private Banking	$303	$293	3
Institutional	732	711	3
Retail	347	326	6
Total assets under management	$1,382	$1,330	4
Private Banking	$830	$773	7
Institutional	732	713	3
Retail	451	422	7
Total assets under supervision	$2,013	$1,908	6
Mutual fund assets by asset class			
Liquidity	$434	$436	—
Fixed income	116	99	17
Equity and multi-asset	167	173	(3)
Alternatives	8	8	—
Total mutual fund assets	$725	$716	1

	Three months ended March 31,	
(in billions)	2012	2011
Assets under management rollforward		

Beginning balance	$1,336	$1,298
Net asset flows:		
Liquidity	(25)	(9)
Fixed income	11	16
Equity, multi-asset and alternatives	6	11
Market/performance/other impacts	54	14
Ending balance, March 31	$1,382	$1,330
Assets under supervision rollforward		
Beginning balance	$1,921	$1,840
Net asset flows	8	31
Market/performance/other impacts	84	37
Ending balance, March 31	$2,013	$1,908

International metrics	As of or for the three months ended March 31,		
(in billions, except where otherwise noted)	2012	2011	Change
Total net revenue (in millions)[(a)]			
Europe/Middle East/Africa	$405	$439	(8)%
Asia/Pacific	236	246	(4)
Latin America/Caribbean	175	165	6
North America	1,554	1,556	—
Total net revenue	$2,370	$2,406	(1)
Assets under management			
Europe/Middle East/Africa	$282	$300	(6)
Asia/Pacific	112	115	(3)
Latin America/Caribbean	41	35	17
North America	947	880	8
Total assets under management	$1,382	$1,330	4
Assets under supervision			
Europe/Middle East/Africa	$339	$353	(4)
Asia/Pacific	152	155	(2)
Latin America/Caribbean	101	88	15
North America	1,421	1,312	8
Total assets under supervision	$2,013	$1,908	6

(a) Regional revenue is based on the domicile of the client.

CORPORATE/PRIVATE EQUITY

For a discussion of the business profile of Corporate/Private Equity, see pages 107–108 of JPMorgan Chase's 2011 Annual Report.

Selected income statement data

	Three months ended March 31,		
(in millions, except headcount)	2012	2011	Change
Revenue			
Principal transactions	$113	$1,298	(91)%
Securities gains	449	102	340
All other income	1,111	78	NM
Noninterest revenue	1,673	1,478	13
Net interest income	16	34	(53)
Total net revenue[(a)]	1,689	1,512	12
Provision for credit losses	(9)	(10)	10
Noninterest expense			
Compensation expense	823	657	25
Noncompensation expense[(b)]	3,328	1,143	191
Subtotal	4,151	1,800	131
Net expense allocated to other businesses	(1,382)	(1,238)	(12)
Total noninterest expense	2,769	562	393
Income before income tax expense/(benefit)	(1,071)	960	NM
Income tax expense/(benefit)	(508)	238	NM
Net income	$(563)	$722	NM
Total net revenue			
Private equity	$254	$699	(64)
Corporate	1,435	813	77
Total net revenue	$1,689	$1,512	12
Net income			
Private equity	$134	$383	(65)
Corporate	(697)	339	NM
Total net income	$(563)	$722	NM
Total assets (period-end)	$713,492	$591,353	21
Headcount	22,337	20,927	7

(a) Total net revenue included tax-equivalent adjustments, predominantly due to tax-exempt income from municipal bond investments of $99 million and $64 million for the three months ended March 31, 2012 and 2011, respectively.

(b) Includes litigation expense of $2.5 billion and $363 million for the three months ended March 31, 2012 and 2011, respectively.

Quarterly results

Net loss was $563 million, compared with net income of $722 million in the prior year.

Private Equity reported net income of $134 million, compared with net income of $383 million in the prior year. Net revenue of $254 million was down from $699 million in the prior year, due to the absence of prior-year valuation gains on private investments. Noninterest expense was $44 million, a decrease of $69 million from the prior year.

Corporate reported a net loss of $697 million, compared with net income of $339 million in the prior year. Net revenue of $1.4 billion was driven by a $1.1 billion benefit from the Washington Mutual bankruptcy settlement and securities gains of $449 million. Noninterest expense of $2.7 billion was up from $449 million in the prior year, primarily reflecting $2.5 billion of additional litigation reserves, predominantly for mortgage-related matters.

Treasury and CIO

Selected income statement and balance sheet data

	As of or for the three months ended March 31,			
(in millions)	2012	2011	Change	
Securities gains[(a)]	$453	$102	344	%
Investment securities portfolio (average)	361,601	313,319	15	
Investment securities portfolio (ending)	374,588	328,013	14	
Mortgage loans (average)	12,636	11,418	11	
Mortgage loans (ending)	11,819	12,171	(3	)

(a) Reflects repositioning of the Corporate investment securities portfolio.

For further information on the investment securities portfolio, see Note 3 and Note 11 on pages 91–100 and 113–117, respectively, of this Form 10-Q. For further information on CIO VaR and the Firm's nontrading interest rate-sensitive revenue at risk, see the Market Risk Management section on pages 73–76 of this Form 10-Q.

Private Equity Portfolio

Selected income statement and balance sheet data

	Three months ended March 31,			
(in millions)	2012	2011	Change	
Private equity gains/(losses)				
Realized gains	$66	$171	(61	)%
Unrealized gains/(losses)[(a)]	179	370	(52	)
Total direct investments	245	541	(55	)
Third-party fund investments	83	186	(55	)
Total private equity gains/(losses)[(b)]	$328	$727	(55	)

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Private equity portfolio information[c]

Direct investments			
(in millions)	March 31, 2012	December 31, 2011	Change
Publicly held securities			
Carrying value	$889	$805	10 %
Cost	549	573	(4)
Quoted public value	931	896	4
Privately held direct securities			
Carrying value	4,944	4,597	8
Cost	6,819	6,793	—
Third-party fund investments[d]			
Carrying value	2,131	2,283	(7)
Cost	2,162	2,452	(12)
Total private equity portfolio			
Carrying value	$7,964	$7,685	4
Cost	$9,530	$9,818	(3)

(a) Unrealized gains/(losses) contain reversals of unrealized gains and losses that were recognized in prior periods and have now been realized.

(b) Included in principal transactions revenue in the Consolidated Statements of Income.

(c) For more information on the Firm's policies regarding the valuation of the private equity portfolio, see Note 3 on pages 91–100 of this Form 10-Q.

(d) Unfunded commitments to third-party private equity funds were $571 million and $789 million at March 31, 2012, and December 31, 2011, respectively.

Quarterly results

The carrying value of the private equity portfolio at March 31, 2012, was $8.0 billion, up from $7.7 billion at December 31, 2011. The increase in the portfolio is predominantly driven by new investments, partially offset by sales of investments and net valuation losses. The portfolio represented 5.6% of the Firm's stockholders' equity less goodwill at March 31, 2012, down from 5.7% at December 31, 2011.

INTERNATIONAL OPERATIONS

During the three months ended March 31, 2012 and 2011, the Firm recorded approximately $6.2 billion and $6.8 billion, respectively, of managed revenue derived from clients, customers and counterparties domiciled outside of North America. Of those amounts, approximately 66%, for both periods, were derived from Europe/Middle East/Africa ("EMEA"); approximately 24% and 26%, respectively, from Asia/Pacific; and approximately 10% and 8%, respectively, from Latin America/Caribbean. For additional information regarding international operations, see Note 32 on pages 299–300 of JPMorgan Chase's 2011 Annual Report.

International Wholesale Activities

The Firm is committed to further expanding its wholesale business activities outside of the United States, and it

continues to add additional client-serving bankers, as well as product and sales support personnel, to address the needs of the Firm's clients located in these regions. With a comprehensive and coordinated international business strategy and growth plan, efforts and investments for growth outside of the United States will continue to be accelerated and prioritized.

Set forth below are certain key metrics related to the Firm's wholesale international operations, including, for each of EMEA, Asia/Pacific and Latin America/Caribbean, the number of countries in each such region in which they operate, front-office headcount, number of clients, revenue and selected balance-sheet data.

As of or for the three months ended March 31,	EMEA		Asia/Pacific		Latin America/Caribbean	
(in millions, except headcount and where otherwise noted)	2012	2011	2012	2011	2012	2011
Revenue[(a)]	$4,047	$4,479	$1,518	$1,737	$606	$569
Countries of operation	33	34	16	16	9	8
Total headcount[(b)]	16,047	16,341	20,290	19,584	1,412	1,261
Front-office headcount	5,933	5,930	4,193	4,204	591	506
Significant clients[(c)]	914	920	472	463	160	130
Deposits (average)[(d)]	$180,771	$155,433	$61,570	$52,388	$4,778	$5,491
Loans (period-end)[(e)]	36,529	30,360	30,079	23,144	28,667	17,745
Assets under management (in billions)	282	300	112	115	41	35
Assets under supervision (in billions)	339	353	152	155	101	88
Assets under custody (in billions)	6,111	5,198	1,503	1,366	256	154

Note: Wholesale international operations is comprised of IB, AM, TSS, CB and CIO/Treasury, and prior-period amounts have been revised to conform with current allocation methodologies.

(a) Revenue is based predominantly on the domicile of the client, the location from which the client relationship is managed, or the location of the trading desk.

(b) Total headcount includes all employees, including those in service centers, located in the region.

(c) Significant clients are defined as companies with over $1 million in revenue over a trailing 12-month period in the region (excludes private banking clients).

(d) Deposits are based on the location from which the client relationship is managed.

(e) Loans outstanding are based predominantly on the domicile of the borrower and exclude loans held-for-sale and loans carried at fair value.

BALANCE SHEET ANALYSIS

Selected Consolidated Balance Sheets data

(in millions)	March 31, 2012	December 31, 2011
Assets		
Cash and due from banks	$55,383	$59,602
Deposits with banks	115,028	85,279
Federal funds sold and securities purchased under resale agreements	240,484	235,314
Securities borrowed	135,650	142,462
Trading assets:		
Debt and equity instruments	370,623	351,486
Derivative receivables	85,377	92,477
Securities	381,742	364,793
Loans	720,967	723,720
Allowance for loan losses	(25,871)	(27,609)
Loans, net of allowance for loan losses	695,096	696,111
Accrued interest and accounts receivable	64,833	61,478
Premises and equipment	14,213	14,041
Goodwill	48,208	48,188
Mortgage servicing rights	8,039	7,223
Other intangible assets	3,029	3,207
Other assets	102,625	104,131
Total assets	$2,320,330	$2,265,792
Liabilities		
Deposits	$1,128,512	$1,127,806
Federal funds purchased and securities loaned or sold under repurchase agreements	250,483	213,532
Commercial paper	50,577	51,631
Other borrowed funds	27,298	21,908
Trading liabilities:		
Debt and equity instruments	71,529	66,718
Derivative payables	74,474	74,977
Accounts payable and other liabilities	204,148	202,895
Beneficial interests issued by consolidated VIEs	67,750	65,977
Long-term debt	255,831	256,775
Total liabilities	2,130,602	2,082,219
Stockholders' equity	189,728	183,573
Total liabilities and stockholders' equity	$2,320,330	$2,265,792

Consolidated Balance Sheets overview

For a description of each of the significant line item captions on the Consolidated Balance Sheets, see pages 110–112 of JPMorgan Chase's 2011 Annual Report.

JPMorgan Chase's total assets and total liabilities increased by 2% from December 31, 2011. The increase in total assets was predominantly due to higher deposits with banks, trading assets – debt and equity instruments, and securities. The increase in total liabilities was predominantly due to higher securities sold under repurchase agreements and other borrowed funds. The increase in stockholders' equity was predominantly due to the Firm's net income.

The following is a discussion of the significant changes in the specific line item captions on the Consolidated Balance Sheets from December 31, 2011. For a description of the specific line captions discussed below, see pages 110-112 of JPMorgan Chase's 2011 Annual Report.

Deposits with banks
Deposits with banks increased significantly, reflecting the placement of funds with various central banks, including Federal Reserve Banks.
Trading assets and liabilities – debt and equity instruments
Trading assets - debt and equity instruments increased, driven by client market-making activity in IB; this resulted in higher levels of equity securities, U.S. government securities and non-U.S. government securities, partially offset by decreases in physical commodities. For additional information, refer to Note 3 on pages 91–100 of this Form 10-Q.
Trading assets and liabilities – derivative receivables and payables
Derivative receivables and payables decreased, predominantly due to interest rate and foreign exchange derivatives activity. Decreases were partially offset by increased equity derivative balances reflecting market levels during the quarter. For additional information, refer to Derivative contracts on pages 59–60, and Note 3 and Note 5 on pages 91–100 and 103–109, respectively, of this Form 10-Q.
Securities
Securities increased, largely due to repositioning of the portfolio in Corporate in response to changes in the market environment. This repositioning increased the levels of non-U.S. residential mortgage-backed securities and government debt. For additional information related to securities, refer to the discussion in the Corporate/Private Equity segment on pages 33–34, and Note 3 and Note 11 on pages 91–100 and 113–117, respectively, of this Form 10-Q.
Loans and allowance for loan losses
Loans decreased slightly as a result of lower credit card loans, due to seasonality and higher repayment rates; and lower consumer, excluding credit card loans, due to paydowns, portfolio run-off and charge-offs in residential real estate loans. The decrease was offset partially by higher wholesale loans, due to increased client activity across most wholesale businesses and regions.
The allowance for loan losses decreased slightly as a result of a lower credit card allowance, due to improved delinquency trends; and a lower consumer, excluding credit card allowance, largely due to a reduction in the allowance related to the non-PCI residential real estate portfolio, as estimated losses in that portfolio declined. The wholesale allowance was relatively unchanged from December 31,

2011. For a more detailed discussion of the loan portfolio and the allowance for loan losses, refer to Credit Portfolio and Allowance for Credit Losses on pages 50–72, and Notes 3, 4, 13 and 14 on pages 91–100, 101–102, 118–135 and 136, respectively, of this Form 10-Q.

Mortgage servicing rights

MSRs increased, predominantly as a result of an increase in market interest rates. In addition, new MSR originations were largely offset by amortization. For additional information on MSRs, see Note 16 on pages 144–146 of this Form 10-Q.

Deposits

Deposits increased slightly, predominantly due to an overall growth in the level of retail deposits, from the combined effect of seasonal factors, such as tax refunds and bonus payments, and general growth in business; partially offset by a decrease in wholesale deposits from TSS clients. For more information on deposits, refer to the RFS and AM segment discussions on pages 18–24 and 31–32, respectively; the Liquidity Risk Management discussion on pages 46–50; and Notes 3 and 17 on pages 91–100 and 147, respectively, of this Form 10-Q. For more information on wholesale liability balances, which includes deposits, refer to the CB and TSS segment discussions on pages 27–28 and 29–30, respectively, of this Form 10-Q.

Federal funds purchased and securities loaned or sold under repurchase agreements

Securities loaned or sold under repurchase agreements increased predominantly because of higher financing of the Firm’s trading assets and a change in the mix of liabilities. For additional information on the Firm’s Liquidity Risk Management, see pages 46–50 of this Form 10-Q.

Commercial paper and other borrowed funds

Commercial paper decreased slightly due to a decline in the volume of liability balances in sweep accounts related to TSS’s cash management product, partially offset by an increase in commercial paper liabilities sourced from wholesale funding markets. Other borrowed funds increased, predominantly driven by an increase in borrowings due to favorable market rates. For additional information on the Firm’s Liquidity Risk Management and other borrowed funds, see pages 46–50 of this Form 10-Q.

Beneficial interests issued by consolidated VIEs

Beneficial interests issued by consolidated VIEs increased primarily due to new consolidations of municipal bond vehicles partially offset by a reduction in outstanding conduit commercial paper. For additional information on Firm-sponsored VIEs and loan securitization trusts, see Off–Balance Sheet Arrangements on pages 38–41, and Note 15 on pages 137–144 of this Form 10-Q.

Long-term debt

Long-term debt decreased slightly, predominantly due to net redemptions and maturities of long-term borrowings. For additional information on the Firm’s long-term debt activities, see the Liquidity Risk Management discussion on pages 46–50 of this Form 10-Q.

Stockholders’ equity

Total stockholders’ equity increased, predominantly due to net income; a net increase in accumulated other comprehensive income (“AOCI”), due primarily to net unrealized market value increases on available-for-sale (“AFS”) securities, driven by tightening of spreads; and to net issuances and commitments to issue under the Firm’s employee stock-based compensation plans. The increase was partially offset by the declaration of cash dividends on common and preferred stock and repurchases of common equity.

OFF-BALANCE SHEET ARRANGEMENTS

JPMorgan Chase is involved with several types of off–balance sheet arrangements, including through unconsolidated special-purpose entities (“SPEs”), which are a type of VIE, and through lending-related financial instruments (e.g., commitments and guarantees). For further discussion, see Off–Balance Sheet Arrangements and Contractual Cash Obligations on pages 113–118 of JPMorgan Chase’s 2011 Annual Report.

Special-purpose entities

The most common type of VIE is a special purpose entity (“SPE”). SPEs are commonly used in securitization transactions in order to isolate certain assets and distribute the cash flows from those assets to investors. SPEs are an important part of the financial markets, including the mortgage- and asset-backed securities and commercial paper markets, as they provide market liquidity by facilitating investors’ access to specific portfolios of assets and risks. The Firm holds capital, as deemed appropriate, against all SPE-related transactions and related exposures, such as derivative transactions and lending-related commitments and guarantees. For further information on the types of SPEs, see Note 15 on pages 137–144 of this Form 10-Q, and Note 1 on pages 182–183 and Note 16 on pages 256–267 of JPMorgan Chase’s 2011 Annual Report.

Implications of a credit rating downgrade to JPMorgan Chase Bank, N.A.

For certain liquidity commitments to SPEs, JPMorgan Chase Bank, N.A., could be required to provide funding if its short-term credit rating were downgraded below specific levels, primarily “P-1,” “A-1” and “F1” for Moody’s, Standard & Poor’s and Fitch, respectively. These liquidity commitments support the issuance of asset-backed commercial paper by both Firm-administered consolidated and third-party-sponsored nonconsolidated SPEs. In the event of a short-term credit rating downgrade, JPMorgan Chase Bank, N.A., absent other solutions, would be required to provide funding to the SPE, if the commercial paper could not be reissued as it matured. The aggregate amounts of commercial paper outstanding, issued by both Firm-administered and third-party-sponsored SPEs, that are held by third parties as of March 31, 2012, and December 31, 2011, was $18.5 billion and $19.7 billion, respectively. In addition, the aggregate amounts of commercial paper outstanding could increase in future periods should clients of the Firm-administered consolidated or third-party-sponsored nonconsolidated SPEs draw down on certain unfunded lending-related commitments. JPMorgan Chase Bank, N.A. had unfunded lending-related commitments to clients to fund an incremental $12.3 billion and $11.0 billion at March 31, 2012, and December 31, 2011, respectively. The Firm could facilitate the refinancing of some of the clients’ assets in order to reduce the funding obligation.

Off–balance sheet lending-related financial instruments, guarantees, and other commitments

JPMorgan Chase provides lending-related financial instruments (e.g., commitments and guarantees) to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk to the Firm should the counterparty draw upon the commitment or the Firm be required to fulfill its obligation under the guarantee, and should the counterparty subsequently fail to perform according to the terms of the contract. Most of these commitments and guarantees expire without being drawn or a default occurring. As a result, the total contractual amount of these instruments is not, in the Firm’s view, representative of its actual future credit exposure or funding requirements. For further discussion of lending-related commitments and guarantees, see Lending-related commitments on page 59, and Note 21 on pages 150–154 of this Form 10-Q, and Lending-related commitments on page 144, and Note 29 on pages 283–289 of JPMorgan Chase’s 2011 Annual Report.

Mortgage repurchase liability

In connection with the Firm’s mortgage loan sale and securitization activities with Fannie Mae and Freddie Mac (the “GSEs”) and other mortgage loan sale and private-label securitization transactions, the Firm has made representations and warranties that the loans sold meet certain requirements. The Firm may be, and has been, required to repurchase loans and/or indemnify the GSEs and other investors for losses due to material breaches of these representations and warranties. For additional information regarding loans sold to the GSEs, see Mortgage repurchase liability on pages 115–118 of JPMorgan Chase’s 2011 Annual Report.

The Firm also sells loans in securitization transactions with Ginnie Mae; these loans are typically insured or guaranteed by another government agency. The Firm, in its role as servicer, may elect, but is typically not required, to repurchase delinquent loans securitized by Ginnie Mae, including those that have been sold back to Ginnie Mae subsequent to modification. Principal amounts due under the terms of these repurchased loans continue to be insured and the reimbursement of insured amounts is proceeding normally. Accordingly, the Firm has not recorded any mortgage repurchase liability related to these loans.

From 2005 to 2008, the Firm and certain acquired entities made certain loan level representations and warranties in connection with approximately $450 billion of residential mortgage loans that were sold or deposited into private-label securitizations. Of the $450 billion originally sold or deposited (including $165 billion by Washington Mutual, as to which the Firm maintains that certain of the repurchase obligations remain with the FDIC receivership), approximately $193 billion of principal has been repaid (including $71 billion related to Washington Mutual). In addition, approximately $101 billion of the principal amount of loans has been liquidated (including $36 billion related to Washington Mutual), with an average loss severity of 58%. Accordingly, the remaining outstanding principal balance of these loans (including Washington Mutual) was, as of March 31, 2012, approximately $156 billion, of which $51 billion was 60 days or more past due. The remaining outstanding principal balance of loans related to Washington Mutual was approximately $58 billion, of which $18 billion were 60 days or more past due. For additional information regarding loans sold to private investors, see Mortgage repurchase liability on pages 115–118 of JPMorgan Chase's 2011 Annual Report.

There have been generalized allegations, as well as specific demands, that the Firm should repurchase loans sold or deposited into private-label securitizations (including claims from insurers that have guaranteed certain obligations of the securitization trusts). Although the Firm encourages parties to use the contractual repurchase process established in the governing agreements, these private-label repurchase claims have generally manifested themselves through threatened or pending litigation. Accordingly, the liability related to repurchase demands associated with private-label securitizations are separately evaluated by the Firm in establishing its litigation reserves. For additional information regarding litigation, see Note 23 on pages 154–163 of this Form 10-Q, and Note 31 on pages 290–299 of JPMorgan Chase's 2011 Annual Report.

Estimated mortgage repurchase liability

The Firm has recognized a mortgage repurchase liability of $3.5 billion and $3.6 billion, as of March 31, 2012, and December 31, 2011, respectively. For additional information about the process that the Firm uses to estimate its mortgage repurchase liability and the factors it considers in connection with that process, see Mortgage repurchase liability on pages 115–118 of JPMorgan Chase's 2011 Annual Report.

The following table provides information about outstanding repurchase demands and unresolved mortgage insurance rescission notices, excluding those related to Washington Mutual, at each of the past five quarter-end dates.

Outstanding repurchase demands and unresolved mortgage insurance rescission notices by counterparty type[(a)]

(in millions)	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
GSEs and other[(b)]	$2,624	$2,345	$2,133	$1,826	$1,321
Mortgage insurers	1,000	1,034	1,112	1,093	1,240
Overlapping population[(c)]	(116)	(113)	(155)	(145)	(127)
Total	$3,508	$3,266	$3,090	$2,774	$2,434

(a) Mortgage repurchase demands associated with private-label securitizations are separately evaluated by the Firm in establishing its litigation reserves.

(b) The Firm's outstanding repurchase demands are largely from the GSEs. Other represents repurchase demands received from parties other than the GSEs that have been presented to the Firm by trustees who assert authority to present such claims under the terms of the underlying sale or securitization agreement, and excludes repurchase demands asserted in litigation.

(c) Because the GSEs may make repurchase demands based on mortgage insurance rescission notices that remain unresolved, certain loans may be subject to both an unresolved mortgage insurance rescission notice and an outstanding repurchase demand.

The following tables show the trend in repurchase demands and mortgage insurance rescission notices received by loan origination vintage, excluding those related to Washington Mutual, for the past five quarters. The Firm expects repurchase demands to remain at elevated levels or to increase if there is a significant increase in private-label repurchase demands outside of litigation.

Quarterly mortgage repurchase demands received by loan origination vintage[a]

(in millions)	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Pre-2005	$41	$39	$34	$32	$15
2005	95	55	200	57	45
2006	375	315	232	363	158
2007	645	804	602	510	381
2008	361	291	323	301	249
Post-2008	124	81	153	89	94
Total repurchase demands received	$1,641	$1,585	$1,544	$1,352	$942

(a) Mortgage repurchase demands associated with private-label securitizations are separately evaluated by the Firm in establishing its litigation reserves. This table excludes repurchase demands asserted in litigation.

Quarterly mortgage insurance rescission notices received by loan origination vintage[a]

(in millions)	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Pre-2005	$13	$4	$3	$3	$5
2005	19	12	15	24	32
2006	36	19	31	39	65
2007	78	48	63	72	144
2008	32	26	30	31	49
Post-2008	4	2	1	1	1
Total mortgage insurance rescissions received	$182	$111	$143	$170	$296

(a) Mortgage insurance rescissions typically result in a repurchase demand from the GSEs. This table includes mortgage insurance rescission notices for which the GSEs also have issued a repurchase demand.

Since the beginning of 2010, the Firm’s overall cure rate, excluding Washington Mutual, has been approximately 50%. Repurchases that have resulted from mortgage insurance rescissions are reflected in the Firm’s overall cure rate. While the actual cure rate may vary from quarter to quarter, the Firm expects that the overall cure rate will remain at approximately 50% for the foreseeable future.

The Firm has not observed a direct relationship between the type of defect that allegedly causes the breach of representations and warranties and the severity of the realized loss. Therefore, the loss severity assumption is estimated using the Firm’s historical experience and projections regarding changes in home prices. Actual principal loss severities on finalized repurchases and “make-whole” settlements to date, excluding Washington Mutual, currently average approximately 50%, but may vary from quarter to quarter based on the characteristics of the underlying loans and changes in home prices.

When a loan was originated by a third-party originator, the Firm typically has the right to seek a recovery of related repurchase losses from the third-party originator. Estimated and actual third-party recovery rates may vary from quarter to quarter based upon the underlying mix of third-party originators (e.g., active, inactive, out-of-business originators) from which recoveries are being sought.

Substantially all of the estimates and assumptions underlying the Firm’s established methodology for computing its recorded mortgage repurchase liability — including the amount of probable future demands from purchasers, trustees or investors (which is in part based on historical experience), the ability of the Firm to cure identified defects, the severity of loss upon repurchase or foreclosure and recoveries from third parties — require application of a significant level of management judgment. Estimating the mortgage repurchase liability is further complicated by historical data that is not necessarily indicative of future expectations and uncertainty surrounding numerous external factors, including: (i) economic factors (for example, further declines in home prices and changes in borrower behavior may lead to increases in the number of defaults, the severity of losses, or both), and (ii) the level of future demands, which is dependent, in part, on actions taken by third parties, such as the GSEs, mortgage insurers, trustees and investors. While the Firm uses the best information available to it in estimating its mortgage repurchase liability, the estimation process is inherently uncertain, imprecise and potentially volatile as additional information is obtained and external factors continue to evolve.

The following table summarizes the change in the mortgage repurchase liability for each of the periods presented.
Summary of changes in mortgage repurchase liability[a]

Three months ended March 31, (in millions)	2012		2011	
Repurchase liability at beginning of period	$3,557		$3,285	
Realized losses[b]	(364	)	(231	)
Provision[c]	323		420	
Repurchase liability at end of period	$3,516	[d]	$3,474	

(a) Mortgage repurchase demands associated with private-label securitizations are separately evaluated by the Firm in establishing its litigation reserves.
(b) Includes principal losses and accrued interest on repurchased loans, "make-whole" settlements, settlements with claimants, and certain related expense. For the three months ended March 31, 2012 and 2011, make-whole settlements were $186 million and $115 million, respectively.
(c) Primarily relates to increases in estimated probable future repurchase demands. Also includes $27 million and $13 million of provision related to new loan sales for the three months ended March 31, 2012 and 2011, respectively.
(d) Includes $32 million at March 31, 2012, related to future repurchase demands on loans sold by Washington Mutual to the GSEs.

The following table summarizes the total unpaid principal balance of repurchases during the periods indicated.
Unpaid principal balance of mortgage loan repurchases[a]

Three months ended March 31, (in millions)	2012	2011
Ginnie Mae[b]	$1,507	$1,485
GSEs and other[c][d]	379	216
Total	$1,886	$1,701

(a) This table includes: (i) repurchases of mortgage loans due to breaches of representations and warranties, and (ii) loans repurchased from Ginnie Mae loan pools as described in (b) below. This table does not include mortgage insurance rescissions; while the rescission of mortgage insurance typically results in a repurchase demand from the GSEs, the mortgage insurers themselves do not present repurchase demands to the Firm. This table excludes mortgage loan repurchases associated with repurchase demands asserted in litigation.
(b) In substantially all cases, these repurchases represent the Firm's voluntary repurchase of certain delinquent loans from loan pools as permitted by Ginnie Mae guidelines (i.e., they do not result from repurchase demands due to breaches of representations and warranties). The Firm typically elects to repurchase these delinquent loans as it continues to service them and/or manage the foreclosure process in accordance with applicable requirements of Ginnie Mae, the Federal Housing Administration ("FHA"), Rural Housing Services ("RHS") and/or the U.S. Department of Veterans Affairs ("VA").
(c) Predominantly all of the repurchases related to demands by GSEs.
(d) Nonaccrual loans held-for-investment included $478 million and $347 million at March 31, 2012 and 2011, respectively, of loans repurchased as a result of breaches of representations and warranties.

For additional information regarding the mortgage
repurchase liability, see Note 21 on pages 150–154 of this Form 10-Q, and Note 29 on pages 283–289 of JPMorgan Chase's 2011 Annual Report.

CAPITAL MANAGEMENT

The following discussion of JPMorgan Chase's capital management highlights developments since December 31, 2011, and should be read in conjunction with Capital Management on pages 119–124 of JPMorgan Chase's 2011 Annual Report.

The Firm's capital management objectives are to hold capital sufficient to:

- Cover all material risks underlying the Firm's business activities;
- Maintain "well-capitalized" status under regulatory requirements;
- Maintain debt ratings, which will enable the Firm to optimize its funding mix and liquidity sources while minimizing costs;
- Retain flexibility to take advantage of future investment opportunities; and
- Build and invest in businesses, even in a highly stressed environment.

Regulatory capital

The Federal Reserve establishes capital requirements, including well-capitalized standards, for the consolidated financial holding company. The Office of the Comptroller of the Currency ("OCC") establishes similar capital requirements and standards for the Firm's national banks, including JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A. As of March 31, 2012, and December 31, 2011, JPMorgan Chase and all of its banking subsidiaries were well-capitalized and each met all capital requirements to which it was subject. For more information, see Note 20 on pages 149–150 of this Form 10-Q.

At March 31, 2012, and December 31, 2011, JPMorgan Chase maintained Tier 1 and Total capital ratios in excess of the well-capitalized standards established by the Federal Reserve, as indicated in the tables below. In addition, the Firm's Tier 1 common ratio was significantly above the 5% well-capitalized standard established at the time of the Comprehensive Capital Analysis and Review ("CCAR") process. Tier 1 common, introduced by U.S. banking regulators in 2009, is defined as Tier 1 capital less elements of Tier 1 capital not in the form of common equity such as perpetual preferred stock, noncontrolling interests in subsidiaries and trust preferred capital debt securities. Tier 1 common, a non-GAAP financial measure, is used by banking regulators, investors and analysts to assess and compare the quality and composition of the Firm's capital with the capital of other financial services companies. The Firm uses Tier 1 common along with the other capital measures to assess and monitor its capital position.

The following table presents the regulatory capital, assets and risk-based capital ratios for JPMorgan Chase at March 31, 2012, and December 31, 2011. These amounts are determined in accordance with regulations issued by the Federal Reserve.

Risk-based capital ratios

	March 31, 2012		December 31, 2011	
Capital ratios				
Tier 1 capital	12.6	%	12.3	%
Total capital	15.6		15.4	
Tier 1 leverage	7.1		6.8	
Tier 1 common[(a)]	10.4		10.1	

(a) The Tier 1 common ratio is Tier 1 common capital divided by risk-weighted assets ("RWA").

A reconciliation of total stockholders' equity to Tier 1 common, Tier 1 capital and Total qualifying capital is presented in the table below.

Risk-based capital components and assets

(in millions)	March 31, 2012		December 31, 2011	
Total stockholders' equity	$189,728		$183,573	
Less: Preferred stock	7,800		7,800	
Common stockholders' equity	181,928		175,773	
Effect of certain items in AOCI excluded from Tier 1 common	(2,544	)	(970	)
Less: Goodwill[(a)]	45,867		45,873	

Fair value DVA on derivative and structured note liabilities related to the Firm's credit quality	1,596	2,150
Investments in certain subsidiaries and other	981	993
Other intangible assets[a]	2,839	2,871
Tier 1 common	128,101	122,916
Preferred stock	7,800	7,800
Qualifying hybrid securities and noncontrolling interests[b]	19,910	19,668
Total Tier 1 capital	155,811	150,384
Long-term debt and other instruments qualifying as Tier 2	21,719	22,275
Qualifying allowance for credit losses	15,681	15,504
Adjustment for investments in certain subsidiaries and other	(72)	(75)
Total Tier 2 capital	37,328	37,704
Total qualifying capital	$193,139	$188,088
Risk-weighted assets	$1,235,256	$1,221,198
Total adjusted average assets	$2,195,625	$2,202,087

(a) Goodwill and other intangible assets are net of any associated deferred tax liabilities.
(b) Primarily includes trust preferred capital debt securities of certain business trusts.

The Firm's Tier 1 common was $128.1 billion at March 31, 2012, an increase of $5.2 billion from December 31, 2011. The increase was predominantly due to net income (adjusted for DVA) of $5.9 billion and net issuances and commitments to issue common stock under the Firm's employee stock-based compensation plans of $638 million. The increase was partially offset by $1.4 billion of dividends on common and preferred stock and $190 million (on a trade-date basis) of repurchases of common stock. The

Firm's Tier 1 capital was $155.8 billion at March 31, 2012, an increase of $5.4 billion from December 31, 2011. The increase in Tier 1 capital reflected the increase in Tier 1 common.

Additional information regarding the Firm's capital ratios and the federal regulatory capital standards to which it is subject is presented in Regulatory developments on page 9, Part II, Item 1A, Risk Factors on page 175, and Note 20 on pages 149–150 of this Form 10-Q.

Basel II

The minimum risk-based capital requirements adopted by the U.S. federal banking agencies follow the Capital Accord of the Basel Committee on Banking Supervision ("Basel I"). In 2004, the Basel Committee published a revision to the Accord ("Basel II"). The goal of the Basel II Framework is to provide more risk-sensitive regulatory capital calculations and promote enhanced risk management practices among large, internationally active banking organizations. U.S. banking regulators published a final Basel II rule in December 2007, which requires JPMorgan Chase to implement Basel II at the holding company level, as well as at certain of its key U.S. bank subsidiaries.

Prior to full implementation of the new Basel II Framework, JPMorgan Chase is required to complete a qualification period of four consecutive quarters during which it needs to demonstrate that it meets the requirements of the rule to the satisfaction of its U.S. banking regulators. JPMorgan Chase is currently in the qualification period and expects to be in compliance with all relevant Basel II rules within the established timelines. In addition, the Firm has adopted, and will continue to adopt, based on various established timelines, Basel II rules in certain non-U.S. jurisdictions, as required.

"Basel 2.5"

During 2011, the U.S. federal banking agencies issued proposals for industry comment to revise the market risk capital rules of Basel II that would result in additional capital requirements for trading positions and securitizations. The Firm anticipates these rules will be finalized in 2012. It is currently estimated that implementation of these rules could result in approximately a 100 basis point decrease in the Firm's Basel I Tier 1 common ratio, but the actual impact upon implementation on the Firm's capital ratios could differ depending on the outcome of the final U.S. rules and regulatory approval of the Firm's internal models.

Basel III

In addition to the Basel II Framework, in December 2010, the Basel Committee issued the final version of the Capital Accord, commonly referred to as "Basel III," which revised Basel II by, among other things, narrowing the definition of capital, increasing capital requirements for specific exposures, introducing minimum standards for short-term liquidity coverage – the liquidity coverage ratio ("LCR") – and term funding – the net stable funding ratio ("NSFR"), and establishing an international leverage ratio. The Basel

Committee also announced higher capital ratio requirements under Basel III, which provide that the common equity requirement will be increased to 7%, comprised of a minimum ratio of 4.5% plus a 2.5% capital conservation buffer.

In June 2011, the Basel Committee announced an agreement to require global systemically important banks ("GSIBs") to maintain Tier 1 common requirements above the 7% minimum in amounts ranging from an additional 1% to an additional 2.5%. The Basel Committee also stated it intended to require certain GSIBs to maintain a further Tier 1 common requirement of an additional 1% under certain circumstances, to act as a disincentive for the GSIB from taking actions that would further increase its systemic importance. The GSIB assessment methodology reflects an approach based on five broad categories: size; interconnectedness; lack of substitutability; cross-jurisdictional activity; and complexity.

In addition, U.S. federal banking agencies have published proposed risk-based capital floors pursuant to the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") to establish a permanent Basel I floor under Basel II and Basel III capital calculations.

Estimated Tier 1 common under Basel III rules

The following table presents a comparison of the Firm's Tier 1 common under Basel I rules to its estimated Tier 1 common under Basel III rules, along with the Firm's estimated risk-weighted assets and the Tier 1 common ratio under Basel III rules, all of which are non-GAAP financial measures. Tier 1 common under Basel III includes additional adjustments and deductions not included in Basel I Tier 1 common, such as the inclusion of AOCI related to AFS securities and defined benefit pension and other postretirement employee benefit ("OPEB") plans, and the deduction of the Firm’s defined benefit pension fund assets.

The Firm estimates that its Tier 1 common ratio under Basel III rules would be 8.2% as of March 31, 2012. Management considers this estimate as a key measure to assess the Firm’s capital position in conjunction with its capital ratios under Basel I requirements, in order to enable management, investors and analysts to compare the Firm’s capital under the Basel III capital standards with similar estimates provided by other financial services companies.

March 31, 2012 (in millions, except ratios)		
Tier 1 common under Basel I rules	$128,101	
Adjustments related to AOCI for AFS securities and defined benefit pension and OPEB plans	2,529	
Deduction for net defined benefit pension asset	(1,833	)
All other adjustments	(371	)
Estimated Tier 1 common under Basel III rules	$128,426	
Estimated risk-weighted assets under Basel III rules[(a)(c)]	$1,571,960	
Estimated Tier 1 common ratio under Basel III rules[(b)(c)]	8.2	%

(a) Key differences in the calculation of risk-weighted assets between

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Basel I and Basel III include: (a) Basel III credit risk RWA is based on risk-sensitive approaches which largely rely on the use of internal credit models and parameters, whereas Basel I RWA is based on fixed supervisory risk weightings which vary only by counterparty type and asset class; (b) Basel III market risk RWA reflects the new capital requirements related to trading assets and securitizations, which include incremental capital requirements for stress VaR, correlation trading, and re-securitization positions; and (c) Basel III includes RWA for operational risk, whereas Basel I does not.

(b) The Tier 1 common ratio is Tier 1 common divided by RWA.

(c) Supersedes the estimate included in the Firm's Form 8-K furnished on April 13, 2012.

The Firm's estimate of its Tier 1 common ratio under Basel III reflects its current understanding of the Basel III rules and the application of such rules to its businesses as currently conducted, and therefore excludes the impact of any changes the Firm may make in the future to its businesses as a result of implementing the Basel III rules. The Firm's understanding of the Basel III rules is based on information currently published by the Basel Committee and U.S. federal banking agencies.

The Firm intends to maintain its strong liquidity position in the future as the LCR and NSFR standards of the Basel III rules are implemented, in 2015 and 2018, respectively. In order to do so the Firm believes it may need to modify the liquidity profile of certain of its assets and liabilities. Implementation of the Basel III rules may also cause the Firm to increase prices on, or alter the types of, products it offers to its customers and clients.

The Basel III revisions governing liquidity and capital requirements are subject to prolonged observation and transition periods. The observation periods for both the LCR and NSFR began in 2011, with implementation in 2015 and 2018, respectively. The transition period for banks to meet the revised Tier 1 common requirement will begin in 2013, with implementation on January 1, 2019. The Firm fully expects to be in compliance with the higher Basel III capital standards, as well as any additional Dodd-Frank Act capital requirements, as they become effective. The additional capital requirements for GSIBs will be phased-in starting January 1, 2016, with full implementation on January 1, 2019.

The Firm will continue to monitor the ongoing rule-making process to assess both the timing and the impact of Basel III on its businesses and financial condition.

Broker-dealer regulatory capital

JPMorgan Chase's principal U.S. broker-dealer subsidiaries are J.P. Morgan Securities LLC ("JPMorgan Securities") and J.P. Morgan Clearing Corp. ("JPMorgan Clearing"). JPMorgan Clearing is a subsidiary of JPMorgan Securities and provides clearing and settlement services. JPMorgan Securities and JPMorgan Clearing are each subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (the "Net Capital Rule"). JPMorgan Securities and JPMorgan Clearing are also each registered as futures commission merchants and subject to Rule 1.17 of the Commodity Futures Trading Commission ("CFTC").

JPMorgan Securities and JPMorgan Clearing have elected to

compute their minimum net capital requirements in accordance with the "Alternative Net Capital Requirements" of the Net Capital Rule. At March 31, 2012, JPMorgan Securities' net capital, as defined by the Net Capital Rule, was $10.7 billion, exceeding the minimum requirement by $9.2 billion, and JPMorgan Clearing's net capital was $7.6 billion, exceeding the minimum requirement by $5.5 billion.

In addition to its minimum net capital requirement, JPMorgan Securities is required to hold tentative net capital in excess of $1.0 billion and is also required to notify the U.S. Securities and Exchange Commission in the event that tentative net capital is less than $5.0 billion, in accordance with the market and credit risk standards of Appendix E of the Net Capital Rule. As of March 31, 2012, JPMorgan Securities had tentative net capital in excess of the minimum and notification requirements.

Economic risk capital

JPMorgan Chase assesses its capital adequacy relative to the risks underlying its business activities using internal risk-assessment methodologies. The Firm measures economic capital primarily based on four risk factors: credit, market, operational and private equity risk.

Quarterly Averages

(in billions)	1Q12	4Q11	1Q11
Credit risk	$48.9	$48.2	$48.6
Market risk	14.1	13.7	15.1
Operational risk	11.3	8.5	8.3
Private equity risk	6.2	6.4	7.2
Economic risk capital	80.5	76.8	79.2
Goodwill	48.2	48.2	48.8
Other[(a)]	49.0	50.0	41.4
Total common stockholders' equity	$177.7	$175.0	$169.4

(a) Reflects additional capital required, in the Firm's view, to meet its regulatory and debt rating objectives.

Line of business equity

Equity for a line of business represents the amount the Firm believes the business would require if it were operating independently, incorporating sufficient capital to address regulatory capital requirements (including Basel III Tier 1 common capital requirements), economic risk measures and capital levels for similarly rated peers. Capital is also allocated to each line of business for, among other things, goodwill and other intangibles associated with acquisitions effected by the line of business. ROE is measured and internal targets for expected returns are established as key measures of a business segment's performance.

Line of business equity

(in billions)	March 31, 2012	December 31, 2011
Investment Bank	$40.0	$40.0
Retail Financial Services	26.5	25.0
Card Services & Auto	16.5	16.0
Commercial Banking	9.5	8.0
Treasury & Securities Services	7.5	7.0
Asset Management	7.0	6.5
Corporate/Private Equity	74.9	73.3
Total common stockholders' equity	$181.9	$175.8

Line of business equity	Quarterly Averages		
(in billions)	1Q12	4Q11	1Q11
Investment Bank	$40.0	$40.0	$40.0
Retail Financial Services	26.5	25.0	25.0
Card Services & Auto	16.5	16.0	16.0
Commercial Banking	9.5	8.0	8.0
Treasury & Securities Services	7.5	7.0	7.0
Asset Management	7.0	6.5	6.5
Corporate/Private Equity	70.7	72.5	66.9
Total common stockholders' equity	$177.7	$175.0	$169.4

Effective January 1, 2012, the Firm further revised the capital allocated to certain businesses, reflecting additional refinement of each segment's estimated Basel III Tier 1 common capital requirements and balance sheet trends. The Firm continues to assess the level of capital required for each line of business, as well as the assumptions and methodologies used to allocate capital to the business segments, and further refinements may be implemented in future periods.

Capital actions

Dividends

On March 13, 2012, the Board of Directors increased the Firm's quarterly common stock dividend from $0.25 to $0.30 per share, effective with the dividend paid on April 30, 2012, to shareholders of record on April 5, 2012. The Firm's common stock dividend policy reflects JPMorgan Chase's earnings outlook; desired dividend payout ratio; capital objectives; and alternative investment opportunities. The Firm's current expectation is to return to a payout ratio of approximately 30% of normalized earnings over time.

For information regarding dividend restrictions, see Note 22 and Note 27 on page 276 and 281, respectively, of JPMorgan Chase's 2011 Annual Report.

Common equity repurchases

On March 13, 2012, the Board of Directors authorized a new $15.0 billion common equity (i.e., common stock and warrants) repurchase program, of which up to $12.0 billion is approved for repurchase in 2012 and up to an additional $3.0 billion is approved through the end of the first quarter of 2013. The new program supersedes a $15.0 billion repurchase program approved on March 18, 2011. During the three months ended March 31, 2012, the Firm repurchased (on a trade-date basis) an aggregate of 4 million shares of common stock for $190 million, at an average price per share of $45.45. As of March 31, 2012, $14.9 billion of authorized repurchase capacity remained under the new program, of which $11.9 billion approved capacity remains for use during 2012. For the four months ended April 30, 2012, the Firm repurchased (on a trade-date basis) an aggregate of 42 million shares of common stock and warrants, for $1.3 billion.

The Firm may, from time to time, enter into written trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate repurchases in accordance with the repurchase program. A Rule 10b5-1 repurchase plan allows the Firm to repurchase its equity during periods when it would not otherwise be repurchasing common equity — for example, during internal trading "black-out periods." All purchases under a Rule 10b5-1 plan must be made according to a predefined plan established when the Firm is not aware of material nonpublic information. For additional information regarding repurchases of the Firm's equity securities, see Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds, on pages 175–176 of this Form 10-Q.

RISK MANAGEMENT

Risk is an inherent part of JPMorgan Chase's business activities. The Firm's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of the major risks inherent in its business activities. The Firm employs a holistic approach to risk management to ensure the broad spectrum of risk types are considered in managing its business activities. The Firm's risk management framework is intended to create a culture of risk awareness and personal responsibility throughout the Firm where sharing of information, collaboration, discussion, and escalation is encouraged.

The Firm's overall risk appetite is established in the context of the Firm's capital, earnings power, and diversified business model. The Firm employs a formalized risk appetite framework to clearly link risk appetite and return targets, controls and capital management. There are nine major risk types identified in the business activities of the Firm: liquidity risk, credit risk, market risk, interest rate risk, country risk, private equity risk, operational risk, legal and fiduciary risk, and reputation risk.

For further discussion of these risks, as well as how they are managed by the Firm, see Risk Management on pages 125–127 of JPMorgan Chase's 2011 Annual Report and the information below.

LIQUIDITY RISK MANAGEMENT

The following discussion of JPMorgan Chase's Liquidity Risk Management framework highlights developments since December 31, 2011, and should be read in conjunction with pages 127–132 of JPMorgan Chase's 2011 Annual Report.

Liquidity is essential to the ability to operate financial services businesses and, therefore, the ability to maintain surplus levels of liquidity through economic cycles is crucial to financial services companies, particularly during periods of adverse conditions. The Firm relies on external sources to finance a significant portion of its operations, and the Firm's funding strategy is intended to ensure that it will have sufficient liquidity and a diversity of funding sources necessary to enable it to meet actual and contingent liabilities during both normal and stress periods.

JPMorgan Chase's primary sources of liquidity include a diversified deposit base, which was $1,128.5 billion at March 31, 2012, and access to the equity capital markets and to long-term unsecured and secured funding sources, including through asset securitizations and borrowings from Federal Home Loan Banks ("FHLBs"). Additionally, JPMorgan Chase maintains significant amounts of highly-liquid unencumbered assets. The Firm actively monitors the availability of funding in the wholesale markets across various geographic regions and in various currencies. The Firm's ability to generate funding from a broad range of sources in a variety of geographic locations and in a range of tenors is intended to enhance financial flexibility and limit funding concentration risk.

Management considers the Firm's liquidity position to be strong, based on its liquidity metrics as of March 31, 2012, and believes that the Firm's unsecured and secured funding capacity is sufficient to meet its on- and off-balance sheet obligations.

Liquidity monitoring

The Firm currently has liquidity in excess of its projected full-year liquidity needs under both its idiosyncratic stress scenario (which evaluates the Firm's net funding gap after a

short-term ratings downgrade to A-2/P-2), as well as under its systemic market stress scenario (which evaluates the Firm's net funding gap during a period of severe market stress similar to market conditions in 2008 and assumes that the Firm is not uniquely stressed versus its peers).

Parent holding company

Liquidity monitoring of the parent holding company takes into consideration regulatory restrictions that limit the extent to which bank subsidiaries may extend credit to the parent holding company and other nonbank subsidiaries. Excess cash generated by parent holding company issuance activity is used to purchase liquid collateral through reverse repurchase agreements or is placed with both bank and nonbank subsidiaries in the form of deposits and advances to satisfy a portion of subsidiary funding requirements. The Firm’s liquidity management takes into consideration its subsidiaries’ ability to generate replacement funding in the event the parent holding company requires repayment of the aforementioned deposits and advances.

The Firm closely monitors the ability of the parent holding company to meet all of its obligations with liquid sources of cash or cash equivalents for an extended period of time without access to the unsecured funding markets. The Firm targets pre-funding of parent holding company obligations for at least 12 months; however, due to conservative liquidity management actions taken by the Firm in the current environment, the current pre-funding of such obligations is significantly greater than target.

Global Liquidity Reserve

As of March 31, 2012, the Global Liquidity Reserve was estimated to be approximately $432 billion, compared with approximately $379 billion at December 31, 2011. The Global Liquidity Reserve fluctuates due to factors, such as fluctuations in deposits, the Firm’s purchase and investment activities and general market conditions.

In addition to the Global Liquidity Reserve, the Firm has significant amounts of other high-quality, marketable securities available to raise liquidity, such as corporate debt and equity securities.

Funding

Sources of funds

A key strength of the Firm is its diversified deposit franchise, through the RFS, CB, TSS and AM lines of business, which provides a stable source of funding and decreases reliance on the wholesale markets. As of March 31, 2012, total deposits for the Firm were $1,128.5 billion, compared with $1,127.8 billion at December 31, 2011. The slight increase in deposits was predominantly due to an overall growth in the level of retail deposits, from the combined effect of seasonal factors, such as tax refunds and bonus payments, and general growth in business; partially offset by a decrease in wholesale deposits from TSS clients. Average total deposits for the Firm were $1,098.5 billion and $930.4 billion for the three months ended March 31, 2012 and 2011, respectively.

The Firm typically experiences higher customer deposit inflows at period-ends. A significant portion of the Firm's deposits are retail deposits (37% and 35% at March 31, 2012, and December 31, 2011, respectively), which are considered particularly stable as they are less sensitive to interest rate changes or market volatility. A significant portion of the Firm's wholesale deposits are also considered to be stable sources of funding due to the nature of the relationships from which they are generated, particularly customers' operating service relationships with the Firm. As of March 31, 2012, the Firm's deposits-to-loans ratio was 157%, compared with 156% at December 31, 2011. For further discussions of deposit and liability balance trends, see the discussion of the results for the Firm's business segments and the Balance Sheet Analysis on pages 14 and 36–37, respectively, of this Form 10-Q.

Additional sources of funding include a variety of unsecured and secured short-term and long-term instruments. Short-term unsecured funding sources include federal funds and Eurodollars purchased, certificates of deposit, time deposits, commercial paper and other borrowed funds. Long-term unsecured funding sources include long-term debt, preferred stock and common stock.

The Firm's short-term secured sources of funding consist of securities loaned or sold under agreements to repurchase and other short-term secured other borrowed funds. Secured long-term funding sources include asset-backed securitizations, and borrowings from the Chicago, Pittsburgh and San Francisco FHLBs.

Funding markets are evaluated on an ongoing basis to achieve an appropriate global balance of unsecured and secured funding at favorable rates.

Short-term funding

The Firm's reliance on short-term unsecured funding sources is limited. Short-term unsecured funding sources include federal funds and Eurodollars purchased, which represent overnight funds; certificates of deposit; time deposits; commercial paper, which is generally issued in amounts not less than $100,000 and with maturities of 270 days or less; and other borrowed funds, which consist of demand notes, term federal funds purchased, and various other borrowings that generally have maturities of one year or less.

Total commercial paper liabilities were $50.6 billion as of March 31, 2012, compared with $51.6 billion as of December 31, 2011. However, of those totals, $38.4 billion and $47.4 billion as of March 31, 2012, and December 31, 2011, respectively, originated from deposits that customers chose to sweep into commercial paper liabilities as a cash management product offered by the Firm. Therefore, commercial paper liabilities sourced from wholesale funding markets were $12.2 billion as of March 31, 2012, compared with $4.2 billion as of December 31, 2011; the average balance of commercial paper liabilities sourced from wholesale funding markets was $7.8 billion and $8.4 billion for the three months ended March 31, 2012 and 2011, respectively.

Securities loaned or sold under agreements to repurchase, which generally mature between one day and three months, are secured predominantly by high-quality securities collateral, including government-issued debt, agency debt and agency MBS. The balances of securities loaned or sold under agreements to repurchase, which constitute a significant portion of the federal funds purchased and securities loaned or sold under purchase agreements, was $249.2 billion as of March 31, 2012, compared with $212.0 billion as of December 31, 2011; the average balance was $232.2 billion for the three months ended March 31, 2012. The increase in the balance at March 31, 2012, compared with the balance at December 31, 2011, and the average balance for the three months ended March 31, 2012, was largely driven by higher financing of the Firm's trading assets and a change in the mix of liabilities. The balances associated with securities loaned or sold under agreements to repurchase fluctuate over time due to customers' investment and financing activities; the Firm's demand for financing; the Firm's matched book activity; the ongoing management of the mix of the Firm's liabilities, including its secured and unsecured financing (for both the investment and market-making portfolios); and other market and portfolio factors.

Total other borrowed funds was $27.3 billion as of March 31, 2012, compared with $21.9 billion as of December 31, 2011; the average balance of other borrowed funds was $25.4 billion and $33.6 billion for the three months ended March 31, 2012 and 2011, respectively. At March 31, 2012, the increase in the balance, compared with the balance at December 31, 2011, was predominantly driven by an increase in borrowings due to favorable market rates. The average balance for the three months ended March 31, 2012, decreased compared with the same period in the prior year, predominantly driven by maturities of short-term unsecured bank notes, short-term FHLB advances, and other secured short-term borrowings.

For additional information, see the Balance Sheet Analysis on pages 36–37 and Note 12 on page 118 of this Form 10-Q.

Long-term funding and issuance

During the three months ended March 31, 2012, the Firm issued $14.5 billion of long-term debt, including $6.3 billion of senior notes issued in the U.S. market, $2.0 billion of senior notes issued in non-U.S. markets, and $6.2 billion of IB structured notes. During the three months ended March 31, 2011, the Firm issued $13.0 billion of long-term debt, including $7.0 billion of senior notes issued in U.S. markets, $2.7 billion of senior notes issued in non-U.S. markets, and $3.3 billion of IB structured notes. During the three months ended March 31, 2012, $11.9 billion of long-term debt matured or was redeemed, including $6.8 billion of IB structured notes. During the three months ended March 31, 2011, $18.1 billion of long-term debt matured or was redeemed, including $5.6 billion of IB structured notes.

In addition to the unsecured long-term funding and issuances discussed above, the Firm securitizes consumer credit card loans, residential mortgages, auto loans and student loans for funding purposes. During the three months ended March 31, 2012, the Firm did not securitize any loans for funding purposes; $158 million of loan securitizations matured or were redeemed, including $54 million of credit card loan securitizations, $34 million of residential mortgage loan securitizations and $70 million of student loan securitizations. During the three months ended March 31, 2011, the Firm did not securitize any loans for funding purposes; $6.7 billion of loan securitizations matured or were redeemed, including $6.6 billion of credit card loan securitizations, $44 million of residential mortgage loan securitizations, $76 million of student loan securitizations.

In addition, the Firm's wholesale businesses securitize loans for client-driven transactions; those client-driven loan securitizations are not considered to be a source of funding for the Firm.

During the three months ended March 31, 2012, the Firm did not borrow any long-term advances from the FHLBs and there were $4.5 billion of maturities. For the three months ended March 31, 2011, the Firm borrowed $4.0 billion in long-term advances from the FHLBs, which was offset by $2.5 billion of maturities.

Cash flows

For the three months ended March 31, 2012 and 2011, cash and due from banks was $55.4 billion and $23.5 billion, respectively. These balances decreased by $4.2 billion and $4.1 billion from December 31, 2011 and 2010, respectively. The following discussion highlights the major activities and transactions that affected JPMorgan Chase's cash flows for the three months ended March 31, 2012 and 2011, respectively.

Cash flows from operating activities

JPMorgan Chase's operating assets and liabilities support the Firm's capital markets and lending activities, including the origination or purchase of loans initially designated as held-for-sale. Operating assets and liabilities can vary significantly in the normal course of business due to the amount and timing of cash flows, which are affected by client-driven and risk management activities, and market conditions. Management believes cash flows from operations, available cash balances and the Firm's ability to generate cash through short- and long-term borrowings are sufficient to fund the Firm's operating liquidity needs.

For the three months ended March 31, 2012, net cash provided by operating activities was $4.3 billion. This resulted from a decrease in trading assets - derivative receivables, predominantly due to interest rate and foreign exchange derivatives activity, partially offset by increased equity derivative balances reflecting market levels. Partially offsetting these cash proceeds was an increase in trading assets - debt and equity instruments, driven by client market-making activity in IB. Additionally, cash used to acquire the loans originated and purchased with an initial intent to sell was higher than the cash proceeds received from the sales and paydowns of such loans, and also reflected a lower level of activity over the prior-year period. Net cash was provided by net income after adjustments of noncash items such as depreciation and amortization, provision for credit losses, and stock-based compensation.

For the three months ended March 31, 2011, net cash used in operating activities was $6.0 billion. This resulted from an increase in trading assets - debt and equity instruments largely driven by growth in customer demand, market activity, including a significant level of new issuances, and rising global indices; an increase in accrued interest and accounts receivable reflecting higher customer receivables in IB's Prime Services business due to growth in client activity; and a decrease in trading liabilities-derivative payables, partially offset by decrease in trading assets - derivative receivables, largely due to a reduction in foreign exchange derivatives, which declined primarily due to the Japanese yen depreciation relative to the U.S. dollar, and a reduction in interest rate contracts as a result of higher interest rate yields during the quarter. Additionally, cash used to acquire loans originated or purchased with an initial intent to sell was higher than proceeds from sales and paydowns of such loans. Net cash was provided by net income after adjustments of non-cash items such as the provision for credit losses, depreciation and amortization, and stock-based compensation.

Cash flows from investing activities

The Firm’s investing activities predominantly include loans originated to be held for investment, the AFS securities portfolio and other short-term interest-earning assets. For the three months ended March 31, 2012, net cash of $45.4 billion was used in investing activities. This resulted from a significant increase in deposits with banks reflecting the placement of funds with various central banks, including

Federal Reserve Banks; net purchases of AFS securities, largely due to repositioning of the portfolio in Corporate in response to changes in the market environment; and an increase in wholesale loans, due to increased client activity across most wholesale businesses and regions. Partially offsetting these increases were lower consumer loans, due to seasonality and higher repayment rates on credit card loans, and paydowns and portfolio run-off of residential real estate loans.

For the three months ended March 31, 2011, net cash of $65.8 billion was used in investing activities. This resulted from a significant increase in deposits with banks reflecting a higher level of deposit balances at Federal Reserve Banks, largely the result of inflows of wholesale deposits from TSS clients toward the end of March 2011; net purchases of AFS securities, largely due to repositioning of the portfolio in Corporate in response to changes in the interest rate environment; and an increase in wholesale loans reflecting growth in client activity. Partially offsetting these cash outflows were a net decrease in loans reflecting seasonality and higher repayment rates of credit card loans, run-off of the Washington Mutual credit card portfolio, and lower consumer loans, excluding credit card, predominantly as a result of paydowns in RFS, and a decline in securities purchased under resale agreements, largely in IB, reflecting lower client financing needs.

Cash flows from financing activities

The Firm’s financing activities primarily reflect cash flows related to taking customer deposits, and issuing long-term debt as well as preferred and common stock. For the three months ended March 31, 2012, net cash provided by financing activities was $35.4 billion. This was driven by an increase in securities loaned or sold under repurchase agreements, predominantly because of higher financing of the Firm’s trading assets and a change in the mix of liabilities; an increase in other borrowed funds predominantly driven by an increase in borrowings due to favorable market rates. Partially offsetting these cash proceeds were a decrease in wholesale deposits from TSS clients; net redemptions and maturities of long-term borrowings; payments of cash dividends on common and preferred stock and repurchases of common stock.

For the three months ended March 31, 2011, net cash provided by financing activities was $67.3 billion. This was largely driven by an increase in deposits as a result of inflows of wholesale deposits from TSS clients toward the end of March 2011. Also contributing were growth in the level of retail deposits from the combined effect of seasonal factors such as tax refunds and bonus payments, and general growth in business volumes; an increase in commercial paper and other borrowed funds due to growth in the volume of liability balances in sweep accounts in connection with TSS’s cash management product, and modest incremental short-term borrowings by the Firm under cost-effective terms; and an increase in securities sold under repurchase agreements due to higher securities financing balances in connection with repositioning of the securities portfolio in Corporate. Partially offsetting these cash proceeds were net repayments of long-term borrowings, including a decline in long-term beneficial interests issued by consolidated VIEs due to maturities of Firm-sponsored credit card securitization transactions; the payments of cash dividends; and repurchases of common stock.

Credit ratings

The cost and availability of financing are influenced by credit ratings. Reductions in these ratings could have an adverse effect on the Firm’s access to liquidity sources, increase the cost of funds, trigger additional collateral or funding requirements and decrease the number of investors and counterparties willing to lend to the Firm. Additionally, the Firm’s funding requirements for VIEs and other third-party commitments may be adversely affected by a decline in credit ratings. For additional information on the impact of a credit ratings downgrade on the funding requirements for VIEs, and on derivatives and collateral agreements, see Special-purpose entities on page 38, and Note 5 on pages 103–109, respectively, of this Form 10-Q.

Critical factors in maintaining high credit ratings include a stable and diverse earnings stream, strong capital ratios, strong credit quality and risk management controls, diverse funding sources, and disciplined liquidity monitoring procedures.

The credit ratings of the parent holding company and each of the Firm's significant banking subsidiaries as of March 31, 2012, were as follows.

	Short-term debt			Senior long-term debt		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch
JPMorgan Chase & Co.	P-1	A-1	F1+	Aa3	A	AA-
JPMorgan Chase Bank, N.A.	P-1	A-1	F1+	Aa1	A+	AA-
Chase Bank USA, N.A.	P-1	A-1	F1+	Aa1	A+	AA-

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The senior unsecured ratings from Moody's, S&P and Fitch on JPMorgan Chase and its principal bank subsidiaries remained unchanged at March 31, 2012, from December 31, 2011. At March 31, 2012, the Firm's ratings were under review by Moody's while S&P and Fitch maintained a stable outlook on the Firm's ratings.
On February 15, 2012, Moody's announced that it had placed 17 banks and securities firms with global capital markets operations on review for possible downgrade, including JPMorgan Chase. As part of this announcement, the long-term ratings of the Firm and its major operating entities were placed on review for possible downgrade, while all of the Firm's short-term ratings were affirmed.

If the Firm's senior long-term debt ratings were downgraded by one notch or two notches, the Firm believes its cost of funds would increase; however, the Firm's ability to fund itself would not be materially adversely impacted. JPMorgan Chase's unsecured debt does not contain requirements that would call for an acceleration of payments, maturities or changes in the structure of the existing debt, provide any limitations on future borrowings or require additional collateral, based on unfavorable changes in the Firm's credit ratings, financial ratios, earnings, or stock price.
Rating agencies continue to evaluate various ratings factors, such as regulatory reforms, economic uncertainty and sovereign creditworthiness, and their potential impact on ratings of financial institutions. Although the Firm closely monitors and endeavors to manage factors influencing its credit ratings, there is no assurance that its credit ratings will not be changed in the future.

CREDIT PORTFOLIO

For a further discussion of the Firm's Credit Risk Management framework, see pages 132–134 of JPMorgan Chase's 2011 Annual Report. For further information regarding the credit risk inherent in the Firm's investment securities portfolio, see Note 11 on pages 113–117 of the Form 10-Q.
The following table presents JPMorgan Chase's credit portfolio as of March 31, 2012, and December 31, 2011. Total credit exposure was $1.8 trillion at March 31, 2012, an increase of $15.7 billion from December 31, 2011, reflecting increases in lending related commitments of $21.8 billion and receivables from customers and other of $3.7 billion. These increases were partially offset by decreases in derivative receivables of $7.1 billion and loans of $2.8 billion. The $15.7 billion net increase during the first three months of 2012 in total credit exposure reflected an increase in the wholesale portfolio of $22.7 billion

partially offset by a decrease in the consumer portfolio of $7.0 billion.
The Firm provided credit to and raised capital of over $445 billion for its commercial and consumer clients during the first three months of 2012; this included more than $4 billion of credit provided to U.S. small businesses, up 35% compared with the prior year and $13 billion to 780 not-for-profit and government entities, including states, municipalities, hospitals and universities. The Firm also originated more than 200,000 mortgages and provided credit cards to approximately 1.7 million consumers in the first quarter. The Firm remains committed to helping homeowners and preventing foreclosures. Since the beginning of 2009, the Firm has offered more than 1.3 million mortgage modifications of which more than 490,000 have achieved permanent modification as of March 31, 2012.

In the table below, reported loans include loans retained (i.e., held-for-investment); loans held-for-sale (which are carried at the lower of cost or fair value, with changes in value recorded in noninterest revenue); and loans accounted for at fair value. For additional information on the Firm's loans and derivative receivables, including the Firm's accounting policies, see Note 13 and Note 5 on pages 118–135 and 103–109, respectively, of this Form 10-Q. Average retained loan balances are used for net charge-off rate calculations.

Total credit portfolio					Three months ended March 31,			
	Credit exposure		Nonperforming[b][c][d][e][f]		Net charge-offs		Average annual net charge-off rate[g]	
(in millions, except ratios)	Mar 31, 2012	Dec 31, 2011	Mar 31, 2012	Dec 31, 2011	2012	2011	2012	2011
Loans retained	$712,898	$718,997	$ 10,391	$ 9,810	$2,387	$3,720	1.35 %	2.22 %
Loans held-for-sale	5,781	2,626	127	110	—	—	—	—
Loans at fair value	2,288	2,097	87	73	—	—	—	—
Total loans – reported	720,967	723,720	10,605	9,993	2,387	3,720	1.35	2.22
Derivative receivables	85,377	92,477	317	297	NA	NA	NA	NA
Receivables from customers and other	21,235	17,561	—	—	—	—	—	—
Total credit-related assets	827,579	833,758	10,922	10,290	2,387	3,720	1.35	2.22
Lending-related commitments	997,503	975,662	756	865	NA	NA	NA	NA
Assets acquired in loan satisfactions								
Real estate owned	NA	NA	984	975	NA	NA	NA	NA
Other	NA	NA	47	50	NA	NA	NA	NA
Total assets acquired in loan satisfactions	NA	NA	1,031	1,025	NA	NA	NA	NA
Total credit portfolio	$1,825,082	$1,809,420	$ 12,709	$ 12,180	$2,387	$3,720	1.35 %	2.22 %
Net credit derivative hedges notional[a]	$(29,572)	$(26,240)	$ (35)	$ (38)	NA	NA	NA	NA
Liquid securities and other cash collateral held against derivatives	(18,401)	(21,807)	NA	NA	NA	NA	NA	NA

(a) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage both performing and nonperforming credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. For additional information, see Credit derivatives on pages 58–59 and Note 5 on pages 103–109 of this Form 10-Q.

(b) Nonperforming includes nonaccrual loans, nonperforming derivatives, commitments that are risk rated as nonaccrual and real estate owned.

(c) At March 31, 2012, and December 31, 2011, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $11.8 billion and $11.5 billion, respectively, that are 90 or more days past due; (2) real estate owned insured by U.S. government agencies of $1.2 billion and $954 million, respectively; and (3) student loans insured by U.S. government agencies under the FFELP of $586 million and $551 million, respectively, that are 90 or more days past due. These amounts were excluded from nonaccrual loans as reimbursement of insured amounts are proceeding normally. In addition, the Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance issued by the Federal Financial Institutions Examination Council ("FFIEC"). Credit card loans are charged-off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.

(d)

Excludes PCI loans. Because the Firm is recognizing interest income on each pool of PCI loans, they are all considered to be performing.

(e) At March 31, 2012, and December 31, 2011, total nonaccrual loans represented 1.47% and 1.38% of total loans. For more information on new reporting of performing junior liens that are subordinate to senior liens that are 90 days or more past due based on new regulatory guidance issued in the first quarter of 2012, see Consumer Credit Portfolio on pages 60–69 of this Form 10-Q.

(f) Prior period amounts have been revised to include both defaulted derivatives and derivatives that have been risk rated as nonperforming; in prior periods only the amount of defaulted derivatives was reported.

(g) For the three months ended March 31, 2012 and 2011, net charge-off rates were calculated using average retained loans of $710.2 billion and $680.0 billion, respectively. These average retained loans include average PCI loans of $64.8 billion and $71.6 billion, respectively. Excluding these PCI loans, the Firm's total charge-off rates would have been 1.49% and 2.48%, respectively.

WHOLESALE CREDIT PORTFOLIO

As of March 31, 2012, wholesale exposure (IB, CB, TSS and AM) increased by $22.7 billion from December 31, 2011. The overall increase was primarily driven by increases of $18.3 billion in lending-related commitments, $7.9 billion in loans and $3.7 billion in receivables from customers and other. These increases were partially offset by a $7.1 billion decrease in derivative receivables. The growth in lending-related commitments and loans represented increased client activity across most businesses and regions. The

increase in receivables from customers and other was due to changes in client activity, primarily in IB. The decrease in derivative receivables was predominantly due to interest rate derivatives and foreign exchange derivatives activity. These decreases were partially offset by increased equity derivative balances reflecting market levels during the quarter.

Wholesale credit portfolio

	Credit exposure		Nonperforming[c][d]	
(in millions)	Mar 31, 2012	Dec 31, 2011	Mar 31, 2012	Dec 31, 2011
Loans retained	$283,653	$278,395	$ 1,941	$ 2,398
Loans held-for-sale	4,925	2,524	127	110
Loans at fair value	2,288	2,097	87	73
Loans – reported	290,866	283,016	2,155	2,581
Derivative receivables	85,377	92,477	317	297
Receivables from customers and other[a]	21,131	17,461	—	—
Total wholesale credit-related assets	397,374	392,954	2,472	2,878
Lending-related commitments	401,064	382,739	756	865
Total wholesale credit exposure	$798,438	$775,693	$ 3,228	$ 3,743
Net credit derivative hedges notional[b]	$(29,572)	$(26,240)	$ (35)	$ (38)
Liquid securities and other cash collateral held against derivatives	(18,401)	(21,807)	NA	NA

(a) Predominately includes receivables from customers, which represent margin loans to prime and retail brokerage customers; these are classified in accrued interest and accounts receivable on the Consolidated Balance Sheets.

(b) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage both performing and nonperforming credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. For additional information, see Credit derivatives on pages 58–59, and Note 5 on pages 103–109 of this Form 10-Q.

(c) Excludes assets acquired in loan satisfactions.

(d) Prior period amounts have been revised to include both defaulted derivatives and derivatives that have been risk rated as nonperforming; in prior periods only the amount of defaulted derivatives was reported.

The following table presents summaries of the maturity and ratings profiles of the wholesale portfolio as of March 31, 2012, and December 31, 2011. The increase in loans retained was predominately to loans with longer dated maturity profiles. The ratings scale is based on the Firm's internal risk ratings, which generally correspond to the ratings as defined by S&P and Moody's. Also included in this table is the notional value of net credit derivative hedges; the counterparties to these hedges are predominantly investment-grade banks and finance companies.

Wholesale credit exposure – maturity and ratings profile

	Maturity profile[c]				Ratings profile			
March 31, 2012					Investment-grade	Noninvestment-grade		
(in millions, except ratios)	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total	AAA/Aaa to BBB-/Baa3	BB+/Ba1 & below	Total	Total % of IG
Loans retained	$110,451	$107,273	$65,929	$283,653	$198,704	$ 84,949	$283,653	70 %
Derivative receivables				85,377			85,377	
Less: Liquid securities and other cash collateral held against derivatives				(18,401)			(18,401)	
Total derivative receivables, net of all collateral	9,334	26,441	31,201	66,976	52,683	14,293	66,976	79
Lending-related commitments	150,368	242,826	7,870	401,064	327,176	73,888	401,064	82
Subtotal	270,153	376,540	105,000	751,693	578,563	173,130	751,693	77
Loans held-for-sale and loans at fair value[a]				7,213			7,213	
Receivables from customers and other				21,131			21,131	
Total exposure – net of liquid securities and other cash collateral held against derivatives				$780,037			$780,037	
Net credit derivative hedges notional[b]	$(2,296)	$(9,039)	$(18,237)	$(29,572)	$(29,632)	$ 60	$(29,572)	100 %

	Maturity profile[c]				Ratings profile			
December 31, 2011					Investment-grade	Noninvestment-grade		
(in millions, except ratios)	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total	AAA/Aaa to BBB-/Baa3	BB+/Ba1 & below	Total	Total % of IG
Loans retained	$113,222	$101,959	$63,214	$278,395	$197,070	$ 81,325	$278,395	71 %
Derivative receivables				92,477			92,477	
Less: Liquid securities and other cash collateral held against derivatives				(21,807)			(21,807)	
Total derivative receivables, net of all collateral	8,243	29,910	32,517	70,670	57,637	13,033	70,670	82
Lending-related commitments	139,978	233,396	9,365	382,739	310,107	72,632	382,739	81
Subtotal	261,443	365,265	105,096	731,804	564,814	166,990	731,804	77

Loans held-for-sale and loans at fair value[(a)]				4,621			4,621	
Receivables from customers and other				17,461			17,461	
Total exposure – net of liquid securities and other cash collateral held against derivatives				$753,886			$753,886	
Net credit derivative hedges notional[(b)]	$(2,034)	$(16,450)	$(7,756)	$(26,240)	$(26,300)	$ 60	$(26,240)	100 %

(a) Represents loans held-for-sale primarily related to syndicated loans and loans transferred from the retained portfolio, and loans at fair value.

(b) Represents the net notional amounts of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP.

(c) The maturity profiles of retained loans and lending-related commitments are based on the remaining contractual maturity. The maturity profiles of derivative receivables are based on the maturity profile of average exposure. For further discussion of average exposure, see Derivative receivables on pages 141–143 of JPMorgan Chase’s 2011 Annual Report.

Receivables from customers primarily represent margin loans to prime and retail brokerage clients and are collateralized through a pledge of assets maintained in clients’ brokerage accounts that are subject to daily minimum collateral requirements. In the event that the collateral value decreases, a maintenance margin call is made to the client to provide additional collateral into the account. If additional collateral is not provided by the client, the client’s position may be liquidated by the Firm to meet the minimum collateral requirements.

Wholesale credit exposure – selected industry exposures

The Firm focuses on the management and diversification of its industry exposures, with particular attention paid to industries with actual or potential credit concerns. Exposures deemed criticized generally represent a ratings profile similar to a rating of “CCC+”/“Caa1” and lower, as defined by S&P and Moody’s, respectively, which may differ from criticized exposure as defined by regulatory agencies. The total criticized component of the portfolio, excluding loans held-for-sale and loans at fair value, decreased 7% to $14.7 billion at March 31, 2012, from $15.8 billion at December 31, 2011. The decrease was primarily related to net repayments and loan sales.

Below are summaries of the top 25 industry exposures as of March 31, 2012, and December 31, 2011.

As of or for the three months ended March 31, 2012 (in millions)	Credit exposure[d]	Investment-grade	Noninvestment-grade Noncriticized	Criticized performing	Criticized nonperforming	30 days or more past due and accruing loans	Year-to-date net charge-offs/ (recoveries)	Credit derivative hedges[e]	Liquid securities and other cash collateral held against derivative receivables
Top 25 industries[a]									
Banks and finance companies	$69,816	$57,694	$11,779	$320	$23	$15	$2	$(3,649)	$(8,414)
Real estate	69,244	42,228	22,339	3,716	961	366	16	(96)	(304)
Healthcare	42,795	35,498	6,907	293	97	305	—	(314)	(248)
State and municipal governments[b]	41,236	39,791	1,207	111	127	50	—	(187)	(202)
Oil and gas	36,100	25,878	9,979	219	24	—	—	(116)	(120)
Utilities	30,693	24,560	5,714	153	266	—	(11)	(353)	(434)
Consumer products	30,091	19,933	9,526	602	30	4	(1)	(252)	(9)
Asset managers	28,164	23,902	4,190	69	3	15	—	—	(2,855)
Retail and consumer services	23,684	15,210	7,961	407	106	19	(1)	(86)	(1)
Central governments	21,628	21,022	568	—	38	—	—	(10,925)	(976)
Transportation	18,644	14,152	4,288	143	61	7	(1)	(197)	—
Technology	17,852	11,774	5,818	257	3	—	—	(168)	—
Machinery and equipment manufacturing	16,979	8,867	7,966	136	10	18	—	—	—
Metals/mining	15,745	8,632	6,889	223	1	39	—	(505)	—
Insurance	13,053	10,243	2,321	489	—	—	—	(388)	(820)
Media	12,807	7,627	4,158	602	420	5	9	(148)	—
Business services	12,460	6,878	5,399	152	31	22	1	(20)	—
Telecom services	12,307	8,852	2,631	814	10	—	—	(338)	—
Building materials/construction	12,106	5,022	6,128	938	18	24	—	(134)	—
Chemicals/plastics	11,884	7,816	3,917	130	21	1	—	(68)	(30)
Automotive	10,054	5,931	4,100	20	3	—	—	(731)	—
Securities firms and exchanges	10,014	8,214	1,785	13	2	—	—	(404)	(2,957)
Aerospace	8,354	7,389	900	64	1	—	—	(111)	—
Agriculture/paper manufacturing	8,012	4,780	3,180	52	—	11	—	-	—
Leisure	5,456	2,951	1,685	458	362	5	(3)	(78)	(22)
All other[c]	190,916	170,234	19,020	1,265	397	920	(6)	(10,304)	(1,009)
Subtotal	$770,094	$595,078	$160,355	$11,646	$3,015	$1,826	$5	$(29,572)	$(18,401)
Loans held-for-sale and loans at fair value	7,213								
Receivables from customers and other	21,131								

Total	$798,438

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As of or for the year ended December 31, 2011 (in millions)	Credit exposure[d]	Investment-grade	Noninvestment-grade[f]			30 days or more past due and accruing loans	Full year net charge-offs/ (recoveries)	Credit derivative hedges[e]	Liquid securities and other cash collateral held against derivative receivables
			Noncriticized	Criticized performing	Criticized nonperforming				
Top 25 industries[a]									
Banks and finance companies	$71,440	$59,115	$11,742	$557	$26	$20	$(211)	$(3,053)	$(9,585)
Real estate	67,594	40,921	21,541	4,138	994	411	256	(97)	(359)
Healthcare	42,247	35,147	6,834	209	57	166	—	(304)	(320)
State and municipal governments[b]	41,930	40,565	1,124	111	130	23	—	(185)	(147)
Oil and gas	35,437	25,004	10,347	58	28	3	—	(119)	(88)
Utilities	28,650	23,557	4,424	162	507	—	76	(105)	(359)
Consumer products	29,637	19,728	9,440	432	37	3	13	(272)	(50)
Asset managers	33,465	28,835	4,530	99	1	24	—	—	(4,807)
Retail and consumer services	22,891	14,568	7,798	425	100	15	1	(96)	(1)
Central governments	17,138	16,524	488	126	—	—	—	(9,796)	(813)
Transportation	16,305	12,061	4,071	115	58	6	17	(178)	—
Technology	17,898	12,494	5,086	316	2	—	4	(191)	—
Machinery and equipment manufacturing	16,498	9,014	7,374	100	10	1	(1)	(19)	—
Metals/mining	15,254	8,716	6,389	148	1	6	(19)	(423)	—
Insurance	13,092	9,425	3,063	591	13	—	—	(552)	(454)
Media	11,909	6,853	3,925	670	461	1	18	(188)	—
Business services	12,408	7,093	5,168	108	39	17	22	(20)	(2)
Telecom services	11,552	8,502	2,234	805	11	2	5	(390)	—
Building materials/construction	11,770	5,175	5,674	917	4	6	(4)	(213)	—
Chemicals/plastics	11,728	7,867	3,720	126	15	—	—	(95)	(20)
Automotive	9,910	5,699	4,188	23	—	9	(11)	(819)	—
Securities firms and exchanges	12,394	10,799	1,564	30	1	10	73	(395)	(3,738)
Aerospace	8,560	7,646	848	66	—	7	—	(208)	—
Agriculture/paper manufacturing	7,594	4,888	2,586	120	—	9	—	-	—
Leisure	5,650	3,051	1,781	429	389	1	1	(81)	(26)
All other[c]	180,660	161,568	17,035	1,381	676	1,099	200	(8,441)	(1,038)
Subtotal	$753,611	$584,815	$152,974	$12,262	$3,560	$1,839	$440	$(26,240)	$(21,807)
Loans held-for-sale and loans at fair value	4,621								
Receivables from customers and other	17,461								

Total	$775,693

(a) All industry rankings are based on exposure at March 31, 2012. The industry rankings presented in the table as of December 31, 2011, are based on the industry rankings of the corresponding exposures at March 31, 2012, not actual rankings of such exposures at December 31, 2011.

(b) In addition to the credit risk exposure to states and municipal governments (both U.S. and non-U.S.) at March 31, 2012, and December 31, 2011, noted above, the Firm held $17.6 billion and $16.7 billion, respectively, of trading securities and $19.3 billion and $16.5 billion, respectively, of AFS securities issued by U.S. state and municipal governments. For further information, see Note 3 and Note 11 on pages 91–100 and 113–117, respectively, of this Form 10-Q.

(c) For further information on the All other category, refer to the discussion on page 140 of JPMorgan Chase's 2011 Annual Report. All other for credit derivative hedges includes credit default swap ("CDS") index hedges of CVA.

(d) Credit exposure is net of risk participations and excludes the benefit of credit derivative hedges and collateral held against derivative receivables or loans.

(e) Represents the net notional amounts of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP.

(f) Prior period amounts have been revised to include both defaulted derivatives and derivatives that have been risk rated as nonperforming; in prior periods only the amount of defaulted derivatives was reported.

The following table presents the geographic distribution of wholesale credit exposure including nonperforming assets and past due loans as of March 31, 2012, and December 31, 2011. The geographic distribution of the wholesale portfolio is determined based predominantly on the domicile of the borrower.

	Credit exposure				Nonperforming					
March 31, 2012 (in millions)	Loans	Lending-related commitments	Derivative receivables	Total credit exposure	Nonaccrual loans[a]	Derivatives	Lending-related commitments	Total non-performing credit exposure	Assets acquired in loan satisfactions	30 days or more past due and accruing loans
Europe/Middle East/Africa	$36,529	$ 67,793	$ 40,498	$144,820	$106	$ 50	$ 22	$ 178	$ 2	$118
Asia/Pacific	30,079	18,940	9,783	58,802	2	41	—	43	—	16
Latin America/Caribbean	28,667	22,068	4,786	55,521	107	13	4	124	—	435
Other North America	2,288	7,238	1,625	11,151	3	—	1	4	—	1
Total non-U.S.	97,563	116,039	56,692	270,294	218	104	27	349	2	570
Total U.S.	186,090	285,025	28,685	499,800	1,723	213	729	2,665	160	1,256
Loans held-for-sale and loans at fair value	7,213	—	—	7,213	214	NA	—	214	NA	—
Receivables from customers and other	—	—	—	21,131	—	NA	NA	—	NA	—
Total	$290,866	$ 401,064	$ 85,377	$798,438	$2,155	$ 317	$ 756	$ 3,228	$ 162	$1,826

	Credit exposure				Nonperforming					
December 31, 2011 (in millions)	Loans	Lending-related commitments	Derivative receivables	Total credit exposure	Nonaccrual loans[a]	Derivatives[b]	Lending-related commitments	Total non-performing credit exposure	Assets acquired in loan satisfactions	30 days or more past due and accruing loans
Europe/Middle East/Africa	$36,637	$ 60,681	$ 43,204	$140,522	$44	$ 14	$ 25	$ 83	$ —	$68
Asia/Pacific	31,119	17,194	10,943	59,256	1	42	—	43	—	6
Latin America/Caribbean	25,141	20,859	5,316	51,316	386	—	15	401	3	222
Other North America	2,267	6,680	1,488	10,435	3	—	1	4	—	—
Total non-U.S.	95,164	105,414	60,951	261,529	434	56	41	531	3	296
Total U.S.	183,231	277,325	31,526	492,082	1,964	241	824	3,029	176	1,543
Loans held-for-sale and loans at fair value	4,621	—	—	4,621	183	NA	—	183	NA	—
Receivables from customers and other	—	—	—	17,461	—	NA	NA	—	NA	—
Total	$283,016	$ 382,739	$ 92,477	$775,693	$2,581	$ 297	$ 865	$ 3,743	$ 179	$1,839

(a) At March 31, 2012, and December 31, 2011, the Firm held an allowance for loan losses of $430 million and $496 million, respectively, related to nonaccrual retained loans resulting in allowance coverage ratios of 22% and 21%, respectively. Wholesale nonaccrual loans represented 0.74% and 0.91% of total wholesale loans at March 31, 2012, and December 31, 2011, respectively.

(b)

Prior period amounts have been revised to include both defaulted derivatives and derivatives that have been risk rated as nonperforming; in prior periods only the amount of defaulted derivatives was reported.

Loans

In the normal course of business, the Firm provides loans to a variety of wholesale customers, from large corporate and institutional clients to high-net-worth individuals. For further discussion on loans, including information on credit quality indicators, see Note 13 on pages 118–135 of this Form 10-Q.

The Firm actively manages wholesale credit exposure. One way of managing credit risk is through sales of loans and lending-related commitments. During the three months ended March 31, 2012 and 2011, the Firm sold $957 million and $1.5 billion, respectively, of loans and commitments. These sale activities are not related to the Firm's securitization activities. For further discussion of securitization activity, see Liquidity Risk Management and Note 15 on pages 46–50 and 137–144 respectively, of this Form 10-Q.

The following table presents the change in the nonaccrual loan portfolio for the three months ended March 31, 2012 and 2011. Nonaccrual wholesale loans decreased by $426 million from December 31, 2011, primarily reflecting repayments and loan sales.

Wholesale nonaccrual loan activity

Three months ended March 31, (in millions)	2012	2011
Beginning balance	$2,581	$6,006
Additions	422	700
Reductions:		
Paydowns and other	416	581
Gross charge-offs	92	243
Returned to performing status	59	152
Sales	281	863
Total reductions	848	1,839
Net additions/(reductions)	(426)	(1,139)
Ending balance	$2,155	$4,867

The following table presents net charge-offs, which are defined as gross charge-offs less recoveries, for the three months ended March 31, 2012 and 2011. The amounts in the table below do not include gains or losses from sales of nonaccrual loans.

Wholesale net charge-offs

Three months ended March 31, (in millions, except ratios)	2012	2011
Loans – reported		
Average loans retained	$276,764	$226,554
Net charge-offs/(recoveries)	5	165
Net charge-off/(recovery) rate	0.01%	0.30%

Derivative contracts

In the normal course of business, the Firm uses derivative instruments predominantly for market-making activity. Derivatives enable customers and the Firm to manage exposures to fluctuations in interest rates, currencies and other markets. The Firm also uses derivative instruments to manage its credit exposure. For further discussion of derivative contracts, see Note 5 on pages 103–109 of this Form 10-Q.

The following tables summarize the net derivative receivables for the periods presented.

Derivative receivables

(in millions)	Derivative receivables Mar 31, 2012	Dec 31, 2011
Interest rate	$41,520	$46,369
Credit derivatives	6,625	6,684
Foreign exchange	13,056	17,890
Equity	8,995	6,793
Commodity	15,181	14,741

Total, net of cash collateral	85,377	92,477
Liquid securities and other cash collateral held against derivative receivables	(18,401)	(21,807)
Total, net of all collateral	$66,976	$70,670

Derivative receivables reported on the Consolidated Balance Sheets were $85.4 billion and $92.5 billion at March 31, 2012, and December 31, 2011, respectively. These represent the fair value of the derivative contracts after giving effect to legally enforceable master netting agreements, cash collateral held by the Firm and the CVA. However, in management's view, the appropriate measure of current credit risk should take into consideration additional liquid securities (primarily U.S. government and agency securities and other G7 government bonds) and other cash collateral held by the Firm of $18.4 billion and $21.8 billion at March 31, 2012, and December 31, 2011, respectively, that may be used as security when the fair value of the client's exposure is in the Firm's favor, as shown in the table above.

In addition to the collateral described in the preceding paragraph the Firm also holds additional collateral (including cash, U.S. government and agency securities, and other G7 government bonds) delivered by clients at the initiation of transactions, as well as collateral related to contracts that have a non-daily call frequency and collateral that the Firm has agreed to return but has not yet settled as of the reporting date. Though this collateral does not reduce the balances and is not included in the table above, it is available as security against potential exposure that could arise should the fair value of the client's derivative transactions move in the Firm's favor. As of March 31, 2012, and December 31, 2011, the Firm held $19.6 billion and $17.6 billion, respectively, of this additional collateral. The derivative receivables fair value, net of all collateral, also do not include other credit enhancements, such as letters of credit. For additional information on the Firm's use of collateral agreements, see Note 5 on pages 103–109 of this Form 10-Q.

The following table summarizes the ratings profile of the Firm's derivative receivables, net of other liquid securities collateral, for the dates indicated.

Ratings profile of derivative receivables

Rating equivalent	March 31, 2012			December 31, 2011		
(in millions, except ratios)	Exposure net of all collateral	% of exposure net of all collateral		Exposure net of all collateral	% of exposure net of all collateral	
AAA/Aaa to AA-/Aa3	$20,710	31	%	$25,100	35	%
A+/A1 to A-/A3	14,614	22		22,942	32	
BBB+/Baa1 to BBB-/Baa3	17,359	26		9,595	14	
BB+/Ba1 to B-/B3	12,123	18		10,545	15	
CCC+/Caa1 and below	2,170	3		2,488	4	
Total	$66,976	100	%	$70,670	100	%

As noted above, the Firm uses collateral agreements to mitigate counterparty credit risk. The percentage of the Firm's derivatives transactions subject to collateral agreements – excluding foreign exchange spot trades, which are not typically covered by collateral agreements due to their short maturity – was 87% as of March 31, 2012, largely unchanged compared with 88% as of December 31, 2011.

Credit derivatives

Credit derivatives are financial instruments whose value is derived from the credit risk associated with the debt of a third party issuer (the reference entity) and which allow one party (the protection purchaser) to transfer that risk to another party (the protection seller) when the reference entity suffers a credit event. If no credit event has occurred, the protection seller makes no payments to the protection purchaser.

As a purchaser of credit protection, the Firm has risk that the counterparty providing the credit protection will default. As a seller of credit protection, the Firm has risk

that the underlying entity referenced in the contract will be subject to a credit event. Upon the occurrence of a credit event, which may include, among other events, the bankruptcy or failure to pay by, or certain restructurings of the debt of, the reference entity, neither party has recourse to the reference entity. The protection purchaser has recourse to the protection seller for the difference between the face value of the credit derivative contract and the fair value of the reference obligation at the time of settling the credit derivative contract. The determination as to whether a credit event has occurred is generally made by the relevant International Swaps and Derivatives Association ("ISDA") Determination Committee, comprised of 10 sell-side and five buy-side ISDA member firms. For a more detailed description of credit derivatives, including other types of credit derivatives and notional amounts, see Credit derivatives in Note 5 on pages 103–109 of this Form 10-Q, and Credit derivatives on pages 143–144 and Credit derivatives in Note 6 on pages 209–210 of JPMorgan Chase's 2011 Annual Report.

Credit portfolio activities

Use of single-name and portfolio credit derivatives

(in millions)	Notional amount of protection purchased and sold Mar 31, 2012	Dec 31, 2011
Credit derivatives used to manage:		
Loans and lending-related commitments	$3,325	$3,488
Derivative receivables	26,347	22,883
Total protection purchased	29,672	26,371
Total protection sold	100	131
Credit derivatives hedges notional, net	$29,572	$26,240

The credit derivatives used by JPMorgan Chase for credit portfolio management activities do not qualify for hedge accounting under U.S. GAAP; these derivatives are reported at fair value, with gains and losses recognized in principal transactions revenue. In contrast, the loans and lending-related commitments being risk-managed are accounted for on an accrual basis. This asymmetry in accounting treatment, between loans and lending-related commitments and the credit derivatives used in credit portfolio management activities, causes earnings volatility that is not representative, in the Firm's view, of the true changes in value of the Firm's overall credit exposure. In addition, the effectiveness of the Firm's CDS protection as a hedge of the Firm's exposures may vary depending upon a number of factors, including the contractual terms of the CDS. The fair value related to the Firm's credit derivatives used for managing credit exposure, as well as the fair value related to the CVA (which reflects the credit quality of derivatives counterparty exposure), are included in the gains and losses realized on credit derivatives disclosed in the table below. These results can vary from period to period due to market conditions that affect specific positions in the portfolio. For further information on credit derivative protection purchased in the context of country risk, see Country Risk Management on pages 77–79 of this Form 10-Q, and pages 163–165 of JPMorgan Chase's 2011 Annual Report.

Net gains and losses on credit portfolio hedges

Three months ended March 31, (in millions)	2012	2011
Hedges of loans and lending-related commitments	$(75)	$(44)
CVA and hedges of CVA	176	(39)
Net gains/(losses)	$101	$(83)

Lending-related commitments

JPMorgan Chase uses lending-related financial instruments, such as commitments and guarantees, to meet the financing needs of its customers. The contractual amounts of these financial instruments represent the maximum possible credit risk should the counterparties draw down on these commitments or the Firm fulfills its obligations under these guarantees, and the counterparties subsequently fails to perform according to the terms of these contracts. In the Firm's view, the total contractual amount of these wholesale lending-related commitments is not representative of the Firm's actual credit risk exposure or funding requirements. In determining the amount of credit risk exposure the Firm has to wholesale lending-related commitments, which is used as the basis for allocating credit risk capital to these commitments, the Firm has established a "loan-equivalent" amount for each commitment; this amount represents the portion of the unused commitment or other contingent exposure that is expected, based on average portfolio historical experience, to become drawn upon in an event of a default by an obligor. The loan-equivalent amount of the Firm's lending-related commitments was $211.2 billion and $206.5 billion as of March 31, 2012, and December 31, 2011, respectively.

CONSUMER CREDIT PORTFOLIO

JPMorgan Chase’s consumer portfolio consists primarily of residential real estate loans, credit cards, auto loans, business banking loans, and student loans. The Firm’s primary focus is on serving the prime segment of the consumer credit market. For further information on consumer loans, see Note 13 on pages 118–135 of this Form 10-Q.

A substantial portion of the consumer loans acquired in the Washington Mutual transaction were identified as PCI based on an analysis of high-risk characteristics, including product type, loan-to-value (“LTV”) ratios, FICO scores and delinquency status. These PCI loans are accounted for on a pool basis, and the pools are considered to be performing. For further information on PCI loans see Note 13 on pages 118–135 of this Form 10-Q.

The credit performance of the consumer portfolio across the entire product spectrum improved as the economy expanded in the first quarter of 2012 and labor market conditions improved. The general improvement in the economic environment resulted in a reduction in estimated losses, particularly in the residential real estate and credit card portfolios. However, unemployment remains high relative to the historical norm and continues to result in an elevated number of residential real estate loans being charged-off. Weak housing prices continue to negatively affect the severity of loss recognized on defaulted residential real estate loans. Early-stage (30-89 days delinquent) and late stage (150+ days delinquent)

residential real estate delinquencies, excluding government guaranteed loans, continue to decline but remain elevated. The elevated level of the late-stage delinquent loans is due, in part, to loss mitigation activities currently being undertaken and to elongated foreclosure processing timelines. Losses related to these loans continue to be recognized in accordance with the Firm’s standard charge-off practices, but some delinquent loans that would otherwise have been foreclosed upon remain in the mortgage and home equity loan portfolios. In addition to these elevated levels of delinquencies, high unemployment and weak housing prices, uncertainties regarding the ultimate success of loan modifications, and the risk attributes of certain loans within the portfolio (e.g., loans with high LTV ratios, junior lien loans that are subordinate to a delinquent or modified senior lien) continue to contribute to uncertainty regarding overall residential real estate portfolio performance and have been considered in estimating the allowance for loan losses.

Since the global economic crisis began in mid-2007, the Firm has taken actions to reduce risk exposure to consumer loans by tightening both underwriting and loan qualification standards, as well as eliminating certain products and loan origination channels for residential real estate lending. To manage the risk associated with lending-related commitments, the Firm has reduced or canceled certain lines of credit as permitted by law.

The following table presents managed consumer credit-related information (including RFS, Card, and residential real estate loans reported in the AM business segment and in Corporate/Private Equity) for the dates indicated. For further information about the Firm's nonaccrual and charge-off accounting policies, see Note 13 on pages 118–135 of this Form 10-Q.

Consumer credit portfolio					Three months ended March 31,			
(in millions, except ratios)	Credit exposure		Nonaccrual loans[f][g]		Net charge-offs		Average annual net charge-off rate[h]	
	Mar 31, 2012	Dec 31, 2011	Mar 31, 2012	Dec 31, 2011	2012	2011	2012	2011
Consumer, excluding credit card								
Loans, excluding PCI loans and loans held-for-sale								
Home equity – senior lien	$21,202	$21,765	$489	$495	$56	$65	1.04 %	1.08 %
Home equity – junior lien	54,005	56,035	2,277	792	486	655	3.55	4.26
Prime mortgage, including option ARMs	76,292	76,196	3,258	3,462	134	171	0.71	0.93
Subprime mortgage	9,289	9,664	1,569	1,781	130	186	5.51	6.80
Auto[a]	48,245	47,426	102	118	33	47	0.28	0.40
Business banking	17,822	17,652	649	694	96	119	2.19	2.86
Student and other	13,854	14,143	105	69	61	86	1.75	2.29
Total loans, excluding PCI loans and loans held-for-sale	240,709	242,881	8,449	7,411	996	1,329	1.66	2.14
Loans – PCI[b]								
Home equity	22,305	22,697	NA	NA	NA	NA	NA	NA
Prime mortgage	14,781	15,180	NA	NA	NA	NA	NA	NA
Subprime mortgage	4,870	4,976	NA	NA	NA	NA	NA	NA
Option ARMs	22,105	22,693	NA	NA	NA	NA	NA	NA
Total loans – PCI	64,061	65,546	NA	NA	NA	NA	NA	NA
Total loans – retained	304,770	308,427	8,449	7,411	996	1,329	1.31	1.66
Loans held-for-sale	—	—	—	—	—	—	—	—
Total consumer, excluding credit card loans	304,770	308,427	8,449	7,411	996	1,329	1.31	1.66
Lending-related commitments								
Home equity – senior lien[c]	16,248	16,542						
Home equity – junior lien[c]	25,416	26,408						
Prime mortgage	2,594	1,500						
Subprime mortgage	—	—						
Auto	7,127	6,694						
Business banking	10,941	10,299						
Student and other	795	864						
Total lending-related commitments	63,121	62,307						
Receivables from customers[d]	104	100						
Total consumer exposure, excluding credit card	367,995	370,834						
Credit card								
Loans retained[e]	124,475	132,175	1	1	1,386	2,226	4.40	6.97
Loans held-for-sale	856	102	—	—	—	—	—	—
Total credit card loans	125,331	132,277	1	1	1,386	2,226	4.40	6.97
Lending-related commitments[c]	533,318	530,616						

Total credit card exposure	658,649	662,893						
Total consumer credit portfolio	$1,026,644	$1,033,727	$8,450	$7,412	$2,382	$3,555	2.21 %	3.18 %
Memo: Total consumer credit portfolio, excluding PCI	$962,583	$968,181	$8,450	$7,412	$2,382	$3,555	2.60 %	3.77 %

(a) At March 31, 2012, and December 31, 2011, excluded operating lease–related assets of $4.4 billion in both periods.

(b) Charge-offs are not recorded on PCI loans until actual losses exceed estimated losses that were recorded as purchase accounting adjustments at the time of acquisition. To date, no charge-offs have been recorded for these loans.

(c) Credit card and home equity lending–related commitments represent the total available lines of credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit would be used at the same time. For credit card and home equity commitments (if certain conditions are met), the Firm can reduce or cancel these lines of credit by providing the borrower notice or, in some cases, without notice as permitted by law.

(d) Receivables from customers primarily represent margin loans to retail brokerage customers, which are included in accrued interest and accounts receivable on the Consolidated Balance Sheets.

(e) Includes billed finance charges and fees net of an allowance for the uncollectible portion of billed and accrued interest and fee income.

(f) At March 31, 2012, and December 31, 2011, nonaccrual loans excluded: (1) mortgage loans insured by U.S. government agencies of $11.8 billion and $11.5 billion, respectively, that are 90 or more days past due; and (2) student loans insured by U.S. government agencies under the FFELP of $586 million and $551 million, respectively, that are 90 or more days past due. These amounts were excluded from nonaccrual loans as reimbursement of insured amounts are proceeding normally. In addition, the Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance. Under guidance issued by the FFIEC, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.

(g) Excludes PCI loans. Because the Firm is recognizing interest income on each pool of PCI loans, they are all considered to be performing.

(h) Average consumer loans held-for-sale were $822 million and $3.1 billion, respectively, for the three months ended March 31, 2012 and 2011. These amounts were excluded when calculating net charge-off rates.

Consumer, excluding credit card

Portfolio analysis

Consumer loan balances declined during the three months ended March 31, 2012, due to paydowns, portfolio run-off and charge-offs. Credit performance has improved across most portfolios but remains under stress. The following discussion relates to the specific loan and lending-related categories. PCI loans are generally excluded from individual loan product discussions and are addressed separately below. For further information about the Firm's consumer portfolio, including information about delinquencies, loan modifications and other credit quality indicators, see Note 13 on pages 118–135 of this Form 10-Q.

Home equity: Home equity loans at March 31, 2012, were $75.2 billion, compared with $77.8 billion at December 31, 2011. The decrease in this portfolio primarily reflected loan paydowns and charge-offs. Early-stage delinquencies showed improvement from December 31, 2011, for both senior and junior lien home equity loans; while net charge-offs declined from the same period of the prior year. Junior lien nonaccrual loans increased from December 31, 2011, due to the addition of $1.6 billion of performing junior liens that are subordinate to senior liens that are 90 days or more past due based upon regulatory guidance issued during the first quarter of 2012.

Approximately 20% of the Firm's home equity portfolio consists of home equity loans ("HELOANs") and the remainder consists of home equity lines of credit ("HELOCs"). HELOANs are generally fixed-rate, closed-end, amortizing loans, with terms ranging from 3–30 years. Approximately half of the HELOANs are senior liens and the remainder are junior liens. In general, HELOCs are revolving loans for a 10-year period, after which time the HELOC converts to a loan with a 20-year amortization period. At the time of origination, the borrower typically selects one of two minimum payment options that will generally remain in effect during the revolving period: a monthly payment of 1% of the outstanding balance, or interest-only payments based on a variable index (typically Prime).

The Firm manages the risk of HELOCs during their revolving period by closing or reducing the undrawn line to the extent permitted by law when borrowers are experiencing financial difficulty or when the collateral does not support the loan amount. Because the majority of the HELOCs were funded in 2005 or later, a fully-amortizing payment is not required until 2015 or later for the most significant portion of the HELOC portfolio. The Firm regularly evaluates both the near-term and longer-term repricing risks inherent in its HELOC portfolio to ensure that the allowance for credit losses and its account management practices are appropriate given the portfolio risk profile.

At March 31, 2012, the Firm estimates that its home equity portfolio contained approximately $3.8 billion of current junior lien loans where the borrower has a first mortgage loan that is either delinquent or has been modified ("high-risk seconds"). Such loans are considered to pose a higher risk of default than that of junior lien loans for which the senior lien is neither delinquent nor modified. The Firm estimates the balance of its total exposure to high-risk seconds on a quarterly basis using loan level credit bureau data, which typically provides the delinquency status of the senior lien, as well as information from a database maintained by one of the bank regulatory agencies.

Current high risk junior liens

(in billions)	March 31, 2012	
Modified current senior lien	$1.4	
Senior lien 30 – 89 days delinquent	1.0	
Senior lien 90 days or more delinquent	1.4	(a)
Total current high risk junior liens	$3.8	

(a) Junior liens subordinate to senior liens that are 90 days or more past due are classified as nonaccrual loans. Excludes approximately $200 million of junior liens that are performing but not current, which were also placed on nonaccrual in accordance with the regulatory guidance.

Of this estimated $3.8 billion balance, the Firm owns approximately 5% and services approximately 30% of the related senior lien loans to these borrowers. The performance of the Firm's junior lien loans is generally consistent regardless of whether the Firm owns, services or does not own or service the senior lien. The increased probability of default associated with these higher-risk junior lien loans was considered in estimating the allowance for loan losses.

Based upon regulatory guidance issued in the first quarter of 2012, the Firm is now reporting performing junior liens that are subordinate to senior liens that are 90 days or more past due as nonaccrual loans. The prior period was not restated for this policy change. The classification of certain of these higher-risk junior lien loans as nonaccrual at March 31, 2012 did not have an impact on the allowance for loan losses, because as noted above, the Firm has previously considered the risk characteristics of this portfolio of loans in estimating its allowance for loan losses. This policy change had a minimal impact on the Firm's net interest income because predominantly all of the reclassified loans are currently making payments.

Mortgage: Mortgage loans at March 31, 2012, including prime, subprime and loans held-for-sale, were $85.6 billion, compared with $85.9 billion at December 31, 2011. Balances declined slightly as paydowns, portfolio run-off and the charge-off or liquidation of delinquent loans were largely offset by new prime mortgage originations and

Ginnie Mae loans that the Firm elected to repurchase. Net charge-offs decreased from the same period of the prior year, as a result of improvement in delinquencies, but remained elevated.
Prime mortgages, including option adjustable-rate mortgages ("ARMs"), were $76.3 billion at March 31, 2012, compared with $76.2 billion at December 31, 2011. The increase was due primarily to prime mortgage originations and Ginnie Mae loans that the Firm elected to repurchase, partially offset by the charge-off or liquidation of delinquent loans, paydowns, and portfolio run-off of option ARM loans. Excluding loans insured by U.S. government agencies, both early-stage and late-stage delinquencies showed improvement during the quarter but remained elevated. Nonaccrual loans showed improvement, but also remained elevated as a result of ongoing foreclosure processing delays. Net charge-offs declined year-over-year but remained high.
Option ARM loans, which are included in the prime mortgage portfolio, were $7.2 billion and $7.4 billion and represented 9% and 10% of the prime mortgage portfolio at March 31, 2012, and December 31, 2011, respectively. The decrease in option ARM loans resulted from portfolio run-off. The Firm's option ARM loans, other than those held in the PCI portfolio, are primarily loans with lower LTV ratios and higher borrower FICO scores. Accordingly, the Firm expects substantially lower losses on this portfolio when compared with the PCI option ARM pool. As of March 31, 2012, approximately 6% of option ARM borrowers were delinquent, 3% were making interest-only or negatively amortizing payments, and 91% were making amortizing payments (such payments are not necessarily fully amortizing). Approximately 85% of borrowers within the portfolio are subject to risk of payment shock due to future payment recast, as only a limited number of these loans have been modified. The cumulative amount of unpaid interest added to the unpaid principal balance due to negative amortization of option ARMs was not material at either March 31, 2012, or December 31, 2011. The Firm estimates the following balances of option ARM loans will undergo a payment recast that results in a payment increase: $143 million in 2012, $595 million in 2013 and $955 million in 2014. The option ARM portfolio was acquired by the Firm as part of the Washington Mutual transaction.
Subprime mortgages at March 31, 2012, were $9.3 billion, compared with $9.7 billion at December 31, 2011. The decrease was due to portfolio run-off and the charge-off or liquidation of delinquent loans. Both early-stage and late-stage delinquencies improved from December 31, 2011. However, delinquencies and nonaccrual loans remained at elevated levels. Net charge-offs improved from the same period of the prior year.

Auto: Auto loans at March 31, 2012, were $48.2 billion, compared with $47.4 billion at December 31, 2011. Loan balances increased due to new originations partially offset by paydowns and payoffs. Delinquent and nonaccrual loans have decreased from December 31, 2011. Net charge-offs decreased from the same period of the prior year as a result of declines in both loss frequency and loss severity, mainly due to enhanced underwriting standards and a strong used car market. The auto loan portfolio reflected a high concentration of prime-quality credits.
Business banking: Business banking loans at March 31, 2012, were $17.8 billion, compared with $17.7 billion at December 31, 2011. The increase was due to growth in new loan origination volumes. These loans primarily include loans that are collateralized, often with personal loan guarantees, and may also include Small Business Administration guarantees. Delinquent loans and nonaccrual loans showed improvement from December 31, 2011. Net charge-offs declined from the same period of the prior year.
Student and other: Student and other loans at March 31, 2012, were $13.9 billion, compared with $14.1 billion at December 31, 2011. The decrease was primarily due to paydowns and charge-offs of student loans. Other loans primarily include other secured and unsecured consumer loans. Delinquencies and nonaccrual loans increased from December 31, 2011, while charge-offs decreased from the same period of the prior year.
Purchased credit-impaired loans: PCI loans at March 31, 2012, were $64.1 billion, compared with $65.5 billion at December 31, 2011. This portfolio represents loans acquired in the Washington Mutual transaction, which were recorded at fair value at the time of acquisition.
During the first quarter of 2012, no additional impairment was recognized in connection with the Firm's review of the PCI portfolios' expected cash flows. At both March 31, 2012, and December 31, 2011, the allowance for loan losses for the home equity, prime mortgage, option ARM and subprime mortgage PCI portfolios was $1.9 billion, $1.9 billion, $1.5 billion and $380 million, respectively.
As of March 31, 2012, approximately 29% of the option ARM PCI loans were delinquent and 45% have been modified into fixed-rate, fully amortizing loans. Substantially all of the remaining loans are making amortizing

payments, although such payments are not necessarily fully amortizing; in addition, substantially all of these loans are subject to the risk of payment shock due to future payment recast. The cumulative amount of unpaid interest added to the unpaid principal balance of the option ARM PCI pool was $1.0 billion and $1.1 billion at March 31, 2012, and December 31, 2011, respectively. The Firm estimates the following balances of option ARM PCI loans will undergo a payment recast that results in a payment increase: $1.8 billion in 2012 and $379 million in 2013 and $512 million in 2014.

The following table provides a summary of lifetime principal loss estimates included in both the nonaccretable difference and the allowance for loan losses. Lifetime principal loss estimates, which exclude the effect of foregone interest as a result of loan modifications, were relatively unchanged from December 31, 2011, to March 31, 2012. Principal charge-offs will not be recorded on these pools until the nonaccretable difference has been fully depleted.

Summary of lifetime principal loss estimates	Lifetime loss estimates[a]		LTD liquidation losses[b]	
(in billions)	Mar 31, 2012	Dec 31, 2011	Mar 31, 2012	Dec 31, 2011
Home equity	$14.9	$14.9	$10.8	$10.4
Prime mortgage	4.6	4.6	2.5	2.3
Subprime mortgage	3.7	3.8	1.8	1.7
Option ARMs	11.4	11.5	7.1	6.6
Total	$34.6	$34.8	$22.2	$21.0

(a) Includes the original nonaccretable difference established in purchase accounting of $30.5 billion for principal losses only plus additional principal losses recognized subsequent to acquisition through the provision and allowance for loan losses. The remaining nonaccretable difference for principal losses only was $8.3 billion and $9.4 billion at March 31, 2012, and December 31, 2011, respectively.

(b) Life-to-date (“LTD”) liquidation losses represent realization of loss upon loan resolution.

At both March 31, 2012, and December 31, 2011, California had the greatest concentration of residential real estate loans with 24% of the total retained residential real estate loan portfolio, excluding mortgage loans insured by U.S. government agencies and PCI loans. Of the total retained residential real estate loan portfolio, excluding mortgage loans insured by U.S. government agencies and PCI loans, $78.0 billion, or 54%, were concentrated in California, New York, Arizona, Florida and Michigan at March 31, 2012, compared with $79.5 billion, or 54%, at December 31, 2011. The unpaid principal balance of PCI loans concentrated in these five states represented 72% of total PCI loans at both March 31, 2012, and December 31, 2011.

The current estimated average LTV ratio for residential real estate loans retained, excluding mortgage loans insured by U.S. government agencies and PCI loans, was 84% at March 31, 2012, compared with 83% at December 31, 2011. Excluding mortgage loans insured by U.S. government agencies and PCI loans, 24% of the retained portfolio had a current estimated LTV ratio greater than 100%, and 10% of the retained portfolio had a current estimated LTV ratio greater than 125%

at both March 31, 2012, and December 31, 2011. The decline in home prices since 2007 has had a significant impact on the collateral values underlying the Firm’s residential real estate loan portfolio. In general, the delinquency rate for loans with high LTV ratios is greater than the delinquency rate for loans in which the borrower has equity in the collateral. While a large portion of the loans with current estimated LTV ratios greater than 100% continue to pay and are current, the continued willingness and ability of these borrowers to pay remains uncertain.

The following table for PCI loans presents the current estimated LTV ratio, as well as the ratio of the carrying value of the underlying loans to the current estimated collateral value. Because such loans were initially measured at fair value, the ratio of the carrying value to the current estimated collateral value will be lower than the current estimated LTV ratio, which is based on the unpaid principal balance. The estimated collateral values used to calculate these ratios do not represent actual appraised loan-level collateral values; as such, the resulting ratios are necessarily imprecise and should therefore be viewed as estimates.

LTV ratios and ratios of carrying values to current estimated collateral values – PCI loans

	March 31, 2012				December 31, 2011			
(in millions, except ratios)	Unpaid principal balance	Current estimated	Net carrying value[c]	Ratio of net carrying value	Unpaid principal balance	Current estimated	Net carrying value[c]	Ratio of net carrying value

		LTV ratio[(a)]			to current estimated collateral value[(c)]		LTV ratio[(a)]			to current estimated collateral value[(c)]
Home equity	$24,330	117	%[(b)]	$20,397	98%	$25,064	117	%[(b)]	$20,789	97%
Prime mortgage	15,462	110		12,852	91	16,060	110		13,251	91
Subprime mortgage	6,965	115		4,490	74	7,229	115		4,596	73
Option ARMs	25,098	108		20,611	89	26,139	109		21,199	89

(a) Represents the aggregate unpaid principal balance of loans divided by the estimated current property value. Current property values are estimated at least quarterly based on home valuation models that utilize nationally recognized home price index valuation estimates; such models incorporate actual data to the extent available and forecasted data where actual data is not available.

(b) Represents current estimated combined LTV for junior home equity liens, which considers all available lien positions related to the property. All other products are presented without consideration of subordinate liens on the property.

(c) Net carrying value includes the effect of fair value adjustments that were applied to the consumer PCI portfolio at the date of acquisition and is also net of the allowance for loan losses of $1.9 billion for home equity, $1.9 billion for prime mortgage, $1.5 billion for option ARMs, and $380 million for subprime mortgage at both March 31, 2012, and December 31, 2011.

The current estimated average LTV ratios were 117% and 138% for California and Florida PCI loans, respectively, at March 31, 2012, compared with 117% and 140%, respectively, at December 31, 2011. Continued pressure on housing prices in California and Florida have contributed negatively to both the current estimated average LTV ratio and the ratio of net carrying value to current estimated collateral value for loans in the PCI portfolio. Of the PCI portfolio, 62% had a current estimated LTV ratio greater than 100%, and 31% had a current estimated LTV ratio greater than 125% at both March 31, 2012, and December 31, 2011.

While the current estimated collateral value is greater than the net carrying value of PCI loans, the ultimate performance of this portfolio is highly dependent on borrowers' behavior and ongoing ability and willingness to continue to make payments on homes with negative equity, as well as on the cost of alternative housing. For further information on the geographic composition and current estimated LTVs of residential real estate – non-PCI and PCI loans, see Note 13 on pages 118–135 of this Form 10-Q.

Loan modification activities – residential real estate loans

For both the Firm's on–balance sheet loans and loans serviced for others, more than 1.3 million mortgage modifications have been offered to borrowers and approximately 499,000 have been approved since the beginning of 2009. Of these, more than 490,000 have achieved permanent modification as of March 31, 2012. Of the remaining modifications offered, 20% are in a trial period or still being reviewed for a modification, while 80% have dropped out of the modification program or otherwise were not eligible for final modification.

The Firm is participating in the U.S. Treasury's Making Home Affordable ("MHA") programs and is continuing to expand its other loss-mitigation efforts for financially distressed borrowers who do not qualify for the U.S. Treasury's programs. The MHA programs include the Home Affordable Modification Program ("HAMP") and the Second Lien Modification Program ("2MP"). The Firm's other loss-mitigation programs for troubled borrowers who do not qualify for HAMP include the traditional modification programs offered by the GSEs and Ginnie Mae, as well as the Firm's proprietary modification programs, which include concessions similar to those offered under HAMP and 2MP but with expanded eligibility criteria. In addition, the Firm has offered specific targeted modification programs to higher risk borrowers, many of whom were current on their

mortgages prior to modification. For further information about how loans are modified, see Note 13, Loan modifications, on pages 127–129 of this Form 10-Q.

Loan modifications under HAMP and under one of the Firm's proprietary modification programs, which are largely modeled after HAMP, require at least three payments to be made under the new terms during a trial modification period, and must be successfully re-underwritten with income verification before the loan can be permanently modified. In the case of specific targeted modification programs, re-underwriting the loan or a trial modification period is generally not required. When the Firm modifies home equity lines of credit, future lending commitments related to the modified loans are canceled as part of the terms of the modification.

The primary indicator used by management to monitor the success of the modification programs is the rate at which the modified loans redefault. Modification redefault rates are affected by a number of factors, including the type of loan modified, the borrower's overall ability and willingness to repay the modified loan and macroeconomic factors. Reduction in payment size for a borrower has shown to be the most significant driver in improving redefault rates.

The performance of modified loans generally differs by product type and also based on whether the underlying loan is in the PCI portfolio, due both to differences in credit quality and in the types of modifications provided. Performance metrics for modifications to the residential real estate portfolio, excluding PCI loans, that have been seasoned more than six months show weighted average redefault rates of 20% for senior lien home equity, 15% for junior lien home equity, 12% for prime mortgages including option ARMs, and 25% for subprime mortgages. The cumulative performance metrics for modifications to the PCI residential real estate portfolio seasoned more than six months show weighted average redefault rates of 15% for home equity, 16% for prime mortgages, 10% for option ARMs and 28% for subprime mortgages. The favorable performance of the option ARM modifications is the result of a targeted proactive program which fixes the borrower's payment at the current level. The cumulative redefault rates reflect the performance of modifications completed under both HAMP and the Firm's proprietary modification programs from October 1, 2009, through March 31, 2012. However, given the limited experience, ultimate performance of the modifications remain uncertain.

The following table presents information as of March 31, 2012, and December 31, 2011, relating to modified on–balance sheet residential real estate loans for which concessions have been granted to borrowers experiencing financial difficulty. Modifications of PCI loans continue to be accounted for and reported as PCI loans, and the impact of the modification is incorporated into the Firm's quarterly assessment of estimated future cash flows. Modifications of consumer loans other than PCI loans are generally accounted for and reported as troubled debt restructurings ("TDRs"). For further information on TDRs for the three months ended March 31, 2012, see Note 13 on pages 118–135 of this Form 10-Q.

Modified residential real estate loans	March 31, 2012		December 31, 2011	
(in millions)	On–balance sheet loans	Nonaccrual on–balance sheet loans[d]	On–balance sheet loans	Nonaccrual on–balance sheet loans[d]
Modified residential real estate loans – excluding PCI loans[a][b]				
Home equity – senior lien	$338	$68	$335	$77
Home equity – junior lien	706	209	657	159
Prime mortgage, including option ARMs	5,018	888	4,877	922
Subprime mortgage	3,226	728	3,219	832
Total modified residential real estate loans – excluding PCI loans	$9,288	$1,893	$9,088	$1,990
Modified PCI loans[c]				
Home equity	$1,129	NA	$1,044	NA
Prime mortgage	5,450	NA	5,418	NA
Subprime mortgage	3,959	NA	3,982	NA
Option ARMs	13,435	NA	13,568	NA
Total modified PCI loans	$23,973	NA	$24,012	NA

(a) Amounts represent the carrying value of modified residential real estate loans.

(b) At March 31, 2012, and December 31, 2011, $4.7 billion and $4.3 billion, respectively, of loans modified subsequent to repurchase from Ginnie Mae in accordance with the standards of the appropriate government agency (i.e., FHA, VA, RHS) were excluded from loans accounted for as TDRs. When such loans perform subsequent to modification in accordance with Ginnie Mae guidelines, they are generally sold back into Ginnie Mae loan pools. Modified loans that do not re-perform become subject to foreclosure. For additional information about sales of loans in securitization transactions with Ginnie Mae, see Note 15 on pages 137–144 of this Form 10-Q.

(c) Amounts represent the unpaid principal balance of modified PCI loans.

(d) Loans modified in a TDR that are on nonaccrual status may be returned to accrual status when repayment is reasonably assured and the borrower has made a minimum of six payments under the new terms. As of March 31, 2012, and December 31, 2011, nonaccrual loans included $837 million and $886 million, respectively, of TDRs for which the borrowers had not yet made six payments under the modified terms.

Nonperforming assets

The following table presents information as of March 31, 2012, and December 31, 2011, about consumer, excluding credit card, nonperforming assets.

Nonperforming assets[a]		
(in millions)	Mar 31, 2012	Dec 31, 2011
Nonaccrual loans[b][c]		
Home equity – senior lien	$489	$495
Home equity – junior lien	2,277	792
Prime mortgage, including option ARMs	3,258	3,462
Subprime mortgage	1,569	1,781
Auto	102	118
Business banking	649	694
Student and other	105	69

Total nonaccrual loans	8,449	7,411
Assets acquired in loan satisfactions		
Real estate owned	831	802
Other	38	44
Total assets acquired in loan satisfactions	869	846
Total nonperforming assets	$9,318	$8,257

(a) At March 31, 2012, and December 31, 2011, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $11.8 billion and $11.5 billion, respectively, that are 90 or more

days past due; (2) real estate owned insured by U.S. government agencies of $1.2 billion and $954 million, respectively; and (3) student loans insured by U.S. government agencies under the FFELP of $586 million and $551 million, respectively, that are 90 or more days past due. These amounts were excluded as reimbursement of insured amounts is proceeding normally.

(b) Excludes PCI loans that were acquired as part of the Washington Mutual transaction, which are accounted for on a pool basis. Since each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, the past-due status of the pools, or that of individual loans within the pools, is not meaningful. Because the Firm is recognizing interest income on each pool of loans, they are all considered to be performing.

(c) At March 31, 2012, and December 31, 2011, consumer, excluding credit card nonaccrual loans represented 2.77% and 2.40%, respectively, of total consumer, excluding credit card loans.

Nonaccrual loans: Total consumer, excluding credit card, nonaccrual loans were $8.4 billion at March 31, 2012, compared with $7.4 billion at December 31, 2011. Nonaccrual loans increased $1.6 billion at March 31, 2012, as a result of reporting performing junior lien home equity loans that are subordinate to senior liens that are 90 days or more past due as nonaccrual loans based on new regulatory guidance. For more information on the change in reporting of these junior liens, see the home equity portfolio analysis discussion on page 62 of this Form 10-Q. The elongated foreclosure processing timelines are expected to continue to result in elevated levels of nonaccrual loans in the residential real estate portfolios. In addition, modified loans have also contributed to the elevated level of nonaccrual loans, since the Firm's policy requires modified loans that are on nonaccrual to remain on nonaccrual status until payment is reasonably assured and the borrower has made a minimum of six payments under the modified terms. Nonaccrual loans in the residential real estate portfolio totaled $7.6 billion at March 31, 2012, of which 56% were greater than 150 days past due; this compared with nonaccrual residential real estate loans of $6.5 billion at December 31, 2011, of which 69% were greater than 150 days past due. At March 31, 2012, and December 31, 2011, modified residential real estate loans of $1.9 billion and $2.0 billion, respectively, were classified as nonaccrual loans, of which $837 million and $886 million, respectively, had yet to make six payments under their modified terms; the remaining nonaccrual modified loans have redefaulted. In the aggregate, the unpaid principal balance of residential real estate loans greater than 150 days past due was charged down by approximately 50% to estimated collateral value at both March 31, 2012, and December 31, 2011.

Real estate owned ("REO"): REO assets are managed for prompt sale and disposition at the best possible economic value. REO assets are those individual properties where the Firm gains ownership and possession at the completion of the foreclosure process. REO assets, excluding those insured by U.S. government agencies, increased by $29 million from $802 million at December 31, 2011, to $831 million at March 31, 2012.

Mortgage servicing-related matters

The recent financial crisis resulted in unprecedented levels of delinquencies and defaults of residential real estate loans. Such loans require varying degrees of loss mitigation activities. It is the Firm's goal that foreclosure in these situations be a last resort, and accordingly, the Firm has made, and continues to make, significant efforts to help borrowers stay in their homes. Since the third quarter of 2009, the Firm has prevented two foreclosures (through loan modification, short sales, and other foreclosure prevention means) for every foreclosure completed.

The Firm has a well-defined foreclosure prevention process when a borrower fails to pay on his or her loan. Customer contacts are attempted multiple times in various ways to pursue options other than foreclosure. In addition, if the Firm is unable to contact a customer, various reviews are completed of a borrower's facts and circumstances before a foreclosure sale is completed. The average delinquency at foreclosure over the last year has been approximately 21 months.

The high volume of delinquent and defaulted mortgages experienced by the Firm placed a significant amount of stress on the Firm's servicing operations. The Firm has made, and is continuing to make, significant changes to its mortgage operations in order to enhance its mortgage

servicing, loss mitigation and foreclosure processes. It has also entered into a global settlement with certain federal and state agencies, and consent orders with its banking regulators with respect to these matters.

Global settlement with federal and state agencies: On February 9, 2012, the Firm announced that it had agreed to a settlement in principle (the "global settlement") with a number of federal and state government agencies, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, the Consumer Financial Protection Bureau and the State Attorneys General, relating to the servicing and origination of mortgages. The global settlement, which was effectively finalized in the first quarter of 2012, pursuant to the execution of a definitive agreement and subsequent receipt of court approval on April 5, 2012, calls for the Firm to, among other things: (i) make cash payments of approximately $1.1 billion (a portion of which will be set aside for payments to borrowers) ("Cash Settlement Payment"); (ii) provide approximately $500 million of refinancing relief to certain "underwater" borrowers whose loans are owned and serviced by the Firm ("Refi Program"); and (iii) provide approximately $3.7 billion of additional relief for certain borrowers, including reductions of principal on first and second liens, payments to assist with short sales, deficiency balance waivers on past foreclosures and short sales, and forbearance assistance for unemployed homeowners ("Consumer Relief Program").

The purpose of the Refi Program is to allow borrowers who are current on their Firm-owned mortgage loans to refinance those loans and take advantage of the current low interest rate environment. Borrowers who may be eligible for the Refi Program are unable to refinance their mortgage loans under standard refinancing programs because they have no equity or, in many cases, negative equity in their homes. The initial interest rate on loans refinanced under the Refi Program will be lower than the borrower's interest rate prior to the refinancing and will be capped at the greater of 100 basis points over Freddie Mac's then-current Primary Mortgage Market Survey Rate or 5.25%. The terms of the refinanced loans may provide for a reduced interest rate either for the remaining life of the loan or for five years. In the latter case, the interest rate would revert to the borrower's contractual interest rate that was in effect prior to the refinancing; any interest rate increase would be capped at 50 basis points per year. In substance, these refinancings are more similar to loan modifications than traditional refinancings. While the ultimate number and principal balance of loans that will be refinanced under the Refi Program will depend upon the determination of borrower eligibility and borrowers' responses to offers to participate in the Refi Program, the Firm expects to refinance loans with an unpaid principal balance in excess of $3 billion within the next three years. The Firm intends to introduce the Refi Program in the second quarter of 2012.

The first and second lien loan modifications provided in the Consumer Relief Program will typically involve principal reductions for borrowers who have negative equity in their homes and who are experiencing financial difficulty. These loan modifications are expected to be performed under either MHA (e.g., HAMP, 2MP) or one of the Firm's proprietary modification programs. As of March 31, 2012, the Firm had begun to provide relief to borrowers under the Consumer Relief Program.

If the Firm does not meet certain targets set forth in the global settlement agreement for providing either refinancings under the Refi Program or other borrower relief under the Consumer Relief Program within certain prescribed time periods, the Firm must instead make additional cash payments. In general, 75% of the targets must be met within two years of the date of the global settlement and 100% must be achieved within three years of that date. The Firm currently expects it will meet the targets for providing refinancing and other borrower relief within the prescribed time periods.

The global settlement also requires the Firm to adhere to certain enhanced mortgage servicing standards. The servicing standards include, among other items, the following enhancements to the Firm's servicing of loans: a pre-foreclosure notice to all borrowers, which will include account information, holder status, and loss mitigation steps taken; enhancements to payment application and collections processes; strengthening procedures for filings in bankruptcy proceedings; deploying specific restrictions on "dual track" of foreclosure and loss mitigation; standardizing the process for appeal of loss mitigation denials; and implementing certain restrictions on fees, including the waiver of certain fees while a borrower's loss mitigation application is being evaluated.

The global settlement releases the Firm from certain further claims by participating government entities related to servicing activities, including foreclosures and loss mitigation activities; certain origination activities; and certain bankruptcy-related activities. Not included in the global settlement are any claims arising out of securitization activities, including representations made to investors with respect to mortgage-backed securities; criminal claims; and repurchase demands from the GSEs, among other items.

While the Firm expects to incur additional operating costs to comply with portions of the global settlement, including the enhanced servicing standards, the Firm's 2011 results of operations reflected the estimated costs of the global settlement (i.e., the Cash Settlement Payment, the Refi Program and the Consumer Relief Program). Accordingly, the Firm expects that the financial impact of the global settlement on the Firm's financial condition and results of operation for 2012 and future periods will not be material. The Firm expects to account for all refinancings performed under the Refi Program and all first and second lien loans modified under the Consumer Relief Program as TDRs. The estimated impacts of both the Refi Program and the Consumer Relief Program have been considered in the Firm's allowance for loan losses.

Also, on February 9, 2012, the Firm entered into agreements with the Federal Reserve and the OCC for the payment of civil money penalties related to conduct that was the subject of consent orders entered into with the banking regulators in April 2011, as discussed further below. The Firm's payment obligations under those agreements will be deemed satisfied by the Firm's payments and provisions of relief under the global settlement.

For further information on the global settlement, see Critical Accounting Estimates Used by the Firm on pages 80–82, Note 2 on pages 90–91, Note 13 on pages 118–135, and Note 23 on pages 154–163 of this Form 10-Q.

Consent Orders: During the second quarter of 2011, the Firm entered into Consent Orders ("Orders") with banking regulators relating to its residential mortgage servicing, foreclosure and loss-mitigation activities. In the Orders, the regulators have mandated significant changes to the Firm's servicing and default business and outlined requirements to implement these changes. During 2011, in accordance with the requirements of the Orders, the Firm submitted comprehensive action plans, the plans have been approved, and the Firm has commenced implementation. The plans set forth the steps necessary to ensure the Firm's residential mortgage servicing, foreclosure and loss-mitigation activities are conducted in accordance with the requirements of the Orders.

To date, the Firm has implemented a number of corrective actions including the following:

- Established an independent Compliance Committee which meets regularly and monitors progress against the Orders.
- Launched a new Customer Assistance Specialist organization for borrowers to facilitate the single point of contact initiative and ensure effective coordination and communication related to foreclosure, loss-mitigation and loan modification.
- Enhanced its approach to oversight over third-party vendors for foreclosure or other related functions.
- Standardized the processes for maintaining appropriate controls and oversight of the Firm's activities with respect to the Mortgage Electronic Registration system ("MERS") and compliance with MERSCORP's membership rules, terms and conditions.
- Strengthened its compliance program so as to ensure mortgage-servicing and foreclosure operations, including loss-mitigation and loan modification, comply with all applicable legal requirements.
- Enhanced management information systems for loan modification, loss-mitigation and foreclosure activities.
- Developed a comprehensive assessment of risks in servicing operations including, but not limited to, operational, transaction, legal and reputational risks.
- Made technological enhancements to automate and streamline processes for the Firm's document management, training, skills assessment and payment processing initiatives.
- Deployed an internal validation process to monitor progress under the comprehensive action plans.

In addition, pursuant to the Orders, the Firm is required to enhance oversight of its mortgage servicing activities, including oversight by compliance, management and audit personnel and, accordingly, has made and continues to make changes in its organization structure, control oversight and customer service practices.

Pursuant to the Orders, the Firm has retained an independent consultant to conduct a review of its residential foreclosure actions during the period from January 1, 2009, through December 31, 2010 (including foreclosure actions brought in respect of loans being serviced), and to remediate any errors or deficiencies identified by the independent consultant, including, if required, by reimbursing borrowers for any identified financial injury they may have incurred. The borrower

outreach process was launched in the fourth quarter of 2011, and the independent consultant is conducting its review. For additional information, see Mortgage Foreclosure Investigations and Litigation in Note 23 on pages 154–163 of this Form 10-Q.

Credit Card

Total credit card loans were $125.3 billion at March 31, 2012, a decrease of $6.9 billion from December 31, 2011, due to seasonality and higher repayment rates.

For the retained credit card portfolio, the 30+ day delinquency rate decreased to 2.56% at March 31, 2012, from 2.81% at December 31, 2011. For the three months ended March 31, 2012 and 2011, the net charge-off rates were 4.40% and 6.97% respectively. The delinquency trend continued to show improvement. Charge-offs have improved as a result of lower delinquent loans. The credit card portfolio continues to reflect a well-seasoned, largely rewards-based portfolio that has good U.S. geographic diversification. The greatest geographic concentration of credit card retained loans is in California, which represented 13% of total retained loans at both March 31, 2012, and December 31, 2011. Loan concentration for the top five states of California, New York, Texas, Florida and Illinois consisted of $50.6 billion in receivables, or 41% of the retained loan portfolio, at March 31, 2012, compared with $53.6 billion, or 40%, at December 31, 2011.

Modifications of credit card loans

At March 31, 2012, and December 31, 2011, the Firm had $6.5 billion and $7.2 billion, respectively, of credit card loans outstanding that have been modified in TDRs. These balances included both credit card loans with modified payment terms and credit card loans that reverted back to their pre-modification payment terms because the cardholder did not comply with the modified payment terms. The decrease in modified credit card loans outstanding from December 31, 2011, was attributable to a reduction in new modifications as well as ongoing payments and charge-offs on previously modified credit card loans.

Consistent with the Firm's policy, all credit card loans typically remain on accrual status. However, the Firm establishes an allowance, which is recorded as an offset to interest income, for the estimated uncollectible portion of billed and accrued interest and fee income.

For additional information about loan modification programs to borrowers, see Note 14 on pages 231–252 of JPMorgan Chase's 2011 Annual Report.

COMMUNITY REINVESTMENT ACT EXPOSURE

The Community Reinvestment Act ("CRA") encourages banks to meet the credit needs of borrowers in all segments of their communities, including neighborhoods with low or moderate incomes. JPMorgan Chase is a national leader in community development by providing loans, investments and community development services in communities across the United States.

At both March 31, 2012, and December 31, 2011, the Firm's CRA loan portfolio was approximately $15 billion. At March 31, 2012, and December 31, 2011, 62% and 63%,

respectively, of the CRA portfolio were residential mortgage loans; 18% and 17%, respectively, were business banking loans; 14%, for both periods, were commercial real estate loans; and 6%, for both periods, were other loans. CRA nonaccrual loans were 5% and 6% of the Firm's total nonaccrual loans at March 31, 2012, and December 31, 2011, respectively. Net charge-offs in the CRA portfolio were 3% and 2%, respectively, of the Firm's net charge-offs for the three months ended March 31, 2012 and 2011.

ALLOWANCE FOR CREDIT LOSSES

JPMorgan Chase's allowance for loan losses covers the wholesale (risk-rated); consumer, excluding credit card; and credit card portfolios (primarily scored). The allowance represents management's estimate of probable credit losses inherent in the Firm's loan portfolio. Management also determines an allowance for wholesale and certain consumer, excluding credit card, lending-related commitments.

For a further discussion of the components of the allowance for credit losses, see Critical Accounting Estimates Used by the Firm on pages 80–82 and Note 14 on page 136 of this Form 10-Q.

At least quarterly, the allowance for credit losses is reviewed by the Chief Risk Officer, the Chief Financial Officer and the Controller of the Firm, and discussed with the Risk Policy and Audit Committees of the Board of Directors of the Firm. As of March 31, 2012, JPMorgan Chase deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb probable credit losses inherent in the portfolio).

The allowance for credit losses was $26.6 billion at March 31, 2012, a decrease of $1.7 billion from $28.3 billion at December 31, 2011. The consumer, excluding credit card, allowance for loan losses decreased $997 million largely due to a reduction in the allowance related to the non-PCI residential real estate portfolio, due to lower estimated losses as mortgage delinquency trends improved. The credit card allowance for loan losses decreased by $748 million from December 31, 2011, primarily as a result of lower estimated losses related to improved delinquency trends as well as lower levels of outstandings. The wholesale allowance for loan losses was relatively unchanged from December 31, 2011.

The allowance for lending-related commitments for both the wholesale and consumer, excluding credit card portfolios, which is reported in other liabilities, totaled $750 million and $673 million at March 31, 2012, and December 31, 2011, respectively.

The credit ratios in the following table are based on retained loan balances, which exclude loans held-for-sale and loans accounted for at fair value.

Summary of changes in the allowance for credit losses

Three months ended March 31, (in millions, except ratios)	2012 Wholesale	Consumer, excluding credit card	Credit card	Total	2011 Wholesale	Consumer, excluding credit card	Credit card	Total
Allowance for loan losses								
Beginning balance at January 1,	$4,316	$16,294	$6,999	$27,609	$4,761	$16,471	$11,034	$32,266
Gross charge-offs	92	1,134	1,627	2,853	253	1,460	2,631	4,344
Gross recoveries	(87)	(138)	(241)	(466)	(88)	(131)	(405)	(624)
Net charge-offs	5	996	1,386	2,387	165	1,329	2,226	3,720
Provision for loan losses	8	2	636	646	(359)	1,329	226	1,196
Other	4	(3)	2	3	(3)	4	7	8
Ending balance at March 31,	$4,323	$15,297	$6,251	$25,871	$4,234	$16,475	$9,041	$29,750
Impairment methodology								
Asset-specific[(a)]	$448	$760	$2,402	$3,610	$1,030	$1,067	$3,819	$5,916
Formula-based	3,875	8,826	3,849	16,550	3,204	10,467	5,222	18,893
PCI	—	5,711	—	5,711	—	4,941	—	4,941
Total allowance for loan losses	$4,323	$15,297	$6,251	$25,871	$4,234	$16,475	$9,041	$29,750
Allowance for lending-related commitments								
Beginning balance at January 1,	$666	$7	$—	$673	$711	$6	$—	$717
Provision for lending-related commitments	81	(1)	—	80	(27)	—	—	(27)
Other	(4)	1	—	(3)	(2)	—	—	(2)
Ending balance at March 31,	$743	$7	$—	$750	$682	$6	$—	$688
Impairment methodology								
Asset-specific	$187	$—	$—	$187	$184	$—	$—	$184
Formula-based	556	7	—	563	498	6	—	504
Total allowance for lending-related commitments	$743	$7	$—	$750	$682	$6	$—	$688
Total allowance for credit losses	$5,066	$15,304	$6,251	$26,621	$4,916	$16,481	$9,041	$30,438
Memo:								
Retained loans, end of period	$283,653	$304,770	$124,475	$712,898	$229,648	$320,998	$124,791	$675,437
Retained loans, average	276,764	306,657	126,795	710,216	226,544	323,961	129,535	680,040

PCI loans, end of period	22		64,061		—		64,083		56		70,765		—		70,821	
Credit ratios																
Allowance for loan losses to retained loans	1.52	%	5.02	%	5.02	%	3.63	%	1.84	%	5.13	%	7.24	%	4.40	%
Allowance for loan losses to retained nonaccrual loans(b)	223		181		NM		249		92		192		NM		226	
Allowance for loan losses to retained nonaccrual loans excluding credit card	223		181		NM		189		92		192		NM		157	
Net charge-off rates(c)	0.01		1.31		4.40		1.35		0.30		1.66		6.97		2.22	
Credit ratios, excluding residential real estate PCI loans																
Allowance for loan losses to retained loans (d)	1.52		3.98		5.02		3.11		1.84		4.61		7.24		4.10	
Allowance for loan losses to retained nonaccrual loans(b)(d)	223		113		NM		194		92		135		NM		189	
Allowance for loan losses to retained nonaccrual loans excluding credit card(b)(d)	223		113		NM		134		92		135		NM		120	
Net charge-off rates(d)	0.01	%	1.66	%	4.40	%	1.49	%	0.30	%	2.14	%	6.97	%	2.48	%

(a) Includes risk-rated loans that have been placed on nonaccrual status and loans that have been modified in a TDR.

(b) The Firm’s policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance. Under the guidance issued by the FFIEC, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.

(c) Charge-offs are not recorded on PCI loans until actual losses exceed estimated losses recorded as purchase accounting adjustments at the time of acquisition.

(d) Excludes the impact of PCI loans acquired as part of the Washington Mutual transaction.

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Provision for credit losses

For the three months ended March 31, 2012, the provision for credit losses was $726 million, down 38% from the prior year. The consumer, excluding credit card, provision for credit losses was $1 million, compared with $1.3 billion in the prior-year period, reflecting a reduction in allowance for loan losses due to lower estimated losses in the non-PCI residential real estate portfolio as delinquency trends improved. For the three months ended March 31, 2012, the wholesale provision for credit losses was $89 million, compared with a benefit of $386 million in the prior-year

period. The prior year wholesale provision reflected a reduction in loan loss reserves due to an improvement in the credit environment. The credit card provision for credit losses was $636 million compared with $226 million in the prior year. The current-quarter credit card provision reflected lower net charge-offs and a reduction of $750 million to the allowance for loan losses due to lower estimated losses; the prior-year provision included a reduction of $2.0 billion to the allowance for loan losses.

Three months ended March 31,	Provision for loan losses		Provision for lending-related commitments		Total provision for credit losses	
(in millions)	2012	2011	2012	2011	2012	2011
Wholesale	$8	$(359)	$81	$(27)	$89	$(386)
Consumer, excluding credit card	2	1,329	(1)	—	1	1,329
Credit card	636	226	—	—	636	226
Total provision for credit losses	$646	$1,196	$80	$(27)	$726	$1,169

MARKET RISK MANAGEMENT

For a discussion of the Firm's Market Risk Management organization, major market risk drivers and classification of risks, see pages 158–163 of JPMorgan Chase's 2011 Annual Report.

Value-at-risk

JPMorgan Chase utilizes VaR, a statistical risk measure, to estimate the potential loss from adverse market moves. Each business day, as part of its risk management activities, the Firm undertakes a comprehensive VaR calculation that includes the majority of its material market risks. VaR provides a consistent cross-business measure of risk profiles and levels of diversification and is used for comparing risks across businesses and monitoring limits. These VaR results are reported to senior management and regulators, and they are utilized in regulatory capital calculations.
The Firm calculates VaR to estimate possible losses for its current positions using historical simulation, which measures risk across instruments and portfolios in a consistent, comparable way. The Firm's VaR calculation is highly granular and incorporates numerous risk factors, which are selected based on the risk profile of each portfolio. The simulation is based on data for the previous

12 months. This approach assumes that historical changes in market values are representative of the distribution of potential outcomes in the immediate future. VaR is calculated using a one day time horizon and an expected tail-loss methodology, and approximates a 95% confidence level. This means that, assuming current changes in market values are consistent with the historical changes used in the simulation, the Firm would expect to incur losses greater than that predicted by VaR estimates five times in every 100 trading days, or about 12 to 13 times a year. However, differences between current and historical market price volatility may result in fewer or greater VaR exceptions than the number indicated by the historical simulation. In addition, based on their reliance on available historical data, limited time horizons, and other factors, VaR measures are inherently limited in their ability to measure certain risks and to predict losses, particularly those associated with market illiquidity and sudden or severe shifts in market conditions. As a result, the Firm considers other metrics in addition to VaR to monitor and manage its market risk positions.

The table below shows the results of the Firm's VaR measure using a 95% confidence level.

Total IB trading VaR by risk type, Credit portfolio VaR and other VaR

	Three months ended March 31,							
	2012			2011			At March 31,	
(in millions)	Avg.	Min	Max	Avg.	Min	Max	2012	2011
IB VaR by risk type								
Fixed income	$60	$47	$73	$49	$44	$56	$69	$55
Foreign exchange	11	8	22	11	9	17	14	11
Equities	17	12	25	29	19	42	17	22
Commodities and other	21	16	27	13	8	20	16	10
Diversification benefit to IB trading VaR	(46) [a]	NM [b]	NM [b]	(38) [a]	NM [b]	NM [b]	(62) [a]	(37) [a]
IB trading VaR	63	50	79	64	40	80	54	61
Credit portfolio VaR	32	26	42	26	22	33	30	28
Diversification benefit to IB trading and credit portfolio VaR	(14) [a]	NM [b]	NM [b]	(7) [a]	NM [b]	NM [b]	(13) [a]	(7) [a]
Total IB trading and credit portfolio VaR	81	70	99	83	53	102	71	82
Other VaR								
Mortgage Production and Servicing VaR	11	8	16	16	10	32	11	18

Chief Investment Office ("CIO") VaR[c]	129	85	187	60	55	64	186	55
Diversification benefit to total other VaR	(4)[a]	NM[b]	NM[b]	(14)[a]	NM[b]	NM[b]	(6)[a]	(13)[a]
Total other VaR[c]	136	89	197	62	55	69	191	60
Diversification benefit to total IB and other VaR	(47)[a]	NM[b]	NM[b]	(57)[a]	NM[b]	NM[b]	(61)[a]	(56)[a]
Total IB and other VaR[c]	$170	$111	$232	$88	$67	$104	$201	$86

(a) Average VaR and period-end VaR were less than the sum of the VaR of the components described above, which is due to portfolio diversification. The diversification effect reflects the fact that the risks were not perfectly correlated. The risk of a portfolio of positions is therefore usually less than the sum of the risks of the positions themselves.

(b) Designated as not meaningful ("NM"), because the minimum and maximum may occur on different days for different risk components, and hence it is not meaningful to compute a portfolio-diversification effect.

(c) CIO VaR presented above for the period ended March 31, 2012 supersedes the Firm's VaR disclosures included in its Form 8-K filed on April 13, 2012 and was calculated using a methodology consistent with the methodology used to calculate CIO's VaR in 2011, including the first quarter of 2011 reflected above.

VaR Measurement

IB trading VaR includes substantially all market-making and client-driven activities as well as certain risk management activities in IB. This includes the credit spread sensitivities of certain mortgage products and syndicated lending facilities that the Firm intends to distribute. The Firm uses proxies to estimate the VaR for these and other products when daily time series are not available. It is likely that using an actual price-based time series for these products, if available, would affect the VaR results presented. In addition, for certain products included in IB trading and credit portfolio VaR, certain risk parameters that do not have daily observable values are not captured, such as correlation risk.

Credit portfolio VaR includes the derivative CVA, hedges of the CVA and the fair value of hedges of the retained loan portfolio, which are reported in principal transactions revenue. However, Credit portfolio VaR does not include the retained portfolio, which is not reported at fair value.

Other VaR includes certain positions employed as part of the Firm’s risk management function within the Chief Investment Office (“CIO”) and in the Mortgage Production and Servicing business. CIO VaR includes positions, primarily in debt securities and credit products, used to manage structural and other risks including interest rate, credit and mortgage risks arising from the Firm’s ongoing business activities. Mortgage Production and Servicing VaR includes the Firm’s mortgage pipeline and warehouse loans, MSRs and all related hedges.

As noted above, IB, Credit portfolio and other VaR does not include the retained Credit portfolio, which is not reported at fair value; however, it does include hedges of those positions. It also does not include DVA on derivative and structured liabilities to reflect the credit quality of the Firm; principal investments (mezzanine financing, tax-oriented investments, etc.); and certain securities and investments held by the Corporate/Private Equity line of business, including private equity investments, capital management positions and longer-term investments managed by CIO. These longer-term positions are managed through the Firm’s nontrading interest rate-sensitive revenue-at-risk and other cash flow-monitoring processes, rather than by using a VaR measure. Principal investing activities and Private Equity positions are managed using stress and scenario analyses. See the DVA sensitivity table on page 75 of this

Form 10-Q. For a discussion of Corporate/Private Equity, see pages 33–34 of this Form 10-Q.

The Firm's VaR models are continuously evaluated and enhanced in response to changes in the composition of the Firm's portfolios, changes in market conditions and dynamics, improvements in the Firm's modeling techniques, system capabilities, and other factors.

First-quarter 2012 VaR results

As presented in the table above, average total IB and other VaR was $170 million for the three months ended March 31, 2012, compared with $88 million for the comparable 2011 period. The increase in average VaR was primarily driven by an increase in CIO VaR and a decrease in diversification benefit across the Firm.

Average total IB trading and credit portfolio VaR for the three months ended March 31, 2012, was $81 million, compared with $83 million for the comparable 2011 period. The decrease in IB trading VaR was driven by a reduction in exposure in the equity risk component along with an offsetting increase in exposure in the fixed income risk component.

CIO VaR averaged $129 million for the three months ended March 31, 2012, compared with $60 million for the comparable 2011 period. The increase in CIO average VaR was due to changes in the synthetic credit portfolio held by CIO as part of its management of structural and other risks arising from the Firm's on-going business activities.

Mortgage Production and Servicing VaR averaged $11 million for the three months ended March 31, 2012, compared with $16 million for the comparable 2011 period. The decrease was primarily driven by position changes in the MSR Portfolio.

The Firm’s average IB and other VaR diversification benefit was $47 million, or 22% of the sum for the three months ended March 31, 2012, compared with $57 million, or 39% of the sum for the comparable 2011 period. In general, over the course of the year, VaR exposure can vary significantly as positions change, market volatility fluctuates and diversification benefits change.

VaR back-testing

The Firm conducts daily back-testing of VaR against its market risk related revenue. For the three months ended March 31, 2012, losses were sustained on one day, which did not exceed the VaR measure.

The following histogram illustrates the daily market risk-related gains and losses for IB, CIO and Mortgage Production and Servicing positions for 2012. This market risk-related revenue is defined as the change in value of: principal transactions revenue for IB and CIO (less Private Equity gains/losses and revenue from longer-term CIO investments); trading-related net interest income for IB, CIO and Mortgage Production and Servicing; IB brokerage commissions, underwriting fees or other revenue; revenue from syndicated lending facilities that the Firm intends to distribute; and mortgage fees and related income for the Firm's mortgage pipeline and warehouse loans, MSRs, and all related hedges. Daily firmwide market risk-related revenue excludes gains and losses from DVA.

The chart shows that the Firm posted market risk-related gains on 64 of the 65 days in this period, with one day exceeding $200 million. The inset graph looks at those days on which the Firm experienced losses and depicts the amount by which the VaR exceeded the actual loss on each of those days.

The following table provides information about the gross sensitivity of DVA to a one-basis-point increase in JPMorgan Chase's credit spreads. This sensitivity represents the impact from a one-basis-point parallel shift in JPMorgan Chase's entire credit curve. As credit curves do not typically move in a parallel fashion, the sensitivity multiplied by the change in spreads at a single maturity point may not be representative of the actual revenue recognized.

Debit valuation adjustment sensitivity

(in millions)	One basis-point increase in JPMorgan Chase's credit spread
March 31, 2012	$35
December 31, 2011	35

Economic-value stress testing

While VaR reflects the risk of loss due to adverse changes in markets using recent historical market behavior as an indicator of losses, stress testing captures the Firm's exposure to unlikely but plausible events in abnormal markets using multiple scenarios that assume significant

changes in credit spreads, equity prices, interest rates, currency rates or commodity prices. Scenarios are updated dynamically and may be redefined on an ongoing basis to reflect current market conditions. Along with VaR, stress testing is important in measuring and controlling risk; it enhances understanding of the Firm's risk profile and loss potential, as stress losses are monitored against limits. Stress testing is also employed in cross-business risk management. Stress-test results, trends and explanations based on current market risk positions are reported to the Firm's senior management and to the lines of business to allow them to better understand event risk-sensitive positions and manage risks with more transparency.

Nontrading interest rate-sensitive revenue-at-risk (i.e., "earnings-at-risk")

The VaR and stress-test measures described above illustrate the total economic sensitivity of the Firm's Consolidated Balance Sheets to changes in market variables. The effect of interest rate exposure on reported net income is also important. Interest rate risk represents one of the Firm's significant market risk exposures. This risk arises not only from trading activities but also from the Firm's traditional banking activities, which include extension of loans and credit facilities, taking deposits, issuing debt, and holding securities and off-balance sheet positions to manage the Firm's asset/liability profile. The Firm manages this interest rate risk generally through its investment securities portfolio and related derivatives. The Firm evaluates its nontrading interest rate risk exposure through the stress testing of earnings-at-risk, which measures the extent to which changes in interest rates will affect the Firm's core net interest income (for a further discussion see Core net interest income on page 13 of this Form 10-Q) and interest rate-sensitive fees ("nontrading interest rate-sensitive revenue"). Earnings-at-risk excludes the impact of trading activities and MSRs as these sensitivities are captured under VaR. For further discussion on interest rate exposure, see Nontrading interest rate-sensitive revenue-at-risk on pages 161–162 of JPMorgan Chase's 2011 Annual Report.

The Firm conducts simulations of changes in nontrading interest rate-sensitive revenue under a variety of interest rate scenarios. Earnings-at-risk tests measure the potential change in this revenue, and the corresponding impact to the Firm's pretax earnings, over the following 12 months. These tests highlight exposures to various interest rate-sensitive factors, such as the rates themselves (e.g., the prime lending rate), pricing strategies on deposits, optionality and changes in product mix. The tests include forecasted balance sheet changes, such as asset sales and securitizations, as well as prepayment and reinvestment behavior. Mortgage prepayment assumptions are based on current interest rates compared with underlying contractual rates, the time since origination, and other factors which are updated periodically based on historical experience and forward market expectations. The amount and pricing assumptions of deposits that have no stated maturity are based on historical performance, the competitive environment, customer behavior, and product mix.

Immediate changes in interest rates present a limited view of risk, and so a number of alternative scenarios are also reviewed. These scenarios include the implied forward curve, nonparallel rate shifts and severe interest rate shocks on selected key rates. These scenarios are intended to provide a comprehensive view of JPMorgan Chase's earnings-at-risk over a wide range of outcomes.

JPMorgan Chase's 12-month pretax earnings sensitivity profiles.
(Excludes the impact of trading activities and MSRs)

	Immediate change in rates			
(in millions)	+200bp	+100bp	-100bp	-200bp
March 31, 2012	$3,877	$2,234	NM [(a)]	NM [(a)]
December 31, 2011	4,046	2,326	NM [(a)]	NM [(a)]

(a) Downward 100- and 200-basis-point parallel shocks result in a Federal Funds target rate of zero and negative three- and six-month treasury rates. The earnings-at-risk results of such a low-probability scenario are not meaningful.

The change in earnings at risk from December 31, 2011, resulted from investment portfolio repositioning. The Firm's risk to rising rates was largely the result of widening deposit margins, which are currently compressed due to very low short-term interest rates.

Additionally, another interest rate scenario used by the Firm — involving a steeper yield curve with long-term rates rising by 100 basis points and short-term rates staying at current levels — results in a 12-month pretax earnings benefit of $549 million. The increase in earnings under this scenario is due to reinvestment of maturing assets at the higher long-term rates, with funding costs remaining unchanged.

COUNTRY RISK MANAGEMENT

For a discussion of the Firm's Country Risk Management organization, and country risk identification, measurement, monitoring and control, see pages 163–165 of JPMorgan Chase's 2011 Annual Report.

The Firm is exposed to country risk through its wholesale lending, investing, and market-making activities, whether cross-border or locally funded. Country exposure includes activity with both government and private-sector entities in a country. Under the Firm's internal risk management approach, country exposure is reported based on the country where the majority of the assets of the obligor, counterparty, issuer or guarantor are located or where the majority of its revenue is derived, which may be different than the domicile (legal residence) of the obligor, counterparty, issuer or guarantor. Exposures are generally measured by considering the Firm's risk to an immediate default of the counterparty or obligor, with zero recovery.

The Firm's internal risk management approach differs from the reporting provided under FFIEC bank regulatory requirements. There are significant reporting differences in reporting methodology, including with respect to the treatment of collateral received and the benefit of credit derivative protection. For further information on the FFIEC's reporting methodology, see Cross-border outstandings on page 322 of JPMorgan Chase's 2011 Form 10-K.

The following table presents the Firm's top 20 country exposures (excluding U.S.) based on its internal measurements of exposure. The selection of countries is based solely on the Firm's largest total exposures by country and does not represent its view of any actual or potentially adverse credit conditions.

Top 20 country exposures

	March 31, 2012			
(in billions)	Lending[(a)]	Trading and investing[(b)(c)]	Other[(d)]	Total exposure
United Kingdom	$31.5	$72.6	$5.2	$109.3
Germany	33.8	22.9	—	56.7
France	15.0	32.4	—	47.4
Switzerland	39.6	3.5	0.4	43.5
Netherlands	4.4	36.7	1.8	42.9
Australia	7.5	20.7	—	28.2
Canada	11.3	6.5	0.4	18.2
Brazil	5.5	10.9	—	16.4
India	7.6	7.4	—	15.0
Korea	6.3	7.8	0.3	14.4
China	7.4	4.0	0.5	11.9
Mexico	2.1	6.8	—	8.9
Italy	3.1	4.9	—	8.0
Hong Kong	3.6	3.9	0.1	7.6
Japan	3.4	3.9	—	7.3
Malaysia	1.8	3.5	0.5	5.8
Taiwan	2.8	3.0	—	5.8
Spain	3.5	2.0	0.1	5.6
Belgium	2.7	2.8	0.1	5.6
Singapore	3.0	1.5	0.9	5.4

(a) Lending includes loans and accrued interest receivable, net of the allowance for loan losses, deposits with banks, acceptances, other monetary assets, issued letters of credit net of participations, and undrawn commitments to extend credit.

(b) Includes market-making inventory, securities held in AFS accounts and hedging.

(c) Includes single name and portfolio credit derivative products for which one or more of the underlying reference entities is in a country listed in the above table. As of March 31, 2012, the Firm's country risk reporting reflects enhanced measurement of portfolio credit derivative products. The methodology used to decompose this exposure into individual countries assumes all the portfolio names in that particular country default at the same time. Changes in this assumption can produce different results.

(d) Includes capital invested in local entities and physical commodity storage.

Selected European exposure

Several European countries, including Spain, Italy, Ireland, Portugal and Greece, have been subject to credit deterioration due to weaknesses in their economic and fiscal situations. The Firm believes its exposure to these five countries is modest relative to the Firm’s overall risk exposures and is manageable given the size and types of exposures to each of the countries and the diversification of the aggregate exposure. The Firm continues to conduct business and support client activity in these countries and, therefore, the Firm’s aggregate net exposures and sector distribution may vary over time. In addition, the net exposures may be affected by changes in market conditions, including the effects of interest rates and credit spreads on market valuations. The Firm is closely monitoring its exposures in these countries.

The following table presents the Firm’s direct exposure to these five countries at March 31, 2012, as measured under the Firm’s internal risk management approach.

March 31, 2012 (in billions)	Lending[a]	AFS securities[b]	Trading[c][d]	Derivative collateral[e]	Portfolio hedging[f]	Total exposure
Spain						
Sovereign	$ —	$ 0.5	$ (0.4)	$ —	$ (0.1)	$ —
Non-sovereign	3.5	0.3	5.2	(3.0)	(0.4)	5.6
Total Spain exposure	$ 3.5	$ 0.8	$ 4.8	$ (3.0)	$ (0.5)	$ 5.6
Italy						
Sovereign	$ —	$ —	$ 8.8	$ (1.1)	$ (4.0)	$ 3.7
Non-sovereign	3.1	0.1	2.9	(1.1)	(0.7)	4.3
Total Italy exposure	$ 3.1	$ 0.1	$ 11.7	$ (2.2)	$ (4.7)	$ 8.0
Other (Ireland, Portugal and Greece)						
Sovereign	$ —	$ 0.4	$ 0.3	$ —	$ (0.7)	$ —
Non-sovereign	1.2	—	(1.0)	(1.2)	(0.1)	(1.1)
Total other exposure	$ 1.2	$ 0.4	$ (0.7)	$ (1.2)	$ (0.8)	$ (1.1)
Total exposure	$ 7.8	$ 1.3	$ 15.8	$ (6.4)	$ (6.0)	$ 12.5

(a) Lending includes loans and accrued interest receivable, net of the allowance for loan losses, deposits with banks, acceptances, other monetary assets, issued letters of credit net of participations, and undrawn commitments to extend credit. Includes $2.5 billion of unfunded lending exposure at March 31, 2012. These exposures consist typically of committed, but unused corporate credit agreements, with market-based lending terms and covenants.

(b) The fair value of AFS securities was $1.3 billion at March 31, 2012.

(c) Includes: $16.8 billion of counterparty exposure on derivative and securities financings, $0.9 billion of issuer exposure on debt and equity securities held in trading, $2.4 billion of single-name CDS and $(4.3) billion of portfolio credit derivative products for which one or more of the underlying reference entities is in a country listed in the above table. Securities financings of approximately $12.0 billion were collateralized with approximately $14.1 billion of marketable securities as of March 31, 2012.

(d) Includes single name and portfolio credit derivative products for which one or more of the underlying reference entities is in a country listed in the above table. As of March 31, 2012, the Firm's country risk reporting reflects enhanced measurement of portfolio credit derivative products. The methodology used to decompose this exposure into individual countries assumes all the portfolio names in that particular country default at the same time. Changes in this assumption can produce different results.

(e) Includes cash and marketable securities pledged to the Firm, of which approximately 98% of the collateral was cash at March 31, 2012.

(f) Reflects net CDS protection purchased through the Firm’s credit portfolio management activities, which are managed separately from its market-making activities.

For individual exposures, corporate clients represent approximately 84% of the Firm’s non-sovereign exposure in these five countries, and substantially all of the remaining 16% of the non-sovereign exposure is to the banking sector.

As of March 31, 2012, the notional amount of single-name CDS protection sold and purchased related to these countries was $142.4 billion and $144.3 billion, respectively, on a gross basis, before consideration of counterparty master netting agreements or collateral arrangements. Approximately 30% and 50% of the notional amount of the single-name CDS sold and purchased relates to Spain and Italy, respectively, with the remaining amounts distributed relatively equally among the remaining named European countries. In each of the five countries, the aggregate gross notional amount of single-name protection sold was more than 98% offset by the aggregate gross notional amount of single-name protection purchased on the same reference entities on which the Firm sold protection. The notional amount of single-name CDS protection sold and purchased related to these countries, after consideration of counterparty master netting agreements (which is a measure used by certain market peers and therefore presented for comparative purposes), was $14.5 billion and $16.4 billion, respectively.

The fair value of the single-name CDS protection sold and purchased in the five named European countries as of March 31, 2012, was $14.3 billion and $15.0 billion, respectively, prior to consideration of collateral and master netting agreements, and was $1.8 billion and $2.5 billion, respectively, after consideration of counterparty master netting agreements for single-name credit derivatives within the selected European countries.

The Firm’s credit derivative activity is presented on a net basis, as market-making activities often result in selling and purchasing protection related to the same underlying reference entity. This presentation reflects the manner in which this exposure is managed, and reflects, in the Firm’s view, the substantial mitigation of counterparty credit and market risk in its credit derivative activities. The Firm believes that the counterparty credit risk on credit derivative purchased protection has been substantially mitigated based on the following characteristics, by notional amount, as of March 31, 2012.

- 99% is purchased under contracts that require posting of cash collateral;
- 88% is purchased from investment-grade counterparties domiciled outside of the select European countries;
- 77% of the protection purchased offsets protection sold on the identical reference entity, with the identical counterparty subject to master netting agreements.

The Firm generally seeks to purchase credit protection with the same or similar maturity date on its exposures for which the protection was purchased. However, there are instances where the purchased protection has a shorter maturity date than the maturity date on the exposure for which the protection was purchased. These exposures are actively monitored and managed by the Firm.

The effectiveness of the Firm's CDS protection as a hedge of the Firm's exposures may vary depending upon a number of factors, including the contractual terms of the CDS. For further information about credit derivatives see Credit derivatives on pages 58–59, and Note 5 on pages 103–109 of this Form 10-Q.

PRIVATE EQUITY RISK MANAGEMENT

For a discussion of Private Equity Risk Management, see page 166 of JPMorgan Chase's 2011 Annual Report. At March 31, 2012, and December 31, 2011, the carrying value of the Private Equity portfolio was $8.0 billion and

$7.7 billion, respectively, of which $889 million and $805 million, respectively, represented securities with publicly available market quotations.

OPERATIONAL RISK MANAGEMENT

For a discussion of JPMorgan Chase's Operational Risk Management, see pages 166–167 of JPMorgan Chase's 2011 Annual Report.

REPUTATION AND FIDUCIARY RISK MANAGEMENT

For a discussion of the Firm's Reputation and Fiduciary Risk Management, see page 167 of JPMorgan Chase's 2011 Annual Report.

SUPERVISION AND REGULATION

The following discussion should be read in conjunction with Regulatory developments on page 9 of this Form 10-Q, and Supervision and Regulation section on pages 1–7 of JPMorgan Chase's 2011 Form 10-K.

Dividends

At March 31, 2012, JPMorgan Chase's banking subsidiaries could pay, in the aggregate, $9.1 billion in dividends to their respective bank holding companies without the prior approval of their relevant banking regulators.

CRITICAL ACCOUNTING ESTIMATES USED BY THE FIRM

JPMorgan Chase's accounting policies and use of estimates are integral to understanding its reported results. The Firm's most complex accounting estimates require management's judgment to ascertain the appropriate carrying value of assets and liabilities. The Firm has established detailed policies and control procedures intended to ensure that valuation methods, including any judgments made as part of such methods, are well-controlled, independently reviewed and applied consistently from period to period. The methods used and judgments made reflect, among other factors, the nature of the assets or liabilities and the related business and risk management strategies, which may vary across the Firm's businesses and portfolios. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The Firm believes its estimates for determining the carrying value of its assets and liabilities are appropriate. The following is a brief description of the Firm's critical accounting estimates involving significant valuation judgments.

Allowance for credit losses

JPMorgan Chase's allowance for credit losses covers the retained wholesale and consumer loan portfolios, as well as the Firm's wholesale and consumer lending-related commitments. The allowance for loan losses is intended to adjust the value of the Firm's loan assets to reflect probable credit losses inherent in the loan portfolio as of the balance sheet date. Similarly, the allowance for lending-related commitments is established to cover probable credit losses inherent in the lending-related commitments portfolio as of the balance sheet date. For further discussion of the methodologies used in establishing the Firm's allowance for credit losses, see Allowance for Credit Losses on pages 155–157 and Note 15 on pages 252–255 of JPMorgan Chase's 2011 Annual Report; for amounts recorded as of March 31, 2012 and 2011, see Allowance for Credit Losses on pages 70–72 and Note 14 on page 136 of this Form 10-Q.

As noted in the discussion on page 168 of JPMorgan Chase's 2011 Annual Report, the Firm's allowance for credit losses is sensitive to numerous factors, depending on the portfolio. Changes in economic conditions or in the Firm's assumptions could affect the Firm's estimate of probable credit losses inherent in the portfolio at the balance sheet date. For example, deterioration in the following inputs would have the following effects on the Firm's modeled loss estimates as of March 31, 2012, without consideration of any offsetting or correlated effects of other inputs in the Firm's allowance for loan losses:

- A one-notch downgrade in the Firm's internal risk ratings for its entire wholesale loan portfolio could imply an increase in the Firm's modeled loss estimates of approximately $2.0 billion.
- An adverse national home price scenario (reflecting an

additional 7% decline in housing prices when geographically weighted for the PCI portfolio), could result in an increase in credit loss estimates for PCI loans of approximately $1.7 billion.

- The same adverse scenario, weighted for the residential real estate portfolio, excluding PCI loans, could result in an increase to modeled annual loss estimates of approximately $800 million.
- A 50 basis point deterioration in forecasted credit card loss rates could imply an increase to modeled annualized credit card loan loss estimates of approximately $750 million.

The purpose of these sensitivity analyses is to provide an indication of the isolated impacts of hypothetical alternative assumptions on credit loss estimates. The changes in the inputs presented above are not intended to imply management's expectation of future deterioration of those risk factors.

It is difficult to estimate how potential changes in specific factors might affect the allowance for credit losses because management considers a variety of factors and inputs in estimating the allowance for credit losses. Changes in these factors and inputs may not occur at the same rate and may not be consistent across all geographies or product types, and changes in factors may be directionally inconsistent, such that improvement in one factor may offset deterioration in other factors. In addition, it is difficult to predict how changes in specific economic conditions or assumptions could affect borrower behavior or other factors considered by management in estimating the allowance for credit losses. Given the process the Firm follows in evaluating the risk factors related to its loans, including risk ratings, home price assumptions, and credit card loss estimates, management believes that its current estimate of the allowance for credit loss is appropriate.

Fair value of financial instruments, MSRs and commodities inventory

JPMorgan Chase carries a portion of its assets and liabilities at fair value. The majority of such assets and liabilities are measured at fair value on a recurring basis. Certain assets and liabilities are measured at fair value on a nonrecurring basis, including mortgage, home equity and other loans, where the carrying value is based on the fair value of the underlying collateral.

Assets measured at fair value

The following table includes the Firm’s assets measured at fair value and the portion of such assets that are classified within level 3 of the valuation hierarchy. For further information, see Note 3 on pages 91–100 of this Form 10-Q.

	March 31, 2012		
(in billions, except ratio data)	Total assets at fair value	Total level 3 assets	
Trading debt and equity instruments	$370.6	$30.3	
Derivative receivables – gross	1,642.5	29.5	
Netting adjustment	(1,557.1)	—	
Derivative receivables – net	85.4	29.5	
AFS securities	381.7	25.9	
Loans	2.3	1.8	
MSRs	8.0	8.0	
Private equity investments	7.6	6.7	
Other	48.4	4.5	
Total assets measured at fair value on a recurring basis	904.0	106.7	
Total assets measured at fair value on a nonrecurring basis	3.1	2.5	
Total assets measured at fair value	$907.1	$109.2	(a)
Total Firm assets	$2,320.3		
Level 3 assets reported at fair value as a percentage of total Firm assets		4.7	%
Level 3 assets reported at fair value as a percentage of total Firm assets at fair value		12.0	%

(a) At March 31, 2012, included $55.4 billion of level 3 assets, consisting of recurring and nonrecurring assets carried by IB.

Valuation

For instruments classified within level 3 of the hierarchy, judgments used to estimate fair value may be significant. In arriving at an estimate of fair value for an instrument within level 3, management must first determine the appropriate model to use. Second, due to the lack of observability of significant inputs, management must assess all relevant empirical data in deriving valuation inputs – including, but not limited to, transaction details, yield curves, interest rates, volatilities, equity or debt prices, valuations of comparable instruments, foreign exchange rates and credit curves. Finally, management judgment must be applied to assess the appropriate level of valuation adjustments to reflect counterparty credit quality, the Firm’s credit-worthiness, constraints on liquidity and unobservable parameters, where relevant. The judgments made are typically affected by the type of product and its specific contractual terms, and the level of liquidity for the product or within the market as a whole. For further discussion of changes in level 3, see Note 3 on pages 91–100 of this Form 10-Q.

Imprecision in estimating unobservable market inputs can affect the amount of revenue or loss recorded for a particular position. Furthermore, while the Firm believes its valuation methods are appropriate and consistent with those of other market participants, the methods and assumptions used reflect management judgment and may vary across the Firm's businesses and portfolios. The use of different methodologies or assumptions to determine the

fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. For a detailed discussion of the determination of fair value for individual financial instruments, see Note 3 on pages 91–100 of this Form 10-Q and Note 3 on pages 184–198 of JPMorgan Chase’s 2011 Annual Report.

Goodwill impairment

Management applies significant judgment when testing goodwill for impairment. For a description of the significant valuation judgments associated with goodwill impairment, see Goodwill impairment on page 171 of JPMorgan Chase’s 2011 Annual Report.

During the three months ended March 31, 2012, the Firm updated the discounted cash flow valuations of certain consumer lending businesses in RFS and Card, which continue to have elevated risk for goodwill impairment due to their exposure to U.S. consumer credit risk and the effects of regulatory and legislative changes. The assumptions used in the valuation of these businesses include (a) estimates of future cash flows for the business (which are dependent on portfolio outstanding balances, net interest margin, operating expense, credit losses and the amount of capital necessary given the risk of business activities to meet regulatory capital requirements), and (b) the cost of equity used to discount those cash flows to a present value. Each of these factors requires significant judgment and the assumptions used are based on management's best estimate and most current projections, including the anticipated effects of regulatory and legislative changes, derived from the Firm's business forecasting process reviewed with senior management. These projections are consistent with the short-term assumptions discussed in the Business outlook on pages 8–9 of this Form 10-Q, and, in the longer term, incorporate a set of macroeconomic assumptions and the Firm's best estimates of long-term growth and returns of its businesses. Where possible, the Firm uses third-party and peer data to benchmark its assumptions and estimates.

In addition, for its other businesses, the Firm reviewed current conditions (including the estimated effects of regulatory and legislative changes) and prior projections of business performance. Based upon the updated valuations for its consumer lending businesses and reviews of its other businesses, the Firm concluded that goodwill allocated to all of its reporting units was not impaired at March 31, 2012. However, the fair value of the Firm's consumer lending businesses in RFS and Card each exceeded their carrying values by less than 15% and the associated goodwill of such lines of business remains at an elevated risk of impairment due to each businesses' exposure to U.S. consumer credit risk and the effects of economic, regulatory and legislative changes.

Deterioration in economic market conditions, increased estimates of the effects of recent regulatory or legislative changes, or additional regulatory or legislative changes may result in declines in projected business performance beyond management’s current expectations. For example, in RFS, such declines could result from increases in costs to resolve foreclosure-related matters or from deterioration in economic conditions that result in increased credit losses, including decreases in home prices beyond management’s current expectations. In Card, declines in business performance could result from deterioration in economic conditions such as increased unemployment claims or bankruptcy filings that result in increased credit losses or changes in customer behavior that cause decreased account activity or receivable balances. In addition, the earnings or estimated cost of equity of the Firm’s capital markets businesses could also be affected by regulatory or legislative changes. Declines in business performance, increases in equity capital requirements, or increases in the estimated cost of equity, could cause the estimated fair values of the Firm’s reporting units or their associated

goodwill to decline, which could result in a material impairment charge to earnings in a future period related to some portion of the associated goodwill.
For additional information on goodwill, see Note 16 on pages 144–146 of this Form 10-Q.

Income taxes

For a description of the significant assumptions, judgments and interpretations associated with the accounting for income taxes, see Income taxes on pages 171–172 of JPMorgan Chase’s 2011 Annual Report.

Litigation reserves

For a description of the significant estimates and judgments associated with establishing litigation reserves, see Note 23 on pages 154–163 of this Form 10-Q, and Note 31 on pages 290–299 of JPMorgan Chase’s 2011 Annual Report.

ACCOUNTING AND REPORTING DEVELOPMENTS

Fair value measurement and disclosures

In May 2011, the Financial Accounting Standards Board ("FASB") issued guidance that amends the requirements for fair value measurement and disclosure. The guidance changes and clarifies certain existing requirements related to portfolios of financial instruments and valuation adjustments, requires additional disclosures for fair value measurements categorized in level 3 of the fair value hierarchy (including disclosure of the range of inputs used in certain valuations), and requires additional disclosures for certain financial instruments that are not carried at fair value. The guidance was effective in the first quarter of 2012, and the Firm adopted the new guidance, effective January 1, 2012. The application of this guidance did not have a material effect on the Firm's Consolidated Balance Sheets or results of operations.

Accounting for repurchase and similar agreements

In April 2011, the FASB issued guidance that amends the criteria used to assess whether repurchase and similar agreements should be accounted for as financings or sales (purchases) with forward agreements to repurchase (resell). Specifically, the guidance eliminates circumstances in which the lack of adequate collateral maintenance requirements could result in a repurchase agreement being accounted for as a sale. The guidance was effective for new transactions or existing transactions that were modified beginning January 1, 2012. The Firm has accounted for its repurchase and similar agreements as secured financings, and therefore, the application of this guidance did not have an impact on the Firm's Consolidated Balance Sheets or results of operations.

Presentation of other comprehensive income

In June 2011, the FASB issued guidance that modifies the presentation of other comprehensive income in the Consolidated Financial Statements. The guidance requires that items of net income, items of other comprehensive income, and total comprehensive income be presented in one continuous statement or in two separate but consecutive statements. For public companies the guidance is effective for interim and annual reporting periods beginning after December 15, 2011. However, in December 2011, the FASB issued guidance that deferred the presentation requirements relating to reclassifications of items from AOCI and into the income statement. The guidance was effective in the first quarter of 2012, and the Firm adopted the new guidance, effective January 1, 2012. The application of this guidance only affected the presentation of the Consolidated Financial Statements and had no impact on the Firm's Consolidated Balance Sheets or results of operations.

Balance sheet netting

In December 2011, the FASB issued guidance that requires enhanced disclosures about derivatives and securities financing agreements that are subject to legally enforceable master netting or similar agreements, or that have otherwise been offset on the balance sheet under certain specific conditions that permit net presentation. The guidance will become effective in the first quarter of 2013. The application of this guidance will only affect the disclosure of these instruments and will have no impact on the Firm's Consolidated Balance Sheets or results of operations.

FORWARD-LOOKING STATEMENTS

From time to time, the Firm has made and will make forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as “anticipate,” “target,” “expect,” “estimate,” “intend,” “plan,” “goal,” “believe,” or other words of similar meaning. Forward-looking statements provide JPMorgan Chase’s current expectations or forecasts of future events, circumstances, results or aspirations. JPMorgan Chase’s disclosures in this Form 10-Q contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Firm also may make forward-looking statements in its other documents filed or furnished with the Securities and Exchange Commission. In addition, the Firm’s senior management may make forward-looking statements orally to analysts, investors, representatives of the media and others.

All forward-looking statements are, by their nature, subject to risks and uncertainties, many of which are beyond the Firm’s control. JPMorgan Chase’s actual future results may differ materially from those set forth in its forward-looking statements. While there is no assurance that any list of risks and uncertainties or risk factors is complete, below are certain factors which could cause actual results to differ from those in the forward-looking statements:

- Local, regional and international business, economic and political conditions and geopolitical events;
- Changes in laws and regulatory requirements, including as a result of recent financial services legislation;
- Changes in trade, monetary and fiscal policies and laws;
- Securities and capital markets behavior, including changes in market liquidity and volatility;
- Changes in investor sentiment or consumer spending or savings behavior;
- Ability of the Firm to manage effectively its liquidity;
- Changes in credit ratings assigned to the Firm or its subsidiaries;
- Damage to the Firm’s reputation;
- Ability of the Firm to deal effectively with an economic slowdown or other economic or market disruption;
- Technology changes instituted by the Firm, its counterparties or competitors;
- Mergers and acquisitions, including the Firm’s ability to integrate acquisitions;
- Ability of the Firm to develop new products and services, and the extent to which products or services previously sold by the Firm (including but not limited to mortgages and asset-backed securities) require the Firm to incur liabilities or absorb losses not contemplated at their initiation or origination;
- Ability of the Firm to address enhanced regulatory requirements affecting its mortgage business;
- Acceptance of the Firm’s new and existing products and services by the marketplace and the ability of the Firm to increase market share;
- Ability of the Firm to attract and retain employees;
- Ability of the Firm to control expense;
- Competitive pressures;
- Changes in the credit quality of the Firm’s customers and counterparties;
- Adequacy of the Firm’s risk management framework;
- Adverse judicial or regulatory proceedings;
- Changes in applicable accounting policies;
- Ability of the Firm to determine accurate values of certain assets and liabilities;
- Occurrence of natural or man-made disasters or calamities or conflicts, including any effect of any such disasters, calamities or conflicts on the Firm’s power generation facilities and the Firm’s other commodity-related activities;
- Ability of the Firm to maintain the security of its financial, accounting, technology, data processing and other operating systems and facilities;
- The other risks and uncertainties detailed in Part I, Item 1A: Risk Factors in the Firm’s Annual Report on Form 10-K for the year ended December 31, 2011.

Any forward-looking statements made by or on behalf of the Firm speak only as of the date they are made, and JPMorgan Chase does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements were made. The reader should, however, consult any further disclosures of a forward-looking nature the Firm may make in any subsequent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, or Current Reports on Form 8-K.

JPMorgan Chase & Co.
Consolidated statements of income (unaudited)

(in millions, except per share data)	Three months ended March 31, 2012	2011
Revenue		
Investment banking fees	$1,381	$1,793
Principal transactions	3,382	4,745
Lending- and deposit-related fees	1,517	1,546
Asset management, administration and commissions	3,392	3,606
Securities gains[(a)]	536	102
Mortgage fees and related income	2,010	(487)
Credit card income	1,316	1,437
Other income	1,512	574
Noninterest revenue	15,046	13,316
Interest income	14,701	15,447
Interest expense	3,035	3,542
Net interest income	11,666	11,905
Total net revenue	26,712	25,221
Provision for credit losses	726	1,169
Noninterest expense		
Compensation expense	8,613	