JPMORGAN CHASE & CO
Form 10-Q
August 09, 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<br>June 30, 2012 | Commission file<br>number 1-5805 |

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

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of<br>incorporation or organization) | 13-2624428<br>(I.R.S. employer<br>identification no.) |
| 270 Park Avenue, New York, New York<br>(Address of principal executive offices) | 10017<br>(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 July 31, 2012: 3,798,753,657

FORM 10-Q
TABLE OF CONTENTS



Restatement of first quarter 2012 previously-filed interim financial statements

JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm") restated its previously-filed interim financial statements for the quarterly period ended March 31, 2012. The restatement related to valuations of certain positions in the synthetic credit portfolio held by the Firm's Chief Investment Office ("CIO") and reduced the Firm's reported net income by $459 million for the three months ended March 31, 2012. The restatement had no impact on any of the Firm's Consolidated Financial Statements as of June 30, 2012, and December 31, 2011, or for the three and six months ended June 30, 2012 and 2011. In addition, the restatement had no impact on the Firm's basic and diluted earnings per common share for the three and six months ended June 30, 2012 and 2011.

JPMorgan Chase & Co.
Consolidated financial highlights
(unaudited)

| (in millions, except per share, headcount and ratio data) | | | | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| As of or for the period ended, | 2Q12 | 1Q12 | 4Q11 | 3Q11 | 2Q11 | 2012 | 2011 |
| Selected income statement data | | | | | | | |
| Total net revenue | $22,180 | $26,052 | $21,471 | $23,763 | $26,779 | $48,232 | $52,000 |
| Total noninterest expense | 14,966 | 18,345 | 14,540 | 15,534 | 16,842 | 33,311 | 32,837 |
| Pre-provision profit | 7,214 | 7,707 | 6,931 | 8,229 | 9,937 | 14,921 | 19,163 |
| Provision for credit losses | 214 | 726 | 2,184 | 2,411 | 1,810 | 940 | 2,979 |
| Income before income tax expense | 7,000 | 6,981 | 4,747 | 5,818 | 8,127 | 13,981 | 16,184 |
| Income tax expense | 2,040 | 2,057 | 1,019 | 1,556 | 2,696 | 4,097 | 5,198 |
| Net income | $4,960 | $4,924 | $3,728 | $4,262 | $5,431 | $9,884 | $10,986 |
| Per common share data | | | | | | | |
| Net income per share: Basic | $1.22 | $1.20 | $0.90 | $1.02 | $1.28 | $2.41 | $2.57 |
| Diluted | 1.21 | 1.19 | 0.90 | 1.02 | 1.27 | 2.41 | 2.55 |
| Cash dividends declared per share[a] | 0.30 | 0.30 | 0.25 | 0.25 | 0.25 | 0.60 | 0.50 |
| Book value per share | 48.40 | 47.48 | 46.59 | 45.93 | 44.77 | 48.40 | 44.77 |
| Tangible book value per share[b] | 35.71 | 34.79 | 33.69 | 33.05 | 32.01 | 35.71 | 32.01 |
| Common shares outstanding | | | | | | | |
| Average: Basic | 3,808.9 | 3,818.8 | 3,801.9 | 3,859.6 | 3,958.4 | 3,813.9 | 3,970.0 |
| Diluted | 3,820.5 | 3,833.4 | 3,811.7 | 3,872.2 | 3,983.2 | 3,827.0 | 3,998.6 |
| Common shares at period-end | 3,796.8 | 3,822.0 | 3,772.7 | 3,798.9 | 3,910.2 | 3,796.8 | 3,910.2 |
| Share price[c] | | | | | | | |
| High | $46.35 | $46.49 | $37.54 | $42.55 | $47.80 | $46.49 | $48.36 |
| Low | 30.83 | 34.01 | 27.85 | 28.53 | 39.24 | 30.83 | 39.24 |
| Close | 35.73 | 45.98 | 33.25 | 30.12 | 40.94 | 35.73 | 40.94 |
| Market capitalization | 135,661 | 175,737 | 125,442 | 114,422 | 160,083 | 135,661 | 160,083 |
| Selected ratios | | | | | | | |
| Return on common equity (“ROE”) | 11 % | 11 % | 8 % | 9 % | 12 % | 11 % | 13 % |
| Return on tangible common equity (“ROTCE”)[b] | 15 | 15 | 11 | 13 | 17 | 15 | 18 |
| Return on assets (“ROA”) | 0.88 | 0.88 | 0.65 | 0.76 | 0.99 | 0.88 | 1.03 |
| Return on risk-weighted assets[d] | 1.52 [h] | 1.57 [h] | 1.21 | 1.40 | 1.82 | 1.55 | 1.86 |
| Overhead ratio | 67 | 70 | 68 | 65 | 63 | 69 | 63 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Deposits-to-loans ratio | 153 | 157 | 156 | 157 | 152 | 153 | 152 |
| Tier 1 capital ratio | 11.3 (h) | 11.9 (h) | 12.3 | 12.1 | 12.4 | 11.3 | 12.4 |
| Total capital ratio | 14.0 (h) | 14.9 (h) | 15.4 | 15.3 | 15.7 | 14.0 | 15.7 |
| Tier 1 leverage ratio | 6.7 | 7.1 | 6.8 | 6.8 | 7.0 | 6.7 | 7.0 |
| Tier 1 common capital ratio(e) | 9.9 (h) | 9.8 (h) | 10.1 | 9.9 | 10.1 | 9.9 | 10.1 |
| Selected balance sheet data (period-end) | | | | | | | |
| Trading assets | $417,324 | $455,633 | $443,963 | $461,531 | $458,722 | $417,324 | $458,722 |
| Securities | 354,595 | 381,742 | 364,793 | 339,349 | 324,741 | 354,595 | 324,741 |
| Loans | 727,571 | 720,967 | 723,720 | 696,853 | 689,736 | 727,571 | 689,736 |
| Total assets | 2,290,146 | 2,320,164 | 2,265,792 | 2,289,240 | 2,246,764 | 2,290,146 | 2,246,764 |
| Deposits | 1,115,886 | 1,128,512 | 1,127,806 | 1,092,708 | 1,048,685 | 1,115,886 | 1,048,685 |
| Long-term debt | 239,539 | 255,831 | 256,775 | 273,688 | 279,228 | 239,539 | 279,228 |
| Common stockholders' equity | 183,772 | 181,469 | 175,773 | 174,487 | 175,079 | 183,772 | 175,079 |
| Total stockholders' equity | 191,572 | 189,269 | 183,573 | 182,287 | 182,879 | 191,572 | 182,879 |
| Headcount | 262,882 | 261,453 | 260,157 | 256,663 | 250,095 | 262,882 | 250,095 |
| Credit quality metrics | | | | | | | |
| Allowance for credit losses | $24,555 | $26,621 | $28,282 | $29,036 | $29,146 | $24,555 | $29,146 |
| Allowance for loan losses to total retained loans | 3.29 % | 3.63 % | 3.84 % | 4.09 % | 4.16 % | 3.29 % | 4.16 % |
| Allowance for loan losses to retained loans excluding purchased credit-impaired loans(f) | 2.74 | 3.11 | 3.35 | 3.74 | 3.83 | 2.74 | 3.83 |
| Nonperforming assets(g) | $11,397 | $11,953 | $11,315 | $12,468 | $13,435 | $11,397 | $13,435 |
| Net charge-offs | 2,278 | 2,387 | 2,907 | 2,507 | 3,103 | 4,665 | 6,823 |
| Net charge-off rate | 1.27 % | 1.35 % | 1.64 % | 1.44 % | 1.83 % | 1.31 % | 2.02 % |

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

(b) 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 16–17 of this Form 10-Q.

(c) 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.

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

(e) 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 60–62 of this Form 10-Q.

(f) Excludes the impact of residential real estate purchased credit-impaired ("PCI") loans. For further discussion, see Allowance for credit losses on pages 93–95 of this Form 10-Q.

(g) Prior to the first quarter of 2012, reported amounts had only included defaulted derivatives; effective in the first quarter of 2012, reported amounts in all periods include both defaulted derivatives as well as derivatives that have been risk rated as nonperforming.

(h) These ratios have been revised. For further information see Regulatory developments on pages 11-12 and Regulatory capital on pages 60-62.

3

## 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. See the Glossary of terms on pages 212–218 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 111 and Part II, Item 1A: Risk Factors, on pages 219–222 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 $191.6 billion in stockholders' equity as of June 30, 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 plc (formerly 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 major business segments. In addition, there is a Corporate/Private Equity segment. 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 and mobile 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 offers deposit and investment products and services to consumers and lending, deposit and cash management, and payment solutions to small businesses. 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 18,100 ATMs (largest nationally), as well as online and mobile banking around the clock. More than 33,300 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 approximately 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 nearly $125 billion in credit card loans. Customers have nearly 64 million open credit card accounts (excluding the commercial card portfolio), and used Chase credit cards to meet nearly $183 billion of their spending needs in the six months ended June 30, 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 17,300 auto dealerships and 2,000 schools and universities nationwide.

Commercial Banking

Commercial Banking (“CB”) delivers extensive industry knowledge, local expertise and dedicated service to U.S. and U.S. multinational clients, including corporations, municipalities, financial institutions and not-for-profit entities with annual revenue generally ranging from $10 million to $2 billion. In addition, CB provides financing to real estate investors and owners. Partnering with the Firm’s other businesses, CB provides comprehensive financial solutions, including lending, treasury services, investment banking and asset management to meet its clients’ domestic and international financial needs.

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 (“WSS”) 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.

In addition to the six major reportable business segments outlined above, the following is a description of Corporate/Private Equity.

Corporate/Private Equity

The Corporate/Private Equity sector comprises Private Equity, Treasury, Chief Investment Office, corporate staff units and expense that is centrally managed. Treasury and CIO manage capital, liquidity and structural risks of the Firm. The corporate staff units include Central Technology and Operations, Audit, Executive, Finance, Human Resources, Corporate Marketing, Internet & Mobile, Legal & Compliance, Global Real Estate, General Services, Risk Management, and Corporate Responsibility & Public Policy. Other centrally managed expense includes the Firm’s occupancy and pension-related expense that are subject to allocation to the businesses.

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 continued to expand in the first half of 2012, but the pace of activity slowed somewhat in response to stress in Europe's economies. Asia's developing economies continued expanding, although growth slowed significantly. Overall, the slowdown eased inflationary pressures and allowed policy makers to relax earlier tightening moves. During the second quarter there was some moderation in U.S. economic growth. U.S. labor market conditions continued to improve albeit at a slower pace in the second quarter, and the unemployment rate was unchanged from the first quarter. Household spending continued to advance but slowed in the spring. The U.S. housing sector showed promising signs of improvement, with housing starts up and surveys of home builders growing increasingly upbeat. The multifamily and rental sector continued to benefit from robust demand. Business

fixed investment, although soft in recent months, also remained solid. Inflation eased and longer-term inflation expectations remained stable, as oil and gasoline prices eased during the second quarter.

Strains in the global financial markets eased following measures taken by the European Central Bank in the fourth quarter of 2011 to support bank lending and money market activity. Relief was short-lived, however, as there were renewed worries, including concerns about Spain and Italy. Later in the second quarter, concerns again eased somewhat as Europe's leaders laid out a roadmap to deal with their fiscal and banking strains and to continue to strengthen the integration of their economies. Although fears that the monetary union might break up receded, Europe's financial crisis continued to weigh on investor confidence.

Looking forward, the U.S. economy is likely to be affected by the fiscal debate over taxes and spending expected to occur later in 2012. 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 guided 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 June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions, except per share data and ratios) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Selected income statement data | | | | | | |
| Total net revenue | $22,180 | $26,779 | (17)% | $48,232 | $52,000 | (7)% |
| Total noninterest expense | 14,966 | 16,842 | (11) | 33,311 | 32,837 | 1 |
| Pre-provision profit | 7,214 | 9,937 | (27) | 14,921 | 19,163 | (22) |
| Provision for credit losses | 214 | 1,810 | (88) | 940 | 2,979 | (68) |
| Net income | 4,960 | 5,431 | (9) | 9,884 | 10,986 | (10) |
| Diluted earnings per share | 1.21 | 1.27 | (5)% | 2.41 | 2.55 | (5)% |
| Return on common equity | 11% | 12% | | 11% | 13% | |
| Capital ratios | | | | | | |
| Tier 1 capital | 11.3 | 12.4 | | | | |
| Tier 1 common | 9.9 | 10.1 | | | | |

Business Overview

JPMorgan Chase reported second-quarter 2012 net income of $5.0 billion or $1.21 per share, on net revenue of $22.2 billion. Net income declined by $471 million, or 9%, compared with net income of $5.4 billion, or $1.27 per share, in the second quarter of 2011. ROE for the quarter was 11%, compared with 12% for the prior-year quarter. Results in the second quarter of 2012 included the following significant items: $4.4 billion pretax loss ($0.69 per share after-tax reduction in earnings) from the synthetic credit portfolio held by the Firm's CIO – see Recent developments on pages 10-11 of this Form 10-Q; $1.0 billion pretax benefit ($0.16 per share after-tax increase in earnings) from securities gains in CIO's investment

securities portfolio; $2.1 billion pretax benefit ($0.33 per share after-tax increase in earnings) from a reduction in the allowance for loan losses, mostly for mortgage and credit card; $0.8 billion pretax gain ($0.12 per share after-tax increase in earnings) from debit valuation adjustments ("DVA") in the Investment Bank; $0.5 billion pretax gain ($0.09 per share after-tax increase in earnings) reflecting the expected recovery on a Bear Stearns-related subordinated loan in Corporate. The tax rate used for each of the above significant items is 38%; for additional information, see the discussion at the end of this section on pages 8–9.

The decrease in net income from the second quarter of 2011 was driven by lower net revenue, largely offset by lower noninterest expense and a lower provision for credit losses. The decrease in net revenue as compared with the prior year was due to $4.4 billion of principal transactions losses from the synthetic credit portfolio held by CIO and lower investment banking fees, partially offset by higher mortgage fees and related income. Net interest income decreased compared with the prior year, reflecting the impact of low interest rates, as well as lower average trading asset balances, higher financing costs associated with mortgage-backed securities, and the runoff of higher-yielding loans, largely offset by lower other borrowing and deposit costs.

Results in the second quarter of 2012 reflected positive credit trends for the consumer real estate and credit card portfolios. The provision for credit losses was $214 million, down $1.6 billion, or 88%, from the prior year. The total consumer provision for credit losses was $171 million, down $1.8 billion from the prior year. The decrease in the consumer provision reflected a $2.1 billion reduction of the related allowance for loan losses predominantly related to the mortgage and credit card portfolios as delinquency trends improved and estimated losses declined, and to a lesser extent, a refinement of the Firm's incremental loss estimates with respect to certain mortgage borrower assistance programs. Consumer net charge-offs were $2.3 billion, compared with $3.0 billion in the prior year, resulting in net charge-off rates of 2.14% and 2.74%, respectively. Excluding the PCI portfolio, the consumer net charge-off rates were 2.51% and 3.25%, respectively. The wholesale provision for credit losses was $43 million compared with a benefit of $117 million in the prior year. The current quarter provision primarily reflected loan growth and other portfolio activity. Wholesale net charge-offs were $9 million, compared with $80 million in the prior year, resulting in net charge-off rates of 0.01% and 0.14%, respectively. The Firm's allowance for loan losses to end-of-period loans retained was 2.74%, compared with 3.83% in the prior year. The Firm's nonperforming assets totaled $11.4 billion at June 30, 2012, down from the prior-year level of $13.4 billion and down from the prior-quarter level of $12.0 billion. Loans increased $37.8 billion from the second quarter of 2011; this increase was due to a $54.0 billion increase in the wholesale loan portfolio, mainly in CB, IB and AM, partly offset by a $16.2 billion decrease in the consumer loan portfolio, reflecting net runoff, primarily in the real estate portfolios.

Noninterest expense decreased from the prior year driven by lower noncompensation expense. The prior year noninterest expense included a total of $2.3 billion of litigation expense, predominantly for mortgage-related matters, and expense for the estimated costs of foreclosure-related matters.

While several significant items affected the Firm's results, overall, the Firm's underlying business performance in the second quarter was solid. IB maintained its #1 ranking in

Global Investment Banking Fees for the quarter and reported a 29% increase in loans retained compared with the prior year. Consumer & Business Banking within RFS increased average deposits by 8% compared with the prior year; Business Banking loan originations were up 14% compared with the prior year. Mortgage Banking (also within Retail Financial Services) origination volume increased 29% from the prior year, including record retail channel originations, up 26% from the prior year. In the Card business, credit card sales volume (excluding Commercial Card) was up 12% compared with the second quarter of 2011. CB reported record revenue and its eighth consecutive quarter of loan growth. TSS reported assets under custody of $17.7 trillion, up 4%, and AM reported its thirteenth consecutive quarter of positive net long-term product flows into assets under management.

Net income for the first six months of 2012 was $9.9 billion, or $2.41 per share, compared with $11.0 billion, or $2.55 per share, in the first half of 2011. The decrease was driven by a decline in net revenue, partially offset by a lower provision for credit losses. The decline in net revenue for the first six months of the year was driven by lower principal transactions revenue, reflecting $5.8 billion of principal transactions losses from the synthetic credit portfolio held by CIO, and lower investment banking fees, largely offset by higher mortgage fees and related income. The lower provision for credit losses reflected an improved credit environment. Noninterest expense was flat compared with the first six months of 2011.

The Firm continued to strengthen its balance sheet, ending the second quarter with Basel I Tier 1 common capital of $130 billion, or 9.9%, compared with $121 billion, or 10.1%, from second quarter of 2011. The Firm estimated that its Basel III Tier 1 common ratio was approximately 7.9% at June 30, 2012, taking into account the impact of final Basel 2.5 rules and the Federal Reserve's recent Notice of Proposed Rulemaking ("NPR"). (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 60–62 of this Form 10-Q.)

JPMorgan Chase serves clients, consumers and companies, and communities around the globe. During the first half of 2012, the Firm provided credit and raised capital of approximately $890 billion for its commercial and consumer clients. This included more than $10 billion of credit to U.S. small businesses in the first six months, up 35% compared with the prior year; and nearly $29 billion of capital raised for and credit provided to more than 900 nonprofit and government entities in the first six months of 2012. The Firm originated over 425,000 mortgages in the first six months of 2012 and remains committed to helping struggling homeowners. Even in this difficult economy, the Firm added thousands of new employees across the country — over 62,000 since January 2008. In 2011, the Firm founded the "100,000 Jobs Mission", a partnership with 54 other companies to hire 100,000 U.S. veterans by the year 2020. The Firm has hired more than 4,000 veterans since the beginning of 2011, in addition to the thousands of veterans who already worked at JPMorgan Chase.

Investment Bank net income decreased from the prior year as lower net revenue and a provision for credit losses, compared with a benefit in the prior year, were largely offset by lower noninterest expense. Net revenue included a $755 million gain from DVA. Fixed Income and Equity Markets revenue, excluding DVA, decreased compared with the prior year and reflected the impact of weaker market conditions, with solid client revenue. Investment banking fees also decreased compared with prior year, reflecting lower industry-wide volumes. Lower compensation expense drove the decline in noninterest expense from the prior-year level.

Retail Financial Services net income increased compared with the prior year, driven by higher net revenue and a benefit from the provision for credit losses. The increase in net revenue was driven by higher mortgage fees and related income, partially offset by lower net interest income and lower debit card revenue. The provision for credit losses was a benefit in the second quarter of 2012, compared with an expense in the prior year, and reflected a $1.4 billion reduction in the allowance for loan losses, primarily due to lower estimated losses as mortgage delinquency trends continued to improve, and to a lesser extent, a refinement of the Firm's incremental loss estimates with respect to certain mortgage borrower assistance programs. The prior-year provision for credit losses reflected higher net charge-offs. Noninterest expense decreased compared with the prior year which included approximately $1.0 billion of incremental expense related to foreclosure-related matters.

Card Services & Auto net income decreased compared with the prior year driven by a lower reduction in the allowance for loan losses. The current-quarter provision reflected lower net charge-offs and a reduction of $751 million in the allowance for loan losses due to lower estimated losses. The prior-year provision included a reduction of $1.0 billion in the allowance for loan losses. The decline in net revenue was driven by narrower loan spreads and higher amortization of direct loan origination costs, partially offset by higher net interchange income and lower revenue reversals associated with lower net charge-offs. Credit card sales volume, excluding the Commercial Card portfolio, was up 12% from the second quarter of 2011. The increase in noninterest expense was due to additional expense related to a non-core product that is being exited.

Commercial Banking net income increased, driven by a benefit from the provision for credit losses and an increase in net revenue, partially offset by higher expense. Record net revenue for the second quarter of 2012 reflected higher net interest income driven by growth in liability and loan balances, partially offset by spread compression on loan and liability products, compared with the prior year. The

increase in noninterest expense reflected higher headcount-related expense and regulatory deposit insurance assessments.

Treasury & Securities Services net income increased compared with the prior year reflecting higher net revenue. Growth in TS net revenue was driven by higher deposit balances, higher trade finance loan volumes, and spreads. WSS also contributed to the increase in net revenue due to higher deposit balances.

Asset Management net income decreased, reflecting lower net revenue and higher provision for credit losses, partially offset by lower noninterest expense. The decline in net revenue was primarily due to lower performance fees, lower valuations of seed capital investments and the effect of lower market levels, largely offset by higher net interest revenue reflecting higher deposit and loan balances and net product inflows. Assets under supervision at the end of the second quarter of 2012 were $2.0 trillion, including assets under management of $1.3 trillion, both relatively flat compared with the prior year and prior quarter as net inflows to long-term products were offset by the effect of lower market levels and net outflows from liquidity products. Noninterest expense decreased compared with the prior year, due to the absence of prior-year non-client-related litigation expense and lower performance-based compensation.

Corporate/Private Equity reported a net loss in the second quarter of 2012 compared with net income in the second quarter of 2011. Net income and revenue in Private Equity declined, primarily due to lower gains on sales and lower net valuation gains on private investments, partially offset by higher gains on public securities. Treasury and CIO reported a net loss, compared with net income in the prior year. The quarter's net loss reflected $4.4 billion of principal transactions losses from the synthetic credit portfolio held by CIO, partially offset by securities gains of $1.0 billion. Net interest income was a minimal loss, compared with income in the prior year, reflecting higher financing costs associated with mortgage backed securities. Other Corporate reported net income, compared with a net loss in the prior year, including a $545 million pretax gain reflecting the expected recovery on a Bear Stearns-related subordinated loan. Noninterest expense declined compared with the prior year. The current quarter included $335 million of litigation expense. The prior year included $1.3 billion of additional litigation expense, which was predominantly for mortgage-related matters.

Note: The Firm uses a single U.S.-based, blended marginal tax rate of 38% ("the marginal rate") to report the estimated after-tax effects of each significant item affecting net income. This rate represents the weighted-average marginal tax rate for the U.S. consolidated tax group. The Firm uses this single marginal rate to reflect the tax effects of all significant items because (a) it simplifies the presentation and analysis for management and investors; (b) it has proved to be a reasonable estimate of the marginal tax effects; and (c) often there is uncertainty at the time a significant item is disclosed regarding its ultimate tax outcome.

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 111 and Risk Factors on pages 219–222 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 deposit spread compression, given the current low interest rate environment, will negatively affect 2012 net income by approximately $400 million. It is possible that this decline may be offset by strong deposit balance growth. Although, the exact extent of any such deposit growth, cannot be determined at this time. In addition, the effect of the Durbin Amendment will likely reduce annualized net income in RFS by approximately $600 million.

In the Mortgage Production and Servicing business within RFS, management expects 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 89–91 and Note 16 on pages 184–186 of this Form 10-Q.) In addition, management believes that the high production margins experienced in the second quarter of 2012 will not be sustainable over time. In Mortgage Production and Servicing, management expects continued elevated levels of repurchases of mortgages previously sold, predominantly to U.S. government-sponsored entities ("GSEs"). However, based on current trends and estimates, the existing mortgage repurchase liability is expected to be sufficient to cover such losses.

For Real Estate Portfolios within RFS, management believes that total quarterly net charge-offs are likely to be below $750 million and will continue to trend down thereafter, subject to economic uncertainty. If positive credit trends in the residential real estate portfolio continue or accelerate and economic uncertainty does not increase, the related allowance for loan losses will be reduced over time. Given management's current estimate of net portfolio runoff levels, the residential real estate portfolio is expected to

decline by approximately 10% to 12% 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 up to $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 third quarter of 2012 to approximately 3.75%. The Firm expects that further reductions in the allowance for loan losses for the credit card portfolio may be at or near an end in light of the current stage of the credit cycle within the credit card business.

The currently anticipated results for RFS and Card described above could be affected by adverse economic conditions, including, as applicable, further declines in U.S. housing prices or increases in the unemployment rate. Given ongoing weak economic conditions, management continues to closely monitor the portfolios in these businesses.

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

For Treasury and CIO, within the Corporate/Private Equity segment, management currently expects quarterly net losses of approximately $200 million, which may vary positively or negatively by approximately $200 million and will depend on decisions related to the positioning of the investment securities portfolio. Also, in connection with the Firm's redemption of approximately $9 billion of trust preferred capital debt securities on July 12, 2012, management expects to record a pretax extinguishment gain of approximately $900 million related to adjustments applied to the cost basis of the securities during the period that the securities were in a qualifying hedge accounting relationship. With respect to the trust preferred capital debt securities that have been redeemed, management also expects to realize a gross reduction in net interest expense of approximately $300 million for the remainder of 2012 and approximately $650 million for 2013. These savings could be partially offset by the cost associated with other funding alternatives. For Other Corporate, within the Corporate/Private Equity segment, management expects quarterly net income (excluding litigation expense) to be approximately $100 million, which is likely to vary each quarter.

The Firm’s net yield on interest earning assets is expected to be under modest pressure in the third quarter of 2012, reflecting the continued low interest rate environment.

The Firm’s total noninterest expense for the second half of 2012, excluding Corporate litigation expense, compensation expense for the IB and expense for foreclosure-related matters, is expected to be flat relative to the level for the first half of 2012. This is higher than previously expected predominantly due to higher costs in Mortgage Banking as a result of higher production costs associated with strong origination volumes and higher default-related servicing costs, including costs associated with the Consent Orders entered into with banking regulators relating to its residential mortgage servicing. See Mortgage servicing-related matters on pages 89-91 of this Form 10-Q for a discussion of the Consent Orders. The Firm’s noninterest expense is also expected to reflect higher costs associated with compliance and legal fees, and higher regulatory deposit insurance assessments.

The Firm intends to resubmit its capital plans to the Board of Governors of the Federal Reserve under the Federal Reserve's Comprehensive Capital Analysis and Review (CCAR) process and hopes to recommence its equity repurchase program in the first quarter of 2013, subject to the Board's completion of its work on CIO and the Firm's receiving no objection from the Federal Reserve to the re-submitted capital plan. The Firm will continue to pay a quarterly common stock dividend of $0.30 per share.

Recent developments

On July 13, 2012, the Firm reported that it had reached a determination to restate its previously-filed interim financial statements for the quarterly period ended March 31, 2012. The restatement had the effect of reducing the Firm’s reported net income for the three months ended March 31, 2012 by $459 million. The restatement relates to valuations of certain positions in the synthetic credit portfolio of the Firm’s CIO. The Firm’s year-to-date principal transactions revenue, total net revenue and net income and the year-to-date principal transactions revenue, total net revenue and net income of the Firm’s CIO have remained unchanged as a result of the restatement. The Firm reached the determination to restate on July 12, 2012, following management review of the matter with the Audit Committee of the Firm’s Board of Directors on the same day.

The restatement resulted from information that came to the Firm’s attention in the days preceding July 12, 2012, as a result of management’s internal review of activities related to CIO’s synthetic credit portfolio. Under Firm policy, the positions in the portfolio are to be marked at fair value, based on the traders’ reasonable judgment as to the prices at which transactions could occur. As an independent check on those marks, the CIO’s valuation control group (“VCG”), a finance function within CIO, verifies that the trader marks are within pre-established price testing thresholds around external “mid-market” benchmarks and, if not, adjusts trader marks that are outside the relevant threshold. The thresholds consider market bid/offer spreads and are intended to establish a range of reasonable fair value estimates for each relevant position. At March 31, 2012, the trader marks, subject to the VCG verification process, formed the basis for preparing the Firm’s reported first quarter results. Specifically, information that came to management’s attention raised questions about the integrity of the trader marks, and suggested that certain individuals may have been seeking to avoid showing the full amount of the losses being incurred in the portfolio for the three months ended March 31, 2012. As a result, the Firm was no longer confident that the trader marks used to prepare the Firm’s reported first quarter results (although within the established thresholds) reflected good faith estimates of fair value at March 31, 2012. The Firm consequently concluded that the Firm’s previously-filed interim financial statements for the quarterly period ended March 31, 2012, should no longer be relied upon. On August 9, 2012, the Firm filed an amendment to its Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, which included restated financial statements reflecting adjusted valuations of the positions in the synthetic credit portfolio held by CIO as of March 31, 2012, based on external “mid-market” benchmarks, adjusted for liquidity considerations. While there are a range of acceptable values for such positions, the Firm believes this approach represented an objective valuation and was reasonable under the circumstances. The information in this Form 10-Q reflects the restated amounts for the first quarter of 2012.

Management also determined that a material weakness existed in the Firm's internal control over financial reporting at March 31, 2012. During the first quarter of 2012, the size and characteristics of the synthetic credit portfolio changed significantly. These changes had a negative impact on the effectiveness of CIO's internal controls over valuation of the synthetic credit portfolio. Management has taken steps to remediate the internal control deficiency, including enhancing management supervision of valuation matters. The control deficiency was substantially remediated by June 30, 2012, although the remedial processes remain subject to testing. For information concerning the remedial changes in, and related testing of, the Firm's internal control over financial reporting, see Part I, Item 4: Controls and Procedures on page 219 of this Form 10-Q.

As part of its internal review, management also concluded that CIO's governance and risk management had been ineffective in dealing with the growth in the size and complexity of the synthetic credit portfolio during the first quarter of 2012; CIO risk limits were not sufficiently granular; and the approval and implementation during the first quarter of 2012 of the CIO VaR model related to the synthetic credit portfolio had been inadequate. The Firm has taken several steps to remediate these issues, including:

(i) revamping CIO's leadership, by appointing a new management team, and enhancing talent and resources in key support functions;

(ii) instituting new committees to improve risk governance and controls and ensure tighter linkages between CIO, Treasury and other activities in the Corporate sector;

(iii) refocusing CIO on its core mandate of managing the Firm's investment portfolio;

(iv) introducing more granular risk limits for the CIO portfolio; and

(v) improving CIO's internal controls around valuation and enhancing key business processes and reporting in CIO.

In addition, the Firm has clarified the roles among the Model Risk and Development Group within the Risk function, the line of business risk management function and front office personnel in connection with the development, approval, implementation and monitoring of risk models. The Firm has also enhanced oversight by the Model Risk and Development Group of implemented models, including establishing a new team within the Model Risk and Development Group to review model usage and the soundness of the line of business model operational environment. For further information on model risk oversight and review, see "Market Risk Management" on pages 96-102 of this Form 10-Q.

Management discussed the matters described above with its Board of Directors, and with the special committee of the Board of Directors that is reviewing management's internal review of CIO activities.

The Firm continues to actively manage the risks in the CIO synthetic credit portfolio. The synthetic credit portfolio was a portfolio of credit derivatives, including short and long positions, intended to protect the Firm in a stressed credit environment. The portfolio performed as expected between 2007 through 2011, generating approximately $2.0 billion in gains during that period. As noted above, during the first quarter of 2012, the size and characteristics of the portfolio changed significantly, thereby significantly increasing the associated risks. During the three and six months ended June 30, 2012, the synthetic credit portfolio held by CIO incurred losses of $4.4 billion and $5.8 billion, respectively. As of July 13, 2012, management's stress testing of the synthetic credit portfolio indicated that it is possible that the portion of the portfolio that was transferred to the IB (see below for further information on the transfer) could, under certain extreme, simulated scenarios, incur additional losses of between approximately $800 million and $1.7 billion.

The new CIO management team actively reduced the net notionals of the portfolio and appreciably reduced the risk profile of the portfolio during the second quarter. As of July 2, 2012, substantially all of the synthetic credit portfolio (other than a portion aggregating to approximately $12 billion of notionals as further discussed

below) was transferred to the Firm's IB, which has the expertise, trading platforms and market franchise to manage these positions to maximize their economic value. The synthetic credit trading group within CIO has been closed.

As part of its refocused asset-liability management mandate, CIO will continue to invest in high quality securities that are generally accounted for as available-for-sale. In June 2012, CIO identified a limited number of index credit derivatives within the synthetic credit portfolio aggregating to approximately $12 billion of notionals to offset potential losses in a portion of the available-for-sale ("AFS") securities portfolio in a stressed credit environment. As of July 13, 2012, these positions retained by CIO aggregated to $11 billion of notionals, and will continue to be reduced further over time based on the Firm's view of changes in the macro economic environment. For further information regarding the CIO, see Corporate/Private Equity on pages 49-52 of this Form 10-Q.

All CIO managers based in London with responsibility for the synthetic credit portfolio have been separated from the Firm. The Firm is seeking to claw back certain compensation from these individuals.

Management's internal review of the CIO-related matters is ongoing. If the Firm obtains additional information material to its periodic financial reports, it will make appropriate disclosure.

The reported trading losses have resulted in litigation against the Firm, as well as heightened regulatory scrutiny, and may lead to additional regulatory or legal proceedings. Such regulatory and legal proceedings may expose the Firm to fines, penalties, judgments or losses, harm the Firm's reputation or otherwise cause a decline in investor confidence. For a description of the regulatory and legal developments relating to the CIO matters described above, see Note 23 on page 198 of this Form 10-Q. See also Part II, Item 1A, Risk Factors, beginning on page 219 of this Form 10-Q.

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. In June 2012, the U.S. federal banking agencies published final rules on Basel 2.5 that will go into effect on January 1, 2013 and result in additional capital requirements for trading positions and securitizations. Also, in June 2012, the U.S. federal banking agencies published for comment a

Notice of Proposed Rulemaking (the “NPR”) for implementing the Capital Accord, commonly referred to as “Basel III”, in the United States. For further information on these rules, see Capital Management on pages 60–63 of this Form 10-Q.
The Firm expects heightened scrutiny by its regulators of its compliance with new and existing regulations, such as the Unfair and Deceptive Acts and Practices act, Anti Money Laundering regulations, the Real Estate Settlement Procedures Act (RESPA), the Truth in Lending Act, and regulations promulgated by the Office of Foreign Assets Control, among others. As a result, the Firm expects that it will more frequently be the subject of more formal enforcement actions for violations of law, rather than such matters being resolved through informal supervisory processes. While the Firm has made a preliminary assessment of the likely impact of this heightened regulatory scrutiny and anticipated changes in law , the Firm cannot, given the current status of regulatory and supervisory developments, quantity the possible effects on its business and operations of all the significant changes that are currently underway.
On August 8, 2012, the Firm was informed by the Office of the Comptroller of the Currency (“OCC”) and the Federal Reserve Bank of New York that they had determined that the Firm and JPMorgan Chase Bank, N.A. should amend their respective Basel I risk weighted assets (“RWA”) at both March 31, 2012 and June 30, 2012. The determination relates to an adjustment to the Firm’s regulatory capital ratios to reflect regulatory guidance regarding a limited number of market risk models used for certain positions held by the Firm during the first half of the year, including the CIO synthetic credit portfolio. The Firm believes that, as a result of portfolio management actions and enhancements it will be making to certain of its market risk models, these adjustments will be significantly reduced by the end of 2012.
As a result of the banking regulators’ determination, the Firm’s consolidated Basel I Tier I common ratio, its Basel I Tier I capital ratio, and its Basel I total capital ratio have been revised to 9.9%, 11.3% and 14.0%, respectively, at June 30, 2012, compared to 10.3%, 11.7%, and 14.5%, respectively at such date; and have been revised to 9.8%, 11.9%, and 14.9%, respectively, at March 31, 2012, from 10.3%, 12.6%, and 15.6%, respectively at such date. In addition, the JPMorgan Chase Bank, N.A.’s Basel I Tier 1 capital ratio and Basel I Total capital ratio have been revised to 9.2%, and 12.5%, respectively, at June 30, 2012, and have been revised to 9.0% and 12.4% respectively, at March 31, 2012. For additional information see Regulatory capital on pages 60-62 of this Form 10-Q.

Subsequent events – Business segment changes

On July 27, 2012, the Firm announced that it will be reorganizing its business segments to reflect the manner in which the segments will be managed. As a result, Retail Financial Services and Card Services & Auto businesses will be combined to form the Consumer & Community Banking segment. The Investment Bank and Treasury & Securities Services businesses will be combined to form the Corporate & Investment Bank segment. Asset Management and Commercial Banking will remain unchanged. In addition, Corporate/Private Equity will not be affected.

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 and six months ended June 30, 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 107–109 of this Form 10-Q and pages 168–172 of JPMorgan Chase's 2011 Annual Report.

Revenue

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Investment banking fees | $1,257 | $1,933 | (35)% | $2,638 | $3,726 | (29)% |
| Principal transactions | (427) | 3,140 | NM | 2,295 | 7,885 | (71) |
| Lending- and deposit-related fees | 1,546 | 1,649 | (6) | 3,063 | 3,195 | (4) |
| Asset management, administration and commissions | 3,461 | 3,703 | (7) | 6,853 | 7,309 | (6) |
| Securities gains | 1,014 | 837 | 21 | 1,550 | 939 | 65 |
| Mortgage fees and related income | 2,265 | 1,103 | 105 | 4,275 | 616 | NM |
| Credit card income | 1,412 | 1,696 | (17) | 2,728 | 3,133 | (13) |
| Other income | 506 | 882 | (43) | 2,018 | 1,456 | 39 |
| Noninterest revenue | 11,034 | 14,943 | (26) | 25,420 | 28,259 | (10) |
| Net interest income | 11,146 | 11,836 | (6) | 22,812 | 23,741 | (4) |
| Total net revenue | $22,180 | $26,779 | (17)% | $48,232 | $52,000 | (7)% |

Total net revenue for the second quarter of 2012 was $22.2 billion, a decrease of $4.6 billion, or 17%, from the second quarter of 2011. For the first six months of 2012, total net revenue was $48.2 billion, a decrease of $3.8 billion, or 7%, from the first six months of 2011. In both periods lower principal transactions revenue, net interest income and investment banking fees were partially offset by higher mortgage fees and related income.

Investment banking fees for both the second quarter and first six months of 2012 decreased compared with the prior year due to lower industry volumes. For additional information on investment banking fees, which are primarily recorded in IB, see IB segment results on pages 20–24 of this Form 10-Q.

Principal transactions revenue decreased compared with both the second quarter and first six months of 2011. The decrease was largely driven by principal transactions losses in the synthetic credit portfolio held by CIO of $4.4 billion in the second quarter and $5.8 billion for the first half of 2012, and to a lesser extent, lower private equity gains. These factors were partially offset by higher market-making revenue in IB and a $545 million gain in Other Corporate representing the expected recovery on a Bear Stearns-related subordinated loan. Principal transactions revenue in IB included a $755 million gain from DVA on certain structured and derivative liabilities, resulting from the widening of the Firm's credit spreads. Excluding the impact of DVA, principal transactions revenue was slightly above prior periods, reflecting solid client revenue in IB's market-making businesses. For additional information on principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 20–24 and 49–52, respectively, and Note 6 on pages 144–145 of this Form 10-Q.

Lending- and deposit-related fees decreased slightly in both the second quarter and first six months of 2012 compared with the prior year. The decrease was spread across the wholesale and consumer businesses of the Firm. For additional information on lending- and deposit-related fees, which are mostly recorded in RFS, CB, TSS and IB, see RFS on pages 25–34, CB on pages 38–40, TSS on pages 41–44 and IB segment results on pages 20–24 of this Form 10-Q.

Asset management, administration and commissions revenue decreased from the second quarter and first six months of 2011. The decrease for both periods was largely driven by lower performance fees and the effect of lower market levels in AM, as well as lower brokerage commissions in IB. For additional information on these fees and commissions, see the segment discussions for AM on pages 45–48 and TSS on pages 41–44 of this Form 10-Q.

Securities gains increased from both the second quarter and first six months of 2011. Results in both comparable periods were primarily due to the repositioning of the CIO AFS portfolio. For additional information on securities gains see the Corporate/Private Equity segment discussion on pages 49–52 of this Form 10-Q.

Mortgage fees and related income increased compared with the second quarter of 2011, driven largely by higher production revenue, reflecting wider margins, driven by market conditions and mix, and higher volumes, due to a favorable refinancing environment, including the impact of the Home Affordable Refinancing Programs (“HARP”), as well as higher net mortgage servicing revenue. Mortgage fees and related income increased compared with the first six months of 2011, driven largely by higher production

13

revenue, as well as a favorable swing in the MSR risk management results (reflecting a gain of $426 million for the first six months of 2012, compared with a loss of $1.2 billion for the first six months of 2011). 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 29–31, and Note 16 on pages 184–187 of this Form 10-Q. For additional information on repurchase losses, see the Mortgage repurchase liability discussion on pages 56–59 and Note 21 on pages 192–196 of this Form 10-Q.

Credit card income decreased in both the second quarter and first six months of 2012. The decrease for both periods was largely driven by the impact of lower debit card revenue, reflecting the impact of the Durbin Amendment, and to a lesser extent, higher amortization of direct loan origination costs, partially offset by higher net interchange income associated with higher customer transaction volume on credit and debit cards. For additional information on credit card income, see the Card and RFS segment results on pages 35–37, and pages 25–34, respectively, of this Form 10-Q.

Other income decreased compared with the second quarter of 2011, driven by lower gains and valuation adjustments on certain assets in IB, and lower valuations of seed capital investments in AM. Other income increased compared with the first six months of 2011, driven by a $1.1 billion benefit recognized in the first quarter of 2012 from the Washington Mutual bankruptcy settlement, partially offset by the aforementioned items in IB and AM.

Net interest income decreased in the second quarter and first six months of 2012 compared with the prior year. The declines in both periods were driven by the impact of lower interest rates, as well as lower average trading asset balances, higher financing costs associated with mortgage-backed securities, and the runoff of higher-yielding loans, largely offset by lower other borrowing and deposit costs. The Firm's average interest-earning assets were $1.8 trillion for the second quarter of 2012, and the net yield on those assets, on a fully taxable-equivalent ("FTE") basis, was 2.47%, a decrease of 25 basis points from the second quarter of 2011. For the first six months of 2012, average interest-earning assets were $1.8 trillion, and the net yield on those assets, on a FTE basis, was 2.54%, a decrease of 26 basis points from the first six months of 2011.

Provision for credit losses

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Wholesale | $43 | $(117) | NM% | $132 | $(503) | NM% |
| Consumer, excluding credit card | (424) | 1,117 | NM | (423) | 2,446 | NM |
| Credit card | 595 | 810 | (27) | 1,231 | 1,036 | 19 |
| Total consumer | 171 | 1,927 | (91) | 808 | 3,482 | (77) |
| Total provision for credit losses | $214 | $1,810 | (88)% | $940 | $2,979 | (68)% |

The provision for credit losses decreased compared with the second quarter and first six months of 2011. The decrease in the second quarter of 2012 was largely due to a higher reduction in the consumer-related allowance of $2.1 billion compared with $1.1 billion in the prior year. The decrease from the first six months of 2011 also reflected a higher reduction in the consumer-related allowance of $3.9 billion compared with $3.1 billion in the prior year. These allowance reductions predominantly reflected the impact of improved delinquency trends across most consumer portfolios, notably residential real estate and credit card. The decrease in the provision for credit losses was offset partially by the impact of wholesale loan growth and other portfolio activity. For a more detailed discussion of the loan portfolio and the allowance for credit losses, see the segment discussions for RFS on pages 25–34, Card on pages 35–37, IB on pages 20–24 and CB on pages 38–40, and the Allowance For Credit Losses section on pages 93–95 of this Form 10-Q.

Noninterest expense

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Compensation expense | $7,427 | $7,569 | (2)% | $16,040 | $15,832 | 1% |
| Noncompensation expense: | | | | | | |
| Occupancy | 1,080 | 935 | 16 | 2,041 | 1,913 | 7 |
| Technology, communications and equipment | 1,282 | 1,217 | 5 | 2,553 | 2,417 | 6 |
| Professional and outside services | 1,857 | 1,866 | — | 3,652 | 3,601 | 1 |
| Marketing | 642 | 744 | (14) | 1,322 | 1,403 | (6) |
| Other[a] | 2,487 | 4,299 | (42) | 7,319 | 7,242 | 1 |
| Amortization of intangibles | 191 | 212 | (10) | 384 | 429 | (10) |
| Total noncompensation expense | 7,539 | 9,273 | (19) | 17,271 | 17,005 | 2 |
| Total noninterest expense | $14,966 | $16,842 | (11)% | $33,311 | $32,837 | 1% |

(a) Included litigation expense of $323 million and $1.9 billion for the three months ended June 30, 2012 and 2011, respectively, and $3.0 billion for each of the six months ended June 30, 2012 and 2011.

Total noninterest expense for the second quarter of 2012 was $15.0 billion, down by $1.9 billion, or 11%, compared with the second quarter of 2011. The decrease in the second quarter of 2012 was predominantly due to lower noncompensation expense, in particular, litigation expense. Total noninterest expense for the first six months of 2012 was $33.3 billion, up by $474 million, or 1%, compared with the first six months of 2011. The increase in the first six months of 2012 was due to higher compensation as well as noncompensation expense.

Compensation expense decreased from the second quarter of 2011 predominantly due to lower compensation expense in IB, partially offset by investments in the businesses, including sales force and new branch builds in RFS. The increase for the first six months of 2012 was predominantly due to the aforementioned investments in the businesses, partially offset by lower compensation expense in IB.

The decrease in noncompensation expense in the second quarter of 2012 was due to lower litigation expense, primarily related to mortgage-related matters, in Corporate and RFS, as well as lower foreclosure-related expense in RFS. Noncompensation expense for the first six months of 2012 increased generally due to continued investments in the businesses, higher servicing expense (excluding foreclosure-related matters) in RFS, and higher regulatory deposit insurance assessments in IB and CB. Other items included lower foreclosure-related expense in RFS offset partially by higher litigation expense in Corporate, reflecting the significant litigation reserves recognized in the first quarter of 2012. For a further discussion of litigation expense, see Note 23 on pages 196–205 of this Form 10-Q. For a discussion of amortization of intangibles, refer to the Balance Sheet Analysis on pages 54–55, and Note 16 on pages 184–187 of this Form 10-Q.

Income tax expense

| (in millions, except rate) | Three months ended June 30, 2012 | Three months ended June 30, 2011 | Six months ended June 30, 2012 | Six months ended June 30, 2011 |
|---|---|---|---|---|
| Income before income tax expense | $7,000 | $8,127 | $13,981 | $16,184 |
| Income tax expense | 2,040 | 2,696 | 4,097 | 5,198 |
| Effective tax rate | 29.1% | 33.2% | 29.3% | 32.1% |

The decrease in the effective tax rate during the three months and six months ended June 30, 2012, compared with the prior-year periods 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 and state and local taxes as well as greater benefits associated with the resolution of tax audits, and the impact of tax-exempt income and business tax credits. In addition, the six

month period of 2012, was partially offset by the tax effect of the Washington Mutual bankruptcy settlement, which is discussed in Note 2 on pages 117–118 and in Note 23 on pages 196–205 of this Form 10-Q. The current and prior year periods include deferred tax benefits associated with state and local income taxes. For additional information on income taxes, see Critical Accounting Estimates Used by the Firm on pages 107–109 of this Form 10-Q.

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

The Firm prepares its consolidated financial statements using accounting principles generally accepted in the U.S. ("U.S. GAAP"); these financial statements appear on pages 112–116 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 June, | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $506 | $ 517 | $1,023 | $882 | $ 510 | $1,392 |
| Total noninterest revenue | 11,034 | 517 | 11,551 | 14,943 | 510 | 15,453 |
| Net interest income | 11,146 | 195 | 11,341 | 11,836 | 121 | 11,957 |
| Total net revenue | 22,180 | 712 | 22,892 | 26,779 | 631 | 27,410 |
| Pre-provision profit | 7,214 | 712 | 7,926 | 9,937 | 631 | 10,568 |
| Income before income tax expense | 7,000 | 712 | 7,712 | 8,127 | 631 | 8,758 |
| Income tax expense | $2,040 | $ 712 | $2,752 | $2,696 | $ 631 | $3,327 |
| Overhead ratio | 67 % | NM | 65 % | 63 % | NM | 61 % |

| | Six months ended June, | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $2,018 | $ 1,051 | $3,069 | $1,456 | $ 961 | $2,417 |
| Total noninterest revenue | 25,420 | 1,051 | 26,471 | 28,259 | 961 | 29,220 |
| Net interest income | 22,812 | 366 | 23,178 | 23,741 | 240 | 23,981 |
| Total net revenue | 48,232 | 1,417 | 49,649 | 52,000 | 1,201 | 53,201 |
| Pre-provision profit | 14,921 | 1,417 | 16,338 | 19,163 | 1,201 | 20,364 |
| Income before income tax expense | 13,981 | 1,417 | 15,398 | 16,184 | 1,201 | 17,385 |
| Income tax expense | $4,097 | $ 1,417 | $5,514 | $5,198 | $ 1,201 | $6,399 |
| 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 60–62 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.

Average tangible common equity

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (in millions) | 2012 | 2011 | 2012 | 2011 |
| Common stockholders' equity | $181,021 | $174,077 | $179,366 | $171,759 |
| Less: Goodwill | 48,157 | 48,834 | 48,188 | 48,840 |
| Less: Certain identifiable intangible assets | 2,923 | 3,738 | 3,029 | 3,833 |
| Add: Deferred tax liabilities[a] | 2,734 | 2,618 | 2,729 | 2,607 |
| Tangible common equity | $132,675 | $124,123 | $130,878 | $121,693 |

(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 June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions, except rates) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Net interest income – managed basis[b] | $11,341 | $11,957 | (5 )% | $23,178 | $23,981 | (3 )% |
| Impact of market-based net interest income | 1,345 | 1,829 | (26 ) | 2,914 | 3,663 | (20 ) |
| Core net interest income[b] | $9,996 | $10,128 | (1 ) | $20,264 | $20,318 | — |
| | | | | | | |
| Average interest-earning assets – managed basis | $1,843,627 | $1,764,822 | 4 | $1,832,570 | $1,725,973 | 6 |
| Impact of market-based earning assets | 505,282 | 543,458 | (7 ) | 498,016 | 532,253 | (6 ) |
| Core average interest-earning assets | $1,338,345 | $1,221,364 | 10 % | $1,334,554 | $1,193,720 | 12 % |
| Net interest yield on interest-earning assets – managed basis | 2.47 % | 2.72 % | | 2.54 % | 2.80 % | |
| Net interest yield on market-based activity | 1.07 | 1.35 | | 1.18 | 1.39 | |
| Core net interest yield on core average interest-earning assets | 3.00 % | 3.33 % | | 3.05 % | 3.43 % | |

(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.

(b) Interest includes the effect of related hedging derivatives. Taxable-equivalent amounts are used where applicable.

Quarterly and year-to-date results

Core net interest income decreased by $132 million to $10.0 billion and by $54 million to $20.3 billion for the three and six months ended June 30, 2012, respectively. Core average interest-earning assets increased by $117.0 billion to $1,338.3 billion and by $140.8 billion to $1,334.6 billion for the three and six months ended June 30, 2012, respectively. The decrease in net interest income was primarily driven by higher financing costs associated with mortgage-backed securities, runoff of higher-yielding loans, and was partially offset by lower deposit and other borrowing costs. The increase in average interest-earning assets was driven by increased levels of loans, higher deposits with banks and other short-term investments due to wholesale and retail client deposit growth, and an

increase in investment securities. The core net interest yield decreased by 33 basis points to 3.00% and by 38 basis points to 3.05% for the three and six months ended June 30, 2012, respectively. The decrease in yield was primarily driven by higher financing costs associated with mortgage-backed securities, runoff of higher-yielding loans as well as lower customer loan rates, and was slightly offset by lower customer deposit rates.

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 93–94 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. In addition, there is 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 16–17 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, regulatory capital requirements (under Basel III) and economic risk measures. 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 63 of this Form 10-Q.

Segment Results – Managed Basis

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

| Three months ended June 30, | Total net revenue | | | Noninterest expense | | | Pre-provision profit/(loss) | | |
|---|---|---|---|---|---|---|---|---|---|
| (in millions) | 2012 | 2011 | Change | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Investment Bank[(a)] | $6,766 | $7,314 | (7)% | $3,802 | $4,332 | (12)% | $2,964 | $2,982 | (1)% |
| Retail Financial Services | 7,935 | 7,142 | 11 | 4,726 | 5,271 | (10) | 3,209 | 1,871 | 72 |
| Card Services & Auto | 4,525 | 4,761 | (5) | 2,096 | 1,988 | 5 | 2,429 | 2,773 | (12) |
| Commercial Banking | 1,691 | 1,627 | 4 | 591 | 563 | 5 | 1,100 | 1,064 | 3 |
| Treasury & Securities Services | 2,152 | 1,932 | 11 | 1,491 | 1,453 | 3 | 661 | 479 | 38 |
| Asset Management | 2,364 | 2,537 | (7) | 1,701 | 1,794 | (5) | 663 | 743 | (11) |
| Corporate/Private Equity[(a)] | (2,541) | 2,097 | NM | 559 | 1,441 | (61) | (3,100) | 656 | NM |
| Total | $22,892 | $27,410 | (16)% | $14,966 | $16,842 | (11)% | $7,926 | $10,568 | (25)% |

| Three months ended June 30, | Provision for credit losses | | | Net income/(loss) | | |
|---|---|---|---|---|---|---|
| (in millions) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Investment Bank[(a)] | $21 | $(183) | NM% | $1,913 | $2,057 | (7)% |
| Retail Financial Services | (555) | 994 | NM | 2,267 | 383 | 492 |
| Card Services & Auto | 734 | 944 | (22) | 1,030 | 1,110 | (7) |
| Commercial Banking | (17) | 54 | NM | 673 | 607 | 11 |
| Treasury & Securities Services | 8 | (2) | NM | 463 | 333 | 39 |
| Asset Management | 34 | 12 | 183 | 391 | 439 | (11) |
| Corporate/Private Equity[(a)] | (11) | (9) | (22) | (1,777) | 502 | NM |
| Total | $214 | $1,810 | (88)% | $4,960 | $5,431 | (9)% |

| Six months ended June 30, | Total net revenue | | | Noninterest expense | | | Pre-provision profit/(loss) | | |
|---|---|---|---|---|---|---|---|---|---|
| (in millions) | 2012 | 2011 | Change | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Investment Bank[(a)] | $14,087 | $15,547 | (9)% | $8,540 | $9,348 | (9)% | $5,547 | $6,199 | (11)% |
| Retail Financial Services | 15,584 | 12,608 | 24 | 9,735 | 10,171 | (4) | 5,849 | 2,437 | 140 |
| Card Services & Auto | 9,239 | 9,552 | (3) | 4,125 | 3,905 | 6 | 5,114 | 5,647 | (9) |
| Commercial Banking | 3,348 | 3,143 | 7 | 1,189 | 1,126 | 6 | 2,159 | 2,017 | 7 |
| Treasury & Securities Services | 4,166 | 3,772 | 10 | 2,964 | 2,830 | 5 | 1,202 | 942 | 28 |
| Asset Management | 4,734 | 4,943 | (4) | 3,430 | 3,454 | (1) | 1,304 | 1,489 | (12) |
| Corporate/Private Equity[(a)] | (1,509) | 3,636 | NM | 3,328 | 2,003 | 66 | (4,837) | 1,633 | NM |
| Total | $49,649 | $53,201 | (7)% | $33,311 | $32,837 | 1% | $16,338 | $20,364 | (20)% |

| Six months ended June 30, | Provision for credit losses | | | Net income/(loss) | | |
|---|---|---|---|---|---|---|
| (in millions) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Investment Bank[(a)] | $16 | $(612) | NM% | $3,595 | $4,427 | (19)% |
| Retail Financial Services | (651) | 2,193 | NM | 4,020 | (16) | NM |

| | | | | | | |
|---|---|---|---|---|---|---|
| Card Services & Auto | 1,472 | 1,297 | 13 | 2,213 | 2,644 | (16 ) |
| Commercial Banking | 60 | 101 | (41 ) | 1,264 | 1,153 | 10 |
| Treasury & Securities Services | 10 | 2 | 400 | 814 | 649 | 25 |
| Asset Management | 53 | 17 | 212 | 777 | 905 | (14 ) |
| Corporate/Private Equity[(a)] | (20 ) | (19 ) | (5 ) | (2,799 ) | 1,224 | NM |
| Total | $940 | $2,979 | (68 )% | $9,884 | $10,986 | (10 )% |

(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).

19

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 June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions, except ratios) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Revenue | | | | | | |
| Investment banking fees | $1,245 | $1,922 | (35)% | $2,620 | $3,701 | (29)% |
| Principal transactions[a] | 3,063 | 2,309 | 33 | 6,273 | 5,707 | 10 |
| Asset management, administration and commissions | 499 | 548 | (9) | 1,064 | 1,167 | (9) |
| All other income[b] | 235 | 454 | (48) | 503 | 834 | (40) |
| Noninterest revenue | 5,042 | 5,233 | (4) | 10,460 | 11,409 | (8) |
| Net interest income | 1,724 | 2,081 | (17) | 3,627 | 4,138 | (12) |
| Total net revenue[c] | 6,766 | 7,314 | (7) | 14,087 | 15,547 | (9) |
| Provision for credit losses | 21 | (183) | NM | 16 | (612) | NM |
| Noninterest expense | | | | | | |
| Compensation expense | 2,011 | 2,564 | (22) | 4,912 | 5,858 | (16) |
| Noncompensation expense | 1,791 | 1,768 | 1 | 3,628 | 3,490 | 4 |
| Total noninterest expense | 3,802 | 4,332 | (12) | 8,540 | 9,348 | (9) |
| Income before income tax expense | 2,943 | 3,165 | (7) | 5,531 | 6,811 | (19) |
| Income tax expense | 1,030 | 1,108 | (7) | 1,936 | 2,384 | (19) |
| Net income | $1,913 | $2,057 | (7)% | $3,595 | $4,427 | (19)% |
| Financial ratios | | | | | | |
| Return on common equity | 19% | 21% | | 18% | 22% | |
| Return on assets | 0.97 | 0.98 | | 0.91 | 1.08 | |
| Overhead ratio | 56 | 59 | | 61 | 60 | |
| Compensation expense as a percentage of total net revenue[d] | 30 | 35 | | 35 | 38 | |

(a) Principal transactions included DVA related to derivatives and structured liabilities measured at fair value, DVA gains/(losses) were $755 million and $165 million for the three months ended June 30, 2012 and 2011, and $(152) million and $119 million for the six months ended June 30, 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 $494 million and $493 million for the three months ended June 30, 2012 and 2011, and $1.0 billion and $931 million for the six months ended June 30, 2012 and 2011, respectively.

(d) Compensation expense as a percentage of total net revenue excluding DVA was 33% and 36% for the three months ended June 30, 2012 and 2011 respectively, and 34% and 38% for the six months ended June 30, 2012 and 2011 respectively.

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

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Revenue by business | | | | | | |
| Investment banking fees: | | | | | | |
| Advisory | $356 | $601 | (41)% | $637 | $1,030 | (38)% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Equity underwriting | 250 | 455 | (45 ) | 526 | 834 | (37 ) |
| Debt underwriting | 639 | 866 | (26 ) | 1,457 | 1,837 | (21 ) |
| Total investment banking fees | 1,245 | 1,922 | (35 ) | 2,620 | 3,701 | (29 ) |
| Fixed income markets[(a)] | 3,734 | 4,280 | (13 ) | 8,398 | 9,518 | (12 ) |
| Equity markets[(b)] | 1,243 | 1,223 | 2 | 2,537 | 2,629 | (3 ) |
| Credit portfolio[(c)(d)] | 544 | (111 ) | NM | 532 | (301 ) | NM |
| Total net revenue | $6,766 | $7,314 | (7 )% | $14,087 | $15,547 | (9 )% |

(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 $241 million and $64 million for the three months ended June 30, 2012 and 2011, and $(111) million and $159 million for the six months ended June 30, 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 of $200 million and $78 million for the three months ended June 30, 2012 and 2011, and $70 million and $6 million for the six months ended June 30, 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 $314 million and $23 million for the three months ended June 30, 2012 and 2011, and $(111) million and $(46) million for the six months ended June 30, 2012 and 2011, respectively. See pages 73–95 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 $1.9 billion, down 7% from the prior year. These results reflected lower net revenue and a provision for credit losses compared with a benefit in the prior year, largely offset by lower noninterest expense.

Net revenue was $6.8 billion, compared with $7.3 billion in the prior year. Investment banking fees were $1.2 billion (down 35%), which consists of debt underwriting fees of $639 million (down 26%), equity underwriting fees of $250 million (down 45%), and advisory fees of $356 million (down 41%). Combined Fixed Income and Equity Markets revenue was $5.0 billion, down 10% from the prior year. Credit Portfolio reported revenue of $544 million.

Net revenue included a $755 million gain from DVA on certain structured and derivative liabilities resulting from the widening of the Firm's credit spreads; this gain was composed of $241 million in Fixed Income Markets, $200 million in Equity Markets and $314 million in Credit Portfolio. Excluding the impact of DVA, net revenue was $6.0 billion and net income was $1.4 billion.

Excluding the impact of DVA, Fixed Income and Equity Markets combined revenue was $4.5 billion, down 15% from the prior year, reflecting the impact of weaker market conditions, with solid client revenue. Excluding the impact of DVA, Credit Portfolio net revenue was $230 million, driven by net interest income on retained loans and fees on lending-related commitments.

The provision for credit losses was $21 million, compared with a benefit in the prior year of $183 million. The ratio of the allowance for loan losses to end-of-period loans retained was 1.97%, compared with 2.10% in the prior year.

Noninterest expense was $3.8 billion, down 12% from the prior year, driven by lower compensation expense. The ratio of compensation to net revenue was 33%, excluding DVA.

Return on equity was 19% (15% excluding DVA) on $40.0 billion of average allocated capital.

Year-to-date results

Net income was $3.6 billion, down 19% from the prior year, reflecting lower net revenue and a provision for credit losses compared with a benefit in the prior year, offset by lower noninterest expense.

Net revenue was $14.1 billion, compared with $15.5 billion in the prior year. Investment banking fees were $2.6 billion (down 29%), consisting of debt underwriting fees of $1.5 billion (down 21%), equity underwriting fees of $526 million (down 37%), and advisory fees of $637 million (down 38%). Combined Fixed Income and Equity Markets revenue was $10.9 billion down 10% from the prior year. Credit Portfolio reported revenue of $532 million.

Net revenue included a $152 million loss from DVA on certain structured and derivative liabilities resulting from the tightening of the Firm's credit spreads; this was composed of a loss of $111 million in both Fixed Income Markets and Credit Portfolio, partially offset by a gain of $70 million in Equity Markets. Excluding the impact of DVA, net revenue was $14.2 billion and net income was $3.7 billion.

Excluding the impact of DVA, Fixed Income and Equity Markets combined revenue was $11.0 billion, down 8% from the prior year, reflecting the impact of weaker market conditions, primarily in the second quarter of 2012, with solid client revenue. Excluding the impact of DVA, Credit Portfolio net revenue was $643 million, compared with a loss of

$255 million the prior year, reflecting the absence of negative credit-related valuation adjustments in the prior year, as well as higher net interest income on retained loans and fees on lending-related commitments.

The provision for credit losses was $16 million, compared with a benefit of $612 million in the prior year. Net recoveries were $45 million, compared with net charge-offs of $130 million in the prior year.

Noninterest expense was $8.5 billion, down 9% from the prior year, driven primarily by lower compensation expense. The ratio of compensation to net revenue was 34%, excluding DVA. Noncompensation expense increased by 4% from the prior year, primarily reflecting higher regulatory deposit insurance assessments.

Return on equity was 18% (19% excluding DVA) on $40.0 billion of average allocated capital.

Selected metrics

| (in millions, except headcount) | As of or for the three months ended June 30, 2012 | 2011 | Change | As of or for the six months ended June 30, 2012 | 2011 | Change |
|---|---|---|---|---|---|---|
| Selected balance sheet data (period-end) | | | | | | |
| Total assets | $829,655 | $809,630 | 2 % | $829,655 | $809,630 | 2 % |
| Loans: | | | | | | |
| Loans retained[(a)] | 72,159 | 56,107 | 29 | 72,159 | 56,107 | 29 |
| Loans held-for-sale and loans at fair value | 2,278 | 3,466 | (34 ) | 2,278 | 3,466 | (34 ) |
| Total loans | 74,437 | 59,573 | 25 | 74,437 | 59,573 | 25 |
| Equity | 40,000 | 40,000 | — | 40,000 | 40,000 | — |
| Selected balance sheet data (average) | | | | | | |
| Total assets | $792,628 | $841,355 | (6 ) | $791,099 | $828,662 | (5 ) |
| Trading assets-debt and equity instruments | 304,203 | 374,694 | (19 ) | 308,735 | 371,841 | (17 ) |
| Trading assets-derivative receivables | 74,965 | 69,346 | 8 | 75,595 | 68,409 | 11 |
| Loans: | | | | | | |
| Loans retained[(a)] | 70,837 | 54,590 | 30 | 68,774 | 53,983 | 27 |
| Loans held-for-sale and loans at fair value | 3,158 | 4,154 | (24 ) | 2,963 | 3,995 | (26 ) |
| Total loans | 73,995 | 58,744 | 26 | 71,737 | 57,978 | 24 |
| Adjusted assets[(b)] | 560,356 | 628,475 | (11 ) | 559,961 | 619,805 | (10 ) |
| Equity | 40,000 | 40,000 | — | 40,000 | 40,000 | — |
| Headcount | 26,553 | 27,716 | (4 )% | 26,553 | 27,716 | (4 )% |

(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.

22

Selected metrics

| | As of or for the three months ended June 30, | | | As of or for the six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions, except ratios) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Credit data and quality statistics | | | | | | |
| Net (recoveries)/charge-offs | $(10) | $7 | NM % | $(45) | $130 | NM % |
| Nonperforming assets: | | | | | | |
| Nonaccrual loans: | | | | | | |
| Nonaccrual loans retained[(a)] | 657 | 1,494 | (56) | 657 | 1,494 | (56) |
| Nonaccrual loans held-for-sale and loans at fair value | 158 | 193 | (18) | 158 | 193 | (18) |
| Total nonaccrual loans | 815 | 1,687 | (52) | 815 | 1,687 | (52) |
| Derivative receivables[(b)] | 451 | 213 | 112 | 451 | 213 | 112 |
| Assets acquired in loan satisfactions | 68 | 83 | (18) | 68 | 83 | (18) |
| Total nonperforming assets | 1,334 | 1,983 | (33) | 1,334 | 1,983 | (33) |
| Allowance for credit losses: | | | | | | |
| Allowance for loan losses | 1,419 | 1,178 | 20 | 1,419 | 1,178 | 20 |
| Allowance for lending-related commitments | 533 | 383 | 39 | 533 | 383 | 39 |
| Total allowance for credit losses | 1,952 | 1,561 | 25 | 1,952 | 1,561 | 25 |
| Net (recovery)/charge-off rate[(c)] | (0.06)% | 0.05 % | | (0.13)% | 0.49 % | |
| Allowance for loan losses to period-end loans retained | 1.97 | 2.10 | | 1.97 | 2.10 | |
| Allowance for loan losses to nonaccrual loans retained[(a)] | 216 | 79 | | 216 | 79 | |
| Nonaccrual loans to period-end loans | 1.09 | 2.83 | | 1.09 | 2.83 | |
| Market risk-average trading and credit portfolio VaR – 95% confidence level | | | | | | |
| Trading activities: | | | | | | |
| Fixed income | $66 | $45 | 47 | $63 | $47 | 34 |
| Foreign exchange | 10 | 9 | 11 | 11 | 10 | 10 |
| Equities | 20 | 25 | (20) | 19 | 27 | (30) |
| Commodities and other | 13 | 16 | (19) | 17 | 15 | 13 |
| Diversification benefit to IB trading VaR[(d)] | (44) | (37) | (19) | (46) | (38) | (21) |
| Total trading VaR[(e)] | 65 | 58 | 12 | 64 | 61 | 5 |
| Credit portfolio VaR[(f)] | 25 | 27 | (7) | 29 | 27 | 7 |
| Diversification benefit to total other VaR[(d)] | (15) | (8) | (88) | (15) | (8) | (88) |
| Total trading and credit portfolio VaR | $75 | $77 | (3)% | $78 | $80 | (3)% |

(a) Allowance for loan losses of $201 million and $377 million were held against these nonaccrual loans at June 30, 2012 and 2011, respectively.

(b) Prior to the first quarter of 2012, reported amounts had only included defaulted derivatives; effective in the first quarter of 2012, reported amounts in all periods include both defaulted derivatives as well as derivatives that have been risk rated as nonperforming.

(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”) and period-end VaR were 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.

(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 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 96–99 and the DVA sensitivity table on page 100 of this Form 10-Q for further details.

(f) Credit portfolio VaR includes the derivative credit valuation adjustments (“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.

23

Market shares and rankings[(a)]

| | Six months ended June 30, 2012 | | Full-year 2011 | |
|---|---|---|---|---|
| | Market Share | Rankings | Market Share | Rankings |
| Global investment banking fees[(b)] | 7.6% | #1 | 8.0% | #1 |
| Debt, equity and equity-related | | | | |
| Global | 7.1 | 1 | 6.7 | 1 |
| U.S. | 11.3 | 1 | 11.1 | 1 |
| Syndicated loans | | | | |
| Global | 9.9 | 1 | 10.8 | 1 |
| U.S. | 18.2 | 1 | 21.2 | 1 |
| Long-term debt[(c)] | | | | |
| Global | 7.0 | 1 | 6.7 | 1 |
| U.S. | 11.2 | 1 | 11.2 | 1 |
| Equity and equity-related | | | | |
| Global[(d)] | 8.2 | 3 | 6.8 | 3 |
| U.S. | 11.1 | 4 | 12.5 | 1 |
| Announced M&A[(e)] | | | | |
| Global | 20.0 | 2 | 18.2 | 2 |
| U.S. | 20.7 | 2 | 26.7 | 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) 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 six months of 2012, based on revenue; #1 in Global Debt, Equity and Equity-related; #1 in Global Long-Term Debt; #1 in Global Syndicated Loans; #3 in Global Equity and Equity-related; and #2 in Global Announced M&A, based on volume.

| International metrics | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Total net revenue[(a)] | | | | | | |
| Europe/Middle East/Africa | $2,106 | $2,478 | (15)% | $4,506 | $5,070 | (11)% |
| Asia/Pacific | 662 | 762 | (13) | 1,420 | 1,884 | (25) |
| Latin America/Caribbean | 304 | 337 | (10) | 643 | 664 | (3) |
| North America | 3,694 | 3,737 | (1) | 7,518 | 7,929 | (5) |
| Total net revenue | $6,766 | $7,314 | (7) | $14,087 | $15,547 | (9) |
| Loans retained (period-end)[(b)] | | | | | | |
| Europe/Middle East/Africa | $18,804 | $15,370 | 22 | $18,804 | $15,370 | 22 |
| Asia/Pacific | 8,268 | 6,211 | 33 | 8,268 | 6,211 | 33 |
| Latin America/Caribbean | 4,195 | 2,633 | 59 | 4,195 | 2,633 | 59 |
| North America | 40,892 | 31,893 | 28 | 40,892 | 31,893 | 28 |
| Total loans | $72,159 | $56,107 | 29% | $72,159 | $56,107 | 29% |

(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.

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 June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions, except ratios) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Revenue | | | | | | |
| Lending- and deposit-related fees | $777 | $813 | (4)% | $1,525 | $1,549 | (2)% |
| Asset management, administration and commissions | 522 | 499 | 5 | 1,049 | 984 | 7 |
| Mortgage fees and related income | 2,265 | 1,100 | 106 | 4,273 | 611 | NM |
| Credit card income | 344 | 572 | (40) | 659 | 1,109 | (41) |
| Other income | 126 | 131 | (4) | 252 | 242 | 4 |
| Noninterest revenue | 4,034 | 3,115 | 30 | 7,758 | 4,495 | 73 |
| Net interest income | 3,901 | 4,027 | (3) | 7,826 | 8,113 | (4) |
| Total net revenue | 7,935 | 7,142 | 11 | 15,584 | 12,608 | 24 |
| Provision for credit losses | (555) | 994 | NM | (651) | 2,193 | NM |
| Noninterest expense | | | | | | |
| Compensation expense | 2,298 | 1,937 | 19 | 4,603 | 3,813 | 21 |
| Noncompensation expense | 2,378 | 3,274 | (27) | 5,031 | 6,238 | (19) |
| Amortization of intangibles | 50 | 60 | (17) | 101 | 120 | (16) |
| Total noninterest expense | 4,726 | 5,271 | (10) | 9,735 | 10,171 | (4) |
| Income before income tax expense | 3,764 | 877 | 329 | 6,500 | 244 | NM |
| Income tax expense | 1,497 | 494 | 203 | 2,480 | 260 | NM |
| Net income | $2,267 | $383 | 492% | $4,020 | $(16) | NM% |
| Financial ratios | | | | | | |
| Return on common equity | 34% | 6% | | 31% | —% | |
| Overhead ratio | 60 | 74 | | 62 | 81 | |
| Overhead ratio excluding core deposit intangibles[(a)] | 59 | 73 | | 62 | 80 | |

(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 $50 million and $60 million for the three months ended June 30, 2012 and 2011, respectively, and $101 million and $120 million for the six months ended June 30, 2012 and 2011, respectively.

Quarterly results

Retail Financial Services reported net income of $2.3 billion, an increase of $1.9 billion compared with the prior year. Net revenue was $7.9 billion, an increase of $793 million, or 11%, compared with the prior year. Net interest income was $3.9 billion, down by $126 million, or 3%, driven by the impact of lower deposit spreads and lower loan balances due to portfolio runoff, largely offset by higher deposit balances. Noninterest revenue was $4.0 billion, an increase of $919 million, or 30%, driven by higher mortgage fees and related income, partially offset by lower debit card revenue. The provision for credit losses was a benefit of $555 million compared with a provision expense of $994 million in the prior year. The current-quarter provision reflected a $1.4 billion reduction in the allowance for loan losses due to lower estimated losses as mortgage delinquency trends continued to improve, and to a lesser extent, a refinement of incremental loss estimates with respect to certain borrower assistance programs. The prior-year provision for credit losses reflected higher net charge-offs. See Consumer Credit Portfolio on pages 82–92 of this Form 10-Q for the net charge-off amounts and rates.

Noninterest expense was $4.7 billion, a decrease of $545 million, or 10%, from the prior year.

Year-to-date results

Retail Financial Services reported net income of $4.0 billion, compared with a net loss of $16 million in the prior year. Net revenue was $15.6 billion, an increase of $3.0 billion, or 24%, compared with the prior year. Net interest income was $7.8 billion, down by $287 million, or 4%, driven by the impact of lower deposit spreads and lower loan balances due to portfolio runoff, largely offset by higher deposit balances. Noninterest revenue was $7.8 billion, an increase of $3.3 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 $651 million compared with a provision expense of $2.2 billion in the prior year. The current-year provision reflected lower net charge-offs and a $2.4 billion reduction in the allowance for loan losses, due to lower estimated losses as mortgage delinquency trends continued to improve, and to a lesser extent, a refinement of incremental loss estimates with respect to certain borrower assistance programs. The prior-

year provision for credit losses reflected higher net charge-offs. See Consumer Credit Portfolio on pages 82–92 of this Form 10-Q for the net charge-off amounts and rates.
Noninterest expense was $9.7 billion, a decrease of $436 million, or 4%, from the prior year.

| Selected metrics | As of or for the three months ended June 30, | | | | As of or for the six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| (in millions, except headcount) | 2012 | 2011 | Change | | 2012 | 2011 | Change | |
| Selected balance sheet data (period-end) | | | | | | | | |
| Total assets | $264,320 | $283,753 | (7 | )% | $264,320 | $283,753 | (7 | )% |
| Loans: | | | | | | | | |
| Loans retained | 222,773 | 241,127 | (8 | ) | 222,773 | 241,127 | (8 | ) |
| Loans held-for-sale and loans at fair value[(a)] | 14,254 | 13,558 | 5 | | 14,254 | 13,558 | 5 | |
| Total loans | 237,027 | 254,685 | (7 | ) | 237,027 | 254,685 | (7 | ) |
| Deposits | 413,571 | 378,371 | 9 | | 413,571 | 378,371 | 9 | |
| Equity | 26,500 | 25,000 | 6 | | 26,500 | 25,000 | 6 | |
| Selected balance sheet data (average) | | | | | | | | |
| Total assets | $268,507 | $287,235 | (7 | ) | $270,240 | $292,557 | (8 | ) |
| Loans: | | | | | | | | |
| Loans retained | 225,144 | 244,030 | (8 | ) | 227,657 | 247,218 | (8 | ) |
| Loans held-for-sale and loans at fair value[(a)] | 17,694 | 14,613 | 21 | | 16,658 | 16,058 | 4 | |
| Total loans | 242,838 | 258,643 | (6 | ) | 244,315 | 263,276 | (7 | ) |
| Deposits | 409,256 | 378,932 | 8 | | 404,408 | 375,379 | 8 | |
| Equity | 26,500 | 25,000 | 6 | | 26,500 | 25,000 | 6 | |
| Headcount | 134,380 | 122,728 | 9 | % | 134,380 | 122,728 | 9 | % |

(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.

| Selected metrics | As of or for the three months ended June 30, | | | | | As of or for the six months ended June 30, | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in millions, except ratios) | 2012 | | 2011 | | Change | 2012 | | 2011 | | Change |
| Credit data and quality statistics | | | | | | | | | | |
| Net charge-offs | $795 | | $1,069 | | (26 )% | $1,699 | | $2,268 | | (25 )% |
| Nonaccrual loans: | | | | | | | | | | |
| Nonaccrual loans retained | 7,835 | | 8,088 | | (3 ) | 7,835 | | 8,088 | | (3 ) |
| Nonaccrual loans held-for-sale and loans at fair value | 98 | | 142 | | (31 ) | 98 | | 142 | | (31 ) |
| Total nonaccrual loans [(a)(b)(c)(d)] | 7,933 | | 8,230 | | (4 ) | 7,933 | | 8,230 | | (4 ) |
| Nonperforming assets[(a)(b)(c)(d)] | 8,645 | | 9,175 | | (6 ) | 8,645 | | 9,175 | | (6 ) |
| Allowance for loan losses | 12,897 | | 15,479 | | (17 )% | 12,897 | | 15,479 | | (17 )% |
| Net charge-off rate[(e)] | 1.42 | % | 1.76 | % | | 1.50 | % | 1.85 | % | |

| | | | | |
|---|---|---|---|---|
| Net charge-off rate excluding PCI loans[e] | 1.98 | 2.46 | 2.09 | 2.59 |
| Allowance for loan losses to ending loans retained | 5.79 | 6.42 | 5.79 | 6.42 |
| Allowance for loan losses to ending loans retained excluding PCI loans[f] | 4.49 | 6.12 | 4.49 | 6.12 |
| Allowance for loan losses to nonaccrual loans retained[a][d][f] | 92 | 130 | 92 | 130 |
| Nonaccrual loans to total loans[d] | 3.35 | 3.23 | 3.35 | 3.23 |
| Nonaccrual loans to total loans excluding PCI loans[a][d] | 4.55 | 4.43 | 4.55 | 4.43 |

(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 June 30, 2012 and 2011, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $11.9 billion and $9.1 billion, respectively, that are 90 or more days past due; and (2) real estate owned insured by U.S. government agencies of $1.3 billion and $2.4 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 153–175 of this Form 10-Q, which summarizes loan delinquency information.

(d) For more information on the reporting of performing junior liens that are subordinate to senior liens that are 90 days or more past due based on regulatory guidance issued in the first quarter of 2012, see Consumer Credit Portfolio on pages 82–92 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 June 30, 2012 and 2011, respectively; these amounts were also excluded from the applicable ratios.

Consumer & Business Banking

Selected income statement data

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions, except ratios) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Noninterest revenue | $1,646 | $1,889 | (13)% | $3,231 | $3,646 | (11)% |
| Net interest income | 2,680 | 2,706 | (1) | 5,355 | 5,365 | — |
| Total net revenue | 4,326 | 4,595 | (6) | 8,586 | 9,011 | (5) |
| Provision for credit losses | (2) | 42 | NM | 94 | 161 | (42) |
| Noninterest expense | 2,742 | 2,713 | 1 | 5,608 | 5,512 | 2 |
| Income before income tax expense | 1,586 | 1,840 | (14) | 2,884 | 3,338 | (14) |
| Net income | $946 | $1,098 | (14)% | $1,720 | $1,991 | (14)% |
| Overhead ratio | 63% | 59% | | 65% | 61% | |
| Overhead ratio excluding core deposit intangibles(a) | 62 | 58 | | 64 | 60 | |

(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 25 of this Form 10-Q for further details.

Quarterly results

Consumer & Business Banking reported net income of $946 million, a decrease of $152 million, or 14%, compared with the prior year.

Net revenue was $4.3 billion, down 6% from the prior year. Net interest income was $2.7 billion, down 1% compared with the prior year, driven by the impact of lower deposit spreads, predominantly offset by higher deposit balances. Noninterest revenue was $1.6 billion, a decrease of 13%, driven by lower debit card revenue, reflecting the impact of the Durbin Amendment.

The provision for credit losses was a benefit of $2 million, compared with a provision expense of $42 million in the prior year. The current-quarter provision reflected a $100 million reduction in the allowance for loan losses due to lower estimated losses as delinquency trends continued to improve. Net charge-offs were $98 million, compared with $117 million in the prior year.

Noninterest expense was $2.7 billion, up 1% from the prior year, including the benefit of certain adjustments in the current quarter.

Year-to-date results

Consumer & Business Banking reported net income of $1.7 billion, a decrease of $271 million, or 14%, compared with the prior year.

Net revenue was $8.6 billion, down 5% from the prior year. Net interest income was $5.4 billion, relatively flat compared with the prior year, driven by the impact of lower deposit spreads, predominantly offset by higher deposit balances. Noninterest revenue was $3.2 billion, a decrease of 11%, driven by lower debit card revenue, reflecting the impact of the Durbin Amendment.

The provision for credit losses was $94 million, compared with $161 million in the prior year. Net charge-offs were $194 million, compared with $236 million in the prior year.

Noninterest expense was $5.6 billion, up 2% from the prior year, due to investments in sales force and new branch builds.

Selected metrics

| (in millions, except ratios and where otherwise noted) | As of or for the three months ended June 30, | | | As of or for the six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Business metrics | | | | | | |
| Business banking origination volume | $1,787 | $1,573 | 14 % | $3,327 | $2,998 | 11 % |
| End-of-period loans | 18,218 | 17,141 | 6 | 18,218 | 17,141 | 6 |
| End-of-period deposits: | | | | | | |
| Checking | 156,449 | 136,297 | 15 | 156,449 | 136,297 | 15 |
| Savings | 203,910 | 182,127 | 12 | 203,910 | 182,127 | 12 |
| Time and other | 34,403 | 41,948 | (18 ) | 34,403 | 41,948 | (18 ) |
| Total end-of-period deposits | 394,762 | 360,372 | 10 | 394,762 | 360,372 | 10 |
| Average loans | 17,934 | 17,057 | 5 | 17,800 | 16,972 | 5 |
| Average deposits: | | | | | | |
| Checking | 151,733 | 136,558 | 11 | 149,594 | 134,269 | 11 |
| Savings | 202,685 | 180,892 | 12 | 199,942 | 178,028 | 12 |
| Time and other | 35,096 | 43,053 | (18 ) | 35,608 | 44,039 | (19 ) |
| Total average deposits | 389,514 | 360,503 | 8 | 385,144 | 356,336 | 8 |
| Deposit margin | 2.62 % | 2.83 % | | 2.65 % | 2.86 % | |
| Average assets | $30,275 | $29,047 | 4 | $30,566 | $29,227 | 5 |
| Credit data and quality statistics | | | | | | |
| Net charge-offs | $98 | $117 | (16 ) | $194 | $236 | (18 ) |
| Net charge-off rate | 2.20 % | 2.74 % | | 2.19 % | 2.80 % | |
| Allowance for loan losses | $698 | $800 | (13 ) | $698 | $800 | (13 ) |
| Nonperforming assets | 597 | 784 | (24 ) | 597 | 784 | (24 ) |
| Retail branch business metrics | | | | | | |
| Investment sales volume | $6,171 | $6,334 | (3 ) | $12,769 | $12,918 | (1 ) |
| Client investment assets | 147,641 | 140,285 | 5 | 147,641 | 140,285 | 5 |
| % managed accounts | 26 % | 23 % | | 26 % | 23 % | |
| Number of: | | | | | | |
| Branches | 5,563 | 5,340 | 4 | 5,563 | 5,340 | 4 |
| Chase Private Client branch locations | 738 | 16 | NM | 738 | 16 | NM |
| ATMs | 18,132 | 16,443 | 10 | 18,132 | 16,443 | 10 |
| Personal bankers | 24,052 | 23,330 | 3 | 24,052 | 23,330 | 3 |
| Sales specialists | 6,179 | 5,289 | 17 | 6,179 | 5,289 | 17 |
| Client advisors | 3,075 | 3,112 | (1 ) | 3,075 | 3,112 | (1 ) |
| Active online customers (in thousands) | 17,929 | 17,083 | 5 | 17,929 | 17,083 | 5 |
| Active mobile customers (in thousands) | 9,075 | 6,580 | 38 | 9,075 | 6,580 | 38 |
| Chase Private Clients | 50,649 | 5,807 | NM | 50,649 | 5,807 | NM |
| Checking accounts (in thousands) | 27,384 | 26,266 | 4 % | 27,384 | 26,266 | 4 % |

Mortgage Production and Servicing
Selected income statement data

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions, except ratios) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Mortgage fees and related income | $2,265 | $1,100 | 106 % | $4,273 | $611 | NM% |
| Other noninterest revenue | 110 | 106 | 4 | 233 | 210 | 11 |
| Net interest income | 194 | 124 | 56 | 371 | 395 | (6) |
| Total net revenue | 2,569 | 1,330 | 93 | 4,877 | 1,216 | 301 |
| Provision for credit losses | 1 | (2) | NM | 1 | 2 | (50) |
| Noninterest expense | 1,572 | 2,187 | (28) | 3,296 | 3,933 | (16) |
| Income/(loss) before income tax expense/(benefit) | 996 | (855) | NM | 1,580 | (2,719) | NM |
| Net income/(loss) | $604 | $(649) | NM | $1,065 | $(1,779) | NM |
| Overhead ratio | 61 % | 164 % | | 68 % | 323 % | |
| Functional results | | | | | | |
| Production | | | | | | |
| Production revenue | $1,362 | $767 | 78 | $2,794 | $1,446 | 93 |
| Production-related net interest & other income | 199 | 199 | — | 386 | 417 | (7) |
| Production-related revenue, excluding repurchase losses | 1,561 | 966 | 62 | 3,180 | 1,863 | 71 |
| Production expense | 620 | 457 | 36 | 1,193 | 881 | 35 |
| Income, excluding repurchase losses | 941 | 509 | 85 | 1,987 | 982 | 102 |
| Repurchase losses | (10) | (223) | 96 | (312) | (643) | 51 |
| Income before income tax expense | 931 | 286 | 226 | 1,675 | 339 | 394 |
| Servicing | | | | | | |
| Loan servicing revenue | 1,004 | 1,011 | (1) | 2,043 | 2,063 | (1) |
| Servicing-related net interest & other income | 108 | 29 | 272 | 220 | 185 | 19 |
| Servicing-related revenue | 1,112 | 1,040 | 7 | 2,263 | 2,248 | 1 |
| MSR asset modeled amortization | (327) | (478) | 32 | (678) | (1,041) | 35 |
| Default servicing expense[(a)] | 705 | 1,449 | (51) | 1,595 | 2,527 | (37) |
| Core servicing expense[(a)] | 248 | 279 | (11) | 509 | 527 | (3) |
| Income/(loss), excluding MSR risk management | (168) | (1,166) | 86 | (519) | (1,847) | 72 |
| MSR risk management, including related net interest income/(expense) | 233 | 25 | NM | 424 | (1,211) | NM |
| Income/(loss) before income tax expense/(benefit) | 65 | (1,141) | NM | (95) | (3,058) | 97 |
| Net income/(loss) | $604 | $(649) | NM% | $1,065 | $(1,779) | NM% |

(a) Default and core servicing expense include an aggregate of approximately $200 million and $1.7 billion for foreclosure-related matters for the six months ended June 30, 2012 and June 30, 2011, respectively.

29

Selected income statement data

| (in millions) | Three months ended June 30, 2012 | 2011 | Change | Six months ended June 30, 2012 | 2011 | Change |
|---|---|---|---|---|---|---|
| Supplemental mortgage fees and related income details | | | | | | |
| Net production revenue: | | | | | | |
| Production revenue | $1,362 | $767 | 78 % | $2,794 | $1,446 | 93 % |
| Repurchase losses | (10) | (223) | 96 | (312) | (643) | 51 |
| Net production revenue | 1,352 | 544 | 149 | 2,482 | 803 | 209 |
| Net mortgage servicing revenue: | | | | | | |
| Operating revenue: | | | | | | |
| Loan servicing revenue | 1,004 | 1,011 | (1) | 2,043 | 2,063 | (1) |
| Changes in MSR asset fair value due to modeled amortization | (327) | (478) | 32 | (678) | (1,041) | 35 |
| Total operating revenue | 677 | 533 | 27 | 1,365 | 1,022 | 34 |
| Risk management: | | | | | | |
| Changes in MSR asset fair value due to market interest rates | (1,193) | (932) | (28) | (549) | (553) | 1 |
| Other changes in MSR asset fair value due to inputs or assumptions in model[(a)] | 76 | (28) | NM | 28 | (1,158) | NM |
| Derivative valuation adjustments and other | 1,353 | 983 | 38 | 947 | 497 | 91 |
| Total risk management | 236 | 23 | NM | 426 | (1,214) | NM |
| Total net mortgage servicing revenue | 913 | 556 | 64 | 1,791 | (192) | NM |
| Mortgage fees and related income | $2,265 | $1,100 | 106 % | $4,273 | $611 | NM% |

(a) Represents the aggregate impact of changes in model inputs and assumptions such as costs to service, home prices, mortgage spreads, ancillary income, and assumptions used to derive prepayment speeds, as well as changes to the valuation models themselves.

Quarterly results

Mortgage Production and Servicing reported net income of $604 million, compared with a net loss of $649 million in the prior year.

Mortgage production reported pretax income of $931 million, an increase of $645 million from the prior year. Mortgage production-related revenue, excluding repurchase losses, was $1.6 billion, an increase of $595 million, or 62%, from the prior year, reflecting wider margins, driven by market conditions and mix, and higher volumes, due to a favorable refinancing environment, including the impact of the Home Affordable Refinance Programs (“HARP”). Production expense was $620 million, an increase of $163 million, or 36%, reflecting higher volumes. Repurchase losses were $10 million, compared with $223 million in the prior year. The current-quarter reflected a $216 million reduction in the repurchase liability. For further information, see Mortgage repurchase liability on pages 56–59 of this Form 10-Q.

Mortgage servicing reported pretax income of $65 million, compared with a pretax loss of $1.1 billion in the prior year. Mortgage servicing revenue, including mortgage servicing rights (“MSR”) amortization, was $785 million, an increase of $223 million, or 40%, from the prior year. This increase reflected reduced amortization as a result of a lower MSR asset value. Servicing expense was $953 million, a decrease of $775 million, or 45%, from the prior year. The prior-year servicing expense included approximately $1.0 billion of incremental expense related to foreclosure-related matters. MSR risk management income was $233 million, compared with $25 million in the prior year. See Note 16 on pages 185–186 of this Form 10-Q for further information regarding changes in value of the MSR asset and related hedges.

Year-to-date results

Mortgage Production and Servicing reported net income of $1.1 billion, compared with a net loss of $1.8 billion in the prior year.

Mortgage production reported pretax income of $1.7 billion, an increase of $1.3 billion from the prior year. Mortgage production-related revenue, excluding repurchase losses, was $3.2 billion, an increase of $1.3 billion, or 71%, from the prior year, reflecting wider margins and higher volumes, due to a favorable rate environment and the expansion of the HARP. Production expense was $1.2 billion, an increase of $312 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 $312 million, compared with $643 million in the prior year. For further information, see Mortgage repurchase liability on pages 56–59 of this Form 10-Q.

Mortgage servicing reported a pretax loss of $95 million, compared with $3.1 billion in the prior year. Mortgage servicing revenue, including MSR amortization, was $1.6 billion, an increase of $378 million, or 31%, from the prior year. This increase reflected reduced amortization as a result of a lower MSR asset value. Servicing expense was $2.1 billion, a decrease of $1.0 billion, or 31%, from the prior year. The prior-year servicing expense included approximately $1.7 billion related to foreclosure-related matters. MSR risk management income was $424 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. See Note 16 on pages 185–186 of this Form 10-Q for further information regarding changes in value of the MSR asset and related hedges.

Selected metrics

| (in millions) | As of or for the three months ended June 30, 2012 | 2011 | Change | As of or for the six months ended June 30, 2012 | 2011 | Change |
|---|---|---|---|---|---|---|
| Selected balance sheet data | | | | | | |
| End-of-period loans: | | | | | | |
| Prime mortgage, including option ARMs[(a)] | $17,454 | $14,260 | 22 % | $17,454 | $14,260 | 22 % |
| Loans held-for-sale and loans at fair value[(b)] | 14,254 | 13,558 | 5 | 14,254 | 13,558 | 5 |
| Average loans: | | | | | | |
| Prime mortgage, including option ARMs[(a)] | 17,478 | 14,083 | 24 | 17,358 | 14,060 | 23 |
| Loans held-for-sale and loans at fair value[(b)] | 17,694 | 14,613 | 21 | 16,658 | 16,058 | 4 |
| Average assets | 60,534 | 58,072 | 4 | 59,698 | 59,704 | — |
| Repurchase liability (ending) | 2,997 | 3,213 | (7 )% | 2,997 | 3,213 | (7 )% |

(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 56–59 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.

Selected metrics

| (in millions, except ratios and where otherwise noted) | As of or for the three months ended June 30, 2012 | 2011 | Change | As of or for the six months ended June 30, 2012 | 2011 | Change |
|---|---|---|---|---|---|---|
| Credit data and quality statistics | | | | | | |
| Net charge-offs/(recoveries): | | | | | | |
| Prime mortgage, including option ARMs | $1 | $(2 ) | NM% | $1 | $2 | (50 )% |
| Net charge-off/(recovery) rate: | | | | | | |
| Prime mortgage, including option ARMs | 0.02 % | (0.06 )% | | 0.01 % | 0.03 % | |
| 30+ day delinquency rate[(a)] | 3.00 | 3.30 | | 3.00 | 3.30 | |
| Nonperforming assets[(b)] | $708 | $662 | 7 | $708 | $662 | 7 |
| Business metrics (in billions) | | | | | | |
| Origination volume by channel | | | | | | |
| Retail | $26.1 | $20.7 | 26 | $49.5 | $41.7 | 19 |
| Wholesale[(c)] | 0.2 | 0.1 | 100 | 0.2 | 0.3 | (33 ) |
| Correspondent[(c)] | 16.5 | 10.3 | 60 | 30.7 | 23.8 | 29 |
| CNT (negotiated transactions) | 1.1 | 2.9 | (62 ) | 1.9 | 4.4 | (57 ) |
| Total origination volume | $43.9 | $34.0 | 29 | $82.3 | $70.2 | 17 |
| Application volume by channel | | | | | | |
| Retail | $43.1 | $33.6 | 28 | $83.1 | $64.9 | 28 |
| Wholesale[(c)] | 0.1 | 0.3 | (67 ) | 0.3 | 0.6 | (50 ) |
| Correspondent[(c)] | 23.7 | 14.9 | 59 | 43.4 | 28.5 | 52 |
| Total application volume | $66.9 | $48.8 | 37 | $126.8 | $94.0 | 35 |
| Third-party mortgage loans serviced (ending) | $860.0 | $940.8 | (9 ) | $860.0 | $940.8 | (9 ) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Third-party mortgage loans serviced (average) | 866.7 | 947.0 | (8 | ) | 879.6 | 952.9 | (8 | ) |
| MSR net carrying value (ending) | 7.1 | 12.2 | (42 | )% | 7.1 | 12.2 | (42 | )% |
| Ratio of MSR net carrying value (ending) to third-party mortgage loans serviced (ending) | 0.83 % | 1.30 % | | | 0.83 % | 1.30 % | | |
| Ratio of annualized loan servicing revenue to third-party mortgage loans serviced (average) | 0.47 | 0.43 | | | 0.47 | 0.44 | | |
| MSR revenue multiple[d] | 1.77x | 3.02x | | | 1.77x | 2.95x | | |

(a) At June 30, 2012 and 2011, excluded mortgage loans insured by U.S. government agencies of $13.0 billion and $10.1 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 153–175 of this Form 10-Q which summarizes loan delinquency information.

(b) At June 30, 2012 and 2011, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $11.9 billion and $9.1 billion, respectively, that are 90 or more days past due; and (2) real estate owned insured by U.S. government agencies of $1.3 billion and $2.4 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 153–175 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 annualized loan servicing revenue to third-party mortgage loans serviced (average).

Real Estate Portfolios
Selected income statement data

| (in millions, except ratios) | Three months ended June 30, 2012 | 2011 | Change | Six months ended June 30, 2012 | 2011 | Change |
|---|---|---|---|---|---|---|
| Noninterest revenue | $13 | $20 | (35)% | $21 | $28 | (25)% |
| Net interest income | 1,027 | 1,197 | (14) | 2,100 | 2,353 | (11) |
| Total net revenue | 1,040 | 1,217 | (15) | 2,121 | 2,381 | (11) |
| Provision for credit losses | (554) | 954 | NM | (746) | 2,030 | NM |
| Noninterest expense | 412 | 371 | 11 | 831 | 726 | 14 |
| Income/(loss) before income tax expense/(benefit) | 1,182 | (108) | NM | 2,036 | (375) | NM |
| Net income/(loss) | $717 | $(66) | NM% | $1,235 | $(228) | NM% |
| Overhead ratio | 40% | 30% | | 39% | 30% | |

Quarterly results
Real Estate Portfolios reported net income of $717 million, compared with a net loss of $66 million in the prior year. The increase was driven by a benefit from the provision for credit losses, reflecting continued improvement in credit trends.
Net revenue was $1.0 billion, down by $177 million, or 15%, 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 $554 million, compared with a provision expense of $954 million in the prior year. The current-quarter provision benefit reflected lower charge-offs as compared with the prior year and a $1.25 billion reduction in the allowance for loan losses due to lower estimated losses as delinquency trends continued to improve, and to a lesser extent, a refinement of incremental loss estimates with respect to certain borrower assistance programs. See Consumer Credit Portfolio on pages 82–92 of this Form 10-Q for the net charge-off amounts and rates.
Nonaccrual loans were $6.7 billion, compared with $6.9 billion in the prior year. Based upon regulatory guidance issued in the first quarter of 2012, the Firm began reporting performing junior liens that are subordinate to nonaccrual senior liens as nonaccrual loans. For more information on the reporting of performing junior liens that are subordinate to senior liens that are 90 days or more past due based on regulatory guidance, see Consumer Credit Portfolio on pages 82–92 of this Form 10-Q.
Noninterest expense was $412 million, up by $41 million, or 11%, from the prior year due to an increase in servicing costs.
Year-to-date results
Real Estate Portfolios reported net income of $1.2 billion, compared with a net loss of $228 million in the prior year. The increase was largely driven by a benefit from the provision for credit losses, reflecting an improvement in credit trends.

Net revenue was $2.1 billion, down by $260 million, or 11%, 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 $746 million, compared with a provision expense of $2.0 billion in the prior year. The current-year provision benefit reflected lower charge-offs as compared with the prior year and a $2.25 billion reduction in the allowance for loan losses due to lower estimated losses as delinquency trends continued to improve, and to a lesser extent, a refinement of incremental loss estimates with respect to certain borrower assistance programs. See Consumer Credit Portfolio on pages 82–92 of this Form 10-Q for the net charge-off amounts and rates.
Noninterest expense was $831 million, up by $105 million, or 14%, 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 June 30, 2012, the remaining weighted-average life of the PCI loan portfolio is expected to be 8.0 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 largely due to 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 172–173 of this Form 10-Q.

Selected metrics

| | As of or for the three months ended June 30, | | | | As of or for the six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| (in millions) | 2012 | 2011 | Change | | 2012 | 2011 | Change | |
| Loans excluding PCI | | | | | | | | |
| End-of-period loans owned: | | | | | | | | |
| Home equity | $72,833 | $82,751 | (12 | )% | $72,833 | $82,751 | (12 | )% |
| Prime mortgage, including option ARMs | 42,037 | 46,994 | (11 | ) | 42,037 | 46,994 | (11 | ) |
| Subprime mortgage | 8,945 | 10,441 | (14 | ) | 8,945 | 10,441 | (14 | ) |
| Other | 675 | 767 | (12 | ) | 675 | 767 | (12 | ) |
| Total end-of-period loans owned | $124,490 | $140,953 | (12 | ) | $124,490 | $140,953 | (12 | ) |
| Average loans owned: | | | | | | | | |
| Home equity | $74,069 | $84,065 | (12 | ) | $75,334 | $85,478 | (12 | ) |
| Prime mortgage, including option ARMs | 42,543 | 47,615 | (11 | ) | 43,122 | 48,439 | (11 | ) |
| Subprime mortgage | 9,123 | 10,667 | (14 | ) | 9,304 | 10,875 | (14 | ) |
| Other | 684 | 785 | (13 | ) | 696 | 807 | (14 | ) |
| Total average loans owned | $126,419 | $143,132 | (12 | ) | $128,456 | $145,599 | (12 | ) |
| PCI loans | | | | | | | | |
| End-of-period loans owned: | | | | | | | | |
| Home equity | $21,867 | $23,535 | (7 | ) | $21,867 | $23,535 | (7 | ) |
| Prime mortgage | 14,395 | 16,200 | (11 | ) | 14,395 | 16,200 | (11 | ) |
| Subprime mortgage | 4,784 | 5,187 | (8 | ) | 4,784 | 5,187 | (8 | ) |
| Option ARMs | 21,565 | 24,072 | (10 | ) | 21,565 | 24,072 | (10 | ) |
| Total end-of-period loans owned | $62,611 | $68,994 | (9 | ) | $62,611 | $68,994 | (9 | ) |
| Average loans owned: | | | | | | | | |
| Home equity | $22,076 | $23,727 | (7 | ) | $22,282 | $23,947 | (7 | ) |
| Prime mortgage | 14,590 | 16,456 | (11 | ) | 14,783 | 16,714 | (12 | ) |
| Subprime mortgage | 4,824 | 5,231 | (8 | ) | 4,869 | 5,266 | (8 | ) |
| Option ARMs | 21,823 | 24,420 | (11 | ) | 22,109 | 24,765 | (11 | ) |
| Total average loans owned | $63,313 | $69,834 | (9 | ) | $64,043 | $70,692 | (9 | ) |
| Total Real Estate Portfolios | | | | | | | | |
| End-of-period loans owned: | | | | | | | | |
| Home equity | $94,700 | $106,286 | (11 | ) | $94,700 | $106,286 | (11 | ) |
| Prime mortgage, including option ARMs | 77,997 | 87,266 | (11 | ) | 77,997 | 87,266 | (11 | ) |
| Subprime mortgage | 13,729 | 15,628 | (12 | ) | 13,729 | 15,628 | (12 | ) |
| Other | 675 | 767 | (12 | ) | 675 | 767 | (12 | ) |
| Total end-of-period loans owned | $187,101 | $209,947 | (11 | ) | $187,101 | $209,947 | (11 | ) |
| Average loans owned: | | | | | | | | |
| Home equity | $96,145 | $107,792 | (11 | ) | $97,616 | $109,425 | (11 | ) |
| | 78,956 | 88,491 | (11 | ) | 80,014 | 89,918 | (11 | ) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Prime mortgage, including option ARMs | | | | | | | | |
| Subprime mortgage | 13,947 | 15,898 | (12 | ) | 14,173 | 16,141 | (12 | ) |
| Other | 684 | 785 | (13 | ) | 696 | 807 | (14 | ) |
| Total average loans owned | $189,732 | $212,966 | (11 | ) | $192,499 | $216,291 | (11 | ) |
| Average assets | $177,698 | $200,116 | (11 | ) | $179,976 | $203,626 | (12 | ) |
| Home equity origination volume | 360 | 307 | 17 | % | 672 | 556 | 21 | % |

33

Credit data and quality statistics

| | As of or for the three months ended June 30, | | | As of or for the six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions, except ratios) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Net charge-offs excluding PCI loans: | | | | | | |
| Home equity | $466 | $592 | (21)% | $1,008 | $1,312 | (23)% |
| Prime mortgage, including option ARMs | 114 | 198 | (42) | 245 | 359 | (32) |
| Subprime mortgage | 112 | 156 | (28) | 242 | 342 | (29) |
| Other | 4 | 8 | (50) | 9 | 17 | (47) |
| Total net charge-offs | $696 | $954 | (27) | $1,504 | $2,030 | (26) |
| Net charge-off rate excluding PCI loans: | | | | | | |
| Home equity | 2.53 % | 2.83 % | | 2.69 % | 3.09 % | |
| Prime mortgage, including option ARMs | 1.08 | 1.67 | | 1.14 | 1.50 | |
| Subprime mortgage | 4.94 | 5.85 | | 5.23 | 6.33 | |
| Other | 2.35 | 4.01 | | 2.60 | 4.29 | |
| Total net charge-off rate excluding PCI loans | 2.21 | 2.67 | | 2.35 | 2.81 | |
| Net charge-off rate – reported: | | | | | | |
| Home equity | 1.95 % | 2.20 % | | 2.08 % | 2.42 % | |
| Prime mortgage, including option ARMs | 0.58 | 0.90 | | 0.62 | 0.81 | |
| Subprime mortgage | 3.23 | 3.94 | | 3.43 | 4.26 | |
| Other | 2.35 | 4.01 | | 2.60 | 4.29 | |
| Total net charge-off rate – reported | 1.48 | 1.80 | | 1.57 | 1.89 | |
| 30+ day delinquency rate excluding PCI loans[(a)] | 5.16 % | 5.98 % | | 5.16 % | 5.98 % | |
| Allowance for loan losses | $12,179 | $14,659 | (17) | $12,179 | $14,659 | (17) |
| Nonperforming assets[(b)(c)] | 7,340 | 7,729 | (5)% | 7,340 | 7,729 | (5)% |
| Allowance for loan losses to ending loans retained | 6.51 % | 6.98 % | | 6.51 % | 6.98 % | |
| Allowance for loan losses to ending loans retained excluding PCI loans | 5.20 | 6.90 | | 5.20 | 6.90 | |

(a) The delinquency rate for PCI loans was 21.38% and 26.20% at June 30, 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 reporting of performing junior liens that are subordinate to senior liens that are 90 days or more past due based on regulatory guidance issued in the first quarter of 2012, see Consumer Credit Portfolio on pages 82–92 of this Form 10-Q.

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 June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions, except ratios) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Revenue | | | | | | |
| Credit card income | $1,015 | $1,123 | (10)% | $1,963 | $2,021 | (3)% |
| All other income | 231 | 183 | 26 | 534 | 332 | 61 |
| Noninterest revenue | 1,246 | 1,306 | (5) | 2,497 | 2,353 | 6 |
| Net interest income | 3,279 | 3,455 | (5) | 6,742 | 7,199 | (6) |
| Total net revenue | 4,525 | 4,761 | (5) | 9,239 | 9,552 | (3) |
| Provision for credit losses | 734 | 944 | (22) | 1,472 | 1,297 | 13 |
| Noninterest expense | | | | | | |
| Compensation expense | 490 | 448 | 9 | 976 | 907 | 8 |
| Noncompensation expense | 1,512 | 1,436 | 5 | 2,959 | 2,788 | 6 |
| Amortization of intangibles | 94 | 104 | (10) | 190 | 210 | (10) |
| Total noninterest expense | 2,096 | 1,988 | 5 | 4,125 | 3,905 | 6 |
| Income before income tax expense | 1,695 | 1,829 | (7) | 3,642 | 4,350 | (16) |
| Income tax expense | 665 | 719 | (8) | 1,429 | 1,706 | (16) |
| Net income | $1,030 | $1,110 | (7)% | $2,213 | $2,644 | (16)% |
| Financial ratios | | | | | | |
| Return on common equity | 25% | 28% | | 27% | 33% | |
| Overhead ratio | 46 | 42 | | 45 | 41 | |

Quarterly results

Net income was $1.0 billion, a decrease of $80 million, or 7%, compared with the prior year. The decrease was driven by a lower reduction in the allowance for loan losses compared with the prior year.

Net revenue was $4.5 billion, a decrease of $236 million, or 5%, from the prior year. Net interest income was $3.3 billion, down $176 million, or 5%, from the prior year. The decrease was driven by narrower loan spreads, partially offset by lower revenue reversals associated with lower net charge-offs. Noninterest revenue was $1.2 billion, a decrease of $60 million, or 5%, from the prior year. The decrease was driven by higher amortization of direct loan origination costs, partially offset by higher net interchange income.

The provision for credit losses was $734 million, compared with $944 million in the prior year. The current-quarter provision reflected lower net charge-offs and a $751 million reduction in the allowance for loan losses due to lower estimated losses. The prior-year provision included a $1.0 billion reduction in the allowance for loan losses. The Credit Card net charge-off rate[1] was 4.32%, down from 5.81% in the prior year; and the 30+ day delinquency rate[1] was 2.13%, down from 2.98% in the prior year. The net charge-off rate[1] for the quarter would have been 4.03% absent a policy change on restructured loans that do not comply with their modified payment terms, based upon an interpretation of regulatory guidance communicated to the

Firm by the banking regulators. These loans will now charge-off when they are 120 days past due rather than 180 days past due. This change resulted in a one-time acceleration of $91 million in net charge-offs in the current quarter only, and a permanent reduction in the 30+ day delinquency rate which is 0.10% for the current quarter. The one-time acceleration of net charge-offs is offset by a reduction in the allowance for loan losses. The Auto net charge-off rate was 0.17%, up from 0.16% in the prior year.

Noninterest expense was $2.1 billion, an increase of $108 million, or 5%, from the prior year, due to additional expense related to a non-core product that is being exited.

Year-to-date results

Net income was $2.2 billion, a decrease of $431 million, or 16%, compared with the prior year. The decrease was driven by a lower reduction in the allowance for loan losses compared with the prior year.

Net revenue was $9.2 billion, a decrease of $313 million, or 3%, from the prior year. Net interest income was $6.7 billion, down $457 million, or 6%, from the prior year. The decrease was driven by narrower loan spreads and lower average loan balances, partially offset by lower revenue reversals associated with lower net charge-offs. Noninterest revenue was $2.5 billion, an increase of $144 million, or 6%, from the prior year. The increase was driven by higher net interchange income and lower partner revenue-sharing, reflecting the impact of the Kohl's portfolio sale on April 1,

2011, partially offset by higher amortization of direct loan origination costs.
The provision for credit losses was $1.5 billion, compared with $1.3 billion in the prior year. The current-year provision reflected lower net charge-offs and a $1.5 billion reduction in the allowance for loan losses due to lower estimated losses. The prior-year provision included a $3.0 billion reduction in the allowance for loan losses. The Credit Card net charge-off rate[1] was 4.34%, down from 6.32% in the prior year. The net charge-off rate[1] would have been

4.20% absent the policy change on restructured loans that do not comply with their modified payment terms. The Auto net charge-off rate was 0.23%, down from 0.28% in the prior year.
Noninterest expense was $4.1 billion, an increase of $220 million, or 6%, from the prior year, due to 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 June 30, | | | | | As of or for the six months ended June 30, | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in millions, except headcount and ratios) | 2012 | | 2011 | | Change | 2012 | | 2011 | | Change |
| Selected balance sheet data (period-end) | | | | | | | | | | |
| Total assets | $198,805 | | $197,915 | | — % | $198,805 | | $197,915 | | — % |
| Loans: | | | | | | | | | | |
| Credit Card | 124,705 | | 125,523 | | (1 ) | 124,705 | | 125,523 | | (1 ) |
| Auto | 48,468 | | 46,796 | | 4 | 48,468 | | 46,796 | | 4 |
| Student | 12,232 | | 14,003 | | (13 ) | 12,232 | | 14,003 | | (13 ) |
| Total loans | $185,405 | | $186,322 | | — | $185,405 | | $186,322 | | — |
| Equity | $16,500 | | $16,000 | | 3 | $16,500 | | $16,000 | | 3 |
| Selected balance sheet data (average) | | | | | | | | | | |
| Total assets | $197,301 | | $198,044 | | — | $198,375 | | $201,225 | | (1 ) |
| Loans: | | | | | | | | | | |
| Credit Card | 125,195 | | 125,038 | | — | 126,405 | | 128,767 | | (2 ) |
| Auto | 48,273 | | 46,966 | | 3 | 47,989 | | 47,326 | | 1 |
| Student | 12,944 | | 14,135 | | (8 ) | 13,146 | | 14,272 | | (8 ) |
| Total loans | $186,412 | | $186,139 | | — | $187,540 | | $190,365 | | (1 ) |
| Equity | $16,500 | | $16,000 | | 3 | $16,500 | | $16,000 | | 3 |
| Headcount | 27,563 | | 26,874 | | 3 | 27,563 | | 26,874 | | 3 |
| Credit data and quality statistics | | | | | | | | | | |
| Net charge-offs: | | | | | | | | | | |
| Credit Card | $1,345 | | $1,810 | | (26 ) | $2,731 | | $4,036 | | (32 ) |
| Auto | 21 | | 19 | | 11 | 54 | | 66 | | (18 ) |
| Student | 119 | | 135 | | (12 ) | 188 | | 215 | | (13 ) |
| Total net charge-offs | $1,485 | | $1,964 | | (24 )% | $2,973 | | $4,317 | | (31 )% |
| Net charge-off rate: | | | | | | | | | | |
| Credit Card[(a)] | 4.35 | % | 5.82 | % | | 4.37 | % | 6.40 | % | |
| Auto | 0.17 | | 0.16 | | | 0.23 | | 0.28 | | |
| Student | 3.70 | | 3.83 | | | 2.88 | | 3.04 | | |
| Total net charge-off rate | 3.22 | | 4.24 | | | 3.20 | | 4.61 | | |

| Selected metrics | As of or for the three months ended June 30, | | | As of or for the six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions, except ratios and where otherwise noted) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Delinquency rates | | | | | | |
| 30+ day delinquency rate: | | | | | | |
| Credit Card[(b)] | 2.14 % | 2.98 % | | 2.14 % | 2.98 % | |
| Auto | 0.90 | 0.98 | | 0.90 | 0.98 | |
| Student[(c)] | 1.95 | 1.70 | | 1.95 | 1.70 | |
| Total 30+ day delinquency rate | 1.80 | 2.38 | | 1.80 | 2.38 | |
| 90+ day delinquency rate – Credit Card[(b)] | 1.04 | 1.55 | | 1.04 | 1.55 | |
| Nonperforming assets[(d)] | $219 | $233 | (6 )% | $219 | $233 | (6 )% |
| Allowance for loan losses: | | | | | | |
| Credit Card | $5,499 | $8,042 | (32 ) | $5,499 | $8,042 | (32 ) |
| Auto and Student | 1,009 | 879 | 15 | 1,009 | 879 | 15 |
| Total allowance for loan losses | $6,508 | $8,921 | (27 ) | $6,508 | $8,921 | (27 ) |
| Allowance for loan losses to period-end loans: | | | | | | |
| Credit Card[(b)] | 4.41 % | 6.41 % | | 4.41 % | 6.41 % | |
| Auto and Student | 1.66 | 1.45 | | 1.66 | 1.45 | |
| Total allowance for loan losses to period-end loans | 3.51 | 4.79 | | 3.51 | 4.79 | |
| Business metrics | | | | | | |
| Credit Card, excluding Commercial Card | | | | | | |
| Sales volume (in billions) | $96.0 | $85.5 | 12 | $182.9 | $163.0 | 12 |
| New accounts opened | 1.6 | 2.0 | (20 ) | 3.3 | 4.6 | (28 ) |
| Open accounts | 63.7 | 65.4 | (3 ) | 63.7 | 65.4 | (3 ) |
| Merchant Services | | | | | | |
| Bank card volume (in billions) | $160.2 | $137.3 | 17 | $313.0 | $263.0 | 19 |
| Total transactions (in billions) | 7.1 | 5.9 | 20 | 13.9 | 11.5 | 21 |
| Auto and Student | | | | | | |
| Origination volume (in billions) | | | | | | |
| Auto | $5.8 | $5.4 | 7 | $11.6 | $10.2 | 14 |
| Student | — | — | — % | 0.1 | 0.1 | — % |

(a) Average credit card loans include loans held-for-sale of $782 million and $276 million for the three months ended June 30, 2012 and 2011, respectively, and $801 million and $1.6 billion for the six months ended June 30, 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 $112 million at June 30, 2012. No allowance for loan losses was recorded for these loans. This amount is excluded when calculating delinquency rates and the allowance for loan losses to period-end loans. There were no loans held-for-sale at June 30, 2011.

(c) Excludes student loans insured by U.S. government agencies under the Federal Family Education Loan Program ("FFELP") of $931 million and $968 million at June 30, 2012 and 2011, respectively, 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 $547 million and $558 million at June 30, 2012 and 2011, respectively, that are 90 or more days past due. These amounts are excluded as reimbursement of insured amounts is proceeding normally.

Card Services supplemental information

| | Three months ended June 30, | | | | Six months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| (in millions) | 2012 | 2011 | Change | | 2012 | 2011 | Change | |
| Noninterest revenue | $953 | $1,016 | (6 | )% | $1,902 | $1,798 | 6 | % |
| Net interest income | 2,755 | 2,911 | (5 | ) | 5,683 | 6,111 | (7 | ) |
| Total net revenue | 3,708 | 3,927 | (6 | ) | 7,585 | 7,909 | (4 | ) |
| | | | | | | | | |
| Provision for credit losses | 595 | 810 | (27 | ) | 1,231 | 1,036 | 19 | |
| | | | | | | | | |
| Total noninterest expense | 1,703 | 1,622 | 5 | | 3,339 | 3,177 | 5 | |
| Income before income tax expense | 1,410 | 1,495 | (6 | ) | 3,015 | 3,696 | (18 | ) |
| Net income | $860 | $911 | (6 | )% | $1,839 | $2,254 | (18 | )% |

37

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 June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| (in millions, except ratios) | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Revenue | | | | | | |
| Lending- and deposit-related fees | $264 | $281 | (6)% | $540 | $545 | (1)% |
| Asset management, administration and commissions | 34 | 34 | — | 70 | 69 | 1 |
| All other income[(a)] | 264 | 283 | (7) | 509 | 486 | 5 |
| Noninterest revenue | 562 | 598 | (6) | 1,119 | 1,100 | 2 |
| Net interest income | 1,129 | 1,029 | 10 | 2,229 | 2,043 | 9 |
| Total net revenue[(b)] | 1,691 | 1,627 | 4 | 3,348 | 3,143 | 7 |
| Provision for credit losses | (17) | 54 | NM | 60 | 101 | (41) |
| Noninterest expense | | | | | | |
| Compensation expense | 235 | 219 | 7 | 481 | 442 | 9 |
| Noncompensation expense | 349 | 336 | 4 | 694 | 668 | 4 |
| Amortization of intangibles | 7 | 8 | (13) | 14 | 16 | (13) |
| Total noninterest expense | 591 | 563 | 5 | 1,189 | 1,126 | 6 |
| Income before income tax expense | 1,117 | 1,010 | 11 | 2,099 | 1,916 | 10 |
| Income tax expense | 444 | 403 | 10 | 835 | 763 | 9 |
| Net income | $673 | $607 | 11 | $1,264 | $1,153 | 10 |
| Revenue by product | | | | | | |
| Lending | $920 | $880 | 5 | $1,812 | $1,717 | 6 |
| Treasury services | 603 | 556 | 8 | 1,205 | 1,098 | 10 |
| Investment banking | 129 | 152 | (15) | 249 | 262 | (5) |
| Other | 39 | 39 | — | 82 | 66 | 24 |
| Total Commercial Banking net revenue | $1,691 | $1,627 | 4 | $3,348 | $3,143 | 7 |
| IB revenue, gross[(c)] | $384 | $442 | (13) | $723 | $751 | (4) |
| Revenue by client segment | | | | | | |
| Middle Market Banking | $833 | $789 | 6 | $1,658 | $1,544 | 7 |
| Commercial Term Lending | 291 | 286 | 2 | 584 | 572 | 2 |
| Corporate Client Banking | 343 | 339 | 1 | 680 | 629 | 8 |
| Real Estate Banking | 114 | 109 | 5 | 219 | 197 | 11 |
| Other | 110 | 104 | 6 | 207 | 201 | 3 |
| Total Commercial Banking net revenue | $1,691 | $1,627 | 4% | $3,348 | $3,143 | 7% |
| Financial ratios | | | | | | |
| Return on common equity | 28% | 30% | | 27% | 29% | |
| Overhead ratio | 35 | 35 | | 36 | 36 | |

(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 $99 million and $67 million for the three months ended June 30, 2012 and 2011, respectively, and $193 million and $132 million for the six months ended

June 30, 2012 and 2011, respectively.

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

Quarterly results

Net income was $673 million, an increase of $66 million, or 11%, from the prior year. The improvement was driven by a benefit from the provision for credit losses and an increase in net revenue, partially offset by higher expense.

Record net revenue was $1.7 billion, an increase of $64 million, or 4%, from the prior year. Net interest income was $1.1 billion, up by $100 million, or 10%, driven by growth in liability and loan balances, partially offset by spread compression on loan and liability products. Noninterest revenue was $562 million, down by $36 million, or 6%, compared with the prior year, driven by lower investment banking revenue and deposit- and lending-related fees.

Revenue from Middle Market Banking was $833 million, an increase of $44 million, or 6%, from the prior year. Revenue from Commercial Term Lending was $291 million, an increase of $5 million, or 2%. Revenue from Corporate Client Banking was $343 million, an increase of $4 million, or 1%. Revenue from Real Estate Banking was $114 million, an increase of $5 million, or 5%.

The provision for credit losses was a benefit of $17 million, compared with provision for credit losses of $54 million in the prior year. There were net recoveries of $9 million in the current quarter (0.03% net recovery rate), compared with net charge-offs of $40 million (0.16% net charge-off rate) in the prior year. The allowance for loan losses to period end loans retained was 2.20%, down from 2.56% in the prior year. Nonaccrual loans were $917 million, down by $717 million, or 44%, from the prior year, largely due to commercial real estate repayments and loan sales.

Noninterest expense was $591 million, an increase of $28 million, or 5%, from the prior year, reflecting higher headcount-related expense and regulatory deposit insurance assessments.

Year-to-date results

Net income was $1.3 billion, an increase of $111 million, or 10%, from the prior year. The improvement was driven by an increase in net revenue and a decrease in the provision for credit losses, partially offset by higher expense.

Net revenue was a record of $3.3 billion, an increase of $205 million, or 7%, from the prior year. Net interest income was $2.2 billion, up by $186 million, or 9%, driven by growth in liability and loan balances, largely offset by spread compression on liability and loan products. Noninterest revenue was $1.1 billion, up by $19 million, or 2%, compared with the prior year, predominantly driven by increased community development investment-related revenue, and other fee income, largely offset by lower investment banking revenue. Additionally, prior year results included gains from investments held at fair value.

Revenue from Middle Market Banking was $1.7 billion, an increase of $114 million, or 7%, from the prior year. Revenue from Commercial Term Lending was $584 million, an increase of $12 million, or 2%. Revenue from Corporate Client Banking was $680 million, an increase of $51 million, or 8%. Revenue from Real Estate Banking was $219 million, an increase of $22 million, or 11%.

The provision for credit losses was $60 million, compared with $101 million in the prior year. Net charge-offs were $3 million (0.01% net charge-off rate) compared with net charge-offs of $71 million (0.14% net charge-off rate) in the prior year.

Noninterest expense was $1.2 billion, an increase of $63 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 June 30, | | | As of or for the six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Selected balance sheet data (period-end) | | | | | | |
| Total assets | $163,698 | $148,662 | 10 % | $163,698 | $148,662 | 10 % |
| Loans: | | | | | | |
| Loans retained | 119,946 | 102,122 | 17 | 119,946 | 102,122 | 17 |
| Loans held-for-sale and loans at fair value | 547 | 557 | (2 ) | 547 | 557 | (2 ) |
| Total loans | $120,493 | $102,679 | 17 | $120,493 | $102,679 | 17 |
| Equity | 9,500 | 8,000 | 19 | 9,500 | 8,000 | 19 |
| | | | | | | |
| Period-end loans by client segment | | | | | | |
| Middle Market Banking | $47,638 | $40,530 | 18 | $47,638 | $40,530 | 18 |
| Commercial Term Lending | 40,972 | 38,012 | 8 | 40,972 | 38,012 | 8 |
| Corporate Client Banking | 18,839 | 13,097 | 44 | 18,839 | 13,097 | 44 |
| Real Estate Banking | 8,819 | 7,409 | 19 | 8,819 | 7,409 | 19 |
| Other | 4,225 | 3,631 | 16 | 4,225 | 3,631 | 16 |
| Total Commercial Banking loans | $120,493 | $102,679 | 17 | $120,493 | $102,679 | 17 |
| | | | | | | |
| Selected balance sheet data (average) | | | | | | |
| Total assets | $163,423 | $143,560 | 14 | $162,249 | $141,989 | 14 |
| Loans: | | | | | | |
| Loans retained | 117,835 | 100,857 | 17 | 115,357 | 99,849 | 16 |
| Loans held-for-sale and loans at fair value | 599 | 1,015 | (41 ) | 740 | 886 | (16 ) |
| Total loans | $118,434 | $101,872 | 16 | $116,097 | $100,735 | 15 |
| Liability balances | 193,280 | 162,769 | 19 | 196,729 | 159,503 | 23 |
| Equity | 9,500 | 8,000 | 19 | 9,500 | 8,000 | 19 |
| Average loans by client segment | | | | | | |
| Middle Market Banking | $46,880 | $40,012 | 17 | $45,964 | $39,114 | 18 |
| Commercial Term Lending | 40,060 | 37,729 | 6 | 39,454 | 37,769 | 4 |
| Corporate Client Banking | 18,588 | 13,062 | 42 | 18,051 | 12,720 | 42 |
| Real Estate Banking | 8,808 | 7,467 | 18 | 8,575 | 7,537 | 14 |
| Other | 4,098 | 3,602 | 14 | 4,053 | 3,595 | 13 |
| Total Commercial Banking loans | $118,434 | $101,872 | 16 | $116,097 | $100,735 | 15 |
| | | | | | | |
| Headcount | 5,862 | 5,140 | 14 | 5,862 | 5,140 | 14 |