JPMORGAN CHASE & CO
Form 10-Q
November 08, 2012

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

For the quarterly period ended September 30, 2012	Commission file number 1-5805

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
T Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer T Accelerated filer o
Non-accelerated filer (Do not check if a smaller reporting company) o Smaller reporting company o

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

Number of shares of common stock outstanding as of October 31, 2012: 3,801,401,625

FORM 10-Q
TABLE OF CONTENTS

JPMorgan Chase & Co.
Consolidated financial highlights
(unaudited)

(in millions, except per share, headcount and ratio data)						Nine months ended September 30,	
As of or for the period ended,	3Q12	2Q12	1Q12	4Q11	3Q11	2012	2011
Selected income statement data							
Total net revenue	$25,146	$22,180	$26,052	$21,471	$23,763	$73,378	$75,763
Total noninterest expense	15,371	14,966	18,345	14,540	15,534	48,682	48,371
Pre-provision profit	9,775	7,214	7,707	6,931	8,229	24,696	27,392
Provision for credit losses	1,789	214	726	2,184	2,411	2,729	5,390
Income before income tax expense	7,986	7,000	6,981	4,747	5,818	21,967	22,002
Income tax expense	2,278	2,040	2,057	1,019	1,556	6,375	6,754
Net income	$5,708	$4,960	$4,924	$3,728	$4,262	$15,592	$15,248
Per common share data							
Net income per share: Basic	$1.41	$1.22	$1.20	$0.90	$1.02	$3.82	$3.60
Diluted	1.40	1.21	1.19	0.90	1.02	3.81	3.57
Cash dividends declared per share[(a)]	0.30	0.30	0.30	0.25	0.25	0.90	0.75
Book value per share	50.17	48.40	47.48	46.59	45.93	50.17	45.93
Tangible book value per share[(b)]	37.53	35.71	34.79	33.69	33.05	37.53	33.05
Common shares outstanding							
Average: Basic	3,803.3	3,808.9	3,818.8	3,801.9	3,859.6	3,810.4	3,933.2
Diluted	3,813.9	3,820.5	3,833.4	3,811.7	3,872.2	3,822.6	3,956.5
Common shares at period-end	3,799.6	3,796.8	3,822.0	3,772.7	3,798.9	3,799.6	3,798.9
Share price[(c)]							
High	$42.09	$46.35	$46.49	$37.54	$42.55	$46.49	$48.36
Low	33.10	30.83	34.01	27.85	28.53	30.83	28.53
Close	40.48	35.73	45.98	33.25	30.12	40.48	30.12
Market capitalization	153,806	135,661	175,737	125,442	114,422	153,806	114,422
Selected ratios							
Return on common equity (“ROE”)	12 %	11 %	11 %	8 %	9 %	11 %	11 %
Return on tangible common equity (“ROTCE”)[(b)]	16	15	15	11	13	15	16
Return on assets (“ROA”)	1.01	0.88	0.88	0.65	0.76	0.92	0.94
Return on risk-weighted assets[(d)]	1.74	1.52	1.57	1.21	1.40	1.61	1.70
Overhead ratio	61	67	70	68	65	66	64
Deposits-to-loans ratio	158	153	157	156	157	158	157
Tier 1 capital ratio	11.9	11.3	11.9	12.3	12.1	11.9	12.1
Total capital ratio	14.7	14.0	14.9	15.4	15.3	14.7	15.3
Tier 1 leverage ratio	7.1	6.7	7.1	6.8	6.8	7.1	6.8
Tier 1 common capital ratio[(e)]	10.4	9.9	9.8	10.1	9.9	10.4	9.9
Selected balance sheet data (period-end)							
Trading assets	$447,053	$417,324	$455,633	$443,963	$461,531	$447,053	$461,531
Securities	365,901	354,595	381,742	364,793	339,349	365,901	339,349

Loans	721,947	727,571	720,967	723,720	696,853	721,947	696,853
Total assets	2,321,284	2,290,146	2,320,164	2,265,792	2,289,240	2,321,284	2,289,240
Deposits	1,139,611	1,115,886	1,128,512	1,127,806	1,092,708	1,139,611	1,092,708
Long-term debt	241,140	239,539	255,831	256,775	273,688	241,140	273,688
Common stockholders' equity	190,635	183,772	181,469	175,773	174,487	190,635	174,487
Total stockholders' equity	199,693	191,572	189,269	183,573	182,287	199,693	182,287
Headcount	259,547	262,882	261,453	260,157	256,663	259,547	256,663
Credit quality metrics							
Allowance for credit losses	$23,576	$24,555	$26,621	$28,282	$29,036	$23,576	$29,036
Allowance for loan losses to total retained loans	3.18 %	3.29 %	3.63 %	3.84 %	4.09 %	3.18 %	4.09 %
Allowance for loan losses to retained loans excluding purchased credit-impaired loans(f)	2.61	2.74	3.11	3.35	3.74	2.61	3.74
Nonperforming assets	$12,481	$11,397	$11,953	$11,315	$12,468	$12,481	$12,468
Net charge-offs	2,770	2,278	2,387	2,907	2,507	7,435	9,330
Net charge-off rate	1.53 %	1.27 %	1.35 %	1.64 %	1.44 %	1.39 %	1.83 %

(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 15–16 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 59–61 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.

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 213–216 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. These statements are based on the current beliefs and expectations of JPMorgan Chase's management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. For a discussion of those risks and uncertainties and the factors that could cause JPMorgan Chase's actual results to differ materially from those risks and uncertainties, see Forward-looking Statements on page 111 and Part II, Item 1A: Risk Factors, on pages 220–222 of this Form 10-Q; Part II, Item 1A: Risk Factors, on pages 175–175A of the Firm's Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2012; Part II, Item 1A: Risk Factors, on pages 219–222 of the Firm's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012; 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 $199.7 billion in stockholders' equity as of September 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 at the end of the third quarter 2012 were 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 nearly 5,600 bank branches (second largest nationally) and nearly 18,500 ATMs (largest nationally), as well as online and mobile banking around the clock. More than 32,800 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 more than $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 over $124 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 over $279 billion of their spending needs in the nine months ended September 30, 2012. Consumers can obtain loans through more than 17,400 auto dealerships. Chase customers also can obtain student loans for attendance at eligible schools and universities nationwide. Through its Merchant Services business, Chase Paymentech Solutions, Card is a global leader in payment processing and merchant acquiring.

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 as of September 30, 2012, 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 ("CIO"), and Other Corporate, which includes corporate staff units and expense that is centrally managed. Treasury and CIO manage capital and liquidity 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.

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. The reorganization of the business segments is expected to be effective beginning in the fourth quarter of 2012. 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 significantly affected.

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 third quarter of 2012, but reflected regional differences.

The U.S. economy grew at a modest pace. The U.S. unemployment rate declined to 7.8% at the end of the third quarter as U.S. labor market conditions continued to improve at a slow pace. The U.S. housing sector continued to show signs of improvement: excess inventories were reduced, prices began to rise and affordability improved in most areas of the country as household incomes stabilized and mortgage rates declined. During the third quarter, homebuilder confidence improved to the highest level in six years and housing starts increased to the highest level in four years. The multifamily and rental sector continued to benefit from robust demand. Business fixed investment remained solid; although slower in recent months as nonresidential construction declined, investments in equipment and software remained strong.

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 2015. Additionally, the Federal Reserve announced a new asset purchase program that would be open-ended and is intended to speed up the pace of the U.S. economic recovery and produce sustained improvement in the labor market.

Asia’s developing economies continued to expand, although growth was significantly slower than earlier in the year, reducing global inflationary pressures.

During the third quarter of 2012, the European Central Bank (“ECB”) announced a new government bond-buying program referred to as the Outright Monetary Transactions (“OMT”) plan. The plan includes the ECB’s conditional pledge to purchase “unlimited” amounts of the government bonds of the region’s troubled nations and is intended shore up confidence in the Euro. With the announcement of the OMT plan and other actions by the ECB, concerns over the European monetary union have recently receded.

The U.S. economy is likely to be affected by the continuing uncertainty about Europe’s financial crisis, the Federal Reserve’s monetary policy, and the fiscal debate over taxes and spending that is expected to occur later in 2012, among other factors.

Financial performance of JPMorgan Chase

(in millions, except per share data and ratios)	Three months ended September 30, 2012	2011	Change	Nine months ended September 30, 2012	2011	Change
Selected income statement data						
Total net revenue	$25,146	$23,763	6 %	$73,378	$75,763	(3)%
Total noninterest expense	15,371	15,534	(1)	48,682	48,371	1
Pre-provision profit	9,775	8,229	19	24,696	27,392	(10)
Provision for credit losses	1,789	2,411	(26)	2,729	5,390	(49)
Net income	5,708	4,262	34	15,592	15,248	2
Diluted earnings per share	1.40	1.02	37 %	3.81	3.57	7 %
Return on common equity	12 %	9 %		11 %	11 %	
Capital ratios						
Tier 1 capital	11.9	12.1				
Tier 1 common	10.4	9.9				

Business Overview

JPMorgan Chase reported record third-quarter 2012 net income of $5.7 billion, or a record $1.40 per share, on net revenue of $25.1 billion. Net income increased by $1.4 billion, or 34%, compared with net income of $4.3 billion, or $1.02 per share, in the third quarter of 2011. ROE for the quarter was 12%, compared with 9% for the prior-year quarter. Results in the third quarter of 2012 included the following significant items: $900 million pretax benefit ($0.14 per share after-tax increase in earnings) from a reduction in the allowance for loan losses in Real Estate

Portfolios; $825 million pretax incremental charge-offs ($0.13 per share after-tax decrease in earnings) due to regulatory guidance on certain residential loans in Real Estate Portfolios; $888 million pretax benefit ($0.14 per share after-tax increase in earnings) due to extinguishment gains on redeemed trust preferred capital debt securities in Corporate; $684 million pretax expense ($0.11 per share after-tax decrease in earnings) for additional litigation reserves 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 increase in net income from the third quarter of 2011 was driven by higher net revenue, a lower provision for credit losses and lower noninterest expense. The increase in net revenue as compared with the prior year was due to higher mortgage fees and related income, higher principal transactions revenue, and higher investment banking fees. Net interest income decreased compared with the prior year, reflecting the impact of low interest rates, as well as lower average trading balances, faster prepayment of mortgage-backed securities, limited reinvestment opportunities and the run off of higher-yielding loans, partially offset by lower deposit costs.

Results in the third quarter of 2012 reflected positive credit trends for the consumer real estate and credit card portfolios. The provision for credit losses was $1.8 billion, down $622 million, or 26%, from the prior year. The total consumer provision for credit losses was $1.9 billion, down $432 million from the prior year. The decrease in the consumer provision reflected a $900 million reduction of the allowance for loan losses related to the mortgage portfolio due to improved delinquency trends and lower estimated losses. Consumer net charge-offs were $2.8 billion, compared with $2.7 billion in the prior year, resulting in net charge-off rates of 3.10% and 2.84%, respectively. The increase in consumer net charge-offs was primarily due to incremental charge-offs of $825 million for certain residential real estate loans recorded in accordance with regulatory guidance requiring loans discharged under Chapter 7 bankruptcy and not reaffirmed by the borrower (“Chapter 7 loans”) to be charged off to the net realizable value of the collateral and to be considered nonaccrual, regardless of their delinquency status. The wholesale provision for credit losses was a benefit of $63 million compared with an expense of $127 million in the prior year. Wholesale net recoveries were $34 million, compared with net recoveries of $151 million in the prior year, resulting in net recovery rates of 0.05% and 0.24%, respectively. The Firm’s allowance for loan losses to end-of-period loans retained was 2.61%, compared with 3.74% in the prior year.

The Firm’s nonperforming assets totaled $12.5 billion at September 30, 2012, up from the prior-quarter level of $11.4 billion and flat compared with the prior-year level of $12.5 billion. The current quarter included $1.7 billion of Chapter 7 loans which were reported as nonaccrual as discussed above. The current quarter nonaccrual loans also reflected the effect of regulatory guidance implemented in the first quarter of 2012, as a result of which the Firm began reporting performing junior liens that are subordinate to senior liens that are 90 days or more past due, as nonaccrual loans. Such junior liens were $1.3 billion in the current quarter and $1.5 billion in the prior quarter.

Loans increased $25.1 billion from the third quarter of 2011; this increase was due to a $42.8 billion increase in the wholesale loan portfolio across the lines of business, partially offset by a $17.7 billion decrease in the consumer loan portfolio, reflecting net runoff, primarily in the real estate portfolios.

Noninterest expense was $15.4 billion, down $163 million, or 1%, compared with the prior year. The current quarter included pretax expense of $790 million for additional litigation reserves. The prior year included pretax expense of $1.3 billion for additional litigation reserves.

The Firm’s results reflected continued momentum in all of its businesses. The Investment Bank reported favorable Fixed Income Markets results and maintained its #1 ranking for Global Investment Banking fees. Consumer & Business Banking average deposits were up 9% and Business Banking loan balances grew for the eighth consecutive quarter to a record $19 billion, up 8% compared with the prior year. Mortgage Banking originations were $47 billion, up 29%, compared with the prior year. Credit Card sales volume, excluding Commercial Card, was up 11% compared with the prior year. Commercial Banking reported record revenue and grew loan balances for the ninth consecutive quarter to a record $124 billion, up 15% compared with the prior year. Treasury & Securities Services assets under custody rose to a record $18.2 trillion, up 12% compared with the prior year. Asset Management reported positive net long-term product flows for the fourteenth consecutive quarter and record loan balances of $75 billion.

Net income for the first nine months of 2012 was $15.6 billion, or $3.81 per share, compared with $15.2 billion, or $3.57 per share, for the first nine months of 2011. The increase was driven by a lower provision for credit losses, partially offset by lower net revenue. The decline in net revenue for the first nine months of the year was driven by lower principal transactions revenue, reflecting losses from the synthetic credit portfolio, and lower investment banking fees, predominantly offset by higher mortgage fees and related income. The lower provision for credit losses reflected an improved consumer credit environment. Noninterest expense was flat compared with the first nine months of 2011.

The Firm strengthened its balance sheet, ending the third quarter with Basel I Tier 1 common capital of $135 billion, or 10.4%, compared with $120 billion, or 9.9%, in the third quarter of 2011. The Firm estimated that its Basel III Tier 1 common ratio was approximately 8.4% at September 30, 2012, taking into account the impact of final Basel 2.5 rules and the Federal Reserve's 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 59–61 of this Form 10-Q.)

JPMorgan Chase serves clients, consumers, companies, and communities around the globe. The Firm provided credit and raised capital of over $1.3 trillion for commercial and consumer clients during the first nine months of 2012. This included more than $15 billion of credit provided for U.S. small businesses, an increase of 21% compared with the same period last year; and $52 billion of capital raised and credit provided so far this year for more than 1,300 nonprofit and government entities, including states, municipalities, hospitals and universities.

Investment Bank net income decreased from the prior year, reflecting higher noninterest expense and lower net revenue, largely offset by a benefit from the provision for credit losses compared with a provision for credit losses in the prior year. Net revenue included a $211 million loss from debit valuation adjustments ("DVA") on certain structured and derivative liabilities resulting from the tightening of the Firm's credit spreads, compared with a gain of $1.9 billion in the prior year. Excluding the impact of DVA, Fixed Income and Equity Markets combined revenue was up 24% compared with the prior year, driven by solid client revenue and broad-based strength across the Fixed Income businesses. The portion of the synthetic credit portfolio transferred from CIO in Corporate to IB on July 2, 2012, experienced a modest loss, which was included in Fixed Income Markets revenue. Investment banking fees were up 38% compared with the prior year primarily due to stronger results in debt underwriting. Noninterest expense increased compared with the prior year, driven by higher compensation expense, partially offset by lower noncompensation expense.

Retail Financial Services net income increased compared with the prior year, reflecting an increase in net revenue and a lower provision for credit losses, partially offset by increased noninterest expense. Net revenue increased as higher noninterest revenue was driven by higher mortgage fees and related income, partially offset by lower debit card revenue; while net interest income declined driven by lower deposit margins and lower loan balances due to portfolio runoff, largely offset by higher deposit balances. The provision for credit losses declined compared with the prior year. The current-quarter provision reflected a $900 million reduction in the allowance for loan losses. Current-quarter total net charge-offs were $1.5 billion, including $825 million of incremental charge-offs of Chapter 7 loans. Noninterest expense increased from the prior year as a result of higher mortgage production expense and higher servicing expense, as well as investments in sales force and new branch builds.

Card Services & Auto net income increased compared with the prior year as lower noninterest expense and lower provision for credit losses was partially offset by lower net revenue. The provision for credit losses was $1.2 billion, compared with $1.3 billion in the prior year. The current-quarter provision reflected lower net charge-offs and a small reduction in the allowance for loan losses. The prior-year provision included a $370 million reduction in the allowance for loan losses. Noninterest expense declined compared with the prior year, driven by lower marketing expense.

Commercial Banking net income increased compared with the prior year, reflecting an increase in net revenue and lower provision for credit losses, partially offset by higher expense. Net revenue was a record reflecting growth in loan and liability balances and increased investment banking revenue, partially offset by spread compression on loan products. Noninterest expense increased compared with the prior year, reflecting higher headcount-related expense.

Treasury & Securities Services net income increased compared with the prior year, reflecting higher net revenue. Treasury Services net revenue increased compared with the prior year, driven by higher deposit balances and higher trade finance loan volumes. Worldwide Securities Services net revenue increased compared with the prior year, driven by higher deposit balances.

Asset Management net income increased compared with the prior year, reflecting higher net revenue, lower noninterest expense and lower provision for credit losses. Net revenue increased as higher valuations of seed capital investments and the impact of net product inflows were offset by the absence of a prior-year gain on the sale of an investment and lower loan-related revenue. Net interest income increased primarily due to higher deposit and loan balances. Noninterest expense decreased from the prior year, due to the absence of non-client-related litigation expense, partially offset by higher performance-based compensation.

Corporate/Private Equity reported net income, compared with a net loss in the prior year. Private Equity reported a lower net loss, compared with the prior year. Net revenue was a lower loss compared with the prior year, due to lower net valuation losses on both private and public investments. Treasury and CIO reported net income, compared with a net loss in the prior year. Net revenue increased compared with the prior year. The current-quarter revenue reflected $888 million of pretax extinguishment gains related to the redemption of trust preferred capital debt securities. Principal transactions in CIO included $449 million of losses on the index credit derivative positions that had been

retained by it following the transfer of the synthetic credit portfolio to IB on July 2, 2012, reflecting credit spread tightening during the quarter. By the end of the third quarter of 2012, CIO effectively closed out these positions. Net interest income was negative, reflecting the impact of lower portfolio yields and higher deposit balances across the Firm. Net revenue also included securities gains of $459 million from sales of available-for-sale (“AFS”) investment securities during the current quarter. Other Corporate reported a lower net loss, compared with the prior year. The third quarter included pretax expense of $684 million for additional litigation reserves. The prior year included pretax expense of $1.0 billion for additional litigation reserves , 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 220–222 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, given the current low interest rate environment, continued deposit spread compression could negatively affect annual net income by over $400 million. It is possible that this decline may be offset by deposit balance growth, although the exact extent of any such deposit growth cannot be determined at this time.

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 184–187 of this Form 10-Q.) In addition, management believes that the high production margins experienced in the third quarter of 2012 will not be sustainable over time. Management also expects there will be continued elevated levels of repurchases of mortgages previously sold, predominantly to U.S. government-sponsored entities ("GSEs"). However, based on current trends and estimates, management believes that the existing mortgage repurchase liability is sufficient to cover such losses.

For Real Estate Portfolios within RFS, management believes that total quarterly net charge-offs may be approximately $600 million, 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 may 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 can be expected to reduce annual net interest income by approximately $500 million. However, over time, the reduction in net interest income should be offset by an improvement in credit costs and lower expenses.

In Card Services & Auto, the Firm expects that further reductions in the allowance for loan losses for the credit card portfolio may be at or near an end, given 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 further declines in U.S. housing prices or increases in the unemployment rate. Management continues to closely monitor the portfolios in these businesses in light of current economic uncertainty.

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 believes that the segment may generate a net loss of approximately $300 million for the fourth quarter of 2012 (which may vary positively or negatively by approximately $100 million) driven by the implied yield curve and management decisions related to the positioning of the investment securities portfolio.

For Other Corporate, within the Corporate/Private Equity segment, management expects quarterly net income, excluding material litigation expense and significant nonrecurring items, if any, to be approximately $100 million, but this is likely to vary each quarter.

The Firm's net yield on interest-earning assets is expected to be under continued modest pressure in the fourth 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 and compensation expense for IB, is expected to be comparable to the level for the first half of 2012. This anticipated level of noninterest expense includes elevated costs in Mortgage Banking as a result of higher production costs associated with strong origination volumes and elevated default-related servicing costs, including costs associated with the Consent Orders entered into with the banking regulators relating to the Firm's residential mortgage servicing and higher costs across the Firm associated with compliance, legal fees and FDIC assessments. See Mortgage servicing-related matters on pages 89–91 of this Form 10-Q for a discussion of the Consent Orders.

CIO synthetic credit portfolio update

On August 9, 2012, 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 of the Firm's CIO. 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 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. For more information about the restatement and the related valuation matter, please see our second quarter report on Form 10-Q filed on August 9, 2012.

Management also determined that a material weakness existed in the Firm's internal control over financial reporting at March 31, 2012. Management has taken steps to remediate the material weakness, including enhancing management supervision of valuation matters. These remedial steps were substantially implemented by June 30, 2012; however, in accordance with the Firm's internal control compliance program, the material weakness designation could not be closed until the remedial processes were operational for a period of time and successfully tested. The testing was successfully completed during the third quarter of 2012 and the control deficiency was closed at September 30, 2012. For additional 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 220 of this Form 10-Q.

On July 2, 2012, the majority of the synthetic credit portfolio was transferred from the CIO to the Firm's IB, which has the expertise, trading platforms and market franchise to manage these positions to maximize their economic value. An aggregate position of approximately $12 billion notional was retained in CIO. Losses incurred by CIO on the portfolio retained by CIO were $449 million (recorded in principal transactions revenue) during the third quarter of 2012, reflecting credit spread tightening. By the end of the third quarter of 2012, CIO effectively closed out the index credit derivative positions that had been retained by it following the transfer. IB continues to actively manage and reduce the risks in the remaining synthetic credit portfolio that was transferred to it on July 2, 2012; this portion of the portfolio experienced a modest loss during the third quarter of 2012, which was included in Fixed Income Markets Revenue for IB (and also recorded in the principal transactions revenue line item of the income statement).

On July 13, 2012, management summarized its observations arising out of its internal review of CIO-related matters. That review, which is being overseen by an independent Review Committee of the Board of Directors, is expected to be concluded early in the first quarter of 2013, along with the Review Committee's own independent work.

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 pages 196–206 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 2011, the Basel Committee announced an agreement to require global systemically important banks ("GSIBs") to maintain Tier 1 common requirements above the 7% minimum in amounts ranging from an additional 1% to an additional 2.5%. In November 2012, the Financial Stability Board ("FSB") designated the Firm, as well as three other banks, as GSIBs and indicated that it would require such designated institutions to hold the additional 2.5% of Tier 1 common in accordance with these requirements. For additional information see Regulatory capital on pages 59–61 of this Form 10-Q.

The Firm expects heightened scrutiny by its regulators of its compliance with new and existing regulations, including those issued under the Unfair and Deceptive Acts or Practices laws, the Bank Secrecy Act, the Real Estate Settlement Procedures Act ("RESPA"), The Truth in Lending Act, and the laws administered by the Office of Foreign Assets

Control, among others. The Firm is also under scrutiny by its supervisors with respect to its controls and operational processes, such as those relating to model development, review, governance and approvals. The Firm expects that it will more frequently be the subject of more formal enforcement actions, rather than informal supervisory actions or criticisms. While the Firm has made a preliminary assessment of the likely impact of this heightened regulatory scrutiny and anticipated changes in law, given the current status of regulatory and supervisory developments, the Firm cannot quantify the possible effects on its business and operations of all the significant changes that are currently underway.

Comprehensive Capital Analysis and Review ("CCAR") update
In August 2012, the Firm resubmitted its capital plan to the Federal Reserve under the 2012 CCAR process. The resubmitted capital plan related to the repurchase of up to $3.0 billion of common equity in the first quarter of 2013.

The Firm's resubmission provided for the continued payment of its current quarterly common stock dividend. On November 5, 2012, the Federal Reserve informed the Firm that it had completed its review and that it did not object to the Firm's resubmitted capital plan.

The timing and exact amount of common stock and warrant purchases under the repurchase program will be consistent with the Firm's capital plan and will depend on various factors, including market conditions; the Firm's capital position; internal capital generation; the amount of equity issued under the Firm's employee stock-based plans; organic and other investment opportunities; and legal and regulatory considerations affecting the amount and timing of repurchase activity. The repurchase program does not include specific price targets, may be executed through open market purchases or privately negotiated transactions, including utilizing Rule 10b5-1 programs, and may be suspended at any time.

Management expects to submit its capital plan for the last three quarters of 2013 and the first quarter of 2014 to the Federal Reserve under the Federal Reserve's 2013 CCAR process, pursuant to the Federal Reserve's schedule. Management expects to receive further details from the Federal Reserve related to the 2013 CCAR process by mid-November 2012.

Subsequent events – Hurricane Sandy

On October 29, 2012, the mid-Atlantic and Northeast regions of the U.S. were affected by Hurricane Sandy, which caused major flooding and wind damage and resulted in major disruptions to individuals and businesses and significant damage to homes and communities in the affected regions. Despite the damage and disruption to many of its branches and facilities, the Firm has been assisting its customers, clients and borrowers in the affected areas. The Firm has continued to dispense cash via ATMs and branches, loan money, provide liquidity to customers, and settle trades, and has waived a number of checking account and loan fees, including late payment fees. The potential financial impact from Hurricane Sandy on the Firm will be dependent upon a number of factors, such as the amount of credit extended to affected persons and businesses, the extent of damage, and the borrower's financial condition, including the amount of insurance proceeds and governmental assistance available to them. The Firm is in the early stages of quantifying the potential impact from Hurricane Sandy on its financial results of operations.

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 nine months ended September 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 September 30,			Nine months ended September 30,		
(in millions)	2012	2011	Change	2012	2011	Change
Investment banking fees	$1,443	$1,052	37 %	$4,081	$4,778	(15)%
Principal transactions	2,047	1,370	49	4,342	9,255	(53)
Lending- and deposit-related fees	1,562	1,643	(5)	4,625	4,838	(4)
Asset management, administration and commissions	3,336	3,448	(3)	10,189	10,757	(5)
Securities gains	458	607	(25)	2,008	1,546	30
Mortgage fees and related income	2,377	1,380	72	6,652	1,996	233
Credit card income	1,428	1,666	(14)	4,156	4,799	(13)
Other income	1,519	780	95	3,537	2,236	58
Noninterest revenue	14,170	11,946	19	39,590	40,205	(2)
Net interest income	10,976	11,817	(7)	33,788	35,558	(5)
Total net revenue	$25,146	$23,763	6 %	$73,378	$75,763	(3)%

Total net revenue for the third quarter of 2012 was $25.1 billion, up by $1.4 billion, or 6%, from the third quarter of 2011. The increase in the third quarter of 2012 was due to higher mortgage fees and related income, principal transactions revenue, and other income, partially offset by lower net interest income. For the first nine months of 2012, total net revenue was $73.4 billion, down by $2.4 billion, or 3%, from the first nine months of 2011. The decrease in the first nine months of 2012 was predominantly driven by lower principal transactions revenue and net interest income, partially offset by higher mortgage fees and related income.

Investment banking fees for the third quarter of 2012 increased significantly compared with the prior year, reflecting higher revenue across products, particularly debt underwriting. For the first nine months of 2012, investment banking fees decreased, largely driven by lower revenue across products, primarily due to lower industry-wide volumes. For additional information on investment banking fees, which are primarily recorded in IB, see IB segment results pages 19–23 of this Form 10-Q.

Principal transactions revenue increased in the third quarter of 2012 compared with the prior year. The increase primarily reflected lower net valuation losses on both private and public investments in Corporate/Private Equity. The third quarter of 2012 included a DVA loss on certain structured and derivative liabilities of $211 million, compared with a gain of $1.9 billion in the prior year. Excluding DVA, principal transactions revenue in IB increased significantly, driven by solid client revenue and broad-based strength across the Fixed Income businesses. The third quarter of 2012 also included $449 million of losses recorded in CIO on the index credit derivative positions retained by CIO; the portfolio that was transferred

to IB effective on July 2, 2012, experienced a modest loss.

For the first nine months of 2012, principal transactions revenue decreased, reflecting $5.8 billion of losses incurred by CIO for the six months ended June 30, 2012 and $449 million of losses incurred by CIO for the three months ended September 30, 2012, and an additional modest loss incurred by the IB from the synthetic credit portfolio, and to a lesser extent, lower private equity gains in Corporate/Private Equity. The decrease for the nine-month period was partially offset by a $663 million gain recognized in Other Corporate for the expected recovery on a Bear Stearns-related subordinated loan; and higher market-making revenue in IB, driven by solid client revenue (including a DVA loss of $363 million resulting from the tightening of the Firm's credit spreads, compared with a gain of $2.0 billion in 2011). For additional information on principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 19–23 and 49–51, respectively, and Note 6 on pages 144–145 of this Form 10-Q.

Lending- and deposit-related fees decreased modestly in the third quarter and first nine months of 2012. The decrease was in both lending and deposit fees, and 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 24–33, CB on pages 38–40, TSS on pages 41–44 and IB segment results on pages 19–23 of this Form 10-Q.

Asset management, administration and commissions revenue decreased in the third quarter and first nine months of 2012. The decrease for both periods was largely driven by lower brokerage commissions in IB. The first nine months of 2012 also reflected lower asset management fees in AM, in particular, performance fees, which were offset by higher investment service fees in RFS, as a result of growth in branch sales of investment products. For additional information on these fees and commissions, see the segment discussions for IB on pages 19–23, RFS on pages 24–33, AM on pages 45–48 and TSS on pages 41–44 of this Form 10-Q.

Securities gains for both the three and nine months ended September 30, 2012, compared with the prior year periods, reflected the results of repositioning of the CIO AFS portfolio. For additional information on securities gains see the Corporate/Private Equity segment discussion on pages 49–51 of this Form 10-Q.

Mortgage fees and related income increased significantly compared with both the third quarter and first nine months of 2011. The increase resulted from higher production revenue, reflecting wider margins driven by favorable market conditions, and higher volumes due to historically low interest rates and the Home Affordable Refinance Programs (“HARP”), as well as higher net mortgage servicing revenue. The increase in net mortgage servicing revenue for the first nine months of 2012 also included a favorable swing in the mortgage servicing rights (“MSR”) risk management results (reflecting a gain of $577 million in 2012 compared with a loss of $1.2 billion in 2011). For additional information on mortgage fees and related income, which is recorded predominantly in RFS, see RFS’s Mortgage Production and Servicing discussion on pages 28–30, 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 55–58 and Note 21 on pages 192–196 of this Form 10-Q.

Credit card income decreased in both the third quarter and first nine months of 2012. The decrease for both periods was driven by lower debit card revenue, reflecting the impact of the Durbin Amendment, and to a lesser extent, higher amortization of direct loan origination costs. The decrease in credit card income was offset partially by

higher net interchange income associated with growth in credit card transaction volume, and higher merchant servicing revenue. For additional information on credit card income, see the Card and RFS segment results on pages 34–37, and pages 24–33, respectively, of this Form 10-Q.

Other income increased compared with the third quarter of 2011, driven by an $888 million extinguishment gain in Corporate/Private Equity related to the redemption of trust preferred capital debt securities (“TruPS”). The extinguishment gain was related to adjustments applied to the cost basis of the TruPS during the period they were in a qualified hedge accounting relationship. Other income increased in the first nine months of 2012, predominantly due to a $1.1 billion benefit recognized in the first quarter of 2012 from the Washington Mutual bankruptcy settlement and the aforementioned extinguishment gain; these were offset partially by the absence of a prior-year gain on the sale of an investment in AM.

Net interest income decreased in both the third quarter and first nine months of 2012 compared with the prior year. The declines in both periods reflected the impact of lower average trading asset balances, faster prepayment of mortgage-backed securities, limited reinvestment opportunities, the runoff of higher-yielding loans, and the impact of lower interest rates across the Firm’s interest-earning assets. The decrease in net interest income was offset partially by lower deposit and other borrowing costs. The Firm’s average interest-earning assets were $1.8 trillion for the third quarter of 2012, and the net yield on those assets, on a fully taxable-equivalent (“FTE”) basis, was 2.43%, a decrease of 23 basis points from the third quarter of 2011. For the first nine months of 2012, average interest-earning assets were $1.8 trillion, and the net yield on those assets, on a FTE basis, was 2.51%, a decrease of 24 basis points from the first nine months of 2011.

Provision for credit losses

	Three months ended September 30,			Nine months ended September 30,		
(in millions)	2012	2011	Change	2012	2011	Change
Wholesale	$(63)	$127	NM%	$69	$(376)	NM%
Consumer, excluding credit card	736	1,285	(43)	313	3,731	(92)
Credit card	1,116	999	12	2,347	2,035	15
Total consumer	1,852	2,284	(19)	2,660	5,766	(54)
Total provision for credit losses	$1,789	$2,411	(26)%	$2,729	$5,390	(49)%

The provision for credit losses decreased compared with the third quarter and first nine months of 2011. The decrease for both periods was driven by a lower provision for consumer, excluding credit card loans, which reflected a reduction in the allowance for loan losses, due primarily to lower estimated losses in the non-PCI residential real estate portfolio as delinquency trends improved, partially offset by the impact of incremental charge-offs of Chapter 7 loans, including $825 million of residential real estate loans and $55 million of auto loans. The increase in the provision for

credit card loans for both periods was due to a smaller reduction in the allowance for loan losses in 2012 compared with the prior year, partially offset by lower net charge-offs in 2012. The level of the wholesale provision in 2012 reflected stable credit trends. For a more detailed discussion of the loan portfolio and the allowance for credit losses, see the segment discussions for RFS on pages 24–33, Card on pages 34–37, IB on pages 19–23 and CB on pages 38–40, and the Allowance For Credit Losses section on pages 93–95 of this Form 10-Q.

Noninterest expense

(in millions)	Three months ended September 30,			Nine months ended September 30,		
	2012	2011	Change	2012	2011	Change
Compensation expense	$7,503	$6,908	9 %	$23,543	$22,740	4 %
Noncompensation expense:						
Occupancy	973	935	4	3,014	2,848	6
Technology, communications and equipment	1,312	1,248	5	3,865	3,665	5
Professional and outside services	1,759	1,860	(5)	5,411	5,461	(1)
Marketing	607	926	(34)	1,929	2,329	(17)
Other[a]	3,035	3,445	(12)	10,354	10,687	(3)
Amortization of intangibles	182	212	(14)	566	641	(12)
Total noncompensation expense	7,868	8,626	(9)	25,139	25,631	(2)
Total noninterest expense	$15,371	$15,534	(1)%	$48,682	$48,371	1 %

(a) Included litigation expense of $790 million and $1.3 billion for the three months ended September 30, 2012 and 2011, respectively, and $3.8 billion and $4.3 billion for the nine months ended September 30, 2012 and 2011, respectively.

Total noninterest expense for the third quarter of 2012 was $15.4 billion, down by $163 million, or 1%, compared with the third quarter of 2011. The decrease in the third quarter of 2012 was driven by lower noncompensation expense, in particular, litigation and marketing expense, partially offset by higher compensation expense. Total noninterest expense for the first nine months of 2012 was $48.7 billion, up by $311 million, or 1%, compared with the first nine months of 2011. The increase in the first nine months of 2012 was due to higher compensation expense offset partially by lower noncompensation expense.

Compensation expense increased from the third quarter of 2011, predominantly due to investments in the businesses, including the sales force and new branch builds in RFS, and higher compensation expense in IB. The increase for the nine 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 third quarter of 2012 was due to lower litigation expense in Corporate and AM, as well as lower marketing expense in Card. The decrease in noncompensation expense was offset partially by higher foreclosure-related expense in RFS. Noncompensation expense for the first nine months of 2012 decreased due to a net decline in the Firm's overall litigation expense (although Corporate had a higher level of expense) compared with the prior year; lower foreclosure-related expense in RFS; and lower marketing expense in Card. The decrease in noncompensation expense was offset partially by continued investments in the businesses, expense related to a non-core product that is being exited in Card, higher regulatory deposit insurance assessments, and higher servicing expense in RFS (excluding foreclosure-related matters). For a further discussion of litigation expense, see Note 23 on pages 196–206 of this Form 10-Q. For a discussion of amortization of intangibles, refer to the Balance Sheet Analysis on pages 53–54, and Note 16 on pages 184–187 of this Form 10-Q.

Income tax expense

(in millions, except rate)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Income before income tax expense	$7,986	$5,818	$21,967	$22,002
Income tax expense	2,278	1,556	6,375	6,754
Effective tax rate	28.5 %	26.7 %	29.0 %	30.7 %

The increase in the effective tax rate during the third quarter of 2012 was largely the result of higher reported pretax income in combination with changes in the mix of income and expenses subject to U.S. federal and state and local taxes. The third quarter of 2012 included tax benefits associated with the resolution of tax audits; the prior year included tax benefits associated with the disposition of certain investments. The decrease in the effective tax rate during the nine months ended September 30, 2012, was

largely the result of the impact of increased tax-exempt income and business tax credits. The current and prior 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 September 30,					
	2012			2011		
(in millions, except ratios)	Reported results	Fully taxable-equivalent adjustments[(a)]	Managed basis	Reported results	Fully taxable-equivalent adjustments[(a)]	Managed basis
Other income	$1,519	$ 517	$2,036	$780	$ 472	$1,252
Total noninterest revenue	14,170	517	14,687	11,946	472	12,418
Net interest income	10,976	200	11,176	11,817	133	11,950
Total net revenue	25,146	717	25,863	23,763	605	24,368
Pre-provision profit	9,775	717	10,492	8,229	605	8,834
Income before income tax expense	7,986	717	8,703	5,818	605	6,423
Income tax expense	$2,278	$ 717	$2,995	$1,556	$ 605	$2,161
Overhead ratio	61 %	NM	59 %	65 %	NM	64 %

	Nine months ended September 30,					
	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	$3,537	$ 1,568	$5,105	$2,236	$ 1,433	$3,669
Total noninterest revenue	39,590	1,568	41,158	40,205	1,433	41,638
Net interest income	33,788	566	34,354	35,558	373	35,931
Total net revenue	73,378	2,134	75,512	75,763	1,806	77,569
Pre-provision profit	24,696	2,134	26,830	27,392	1,806	29,198
Income before income tax expense	21,967	2,134	24,101	22,002	1,806	23,808
Income tax expense	$6,375	$ 2,134	$8,509	$6,754	$ 1,806	$8,560
Overhead ratio	66 %	NM	64 %	64 %	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 59–61 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

(in millions)	Three months ended September 30, 2012	2011	Nine months ended September 30, 2012	2011
Common stockholders' equity	$186,590	$174,454	$181,791	$172,667
Less: Goodwill	48,158	48,631	48,178	48,770
Less: Certain identifiable intangible assets	2,729	3,545	2,928	3,736
Add: Deferred tax liabilities[a]	2,765	2,639	2,741	2,617
Tangible common equity	$138,468	$124,917	$133,426	$122,778

(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]

(in millions, except rates)	Three months ended September 30, 2012	2011	Change	Nine months ended September 30, 2012	2011	Change
Net interest income – managed basis[b][c]	$11,176	$11,950	(6)%	$34,354	$35,931	(4)%
Impact of market-based net interest income	1,386	1,866	(26)	4,300	5,529	(22)
Core net interest income[b]	$9,790	$10,084	(3)	$30,054	$30,402	(1)
Average interest-earning assets	$1,829,780	$1,784,395	3	$1,831,633	$1,745,661	5
Impact of market-based earning assets	497,469	512,215	(3)	497,832	525,500	(5)
Core average interest-earning assets	$1,332,311	$1,272,180	5 %	$1,333,801	$1,220,161	9 %
Net interest yield on interest-earning assets – managed basis	2.43 %	2.66 %		2.51 %	2.75 %	
Net interest yield on market-based activity	1.11	1.45		1.15	1.41	
Core net interest yield on core average interest-earning assets	2.92 %	3.14 %		3.01 %	3.33 %	

(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 loans.

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

(c) For a reconciliation of net interest income on a reported and managed basis, see reconciliation from the Firm's reported U.S. GAAP results to managed basis on page 15.

Quarterly and year-to-date results

Core net interest income decreased by $294 million to $9.8 billion and by $348 million to $30.1 billion for the three and nine months ended September 30, 2012, respectively. Core average interest-earning assets increased by $60.1

billion to $1,332.3 billion and by $113.6 billion to $1,333.8 billion for the three and nine months ended September 30, 2012, respectively. The decline in net interest income for both periods reflected the impact of faster prepayment of mortgage-backed securities, limited reinvestment opportunities, the runoff of higher-yielding loans, as well as the impact of lower interest rates across the Firm's interest-earning assets. The decrease in net interest income was offset partially 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, and an increase in investment securities. The core net interest yield decreased by 22 basis points to 2.92% and by 32 basis points to 3.01% for the three and nine months ended September 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 93–95 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 15–16 of this Form 10-Q.

The reorganization of the business segments announced on July 27, 2012 is expected to be effective beginning in the fourth quarter of 2012. For further discussion, see Business segment changes on page 5 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 62 of this Form 10-Q.

Segment Results – Managed Basis

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

Three months ended September 30,	Total net revenue			Noninterest expense			Pre-provision profit/(loss)		
(in millions)	2012	2011	Change	2012	2011	Change	2012	2011	Change
Investment Bank[(a)]	$6,277	$6,369	(1)%	$3,907	$3,799	3%	$2,370	$2,570	(8)%
Retail Financial Services	8,013	7,535	6	5,039	4,565	10	2,974	2,970	—
Card Services & Auto	4,723	4,775	(1)	1,920	2,115	(9)	2,803	2,660	5
Commercial Banking	1,732	1,588	9	601	573	5	1,131	1,015	11
Treasury & Securities Services	2,029	1,908	6	1,443	1,470	(2)	586	438	34
Asset Management	2,459	2,316	6	1,731	1,796	(4)	728	520	40
Corporate/Private Equity[(a)]	630	(123)	NM	730	1,216	(40)	(100)	(1,339)	93
Total	$25,863	$24,368	6%	$15,371	$15,534	(1)%	$10,492	$8,834	19%

Three months ended September 30,	Provision for credit losses			Net income/(loss)		
(in millions)	2012	2011	Change	2012	2011	Change
Investment Bank[(a)]	$(48)	$54	NM%	$1,572	$1,636	(4)%
Retail Financial Services	631	1,027	(39)	1,408	1,161	21
Card Services & Auto	1,231	1,264	(3)	954	849	12
Commercial Banking	(16)	67	NM	690	571	21
Treasury & Securities Services	(12)	(20)	40	420	305	38
Asset Management	14	26	(46)	443	385	15
Corporate/Private Equity[(a)]	(11)	(7)	(57)	221	(645)	NM
Total	$1,789	$2,411	(26)%	$5,708	$4,262	34%

Nine months ended September 30,	Total net revenue			Noninterest expense			Pre-provision profit/(loss)		
(in millions)	2012	2011	Change	2012	2011	Change	2012	2011	Change
Investment Bank[(a)]	$20,364	$21,916	(7)%	$12,447	$13,147	(5)%	$7,917	$8,769	(10)%
Retail Financial Services	23,597	20,143	17	14,774	14,736	—	8,823	5,407	63
Card Services & Auto	13,962	14,327	(3)	6,045	6,020	—	7,917	8,307	(5)
Commercial Banking	5,080	4,731	7	1,790	1,699	5	3,290	3,032	9
Treasury & Securities Services	6,195	5,680	9	4,407	4,300	2	1,788	1,380	30
Asset Management	7,193	7,259	(1)	5,161	5,250	(2)	2,032	2,009	1
Corporate/Private Equity[(a)]	(879)	3,513	NM	4,058	3,219	26	(4,937)	294	NM
Total	$75,512	$77,569	(3)%	$48,682	$48,371	1%	$26,830	$29,198	(8)%

Nine months ended September 30,	Provision for credit losses			Net income/(loss)		
(in millions)	2012	2011	Change	2012	2011	Change
Investment Bank[(a)]	$(32)	$(558)	94%	$5,167	$6,063	(15)%
Retail Financial Services	(20)	3,220	NM	5,428	1,145	374
Card Services & Auto	2,703	2,561	6	3,167	3,493	(9)

Commercial Banking	44	168	(74)	1,954	1,724	13
Treasury & Securities Services	(2)	(18)	89	1,234	954	29
Asset Management	67	43	56	1,220	1,290	(5)
Corporate/Private Equity[(a)]	(31)	(26)	(19)	(2,578)	579	NM
Total	$2,729	$5,390	(49)%	$15,592	$15,248	2%

(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).

18

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.

IB provides several non-GAAP financial measures which exclude the impact of DVA: net revenue, net income, compensation ratio, and return on common equity. The ratio for the allowance for loan losses to end-of-period loans is calculated excluding the impact of consolidated Firm-administered multi-seller conduits, to provide a more meaningful assessment of IB's allowance coverage ratio. These measures are used by management to assess the underlying performance of the business and for comparability with peers.

Selected income statement data

	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	2012	2011	Change	2012	2011	Change
Revenue						
Investment banking fees	$1,429	$1,039	38 %	$4,049	$4,740	(15)%
Principal transactions[a]	2,260	2,253	—	8,533	7,960	7
Asset management, administration and commissions	474	563	(16)	1,538	1,730	(11)
All other income[b]	307	438	(30)	810	1,272	(36)
Noninterest revenue	4,470	4,293	4	14,930	15,702	(5)
Net interest income	1,807	2,076	(13)	5,434	6,214	(13)
Total net revenue[c]	6,277	6,369	(1)	20,364	21,916	(7)
Provision for credit losses	(48)	54	NM	(32)	(558)	94
Noninterest expense						
Compensation expense	2,069	1,850	12	6,981	7,708	(9)
Noncompensation expense	1,838	1,949	(6)	5,466	5,439	—
Total noninterest expense	3,907	3,799	3	12,447	13,147	(5)
Income before income tax expense	2,418	2,516	(4)	7,949	9,327	(15)
Income tax expense	846	880	(4)	2,782	3,264	(15)
Net income	$1,572	$1,636	(4)%	$5,167	$6,063	(15)%
Financial ratios						
Return on common equity[d]	16 %	16 %		17 %	20 %	
Return on assets	0.80	0.81		0.88	0.99	
Overhead ratio	62	60		61	60	
Compensation expense as a percentage of total net revenue[e]	33	29		34	35	

(a) Principal transactions included DVA related to derivatives and structured liabilities measured at fair value. DVA gains/(losses) were $(211) million and $1.9 billion for the three months ended September 30, 2012 and 2011, and $(363) million and $2.0 billion for the nine months ended September 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 also 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 $492 million and $440 million for the three months ended September 30, 2012 and 2011, and $1.5 billion and $1.4 billion for the nine months ended September 30, 2012 and 2011, respectively.

(d) Return on common equity excluding DVA, a non-GAAP financial measure, was 17% and 5% for the three months ended September 30, 2012 and 2011, and 18% and 16% for the nine months ended September 30, 2012 and 2011, respectively.

(e)

Compensation expense as a percentage of total net revenue excluding DVA, a non-GAAP financial measure, was 32% and 41% for the three months ended September 30, 2012 and 2011 respectively, and 34% and 39% for the nine months ended September 30, 2012 and 2011 respectively.

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

	Three months ended September 30,			Nine months ended September 30,		
(in millions)	2012	2011	Change	2012	2011	Change
Revenue by business						
Investment banking fees:						
Advisory	$389	$365	7 %	$1,026	$1,395	(26)%
Equity underwriting	235	178	32	761	1,012	(25)
Debt underwriting	805	496	62	2,262	2,333	(3)
Total investment banking fees	1,429	1,039	38	4,049	4,740	(15)
Fixed income markets[(a)]	3,685	3,328	11	12,083	12,846	(6)
Equity markets[(b)]	1,073	1,424	(25)	3,610	4,053	(11)
Credit portfolio[(c)(d)]	90	578	(84)	622	277	125
Total net revenue	$6,277	$6,369	(1)%	$20,364	$21,916	(7)%

(a) Fixed income markets primarily includes revenue related to market-making across global fixed income markets, including foreign exchange, interest rate, credit and commodities markets. Included DVA gains/(losses) of $(41) million and $529 million for the three months ended September 30, 2012 and 2011, and $(152) million and $688 million for the nine months ended September 30, 2012 and 2011, respectively.

(b) Equity markets primarily includes revenue related to market-making across global equity products, including cash instruments, derivatives, convertibles and Prime Services. Included DVA gains of $29 million and $377 million for the three months ended September 30, 2012 and 2011, and $99 million and $383 million for the nine months ended September 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. Included DVA gains/(losses) of $(199) million and $979 million for the three months ended September 30, 2012 and 2011, and $(310) million and $933 million for the nine months ended September 30, 2012 and 2011, respectively. See pages 72–81 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 also within Credit Portfolio.

Quarterly results

Net income was $1.6 billion, down 4% from the prior year. These results reflected higher noninterest expense and lower net revenue, largely offset by a benefit from the provision for credit losses compared with a provision for credit losses in the prior year.

Net revenue was $6.3 billion, compared with $6.4 billion in the prior year. Net revenue included a $211 million loss from DVA on certain structured and derivative liabilities resulting from the tightening of the Firm's credit spreads compared with a gain of $1.9 billion in the prior year. Excluding the impact of DVA, net income was $1.7 billion, up $1.2 billion from the prior year, and net revenue was $6.5 billion, up $2.0 billion from the prior year.

Investment banking fees were $1.4 billion (up 38%), which consisted of debt underwriting fees of $805 million (up 62%), equity underwriting fees of $235 million (up 32%), and advisory fees of $389 million (up 7%). Combined Fixed Income and Equity Markets revenue was $4.8 billion, flat compared with the prior year. The portion of the synthetic credit portfolio transferred from CIO in Corporate to IB on July 2, 2012, experienced a modest loss, which was included in Fixed Income Markets revenue. Credit Portfolio reported net revenue of $90 million.

Excluding the impact of DVA, Fixed Income and Equity Markets combined revenue was $4.8 billion, up 24% from the prior year, driven by solid client revenue and broad-based strength across the Fixed Income businesses. Excluding the impact of DVA, Credit Portfolio net revenue was $289 million, driven by net interest income on retained

loans and fees on lending-related commitments.

The provision for credit losses was a benefit of $48 million, compared with a provision for credit losses in the prior year of $54 million. The ratio of the allowance for loan losses to end-of-period loans retained was 2.06%, compared with 2.30% in the prior year. Excluding the impact of the consolidation of Firm-administered multi-seller conduits the

ratio of the allowance for loan losses to end-of-period loans retained was 3.29%, compared with 3.60% in the prior year.
Noninterest expense was $3.9 billion, up 3% from the prior year, driven by higher compensation expense, partially offset by lower noncompensation expense. The compensation ratio for the current quarter was 32%, excluding the impact of DVA.
Year-to-date results
Net income was $5.2 billion, down 15% from the prior year, reflecting lower net revenue, predominantly offset by lower noninterest expense, and a lower net benefit for credit losses compared to the prior year.
Net revenue was $20.4 billion, compared with $21.9 billion in the prior year. Investment banking fees were $4.0 billion (down 15%), consisting of debt underwriting fees of $2.3 billion (down 3%), advisory fees of $1.0 billion (down 26%), and equity underwriting fees of $761 million (down 25%) . Combined Fixed Income and Equity Markets revenue was $15.7 billion down 7% from the prior year. Credit Portfolio reported revenue of $622 million. Net revenue included a $363 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 $152 million in Fixed Income Markets, a loss of $310 million in Credit Portfolio, partially offset by a gain of $99 million in Equity Markets. Excluding the impact of DVA, net revenue was $20.7 billion and net income was $5.4 billion.
Excluding the impact of DVA, Fixed Income and Equity Markets combined revenue was $15.7 billion, approximately flat from prior year, reflecting solid client revenue. Excluding the impact of DVA, Credit Portfolio net revenue was $932 million primarily reflecting net interest income on retained loans and fees on lending-related commitments.

The provision for credit losses was a benefit of $32 million, compared with a benefit of $558 million in the prior year. Net recoveries were $61 million, compared with net recoveries of $38 million in the prior year.
Noninterest expense was $12.4 billion, down 5% from the prior year, driven primarily by lower compensation expense. The ratio of compensation to net revenue was 34%, excluding DVA. Noncompensation expense remained flat compared to prior year.

Selected metrics

	As of or for the three months ended September 30,			As of or for the nine months ended September 30,		
(in millions, except headcount)	2012	2011	Change	2012	2011	Change
Selected balance sheet data (period-end)						
Total assets	$838,753	$824,733	2 %	$838,753	$824,733	2 %
Loans:						
Loans retained[(a)]	67,383	58,163	16	67,383	58,163	16
Loans held-for-sale and loans at fair value	3,803	2,311	65	3,803	2,311	65
Total loans	71,186	60,474	18	71,186	60,474	18
Equity	40,000	40,000	—	40,000	40,000	—
Selected balance sheet data (average)						
Total assets	$778,475	$803,667	(3)	$786,860	$820,239	(4)
Trading assets-debt and equity instruments	295,546	329,984	(10)	304,307	357,735	(15)
Trading assets-derivative receivables	74,818	79,044	(5)	75,334	71,993	5
Loans:						
Loans retained[(a)]	70,569	57,265	23	69,377	55,089	26
Loans held-for-sale and loans at fair value	2,712	2,431	12	2,878	3,468	(17)
Total loans	73,281	59,696	23	72,255	58,557	23
Adjusted assets[(b)]	553,187	597,513	(7)	557,687	612,292	(9)
Equity	40,000	40,000	—	40,000	40,000	—
Headcount	25,884	26,615	(3)%	25,884	26,615	(3)%

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

risk profile, provides a more meaningful measure of balance sheet leverage in the securities industry.

Selected metrics

(in millions, except ratios)	As of or for the three months ended September 30, 2012	2011	Change	As of or for the nine months ended September 30, 2012	2011	Change
Credit data and quality statistics						
Net (recoveries)/charge-offs	$(16)	$(168)	90%	$(61)	$(38)	(61)%
Nonperforming assets:						
Nonaccrual loans:						
Nonaccrual loans retained[(a)]	581	1,274	(54)	581	1,274	(54)
Nonaccrual loans held-for-sale and loans at fair value	213	150	42	213	150	42
Total nonaccrual loans	794	1,424	(44)	794	1,424	(44)
Derivative receivables[(b)]	282	281	—	282	281	—
Assets acquired in loan satisfactions	77	77	—	77	77	—
Total nonperforming assets	1,153	1,782	(35)	1,153	1,782	(35)
Allowance for credit losses:						
Allowance for loan losses	1,385	1,337	4	1,385	1,337	4
Allowance for lending-related commitments	535	444	20	535	444	20
Total allowance for credit losses	1,920	1,781	8	1,920	1,781	8
Net (recovery)/charge-off rate	(0.09)%	(1.16)%		(0.12)%	(0.09)%	
Allowance for loan losses to period-end loans retained	2.06	2.30		2.06	2.30	
Allowance for loan losses to nonaccrual loans retained[(a)]	238	105		238	105	
Nonaccrual loans to period-end loans	1.12	2.35		1.12	2.35	
Market risk-average Total IB trading VaR by risk type and Credit portfolio VaR – 95% confidence level						
IB VaR by risk type:						
Fixed income[(c)]	$118	$48	146	$81	$47	72
Foreign exchange	10	10	—	10	10	—
Equities	19	19	—	19	24	(21)
Commodities and other	13	15	(13)	16	15	7
Diversification benefit to IB trading VaR[(d)]	(48)	(39)	(23)	(46)	(38)	(21)
IB trading VaR[(e)]	112	53	111	80	58	38
Credit portfolio VaR[(f)]	22	38	(42)	26	30	(13)
Diversification benefit to IB trading and credit portfolio VaR[(d)]	(12)	(21)	43	(13)	(11)	(18)
Total IB trading and credit portfolio VaR[(c)]	$122	$70	74%	$93	$77	21%

(a) Allowance for loan losses of $177 million and $320 million was held against these nonaccrual loans at September 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) On July 2, 2012, CIO transferred its synthetic credit portfolio, other than a portion aggregating to approximately $12 billion of notional, to IB. During the third quarter of 2012, the Firm applied a new value-at-risk ("VaR") model to calculate VaR for the synthetic credit portfolio. The Firm believes this new model, which was applied to both the portion of the synthetic credit portfolio held by IB, as well as the portion that was retained by CIO, more appropriately captures the risk of the portfolio. This new VaR model resulted in a reduction to the average fixed income and average total trading and credit portfolio VaR of $26 million and $28 million, respectively, for the three months ended September 30, 2012.

(d) Average VaR and period-end VaR was less than the sum of the VaR of the components described above, due to portfolio diversification. The diversification effect reflects the fact that the risks were not perfectly correlated.

(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.

Market shares and rankings[(a)]

	Nine months ended September 30, 2012		Full-year 2011	
	Market Share	Rankings	Market Share	Rankings
Global investment banking fees[(b)]	7.7%	#1	8.1%	#1
Debt, equity and equity-related				
Global	7.2	1	6.7	1
U.S.	11.2	1	11.1	1
Syndicated loans				
Global	9.8	1	10.8	1
U.S.	18.0	1	21.2	1
Long-term debt[(c)]				
Global	7.1	1	6.7	1
U.S.	11.3	1	11.2	1
Equity and equity-related				
Global[(d)]	7.8	4	6.8	3
U.S.	10.5	4	12.5	1
Announced M&A[(e)]				
Global	19.8	2	18.3	2
U.S.	21.0	2	26.7	2

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

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

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

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

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

According to Dealogic, the Firm was ranked #1 in Global Investment Banking Fees generated during the first nine months of 2012, based on revenue; #1 in Global Debt, Equity and Equity-related; #1 in Global Syndicated Loans; #1 in Global Long-Term Debt; #4 in Global Equity and Equity-related; and #2 in Global Announced M&A, based on volume.

International metrics	Three months ended September 30,				Nine months ended September 30,			
(in millions)	2012	2011	Change		2012	2011	Change	
Total net revenue[(a)]								
Europe/Middle East/Africa	$1,766	$1,995	(11	)%	$6,272	$7,065	(11	)%
Asia/Pacific	675	948	(29	)	2,095	2,832	(26	)
Latin America/Caribbean	313	175	79		956	839	14	
North America	3,523	3,251	8		11,041	11,180	(1	)
Total net revenue	$6,277	$6,369	(1	)	$20,364	$21,916	(7	)
Loans retained (period-end)[(b)]								
Europe/Middle East/Africa	$16,656	$15,361	8		$16,656	$15,361	8	
Asia/Pacific	8,451	6,892	23		8,451	6,892	23	
Latin America/Caribbean	3,970	3,222	23		3,970	3,222	23	
North America	38,306	32,688	17		38,306	32,688	17	

Total loans	$67,383	$58,163	16 %	$67,383	$58,163	16 %

(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 client.

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 September 30,			Nine months ended September 30,		
(in millions, except ratios)	2012	2011	Change	2012	2011	Change
Revenue						
Lending- and deposit-related fees	$791	$833	(5)%	$2,316	$2,382	(3)%
Asset management, administration and commissions	501	513	(2)	1,550	1,497	4
Mortgage fees and related income	2,376	1,380	72	6,649	1,991	234
Credit card income	344	611	(44)	1,003	1,720	(42)
Other income	129	136	(5)	381	378	1
Noninterest revenue	4,141	3,473	19	11,899	7,968	49
Net interest income	3,872	4,062	(5)	11,698	12,175	(4)
Total net revenue	8,013	7,535	6	23,597	20,143	17
Provision for credit losses	631	1,027	(39)	(20)	3,220	NM
Noninterest expense						
Compensation expense	2,324	2,101	11	6,927	5,914	17
Noncompensation expense	2,664	2,404	11	7,695	8,642	(11)
Amortization of intangibles	51	60	(15)	152	180	(16)
Total noninterest expense	5,039	4,565	10	14,774	14,736	—
Income before income tax expense	2,343	1,943	21	8,843	2,187	304
Income tax expense	935	782	20	3,415	1,042	228
Net income	$1,408	$1,161	21%	$5,428	$1,145	374%
Financial ratios						
Return on common equity	21%	18%		27%	6%	
Overhead ratio	63	61		63	73	
Overhead ratio excluding core deposit intangibles[(a)]	62	60		62	72	

(a) RFS uses the overhead ratio (excluding the amortization of core deposit intangibles ("CDI")), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation would result in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this method would therefore result in an improving overhead ratio over time, all things remaining equal. This non-GAAP ratio excluded Consumer & Business Banking's CDI amortization expense related to prior business combination transactions of $51 million and $60 million for the three months ended September 30, 2012 and 2011, respectively, and $152 million and $180 million for the nine months ended September 30, 2012 and 2011, respectively.

Quarterly results

Retail Financial Services reported net income of $1.4 billion, compared with $1.2 billion in the prior year.

Net revenue was $8.0 billion, an increase of $478 million, or 6%, compared with the prior year. Net interest income was $3.9 billion, down $190 million, or 5%, driven by lower deposit margins and lower loan balances due to portfolio runoff, largely offset by higher deposit balances. Noninterest revenue was $4.1 billion, an increase of $668 million, or 19%, driven by higher mortgage fees and related income, partially offset by lower debit card revenue.

The provision for credit losses was $631 million, compared with $1.0 billion in the prior year. The current-quarter provision reflected a $900 million reduction in the allowance for loan losses. Current-quarter total net charge-offs were $1.5 billion, including $825 million of incremental charge-offs of Chapter 7 loans. Excluding these incremental charge-offs, net charge-offs during the quarter would have been $706 million compared with $1.0 billion in the prior year. For more information, including net charge-off amounts and rates, see Consumer Credit Portfolio on pages 82–92 of this Form 10-Q.

Noninterest expense was $5.0 billion, an increase of $474 million, or 10%, from the prior year.
Year-to-date results
Retail Financial Services reported net income of $5.4 billion, compared with net income of $1.1 billion in the prior year.
Net revenue was $23.6 billion, an increase of $3.5 billion, or 17%, compared with the prior year. Net interest income was $11.7 billion, down $477 million, or 4%, driven by lower deposit margins and lower loan balances due to portfolio runoff, largely offset by higher deposit balances. Noninterest revenue was $11.9 billion, an increase of $3.9 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 $20 million compared with a provision expense of $3.2 billion in the prior year. The current-year provision reflected a $3.3 billion reduction in the allowance for loan losses due to improved mortgage delinquency trends. Current-year total net charge-offs were $3.2 billion, including $825 million of incremental charge-offs of Chapter 7 loans. Excluding these incremental charge-offs, net charge-offs during the year

would have been $2.4 billion compared with $3.3 billion in the prior year. For more information, including net charge-off amounts and rates, see Consumer Credit Portfolio on pages 82–92 of this Form 10-Q.

Noninterest expense was $14.8 billion, flat from the prior year.

Selected metrics	As of or for the three months ended September 30,			As of or for the nine months ended September 30,		
(in millions, except headcount)	2012	2011	Change	2012	2011	Change
Selected balance sheet data (period-end)						
Total assets	$259,238	$276,799	(6)%	$259,238	$276,799	(6)%
Loans:						
Loans retained	217,212	235,572	(8)	217,212	235,572	(8)
Loans held-for-sale and loans at fair value[(a)]	15,250	13,153	16	15,250	13,153	16
Total loans	232,462	248,725	(7)	232,462	248,725	(7)
Deposits	420,075	388,735	8	420,075	388,735	8
Equity	26,500	25,000	6	26,500	25,000	6
Selected balance sheet data (average)						
Total assets	$264,007	$283,443	(7)	$268,147	$289,486	(7)
Loans:						
Loans retained	220,106	238,273	(8)	225,122	244,204	(8)
Loans held-for-sale and loans at fair value[(a)]	17,879	16,608	8	17,068	16,243	5
Total loans	237,985	254,881	(7)	242,190	260,447	(7)
Deposits	414,608	382,202	8	407,833	377,678	8
Equity	26,500	25,000	6	26,500	25,000	6
Headcount	132,067	128,992	2%	132,067	128,992	2%

(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 September 30,			As of or for the nine months ended September 30,		
(in millions, except ratios)	2012	2011	Change	2012	2011	Change
Credit data and quality statistics						
Net charge-offs[(a)]	$1,531	$1,027	49%	$3,230	$3,295	(2)%
Nonaccrual loans:						
Nonaccrual loans retained	9,154	7,579	21	9,154	7,579	21
Nonaccrual loans held-for-sale and loans at fair value	89	132	(33)	89	132	(33)
Total nonaccrual loans [(b)(c)(d)(e)]	9,243	7,711	20	9,243	7,711	20
Nonperforming assets[(b)(c)(d)(e)]	9,901	8,576	15	9,901	8,576	15
Allowance for loan losses	11,997	15,479	(22)%	11,997	15,479	(22)%
Net charge-off rate[(a)(f)]	2.77%	1.71%		1.92%	1.80%	
Net charge-off rate excluding PCI loans[(a)(f)]	3.85	2.39		2.67	2.53	
Allowance for loan losses to ending loans retained	5.52	6.57		5.52	6.57	
Allowance for loan losses to ending loans retained excluding PCI loans[(g)]	4.03	6.26		4.03	6.26	

Allowance for loan losses to nonaccrual loans retained[(b)(e)(g)]	69	139	69	139
Nonaccrual loans to total loans[(e)]	3.98	3.10	3.98	3.10
Nonaccrual loans to total loans excluding PCI loans[(b)(e)]	5.40	4.25	5.40	4.25

(a) Net charge-offs and net charge-off rates for the three and nine months ended September 30, 2012, included $825 million of incremental charge-offs of Chapter 7 loans. Excluding these incremental charge-offs, net charge-offs for the third quarter of 2012 would have been $706 million and the net charge-off rate for the same period excluding these incremental charge-offs and purchased credit-impaired loans would have been 1.77%.

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

(d) At September 30, 2012 and 2011, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $11.0 billion and $9.5 billion, respectively, that are 90 or more days past due; and (2) real estate owned insured by U.S. government agencies of $1.5 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 154–175 of this Form 10-Q, which summarizes loan delinquency information.

(e) At September 30, 2012, included $1.7 billion of Chapter 7 loans as well as $1.3 billion of performing junior liens that are subordinate to senior liens that are 90 days or more past due. See Consumer Credit Portfolio on pages 82–92 of this Form 10-Q for further details.

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

(g) An allowance for loan losses of $5.7 billion and $4.9 billion was recorded for PCI loans at September 30, 2012 and 2011, respectively; these amounts were also excluded from the applicable ratios.

Consumer & Business Banking
Selected income statement data

	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	2012	2011	Change	2012	2011	Change
Noninterest revenue	$1,653	$1,952	(15)%	$4,884	$5,598	(13)%
Net interest income	2,685	2,730	(2)	8,040	8,095	(1)
Total net revenue	4,338	4,682	(7)	12,924	13,693	(6)
Provision for credit losses	107	126	(15)	201	287	(30)
Noninterest expense	2,916	2,842	3	8,524	8,354	2
Income before income tax expense	1,315	1,714	(23)	4,199	5,052	(17)
Net income	$785	$1,023	(23)%	$2,505	$3,014	(17)%
Overhead ratio	67%	61%		66%	61%	
Overhead ratio excluding core deposit intangibles[(a)]	66	59		65	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 24 of this Form 10-Q for further details.

Quarterly results

Consumer & Business Banking reported net income of $785 million, a decrease of $238 million, or 23%, compared with the prior year.

Net revenue was $4.3 billion, down 7% from the prior year. Net interest income was $2.7 billion, down 2% compared with the prior year, driven by the impact of lower deposit margin, predominantly offset by higher deposit balances. Noninterest revenue was $1.7 billion, a decrease of 15%, driven by lower debit card revenue, reflecting the impact of the Durbin Amendment.

The provision for credit losses was $107 million, compared with $126 million in the prior year. Net charge-offs were $107 million, compared with $126 million in the prior year.

Noninterest expense was $2.9 billion, up 3% from the prior year, driven by investments in sales force and new branch builds.

Year-to-date results

Consumer & Business Banking reported net income of $2.5 billion, a decrease of $509 million, or 17%, compared with the prior year.

Net revenue was $12.9 billion, down 6% from the prior year. Net interest income was $8.0 billion, relatively flat compared with the prior year, driven by the impact of lower deposit margins, predominantly offset by higher deposit balances. Noninterest revenue was $4.9 billion, a decrease of 13%, driven by lower debit card revenue, reflecting the impact of the Durbin Amendment.

The provision for credit losses was $201 million, compared with $287 million in the prior year. Net charge-offs were $301 million, compared with $362 million in the prior year.

Noninterest expense was $8.5 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 September 30,			As of or for the nine months ended September 30,		
	2012	2011	Change	2012	2011	Change
Business metrics						
Business banking origination volume	$1,685	$1,440	17 %	$5,012	$4,438	13 %
End-of-period loans	18,568	17,272	8	18,568	17,272	8
End-of-period deposits:						
Checking	159,527	142,064	12	159,527	142,064	12
Savings	208,272	186,733	12	208,272	186,733	12
Time and other	32,781	39,017	(16)	32,781	39,017	(16)
Total end-of-period deposits	400,580	367,814	9	400,580	367,814	9
Average loans	18,279	17,172	6	17,961	17,039	5
Average deposits:						
Checking	153,982	137,033	12	151,067	135,200	12
Savings	206,298	184,590	12	202,076	180,240	12
Time and other	33,470	40,588	(18)	34,891	42,876	(19)
Total average deposits	393,750	362,211	9	388,034	358,316	8
Deposit margin	2.56 %	2.82 %		2.62 %	2.85 %	
Average assets	$30,625	$30,074	2	$30,585	$29,513	4
Credit data and quality statistics						
Net charge-offs	$107	$126	(15)	$301	$362	(17)
Net charge-off rate	2.33 %	2.91 %		2.24 %	2.85 %	
Allowance for loan losses	$698	$800	(13)	$698	$800	(13)
Nonperforming assets	532	773	(31)	532	773	(31)
Retail branch business metrics						
Investment sales volume	$6,280	$5,102	23	$19,049	$18,020	6
Client investment assets	154,637	132,255	17	154,637	132,255	17
% managed accounts	28 %	23 %		28 %	23 %	
Number of:						
Branches	5,596	5,396	4	5,596	5,396	4
Chase Private Client branch locations	960	139	NM	960	139	NM
ATMs	18,485	16,708	11	18,485	16,708	11
Personal bankers	23,622	24,205	(2)	23,622	24,205	(2)
Sales specialists	6,205	5,639	10	6,205	5,639	10
Client advisors	3,034	3,177	(5)	3,034	3,177	(5)
Active online customers (in thousands)	18,225	17,326	5	18,225	17,326	5
Active mobile customers (in thousands)	9,799	7,234	35	9,799	7,234	35
Chase Private Clients	75,766	11,711	NM	75,766	11,711	NM
Checking accounts (in thousands)	27,669	26,541	4 %	27,669	26,541	4 %

Mortgage Production and Servicing
Selected income statement data

	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	2012	2011	Change	2012	2011	Change
Mortgage fees and related income	$2,376	$1,380	72 %	$6,649	$1,991	234 %
Other noninterest revenue	103	118	(13)	336	328	2
Net interest income	190	204	(7)	561	599	(6)
Total net revenue	2,669	1,702	57	7,546	2,918	159
Provision for credit losses	4	2	100	5	4	25
Noninterest expense	1,737	1,360	28	5,033	5,293	(5)
Income/(loss) before income tax expense/(benefit)	928	340	173	2,508	(2,379)	NM
Net income/(loss)	$563	$205	175	$1,628	$(1,574)	NM
Overhead ratio	65 %	80 %		67 %	181 %	
Functional results						
Production						
Production revenue	$1,582	$1,090	45	$4,376	$2,536	73
Production-related net interest & other income	196	213	(8)	582	630	(8)
Production-related revenue, excluding repurchase losses	1,778	1,303	36	4,958	3,166	57
Production expense	678	496	37	1,871	1,377	36
Income, excluding repurchase losses	1,100	807	36	3,087	1,789	73
Repurchase losses	(13)	(314)	96	(325)	(957)	66
Income before income tax expense	1,087	493	120	2,762	832	232
Servicing						
Loan servicing revenue	946	1,039	(9)	2,989	3,102	(4)
Servicing-related net interest & other income	98	115	(15)	318	300	6
Servicing-related revenue	1,044	1,154	(10)	3,307	3,402	(3)
MSR asset modeled amortization	(290)	(457)	37	(968)	(1,498)	35
Default servicing expense[(a)]	819	585	40	2,414	3,112	(22)
Core servicing expense[(a)]	244	281	(13)	753	808	(7)
Income/(loss), excluding MSR risk management	(309)	(169)	(83)	(828)	(2,016)	59
MSR risk management, including related net interest income/(expense)	150	16	NM	574	(1,195)	NM
Income/(loss) before income tax expense/(benefit)	(159)	(153)	(4)	(254)	(3,211)	92
Net income/(loss)	$563	$205	175 %	$1,628	$(1,574)	NM

(a) Default and core servicing expense include an aggregate of approximately $300 million and $1.7 billion for foreclosure-related matters for the nine months ended September 30, 2012 and 2011, respectively.

28

Selected income statement data

(in millions)	Three months ended September 30, 2012	2011	Change	Nine months ended September 30, 2012	2011	Change
Supplemental mortgage fees and related income details						
Net production revenue:						
Production revenue	$1,582	$1,090	45 %	$4,376	$2,536	73 %
Repurchase losses	(13)	(314)	96	(325)	(957)	66
Net production revenue	1,569	776	102	4,051	1,579	157
Net mortgage servicing revenue:						
Operating revenue:						
Loan servicing revenue	946	1,039	(9)	2,989	3,102	(4)
Changes in MSR asset fair value due to modeled amortization	(290)	(457)	37	(968)	(1,498)	35
Total operating revenue	656	582	13	2,021	1,604	26
Risk management:						
Changes in MSR asset fair value due to market interest rates	(323)	(4,574)	93	(872)	(5,127)	83
Other changes in MSR asset fair value due to inputs or assumptions in model[(a)]	(5)	—	NM	23	(1,158)	NM
Derivative valuation adjustments and other	479	4,596	(90)	1,426	5,093	(72)
Total risk management	151	22	NM	577	(1,192)	NM
Total net mortgage servicing revenue	807	604	34	2,598	412	NM
Mortgage fees and related income	$2,376	$1,380	72 %	$6,649	$1,991	234 %

(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 $563 million, an increase of $358 million compared with the prior year.

Mortgage production reported record pretax income of $1.1 billion, an increase of $594 million from the prior year. Mortgage production-related revenue, excluding repurchase losses, was a record $1.8 billion, an increase of $475 million, or 36%, from the prior year. These results reflected wider margins, driven by favorable market conditions, and higher volumes due to historically low interest rates and the Home Affordable Refinance Programs ("HARP"). Production expense was $678 million, an increase of $182 million, or 37%, reflecting higher volumes. Repurchase losses were $13 million, compared with $314 million in the prior year. The current-quarter reflected a $218 million reduction in the repurchase liability. For further information, see Mortgage repurchase liability on pages 55–58 of this Form 10-Q.

Mortgage servicing reported pretax loss of $159 million, compared with a pretax loss of $153 million in the prior year. Mortgage servicing revenue, including mortgage servicing rights ("MSR") asset amortization, was $754 million, an increase of $57 million, or 8%, from the prior year due to lower MSR asset amortization, largely offset by lower servicing-related revenue. MSR risk management income was $150 million, compared with $16 million in the prior year. Servicing expense was $1.1 billion, an increase of $197 million, or 23%, from the prior year. The current quarter includes approximately $100 million of incremental expense for foreclosure-related matters. See Note 16 on pages 184–187 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 $1.6 billion, compared with a net loss of $1.6 billion in the prior year.

Mortgage production reported pretax income of $2.8 billion, an increase of $1.9 billion from the prior year. Mortgage production-related revenue, excluding repurchase losses, was $5.0 billion, an increase of $1.8 billion, or 57%, from the prior year, reflecting wider margins and higher volumes, due to historically low interest rates and the expansion of HARP. Production expense was $1.9 billion, an increase of $494 million, or 36%, reflecting higher volumes. Repurchase losses were $325 million, compared with $957 million in the prior year. For further information, see Mortgage repurchase liability on pages 55–58 of this Form 10-Q.

Mortgage servicing reported a pretax loss of $254 million, compared with a pretax loss of $3.2 billion in the prior year. Mortgage servicing revenue, including MSR amortization, was $2.3 billion, an increase of $435 million, or 23%, from the prior year. This increase reflected reduced amortization as a result of a lower MSR asset value. Servicing expense was $3.2 billion, a decrease of $753 million, or 19%, from the prior year. The current-year servicing expense included approximately $300 million for foreclosure-related matters compared with approximately $1.7 billion in the prior year. MSR risk management income was $574 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 184–187 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 September 30, 2012	2011	Change	As of or for the nine months ended September 30, 2012	2011	Change
Selected balance sheet data						
End-of-period loans:						
Prime mortgage, including option ARMs[(a)]	$17,153	$14,800	16 %	$17,153	$14,800	16 %
Loans held-for-sale and loans at fair value[(b)]	15,250	13,153	16	15,250	13,153	16
Average loans:						
Prime mortgage, including option ARMs[(a)]	17,381	14,451	20	17,366	14,192	22
Loans held-for-sale and loans at fair value[(b)]	17,879	16,608	8	17,068	16,243	5
Average assets	59,769	59,677	—	59,722	59,695	—
Repurchase liability (ending)	2,779	3,213	(14)%	2,779	3,213	(14)%

(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 55–58 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 September 30, 2012	2011	Change	As of or for the nine months ended September 30, 2012	2011	Change
Credit data and quality statistics						
Net charge-offs:						
Prime mortgage, including option ARMs	$4	$2	100 %	$5	$4	25 %
Net charge-off rate:						
Prime mortgage, including option ARMs	0.09 %	0.06 %		0.04 %	0.04 %	
30+ day delinquency rate[(a)]	3.10	3.35		3.10	3.35	
Nonperforming assets[(b)]	$700	$691	1	$700	$691	1
Business metrics (in billions)						
Origination volume by channel						
Retail	$25.5	$22.4	14	$75.0	$64.1	17
Wholesale[(c)]	—	0.1	NM	0.2	0.4	(50)
Correspondent[(c)]	20.1	13.4	50	50.8	37.2	37
CNT (negotiated transactions)	1.7	0.9	89	3.6	5.3	(32)
Total origination volume	$47.3	$36.8	29	$129.6	$107.0	21
Application volume by channel						
Retail	$44.7	$37.7	19	$127.8	$102.6	25
Wholesale[(c)]	0.2	0.2	—	0.5	0.8	(38)
Correspondent[(c)]	28.3	20.2	40	71.7	48.7	47
Total application volume	$73.2	$58.1	26	$200.0	$152.1	31
Third-party mortgage loans serviced (ending)	$811.4	$924.5	(12)	$811.4	$924.5	(12)

Third-party mortgage loans serviced (average)	825.7	931.4	(11)	861.7	945.7	(9)
MSR net carrying value (ending)	7.1	7.8	(9)%	7.1	7.8	(9)%
Ratio of MSR net carrying value (ending) to third-party mortgage loans serviced (ending)	0.88 %	0.84 %		0.88 %	0.84 %	
Ratio of annualized loan servicing-related revenue to third-party mortgage loans serviced (average)	0.46	0.44		0.46	0.44	
MSR revenue multiple[(d)]	1.91x	1.91x		1.91x	1.91x	

(a) At September 30, 2012 and 2011, excluded mortgage loans insured by U.S. government agencies of $12.1 billion and $10.5 billion, respectively, that are 30 or more days past due. These amounts were excluded as reimbursement of insured amounts is proceeding normally. For further discussion, see Note 13 on pages 154–175 of this Form 10-Q which summarizes loan delinquency information.

(b) At September 30, 2012 and 2011, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $11.0 billion and $9.5 billion, respectively, that are 90 or more days past due; and (2) real estate owned insured by U.S. government agencies of $1.5 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 154–175 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-related revenue to third-party mortgage loans serviced (average).

Real Estate Portfolios
Selected income statement data

	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	2012	2011	Change	2012	2011	Change
Noninterest revenue	$9	$23	(61)%	$30	$51	(41)%
Net interest income	997	1,128	(12)	3,097	3,481	(11)
Total net revenue	1,006	1,151	(13)	3,127	3,532	(11)
Provision for credit losses	520	899	(42)	(226)	2,929	NM
Noninterest expense	386	363	6	1,217	1,089	12
Income/(loss) before income tax expense/(benefit)	100	(111)	NM	2,136	(486)	NM
Net income/(loss)	$60	$(67)	NM	$1,295	$(295)	NM
Overhead ratio	38%	32%		39%	31%	

Quarterly results
Real Estate Portfolios reported net income of $60 million, compared with a net loss of $67 million in the prior year. The increase was driven by a lower provision for credit losses.
Net revenue was $1.0 billion, a decrease of $145 million, or 13%, 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 was $520 million, compared with $899 million in the prior year. The current-quarter provision reflected a $900 million reduction in the allowance for loan losses due to improved delinquency trends and lower estimated losses, primarily in the home equity portfolio. Net charge-offs totaled $1.4 billion, including $825 million of incremental charge-offs of Chapter 7 loans. Excluding these incremental charge-offs, net charge-offs during the quarter would have been $595 million, compared with $899 million in the prior year. For more information, including net charge-off amounts and rates, see Consumer Credit Portfolio on pages 82–92 of this Form 10-Q.
Nonaccrual loans were $8.1 billion, compared with $6.3 billion in the prior year. Excluding the impact of certain regulatory guidance, nonaccrual loans would have been $5.1 billion in the third quarter, down from $6.3 billion in the prior year. For more information on the reporting of Chapter 7 loans and performing junior liens that are subordinate to senior liens that are 90 days or more past due as nonaccrual, see Consumer Credit Portfolio on pages 82–92 of this Form 10-Q.
Noninterest expense was $386 million, up by $23 million, or 6%, from the prior year due to an increase in servicing costs.

Year-to-date results
Real Estate Portfolios reported net income of $1.3 billion, compared with a net loss of $295 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 $3.1 billion, down $405 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 was a benefit of $226 million, compared with a provision expense of $2.9 billion in the prior year. The current-year provision benefit reflected a $3.15 billion reduction in the allowance for loan losses due to improved delinquency trends. Current-year net charge-offs totaled $2.9 billion, including $825 million of incremental charge-offs of Chapter 7 loans. Excluding these incremental charge-offs, net charge-offs during the period would have been $2.1 billion compared with $2.9 billion in the prior year. For more information, including net charge-off amounts and rates, see Consumer Credit Portfolio on pages 82–92 of this Form 10-Q.
Noninterest expense was $1.2 billion, up by $128 million, or 12%, 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 September 30, 2012, the remaining weighted-average life of the PCI loan portfolio is expected to be 8.1 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

(in millions)	As of or for the three months ended September 30, 2012	2011	Change		As of or for the nine months ended September 30, 2012	2011	Change	
Loans excluding PCI								
End-of-period loans owned:								
Home equity	$69,686	$80,278	(13	)%	$69,686	$80,278	(13	)%
Prime mortgage, including option ARMs	41,404	45,439	(9	)	41,404	45,439	(9	)
Subprime mortgage	8,552	10,045	(15	)	8,552	10,045	(15	)
Other	653	741	(12	)	653	741	(12	)
Total end-of-period loans owned	$120,295	$136,503	(12	)	$120,295	$136,503	(12	)
Average loans owned:								
Home equity	$71,620	$81,568	(12	)	$74,087	$84,160	(12	)
Prime mortgage, including option ARMs	41,628	46,165	(10	)	42,620	47,672	(11	)
Subprime mortgage	8,774	10,268	(15	)	9,126	10,671	(14	)
Other	665	753	(12	)	686	789	(13	)
Total average loans owned	$122,687	$138,754	(12	)	$126,519	$143,292	(12	)
PCI loans								
End-of-period loans owned:								
Home equity	$21,432	$23,105	(7	)	$21,432	$23,105	(7	)
Prime mortgage	14,038	15,626	(10	)	14,038	15,626	(10	)
Subprime mortgage	4,702	5,072	(7	)	4,702	5,072	(7	)
Option ARMs	21,024	23,325	(10	)	21,024	23,325	(10	)
Total end-of-period loans owned	$61,196	$67,128	(9	)	$61,196	$67,128	(9	)
Average loans owned:								
Home equity	$21,620	$23,301	(7	)	$22,060	$23,730	(7	)
Prime mortgage	14,185	15,909	(11	)	14,582	16,443	(11	)
Subprime mortgage	4,717	5,128	(8	)	4,818	5,219	(8	)
Option ARMs	21,237	23,666	(10	)	21,816	24,394	(11	)
Total average loans owned	$61,759	$68,004	(9	)	$63,276	$69,786	(9	)
Total Real Estate Portfolios								
End-of-period loans owned:								
Home equity	$91,118	$103,383	(12	)	$91,118	$103,383	(12	)
Prime mortgage, including option ARMs	76,466	84,390	(9	)	76,466	84,390	(9	)
Subprime mortgage	13,254	15,117	(12	)	13,254	15,117	(12	)
Other	653	741	(12	)	653	741	(12	)
Total end-of-period loans owned	$181,491	$203,631	(11	)	$181,491	$203,631	(11	)

Average loans owned:						
Home equity	$93,240	$104,869	(11)	$96,147	$107,890	(11)
Prime mortgage, including option ARMs	77,050	85,740	(10)	79,018	88,509	(11)
Subprime mortgage	13,491	15,396	(12)	13,944	15,890	(12)
Other	665	753	(12)	686	789	(13)
Total average loans owned	$184,446	$206,758	(11)	$189,795	$213,078	(11)
Average assets	$173,613	$193,692	(10)	$177,840	$200,278	(11)
Home equity origination volume	375	294	28 %	1,047	850	23 %

32

Credit data and quality statistics

(in millions, except ratios)	As of or for the three months ended September 30, 2012	2011	Change	As of or for the nine months ended September 30, 2012	2011	Change
Net charge-offs excluding PCI loans:[(a)]						
Home equity	$1,120	$581	93 %	$2,128	$1,893	12 %
Prime mortgage, including option ARMs	143	172	(17)	388	531	(27)
Subprime mortgage	152	141	8	394	483	(18)
Other	5	5	—	14	22	(36)
Total net charge-offs	$1,420	$899	58	$2,924	$2,929	—
Net charge-off rate excluding PCI loans:[(a)]						
Home equity	6.22 %	2.82 %		3.84 %	3.01 %	
Prime mortgage, including option ARMs	1.37	1.48		1.22	1.49	
Subprime mortgage	6.89	5.43		5.77	6.04	
Other	2.99	2.83		2.73	3.68	
Total net charge-off rate excluding PCI loans	4.60	2.57		3.09	2.73	
Net charge-off rate – reported:						
Home equity	4.78 %	2.20 %		2.96 %	2.35 %	
Prime mortgage, including option ARMs	0.74	0.80		0.66	0.80	
Subprime mortgage	4.48	3.63		3.77	4.06	
Other	2.99	2.83		2.73	3.68	
Total net charge-off rate – reported	3.06	1.72		2.06	1.84	
30+ day delinquency rate excluding PCI loans[(b)]	5.12 %	5.80 %		5.12 %	5.80 %	
Allowance for loan losses:						
Allowance for loan losses, excluding PCI	$5,568	$9,718	(43)	$5,568	$9,718	(43)
Allowance for PCI loan losses	5,711	4,941	16	5,711	4,941	16
Total allowance for loan losses	11,279	14,659	(23)	11,279	14,659	(23)
Nonperforming assets[(c)(d)]	8,669	7,112	22 %	8,669	7,112	22 %
Allowance for loan losses to ending loans retained	6.21 %	7.20 %		6.21 %	7.20 %	
Allowance for loan losses to ending loans retained excluding PCI loans	4.63	7.12		4.63	7.12	

(a) Net charge-offs and net charge-off rates for the three and nine months ended September 30, 2012 included $825 million of incremental charge-offs of Chapter 7 loans. See Consumer Credit Portfolio on pages 82–92 of this Form 10-Q for further details.

(b) The delinquency rate for PCI loans was 20.65% and 24.44% at September 30, 2012 and 2011, respectively.

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

(d) At September 30, 2012, included $1.7 billion of Chapter 7 loans as well as $1.3 billion of performing junior liens that are subordinate to senior liens that are 90 days or more past due. See Consumer Credit Portfolio on pages 82–92 of this Form 10-Q for further details.

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 5 of this Form 10–Q.
Selected income statement data

	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	2012	2011	Change	2012	2011	Change
Revenue						
Credit card income	$1,032	$1,053	(2)%	$2,995	$3,074	(3)%
All other income	248	201	23	782	533	47
Noninterest revenue	1,280	1,254	2	3,777	3,607	5
Net interest income	3,443	3,521	(2)	10,185	10,720	(5)
Total net revenue	4,723	4,775	(1)	13,962	14,327	(3)
Provision for credit losses	1,231	1,264	(3)	2,703	2,561	6
Noninterest expense						
Compensation expense	489	459	7	1,465	1,366	7
Noncompensation expense	1,345	1,560	(14)	4,304	4,348	(1)
Amortization of intangibles	86	96	(10)	276	306	(10)
Total noninterest expense	1,920	2,115	(9)	6,045	6,020	—
Income before income tax expense	1,572	1,396	13	5,214	5,746	(9)
Income tax expense	618	547	13	2,047	2,253	(9)
Net income	$954	$849	12 %	$3,167	$3,493	(9)%
Financial ratios						
Return on common equity	23 %	21 %		26 %	29 %	
Overhead ratio	41	44		43	42	

Quarterly results
Net income was $954 million, an increase of $105 million, or 12%, compared with the prior year. The increase was driven by lower noninterest expense and lower provision for credit losses, partially offset by lower net revenue.
Net revenue was $4.7 billion, a decrease of $52 million, or 1%, from the prior year. Net interest income was $3.4 billion, down $78 million, or 2%, from the prior year. The decrease was driven by narrower loan spreads, lower average loan balances, and lower late fee income. These decreases were largely offset by lower revenue reversals associated with lower net charge-offs. Noninterest revenue was $1.3 billion, an increase of $26 million, or 2%, from the prior year. The increase was driven by higher net interchange and merchant servicing revenue, largely offset by higher amortization of direct loan origination costs.
The provision for credit losses was $1.2 billion, compared with $1.3 billion in the prior year. The current-quarter provision reflected lower net charge-offs and a small reduction in the allowance for loan losses. The prior-year provision included a $370 million reduction in the allowance for loan losses. The Credit Card net charge-off rate[1] was 3.57%, down from 4.70% in the prior year; and the 30+ day delinquency rate[1] was 2.15%, down from 2.89% in the prior year. The Auto net charge-off rate was 0.74%, up from 0.36% in the prior year, including $55 million of incremental net charge-offs of Chapter 7 loans. Excluding these incremental charge-offs, Auto net charge-offs would have been $35 million for the current quarter, and the net charge-off rate would have been 0.29%.
Noninterest expense was $1.9 billion, a decrease of $195 million, or 9%, from the prior year, driven by lower marketing expense.
Year-to-date results
Net income was $3.2 billion, a decrease of $326 million, or 9%, compared with the prior year. The decrease was driven by lower net revenue and higher provision for credit losses.
Net revenue was $14.0 billion, a decrease of $365 million, or 3%, from the prior year. Net interest income was $10.2 billion, down $535 million, or 5%, 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 $3.8 billion, an increase of $170 million, or 5%, 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, as well as higher merchant servicing revenue, partially offset by higher amortization of direct loan origination costs.

The provision for credit losses was $2.7 billion, compared with $2.6 billion in the prior year. The current-year provision reflected lower net charge-offs and a $1.6 billion reduction in the allowance for loan losses due to lower estimated losses. The prior-year provision included a $3.4

billion reduction in the allowance for loan losses. The Credit Card net charge-off rate[1] was 4.09%, down from 5.78% in the prior year. The net charge-off rate[1] would have been 3.99% absent a policy change on restructured loans that do not comply with their modified payment terms. The Auto net charge-off rate was 0.40%, up from 0.31% in the prior year. Excluding the $55 million of incremental net charge-offs of Chapter 7 loans, the Auto net charge-off rate would have been 0.25%.

Noninterest expense was $6.0 billion, flat compared with the prior year, driven by expense related to a non-core product that is being exited, predominantly offset by lower marketing expense.

[1] The net charge-off and 30+ day delinquency rates presented for credit card loans, which include loans held-for-sale, 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 September 30,			As of or for the nine months ended September 30,		
(in millions, except headcount and ratios)	2012	2011	Change	2012	2011	Change
Selected balance sheet data (period-end)						
Total assets	$200,812	$199,473	1 %	$200,812	$199,473	1 %
Loans:						
Credit Card	124,537	127,135	(2)	124,537	127,135	(2)
Auto	48,920	46,659	5	48,920	46,659	5
Student	11,868	13,751	(14)	11,868	13,751	(14)
Total loans	$185,325	$187,545	(1)	$185,325	$187,545	(1)
Equity	$16,500	$16,000	3	$16,500	$16,000	3
Selected balance sheet data (average)						
Total assets	$196,302	$199,974	(2)	$197,679	$200,803	(2)
Loans:						
Credit Card	124,339	126,536	(2)	125,712	128,015	(2)
Auto	48,399	46,549	4	48,126	47,064	2
Student	12,037	13,865	(13)	12,774	14,135	(10)
Total loans	$184,775	$186,950	(1)	$186,612	$189,214	(1)
Equity	$16,500	$16,000	3	$16,500	$16,000	3
Headcount	27,365	27,554	(1)	27,365	27,554	(1)
Credit data and quality statistics						
Net charge-offs:						
Credit Card	$1,116	$1,499	(26)	$3,847	$5,535	(30)
Auto[(a)]	90	42	114	144	108	33
Student	80	93	(14)	268	308	(13)
Total net charge-offs	$1,286	$1,634	(21)%	$4,259	$5,951	(28)%
Net charge-off rate:						
Credit Card[(b)]	3.57 %	4.70 %		4.11 %	5.83 %	
Auto[(a)]	0.74	0.36		0.40	0.31	
Student	2.64	2.66		2.80	2.91	
Total net charge-off rate	2.77	3.47		3.06	4.23	

35

Selected metrics	As of or for the three months ended September 30,					As of or for the nine months ended September 30,				
(in millions, except ratios and where otherwise noted)	2012		2011		Change	2012		2011		Change
Delinquency rates										
30+ day delinquency rate:										
Credit Card[c]	2.15	%	2.90	%		2.15	%	2.90	%	
Auto	1.11		1.01			1.11		1.01		
Student[d]	2.38		1.93			2.38		1.93		
Total 30+ day delinquency rate	1.89		2.36			1.89		2.36		
90+ day delinquency rate – Credit Card[c]	0.99		1.43			0.99		1.43		
Nonperforming assets[a][e]	$284		$232		22 %	$284		$232		22 %
Allowance for loan losses:										
Credit Card	$5,503		$7,528		(27)	$5,503		$7,528		(27)
Auto and Student	954		1,009		(5)	954		1,009		(5)
Total allowance for loan losses	$6,457		$8,537		(24)	$6,457		$8,537		(24)
Allowance for loan losses to period-end loans:										
Credit Card[c]	4.42	%	5.93	%		4.42	%	5.93	%	
Auto and Student	1.57		1.67			1.57		1.67		
Total allowance for loan losses to period-end loans	3.49		4.55			3.49		4.55		
Business metrics										
Credit Card, excluding Commercial Card										
Sales volume (in billions)	$96.6		$87.3		11	$279.5		$250.3		12
New accounts opened	1.6		2.0		(20)	4.9		6.6		(26)
Open accounts	63.9		64.3		(1)	63.9		64.3		(1)
Merchant Services										
Bank card volume (in billions)	$163.6		$138.1		18	$476.6		$401.1		19
Total transactions (in billions)	7.4		6.1		21	21.3		17.6		21
Auto and Student										
Origination volume (in billions)										
Auto	$6.3		$5.9		7	$17.9		$16.1		11
Student	0.1		0.1		— %	0.2		0.2		— %

(a) Net charge-offs and net charge-off rates for the three and nine months ended September 30, 2012, included $55 million of incremental charge-offs of Chapter 7 loans. Excluding these incremental charge-offs, net charge-offs for the third quarter of 2012 would have been $35 million, and the net charge-off rate for the same period would have been 0.29%. Nonperforming assets at September 30, 2012, included $65 million of Chapter 7 loans.

(b) Average credit card loans included loans held-for-sale of $109 million and $1 million for the three months ended September 30, 2012 and 2011, respectively, and $569 million and $1.1 billion for the nine months ended September 30, 2012 and 2011, respectively. These amounts were excluded when calculating the net charge-off rate.

(c) Period-end credit card loans included loans held-for-sale of $106 million and $94 million at September 30, 2012 and 2011, respectively. No allowance for loan losses was recorded for these loans. These amounts were excluded when calculating delinquency rates and the allowance for loan losses to period-end loans.

(d) Excluded student loans insured by U.S. government agencies under the Federal Family Education Loan Program ("FFELP") of $910 million and $995 million at September 30, 2012 and 2011, respectively, that are 30 or more days past due. These amounts were excluded as reimbursement of insured amounts is proceeding normally.

(e) Nonperforming assets excluded student loans insured by U.S. government agencies under the FFELP of $536 million and $567 million at September 30, 2012 and 2011, respectively, that are 90 or more days past due. These amounts were excluded as reimbursement of insured amounts is proceeding normally.

Card Services supplemental information

	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	2012	2011	Change	2012	2011	Change
Noninterest revenue	$971	$957	1 %	$2,873	$2,755	4 %
Net interest income	2,923	2,984	(2)	8,606	9,095	(5)
Total net revenue	3,894	3,941	(1)	11,479	11,850	(3)
Provision for credit losses	1,116	999	12	2,347	2,035	15
Noninterest expense	1,517	1,734	(13)	4,856	4,911	(1)
Income before income tax expense	1,261	1,208	4	4,276	4,904	(13)
Net income	$769	$737	4 %	$2,608	$2,991	(13)%
Financial ratios						
Percentage of average loans:						
Noninterest revenue	3.11 %	3.00 %		3.05 %	2.88 %	
Net interest income	9.35	9.36		9.14	9.50	
Total net revenue	12.46	12.36		12.20	12.38	

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 September 30,			Nine months ended September 30,		
(in millions, except ratios)	2012	2011	Change	2012	2011	Change
Revenue						
Lending- and deposit-related fees	$263	$269	(2)%	$803	$814	(1)%
Asset management, administration and commissions	30	35	(14)	100	104	(4)
All other income[(a)]	293	220	33	802	706	14
Noninterest revenue	586	524	12	1,705	1,624	5
Net interest income	1,146	1,064	8	3,375	3,107	9
Total net revenue[(b)]	1,732	1,588	9	5,080	4,731	7
Provision for credit losses	(16)	67	NM	44	168	(74)
Noninterest expense						
Compensation expense[(c)]	263	242	9	764	709	8
Noncompensation expense[(c)]	332	324	2	1,006	967	4
Amortization of intangibles	6	7	(14)	20	23	(13)
Total noninterest expense	601	573	5	1,790	1,699	5
Income before income tax expense	1,147	948	21	3,246	2,864	13
Income tax expense	457	377	21	1,292	1,140	13
Net income	$690	$571	21	$1,954	$1,724	13
Revenue by product						
Lending	$916	$857	7	$2,728	$2,574	6
Treasury services	609	572	6	1,814	1,670	9
Investment banking	139	116	20	388	378	3
Other	68	43	58	150	109	38
Total Commercial Banking net revenue	$1,732	$1,588	9	$5,080	$4,731	7
IB revenue, gross[(d)]	$431	$320	35	$1,154	$1,071	8
Revenue by client segment						
Middle Market Banking	$838	$791	6	$2,496	$2,335	7
Commercial Term Lending	298	297	—	882	869	1
Corporate Client Banking	370	306	21	1,050	935	12
Real Estate Banking	106	104	2	325	301	8
Other	120	90	33	327	291	12
Total Commercial Banking net revenue	$1,732	$1,588	9%	$5,080	$4,731	7%
Financial ratios						
Return on common equity	29%	28%		27%	29%	
Overhead ratio	35	36		35	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 $115 million and $90 million for the three months ended September 30, 2012 and 2011, respectively, and $308 million and $222 million for the nine months ended September 30, 2012 and 2011, respectively.

(c) Effective July 1, 2012, certain Treasury Services product sales staff supporting CB were transferred from TSS to CB. As a result, compensation expense for these sales staff is now reflected in CB's compensation expense rather than as an allocation from TSS in noncompensation expense. CB's and TSS's previously reported headcount, compensation expense and noncompensation expense have been revised to reflect this transfer.

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

Quarterly results

Net income was $690 million, an increase of $119 million, or 21%, from the prior year. The improvement was driven by an increase in net revenue and lower provision for credit losses, partially offset by higher expense.

Record net revenue was $1.7 billion, an increase of $144 million, or 9%, from the prior year. Net interest income was $1.1 billion, up by $82 million, or 8%, driven by growth in loan and liability balances, partially offset by spread compression on loan products. Noninterest revenue was $586 million, up $62 million, or 12%, compared with the prior year, primarily driven by higher investment banking revenue.

Revenue from Middle Market Banking was $838 million, an increase of $47 million, or 6%, from the prior year. Revenue from Commercial Term Lending was $298 million, flat compared with the prior year. Revenue from Corporate Client Banking was $370 million, an increase of $64 million, or 21%. Revenue from Real Estate Banking was $106 million, an increase of $2 million, or 2%.

The provision for credit losses was a benefit of $16 million, compared with provision for credit losses of $67 million in the prior year. There were net recoveries of $18 million in the current quarter (0.06% net recovery rate), compared with net charge-offs of $17 million (0.06% net charge-off rate) in the prior year. The allowance for loan losses to period-end loans retained was 2.15%, down from 2.50% in the prior year. Nonaccrual loans were $876 million, down by $567 million, or 39%, from the prior year, due to commercial real estate repayments and loan sales.

Noninterest expense was $601 million, an increase of $28 million, or 5%, from the prior year, reflecting higher headcount-related expense.

Year-to-date results

Net income was $2.0 billion, an increase of $230 million, or 13%, 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 $5.1 billion, an increase of $349 million, or 7%, from the prior year. Net interest income was $3.4 billion, up by $268 million, or 9%, driven by growth in loan and liability balances, partially offset by spread compression on loan and liability products. Noninterest revenue was $1.7 billion, up by $81 million, or 5%, compared with the prior year, predominantly driven by increased community development investment-related revenue and other fee income.

Revenue from Middle Market Banking was $2.5 billion, an increase of $161 million, or 7%, from the prior year. Revenue from Commercial Term Lending was $882 million, an increase of $13 million, or 1%. Revenue from Corporate Client Banking was $1.1 billion, an increase of $115 million, or 12%. Revenue from Real Estate Banking was $325 million, an increase of $24 million, or 8%.

The provision for credit losses was $44 million, compared with $168 million in the prior year. Net recoveries were $15 million (0.02% net recovery rate) compared with net charge-offs of $88 million (0.12% net charge-off rate) in the prior year.

Noninterest expense was $1.8 billion, an increase of $91 million, or 5% 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 September 30, 2012	2011	Change	As of or for the nine months ended September 30, 2012	2011	Change
Selected balance sheet data (period-end)						
Total assets	$168,124	$151,095	11 %	$168,124	$151,095	11 %
Loans:						
Loans retained	123,173	106,834	15	123,173	106,834	15
Loans held-for-sale and loans at fair value	549	584	(6)	549	584	(6)
Total loans	$123,722	$107,418	15	$123,722	$107,418	15
Equity	9,500	8,000	19	9,500	8,000	19
Period-end loans by client segment						
Middle Market Banking	$48,852	$42,365	15	$48,852	$42,365	15
Commercial Term Lending	42,304	38,539	10	42,304	38,539	10
Corporate Client Banking	19,727	15,100	31	19,727	15,100	31
Real Estate Banking	8,563	7,470	15	8,563	7,470	15
Other	4,276	3,944	8	4,276	3,944	8
Total Commercial Banking loans	$123,722	$107,418	15	$123,722	$107,418	15
Selected balance sheet data (average)						
Total assets	$164,702	$145,195	13	$163,072	$143,069	14
Loans:						
Loans retained	121,566	104,705	16	117,442	101,485	16
Loans held-for-sale and loans at fair value	552	632	(13)	677	801	(15)
Total loans	$122,118	$105,337	16	$118,119	$102,286	15
Liability balances	190,910	180,275	6	194,775	166,503	17
Equity	9,500	8,000	19	9,500	8,000	19
Average loans by client segment						
Middle Market Banking	$47,741	$41,540	15	$46,560	$39,932	17
Commercial Term Lending	41,658	38,198	9	40,194	37,914	6
Corporate Client Banking	19,791	14,373	38	18,635	13,277	40
Real Estate Banking	8,651	7,465	16	8,600	7,512	14
Other	4,277	3,761	14	4,130	3,651	13
Total Commercial Banking loans	$122,118	$105,337	16	$118,119	$102,286	15
Headcount[(a)]	6,100	5,687	7	6,100	5,687	7
Credit data and quality statistics						
Net (recoveries)/charge-offs	$(18)	$17	NM	$(15)	$88	NM
Nonperforming assets						
Nonaccrual loans:						
Nonaccrual loans retained[(b)]	843	1,417	(41)	843	1,417	(41)
Nonaccrual loans held-for-sale and loans held at fair value	33	26	27	33	26	27
Total nonaccrual loans	876	1,443	(39)	876	1,443	(39)
Assets acquired in loan satisfactions	32	168	(81)	32	168	(81)

Total nonperforming assets	908	1,611	(44)	908	1,611	(44)
Allowance for credit losses:						
Allowance for loan losses	2,653	2,671	(1)	2,653	2,671	(1)
Allowance for lending-related commitments	196	181	8	196	181	8
Total allowance for credit losses	2,849	2,852	— %	2,849	2,852	— %
Net (recovery)/charge-off rate[(c)]	(0.06)%	0.06 %		(0.02)%	0.12 %	
Allowance for loan losses to period-end loans retained	2.15	2.50		2.15	2.50	
Allowance for loan losses to nonaccrual loans retained[(b)]	315	188		315	188	
Nonaccrual loans to total period-end loans	0.71	1.34		0.71	1.34	

(a) Effective July 1, 2012, certain Treasury Services product sales staff supporting CB were transferred from TSS to CB. For further discussion of this transfer, see footnote (c) on page 38 of this Form 10-Q.

(b) Allowance for loan losses of $148 million and $257 million was held against nonaccrual loans retained at September 30, 2012 and 2011, respectively.

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

TREASURY & SECURITIES SERVICES

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

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratio data)	2012	2011	Change	2012	2011	Change
Revenue						
Lending- and deposit-related fees	$282	$310	(9)%	$855	$927	(8)%
Asset management, administration and commissions	630	656	(4)	1,992	2,077	(4)
All other income	136	141	(4)	419	423	(1)
Noninterest revenue	1,048	1,107	(5)	3,266	3,427	(5)
Net interest income	981	801	22	2,929	2,253	30
Total net revenue	2,029	1,908	6	6,195	5,680	9
Provision for credit losses	(12)	(20)	40	(2)	(18)	89
Credit allocation income/(expense)[a]	54	9	500	125	68	84
Noninterest expense						
Compensation expense[b]	686	705	(3)	2,115	2,114	—
Noncompensation expense[b]	743	741	—	2,251	2,132	6
Amortization of intangibles	14	24	(42)	41	54	(24)
Total noninterest expense	1,443	1,470	(2)	4,407	4,300	2
Income before income tax expense	652	467	40	1,915	1,466	31
Income tax expense	232	162	43	681	512	33
Net income	$420	$305	38	$1,234	$954	29
Financial ratios						
Return on common equity	22%	17%		22%	18%	
Pretax margin ratio	32	24		31	26	
Overhead ratio	71	77		71	76	
Pre-provision profit ratio	29	23		29	24	
Revenue by business						
Worldwide Securities Services						
Investor Services	$777	$740	5	$2,395	$2,267	6
Clearance, Collateral Management and Depositary Receipts	188	199	(6)	610	623	(2)
Total WSS revenue	$965	$939	3	$3,005	$2,890	4
Treasury Services						
Transaction Services	$913	$816	12	$2,723	$2,366	15
Trade Finance	151	153	(1)	467	424	10
Total TS revenue	$1,064	$969	10%	$3,190	$2,790	14%

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

(b) Effective July 1, 2012, certain Treasury Services product sales staff supporting CB were transferred from TSS to CB. For further discussion of this transfer, see footnote (c) on page 38 of this Form 10-Q.

Quarterly results

Net income was $420 million, an increase of $115 million, or 38%, from the prior year.

Net revenue was $2.0 billion, an increase of $121 million, or 6%, from the prior year. Treasury Services (“TS”) net revenue was $1.1 billion, an increase of $95 million, or 10%. The increase was driven by higher deposit balances and higher trade finance loan volumes. Worldwide Securities Services (“WSS”) net revenue was $1.0 billion, an increase of $26 million, or 3%, compared with the prior year driven by higher deposit balances.

TSS generated firmwide net revenue of $2.7 billion, including $1.7 billion by TS; of that amount, $1.1 billion was recorded in TS, $609 million in Commercial Banking and $67 million in other lines of business. The remaining $1.0 billion of firmwide net revenue was recorded in WSS.

Noninterest expense was $1.4 billion, a decrease of $27 million, or 2%, compared with the prior year.

Year-to-date results

Net income was $1.2 billion, an increase of $280 million, or 29%, from the prior year.

Net revenue was $6.2 billion, an increase of $515 million, or 9%, from the prior year. TS revenue was $3.2 billion, an increase of $400 million, or 14%. The increase was primarily driven by higher deposit balances and higher trade finance loan volumes. WSS net revenue was $3.0 billion, an increase of $115 million, or 4% compared with the prior year, driven by higher deposit balances.

TSS generated firmwide net revenue of $8.2 billion, including $5.2 billion by TS; of that amount, $3.2 billion was recorded in TS, $1.8 billion in Commercial Banking, and $204 million in other lines of business. The remaining $3.0 billion of firmwide net revenue was recorded in WSS.

Noninterest expense was $4.4 billion, an increase of $107 million, or 2%, from the prior year.

Selected metrics	As of or for the three months ended September 30,			As of or for the nine months ended September 30,		
(in millions, except headcount data and where otherwise noted)	2012	2011	Change	2012	2011	Change
Selected balance sheet data (period-end)						
Total assets	$65,337	$62,364	5 %	$65,337	$62,364	5 %
Loans[(a)]	40,616	36,389	12	40,616	36,389	12
Equity	7,500	7,000	7	7,500	7,000	7
Selected balance sheet data (average)						
Total assets	$63,203	$60,141	5	$64,714	$53,612	21
Loans[(a)]	40,791	35,303	16	41,179	32,576	26
Liability balances	351,383	341,107	3	352,147	303,504	16
Equity	7,500	7,000	7	7,500	7,000	7
Headcount[(b)]	26,595	27,887	(5)	26,595	27,887	(5)
WSS business metrics						
Assets under custody (“AUC”) by assets class (period-end) (in billions)						
Fixed income	$11,545	$10,871	6	$11,545	$10,871	6
Equity	5,328	4,401	21	5,328	4,401	21
Other[(c)]	1,346	978	38	1,346	978	38
Total AUC	$18,219	$16,250	12	$18,219	$16,250	12
Liability balances (average)	124,669	107,105	16	123,840	93,433	33
TS business metrics						
TS liability balances (average)	226,714	234,002	(3)	228,307	210,071	9
Trade finance loans (period-end)	35,142	30,104	17 %	35,142	30,104	17 %

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

(b) Effective July 1, 2012, certain Treasury Services product sales staff supporting CB were transferred from TSS to CB. For further discussion of this transfer, see footnote (c) on page 38 of this Form 10-Q.

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

Selected metrics	As of or for the three months ended September 30,			As of or for the nine months ended September 30,		
(in millions, except ratio data, and where otherwise noted)	2012	2011	Change	2012	2011	Change
Credit data and quality statistics						
Net charge-offs	$(6)	$—	NM%	$(6)	$—	NM%
Nonaccrual loans	7	3	133	7	3	133
Allowance for credit losses:						
Allowance for loan losses	74	49	51	74	49	51
Allowance for lending-related commitments	9	46	(80)	9	46	(80)
Total allowance for credit losses	83	95	(13)	83	95	(13)
Net charge-off rate	(0.06)%	—%		(0.02)%	—%	
Allowance for loan losses to period-end loans	0.18	0.14		0.18	0.14	
Allowance for loan losses to nonaccrual loans	NM	NM		NM	NM	
Nonaccrual loans to period-end loans	0.02	0.01		0.02	0.01	
International metrics						
Net revenue[(a)]						
Europe/Middle East/Africa	$677	$648	4	$2,122	$1,969	8
Asia/Pacific	342	321	7	1,040	896	16
Latin America/Caribbean	70	61	15	224	217	3
North America	940	878	7	2,809	2,598	8
Total net revenue	$2,029	$1,908	6	$6,195	$5,680	9
Average liability balances[(a)]						
Europe/Middle East/Africa	$125,720	$129,608	(3)	$126,891	$121,581	4
Asia/Pacific	50,862	42,987	18	50,465	41,541	21
Latin America/Caribbean	10,141	12,722	(20)	10,813	12,983	(17)
North America	164,660	155,790	6	163,978	127,399	29
Total average liability balances	$351,383	$341,107	3	$352,147	$303,504	16
Trade finance loans (period-end)[(a)]						
Europe/Middle East/Africa	$9,274	$6,853	35	$9,274	$6,853	35
Asia/Pacific	18,317	16,918	8	18,317	16,918	8
Latin America/Caribbean	5,710	5,228	9	5,710	5,228	9
North America	1,841	1,105	67	1,841	1,105	67
Total trade finance loans	$35,142	$30,104	17	$35,142	$30,104	17
AUC (period-end)(in billions)[(a)]						
North America	$10,206	$9,611	6	$10,206	$9,611	6
All other regions	8,013	6,639	21	8,013	6,639	21
Total AUC	$18,219	$16,250	12%	$18,219	$16,250	12%

(a) Total net revenue, average liability balances, trade finance loans and AUC are based on the domicile of the client. In the second quarter of 2012, the methodology for allocating the data by region was refined. Prior period was not revised due to immateriality.

Selected metrics	As of or for the three months ended September 30,				As of or for the nine months ended September 30,			
(in millions, except where otherwise noted)	2012	2011	Change		2012	2011	Change	
TSS firmwide disclosures[a]								
TS revenue – reported	$1,064	$969	10	%	$3,190	$2,790	14	%
TS revenue reported in CB	609	572	6		1,814	1,670	9	
TS revenue reported in other lines of business	67	68	(1	)	204	196	4	
TS firmwide revenue[b]	1,740	1,609	8		5,208	4,656	12	
WSS revenue	965	939	3		3,005	2,890	4	
TSS firmwide revenue[b]	$2,705	$2,548	6		$8,213	$7,546	9	
TSS total foreign exchange (“FX”) revenue[b]	135	179	(25	)	419	504	(17	)
TS firmwide liability balances (average)[c]	417,821	414,485	1		423,289	376,661	12	
TSS firmwide liability balances (average)[c]	542,293	521,383	4		546,922	470,008	16	
Number of:								
U.S.$ ACH transactions originated	1,028	972	6		3,067	2,923	5	
Total U.S.$ clearing volume (in thousands)	34,697	33,117	5		101,373	96,362	5	
International electronic funds transfer volume (in thousands)[d]	73,281	62,718	17		224,711	186,868	20	
Wholesale check volume	580	601	(3	)	1,771	1,741	2	
Wholesale cards issued (in thousands)[e]	24,955	24,288	3	%	24,955	24,288	3	%

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

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

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

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

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

ASSET MANAGEMENT

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

Selected income statement data

	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	2012	2011	Change	2012	2011	Change
Revenue						
Asset management, administration and commissions	$1,708	$1,617	6 %	$5,030	$5,142	(2)%
All other income	199	281	(29)	616	915	(33)
Noninterest revenue	1,907	1,898	—	5,646	6,057	(7)
Net interest income	552	418	32	1,547	1,202	29
Total net revenue	2,459	2,316	6	7,193	7,259	(1)
Provision for credit losses	14	26	(46)	67	43	56
Noninterest expense						
Compensation expense	1,083	999	8	3,227	3,106	4
Noncompensation expense	625	775	(19)	1,866	2,078	(10)
Amortization of intangibles	23	22	5	68	66	3
Total noninterest expense	1,731	1,796	(4)	5,161	5,250	(2)
Income before income tax expense	714	494	45	1,965	1,966	—
Income tax expense	271	109	149	745	676	10
Net income	$443	$385	15	$1,220	$1,290	(5)
Revenue by client segment						
Private Banking	$1,365	$1,298	5	$3,985	$3,904	2
Institutional	563	478	18	1,657	1,715	(3)
Retail	531	540	(2)	1,551	1,640	(5)
Total net revenue	$2,459	$2,316	6 %	$7,193	$7,259	(1)%
Financial ratios						
Return on common equity	25 %	24 %		23 %	27 %	
Overhead ratio	70	78		72	72	
Pretax margin ratio	29	21		27	27	

Quarterly results

Net income was $443 million, an increase of $58 million, or 15%, from the prior year. These results reflected higher net revenue, lower noninterest expense and lower provision for credit losses.

Net revenue was $2.5 billion, an increase of $143 million, or 6%, from the prior year. Noninterest revenue was $1.9 billion, up $9 million, flat compared with the prior year, as higher valuations of seed capital investments and net product inflows were offset by the absence of a prior-year gain on the sale of an investment and lower loan-related revenue. Net interest income was $552 million, up by $134 million, or 32%, primarily due to higher deposit and loan balances.

Revenue from Private Banking was $1.4 billion, up 5% from the prior year. Revenue from Institutional was $563 million, up 18%. Revenue from Retail was $531 million, down 2%.

The provision for credit losses was $14 million, compared with $26 million in the prior year.

Noninterest expense was $1.7 billion, a decrease of $65 million, or 4%, from the prior year, due to the absence of non-client-related litigation expense, partially offset by higher performance-based compensation.

Year-to-date results

Net income was $1.2 billion, a decrease of $70 million, or 5%, from the prior year. These results reflected lower net revenue and a higher provision for credit losses, offset by lower noninterest expense.

Net revenue was $7.2 billion, a decrease of $66 million, or 1%, from the prior year. Noninterest revenue was $5.6 billion, down by $411 million, or 7%, due to lower loan-related revenue, lower performance fees, the absence of a prior-year gain on the sale of an investment and the effect of lower market levels, partially offset by net product inflows. Net interest income was $1.5 billion, up by $345 million, or 29%, due to higher deposit and loan balances. Revenue from Private Banking was $4.0 billion, up 2% from the prior year. Revenue from Institutional was $1.7 billion, down 3%. Revenue from Retail was $1.6 billion, down 5%.

The provision for credit losses was $67 million, compared with $43 million in the prior year.
Noninterest expense was $5.2 billion, a decrease of $89 million, or 2%, from the prior year, due to the absence of

non-client-related litigation expense, partially offset by higher headcount-related expense and higher performance-based compensation.

Selected metrics	As of or for the three months ended September 30,			As of or for the nine months ended September 30,		
(in millions, except headcount, ranking data and where otherwise noted)	2012	2011	Change	2012	2011	Change
Number of:						
Client advisors[(a)]	2,826	2,864	(1)%	2,826	2,864	(1)%
Retirement planning services participants (in thousands)	1,951	1,755	11	1,951	1,755	11
% of customer assets in 4 & 5 Star Funds[(b)]	45 %	47 %		45 %	47 %	
% of AUM in 1st and 2nd quartiles:[(c)]						
1 year	69	49		69	49	
3 years	78	73		78	73	
5 years	77	77		77	77	
Selected balance sheet data (period-end)						
Total assets	$103,608	$81,179	28	$103,608	$81,179	28
Loans[(d)]	74,924	54,178	38	74,924	54,178	38
Equity	7,000	6,500	8	7,000	6,500	8
Selected balance sheet data (average)						
Total assets	$99,209	$78,669	26	$95,168	$73,967	29
Loans	71,824	52,652	36	66,097	48,841	35
Deposits	127,487	111,090	15	127,702	101,341	26
Equity	7,000	6,500	8	7,000	6,500	8
Headcount	18,109	18,084	— %	18,109	18,084	— %

(a) Effective January 1, 2012, the previously disclosed separate metric for client advisors and JPMorgan Securities brokers were combined into one metric that reflects the number of Private Banking client-facing representatives.
(b) Derived from Morningstar for the U.S., the U.K., Luxembourg, France, Hong Kong and Taiwan; and Nomura for Japan.
(c) Quartile ranking sourced from: Lipper for the U.S. and Taiwan; Morningstar for the U.K., Luxembourg, France and Hong Kong; and Nomura for Japan.
(d) Includes $8.9 billion of prime mortgage loans reported in the Consumer loan portfolio at September 30, 2012.

Selected metrics	As of or for the three months ended September 30,			As of or for the nine months ended September 30,		
(in millions, except ratios)	2012	2011	Change	2012	2011	Change
Credit data and quality statistics						
Net charge-offs	$6	$—	NM	$61	$44	39 %
Nonaccrual loans	227	311	(27)	227	311	(27)
Allowance for credit losses:						
Allowance for loan losses	229	240	(5)	229	240	(5)

Allowance for lending-related commitments	5	9	(44	)	5	9	(44	)
Total allowance for credit losses	234	249	(6	)%	234	249	(6	)%
Net charge-off rate	0.03 %	— %			0.12 %	0.12 %		
Allowance for loan losses to period-end loans	0.31	0.44			0.31	0.44		
Allowance for loan losses to nonaccrual loans	101	77			101	77		
Nonaccrual loans to period-end loans	0.30	0.57			0.30	0.57		

Assets under supervision

Assets under supervision were $2.0 trillion, an increase of $225 billion, or 12%, from the prior year. Assets under management were $1.4 trillion, an increase of $127 billion, or 10%, due to the effect of higher market levels and net inflows to long-term products. Custody, brokerage, administration and deposit balances were $650 billion, up by $98 billion, or 18%, primarily due to the effect of higher market levels and custody and brokerage inflows.

Assets under supervision September 30, (in billions)	2012	2011	Change
Assets by asset class			
Liquidity	$451	$464	(3)%
Fixed income	380	321	18
Equity and multi-asset	432	356	21
Alternatives	118	113	4
Total assets under management	1,381	1,254	10
Custody/brokerage/administration/deposits	650	552	18
Total assets under supervision	$2,031	$1,806	12
Assets by client segment			
Private Banking	$311	$276	13
Institutional	710	673	5
Retail	360	305	18
Total assets under management	$1,381	$1,254	10
Private Banking	$852	$738	15
Institutional	710	674	5
Retail	469	394	19
Total assets under supervision	$2,031	$1,806	12
Mutual fund assets by asset class			
Liquidity	$390	$409	(5)
Fixed income	128	101	27
Equity and multi-asset	174	139	25
Alternatives	6	8	(25)
Total mutual fund assets	$698	$657	6%

(in billions)	Three months ended September 30, 2012	2011	Nine months ended September 30, 2012	2011
Assets under management rollforward				
Beginning balance	$1,347	$1,342	$1,336	$1,298
Net asset flows:				
Liquidity	(17)	(10)	(67)	(35)
Fixed income	13	3	29	31
Equity, multi-asset and alternatives	8	(1)	23	17
Market/performance/other impacts	30	(80)	60	(57)
Ending balance, September 30	$1,381	$1,254	$1,381	$1,254
Assets under supervision rollforward				
Beginning balance	$1,968	$1,924	$1,921	$1,840
Net asset flows	10	11	12	54
Market/performance/other impacts	53	(129)	98	(88)
Ending balance, September 30	$2,031	$1,806	$2,031	$1,806

International metrics	As of or for the three months ended September 30,			As of or for the nine months ended September 30,		
(in billions, except where otherwise noted)	2012	2011	Change	2012	2011	Change
Total net revenue (in millions)[(a)]						
Europe/Middle East/Africa	$386	$395	(2)%	$1,170	$1,312	(11)%
Asia/Pacific	245	248	(1)	711	751	(5)
Latin America/Caribbean	191	168	14	532	584	(9)
North America	1,637	1,505	9	4,780	4,612	4
Total net revenue	$2,459	$2,316	6	$7,193	$7,259	(1)
Assets under management						
Europe/Middle East/Africa	$267	$255	5	$267	$255	5
Asia/Pacific	112	104	8	112	104	8
Latin America/Caribbean	42	32	31	42	32	31
North America	960	863	11	960	863	11
Total assets under management	$1,381	$1,254	10	$1,381	$1,254	10
Assets under supervision						
Europe/Middle East/Africa	$325	$306	6	$325	$306	6
Asia/Pacific	155	140	11	155	140	11
Latin America/Caribbean	106	87	22	106	87	22
North America	1,445	1,273	14	1,445	1,273	14
Total assets under supervision	$2,031	$1,806	12 %	$2,031	$1,806	12 %

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

CORPORATE/PRIVATE EQUITY

For a discussion of Corporate/Private Equity, see pages 107–108 of JPMorgan Chase's 2011 Annual Report and the Introduction on page 5 of this Form 10-Q.

Selected income statement data

	As of or for the three months ended September 30,			As of or for the nine months ended September 30,		
(in millions, except headcount)	2012	2011	Change	2012	2011	Change
Revenue						
Principal transactions	$(304)	$(933)	67%	$(4,427)	$1,110	NM%
Securities gains	459	607	(24)	1,921	1,546	24
All other income	1,046	186	462	2,316	529	338
Noninterest revenue	1,201	(140)	NM	(190)	3,185	NM
Net interest income	(625)	8	NM	(814)	260	NM
Total net revenue[(a)]	576	(132)	NM	(1,004)	3,445	NM
Provision for credit losses	(11)	(7)	(57)	(31)	(26)	(19)
Noninterest expense						
Compensation expense	589	552	7	2,064	1,823	13
Noncompensation expense[(b)]	1,603	1,995	(20)	6,248	5,235	19
Subtotal	2,192	2,547	(14)	8,312	7,058	18
Net expense allocated to other businesses	(1,462)	(1,331)	(10)	(4,254)	(3,839)	(11)
Total noninterest expense	730	1,216	(40)	4,058	3,219	26
Income/(loss) before income tax expense/(benefit)	(143)	(1,341)	89	(5,031)	252	NM
Income tax expense/(benefit)	(364)	(696)	48	(2,453)	(327)	NM
Net income/(loss)	$221	$(645)	NM	$(2,578)	$579	NM
Total net revenue						
Private equity	$(135)	$(546)	75	$529	$949	(44)
Treasury and CIO	713	102	NM	(2,954)	2,351	NM
Corporate	(2)	312	NM	1,421	145	NM
Total net revenue	$576	$(132)	NM	$(1,004)	$3,445	NM
Net income/(loss)						
Private equity	$(89)	$(347)	74	$242	$480	(50)
Treasury and CIO	369	(94)	NM	(1,936)	932	NM
Corporate	(59)	(204)	71	(884)	(833)	(6)
Total net income/(loss)	$221	$(645)	NM	$(2,578)	$579	NM
Total assets (period-end)	$685,412	$693,597	(1)	$685,412	$693,597	(1)
Headcount	23,427	21,844	7%	23,427	21,844	7%

(a) Total net revenue included tax-equivalent adjustments, predominantly due to tax-exempt income from municipal bond investments of $109 million and $73 million for the three months ended September 30, 2012 and 2011, respectively, and $326 million and $206 million for the nine months ended September 30, 2012 and 2011, respectively.

(b) Included litigation expense of $685 million and $1.0 billion for the three months ended September 30, 2012 and 2011, respectively, and $3.5 billion and $2.6 billion for the nine months ended September 30, 2012 and 2011, respectively.

Quarterly results

Net income was $221 million, compared with a net loss of $645 million in the prior year.

Private Equity reported a net loss of $89 million, compared with a net loss of $347 million in the prior year. Net revenue was a loss of $135 million, compared with a loss of $546 million in the prior year, due to lower net valuation losses on both private and public investments.

Treasury and CIO reported net income of $369 million, compared with a net loss of $94 million in the prior year. Net revenue was $713 million, compared with net revenue of $102 million in the prior year. The current-quarter revenue reflected $888 million of pretax extinguishment

gains related to the redemption of trust preferred capital debt securities. The extinguishment gains were related to adjustments applied to the cost basis of the trust preferred capital debt securities during the period they were in a qualified hedge accounting relationship.

During the third quarter, CIO effectively closed out the index credit derivative positions that were retained following the transfer of the synthetic credit portfolio to IB on July 2, 2012. Principal transactions in CIO included $449 million of losses on this portfolio reflecting credit spread tightening during the quarter. Net revenue also included securities gains of $459 million from sales of AFS investment securities during the current quarter. Net interest income

was negative, reflecting the impact of lower portfolio yields and higher deposit balances across the Firm.
Other Corporate reported a net loss of $59 million, compared with a net loss of $204 million in the prior year. The current quarter included pretax expense of $684 million for additional litigation reserves, largely offset by other items, including tax adjustments. The prior year included pretax expense of $1.0 billion for additional litigation reserves.

Year-to-date results

Net loss was $2.6 billion, compared with net income of $579 million in the prior year.

Private Equity reported net income of $242 million, compared with net income of $480 million in the prior year. Net revenue of $529 million, compared with $949 million in the prior year, due to lower net valuation gains on private investments and lower gains on sales, partially offset by higher net valuation gains on public securities. Noninterest expense was $150 million, down from $210 million in the prior year.

Treasury and CIO reported a net loss of $1.9 billion, compared with net income of $932 million in the prior year. Net revenue was a loss of $3.0 billion, compared with net revenue of $2.4 billion in the prior year. The current year loss reflected $5.8 billion of principal transactions losses for the sixth months ended June 30, 2012 and $449 million

of principal transactions losses for the three months ended September 30, 2012, from the synthetic credit portfolio recorded in CIO. These losses were partially offset by securities gains of $1.9 billion. The current-year revenue reflected $888 million of pretax extinguishment gains related to the redemption of trust preferred capital debt securities. The extinguishment gains were related to adjustments applied to the cost basis of the trust preferred capital debt securities during the period they were in a qualified hedge accounting relationship. Net interest income was negative $295 million, compared with $926 million in the prior year, primarily reflecting the impact of lower portfolio yields and higher deposit balances across the Firm.

Other Corporate reported a net loss of $884 million, compared with a net loss of $833 million in the prior year. Noninterest revenue of $1.8 billion was driven by a $1.1 billion benefit from the Washington Mutual bankruptcy settlement and a $663 million gain for the expected recovery on a Bear Stearns-related subordinated loan. Noninterest expense of $3.5 billion was up $1.2 billion compared with the prior year. The current year included pretax expense of $3.5 billion for additional litigation reserves, largely for mortgage-related matters. The prior year included pretax expense of $2.6 billion for additional litigation reserves.

Treasury and CIO overview

Treasury and CIO are responsible for measuring, monitoring, reporting and managing the Firm's liquidity, funding, capital, interest rate and foreign exchange risks, and other risks. The risks managed by Treasury and CIO arise from the activities undertaken by the Firm's six major reportable business segments to serve their respective client bases, which generate both on- and off-balance sheet assets and liabilities.

Treasury is responsible for, among other functions, funds transfer pricing. Funds transfer pricing is used to transfer interest rate risk and foreign exchange risk of the Firm to Treasury and CIO and allocate interest income and expense to each business based on market rates. CIO, through its management of the investment portfolio, generates net interest income to pay the lines of business market rates. Any variance (whether positive or negative) between amounts generated by CIO through its investment portfolio activities and amounts paid to or received by the lines of business are retained by CIO, and are not reflected in line of business segment results. Treasury and CIO activities operate in support of the overall Firm.

CIO achieves the Firm's asset-liability management objectives generally by investing in high-quality securities that are managed for the longer-term as part of the Firm's AFS investment portfolio. Unrealized gains and losses on securities held in the AFS portfolio are recorded in other comprehensive income. For further information about

securities in the AFS portfolio, see Note 3 and Note 11 on pages 119–133 and 148–153, respectively, of this Form 10-Q. CIO also uses securities that are not classified within the AFS portfolio, as well as derivatives, to meet the Firm's asset-liability management objectives. Securities not classified within the AFS portfolio are recorded in trading assets and liabilities; realized and unrealized gains and losses on such securities are recorded in the principal transactions revenue line in the Consolidated Statements of Income. For further information about securities included in trading assets and liabilities, see Note 3 on pages 119–133 of this Form 10-Q. Derivatives used by CIO are also classified as trading assets and liabilities. For further information on derivatives, including the classification of realized and unrealized gains and losses, see Note 5 on pages 136–144 of the Form 10-Q.

CIO's AFS portfolio consists of U.S. and non-U.S. government securities, agency and non-agency mortgage-backed securities, other asset-backed securities and corporate and municipal debt securities. At September 30, 2012, the total CIO AFS portfolio was approximately $338 billion; the average credit rating of the securities comprising the AFS portfolio was AA+ (based upon external ratings where available and where not available, based primarily upon internal ratings which correspond to ratings as defined by S&P and Moody's). See Note 11 on pages 148–153 of this Form 10-Q for further information on the details of the AFS portfolio.

For further information on liquidity and funding risk, see Liquidity Risk Management on pages 66–72 of this Form 10-Q. For information on interest rate, foreign exchange and other risks, and CIO VaR and the Firm's nontrading

interest rate-sensitive revenue at risk, see Market Risk Management on pages 96–102 of this Form 10-Q.

Selected income statement and balance sheet data

	As of or for the three months ended September 30,			As of or for the nine months ended September 30,		
(in millions)	2012	2011	Change	2012	2011	Change
Securities gains[a]	$459	$459	— %	$1,925	$1,398	38 %
Investment securities portfolio (average)[b]	348,571	324,596	7	356,405	324,527	10
Investment securities portfolio (ending)[b]	360,268	330,800	9	360,268	330,800	9
Mortgage loans (average)	9,469	13,748	(31)	11,033	12,641	(13)
Mortgage loans (ending)	8,574	14,226	(40)%	8,574	14,226	(40)%

(a) Reflects repositioning of the Corporate investment securities portfolio.
(b) The investment securities portfolio includes the AFS portfolio in Treasury and CIO.

Private Equity Portfolio

Selected income statement and balance sheet data

	Three months ended September 30,			Nine months ended September 30,		
(in millions)	2012	2011	Change	2012	2011	Change
Private equity gains/(losses)						
Realized gains	$75	$394	(81)%	$25	$1,784	(99)%
Unrealized gains/(losses)[a]	(140)	(827)	83	628	(1,183)	NM
Total direct investments	(65)	(433)	85	653	601	9
Third-party fund investments	(27)	(7)	(286)	47	502	(91)
Total private equity gains/(losses)[b]	$(92)	$(440)	79 %	$700	$1,103	(37)%

Private equity portfolio information[c]

Direct investments

(in millions)	September 30, 2012	December 31, 2011	Change
Publicly held securities			
Carrying value	$637	$805	(21)%
Cost	384	573	(33)
Quoted public value	673	896	(25)
Privately held direct securities			
Carrying value	5,313	4,597	16
Cost	6,662	6,793	(2)
Third-party fund investments[d]			
Carrying value	2,119	2,283	(7)
Cost	2,018	2,452	(18)
Total private equity portfolio			
Carrying value	$8,069	$7,685	5
Cost	$9,064	$9,818	(8)%

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

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

(c) For more information on the Firm’s policies regarding the valuation of the private equity portfolio, see Note 3 on pages 119–133 of this Form 10-Q.

(d) Unfunded commitments to third-party private equity funds were \$398 million and \$789 million at September 30, 2012, and December 31, 2011, respectively.

The carrying value of the private equity portfolio at September 30, 2012, was \$8.1 billion, up from \$7.7 billion at December 31, 2011. The increase in the portfolio was predominantly driven by new investments and net valuation gains, partially offset by sales of investments. The portfolio represented 5.3% of the Firm’s stockholders’ equity less goodwill at September 30, 2012, down from 5.7% at December 31, 2011.

INTERNATIONAL OPERATIONS

During the three and nine months ended September 30, 2012, the Firm recorded approximately $5.3 billion and $12.9 billion, respectively, of managed revenue derived from clients, customers and counterparties domiciled outside of North America. Of those amounts, approximately 63% and 53%, respectively, were derived from Europe/Middle East/Africa ("EMEA"); approximately 26% and 33%, respectively, from Asia/Pacific; and approximately 11% and 14%, respectively, from Latin America/Caribbean.

During the three and nine months ended September 30, 2011, the Firm recorded approximately $5.6 billion and $19.1 billion, respectively, of managed revenue derived from clients, customers and counterparties domiciled outside of North America. Of those amounts, approximately 64% and 66%, respectively, were derived from EMEA; approximately 28% and 25%, respectively, from Asia/Pacific; and approximately 8% and 9%, respectively, from Latin America/Caribbean. For additional information regarding international operations, see Note 32 on pages 299–300 of JPMorgan Chase's 2011 Annual Report.

International wholesale activities

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

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

(in millions, except headcount and where otherwise noted)	EMEA Three months ended September 30,		EMEA Nine months ended September 30,		Asia/Pacific Three months ended September 30,		Asia/Pacific Nine months ended September 30,		Latin America/Caribbean Three months ended September 30,		Latin America/Caribbean Nine months ended September 30,	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Revenue[a]	$3,341	$3,600	$6,802	$12,636	$1,371	$1,586	$4,247	$4,737	$582	$409	$1,737	$1,646
Countries of operation	33	34	33	34	16	16	16	16	9	9	9	9
Total headcount[b]	15,668	16,520	15,668	16,520	20,499	20,457	20,499	20,457	1,428	1,354	1,428	1,354
Front-office headcount	5,925	6,120	5,925	6,120	4,206	4,280	4,206	4,280	631	562	631	562
Significant clients[c]	966	935	966	935	476	473	476	473	167	160	167	160
Deposits (average)[d]	$167,930	$173,204	$168,728	$166,934	$55,577	$58,078	$57,330	$55,804	$4,899	$4,926	$4,762	$5,365
Loans (period-end)[e]	37,480	34,239	37,480	34,239	30,596	27,723	30,956	27,723	28,641	23,289	28,641	23,289
Assets under management (in billions)	267	255	267	255	112	104	112	104	42	32	42	32
Assets under supervision (in billions)	325	306	325	306	155	140	155	140	106	87	106	87
Assets under custody (in billions)	6,257	5,140	6,257	5,140	1,508	1,331	1,508	1,331	248	168	248	168

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

(a) Revenue is based predominantly on the domicile of the client, the location from which the client relationship is managed, or the location of the trading desk.
(b) Total headcount includes all employees, including those in service centers, located in the region.
(c) Significant clients are defined as companies with over $1 million in revenue over a trailing 12-month period in the region (excludes private banking clients).
(d) Deposits are based on the location from which the client relationship is managed.
(e) Loans outstanding are based predominantly on the domicile of the borrower and exclude loans held-for-sale and loans carried at fair value.

BALANCE SHEET ANALYSIS

Selected Consolidated Balance Sheets data

(in millions)	September 30, 2012	December 31, 2011
Assets		
Cash and due from banks	$53,343	$59,602
Deposits with banks	104,344	85,279
Federal funds sold and securities purchased under resale agreements	281,991	235,314
Securities borrowed	133,526	142,462
Trading assets:		
Debt and equity instruments	367,090	351,486
Derivative receivables	79,963	92,477
Securities	365,901	364,793
Loans	721,947	723,720
Allowance for loan losses	(22,824)	(27,609)
Loans, net of allowance for loan losses	699,123	696,111
Accrued interest and accounts receivable	62,989	61,478
Premises and equipment	14,271	14,041
Goodwill	48,178	48,188
Mortgage servicing rights	7,080	7,223
Other intangible assets	2,641	3,207
Other assets	100,844	104,131
Total assets	$2,321,284	$2,265,792
Liabilities		
Deposits	$1,139,611	$1,127,806
Federal funds purchased and securities loaned or sold under repurchase agreements	257,218	213,532
Commercial paper	55,474	51,631
Other borrowed funds	22,255	21,908
Trading liabilities:		
Debt and equity instruments	71,471	66,718
Derivative payables	73,462	74,977
Accounts payable and other liabilities	203,042	202,895
Beneficial interests issued by consolidated VIEs	57,918	65,977
Long-term debt	241,140	256,775
Total liabilities	2,121,591	2,082,219
Stockholders’ equity	199,693	183,573
Total liabilities and stockholders’ equity	$2,321,284	$2,265,792

Consolidated Balance Sheets overview

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

JPMorgan Chase’s total assets and total liabilities increased by 2% from December 31, 2011. The increase in total assets was predominantly due to higher securities purchased under resale agreements and deposits with banks, partially offset by lower securities borrowed. The net increase in these categories reflected the Firm’s deployment of its excess funds. The increase in total liabilities was

predominantly due to higher securities sold under repurchase agreements associated with financing the Firm’s assets. Also contributing to the increase in total liabilities was higher deposits predominantly from growth in retail deposits, which was more than offset by lower long-term debt, largely related to the redemption of TruPS. The increase in stockholders’ equity was predominantly due to the Firm’s net income.

The following is a discussion of the significant changes in the specific line item captions on the Consolidated Balance Sheets from December 31, 2011.

Cash and due from banks and deposits with banks

The net increase in cash and due from banks and deposits with banks reflected the placement of the Firm's excess funds with various central banks, including Federal Reserve Banks. For additional information, refer to the Liquidity Risk Management discussion on pages 66–72 of this Form 10-Q.

Federal funds sold and securities purchased under resale agreements; and securities borrowed

The net increase in securities purchased under resale agreements and securities borrowed was predominantly due to deployment of excess cash by Treasury.

Trading assets and liabilities–debt and equity instruments

Trading assets-debt and equity instruments increased, driven by client market-making activity in IB; this resulted in higher levels of non-U.S. government debt securities, U.S government debt securities and equity securities. Increases were partially offset by a decrease in physical commodities. For additional information, refer to Note 3 on pages 119–133 of this Form 10-Q.

Trading assets and liabilities–derivative receivables and payables

Derivative receivables and payables decreased, primarily due to the impact of changes in the underlying parameters, including FX rates, interest rates, and credit spreads. The changes resulted in reductions in derivative receivables related to foreign exchange, interest rate and credit derivative contracts, partially offset by increases in equity derivative receivables. Derivative payables decreased, reflecting lower credit derivative payables, partially offset by higher equity derivative payables. For additional information, refer to Derivative contracts on page 80, and Notes 3 and 5 on pages 119–133 and 136–144, respectively, of this Form 10-Q.

Securities

Securities increased largely due to reinvestment and repositioning of the CIO AFS portfolio, which increased the levels of non-U.S. government debt and residential mortgage-backed securities ("MBS") as well as obligations of U.S. states and municipalities; the increase was partially offset by decreases in corporate debt securities and U.S. government agency issued MBS. For additional information related to securities, refer to the discussion in the Corporate/Private Equity segment on pages 49–51, and

Notes 3 and 11 on pages 119–133 and 148–153, respectively, of this Form 10-Q.

Loans and allowance for loan losses

Loans decreased slightly, due to lower consumer loans, offset by higher wholesale loans. The decline in consumer, excluding credit card loans was due to paydowns, portfolio run-off and charge-offs; the decline in credit card loans was due to seasonality and higher repayment rates. The increase in wholesale loans was driven by increased client activity across most regions and most businesses.

The allowance for loan losses decreased as a result of a reduction in the consumer allowances, predominantly related to the continuing trend of improved delinquencies across most consumer portfolios, notably non-PCI residential real estate and credit card. The wholesale allowance for loan losses was relatively unchanged. For a more detailed discussion of the loan portfolio and the allowance for loan losses, refer to Credit Portfolio and Allowance for Credit Losses on pages 72–95, and Notes 3, 4, 13 and 14 on pages 119–133, 133–135, 154–175 and 176, respectively, of this Form 10-Q.

Mortgage servicing rights

MSRs decreased slightly, as the combined effects of changes in market interest rates and modeled amortization were predominantly offset by new MSR originations. For additional information on MSRs, see Note 16 on pages 184–187 of this Form 10-Q.

Other intangible assets

Other intangible assets decreased, due to amortization. For additional information on other intangible assets, see Note 16 on pages 184–187 of this Form 10-Q.

Deposits

Deposits increased, predominantly due to growth in retail deposits. For more information on deposits, refer to the RFS and AM segment discussions on pages 24–33 and 45–48, respectively; the Liquidity Risk Management discussion on pages 66–72; and Notes 3 and 17 on pages 119–133 and 188, respectively, of this Form 10-Q. For more information on liability balances in the wholesale businesses, which includes deposits, refer to the TSS and CB segment discussions on pages 41–44 and 38–40, respectively, of this Form 10-Q.

Federal funds purchased and securities loaned or sold under repurchase agreements

Securities loaned or sold under repurchase agreements increased predominantly because of higher secured financing of the Firm's assets and a change in the mix of the Firm's liabilities. For additional information on the Firm's Liquidity Risk Management, see pages 66–72 of this Form 10-Q.

Commercial paper and other borrowed funds

Commercial paper increased due to higher commercial paper liabilities sourced from wholesale funding markets to meet short-term funding needs, partially offset by a decline in the volume of liability balances in sweep accounts related to TSS's cash management product. Other borrowed funds remained relatively unchanged. For additional information on the Firm's Liquidity Risk Management and other borrowed funds, see pages 66–72 of this Form 10-Q.

Beneficial interests issued by consolidated VIEs

Beneficial interests issued by consolidated VIEs decreased primarily due to a reduction in outstanding conduit commercial paper held by third parties and credit card maturities, partially offset by new credit card issuances and new consolidated municipal bond vehicles. For additional information on Firm-sponsored VIEs and loan securitization trusts, see Off–Balance Sheet Arrangements on pages 55–58, and Note 15 on pages 177–184 of this Form 10-Q.

Long-term debt

Long-term debt decreased due to net redemptions and maturities of long-term borrowings, largely related to the redemption of TruPS. For additional information on the Firm's long-term debt activities, see the Liquidity Risk Management discussion on pages 66–72 of this Form 10-Q.

Stockholders' equity

Total stockholders' equity increased, predominantly due to net income; a net increase in accumulated other comprehensive income ("AOCI") reflecting net unrealized market value increases on AFS securities predominantly driven by declining interest rates and the tightening of spreads across the portfolio, partially offset by sales; net issuances and commitments to issue under the Firm's employee stock-based compensation plans; and the issuance of preferred stock. The increase was partially offset by the declaration of cash dividends on common and preferred stock and repurchases of common equity.

OFF-BALANCE SHEET ARRANGEMENTS

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

Special-purpose entities

The most common type of VIE is an SPE. SPEs are commonly used in securitization transactions in order to isolate certain assets and distribute the cash flows from those assets to investors. SPEs are an important part of the financial markets, including the mortgage- and asset-backed securities and commercial paper markets, as they provide market liquidity by facilitating investors' access to specific portfolios of assets and risks. The Firm holds capital, as deemed appropriate, against all SPE-related transactions and related exposures, such as derivative transactions and lending-related commitments and guarantees. For further information on the types of SPEs, see Note 15 on pages 177–184 of this Form 10-Q, and Note 1 on pages 182–183 and Note 16 on pages 256–267 of JPMorgan Chase's 2011 Annual Report.

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

For certain liquidity commitments to SPEs, JPMorgan Chase Bank, N.A., could be required to provide funding if its short-term credit rating were downgraded below specific levels, primarily "P-1," "A-1" and "F1" for Moody's, Standard & Poor's and Fitch, respectively. These liquidity commitments support the issuance of asset-backed commercial paper by both Firm-administered consolidated and third-party-sponsored nonconsolidated SPEs. In the event of a short-term credit rating downgrade, JPMorgan Chase Bank, N.A., absent other solutions, would be required to provide funding to the SPE, if the commercial paper could not be reissued as it matured. The aggregate amounts of commercial paper outstanding, issued by both Firm-administered and third-party-sponsored SPEs, that are held by third parties as of September 30, 2012, and December 31, 2011, was $12.6 billion and $19.7 billion, respectively. In addition, the aggregate amounts of commercial paper outstanding could increase in future periods should clients of the Firm-administered consolidated or third-party-sponsored nonconsolidated SPEs draw down on certain unfunded lending-related commitments. JPMorgan Chase Bank, N.A. had unfunded lending-related commitments to clients to fund an incremental $12.2 billion and $11.0 billion at September 30, 2012, and December 31, 2011, respectively. The Firm could facilitate the refinancing of some of the clients' assets in order to reduce the funding obligation.

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

JPMorgan Chase provides lending-related financial instruments (e.g., commitments and guarantees) to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk to the Firm should the counterparty draw upon the commitment or the Firm be required to fulfill its obligation under the guarantee, and should the counterparty subsequently fail to perform according to the terms of the contract. Most of these commitments and guarantees expire without being drawn or a default occurring. As a result, the total contractual amount of these instruments is not, in the Firm's view, representative of its actual future credit exposure or funding requirements. For further discussion of lending-related commitments and guarantees, see Lending-related commitments on page 79, and Note 21 on pages 192–196 of this Form 10-Q, and Lending-related commitments on page 144, and Note 29 on pages 283–289 of JPMorgan Chase's 2011 Annual Report.

Mortgage repurchase liability

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

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

From 2005 to 2008, the Firm and certain acquired entities made certain loan level representations and warranties in connection with approximately $450 billion of residential mortgage loans that were sold or deposited into private-label securitizations. Of the $450 billion originally sold or deposited (including $165 billion by Washington Mutual, as to which the Firm maintains that certain of the repurchase obligations remain with the Federal Deposit Insurance

Corporation (“FDIC”) receivership), approximately $195 billion of principal has been repaid (including $71 billion related to Washington Mutual). In addition, approximately $113 billion of the principal amount of loans has been liquidated (including $41 billion related to Washington Mutual), with an average loss severity of 59%. Accordingly, the remaining outstanding principal balance of these loans (including Washington Mutual) was, as of September 30, 2012, approximately $142 billion, of which $42 billion was 60 days or more past due. The remaining outstanding principal balance of loans related to Washington Mutual was approximately $53 billion, of which $15 billion were 60 days or more past due. For additional information regarding loans sold to private investors, see Mortgage repurchase liability on pages 115–118 of JPMorgan Chase’s 2011 Annual Report.

There have been generalized allegations, as well as specific demands, that the Firm repurchase loans sold or deposited into private-label securitizations (including claims from insurers that have guaranteed certain obligations of the securitization trusts). Although the Firm encourages parties to use the contractual repurchase process established in the governing agreements, these private-label repurchase claims have generally manifested themselves through threatened or pending litigation. Accordingly, the liability related to repurchase demands associated with all of the private-label securitizations described above is separately evaluated by the Firm in establishing its litigation reserves. For additional information regarding litigation, see Note 23

on pages 196–206 of this Form 10-Q, and Note 31 on pages 290–299 of JPMorgan Chase’s 2011 Annual Report.

Estimated mortgage repurchase liability

The Firm has recognized a mortgage repurchase liability of $3.1 billion and $3.6 billion, as of September 30, 2012, and December 31, 2011, respectively. The Firm’s mortgage repurchase liability is intended to cover losses associated with all loans previously sold in connection with loan sale and securitization transactions with the GSEs, regardless of when those losses occur or how they are ultimately resolved (e.g., repurchase, make-whole payment). While uncertainties continue to exist with respect to both GSE behavior and the economic environment, the Firm believes that the model inputs and assumptions that it uses to estimate its mortgage repurchase liability are becoming increasingly seasoned and stable. Based on these model inputs and taking into consideration its projections regarding future uncertainty, including the GSEs’ behavior, the Firm has become increasingly confident in its ability to estimate reliably its mortgage repurchase liability. For these reasons, the Firm believes that its existing mortgage repurchase liability at September 30, 2012, is sufficient to cover probable future repurchase losses arising from loan sale and securitization transactions with the GSEs. For additional information about the process that the Firm uses to estimate its mortgage repurchase liability and the factors it considers in connection with that process, see Mortgage repurchase liability on pages 115–118 of JPMorgan Chase’s 2011 Annual Report.

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

Outstanding repurchase demands and unresolved mortgage insurance rescission notices by counterparty type

(in millions)	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
GSEs	$1,533	$1,646	$1,868	$1,682	$1,666
Mortgage insurers	1,036	1,004	1,000	1,034	1,112
Other[a]	1,697	981	756	663	467
Overlapping population[b]	(150)	(125)	(116)	(113)	(155)
Total	$4,116	$3,506	$3,508	$3,266	$3,090

(a) Represents repurchase demands received from parties other than the GSEs that have been presented to the Firm by trustees who assert authority to present such claims under the terms of the underlying sale or securitization agreement, and excludes repurchase demands asserted in or in connection with pending repurchase litigation. All mortgage repurchase demands associated with private-label securitizations are separately evaluated by the Firm in establishing its litigation reserves.

(b)

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

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

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

(in millions)	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Pre-2005	$33	$28	$41	$39	$34
2005	103	65	95	55	200
2006	963	506	375	315	232
2007	371	420	645	804	602
2008	196	311	361	291	323
Post-2008	124	191	124	81	153
Total repurchase demands received	$1,790	$1,521	$1,641	$1,585	$1,544

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

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

(in millions)	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Pre-2005	$6	$9	$13	$4	$3
2005	14	13	19	12	15
2006	46	26	36	19	31
2007	139	121	78	48	63
2008	37	51	32	26	30
Post-2008	8	6	4	2	1
Total mortgage insurance rescissions received	$250	$226	$182	$111	$143

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

Since the beginning of 2011, the Firm's overall cure rate (excluding loans originated by Washington Mutual) has been approximately 55%. A significant portion of repurchase demands now relate to loans with a longer pay history, which have historically had higher cure rates. Repurchases that have resulted from mortgage insurance rescissions are reflected in the Firm's overall cure rate. While the actual cure rate may vary from quarter to quarter, the Firm expects that the overall cure rate will remain at approximately 50-60% for the foreseeable future.

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

When a loan was originated by a third-party originator, the Firm typically has the right to seek a recovery of related repurchase losses from the third-party originator. Estimated and actual third-party recovery rates may vary from

quarter to quarter based upon the underlying mix of third-party originators (e.g., active, inactive, out-of-business originators) from which recoveries are being sought.

Substantially all of the estimates and assumptions underlying the Firm's established methodology for computing its recorded mortgage repurchase liability — including the amount of probable future demands from the GSEs (which is largely based on historical experience), the ability of the Firm to cure identified defects, the severity of loss upon repurchase or foreclosure and recoveries from third parties — require application of a significant level of management judgment. While the Firm uses the best information available to it in estimating its mortgage repurchase liability, the estimation process is inherently uncertain and imprecise.

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

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2012	2011	2012	2011
Repurchase liability at beginning of period	$3,293	$3,631	$3,557	$3,285
Realized losses[b]	(268)	(329)	(891)	(801)
Provision[c]	74	314	433	1,132
Repurchase liability at end of period	$3,099 [d]	$3,616	$3,099	$3,616

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

(b) Includes principal losses and accrued interest on repurchased loans, "make-whole" settlements, settlements with claimants, and certain related expense. Make-whole settlements were $94 million and $162 million for the three months ended September 30, 2012 and 2011, respectively and $387 million and $403 million, for the nine months ended September 30, 2012 and 2011, respectively.

(c) Includes $30 million and $12 million of provision related to new loan sales for the three months ended September 30, 2012 and 2011, respectively, and $85 million and $35 million for the nine months ended September 30, 2012 and 2011, respectively.

(d) Includes $3 million at September 30, 2012, related to future repurchase demands on loans sold by Washington Mutual to the GSEs.

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

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2012	2011	2012	2011
Ginnie Mae[b]	$1,216	$1,558	$4,342	$4,271
GSEs[c]	312	367	933	756
Other[c][d]	39	18	147	92
Total	$1,567	$1,943	$5,422	$5,119

(a) This table includes: (i) repurchases of mortgage loans due to breaches of representations and warranties, and (ii) loans repurchased from Ginnie Mae loan pools as described in (b) below. This table does not include mortgage insurance rescissions; while the rescission of mortgage insurance typically results in a repurchase demand from the GSEs, the mortgage insurers themselves do not present repurchase demands to the Firm. This table excludes mortgage loan repurchases associated with repurchase demands asserted in or in connection with pending repurchase litigation.

(b) In substantially all cases, these repurchases represent the Firm's voluntary repurchase of certain delinquent loans from loan pools as permitted by Ginnie Mae guidelines (i.e., they do not result from repurchase demands due to breaches of representations and warranties). The Firm typically elects to repurchase these delinquent loans as it continues to service them and/or manage the foreclosure process in accordance with applicable requirements of Ginnie Mae, the Federal Housing Administration ("FHA"), Rural Housing Services ("RHS") and/or the U.S. Department of Veterans Affairs ("VA").

(c) Nonaccrual loans held-for-investment included $484 million and $477 million at September 30, 2012, and December 31, 2011, respectively, of loans repurchased as a result of breaches of representations and warranties.

(d) Represents loans repurchased from parties other than the GSEs, excluding those repurchased in connection with pending repurchase litigation.

For additional information regarding the mortgage repurchase liability, see Note 21 on pages 192–196 of this Form 10-Q, and Note 29 on pages 283–289 of JPMorgan Chase's 2011 Annual Report.

In addition, the Firm faces a variety of exposures resulting from repurchase demands and litigation arising out of its various roles as issuer and/or underwriter of mortgage-backed securities (“MBS”) offerings in private-label securitizations. It is possible that these matters will take a number of years to resolve and their ultimate resolution is currently uncertain. Reserves for such matters may need to be increased in the future; however, with the additional litigation reserves taken to date, absent any materially adverse developments that could change management’s current views, JPMorgan Chase does not currently anticipate further material additions to its litigation reserves for mortgage-backed securities-related matters over the remainder of the year. For further information, see Note 23, Litigation on pages 196–206 of the Form 10-Q.

CAPITAL MANAGEMENT

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

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

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

Regulatory capital

The Federal Reserve establishes capital requirements, including well-capitalized standards, for the consolidated financial holding company. The Office of the Comptroller of the Currency ("OCC") establishes similar capital requirements and standards for the Firm's national banks, including JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A. As of September 30, 2012, and December 31, 2011, JPMorgan Chase and all of its banking subsidiaries were well-capitalized and each met all capital requirements to which it was subject. For more information, see Note 20 on pages 191–192 of this Form 10-Q.

At September 30, 2012, and December 31, 2011, JPMorgan Chase maintained Tier 1 and Total capital ratios in excess of the well-capitalized standards established by the Federal Reserve, as indicated in the tables below. In addition, the Firm's Tier 1 common ratio was significantly above the 5% well-capitalized standard established at the time of the 2012 CCAR process. Tier 1 common, introduced by U.S. banking regulators in 2009, is defined as Tier 1 capital less elements of Tier 1 capital not in the form of common equity, such as perpetual preferred stock, noncontrolling interests in subsidiaries, and trust preferred capital debt securities. Tier 1 common, a non-GAAP financial measure, is used by banking regulators, investors and analysts to assess and compare the quality and composition of the Firm's capital with the capital of other financial services companies. The Firm uses Tier 1 common along with other capital measures to assess and monitor its capital position.

The following table presents the regulatory capital, assets and risk-based capital ratios for JPMorgan Chase at September 30, 2012, and December 31, 2011. These amounts are determined in accordance with regulations issued by the Federal Reserve.

Risk-based capital ratios

	September 30, 2012		December 31, 2011	
Capital ratios				
Tier 1 capital	11.9	%	12.3	%
Total capital	14.7		15.4	
Tier 1 leverage	7.1		6.8	
Tier 1 common[(a)]	10.4		10.1	

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

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

Risk-based capital components and assets

(in millions)	September 30, 2012		December 31, 2011	
Total stockholders' equity	$199,693		$183,573	
Less: Preferred stock	9,058		7,800	
Common stockholders' equity	190,635		175,773	
Effect of certain items in AOCI excluded from Tier 1 common	(4,501	)	(970	)
Less: Goodwill[(a)]	45,718		45,873	

Fair value DVA on derivative and structured note liabilities related to the Firm’s credit quality	1,928	2,150
Investments in certain subsidiaries and other	857	993
Other intangible assets[(a)]	2,566	2,871
Tier 1 common	135,065	122,916
Preferred stock	9,058	7,800
Qualifying hybrid securities and noncontrolling interests	10,568	19,668
Adjustment for investments in certain subsidiaries and other	(5)	—
Total Tier 1 capital	154,686	150,384
Long-term debt and other instruments qualifying as Tier 2	19,459	22,275
Qualifying allowance for credit losses	16,367	15,504
Adjustment for investments in certain subsidiaries and other	(21)	(75)
Total Tier 2 capital	35,805	37,704
Total qualifying capital	$190,491	$188,088
Risk-weighted assets	$1,297,016	$1,221,198
Total adjusted average assets	$2,186,292	$2,202,087

(a) Goodwill and other intangible assets are net of any associated deferred tax liabilities.

The Firm’s Tier 1 common was $135.1 billion at September 30, 2012, an increase of $12.1 billion from December 31, 2011. The increase was predominantly due to net income (adjusted for DVA) of $15.8 billion and net issuances and commitments to issue common stock under the Firm’s employee stock-based compensation plans of $1.5 billion. The increase was partially offset by $4.0 billion of dividends on common and preferred stock and $1.6 billion (on a trade-date basis) of repurchases of common stock and warrants. The Firm's Tier 1 capital was $154.7 billion at September 30, 2012, an increase of $4.3 billion from December 31, 2011. The increase in Tier 1 capital was due to the increase in Tier 1 common and the issuance of $1.3 billion of fixed–rate noncumulative perpetual preferred stock on August 27, 2012, partially offset by the redemption of $9.0 billion of trust preferred capital debt securities on July 12, 2012.

Risk-weighted assets were $1,297 billion at September 30, 2012, an increase of $76 billion from December 31, 2011. In addition to the growth in the Firm's assets, the increase in risk-weighted assets also reflected an adjustment to RWA to reflect regulatory guidance regarding a limited number of market risk models used for certain positions held by the Firm, including the 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 reduced over time.

Additional information regarding the Firm's capital ratios and the federal regulatory capital standards to which it is subject is presented in Part II, Item 1A, Risk Factors on pages 220–222, and Note 20 on pages 191–192 of this Form 10-Q.

Basel II

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

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

Basel 2.5

In June 2012 the U.S. federal banking agencies published final rules that will go into effect on January 1, 2013, that would result in additional capital requirements for trading positions and securitizations. It is currently estimated that implementation of these rules could result in approximately a 100 basis point decrease in the Firm's current Basel I Tier

1 common ratio, but the actual impact on the Firm's capital ratios upon implementation could differ depending on final implementation guidance from the regulators, as well as regulatory approval of certain of the Firm's internal risk models.

Basel III

In June 2012 the U.S. federal banking agencies published for comment a NPR for implementing the Capital Accord, commonly referred to as "Basel III", in the United States. Basel III revised Basel II by, among other things, narrowing the definition of capital, and increasing capital requirements for specific exposures. Basel III also includes higher capital ratio requirements and provides that the Tier 1 common capital requirement will be increased to 7%, comprised of a minimum ratio of 4.5% plus a 2.5% capital conservation buffer. Implementation of the 7% Tier 1 common capital requirement is required by January 1, 2019.

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

The U.S. federal banking agencies also included, as part of the NPR, revised prompt corrective action treatment of the existing U.S. leverage ratio and a new supplemental leverage ratio which takes into account off-balance sheet assets, such as lending-related commitments and derivative exposures.

In addition, the Basel Committee announced in June 2011 an agreement to require GSIBs to maintain Tier 1 common requirements above the 7% minimum in amounts ranging from an additional 1% to an additional 2.5%. In November

2012, the FSB indicated that it would require the Firm, as well as three other banks, to hold the additional 2.5% of Tier 1 common, which requirement will be phased in beginning in 2016 as discussed below. The Basel Committee also stated it intended to require certain GSIBs to maintain a further Tier 1 common requirement of an additional 1% under certain circumstances, to act as a disincentive for the GSIB from taking actions that would further increase its systemic importance. The Firm has not been notified that it must meet this additional requirement. The GSIB assessment methodology reflects an approach based on five broad categories: size, interconnectedness, lack of substitutability, cross-jurisdictional activity, and complexity.

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

postretirement employee benefit (“OPEB”) plans.
Including the impact of the final Basel 2.5 rules and the Basel III NPR, the Firm estimates that its Tier 1 common ratio under Basel III rules would be 8.4% as of September 30, 2012. Management considers the Basel III Tier 1 common estimate a key measure to assess the Firm’s capital position in conjunction with its capital ratios under Basel I requirements; this measure enables management, investors and analysts to compare the Firm’s capital under the Basel III capital standards with similar estimates provided by other financial services companies.

September 30, 2012 (in millions, except ratios)		
Tier 1 common under Basel I rules	$135,065	
Adjustments related to AOCI for AFS securities and defined benefit pension and OPEB plans	4,389	
All other adjustments	(149	)
Estimated Tier 1 common under Basel III rules	$139,305	
Estimated risk-weighted assets under Basel III rules[(a)]	$1,663,029	
Estimated Tier 1 common ratio under Basel III rules[(b)]	8.4	%

(a) Key differences in the calculation of risk-weighted assets between Basel I and Basel III include: (1) Basel III credit risk RWA is based on risk-sensitive approaches which largely rely on the use of internal credit models and parameters, whereas Basel I RWA is based on fixed supervisory risk weightings which vary only by counterparty type and asset class; (2) Basel III market risk RWA reflects the new capital requirements related to trading assets and securitizations, which include incremental capital requirements for stress VaR, correlation trading, and re-securitization positions; and (3) Basel III includes RWA for operational risk, whereas Basel I does not. The actual impact on the Firm’s capital ratios upon implementation could differ depending on final implementation guidance from the regulators, as well as regulatory approval of certain of the Firm’s internal risk models.
(b) The Tier 1 common ratio is Tier 1 common divided by RWA.

The Firm’s estimate of its Tier 1 common ratio under Basel III reflects its current understanding of the Basel III rules based on information currently published by the Basel Committee and U.S. federal banking agencies and on the application of such rules to its businesses as currently conducted; it excludes the impact of any changes the Firm may make in the future to its businesses as a result of implementing the Basel III rules, possible enhancements to certain market risk models, and any further implementation guidance from the regulators.
The Basel III revisions governing capital requirements are subject to prolonged transition periods. The transition period for banks to meet the Tier 1 common requirement under Basel III will begin in 2013, with full implementation on January 1, 2019. The Firm fully expects to be in compliance with the higher Basel III capital standards, as well as any additional Dodd-Frank Act capital requirements, as they become effective. The additional capital requirements for GSIBs will be phased in starting January 1, 2016, with full implementation on January 1, 2019.
In December 2010, the Basel Committee introduced minimum standards for short-term liquidity coverage (the liquidity coverage ratio (“LCR”)) and term funding (the net stable funding ratio (“NSFR”)). See Liquidity Risk

Management on pages 66–72 of this Form 10-Q for further information.
The Firm will continue to monitor the ongoing rule-making process to assess both the timing and the impact of Basel III on its businesses and financial condition.

Broker-dealer regulatory capital
JPMorgan Chase’s principal U.S. broker-dealer subsidiaries are J.P. Morgan Securities LLC (“JPMorgan Securities”) and J.P. Morgan Clearing Corp. (“JPMorgan Clearing”). JPMorgan Clearing is a subsidiary of JPMorgan Securities and provides clearing and settlement services. JPMorgan Securities and JPMorgan Clearing are each subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (the “Net Capital Rule”). JPMorgan Securities and JPMorgan Clearing are also each registered as futures commission merchants and subject to Rule 1.17 of the Commodity Futures Trading Commission (“CFTC”).
JPMorgan Securities and JPMorgan Clearing have elected to compute their minimum net capital requirements in accordance with the “Alternative Net Capital Requirements” of the Net Capital Rule. At September 30, 2012, JPMorgan

Securities' net capital, as defined by the Net Capital Rule, was $11.6 billion, exceeding the minimum requirement by $10.0 billion, and JPMorgan Clearing's net capital was $6.9 billion, exceeding the minimum requirement by $5.1 billion.

In addition to its minimum net capital requirement, JPMorgan Securities is required to hold tentative net capital in excess of $1.0 billion and to notify the U.S. Securities and Exchange Commission in the event that tentative net capital is less than $5.0 billion, in accordance with the market and credit risk standards of Appendix E of the Net Capital Rule. As of September 30, 2012, JPMorgan Securities had tentative net capital in excess of the minimum and notification requirements.

Economic risk capital

The Firm measures economic capital using internal risk-assessment methodologies and models primarily based on four risk factors: credit, market, operational and private equity risk. The growth in economic risk capital during the nine months ended September 30, 2012, was predominantly driven by higher operational risk capital due to increased mortgage-related litigation, and continued model enhancements to better capture large historical loss events and better align the model with the advanced measurement rules under the Basel II Framework; and to higher market risk capital driven by increased risk in the synthetic credit portfolio. These increases were partially offset by a decrease in credit risk capital driven by consumer portfolio runoff and continued model enhancements to better estimate future stress credit losses.

	Quarterly Averages		
(in billions)	3Q12	4Q11	3Q11
Credit risk	$44.3	$48.2	$48.2
Market risk	18.5	13.7	14.0
Operational risk	15.2	8.5	8.6
Private equity risk	5.9	6.4	6.8
Economic risk capital	83.9	76.8	77.6
Goodwill	48.2	48.2	48.6
Other[(a)]	54.5	50.0	48.3
Total common stockholders' equity	$186.6	$175.0	$174.5

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

Line of business equity

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

Line of business equity

(in billions)	September 30, 2012	December 31, 2011
Investment Bank	$40.0	$40.0
Retail Financial Services	26.5	25.0
Card Services & Auto	16.5	16.0
Commercial Banking	9.5	8.0
Treasury & Securities Services	7.5	7.0
Asset Management	7.0	6.5
Corporate/Private Equity	83.6	73.3
Total common stockholders' equity	$190.6	$175.8

Line of business equity	Quarterly Averages		
(in billions)	3Q12	4Q11	3Q11
Investment Bank	$40.0	$40.0	$40.0
Retail Financial Services	26.5	25.0	25.0
Card Services & Auto	16.5	16.0	16.0
Commercial Banking	9.5	8.0	8.0
Treasury & Securities Services	7.5	7.0	7.0
Asset Management	7.0	6.5	6.5
Corporate/Private Equity	79.6	72.5	72.0
Total common stockholders' equity	$186.6	$175.0	$174.5

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

Capital actions

Issuance of preferred stock

On August 27, 2012, the Firm issued $1.3 billion of fixed–rate noncumulative perpetual preferred stock.

Dividends

On March 13, 2012, the Board of Directors increased the Firm's quarterly common stock dividend from $0.25 to $0.30 per share, effective with the dividend paid on April 30, 2012, to shareholders of record on April 5, 2012. The Firm's

common stock dividend policy reflects JPMorgan Chase's earnings outlook, desired dividend payout ratio, capital objectives, and alternative investment opportunities. The Firm's current expectation is to return to a payout ratio of approximately 30% of normalized earnings over time.
For information regarding dividend restrictions, see Note 22 and Note 27 on page 276 and 281, respectively, of JPMorgan Chase's 2011 Annual Report.
Common equity repurchases
On March 13, 2012, the Board of Directors authorized a $15.0 billion common equity (i.e., common stock and warrants) repurchase program, of which up to $12.0 billion is approved for repurchase in 2012 and up to an additional $3.0 billion is approved through the end of the first quarter of 2013. During the nine months ended September 30, 2012, the Firm repurchased (on a trade-date basis) an aggregate of 49 million shares of common stock and warrants for $1.6 billion; the Firm did not make any repurchases after May 17, 2012. As of September 30, 2012, $13.4 billion of authorized repurchase capacity remained under the program. For additional information regarding repurchases of the Firm's equity securities, see 2012 Business outlook, on page 9 of this Form 10-Q.
The Firm may, from time to time, enter into written trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate repurchases in accordance with the repurchase program. A Rule 10b5-1 repurchase plan allows the Firm to repurchase its equity during periods when it would not otherwise be repurchasing common equity — for example, during internal trading "black-out periods." All purchases under a Rule 10b5-1 plan must be made according to a predefined plan established when the Firm is not aware of material nonpublic information. For additional information regarding repurchases of the Firm's equity securities, see Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds, on pages 222–223 of this Form 10-Q.

RISK MANAGEMENT

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

The Firm's overall risk appetite is established in the context of the Firm's capital, earnings power, and diversified business model. The Firm employs a formalized risk appetite framework to clearly link risk appetite and return targets, controls and capital management. The Firm's Chief Executive Officer and Chief Risk Officer ("CRO") are responsible for setting the overall firmwide risk appetite. The lines of business CEOs and CROs and Corporate/Private Equity senior management are responsible for setting the risk appetite for their respective lines of business, within the Firm's limits. The Risk Policy Committee of the Firm's Board of Directors approves the risk appetite policy on behalf of the entire Board of Directors.

Risk governance

The Firm's risk governance structure is based on the principle that each line of business is responsible for managing the risk inherent in its business, albeit with appropriate corporate oversight. Each line of business risk committee is responsible for decisions regarding the business' risk strategy, policies and controls. There are nine major risk types identified in the business activities of the Firm: liquidity risk, credit risk, market risk, interest rate risk, country risk, private equity risk, operational risk, legal and fiduciary risk, and reputation risk.

Overlaying line of business risk management are the following corporate functions with risk management-related responsibilities: Risk Management, Treasury and CIO and Legal and Compliance.

Risk Management operates independently of the lines of business to provide oversight of firmwide risk management and controls, and is viewed as a partner in achieving appropriate business risk and reward objectives. Risk Management coordinates and communicates with each line of business through the line of business risk committees and CROs to manage risk. The Risk Management function is headed by the Firm's Chief Risk Officer, who is a member of the Firm's Operating Committee and who reports to the Chief Executive Officer and is accountable to the Board of Directors, primarily through the Board's Risk Policy Committee. The Chief Risk Officer is also a member of the line of business risk committees. Within the Firm's Risk Management function are units responsible for credit risk, market risk, country risk, private equity risk and the governance of operational risk, as well as risk reporting and risk policy. Risk management is supported by risk technology and operations functions that are responsible for building the information technology infrastructure used to monitor and manage risk.

Treasury and CIO are responsible for measuring, monitoring, reporting and managing the Firm's liquidity, funding, capital, interest rate and foreign exchange risks, and other risks.

Legal and Compliance has oversight for legal risk.

In addition to the risk committees of the lines of business and the above-referenced risk management functions, the Firm also has a Finance Committee, an Asset-Liability Committee ("ALCO"), an Investment Committee and three other risk-related committees — the Firmwide Risk Committee, the Risk Governance Committee and the Global Counterparty Committee. All of these committees are accountable to the Chief Executive Officer and Operating Committee. The membership of these committees is composed of senior management of the Firm, including representatives of the lines of business, CIO, Treasury, Risk Management, Finance, Legal and Compliance and other senior executives. The committees meet regularly to discuss a broad range of topics including, for example, current market conditions and other external events, risk exposures, and risk concentrations to ensure that the effects of risk issues are considered broadly across the Firm's businesses.

The Finance Committee, chaired by the Chief Financial Officer, oversees the firmwide funding, liquidity, capital and balance sheet management strategy, including targeted levels, composition and line of business allocations.
The Asset-Liability Committee, chaired by the Corporate Treasurer, monitors the Firm's overall interest rate risk and liquidity risk. ALCO is responsible for reviewing and approving the Firm's liquidity policy and contingency funding plan. ALCO also reviews the Firm's funds transfer pricing policy (through which lines of business "transfer" interest rate and foreign exchange risk to Treasury), nontrading interest rate-sensitive revenue-at-risk, overall interest rate position, funding requirements and strategy, and the Firm's securitization programs (and any required liquidity support by the Firm of such programs).
The Investment Committee, chaired by the Firm's Chief Financial Officer, oversees global merger and acquisition activities undertaken by JPMorgan Chase for its own account that fall outside the scope of the Firm's private equity and other principal finance activities.
The Firmwide Risk Committee is co-chaired by the Firm's CEO and CRO. The Risk Governance Committee is chaired by the Firm's CRO. These committees meet monthly to review cross-line of business issues such as risk appetite, certain business activity and aggregate risk measures, risk policy, risk methodology, risk concentrations, regulatory capital and other regulatory issues, and other topics referred by line of business risk committees. The Risk Governance

Committee is also responsible for ensuring that line of business and firmwide risk reporting and compliance with risk appetite levels are monitored periodically, in conjunction with the Firm's capital assessment process. Line of business risk committees each meet at least on a monthly basis. Each line of business risk committee is co-chaired by the line of business CRO and CEO, except for the Consumer Risk Committee which is chaired solely by the CRO. Each line of business risk committee is also attended by individuals from outside the line of business. It is the responsibility of attendees of the line of business risk committees who are members of the Firmwide Risk Committee (including individuals from outside the line of business) to escalate line of business risk topics to the Firmwide Risk Committee.
The Global Counterparty Committee, chaired by the Firm's Wholesale Chief Credit Risk Officer, reviews exposures to our largest interbank trading counterparties. The Committee meets periodically to review total exposures with these counterparties to ensure that such exposures are deemed appropriate and to direct changes in exposure levels as needed.
The Board of Directors exercises its oversight of risk management principally through the Board's Risk Policy Committee and Audit Committee. The Board's Risk Policy Committee oversees senior management risk-related responsibilities, including reviewing management policies and performance against these policies and related benchmarks. The Board's Risk Policy Committee also reviews firm level market risk limits at least annually.

The CROs for each line of business meet with the Risk Policy Committee on a regular basis. In addition, in conjunction with the Firm's capital assessment process, the CEO or Chief Risk Officer is responsible for notifying the Risk Policy Committee of any results which are projected to exceed line of business or firmwide risk appetite tolerances. The CEO or CRO will notify the Chairman of the Board's Risk Policy Committee if certain firmwide limits are modified or exceeded. The Audit Committee is responsible for oversight of guidelines and policies that govern the process by which risk assessment and management is undertaken. In addition, the Audit Committee reviews with management the system of internal controls that is relied upon to provide reasonable assurance of compliance with the Firm's operational risk management processes.

Risk monitoring and control

The Firm's ability to properly identify, measure, monitor and report risk is critical to both its soundness and profitability.

- Risk identification: The Firm's exposure to risk through its daily business dealings, including lending and capital markets activities, is identified and aggregated through the Firm's risk management infrastructure. There are nine major risk types identified in the business activities of the Firm: liquidity risk, credit risk, market risk, interest rate risk, country risk, private equity risk, operational risk, legal and fiduciary risk, and reputation risk.
- Risk measurement: The Firm measures risk using a variety of methodologies, including calculating probable loss, unexpected loss and value-at-risk, and by conducting stress tests and making comparisons to external benchmarks. Measurement models and related assumptions are routinely subject to internal model review, empirical validation and benchmarking with the goal of ensuring that the Firm's risk estimates are reasonable and reflective of the risk of the underlying positions.
- Risk monitoring/control: The Firm's risk management policies and procedures incorporate risk mitigation strategies and include approval limits by customer, product, industry, country and business. These limits are monitored on a daily, weekly and monthly basis, as appropriate.
- Risk reporting: The Firm reports risk exposures on both a line of business and a consolidated basis. This information is reported to management on a daily, weekly and monthly basis, as appropriate.

CIO risk management matters

As part of its internal review of CIO's activities, management concluded that CIO's risk management had been ineffective in dealing with the growth in size and change in characteristics of the synthetic credit portfolio during the first quarter of 2012. The Firm has taken several steps to address these risk management issues, including introducing more granular risk limits for CIO; enhancing risk management talent and resourcing of key support functions in CIO; and enhancing the Firm's risk governance, including establishing the joint CIO, Treasury and Corporate Risk ("CTC") Committee co-chaired by CTC's CRO and the Firm's co- Chief Operating Officer. The committee meets weekly to monitor risk and has enhanced membership from Treasury and Corporate, as well as other Firm senior management.

LIQUIDITY RISK MANAGEMENT

Liquidity risk management is intended to ensure that the Firm has the appropriate amount, composition and tenor of funding and liquidity in support of its assets. The primary objective of effective liquidity management is to ensure that the Firm's core businesses are able to operate in support of client needs and meet contractual and contingent obligations through normal economic cycles as well as during market stress.

The Firm manages liquidity and funding using a centralized, global approach in order to actively manage liquidity for the Firm as a whole, to monitor exposures and identify constraints on the transfer of liquidity within the Firm, and to maintain the appropriate amount of surplus liquidity as part of the Firm's overall balance sheet management strategy.

In the context of the Firm's liquidity management, Treasury is responsible for:

- Measuring, managing, monitoring and reporting the Firm's current and projected liquidity sources and uses;
- Understanding the liquidity characteristics of the Firm's assets and liabilities;
- Defining and monitoring Firmwide and legal entity liquidity strategies, policies, guidelines, and contingency funding plans;
- Managing funding mix and deployment of excess short-term cash;
- Defining and implementing Funds Transfer Pricing ("FTP") across all lines of business and regions; and
- Defining and addressing the impact of regulatory changes on funding and liquidity.

The Firm has a liquidity risk governance framework to review, approve and monitor the implementation of liquidity risk policies and funding and capital strategies, at the Firmwide, regional and line of business levels.

Specific risk committees responsible for liquidity risk governance include ALCO and the Finance Committee, as well as lines of business and regional asset and liability management committees. For further discussion of the risk committees, see Risk Management on pages 63–65 of this Form 10-Q.

Management considers the Firm's liquidity position to be strong, based on its liquidity metrics as of September 30, 2012, and believes that the Firm's unsecured and secured funding capacity is sufficient to meet its on- and off-balance sheet obligations.

LCR and NSFR

In December 2010, the Basel Committee introduced the minimum standards for short-term liquidity coverage (the liquidity coverage ratio ("LCR")) and term funding (the net stable funding ratio ("NSFR")). The Firm intends to maintain its strong liquidity position in the future as the LCR and NSFR standards of the Basel III rules are implemented. In order to do so the Firm believes it may need to modify the liquidity profile of certain of its assets and liabilities. Implementation of the Basel III rules may also cause the Firm to increase prices on, or alter the types of, products it offers to its customers and clients.

The Basel III revisions governing liquidity requirements are subject to prolonged observation and transition periods. The observation periods for both the LCR and NSFR began in 2011, with implementation in 2015 and 2018, respectively.

Funding

The Firm funds its global balance sheet through diverse sources of funding, including a stable deposit franchise as well as secured and unsecured funding in the capital markets. Funding objectives include maintaining diversification, maximizing market access and optimizing funding cost. Access to funding markets is executed regionally through hubs in New York, London, Hong Kong and other locations which enables the Firm to observe and respond effectively to local market dynamics and client needs. The Firm manages and monitors its use of wholesale funding markets to ensure diversification of its funding profile across geographic regions, tenors, currencies, product types and counterparties, using key metrics including: short-term unsecured funding as a percentage of total liabilities, and as a percentage of highly liquid assets; and counterparty concentration.

Sources of funds

A key strength of the Firm is its diversified deposit franchise, through the RFS, CB, TSS and AM lines of business, which provides a stable source of funding and limits reliance on the wholesale funding markets. As of September 30, 2012, the Firm’s deposits-to-loans ratio was 158%, compared with 156% at December 31, 2011.

As of September 30, 2012, total deposits for the Firm were $1,139.6 billion, compared with $1,127.8 billion at December 31, 2011 (54% of total liabilities for both periods). The increase in deposits was predominantly due to growth in retail deposits.

The Firm typically experiences higher customer deposit inflows at period-ends. Therefore, average deposit balances are more representative of deposit trends. The table below summarizes by line of business average deposits for the three and nine months ended September 30, 2012 and 2011, respectively.

Average deposits

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2012	2011	2012	2011
Retail Financial Services	$414,608	$382,202	$407,833	$377,678
Commercial Banking	177,516	163,459	180,417	149,715
Treasury & Securities Services	326,094	310,787	325,324	279,148
Asset Management	127,487	111,090	127,702	101,341
Other[(a)]	52,343	70,973	55,321	75,446
Total Firm	$1,098,048	$1,038,511	$1,096,597	$983,328

(a) Includes remaining lines of business (i.e., Investment Bank, Card and Corporate/Private Equity).

A significant portion of the Firm's deposits are retail deposits (37% and 35% at September 30, 2012, and December 31, 2011, respectively), which are considered particularly stable as they are less sensitive to interest rate changes or market volatility. Additionally, the majority of the Firm's institutional deposits are also considered to be stable sources of funding since they are generated from customers that maintain operating service relationships with the Firm. For further discussions of deposit and liability balance trends, see the discussion of the results for the Firm's business segments and the Balance Sheet Analysis on pages 17–51 and 53–54, respectively, of this Form 10-Q.

Short-term funding

Short-term unsecured funding sources include federal funds and Eurodollars purchased, which represent overnight funds; certificates of deposit; time deposits; commercial paper, and other borrowed funds that generally have maturities of one year or less.

The Firm's reliance on short-term unsecured funding sources is limited. A significant portion of the total commercial paper liabilities, approximately 64% as of September 30, 2012, as shown in the table below, were originated from deposits that customers choose to sweep into commercial paper liabilities as a cash management

product offered by TSS and are not sourced from wholesale funding markets.

The Firm's sources of short-term secured funding primarily consist of securities loaned or sold under agreements to repurchase. Securities loaned or sold under agreements to repurchase generally mature between one day and three months, are secured predominantly by high-quality securities collateral, including government-issued debt, agency debt and agency MBS, and constitute a significant portion of the federal funds purchased and securities loaned or sold under purchase agreements. The increase in the balance at September 30, 2012, compared with the balance at December 31, 2011, and the average balance for the three and nine months ended September 30, 2012, was predominantly because of higher secured financing of the Firm's assets and a change in the mix of the Firm's liabilities. The balances associated with securities loaned or sold under agreements to repurchase fluctuate over time due to customers' investment and financing activities; the Firm's demand for financing; the ongoing management of the mix of the Firm's liabilities, including its secured and unsecured financing (for both the investment and market-making portfolios); and other market and portfolio factors.

At September 30, 2012, the balance of total unsecured and secured other borrowed funds remained flat, compared with the balance at December 31, 2011. The average balance for the three and nine months ended September 30, 2012, decreased compared with the same period in the prior year, predominantly driven by maturities of short-term unsecured bank notes and other unsecured borrowings, short-term Federal Home Loan Bank ("FHLB") advances, and other secured short-term borrowings.

For additional information, see the Balance Sheet Analysis on pages 53–54 and Note 12 on page 154 of this Form 10-Q. The following table summarizes by source short-term unsecured funding as of September 30, 2012, and December 31, 2011, and average balances for the three and nine months ended September 30, 2012 and 2011, respectively.

	September 30, 2012	December 31, 2011	Three months ended September 30,	Nine months ended September 30,

Short-term funding (in millions)			Average 2012	2011	Average 2012	2011
Commercial paper:						
Wholesale funding	$20,124	$4,245	$18,187	$5,450	$13,209	$7,057
Client cash management	35,350	47,386	34,336	41,577	36,692	34,829
Total commercial paper	$55,474	$51,631	$52,523	$47,027	$49,901	$41,886
Securities loaned or sold under agreements to repurchase:						
Securities sold under agreements to repurchase	$233,363	$197,789	$228,550	$213,415	$224,662	$240,155
Securities loaned	23,044	14,214	21,638	20,116	18,793	20,402
Total securities loaned or sold under agreements to repurchase[(a)(b)]	$256,407	$212,003	$250,188	$233,531	$243,455	$260,557
Other borrowed funds	$22,255	$21,908	$21,436	$30,108	$24,361	$33,511

(a) Excludes federal funds purchased.

(b) Includes long-term structured repurchase agreements of $7.4 billion and $6.6 billion as of September 30, 2012 and December 31, 2011, respectively.

67

Long-term funding and issuance

Long-term funding provides additional sources of stable funding and liquidity for the Firm. The majority of the Firm's long-term unsecured funding is issued by the parent holding company to provide maximum flexibility in support of both bank and nonbank subsidiary funding.

The following table summarizes long-term unsecured issuance and maturities or redemption for the three and nine months ended September 30, 2012 and 2011, respectively. For additional information, see Note 21 on pages 273-275 of JPMorgan Chase's 2011 Annual Report.

Long-term unsecured funding	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2012	2011	2012	2011
Issuance				
Senior notes issued in the U.S. market	$6,006	$4,379	$12,242	$24,259
Senior notes issued in non-U.S. markets	3,278	385	5,328	4,515
Total senior notes	9,284	4,764	17,570	28,774
Trust preferred capital debt securities	—	—	—	—
Subordinated debt	—	—	—	—
Structured notes	2,593	3,628	11,385	11,403
Total long-term unsecured funding – issuance	$11,877	$8,392	$28,955	$40,177
Maturities/redemptions				
Total senior notes	$6,094	$6,697	$27,931	$23,965
Trust preferred capital debt securities	9,030	—	9,482	—
Subordinated debt	—	—	1,000	2,100
Structured notes	4,458	4,271	15,697	14,374
Total long-term unsecured funding – maturities/redemptions	$19,582	$10,968	$54,110	$40,439

Following the Federal Reserve's announcement on June 7, 2012, of proposed rules which will implement the phase-out of Tier 1 capital treatment for trust preferred capital debt securities, the Firm announced on June 11, 2012, that it would redeem $9.0 billion of trust preferred capital debt securities pursuant to redemption provisions relating to the occurrence of a "Capital Treatment Event" (as defined in the documents governing those securities). The redemption was completed on July 12, 2012.

The Firm raises secured long-term funding through securitization of consumer credit card loans, residential mortgages, auto loans and student loans as well as through advances from the FHLBs, all of which increase funding and investor diversity.

The following table summarizes the securitization issuance and FHLB advances and their respective maturities or redemption for the three and nine months ended September 30, 2012 and 2011.

	Three months ended September 30,				Nine months ended September 30,			
Long-term secured funding	Issuance		Maturities/Redemption		Issuance		Maturities/Redemption	
(in millions)	2012	2011	2012	2011	2012	2011	2012	2011
Credit card securitization	$3,350	$—	$ 1,729	$ 3,475	$7,200	$1,000	$ 10,332	$ 13,077
Other securitizations[(a)]	—	—	139	129	—	—	370	365
FHLB advances	9,100	—	1,005	7	15,200	4,000	5,517	2,553
Total long-term secured funding	$12,450	$—	$ 2,873	$ 3,611	$22,400	$5,000	$ 16,219	$ 15,995

(a) Other securitizations includes securitizations of residential mortgages, auto loans and student loans.

The Firm's wholesale businesses also securitize loans for client-driven transactions; those client-driven loan securitizations are not considered to be a source of funding for the Firm and are not included in the table above. For further description of the client-driven loan securitizations, see Note 15 on pages 177–184 of this Form 10-Q.

Parent holding company and subsidiary funding

The parent holding company acts as an important source of funding to its subsidiaries. The Firm's liquidity management is therefore intended to ensure that liquidity at the parent holding company is maintained at levels sufficient to fund the operations of the parent holding company and its subsidiaries and affiliates for an extended period of time in a stress environment where access to normal funding sources is disrupted.

To effectively monitor the adequacy of liquidity and funding at the parent holding company, the Firm uses three primary measures:

- Number of months of pre-funding: The Firm targets pre-funding of the parent holding company to ensure that both contractual and non-contractual obligations can be met for at least 12 months assuming no access to wholesale funding markets. However, due to conservative liquidity management actions taken by the Firm, the current pre-funding of such obligations is significantly greater than target.
- Excess cash: Excess cash is managed to ensure that daily cash requirements can be met in both normal and stressed environments. Excess cash generated by parent holding company issuance activity is placed on deposit with or as advances to both bank and nonbank subsidiaries or held as liquid collateral purchased through reverse repurchase agreements.
- Stress testing: The Firm conducts regular stress testing for the parent holding company and major bank subsidiaries as well as the Firm's principal U.S. and U.K. broker-dealer subsidiaries to ensure sufficient liquidity for the Firm in a stress environment. The Firm's liquidity management takes into consideration its subsidiaries' ability to generate replacement funding in the event the parent holding company requires repayment of the aforementioned deposits and advances. For further information, see the "Stress testing" discussion below.

Global Liquidity Reserve

The Global Liquidity Reserve includes cash on deposit at central banks, and cash proceeds reasonably expected to be received in secured financings of highly liquid, unencumbered securities, such as sovereign debt, government-guaranteed corporate debt, U.S. government agency debt, and agency MBS. The liquidity amount estimated to be realized from secured financings is based on management's current judgment and assessment of the Firm's ability to quickly raise funds from secured financings.

The Global Liquidity Reserve also includes the Firm's borrowing capacity at various FHLBs, the Federal Reserve Bank discount window and various other central banks as a result of collateral pledged by the Firm to such banks. Although considered as a source of available liquidity, the Firm does not view borrowing capacity at the Federal Reserve Bank discount window and various other central banks as a primary source of funding.

As of September 30, 2012, the Global Liquidity Reserve was

estimated to be approximately $449 billion, compared with approximately $379 billion at December 31, 2011. The Global Liquidity Reserve fluctuates due to changes in deposits, the Firm's purchase and investment activities and general market conditions.

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

Stress testing

Liquidity stress tests are intended to ensure sufficient liquidity for the Firm under a variety of adverse conditions. Results of stress tests are therefore considered in the formulation of the Firm's funding plan and assessment of its liquidity position. Liquidity outflow assumptions are modeled across a range of time horizons and varying degrees of market and idiosyncratic stress. Standard stress tests are performed on a regular basis and ad hoc stress tests are performed as required. Stress scenarios are produced for the parent holding company and the Firm's major bank subsidiaries as well as the Firm's principal U.S. and U.K. broker-dealer subsidiaries. In addition, separate regional liquidity stress testing is performed.

Liquidity stress tests assume all of the Firm's contractual obligations are met and also take into consideration varying levels of access to unsecured and secured funding markets. Additionally, assumptions with respect to potential non-contractual and contingent outflows include, but are not limited to, the following:

- Deposits

For bank deposits that have no contractual maturity, the range of potential outflows reflect the type and size of deposit account, and the nature and extent of the Firm's relationship with the depositor.

- Secured funding

Range of haircuts on collateral based on security type and counterparty.

- Derivatives

Margin calls by exchanges or clearing houses;
Collateral calls associated with ratings downgrade triggers and variation margin;
Outflows of excess client collateral;
Novation of derivative trades.

- Unfunded commitments

Potential facility drawdowns reflecting type of commitment and counterparty.

Contingency funding plan

The Firm's contingency funding plan ("CFP"), which is reviewed and approved by ALCO, provides a documented framework for managing both temporary and longer-term unexpected adverse liquidity situations. It sets out a list of indicators and metrics that are reviewed on a daily basis to identify the emergence of increased risks or vulnerabilities in the Firm's liquidity position. The CFP identifies alternative contingent liquidity resources that can be accessed under adverse liquidity circumstances.

Credit ratings
The cost and availability of financing are influenced by credit ratings. Reductions in these ratings could have an adverse effect on the Firm's access to liquidity sources, increase the cost of funds, trigger additional collateral or funding requirements and decrease the number of investors and counterparties willing to lend to the Firm. Additionally, the Firm's funding requirements for VIEs and other third-party commitments may be adversely affected by a decline in credit ratings. For additional information on the impact of a credit ratings downgrade on the funding requirements for

VIEs, and on derivatives and collateral agreements, see Special-purpose entities on page 55, and Note 5 on page 142, of this Form 10-Q.
Critical factors in maintaining high credit ratings include a stable and diverse earnings stream, strong capital ratios, strong credit quality and risk management controls, diverse funding sources, and disciplined liquidity monitoring procedures.

The credit ratings of the parent holding company and certain of the Firm's significant operating subsidiaries as of September 30, 2012, were as follows.

	JPMorgan Chase & Co.			JPMorgan Chase Bank, N.A. Chase Bank USA, N.A.			J.P. Morgan Securities LLC		
	Senior unsecured	Commercial paper	Outlook	Long-term deposits	Short-term deposits	Outlook	Long-term issuer rating	Short-term issuer rating	Outlook
Moody's Investor Services	A2	P-1	Negative	Aa3	P-1	Stable	NR	NR	NR
Standard & Poor's	A	A-1	Negative	A+	A-1	Negative	A+	A-1	Negative
Fitch Ratings	A+	F1	RWN[(a)]	AA-	F1+	RWN[(a)]	A+	F1	RWN[(a)]

(a) Refers to "Ratings Watch Negative" on long-term ratings.

On June 21, 2012, Moody's downgraded the long-term ratings of the Firm and affirmed all its short-term ratings. The outlook for the parent holding company was left on negative reflecting Moody's view that government support for U.S. bank holding company creditors is becoming less certain and less predictable. Such ratings actions concluded Moody's review of 17 banks and securities firms with global capital markets operations, including the Firm, as a result of which all of these institutions were downgraded by various degrees.
Following the disclosure by the Firm, on May 10, 2012, of losses from the synthetic credit portfolio held by CIO. Fitch placed all parent and subsidiary long-term ratings on Ratings Watch Negative. Subsequently, on October 10, 2012, Fitch revised the outlook to Stable and affirmed the Firm's ratings.
The above-mentioned rating actions did not have a material adverse impact on the Firm's cost of funds and its ability to fund itself. Further downgrades of the Firm's long-term ratings by one notch or two notches could result in a downgrade of the Firm's short-term ratings. If this were to occur, the Firm believes its cost of funds could increase and access to certain funding markets could be reduced. The nature and magnitude of the impact of further ratings downgrades depends on numerous contractual and behavioral factors (which the Firm believes are incorporated in the Firm's liquidity risk and stress testing metrics). The Firm believes it maintains sufficient liquidity to withstand any potential decrease in funding capacity due to further ratings downgrades.

JPMorgan Chase's unsecured debt does not contain requirements that would call for an acceleration of payments, maturities or changes in the structure of the existing debt, provide any limitations on future borrowings or require additional collateral, based on unfavorable changes in the Firm's credit ratings, financial ratios, earnings, or stock price.
Rating agencies continue to evaluate various ratings factors, such as regulatory reforms, rating uplift assumptions surrounding government support, and economic uncertainty and sovereign creditworthiness, and their potential impact

on ratings of financial institutions. Although the Firm closely monitors and endeavors to manage factors influencing its credit ratings, there is no assurance that its credit ratings will not be changed in the future.

Cash flows

As of September 30, 2012 and 2011, cash and due from banks was $53.3 billion and $56.8 billion, respectively. These balances decreased by $6.3 billion and increased by $29.2 billion from December 31, 2011 and 2010, respectively. The following discussion highlights the major activities and transactions that affected JPMorgan Chase's cash flows for the nine months ended September 30, 2012 and 2011.

Cash flows from operating activities

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

For the nine months ended September 30, 2012, net cash provided by operating activities was $29.6 billion. Net cash generated from operating activities was higher than net income, partially as a result of adjustments for noncash items such as depreciation and amortization, provision for credit losses, and stock-based compensation. In addition, net cash provided by operating activities was driven by a decrease in securities borrowed due to a shift in the deployment of excess cash by Treasury. Cash proceeds received from sales and paydowns of loans was higher than the cash used to acquire such loans originated and purchased with an initial intent to sell, and also reflected a lower level of activity over the prior-year period.

For the nine months ended September 30, 2011, net cash provided by operating activities was $66.5 billion. This resulted from a decrease in trading assets-debt and equity instruments, driven by lower client market-making activity in IB, resulting in declines in equity securities and U.S. government agency mortgage-backed securities, partially offset by an increase in U.S. treasury securities; an increase in accounts payable and other liabilities largely due to higher IB customer balances; an increase in trading liabilities–derivative payables predominantly due to increases in interest rate derivative balances driven by declining interest rates and increases in commodity derivative balances driven by price movements in base metals and energy. Partially offsetting these cash proceeds was an increase in trading assets–derivative receivables predominantly due to the aforementioned declining interest rates and increases in commodity derivative balances. Net cash generated from operating activities was higher than net income largely as a result of adjustments for noncash items such as the provision for credit losses, depreciation and amortization, and stock-based compensation. Additionally, cash provided by proceeds from sales and paydowns of loans originated or purchased with an initial

intent to sell was higher than cash used to acquire such loans, and also reflected a higher level of activity over the prior-year period.

Cash flows from investing activities

The Firm's investing activities predominantly include loans originated to be held for investment, the AFS securities portfolio and other short-term interest-earning assets. For the nine months ended September 30, 2012, net cash of $69.7 billion was used in investing activities. This resulted from an increase in securities purchased under resale agreements predominantly due to deployment of excess cash by Treasury; an increase in deposits with banks reflecting the placement of the Firm's excess funds with various central banks, including Federal Reserve Banks; and an increase in wholesale loans driven by increased client activity across most regions and businesses. Partially offsetting these cash outflows were proceeds from maturities and sales of AFS securities being higher than cash used to acquire such securities; and a decline in the level of consumer, excluding credit card loans due to paydowns, portfolio run-off, and a decrease in credit card loans due to seasonality and higher repayment rates.

For the nine months ended September 30, 2011, net cash of $169.7 billion was used in investing activities. This resulted from a significant increase in deposits with banks reflecting the placement of funds with various central banks, including Federal Reserve Banks during the third quarter of 2011, predominantly resulting from the overall growth in wholesale client deposits; an increase in securities purchased under resale agreements, predominantly in IB, reflecting higher client financing activity; an increase in loans reflecting continued growth in client activity across all of the Firm's wholesale businesses; and net purchases of AFS securities, largely due to repositioning of the portfolio in

Corporate in response to changes in the market environment. Partially offsetting these cash outflows were a decline in loans from the continued portfolio runoff in RFS, as well as lower seasonal balances, higher repayment rates, continued runoff of the Washington Mutual portfolio and the sale of the Kohl’s portfolio.

Cash flows from financing activities

The Firm’s financing activities primarily reflect cash flows related to taking customer deposits, and issuing long-term debt as well as preferred and common stock. For the nine months ended September 30, 2012, net cash provided by financing activities was $33.6 billion. This was driven by an increase in securities loaned or sold under repurchase agreements, predominantly because of higher secured financing of the Firm’s assets and a change in the mix of the Firm’s liabilities; an increase in deposits predominantly due to growth in retail deposits; an increase in commercial paper due to higher commercial paper liabilities sourced from wholesale funding markets to meet short-term funding needs, partially offset by a decline in the volume of liability balances in sweep accounts related to TSS’s cash management product; and proceeds from the issuance of preferred stock. Partially offsetting these cash inflows were net redemptions and maturities of long-term borrowings, largely related to the redemption of TruPS; and payments of cash dividends on common and preferred stock and repurchases of common stock and warrants.

For the nine months ended September 30, 2011, net cash provided by financing activities was $132.4 billion. This was largely driven by a significant increase in deposits, predominantly due to an overall growth in wholesale client balances and, to a lesser extent, consumer deposit balances; and an increase in commercial paper due to growth in the volume of liability balances in sweep accounts related to TSS's cash management product. Cash was used to reduce securities sold under repurchase agreements, predominantly in IB, due to lower financing of the Firm's trading assets; for net repayments of long-term borrowings, including a decline in long-term beneficial interests issued by consolidated VIEs due to maturities of Firm-sponsored credit card securitization transactions; to reduce other borrowed funds, predominantly driven by maturities of short-term unsecured bank notes and short-term FHLB advances; for repurchases of common stock and warrants, and payments of cash dividends on common and preferred stock.

CREDIT PORTFOLIO

For a further discussion of the Firm's Credit Risk Management framework, see pages 132–134 of JPMorgan Chase's 2011 Annual Report. For further information regarding the credit risk inherent in the Firm's investment securities portfolio, see Note 11 on pages 148–153 of this Form 10-Q and Note 12 on pages 225–230 of JPMorgan Chase's 2011 Annual Report.

The following table presents JPMorgan Chase's credit portfolio as of September 30, 2012, and December 31, 2011. Total credit exposure was $1.8 trillion at September 30, 2012, an increase of $30.5 billion from December 31, 2011, primarily reflecting an increase in the wholesale portfolio of $48.0 billion, partially offset by a decrease in the consumer portfolio of $17.5 billion.

For further information on the changes in the credit portfolio, see Wholesale Credit Portfolio on pages 74–81, and Consumer Credit Portfolio on pages 82–92, of this Form 10-Q.

The Firm provided credit to and raised capital of over $1.3 trillion for its commercial and consumer clients during the nine months ended September 30, 2012; this included more than $15 billion of credit provided to U.S. small businesses, up 21% compared with the prior year and $52 billion to more than 1,300 not-for-profit and government entities, including states, municipalities, hospitals and universities. The Firm also originated more than 664,000 mortgages and provided credit cards to approximately 4.9 million consumers during the nine months ended September 30, 2012. The Firm remains committed to helping homeowners and preventing foreclosures. Since the beginning of 2009, the Firm has offered nearly 1.4 million mortgage modifications and of these more than 578,000 have achieved permanent modification as of September 30, 2012.

In the following table, reported loans include loans retained (i.e., held-for-investment); loans held-for-sale (which are carried at the lower of cost or fair value, with changes in value recorded in noninterest revenue); and certain loans accounted for at fair value. The Firm also records certain loans accounted for at fair value in trading assets. For further information regarding these loans see Note 3 on pages 119–133 of this Form 10-Q. For additional information on the Firm's loans and derivative receivables, including the Firm's accounting policies, see Note 13 and Note 5 on pages 154–175 and 136–144, respectively, of this Form 10-Q.

Total credit portfolio

	Credit exposure		Nonperforming[b][c][d][e][f]	
(in millions)	Sep 30, 2012	Dec 31, 2011	Sep 30, 2012	Dec 31, 2011
Loans retained	$717,086	$718,997	$11,124	$9,810
Loans held-for-sale	2,111	2,626	71	110
Loans at fair value	2,750	2,097	175	73
Total loans – reported	721,947	723,720	11,370	9,993
Derivative receivables	79,963	92,477	282	297
Receivables from customers and other	18,946	17,561	—	—
Total credit-related assets	820,856	833,758	11,652	10,290
Assets acquired in loan satisfactions				
Real estate owned	NA	NA	788	975
Other	NA	NA	41	50
Total assets acquired in loan satisfactions	NA	NA	829	1,025
Total assets	820,856	833,758	12,481	11,315
Lending-related commitments	1,019,073	975,662	586	865
Total credit portfolio	$1,839,929	$1,809,420	$13,067	$12,180
Credit Portfolio Management derivatives notional, net[a]	$(30,204)	$(26,240)	$(20)	$(38)
Liquid securities and other cash collateral held against derivatives	(13,999)	(21,807)	NA	NA

(in millions, except ratios)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net charge-offs[g]	$2,770	$2,507	$7,435	$9,330
Average retained loans				
Loans – reported	719,071	689,021	716,398	683,098
Loans – reported, excluding residential real estate PCI loans	657,293	620,974	653,103	613,263
Net charge-off rates[g]				
Loans – reported	1.53%	1.44%	1.39%	1.83%
Loans – reported, excluding PCI	1.68	1.60	1.52	2.03

(a) Represents the net notional amount of protection purchased and sold through credit derivatives used to manage both performing and nonperforming wholesale credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. Excludes the synthetic credit portfolio. For additional information, see Credit derivatives on pages 80–81 and Note 5 on pages 136–144 of this Form 10-Q.

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

(c) At September 30, 2012, and December 31, 2011, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $11.0 billion and $11.5 billion, respectively, that are 90 or more days past due; (2) real estate owned insured by U.S. government agencies of $1.5 billion and $954 million, respectively; and (3) student loans insured by U.S. government agencies under the FFELP of $536 million and $551 million, respectively, that are 90 or more days past due. These amounts were excluded from nonaccrual loans as reimbursement of insured amounts are proceeding normally. In addition, the Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance issued by the Federal Financial Institutions Examination Council ("FFIEC").

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

(e) At September 30, 2012, and December 31, 2011, total nonaccrual loans represented 1.57% and 1.38%, respectively, of total loans. At September 30, 2012, included $1.7 billion of residential real estate Chapter 7 loans and $1.3 billion of performing junior liens that are subordinate to senior liens that are 90 days or more past due. For more information, see Consumer Credit Portfolio on pages 82–92 of this Form 10-Q.

(f) 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.

(g) Net charge-offs and net charge-off rates for the three months and nine months ended September 30, 2012, included $880 million of incremental charge-offs of Chapter 7 loans. See Consumer Credit Portfolio on pages 82–92 of this Form 10-Q for further details.

WHOLESALE CREDIT PORTFOLIO

As of September 30, 2012, wholesale exposure (IB, CB, TSS and AM) increased by $48.0 billion from December 31, 2011, primarily driven by increases of $39.8 billion in lending-related commitments and $19.3 billion in loans due to increased client activity across most regions and most businesses. These increases were partially offset by a $12.5 billion decrease in derivative receivables, primarily due to the impact of changes in the underlying parameters, including FX rates, interest rates and credit spreads, which resulted in reductions in derivative receivables related to foreign exchange, interest rate and credit derivative contracts, partially offset by increases in equity derivative receivables.

Wholesale credit portfolio

(in millions)	Credit exposure Sep 30, 2012	Credit exposure Dec 31, 2011	Nonperforming[c][d] Sep 30, 2012	Nonperforming[c][d] Dec 31, 2011
Loans retained	$297,576	$278,395	$1,663	$2,398
Loans held-for-sale	2,005	2,524	71	110
Loans at fair value	2,750	2,097	175	73
Loans – reported	302,331	283,016	1,909	2,581
Derivative receivables	79,963	92,477	282	297
Receivables from customers and other[a]	18,837	17,461	—	—
Total wholesale credit-related assets	401,131	392,954	2,191	2,878
Lending-related commitments	422,557	382,739	586	865
Total wholesale credit exposure	$823,688	$775,693	$2,777	$3,743
Credit Portfolio Management derivatives notional, net[b]	$(30,204)	$(26,240)	$(20)	$(38)
Liquid securities and other cash collateral held against derivatives	(13,999)	(21,807)	NA	NA

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

(b) Represents the net notional amount of protection purchased and sold through credit derivatives used to manage both performing and nonperforming wholesale credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. Excludes the synthetic credit portfolio. For additional information, see Credit derivatives on pages 80–81, and Note 5 on pages 136–144 of this Form 10-Q.

(c) Excludes assets acquired in loan satisfactions.

(d) 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.

The following table summarizes the maturity and ratings profile of the wholesale portfolio at September 30, 2012, and December 31, 2011. The ratings scale is based on the Firm's internal risk ratings, which generally correspond to the ratings as defined by S&P and Moody's.

Wholesale credit exposure – maturity and ratings profile

September 30, 2012 (in millions, except ratios)	Maturity profile[c] Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total	Ratings profile Investment-grade AAA/Aaa to BBB-/Baa3	Noninvestment-grade BB+/Ba1 & below	Total	Total % of IG
Loans retained	$113,069	$113,582	$70,925	$297,576	$210,551	$ 87,025	$297,576	71 %
Derivative receivables				79,963			79,963	
Less: Liquid securities and other cash collateral held against derivatives				(13,999)			(13,999)	
Total derivative receivables, net of all collateral	14,692	26,976	24,296	65,964	53,279	12,685	65,964	81
Lending-related commitments	155,812	255,522	11,223	422,557	337,549	85,008	422,557	80
Subtotal	283,573	396,080	106,444	786,097	601,379	184,718	786,097	77
Loans held-for-sale and loans at fair value[a]				4,755			4,755	
Receivables from customers and other				18,837			18,837	
Total exposure – net of liquid securities and other cash collateral held against derivatives				$809,689			$809,689	
Credit Portfolio Management derivatives notional, net[b]	$(1,607)	$(13,837)	$(14,760)	$(30,204)	$(30,264)	$ 60	$(30,204)	100 %

December 31, 2011 (in millions, except ratios)	Maturity profile[c] Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total	Ratings profile Investment-grade AAA/Aaa to BBB-/Baa3	Noninvestment-grade BB+/Ba1 & below	Total	Total % of IG
Loans retained	$113,222	$101,959	$63,214	$278,395	$196,998	$ 81,397	$278,395	71 %
Derivative receivables				92,477			92,477	
Less: Liquid securities and other cash collateral held against derivatives				(21,807)			(21,807)	
Total derivative receivables, net of all collateral	8,243	29,910	32,517	70,670	57,637	13,033	70,670	82
Lending-related commitments	139,978	233,396	9,365	382,739	310,107	72,632	382,739	81
Subtotal	261,443	365,265	105,096	731,804	564,742	167,062	731,804	77

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

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

(b) Excludes the synthetic credit portfolio. Represents the net notional amounts of protection purchased and sold, through credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. The ratings profile shown is based on the rating of the derivative counterparty; the counterparties to these positions are predominantly investment-grade banks and finance companies.

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

Wholesale credit exposure – selected industry exposures

The Firm focuses on the management and diversification of its industry exposures, with particular attention paid to industries with actual or potential credit concerns. As of September 30, 2012, the Firm revised its definition of the criticized component of the wholesale portfolio to align with the banking regulators' definition of criticized exposures, which consist of the special mention, substandard and doubtful categories. Prior periods have been reclassified to conform with the current presentation. While this reclassification resulted in an increase in the level of reported criticized exposure by $4.9 billion and $4.5 billion as of September 30, 2012, and December 31, 2011, respectively, it did not result in material changes to the

Firm's underlying risk ratings or nonaccrual loans. Accordingly, this reclassification did not result in material changes to the allowance for credit losses or additional provision for credit losses. Furthermore, this change had no effect on reported net interest income with respect to the affected loans. The total criticized component of the portfolio, excluding loans held-for-sale and loans at fair value, decreased by 17% to $16.9 billion at September 30, 2012, from $20.3 billion at December 31, 2011, primarily due to repayments.

Below are summaries of the top 25 industry exposures as of September 30, 2012, and December 31, 2011.

As of or for the nine months ended September 30, 2012 (in millions)	Credit exposure[c]	Investment-grade	Noninvestment-grade[d]			30 days or more past due and accruing loans	Year-to-date net charge-offs/(recoveries)	Credit Portfolio Management derivatives notional, net [e]	Liquid securities and other cash collateral held against derivative receivables
			Noncriticized	Criticized performing	Criticized nonperforming				
Top 25 industries[a]									
Banks and finance companies	$73,900	$62,647	$10,505	$ 739	$ 9	$84	$ (34)	$ (3,904)	$ (6,312)
Real estate	73,647	46,447	21,967	4,399	834	134	27	(112)	(578)
Healthcare	48,274	39,559	8,059	626	30	9	1	(227)	(369)
Oil and gas	43,881	29,435	14,113	333	—	5	—	(154)	(69)
State and municipal governments[b]	40,425	38,987	1,270	54	114	—	2	(185)	(219)
Consumer products	32,879	21,715	10,156	1,000	8	15	(14)	(292)	(1)
Asset managers	31,026	25,600	5,220	206	—	28	—	—	(2,785)
Utilities	30,056	24,816	4,684	341	215	—	(7)	(277)	(350)
Retail and consumer services	24,774	16,007	8,164	567	36	12	1	(72)	—
Central governments	20,872	20,310	507	55	—	—	—	(12,558)	(1,210)
Transportation	19,789	14,435	4,952	314	88	44	(13)	(143)	—
Technology	19,054	12,436	6,076	522	20	—	—	(139)	—
Machinery and equipment manufacturing	18,548	10,174	8,057	308	9	8	—	(13)	—
Metals/mining	17,400	9,252	7,667	448	33	2	(1)	(480)	—
Business services	13,796	7,051	6,473	228	44	4	22	(42)	—
Media	13,599	7,886	4,803	531	379	—	(1)	(133)	—
Insurance	12,442	9,825	2,347	270	—	—	(2)	(134)	(757)
Building materials/construction	12,310	5,309	6,032	965	4	17	—	(114)	—
Telecom services	12,056	7,372	4,055	623	6	3	1	(244)	(1)
Chemicals/plastics	11,111	6,808	4,137	150	16	1	2	(55)	(65)
Automotive	10,819	5,957	4,730	131	1	2	—	(638)	—
Agriculture/paper manufacturing	7,870	5,064	2,700	106	—	35	—	—	—
Aerospace	6,355	5,137	1,184	33	1	—	—	(155)	—
Securities firms and exchanges	6,205	4,441	1,646	116	2	1	—	(222)	(280)
Leisure	5,767	3,207	1,654	575	331	4	(13)	(58)	(26)
All other	193,241	173,539	18,642	709	351	1,152	9	(9,853)	(977)
Subtotal	$800,096	$613,416	$169,800	$ 14,349	$ 2,531	$1,560	$ (20)	$ (30,204)	$ (13,999)
Loans held-for-sale and loans at fair value	4,755								
Receivables from customers and other	18,837								

Total	$823,688

76

As of or for the year ended December 31, 2011 (in millions)	Credit exposure[c]	Investment-grade	Noninvestment-grade[d][f]			30 days or more past due and accruing loans	Full year net charge-offs/(recoveries)	Credit Portfolio Management derivatives notional, net[e]	Liquid securities and other cash collateral held against derivative receivables
			Noncriticized	Criticized performing	Criticized nonperforming				
Top 25 industries[a]									
Banks and finance companies	$71,440	$59,115	$11,744	$555	$26	$20	$(211)	$(3,053)	$(9,585)
Real estate	67,594	40,921	19,947	5,732	994	411	256	(97)	(359)
Healthcare	42,247	35,146	6,816	228	57	166	—	(304)	(320)
Oil and gas	35,437	24,957	10,178	274	28	3	—	(119)	(88)
State and municipal governments[b]	41,930	40,565	1,122	113	130	23	—	(185)	(147)
Consumer products	29,637	19,728	9,040	832	37	3	13	(272)	(50)
Asset managers	33,465	28,834	4,201	429	1	24	—	—	(4,807)
Utilities	28,650	23,557	4,412	174	507	—	76	(105)	(359)
Retail and consumer services	22,891	14,567	7,446	778	100	15	1	(96)	(1)
Central governments	17,138	16,524	488	126	—	—	—	(9,796)	(813)
Transportation	16,305	12,061	3,930	256	58	6	17	(178)	—
Technology	17,898	12,494	4,985	417	2	—	4	(191)	—
Machinery and equipment manufacturing	16,498	9,014	7,236	238	10	1	(1)	(19)	—
Metals/mining	15,254	8,716	6,339	198	1	6	(19)	(423)	—
Business services	12,408	7,093	5,012	264	39	17	22	(20)	(2)
Media	11,909	6,853	3,729	866	461	1	18	(188)	—
Insurance	13,092	9,425	2,852	802	13	—	—	(552)	(454)
Building materials/construction	11,770	5,175	5,335	1,256	4	6	(4)	(213)	—
Telecom services	11,552	8,502	2,493	546	11	2	5	(390)	—
Chemicals/plastics	11,728	7,867	3,700	146	15	—	—	(95)	(20)
Automotive	9,910	5,699	4,123	88	—	9	(11)	(819)	—
Agriculture/paper manufacturing	7,594	4,888	2,540	166	—	9	—	—	—
Aerospace	8,560	7,646	845	69	—	7	—	(208)	—
Securities firms and exchanges	12,394	10,799	1,571	23	1	10	73	(395)	(3,738)
Leisure	5,650	3,051	1,680	530	389	1	1	(81)	(26)
All other	180,660	161,546	16,785	1,653	676	1,099	200	(8,441)	(1,038)
Subtotal	$753,611	$584,743	$148,549	$16,759	$3,560	$1,839	$440	$(26,240)	$(21,807)
Loans held-for-sale and loans at fair value	4,621								
Receivables from customers and other	17,461								

Total	$775,693

(a) The industry rankings presented in the table as of December 31, 2011, are based on the industry rankings of the corresponding exposures at September 30, 2012, not actual rankings of such exposures at December 31, 2011.

(b) In addition to the credit risk exposure to states and municipal governments (both U.S. and non-U.S.) at September 30, 2012, and December 31, 2011, noted above, the Firm held $17.7 billion and $16.7 billion, respectively, of trading securities and $22.4 billion and $16.5 billion, respectively, of AFS securities issued by U.S. state and municipal governments. For further information, see Note 3 and Note 11 on pages 119–133 and 148–153, respectively, of this Form 10-Q.

(c) Credit exposure is net of risk participations and excludes the benefit of "Credit Portfolio Management derivatives notional, net" held against derivative receivables or loans and "Liquid securities and other cash collateral held against derivative receivables".

(d) As of September 30, 2012, exposures deemed criticized correspond to special mention, substandard and doubtful categories as defined by bank regulatory agencies. Prior periods have been reclassified to conform with the current presentation.

(e) Represents the net notional amounts of protection purchased and sold through credit derivatives to manage the credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. The All other category includes purchased credit protection on certain credit indices. Credit Portfolio Management derivatives excludes the synthetic credit portfolio.

(f) 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.

The following table presents the geographic distribution of wholesale credit exposure including nonperforming assets and past due loans as of September 30, 2012, and December 31, 2011. The geographic distribution of the wholesale portfolio is determined based predominantly on the domicile (legal residence) of the borrower. For further information on Country Risk Management, see pages 103–105 of this Form 10-Q.

	Credit exposure				Nonperforming					30 days or more past due and accruing loans
September 30, 2012 (in millions)	Loans	Lending-related commitments	Derivative receivables	Total credit exposure	Nonaccrual loans(a)	Derivatives	Lending-related commitments	Total non-performing credit exposure	Assets acquired in loan satisfactions	
Europe/Middle East/Africa	$37,480	$ 69,612	$ 37,247	$144,339	$21	$ 5	$ 11	$ 37	$ 10	$119
Asia/Pacific	30,596	21,874	8,728	61,198	14	8	—	22	—	1
Latin America/Caribbean	28,641	25,399	4,493	58,533	59	10	4	73	—	355
Other North America	2,598	9,085	1,953	13,636	1	—	—	1	—	7
Total non-U.S.	99,315	125,970	52,421	277,706	95	23	15	133	10	482
Total U.S.	198,261	296,587	27,542	522,390	1,568	259	571	2,398	114	1,078
Loans held-for-sale and loans at fair value	4,755	—	—	4,755	246	NA	—	246	NA	—
Receivables from customers and other	—	—	—	18,837	—	NA	NA	—	NA	—
Total	$302,331	$ 422,557	$ 79,963	$823,688	$1,909	$ 282	$ 586	$ 2,777	$ 124	$1,560

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

(a) At September 30, 2012, and December 31, 2011, the Firm held an allowance for loan losses of $370 million and $496 million, respectively, related to nonaccrual retained loans resulting in allowance coverage ratios of 22% and 21%, respectively. Wholesale nonaccrual loans represented 0.63% and 0.91% of total wholesale loans at September 30, 2012, and December 31, 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.

Loans

In the normal course of business, the Firm provides loans to a variety of wholesale customers, from large corporate and institutional clients to high-net-worth individuals. For further discussion on loans, including information on credit quality indicators, see Note 13 on pages 154–175 of this Form 10-Q.

The Firm actively manages wholesale credit exposure. One way of managing credit risk is through sales of loans and lending-related commitments. During the nine months ended September 30, 2012 and 2011, the Firm sold $2.8 billion and $6.3 billion, respectively, of loans and commitments. These sale activities are not related to the Firm's securitization activities. For further discussion of securitization activity, see Liquidity Risk Management and Note 15 on pages 66–72 and 177–184, respectively, of this Form 10-Q.

The following table presents the change in the nonaccrual loan portfolio for the nine months ended September 30, 2012 and 2011. Nonaccrual wholesale loans decreased by $672 million from December 31, 2011, primarily reflecting repayments.

Wholesale nonaccrual loan activity

Nine months ended September 30, (in millions)	2012	2011
Beginning balance	$2,581	$6,006
Additions	1,359	1,706
Reductions:		
Paydowns and other	1,303	2,412
Gross charge-offs	209	477
Returned to accrual status	171	641
Sales	348	995
Total reductions	2,031	4,525
Net additions/(reductions)	(672)	(2,819)
Ending balance	$1,909	$3,187

The following table presents net charge-offs, which are defined as gross charge-offs less recoveries, for the three and nine months ended September 30, 2012 and 2011. The amounts in the table below do not include gains or losses from sales of nonaccrual loans.

Wholesale net charge-offs

(in millions, except ratios)	Three months ended September 30, 2012	2011	Nine months ended September 30, 2012	2011
Loans - reported				
Average loans retained	$297,369	$250,145	$289,055	$238,153
Net charge-offs /(recoveries)	(34)	(151)	(20)	94
Net charge-off /(recovery) rate	(0.05)%	(0.24)%	(0.01)%	0.05%

Receivables from customers

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

Lending-related commitments

JPMorgan Chase uses lending-related financial instruments, such as commitments and guarantees, to meet the financing needs of its customers. The contractual amounts of these financial instruments represent the maximum possible credit risk should the counterparties draw down on these commitments or the Firm fulfills its obligations under these guarantees, and the counterparties subsequently fails to perform according to the terms of these contracts. In the Firm’s view, the total contractual amount of these wholesale lending-related commitments is not representative of the Firm’s actual credit risk exposure or funding requirements. In determining the amount of credit risk exposure the Firm has to wholesale lending-related commitments, which is used as the basis for allocating credit risk capital to these commitments, the Firm has established a “loan-equivalent” amount for each commitment; this amount represents the portion of the unused commitment or other contingent exposure that is expected, based on average portfolio historical experience, to become drawn upon in an event of a default by an obligor. The loan-equivalent amount of the Firm’s lending-related commitments was $221.8 billion and $206.5 billion as of September 30, 2012, and December 31, 2011, respectively.

Derivative contracts

In the normal course of business, the Firm uses derivative instruments predominantly for market-making activities. Derivatives enable customers and the Firm to manage exposures to fluctuations in interest rates, currencies and other markets. The Firm also uses derivative instruments to manage its credit exposure. For further discussion of derivative contracts, see Note 5 on pages 136–144 of this Form 10-Q.

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

Derivative receivables

	Derivative receivables	
(in millions)	Sep 30, 2012	Dec 31, 2011
Interest rate	$42,727	$46,369
Credit derivatives	3,384	6,684
Foreign exchange	11,751	17,890
Equity	9,618	6,793
Commodity	12,483	14,741
Total, net of cash collateral	79,963	92,477
Liquid securities and other cash collateral held against derivative receivables	(13,999)	(21,807)
Total, net of all collateral	$65,964	$70,670

Derivative receivables reported on the Consolidated Balance Sheets were $80.0 billion and $92.5 billion at September 30, 2012, and December 31, 2011, respectively. These amounts represent the fair value of the derivative contracts after giving effect to legally enforceable master netting agreements, cash collateral held by the Firm and the CVA. However, in management's view, the appropriate measure of current credit risk should also take into consideration additional liquid securities (primarily U.S. government and agency securities and other G7 government bonds) and other cash collateral held by the Firm of $14.0 billion and $21.8 billion at September 30, 2012, and December 31, 2011, respectively, that may be used as security when the fair value of the client's exposure is in the Firm's favor, as shown in the table above.

In addition to the collateral described in the preceding paragraph the Firm also holds additional collateral (including cash, U.S. government and agency securities, and other G7 government bonds) delivered by clients at the initiation of transactions, as well as collateral related to contracts that have a non-daily call frequency and collateral that the Firm has agreed to return but has not yet settled as of the reporting date. Though this collateral does not reduce the balances and is not included in the table above, it is available as security against potential exposure that could arise should the fair value of the client's derivative transactions move in the Firm's favor. As of September 30, 2012, and December 31, 2011, the Firm held $20.4 billion and $17.6 billion, respectively, of this additional collateral. The derivative receivables fair value, net of all collateral, also do not include other credit enhancements, such as letters of credit. For additional information on the Firm's use of collateral agreements, see Note 5 on pages 136–144 of this Form 10-Q.

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

Ratings profile of derivative receivables

Rating equivalent	September 30, 2012		December 31, 2011	
(in millions, except ratios)	Exposure net of all collateral	% of exposure net of all collateral	Exposure net of all collateral	% of exposure net of all collateral
AAA/Aaa to AA-/Aa3	$24,252	37 %	$25,100	35 %
A+/A1 to A-/A3	12,369	19	22,942	32
BBB+/Baa1 to BBB-/Baa3	16,658	25	9,595	14
BB+/Ba1 to B-/B3	11,178	17	10,545	15

CCC+/Caa1 and below	1,507	2	2,488	4
Total	$65,964	100 %	$70,670	100 %

As noted above, the Firm uses collateral agreements to mitigate counterparty credit risk. The percentage of the Firm's derivatives transactions subject to collateral agreements – excluding foreign exchange spot trades, which are not typically covered by collateral agreements due to their short maturity – was 88% as of September 30, 2012, unchanged compared with December 31, 2011.

Credit derivatives

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

For a more detailed description of credit derivatives, see Credit derivatives in Note 5 on pages 143–144 of this Form 10-Q; and on pages 143–144 and Note 6 on pages 209–210 of JPMorgan Chase's 2011 Annual Report.
The Firm uses credit derivatives for two primary purposes: first, in its capacity as a market-maker; and second, as an end-user, to manage the Firm's own credit risk associated with various exposures.
Included in end-user activities are credit derivatives used to mitigate the credit risk associated with traditional lending activities (loans and unfunded commitments) and derivatives counterparty exposure in the Firm's wholesale businesses ("Credit Portfolio Management" activities). Information on Credit Portfolio Management activities is provided in the table below.
In addition, the Firm uses credit derivatives as an end-user to manage other exposures, including credit risk arising from certain AFS securities and from certain securities held in the Firm's market making businesses. These credit derivatives, as well as the synthetic credit portfolio, are not included in Credit Portfolio Management activities; for further information on these credit derivatives as well as credit derivatives used in the Firm's capacity as a market maker in credit derivatives, see Credit derivatives in Note 5 on pages 143–144 of this Form 10-Q.
Credit Portfolio Management activities
Credit Portfolio Management derivatives

	Notional amount of protection purchased and sold [(a)]	
(in millions)	Sep 30, 2012	Dec 31, 2011
Credit derivatives used to manage:		
Loans and lending-related commitments	$2,637	$3,488
Derivative receivables	27,662	22,883
Total net protection purchased	30,299	26,371
Total net protection sold	95	131
Credit Portfolio Management derivatives notional, net	$30,204	$26,240

(a) Amounts are presented net, considering the Firm's net protection purchased or sold with respect to each underlying reference entity or index.

The credit derivatives used in Credit Portfolio Management activities do not qualify for hedge accounting under U.S. GAAP; these derivatives are reported at fair value, with gains and losses recognized in principal transactions revenue. In contrast, the loans and lending-related commitments being risk-managed are accounted for on an accrual basis. This asymmetry in accounting treatment, between loans and lending-related commitments and the credit derivatives used in credit portfolio management activities, causes earnings volatility that is not representative, in the Firm's view, of the true changes in value of the Firm's overall credit exposure. In addition, the effectiveness of the Firm's CDS protection as a hedge of the Firm's exposures may vary depending upon a number of factors, including the contractual terms of the CDS. The fair value related to the Firm's credit derivatives used for managing credit exposure, as well as the fair value related to the CVA (which reflects the credit quality of derivatives counterparty exposure), are included in the gains and losses realized on credit derivatives disclosed in the table below. These results can vary from period to period due to market conditions that affect specific positions in the portfolio. For further information on credit derivative protection purchased in the context of country risk, see Country Risk Management on pages 103–105 of this Form 10-Q, and pages 163–165 of JPMorgan Chase's 2011 Annual Report.
Net gains and losses on Credit Portfolio Management derivatives

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2012	2011	2012	2011
Hedges of loans and lending-related commitments	$(39)	$104	$(123)	$29

CVA and hedges of CVA	43	(691)	138	(828)
Net gains/(losses)	$4	$(587)	$15	$(799)

CONSUMER CREDIT PORTFOLIO

JPMorgan Chase's consumer portfolio consists primarily of residential real estate loans, credit card loans, auto loans, business banking loans, and student loans. The Firm's primary focus is on serving the prime segment of the consumer credit market. For further information on consumer loans, see Note 13 on pages 154–175 of this Form 10-Q.

A substantial portion of the consumer loans acquired in the Washington Mutual transaction were identified as PCI based on an analysis of high-risk characteristics, including product type, loan-to-value ("LTV") ratios, FICO scores and delinquency status. These PCI loans are accounted for on a pool basis, and the pools are considered to be performing. For further information on PCI loans see Note 13 on pages 154–175 of this Form 10-Q.

Credit performance of the consumer portfolio improved as the economy continued to slowly expand during the nine months ended September 30, 2012, resulting in a reduction in estimated future losses, particularly in the residential real estate and credit card portfolios. However, high unemployment relative to the historical norm and weak housing prices continue to negatively impact the number of residential real estate loans being charged off and the severity of loss recognized on defaulted residential

real estate loans. Early-stage residential real estate delinquencies (30–89 days delinquent), excluding government guaranteed loans, declined during the first half of the year, but increased during the third quarter primarily due to seasonal impacts. Late-stage delinquencies (150+ days delinquent) continued to decline but remain elevated. The elevated level of the late-stage delinquent loans is due, in part, to loss mitigation activities currently being undertaken and to elongated foreclosure processing timelines. Losses related to these loans continue to be recognized in accordance with the Firm's standard charge-off practices, but some delinquent loans that would otherwise have been foreclosed upon remain in the mortgage and home equity loan portfolios. In addition to these elevated levels of delinquencies, high unemployment and weak housing prices, uncertainties regarding the ultimate success of loan modifications, and the risk attributes of certain loans within the portfolio (e.g., loans with high LTV ratios, junior lien loans that are subordinate to a delinquent or modified senior lien) continue to contribute to uncertainty regarding overall residential real estate portfolio performance and have been considered in estimating the allowance for loan losses.

The following table presents managed consumer credit-related information (including RFS, Card, and residential real estate loans reported in the AM business segment and in Corporate/Private Equity) for the dates indicated. For further information about the Firm's nonaccrual and charge-off accounting policies, see Note 13 on pages 154–175 of this Form 10-Q.

Consumer credit portfolio					Three months ended September 30,				Nine months ended September 30,			
(in millions, except ratios)	Credit exposure		Nonaccrual loans[f][g][h]		Net charge-offs[i]		Average annual net charge-off rate[i][j]		Net charge-offs[i]		Average annual net charge-off rate[i][j]	
	Sep 30, 2012	Dec 31, 2011	Sep 30, 2012	Dec 31, 2011	2012	2011	2012	2011	2012	2011	2012	2011
Consumer, excluding credit card												
Loans, excluding PCI loans and loans held-for-sale												
Home equity – senior lien	$19,990	$21,765	$973	$495	$135	$67	2.61%	1.17%	$246	$206	1.55%	1.17%
Home equity – junior lien	49,696	56,035	2,281	792	985	514	7.67	3.46	1,882	1,687	4.76	3.72
Prime mortgage, including option ARMs	75,636	76,196	3,570	3,462	148	182	0.78	0.97	400	552	0.70	0.99
Subprime mortgage	8,552	9,664	1,868	1,781	152	141	6.89	5.43	394	483	5.77	6.04
Auto[a]	48,920	47,426	172	118	90	42	0.74	0.36	144	108	0.40	0.31
Business banking	18,568	17,652	521	694	107	126	2.33	2.91	301	362	2.24	2.85
Student and other	12,521	14,143	75	69	71	87	2.22	2.36	241	303	2.39	2.72
Total loans, excluding PCI loans and loans held-for-sale	233,883	242,881	9,460	7,411	1,688	1,159	2.85	1.88	3,608	3,701	2.02	1.99
Loans – PCI[b]												
Home equity	21,432	22,697	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Prime mortgage	14,038	15,180	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Subprime mortgage	4,702	4,976	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Option ARMs	21,024	22,693	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Total loans – PCI	61,196	65,546	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Total loans – retained	295,079	308,427	9,460	7,411	1,688	1,159	2.26	1.47	3,608	3,701	1.59	1.56
Loans held-for-sale	—	—	—	—	—	—	—	—	—	—	—	—
Total consumer, excluding credit card loans	295,079	308,427	9,460	7,411	1,688	1,159	2.26	1.47	3,608	3,701	1.59	1.56

Lending-related commitments												
Home equity – senior lien[c]	15,565	16,542										
Home equity – junior lien[c]	22,946	26,408										
Prime mortgage	4,040	1,500										
Subprime mortgage	—	—										
Auto	7,438	6,694										
Business banking	11,383	10,299										
Student and other	811	864										
Total lending-related commitments	62,183	62,307										
Receivables from customers[d]	109	100										
Total consumer exposure, excluding credit card	357,371	370,834										
Credit card												
Loans retained[e]	124,431	132,175	1	1	1,116	1,499	3.57	4.70	3,847	5,535	4.11	5.83
Loans held-for-sale	106	102	—	—	—	—	—	—	—	—	—	—
Total credit card loans	124,537	132,277	1	1	1,116	1,499	3.57	4.70	3,847	5,535	4.11	5.83
Lending-related commitments[c]	534,333	530,616										
Total credit card exposure	658,870	662,893										
Total consumer credit portfolio	$1,016,241	$1,033,727	$9,461	$7,412	$2,804	$2,658	2.65%	2.40%	$7,455	$9,236	2.33%	2.78%
Memo: Total consumer credit portfolio, excluding PCI	$955,045	$968,181	$9,461	$7,412	$2,804	$2,658	3.10%	2.84%	$7,455	$9,236	2.74%	3.29%

(a) At September 30, 2012, and December 31, 2011, excluded operating lease-related assets of $4.6 billion and $4.4 billion, respectively.

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

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

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

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

(f) At September 30, 2012, and December 31, 2011, nonaccrual loans excluded: (1) mortgage loans insured by U.S. government agencies of $11.0 billion and $11.5 billion, respectively, that are 90 or more days past due; and (2) student loans insured by U.S. government agencies under the FFELP of $536 million and $551 million, respectively, that are 90 or more days past due. These amounts were excluded from nonaccrual loans as reimbursement of insured amounts are proceeding normally. In addition, the Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance.

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

(h) At September 30, 2012, included $1.7 billion of Chapter 7 loans as well as $1.3 billion of performing junior liens that are subordinate to senior liens that are 90 days or more past due. See Consumer Credit Portfolio on pages 82–92 of this Form 10-Q for further details.

(i) Charge-offs and net charge-off rates for the three and nine months ended September 30, 2012, included incremental net charge-offs of Chapter 7 loans of $93 million for senior lien home equity, $625 million for junior lien home equity, $46 million for prime mortgage, including option ARMs, $61 million for subprime mortgage and $55 million for auto loans. Net charge-off rates for the for the three months ended September 30, 2012, excluding these incremental net charge-offs would have been 0.81%, 2.80%, 0.53%, 4.13% and 0.29% for the senior lien home equity, junior lien home equity, prime mortgage, including option ARMs, subprime mortgages and auto loans, respectively. See Consumer Credit Portfolio on pages 82–92 of this Form 10-Q for further details.

(j) Average consumer loans held-for-sale were $109 million for the three months ended September 30, 2012 and 2011, and $570 million and $1.2 billion, respectively, for the nine months ended September 30, 2012 and 2011. These amounts were excluded when calculating net charge-off rates.

Consumer, excluding credit card

Portfolio analysis

Consumer loan balances declined during the nine months ended September 30, 2012, due to paydowns, portfolio run-off and charge-offs. Credit performance has improved across most portfolios but charge-offs and delinquent loans remain above normal levels.

At September 30, 2012, the Firm reported, in accordance with regulatory guidance, $1.7 billion of residential real estate and auto loans that have been discharged under Chapter 7 bankruptcy and not reaffirmed by the borrower ("Chapter 7 loans") as collateral-dependent nonaccrual TDRs, regardless of their delinquency status. Pursuant to that guidance, these Chapter 7 loans were charged off to the net realizable value of the collateral, resulting in an incremental $880 million of charge-offs for the three and nine months ended September 30, 2012. The Firm expects to recover a significant amount of these losses over time as principal payments are received. Prior to September 30, 2012, the Firm's policy was to charge down to net realizable value loans to borrowers who had filed for bankruptcy when such loans became 60 days past due, and reported such loans as nonaccrual at that time. However, the Firm did not previously report loans discharged under Chapter 7 bankruptcy as TDRs unless otherwise modified under one of the Firm's loss mitigation programs. Prior periods have not been restated for this policy change. For more information regarding the impact of these changes to nonaccrual loans and net charge-offs, see the Nonaccrual loans section on page 89 of this Form 10-Q and the Consumer Credit Portfolio table on pages 82–92 of this Form 10-Q.

The following discussion relates to the specific loan and lending-related categories. PCI loans are generally excluded from individual loan product discussions and are addressed separately below. For further information about the Firm's consumer portfolio, including information about delinquencies, loan modifications and other credit quality indicators, see Note 13 on pages 154–175 of this Form 10-Q.

Home equity: Home equity loans at September 30, 2012, were $69.7 billion, compared with $77.8 billion at December 31, 2011. The decrease in this portfolio primarily reflected loan paydowns and charge-offs. Early-stage delinquencies showed improvement from December 31, 2011, for both senior and junior lien home equity loans; however, net charge-offs for the three and nine months ended September 30, 2012, increased from the same periods in the prior year due to the incremental charge-offs of Chapter 7 loans. Senior lien and junior lien nonaccrual loans increased $820 million in the third quarter of 2012 due to the inclusion of Chapter 7 loans. Junior lien nonaccrual loans also increased from December 31, 2011, due to the addition of $1.3 billion of performing junior liens that are subordinate to senior liens that are 90 days or more past due based upon regulatory guidance issued during the first quarter of 2012.

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

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

for credit losses and the Firm's account management practices are appropriate given the portfolio risk profile.
At September 30, 2012, the Firm estimated that its home equity portfolio contained approximately $3.2 billion of current junior lien loans where the borrower has a first mortgage loan that is either delinquent or has been modified ("high-risk seconds"), compared with $3.7 billion at December 31, 2011. Such loans are considered to pose a higher risk of default than that of junior lien loans for which the senior lien is neither delinquent nor modified. The Firm estimates the balance of its total exposure to high-risk seconds on a quarterly basis using internal data, loan level credit bureau data, which typically provides the delinquency status of the senior lien, as well as information from a database maintained by one of the bank regulatory agencies. The estimated balance of these high-risk seconds may vary from quarter to quarter for reasons such as the movement of related senior liens into and out of the 30+ day delinquency bucket.

Current high risk junior liens

(in billions)	September 30, 2012	
Modified current senior lien	$1.1	
Senior lien 30 – 89 days delinquent	0.9	
Senior lien 90 days or more delinquent	1.2	(a)
Total current high risk junior liens	$3.2	

(a) Junior liens subordinate to senior liens that are 90 days or more past due are classified as nonaccrual loans. Excludes approximately $100 million of junior liens that are performing but not current, which were also placed on nonaccrual in accordance with the regulatory guidance.

Of this estimated $3.2 billion balance at September 30, 2012, the Firm owns approximately 5% and services approximately 25% of the related senior lien loans to these borrowers. The performance of the Firm's junior lien loans is generally consistent regardless of whether the Firm owns, services or does not own or service the senior lien. The increased probability of default associated with these higher-risk junior lien loans was considered in estimating the allowance for loan losses.
Based upon regulatory guidance, the Firm began reporting performing junior liens that are subordinate to senior liens that are 90 days or more past due as nonaccrual loans in the first quarter of 2012. The prior year was not restated for this policy change. The classification of certain of these higher-risk junior lien loans as nonaccrual did not have an impact on the allowance for loan losses, because as noted above, the Firm has previously considered the risk characteristics of this portfolio in estimating its allowance for loan losses. This policy change had a minimal impact on the Firm's net interest income during the three and nine months ended September 30, 2012, because predominantly all of the reclassified loans are currently making payments.

Mortgage: Mortgage loans at September 30, 2012, including prime, subprime and loans held-for-sale, were $84.2 billion, compared with $85.9 billion at December 31, 2011. Balances declined slightly as paydowns, portfolio run-off and the charge-off or liquidation of delinquent loans were largely offset by new prime mortgage originations. Net charge-offs decreased from the same period of the prior year, as a result of improvement in delinquencies, but remained elevated.
Prime mortgages, including option adjustable-rate mortgages ("ARMs"), were $75.6 billion at September 30, 2012, compared with $76.2 billion at December 31, 2011. These loans decreased slightly as charge-off or liquidation of delinquent loans, paydowns, and portfolio run-off of option ARM loans were largely offset by prime mortgage originations and government insured loans that the Firm repurchased. Excluding loans insured by U.S. government agencies, both early-stage and late-stage delinquencies showed improvement during the nine months ended September 30, 2012, but early-stage delinquent loans increased during the quarter due in part to seasonal factors. Nonaccrual loans increased due to the inclusion of Chapter 7 loans. Nonaccrual loans remained elevated as a result of ongoing foreclosure processing delays. Net charge-offs declined year-over-year but remained high.
Option ARM loans, which are included in the prime mortgage portfolio, were $6.7 billion and $7.4 billion and represented 9% and 10% of the prime mortgage portfolio at September 30, 2012, and December 31, 2011, respectively. The decrease in option ARM loans resulted from portfolio run-off. As of September 30, 2012, approximately 6% of option ARM borrowers were delinquent, 3% were making interest-only or negatively amortizing payments, and 91% were making amortizing payments (such payments are not necessarily fully amortizing).

Approximately 84% of borrowers within the portfolio are subject to risk of payment shock due to future payment recast, as only a limited number of these loans have been modified. The cumulative amount of unpaid interest added to the unpaid principal balance due to negative amortization of option ARMs was not material at either September 30, 2012, or December 31, 2011. The Firm estimates the following balances of option ARM loans will undergo a payment recast that results in a payment increase: $59 million in 2012, $547 million in 2013 and $868 million in 2014. The Firm's option ARM loans, other than those held in the PCI portfolio, are primarily loans with lower LTV ratios and higher borrower FICO scores. Accordingly, the Firm expects substantially lower losses on this portfolio when compared with the PCI option ARM pool. The option ARM portfolio was acquired by the Firm as part of the Washington Mutual transaction.

Subprime mortgages at September 30, 2012, were $8.6 billion, compared with $9.7 billion at December 31, 2011. The decrease was due to portfolio run-off and the charge-off or liquidation of delinquent loans. Both early-stage and late-stage delinquencies have improved from December 31, 2011, but remain at elevated levels. Early-stage delinquencies increased during the quarter due in part to seasonal factors, and nonaccrual loans and net charge-offs increased due to the inclusion of Chapter 7 loans.

Auto: Auto loans at September 30, 2012, were $48.9 billion, compared with $47.4 billion at December 31, 2011. Loan balances increased due to new originations partially offset by paydowns and payoffs. Delinquent loans were relatively flat compared to December 31, 2011, while nonaccrual loans increased due to the inclusion of Chapter 7 loans. Net charge-offs also increased for the three months and nine months ended September 30, 2012, compared with the same periods in the prior year as a result of incremental charge-offs of the Chapter 7 loans. Excluding the incremental net charge-offs of the Chapter 7 loans, net charge-offs remain low as a result of favorable trends in both loss frequency and loss severity, mainly due to enhanced underwriting standards and a strong used car market. The auto loan portfolio reflected a high concentration of prime-quality credits.

Business banking: Business banking loans at September 30, 2012, were $18.6 billion, compared with $17.7 billion at December 31, 2011. The increase was due to growth in new loan origination volumes. These loans primarily include loans that are collateralized, often with personal loan guarantees, and may also include Small Business Administration guarantees. Delinquent loans and nonaccrual loans showed improvement from December 31, 2011. Net charge-offs declined for the three months and nine months ended September 30, 2012, compared with the same periods in the prior year.

Student and other: Student and other loans at September 30, 2012, were $12.5 billion, compared with $14.1 billion at December 31, 2011. The decrease was primarily due to paydowns and charge-offs of student loans. Other loans primarily include other secured and unsecured consumer loans. Nonaccrual loans increased slightly from December 31, 2011 while charge-offs decreased for the three months and nine months ended September 30, 2012, compared with the same periods in the prior year.

Purchased credit-impaired loans: PCI loans at September 30, 2012, were $61.2 billion, compared with $65.5 billion at December 31, 2011. This portfolio represents loans acquired in the Washington Mutual transaction, which were recorded at fair value at the time of acquisition.

During the nine months ended September 30, 2012, no additional impairment was recognized in connection with the Firm's review of the PCI portfolios' expected cash flows. At both September 30, 2012, and December 31, 2011, the allowance for loan losses for the home equity, prime mortgage, option ARM and subprime mortgage PCI portfolios was $1.9 billion, $1.9 billion, $1.5 billion and $380 million, respectively.

As of September 30, 2012, approximately 28% of the option ARM PCI loans were delinquent and 47% have been modified into fixed-rate, fully amortizing loans. Substantially all of the remaining loans are making amortizing payments, although such payments are not necessarily fully amortizing; in addition, substantially all of these loans are subject to the risk of payment shock due to future payment recast. The cumulative amount of unpaid interest added to the unpaid principal balance of the option ARM PCI pool was $915 million and $1.1 billion at September 30, 2012, and December 31, 2011, respectively. The Firm estimates the following balances of option ARM PCI loans will undergo a payment recast that results in a payment increase: $874 million in 2012 and $309 million in 2013 and $459 million in 2014.

The following table provides a summary of lifetime principal loss estimates included in both the nonaccretable difference and the allowance for loan losses. Lifetime principal loss estimates were relatively unchanged from December 31, 2011, to September 30, 2012. Principal charge-offs will not be recorded on these pools until the nonaccretable difference has been fully depleted.

Summary of lifetime principal loss estimates

	Lifetime loss estimates[a]		LTD liquidation losses[b]	
(in billions)	Sep 30, 2012	Dec 31, 2011	Sep 30, 2012	Dec 31, 2011
Home equity	$14.9	$14.9	$11.3	$10.4
Prime mortgage	4.3	4.6	2.8	2.3
Subprime mortgage	3.6	3.8	2.1	1.7
Option ARMs	11.4	11.5	7.8	6.6

Total	$34.2	$34.8	$24.0	$21.0

(a) Includes the original nonaccretable difference established in purchase accounting of $30.5 billion for principal losses only plus additional principal losses recognized subsequent to acquisition through the provision and allowance for loan losses. The remaining nonaccretable difference for principal losses only was $6.4 billion and $9.4 billion at September 30, 2012, and December 31, 2011, respectively.

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

Geographic composition and current estimated LTVs of residential real estate loans: At both September 30, 2012, and December 31, 2011, California had the greatest concentration of residential real estate loans with 24% of the total retained residential real estate loan portfolio, excluding mortgage loans insured by U.S. government agencies and PCI loans. Of the total retained residential real estate loan portfolio, excluding mortgage loans insured by U.S. government agencies and PCI loans, $75.0 billion, or 54%, were concentrated in California, New York, Arizona, Florida and Michigan at September 30, 2012, compared with $79.5 billion, or 54%, at December 31, 2011. The unpaid principal balance of PCI loans concentrated in these five states represented 72% of total PCI loans at both September 30, 2012, and December 31, 2011.

The current estimated average LTV ratio for residential real estate loans retained, excluding mortgage loans insured by U.S. government agencies and PCI loans, was 82% at September 30, 2012, compared with 83% at December 31, 2011. Excluding mortgage loans insured by U.S. government agencies and PCI loans, 21% of the retained portfolio had a current estimated LTV ratio greater than 100%, and 9% of the retained portfolio had a current estimated LTV ratio greater than 125% at September 30, 2012, compared with 24% and 10%, respectively, at December 31, 2011. The decline in home prices since 2007

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

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

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

	September 30, 2012				December 31, 2011			
(in millions, except ratios)	Unpaid principal balance	Current estimated LTV ratio[a]	Net carrying value[c]	Ratio of net carrying value to current estimated collateral value[c]	Unpaid principal balance	Current estimated LTV ratio[a]	Net carrying value[c]	Ratio of net carrying value to current estimated collateral value[c]
Home equity	$23,005	113 %[b]	$19,524	96 %	$25,064	117 %[b]	$20,789	97 %
Prime mortgage	14,351	105	12,109	89	16,060	110	13,251	91
Subprime mortgage	6,496	109	4,322	73	7,229	115	4,596	73
Option ARMs	23,372	103	19,530	86	26,139	109	21,199	89

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

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

(c) Net carrying value includes the effect of fair value adjustments that were applied to the consumer PCI portfolio at the date of acquisition and is also net of the allowance for loan losses of $1.9 billion for home equity, $1.9 billion for prime mortgage, $1.5 billion for option ARMs, and $380 million for subprime mortgage at both September 30, 2012, and December 31, 2011.

The current estimated average LTV ratios were 112% and 125% for California and Florida PCI loans, respectively, at September 30, 2012, compared with 117% and 140%, respectively, at December 31, 2011. Pressure on housing prices in California and Florida have contributed negatively to both the current estimated average LTV ratio and the ratio of net carrying value to current estimated collateral value for loans in the PCI portfolio. Of the PCI portfolio, 57% had a current estimated LTV ratio greater than 100%, and 26% had a current LTV ratio of greater than 125% at

September 30, 2012, compared with 62% and 31%, respectively, at December 31, 2011.

While the current estimated collateral value is greater than the net carrying value of PCI loans, the ultimate performance of this portfolio is highly dependent on borrowers' behavior and ongoing ability and willingness to continue to make payments on homes with negative equity, as well as on the cost of alternative housing. For further information on the geographic composition and current

estimated LTVs of residential real estate – non-PCI and PCI loans, see Note 13 on pages 154–175 of this Form 10-Q.

Loan modification activities – residential real estate loans

For both the Firm's on–balance sheet loans and loans serviced for others, nearly 1.4 million mortgage modifications have been offered to borrowers and approximately 592,000 have been approved since the beginning of 2009. Of these, more than 578,000 have achieved permanent modification as of September 30, 2012. Of the remaining modifications offered, 17% are in a trial period or still being reviewed for a modification, while 83% have dropped out of the modification program or otherwise were not eligible for final modification.

The Firm is participating in the U.S. Treasury's Making Home Affordable ("MHA") programs and is continuing to expand its other loss-mitigation efforts for financially distressed borrowers who do not qualify for the U.S. Treasury's programs. The MHA programs include the Home Affordable Modification Program ("HAMP") and the Second Lien Modification Program ("2MP"). The Firm's other loss-mitigation programs for troubled borrowers who do not qualify for HAMP include the traditional modification programs offered by the GSEs and other governmental agencies, as well as the Firm's proprietary modification programs, which include concessions similar to those offered under HAMP and 2MP but with expanded eligibility criteria. In addition, the Firm has offered specific targeted modification programs to higher risk borrowers, many of whom were current on their mortgages prior to modification. For further information about how loans are modified, see Note 13, Loan modifications, on pages 165–169 of this Form 10-Q.

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

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

The performance of modified loans generally differs by product type and also on whether the underlying loan is in the PCI portfolio, due both to differences in credit quality and in the types of modifications provided. Performance metrics for modifications to the residential real estate portfolio, excluding PCI loans, that have been seasoned more than six months show weighted average redefault rates of 22% for senior lien home equity, 17% for junior lien home equity, 15% for prime mortgages including option ARMs, and 27% for subprime mortgages. The cumulative performance metrics for modifications to the PCI residential real estate portfolio seasoned more than six months show weighted average redefault rates of 17% for home equity, 17% for prime mortgages, 12% for option ARMs and 29% for subprime mortgages. The favorable performance of the option ARM modifications is the result of a targeted proactive program which fixes the borrower's payment at the current level. The cumulative redefault rates reflect the performance of modifications completed under both HAMP and the Firm's proprietary modification programs from October 1, 2009, through September 30, 2012.

The following table presents information as of September 30, 2012, and December 31, 2011, relating to modified on–balance sheet residential real estate loans for which concessions have been granted to borrowers experiencing financial difficulty. Modifications of PCI loans continue to be accounted for and reported as PCI loans, and the impact of the modification is incorporated into the Firm's quarterly assessment of estimated future cash flows. Modifications of consumer loans other than PCI loans are generally accounted for and reported as troubled debt restructurings ("TDRs"). For further information on TDRs for the three and nine months ended September 30, 2012 and 2011, see Note 13 on pages 154–175 of this Form 10-Q.

Modified residential real estate loans

	September 30, 2012		December 31, 2011	
(in millions)	On–balance sheet loans	Nonaccrual on–balance sheet loans[e]	On–balance sheet loans	Nonaccrual on–balance sheet loans[e]
Modified residential real estate loans – excluding PCI loans[a][b][c]				
Home equity – senior lien	$1,123	$656	$335	$77
Home equity – junior lien	1,160	563	657	159
Prime mortgage, including option ARMs	7,050	1,838	4,877	922
Subprime mortgage	3,824	1,300	3,219	832

Total modified residential real estate loans – excluding PCI loans	$13,157	$4,357	$9,088	$1,990
Modified PCI loans[d]				
Home equity	$2,310	NA	$1,044	NA
Prime mortgage	7,226	NA	5,418	NA
Subprime mortgage	4,444	NA	3,982	NA
Option ARMs	14,157	NA	13,568	NA
Total modified PCI loans	$28,137	NA	$24,012	NA

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

(b) At September 30, 2012, and December 31, 2011, $7.1 billion and $4.3 billion, respectively, of loans modified subsequent to repurchase from Ginnie Mae in accordance with the standards of the appropriate government agency (i.e., FHA, VA, RHS) are not included in the table above. When such loans perform subsequent to modification in accordance with Ginnie Mae guidelines, they are generally sold back into Ginnie Mae loan pools. Modified loans that do not re-perform become subject to foreclosure. For additional information about sales of loans in securitization transactions with Ginnie Mae, see Note 15 on pages 177–184 of this Form 10-Q.

(c) At September 30, 2012, included $1.7 billion of Chapter 7 loans, consisting of $507 million of senior lien home equity loans, $398 million of junior lien home equity loans, $493 million of prime, including option ARMs, and $254 million of subprime mortgages. Certain of these individual loans were previously reported as nonaccrual loans (e.g. based upon the delinquency status of the loan). See Consumer Credit Portfolio on pages 82–92 of this Form 10-Q for further details.

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

(e) Loans modified in a TDR that are on nonaccrual status may be returned to accrual status when repayment is reasonably assured and the borrower has made a minimum of six payments under the new terms. As of September 30, 2012, and December 31, 2011, nonaccrual loans included $2.7 billion and $886 million, respectively, of TDRs for which the borrowers had not yet made six payments under the modified terms and other TDRs placed on nonaccrual status under regulatory guidance.

Nonperforming assets

The following table presents information as of September 30, 2012, and December 31, 2011, about consumer, excluding credit card, nonperforming assets.

Nonperforming assets(a)

(in millions)	Sep 30, 2012	Dec 31, 2011
Nonaccrual loans(b)		
Home equity – senior lien	$973	$495
Home equity – junior lien	2,281	792
Prime mortgage, including option ARMs	3,570	3,462
Subprime mortgage	1,868	1,781
Auto	172	118
Business banking	521	694
Student and other	75	69
Total nonaccrual loans	9,460	7,411
Assets acquired in loan satisfactions		
Real estate owned	664	802
Other	41	44
Total assets acquired in loan satisfactions	705	846
Total nonperforming assets	$10,165	$8,257

(a) At September 30, 2012, and December 31, 2011, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $11.0 billion and $11.5 billion, respectively, that are 90 or more days past due; (2) real estate owned insured by U.S. government agencies of $1.5 billion and $954 million, respectively; and (3) student loans insured by U.S. government agencies under the FFELP of $536 million and $551 million, respectively, that are 90 or more days past due. These amounts were excluded as reimbursement of insured amounts is proceeding normally.

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

Nonaccrual loans: Total consumer, excluding credit card, nonaccrual loans were $9.5 billion at September 30, 2012, compared with $7.4 billion at December 31, 2011.

Nonaccrual loans in the residential real estate portfolio totaled $8.7 billion at September 30, 2012, of which 44% were greater than 150 days past due; this compared with nonaccrual residential real estate loans of $6.5 billion at December 31, 2011, of which 69% were greater than 150 days past due. In the aggregate, the unpaid principal balance of residential real estate loans greater than 150 days past due was charged down by approximately 50% to estimated net realizable value of the collateral at both September 30, 2012, and December 31, 2011.

At September 30, 2012, consumer, excluding credit card,

nonaccrual loans included $1.7 billion of Chapter 7 loans, consisting of $480 million of senior lien home equity, $340 million of junior lien home equity, $481 million of prime mortgage, including option ARMs, $356 million of subprime mortgages and $65 million of auto loans. Approximately 97% of these Chapter 7 loans were current at September 30, 2012. Because the Chapter 7 loans are accounted for as collateral-dependent loans and reported at the net realizable value of the collateral, these loans did not require an additional allowance for loan losses. Certain of these individual loans have previously been reported as performing TDRs (e.g., those loans that have been previously modified under one of the Firm's loss mitigation programs and that subsequently made at least six payments under the modified payment terms).

At September 30, 2012, nonaccrual loans in the residential real estate portfolio also included $1.3 billion of performing junior lien home equity loans that are subordinate to senior liens that are 90 days or more past due. For more information on the change in reporting of these junior liens, as well as information about how the Firm considers these loans in its allowance for loan losses, see the home equity portfolio analysis discussion on pages 84–85 of this Form 10-Q.

In addition to the combined impacts of the Chapter 7 loans and the performing junior lien home equity loans discussed above, elongated foreclosure processing timelines are expected to continue to result in elevated levels of nonaccrual loans in the residential real estate portfolios.

Modified loans have also contributed to the elevated level of nonaccrual loans, since the Firm's policy requires modified loans that are on nonaccrual status to remain on nonaccrual status until payment is reasonably assured and the borrower has made a minimum of six payments under the modified terms. At September 30, 2012, and December 31, 2011, modified residential real estate loans of $4.4 billion and $2.0 billion, respectively, were classified as nonaccrual loans, of which $2.7 billion and $886 million, respectively, had yet to make six payments under their modified terms or were placed on nonaccrual status based on regulatory guidance; the remaining nonaccrual modified loans have redefaulted.

Real estate owned ("REO"): REO assets are managed for prompt sale and disposition at the best possible economic value. REO assets are those individual properties where the Firm gains ownership and possession at the completion of the foreclosure process. REO assets, excluding those insured by U.S. government agencies, decreased by $138 million from $802 million at December 31, 2011, to $664 million at September 30, 2012.

Mortgage servicing-related matters

The recent financial crisis resulted in unprecedented levels of delinquencies and defaults of 1-4 family residential real estate loans. Such loans require varying degrees of loss mitigation activities. It is the Firm's goal that foreclosure in these situations be a last resort, and accordingly, the Firm has made, and continues to make, significant efforts to help borrowers stay in their homes. Since the third quarter of 2010, the Firm has prevented two foreclosures for every foreclosure completed; foreclosure-prevention methods include loan modification, short sales and other means.

The Firm has a well-defined foreclosure prevention process when a borrower fails to pay on his or her loan. The Firm attempts to contact the borrower multiple times and in various ways in an effort to pursue home retention or other options other than foreclosure. In addition, if the Firm is unable to contact a borrower, the Firm completes various reviews of the borrower's facts and circumstances before a foreclosure sale is completed. The delinquency period for the average borrower at the time of foreclosure over the last year has been approximately 24 months.

The high volume of delinquent and defaulted mortgages experienced by the Firm has placed a significant amount of stress on the Firm's servicing operations. The Firm has made, and is continuing to make, significant changes to its mortgage operations in order to enhance its mortgage servicing, loss mitigation and foreclosure processes. It has also entered into a global settlement with certain federal and state agencies, and Consent Orders with its banking regulators with respect to these matters.

Global settlement with federal and state agencies: On February 9, 2012, the Firm announced that it had agreed to a settlement in principle (the "global settlement") with a number of federal and state government agencies, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, the Consumer Financial Protection Bureau and the State Attorneys General, relating to the servicing and origination of mortgages. The global settlement, which became effective on April 5, 2012, calls for the Firm to, among other things: (i) make cash payments of approximately $1.1 billion, a portion of which will be set aside for payments to borrowers ("Cash Settlement Payment"); (ii) provide approximately $500 million of refinancing relief to certain "underwater" borrowers whose loans are owned and serviced by the Firm ("Refi Program"); and (iii) provide approximately $3.7 billion of additional relief for certain borrowers, including reductions of principal on first and second liens, payments to assist with short sales, deficiency balance waivers on past foreclosures and short sales, and forbearance assistance for unemployed homeowners ("Consumer Relief Program"). The Cash Settlement Payment was made on April 13, 2012.

The purpose of the Refi Program is to allow eligible borrowers who are current on their Firm-owned mortgage loans to refinance those loans and take advantage of the current low interest rate environment. Borrowers who may be eligible for the Refi Program are those who are unable to refinance their mortgage loans under standard refinancing programs because they have no equity or, in many cases, negative equity in their homes. The initial interest rate on loans refinanced under the Refi Program will be lower than the borrower's interest rate prior to the refinancing and will be capped at the greater of 100 basis points over Freddie Mac's then-current Primary Mortgage Market Survey Rate or 5.25%. Under the Refi Program, the interest rate on each loan that is refinanced may be reduced either for the remaining life of the loan or for five years. The Firm has determined that it will reduce the interest rates on loans that it refinances under the Refi Program for the remaining lives of those loans. In substance, these refinancings are more similar to loan modifications than traditional refinancings. Substantially all of the refinancings originally expected to be performed under the Refi Program have been finalized as of September 30, 2012.

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

If the Firm does not meet certain targets set forth in the global settlement agreement for providing either refinancings under the Refi Program or other borrower relief under the Consumer Relief Program within certain prescribed time periods, the Firm must instead make additional cash payments. In general, 75% of the targets must be met within two years of the date of the global settlement and 100% must be achieved within three years of that date. The Firm expects to file its first quarterly report concerning its compliance with the global settlement with the Office of Mortgage Settlement Oversight in November 2012. The report will include information regarding refinancings completed under the Refi Program and relief provided to borrowers under the Consumer Relief Program, as well as credits earned by the Firm under the global settlement as a result of such actions. The Firm continues to expect that it will meet the targets for providing refinancings and other borrower relief well within the prescribed time periods.

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

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

The Firm expects to account for all refinancings performed under the Refi Program and all first and second lien loans modified under the Consumer Relief Program as TDRs. The estimated impacts of both the Refi Program and the Consumer Relief Program have been considered in the Firm's allowance for loan losses. For additional information, see Allowance for Credit Losses on pages 93–95 of this Form 10-Q.

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

For further information on the global settlement, see Critical Accounting Estimates Used by the Firm on pages 107–109, Note 2 on pages 117–118, Note 13 on pages 154–175, and Note 23 on pages 196–206 of this Form 10-Q.

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

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

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

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

Pursuant to the Orders, the Firm has retained an independent consultant to conduct a review of its residential foreclosure actions during the period from January 1, 2009, through December 31, 2010 (including foreclosure actions brought in respect of loans being serviced), and to remediate any errors or deficiencies identified by the independent consultant, including, if required, by reimbursing borrowers for any identified financial injury they may have incurred. The borrower outreach process was launched in the fourth quarter of 2011, and the independent consultant is conducting its review. For additional information, see Mortgage Foreclosure Investigations and Litigation in Note 23 on pages 203–204 of this Form 10-Q.

Credit Card

Total credit card loans were $124.5 billion at September 30, 2012, a decrease of $7.7 billion from December 31, 2011, due to seasonality and higher repayment rates.

For the retained credit card portfolio, the 30+ day delinquency rate decreased to 2.15% at September 30, 2012, from 2.81% at December 31, 2011. For the three months ended September 30, 2012 and 2011, the net charge-off rates were 3.57% and 4.70%, respectively. For the nine months ended September 30, 2012 and 2011, the net charge-off rates were 4.11% and 5.83% respectively.

The delinquency trend showed improvement from the prior year, but was relatively flat compared with the prior quarter. Charge-offs have improved as a result of lower delinquent loans. The credit card portfolio continues to reflect a well-seasoned, largely rewards-based portfolio that has good U.S. geographic diversification. The greatest geographic concentration of credit card retained loans is in California, which represented 13% of total retained loans at both September 30, 2012, and December 31, 2011. Loan concentration for the top five states of California, New York, Texas, Florida and Illinois consisted of $50.8 billion in receivables, or 41% of the retained loan portfolio, at September 30, 2012, compared with $53.6 billion, or 40%, at December 31, 2011.

Modifications of credit card loans

At September 30, 2012, and December 31, 2011, the Firm had $5.3 billion and $7.2 billion, respectively, of credit card loans outstanding that have been modified in TDRs. These balances included both credit card loans with modified payment terms and credit card loans that reverted back to

their pre-modification payment terms because the cardholder did not comply with the modified payment terms. The decrease in modified credit card loans outstanding from December 31, 2011, was attributable to a reduction in new modifications as well as ongoing payments and charge-offs on previously modified credit card loans. In the second quarter of 2012, the Firm revised its policy for recognizing charge-offs on restructured loans that do not comply with their modified payment terms. These loans will now charge-off when they are 120 days past due rather than 180 days past due.

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

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

COMMUNITY REINVESTMENT ACT PORTFOLIO

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

At September 30, 2012, and December 31, 2011, the Firm’s CRA loan portfolio was approximately $16 billion and $15 billion, respectively. At September 30, 2012, and December 31, 2011, 61% and 63%, respectively, of the

CRA portfolio were residential mortgage loans; 18% and 17%, respectively, were business banking loans; 13% and 14%, respectively, were commercial real estate loans; and 8%, and 6%, respectively, were other loans. CRA nonaccrual loans were 4% and 6%, respectively, of the Firm’s total nonaccrual loans. As a percentage of the Firm’s net charge-offs, net charge-offs in the CRA portfolio were 3% for both the three months ended September 30, 2012 and 2011, and 3% for both the nine months ended September 30, 2012 and 2011.

ALLOWANCE FOR CREDIT LOSSES

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

For a further discussion of the components of the allowance for credit losses, see Critical Accounting Estimates Used by the Firm on pages 107–109 and Note 14 on page 176 of this Form 10-Q.

At least quarterly, the allowance for credit losses is reviewed by the Chief Risk Officer, the Chief Financial Officer and the Controller of the Firm, and discussed with the Risk Policy and Audit Committees of the Board of Directors of the Firm. As of September 30, 2012, JPMorgan Chase deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb probable credit losses inherent in the portfolio).

The allowance for credit losses was $23.6 billion at September 30, 2012, a decrease of $4.7 billion from $28.3 billion at December 31, 2011.

The consumer, excluding credit card, allowance for loan losses decreased $3.3 billion from December 31, 2011, predominantly due to a reduction in the allowance for the non-PCI residential real estate portfolio, primarily related to the continuing trend of improving delinquencies, which resulted in a lower level of estimated losses based on the Firm's statistical loss calculation. For the three-month period ended September 30, 2012, this decrease in the consumer, excluding credit card, allowance for loan losses included a $900 million reduction in the formula-based allowance for the non-PCI residential real estate portfolio, largely due to an ongoing trend of generally improving delinquencies that resulted in a lower level of estimated losses based on the Firm's statistical loss calculation. Nonaccrual loans increased due to the inclusion of Chapter 7 loans at September 30, 2012, as well as due to the impact of performing junior lien home equity loans that are subordinate to senior loans that are 90 days or more past due that have been included as nonaccrual loans beginning in the first quarter of 2012. The nine-month period also

included a $488 million reduction attributable to a refinement of the loss estimates associated with the Firm's compliance with its obligations under the global settlement, which reflected changes in implementation strategies adopted in the second quarter of 2012. For additional information about delinquencies and nonaccrual loans in the consumer, excluding credit card, loan portfolio, see Consumer Credit Portfolio on pages 82–92 and Note 13 on pages 154–175 of this Form 10-Q.

The credit card allowance for loan losses decreased by $1.5 billion since December 31, 2011, and was materially unchanged from June 30, 2012. The decrease since December 31, 2011, included reductions in both the asset-specific allowance and the formula-based allowance. The reduction in the asset-specific allowance, which relates to loans restructured in TDRs, largely reflects the changing profile of the TDR portfolio. The volume of new TDRs, which have higher loss rates due to expected redefaults, continues to decrease, and the loss rate on existing TDRs also tends to decrease over time as previously restructured loans season and continue to perform. In addition, effective June 30, 2012, the Firm changed its policy for recognizing charge-offs on restructured loans that do not comply with their modified payment terms based upon guidance received from the banking regulators; this policy change resulted in an acceleration of charge-offs against the asset-specific allowance. For the nine-month period ended September 30, 2012, the reduction in the formula-based allowance was primarily driven by the continuing trend of improving delinquencies and bankruptcies, which resulted in a lower level of estimated losses based on the Firm's statistical loss calculation, and by lower levels of credit card outstandings. For additional information about delinquencies in the credit card loan portfolio, see Consumer Credit Portfolio on pages 82–92 and Note 13 on pages 154–175 of this Form 10-Q.

The allowance for lending-related commitments for both the wholesale and consumer, excluding credit card portfolios, which is reported in other liabilities, was $752 million and $673 million at September 30, 2012, and December 31, 2011, respectively.

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

Summary of changes in the allowance for credit losses

Nine months ended September 30, (in millions, except ratios)	2012 Wholesale	Consumer, excluding credit card	Credit card	Total	2011 Wholesale	Consumer, excluding credit card	Credit card	Total
Allowance for loan losses								
Beginning balance at January 1,	$4,316	$16,294	$6,999	$27,609	$4,761	$16,471	$11,034	$32,266
Gross charge-offs	213	4,001 [e]	4,494	8,708	485	4,109	6,527	11,121
Gross recoveries	(233)	(393)	(647)	(1,273)	(391)	(408)	(992)	(1,791)
Net charge-offs/(recoveries)	(20)	3,608 [e]	3,847	7,435	94	3,701	5,535	9,330
Provision for loan losses	(14)	314	2,347	2,647	(347)	3,731	2,035	5,419
Other	11	(12)	4	3	(18)	19	(6)	(5)
Ending balance at September 30,	$4,333	$12,988	$5,503	$22,824	$4,302	$16,520	$7,528	$28,350
Impairment methodology								
Asset-specific[a]	$388	$918	$1,909	$3,215	$670	$1,016	$3,052	$4,738
Formula-based	3,945	6,359	3,594	13,898	3,632	10,563	4,476	18,671
PCI	—	5,711	—	5,711	—	4,941	—	4,941
Total allowance for loan losses	$4,333	$12,988	$5,503	$22,824	$4,302	$16,520	$7,528	$28,350
Allowance for lending-related commitments								
Beginning balance at January 1,	$666	$7	$—	$673	$711	$6	$—	$717
Provision for lending-related commitments	83	(1)	—	82	(29)	—	—	(29)
Other	(4)	1	—	(3)	(2)	—	—	(2)
Ending balance at September 30,	$745	$7	$—	$752	$680	$6	$—	$686
Impairment methodology								
Asset-specific	$191	$—	$—	$191	$156	$—	$—	$156
Formula-based	554	7	—	561	524	6	—	530
Total allowance for lending-related commitments	$745	$7	$—	$752	$680	$6	$—	$686
Total allowance for credit losses	$5,078	$12,995	$5,503	$23,576	$4,982	$16,526	$7,528	$29,036
Memo:								
Retained loans, end of period	$297,576	$295,079	$124,431	$717,086	$255,799	$310,104	$127,041	$692,944
Retained loans, average	289,055	302,200	125,143	716,398	238,153	318,012	126,933	683,098
PCI loans, end of period	23	61,196	—	61,219	33	67,128	—	67,161

Credit ratios								
Allowance for loan losses to retained loans	1.46 %	4.40 %	4.42 %	3.18 %	1.68 %	5.33 %	5.93 %	4.09 %
Allowance for loan losses to retained nonaccrual loans[b]	261	137	NM	205	143	211	NM	262
Allowance for loan losses to retained nonaccrual loans excluding credit card	261	137	NM	156	143	211	NM	192
Net charge-off/(recovery) rates[c]	(0.01)	1.59 [e]	4.11	1.39	0.05	1.56	5.83	1.83
Credit ratios, excluding residential real estate PCI loans								
Allowance for loan losses to retained loans [d]	1.46	3.11	4.42	2.61	1.68	4.77	5.93	3.74
Allowance for loan losses to retained nonaccrual loans[b][d]	261	77	NM	154	143	148	NM	216
Allowance for loan losses to retained nonaccrual loans excluding credit card[b][d]	261	77	NM	104	143	148	NM	147
Net charge-off/(recovery) rates[d]	(0.01)%	2.02 % [e]	4.11 %	1.52 %	0.05 %	1.99 %	5.83 %	2.03 %

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

(b) The Firm’s policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance.

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

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

(e) Net charge-offs and net charge-off rates for the nine months ended September 30, 2012, included $880 million of incremental charge-offs of Chapter 7 loans. See Consumer Credit Portfolio on pages 82–92 of this Form 10-Q for further details.

Provision for credit losses

For the three and nine months ended September 30, 2012, the provision for credit losses was $1.8 billion and $2.7 billion, respectively, down 26% and 49%, respectively, from the prior year periods. For the three and nine months ended September 30, 2012, the credit card provision for credit losses was $1.1 billion and $2.3 billion, respectively, compared with $999 million and $2.0 billion, respectively, in the prior-year periods. The credit card provision for the three months ended September 30, 2012, increased from the prior year period as the prior year provision included a reduction in the allowance for loan losses. This reduction was partially offset by lower net charge-offs in the current period. The credit card provision for the nine months ended September 30, 2012, increased from the prior year due to a smaller current year reduction in the allowance for loan losses compared with the prior year, partially offset by lower net charge-offs in the current period.

For the three and nine months ended September 30, 2012, the consumer, excluding credit card, provision for credit losses was $736 million and $313 million, respectively, compared with $1.3 billion and $3.7 billion, respectively, for the prior year periods, reflecting reductions in the allowance for loan losses due primarily to lower estimated losses in the non-PCI residential real estate portfolio as delinquency trends improved. These reductions were partially offset by the impact of incremental charge-offs of Chapter 7 loans.

For the three and nine months ended September 30, 2012, the wholesale provision for credit losses was a benefit of $63 million and a expense of $69 million, respectively, compared with a expense of $127 million and a benefit of $376 million, respectively, in the prior-year periods. The current period wholesale provision reflected stable credit trends.

	Three months ended September 30,						Nine months ended September 30,					
	Provision for loan losses		Provision for lending-related commitments		Total provision for credit losses		Provision for loan losses		Provision for lending-related commitments		Total provision for credit losses	
(in millions)	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Wholesale	$(52)	$67	$(11)	$60	$(63)	$127	$(14)	$(347)	$83	$(29)	$69	$(376)
Consumer, excluding credit card	737	1,285	(1)	—	736	1,285	314	3,731	(1)	—	313	3,731
Credit card	1,116	999	—	—	1,116	999	2,347	2,035	—	—	2,347	2,035
Total provision for credit losses	$1,801	$2,351	$(12)	$60	$1,789	$2,411	$2,647	$5,419	$82	$(29)	$2,729	$5,390

95

MARKET RISK MANAGEMENT

Market risk is the exposure to an adverse change in the market value of portfolios and financial instruments caused by a change in their market prices.

Market risk management

Market Risk is an independent risk management function that works in close partnership with the lines of business, including Corporate/Private Equity, to identify and monitor market risks throughout the Firm and to define market risk policies and procedures. The market risk function reports to the Firm's Chief Risk Officer.

Market Risk seeks to control risk, facilitate efficient risk/return decisions, reduce volatility in operating performance and provide transparency into the Firm's market risk profile for senior management, the Board of Directors and regulators. Market Risk is responsible for the following functions:

- Establishing a market risk policy framework
- Independent measurement, monitoring and control of line of business market risk
- Definition, approval and monitoring of limits
- Performance of stress testing and qualitative risk assessments

Risk identification and classification

Each line of business is responsible for the management of the market risks within its units. The independent risk management group responsible for overseeing each line of business ensures that all material market risks are appropriately identified, measured, monitored and managed in accordance with the risk policy framework set out by Market Risk. The Firm's market risks arise primarily from the activities in IB, Mortgage Production and Servicing, and CIO in Corporate/Private Equity.

IB makes markets in products across fixed income, foreign exchange, equities and commodities markets. This activity gives rise to market risk and may lead to a potential decline in net income as a result of changes in market prices and rates. In addition, IB's credit portfolio exposes the Firm to market risk related to derivative CVA, hedges of the CVA and the fair value of hedges of the retained loan portfolio. Additional market risk positions result from the DVA taken on certain structured liabilities and derivatives to reflect the credit quality of the Firm; DVA is not included in VaR.

The Firm's Mortgage Production and Servicing business includes the Firm's mortgage pipeline and warehouse loans, MSRs and all related hedges. These activities give rise to complex, non-linear interest rate risks, as well as basis risk. Non-linear risk arises primarily from prepayment options embedded in mortgages and changes in the probability of newly originated mortgage commitments actually closing. Basis risk results from differences in the relative movements of the rate indices underlying mortgage exposure and other interest rates.

Risk measurement

Tools used to measure risk

Because no single measure can reflect all aspects of market risk, the Firm uses various metrics, both statistical and nonstatistical, including:

- Value-at-risk
- Economic-value stress testing
- Nonstatistical risk measures
- Loss advisories
- Profit and loss drawdowns
- Risk identification for large exposures ("RIFLEs")
- Nontrading interest rate-sensitive revenue-at-risk stress testing

Value-at-risk

JPMorgan Chase utilizes VaR, a statistical risk measure, to estimate the potential loss from adverse market moves in a normal market environment.

The Firm has one overarching VaR model framework used for risk management purposes across the Firm, which utilizes historical simulation. Historical simulation is based on data for the previous 12 months. The framework's approach assumes that historical changes in market values are representative of the distribution of potential outcomes in the immediate future. VaR is calculated assuming a one-day holding period and an expected tail-loss methodology, which approximates a 95% confidence level. This means that, assuming current changes in market values are consistent with the historical changes used in the simulation, the Firm would expect to incur losses greater than that predicted by VaR estimates five times in every 100 trading days.

Underlying the overall VaR model framework are individual VaR models that simulate historical market returns for individual products and/or risk factors. To capture material market risks as part of the Firm's risk management framework, comprehensive VaR model calculations are performed daily for businesses whose activities give rise to market risk. These VaR models are granular and incorporate numerous risk factors and inputs to simulate daily changes in market values over the historical period; inputs are selected based on the risk profile of each portfolio as sensitivities and historical time series used to generate daily market values may be different for different products or risk management systems. The VaR model results across all portfolios are aggregated at the Firm level.

VaR provides a consistent framework to measure risk profiles and levels of diversification across product types and is used for aggregating risks across businesses and monitoring limits. These VaR results are reported to senior management and regulators.

The Firm uses VaR as a statistical risk management tool for assessing risk under normal market conditions consistent with the day-to-day risk decisions made by the lines of business. VaR is not used to estimate the impact of stressed market conditions or to manage any impact from potential stress events. The Firm uses economic stress testing and other techniques to capture and manage market risk arising under stressed scenarios, as described further below.
Because VaR is based on historical data, it is an imperfect measure of market risk exposure and potential losses. For example, differences between current and historical market price volatility may result in fewer or greater VaR exceptions than the number indicated by the historical simulation. The VaR measurement also does not provide an estimate of the extent to which losses may exceed VaR results. In addition, based on their reliance on available historical data, limited time horizons, and other factors, VaR measures are inherently limited in their ability to measure certain risks and to predict losses, particularly those associated with market illiquidity and sudden or severe shifts in market conditions. As VaR cannot be used to

determine future losses in the Firm's market risk positions, the Firm considers other metrics in addition to VaR to monitor and manage its market risk positions.
Separately, the Firm calculates a daily aggregate VaR in accordance with regulatory rules, which is used to derive the Firm's regulatory VaR based capital requirements. This regulatory VaR model framework currently assumes a ten business day holding period and an expected tail loss methodology, which approximates a 99% confidence level. Regulatory VaR is applied to "covered positions" as defined by the banking regulators, "Market Risk Rule", consisting of all positions classified as trading, as well as all foreign exchange and commodity positions, whether or not in the trading account. Certain of these positions (for example, net investment foreign exchange hedging) are not included in the Firm's internal risk management VaR, while the Firm's internal risk management VaR includes some positions such as CVA and its related credit hedges that are not included in regulatory VaR. For further information, see "Capital Management" on pages 59–62 of this Form 10-Q.

The table below shows the results of the Firm's VaR measure using a 95% confidence level.
Total IB trading VaR by risk type, Credit portfolio VaR and other VaR

	Three months ended September 30,								Nine months ended September 30,	
	2012			2011			At September 30,		Average	
(in millions)	Avg.	Min	Max	Avg.	Min	Max	2012	2011	2012	2011
IB VaR by risk type										
Fixed income	$118 [d]	$94	$131	$48	$31	$68	$101	$62	$81	$47
Foreign exchange	10	6	14	10	7	15	7	11	10	10
Equities	19	16	27	19	15	37	24	18	19	24
Commodities and other	13	11	18	15	12	21	16	17	16	15
Diversification benefit to IB trading VaR	(48) [a]	NM [b]	NM [b]	(39) [a]	NM [b]	NM [b]	(34) [a]	(45) [a]	(46)	(38)
IB trading VaR	112	98	128	53	34	72	114	63	80	58
Credit portfolio VaR	22	18	29	38	19	55	20	41	26	30
Diversification benefit to IB trading and credit portfolio VaR	(12) [a]	NM [b]	NM [b]	(21) [a]	NM [b]	NM [b]	(11) [a]	(25) [a]	(13)	(11)
Total IB trading and credit portfolio VaR	122 [d][e]	108	142	70	42	101	123 [d][e]	79	93	77
Other VaR										

Mortgage Production and Servicing VaR	17	13	26	40	15	72	16	46	14	25
Chief Investment Office (“CIO”) VaR	54 [d]	7	105	48	30	59	7	58	120 [c]	53
Diversification benefit to total other VaR	(10) [a]	NM [b]	NM [b]	(15) [a]	NM [b]	NM [b]	(5) [a]	(26) [a]	(8)	(13)
Total other VaR	61	18	106	73	46	102	18	78	126	65
Diversification benefit to total IB and other VaR	(68) [a][d]	NM [b]	NM [b]	(35) [a]	NM [b]	NM [b]	(6) [a]	(31) [a]	(57)	(45)
Total VaR	$115	$94	$135	$108	$72	$147	$135	$126	$162	$97

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

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

(c) Reference is made to CIO synthetic credit portfolio update on page 10 of this Form 10-Q regarding the Firm’s restatement of its 2012 first quarter financial statements. The CIO VaR amount has not been recalculated for the first quarter to reflect the restatement. The nine months VaR does not include recalculated amounts for the first quarter of 2012.

(d) On July 2, 2012, CIO transferred its synthetic credit portfolio, other than a portion aggregating approximately $12 billion notional, to IB; CIO’s retained portfolio was effectively closed out during the three months ended September 30, 2012. During the third quarter of 2012, the Firm applied a new VaR model to calculate VaR for both the portion of the synthetic credit portfolio held by IB, as well as the portion that was retained by CIO which was effectively closed out at September 30, 2012.

(e) Total IB trading and credit portfolio VaR increased from $74 million on June 30, 2012 to $113 million on July 2, 2012, due to the transfer of a portion of the synthetic credit portfolio from CIO.

VaR measurement

IB trading VaR includes substantially all market-making and client-driven activities as well as certain risk management activities in IB. This includes the credit spread sensitivities of certain mortgage products and syndicated lending facilities that the Firm intends to distribute. The Firm uses proxies to estimate the VaR for these and other products when daily time series are not available. It is likely that using an actual price-based time series for these products, if available, would affect the VaR results presented. For certain products included in IB trading and credit portfolio VaR, certain risk parameters that do not have daily observable values are not captured, such as correlation risk. The Firm uses alternative methods to capture and measure the impact of parameters not otherwise captured in VaR, including economic-value stress testing, nonstatistical measures and risk identification for large exposures as described further below.

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

Other VaR includes certain positions employed as part of the Firm's risk management function within the CIO and in the Mortgage Production and Servicing business. CIO VaR includes positions, primarily in debt securities and derivatives, which are measured at fair value through earnings. Mortgage Production and Servicing VaR includes the Firm's mortgage pipeline and warehouse loans, MSRs and all related hedges.

As noted above, IB, Credit portfolio and other VaR does not include the retained Credit portfolio, which is not reported at fair value; however, it does include hedges of those positions, which are reported at fair value. It also does not include DVA on derivative and structured liabilities to reflect the credit quality of the Firm; principal investments, certain foreign exchange positions used for net investment hedging of foreign currency operations, and longer-term securities investments managed by CIO that are primarily classified as available for sale. These positions are managed through the Firm's nontrading interest rate-sensitive revenue-at-risk and other cash flow-monitoring processes, rather than by using a VaR measure. Principal investing activities (including mezzanine financing, tax-oriented investments, etc.) and private equity positions are managed using stress and scenario analyses and are not included in VaR. See the DVA sensitivity table on page 100 of this Form 10-Q for further details. For a discussion of Corporate/Private Equity, see pages 49–51 of this Form 10-Q.

The Firm's VaR model calculations are continuously evaluated and enhanced in response to changes in the composition of the Firm's portfolios, changes in market conditions, improvements in the Firm's modeling techniques, system capabilities, and other factors. Model changes go through a review and approval process by the

Model Review Group prior to implementation into the operating environment. For further information, see the Model review in this section on page 102 of this Form 10-Q.

During the third quarter of 2012, the Firm applied a new VaR model to calculate VaR for the synthetic credit portfolio. The Firm believes this new model, which was applied to both the portion of the synthetic credit portfolio held by IB, as well as the portion that was retained by CIO more appropriately captures the risks of the portfolio. This new VaR model resulted in a reduction to average fixed income VaR of $26 million, average Total IB trading and credit portfolio VaR of $28 million, average CIO VaR of $17 million, and average Total VaR of $36 million for the three months ended September 30, 2012. Prior period VaR results have not been recalculated using the new model.

Third-quarter and year-to-date 2012 VaR results

As presented in the table above, average Total VaR increased for the three and nine months ended September 30, 2012, when compared with the respective 2011 periods. These increases were primarily driven by increased risk in the synthetic credit portfolio partially offset by changes in the risk profile of the MSR portfolio and the new VaR model used for the synthetic credit portfolio.

Average total IB trading and credit portfolio VaR for the three and nine months ended September 30, 2012, increased compared with the respective 2011 periods. These increases were driven primarily by the addition of synthetic credit portfolio in IB, partially offset by the model change for that portfolio as described above.

Average CIO VaR for the nine months ended September 30, 2012, increased from the comparable 2011 periods predominantly reflecting the synthetic credit portfolio. On July 2, 2012, CIO transferred its synthetic credit portfolio, other than a portion aggregating approximately $12 billion notional, to IB; CIO's retained portfolio was effectively closed out during the three months ended September 30, 2012, which resulted in the spot VaR decreasing to $7 million at September 30, 2012.

Average Mortgage Production and Servicing VaR for the three and nine months ended September 30, 2012, decreased compared with the respective 2011 periods. These decreases were primarily driven by changes in the risk profile of the MSR Portfolio.

The Firm’s average IB and other VaR diversification benefit was $68 million or 37% of the sum for the three months ended September 30, 2012, compared with $35 million or 24% of the sum for the three months ended September 30, 2011. The Firm’s average IB and other VaR diversification benefit was $57 million or 26% of the sum for the nine months ended September 30, 2012, compared with $45 million or 32% of the sum for the nine months ended September 30, 2011. In general, over the course of the year, VaR exposure can vary significantly as positions change, market volatility fluctuates and diversification benefits change.

VaR back-testing

The Firm conducts daily back-testing of VaR against its market risk-related revenue.

The following histogram illustrates the daily market risk related gains and losses for IB, CIO and Mortgage Production and Servicing positions for the nine months ended September 30, 2012. This market risk-related revenue is defined as the change in value of: principal transactions revenue for IB and CIO (excludes Private Equity gains/losses and unrealized and realized gains/losses from AFS securities and other investments held for the longer term); market-based related net interest income for IB, CIO and Mortgage Production and Servicing; IB brokerage commissions, underwriting fees or other revenue; revenue from syndicated lending facilities that the Firm intends to distribute; and mortgage fees and related income for the Firm's mortgage pipeline and warehouse loans, MSRs, and all related hedges. Daily Firmwide market risk-related revenue excludes gains and losses from DVA.

The chart shows that for the nine months ended September 30, 2012, the Firm posted market risk related gains on 156 of the 195 days in this period, with gains on seven days exceeding $200 million. The chart includes year to date losses incurred in the synthetic credit portfolio. IB and Credit Portfolio posted market risk-related gains on 190 days in the period.

The inset graph looks at those days on which the Firm experienced losses and depicts the amount by which VaR exceeded the actual loss on each of those days. Of the losses that were sustained on the 39 days of the 195 days in the trading period, the Firm sustained losses that exceeded the VaR measure on three of those days. These losses in excess of the VaR all occurred in the second quarter of 2012 and were due to the adverse effect of market movements on risk positions in the synthetic credit portfolio held by CIO. During the nine months ended September 30, 2012, IB and Credit Portfolio experienced five loss days; none of the losses on those days exceeded their respective VaR measures.

99

Other risk measures

Debit valuation adjustment sensitivity

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

Debit valuation adjustment sensitivity

(in millions)	One basis-point increase in JPMorgan Chase's credit spread
September 30, 2012	$36
December 31, 2011	35

Economic-value stress testing

Along with VaR, stress testing is important in measuring and controlling risk. While VaR reflects the risk of loss due to adverse changes in markets using recent historical market behavior as an indicator of losses, stress testing captures the Firm's exposure to unlikely but plausible events in abnormal markets using multiple scenarios that assume significant changes in credit spreads, equity prices, interest rates, currency rates or commodity prices. Stress scenarios estimate extreme losses based on assumptions by risk management of potential macroeconomic market stress events, such as an equity market collapse or credit crisis. Scenarios are updated dynamically and may be redefined on an ongoing basis to reflect current market conditions. Stress testing is also employed in cross-business risk management. Stress-test results, trends and explanations based on current market risk positions are reported to the Firm's senior management and to the lines of business to allow them to better understand event risk-sensitive positions and manage their risks with more transparency.

Nonstatistical risk measures

Nonstatistical risk measures include sensitivities to variables used to value positions, such as credit spread sensitivities, interest rate basis point values and market values. These measures provide granular information on the Firm's market risk exposure. They are aggregated by line-of-business and by risk type, and are used for tactical control and monitoring limits.

Loss advisories and profit and loss drawdowns

Loss advisories and profit and loss drawdowns are tools used to highlight trading losses above certain levels of risk tolerance. Profit and loss drawdowns are defined as the decline in net profit and loss since the year-to-date peak revenue level.

Risk identification for large exposures

Individuals who manage risk positions are responsible for identifying potential losses that could arise from specific, unusual events, such as a potential change in tax legislation, or a particular combination of unusual market moves. This

information allows the Firm to monitor further earnings vulnerability not adequately covered by standard risk measures.

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

Interest rate risk represents one of the Firm's significant market risk exposures. This risk arises not only from trading activities but also from the Firm's traditional banking activities which include extension of loans and credit facilities, taking deposits and issuing debt (i.e., asset/liability management positions, accrual loans within IB and CIO, and off-balance sheet positions). ALCO establishes the Firm's interest rate risk policies and sets risk guidelines. Treasury, working in partnership with the lines of business, calculates the Firm's interest rate risk profile weekly and reviews it with senior management.

Interest rate risk for nontrading activities can occur due to a variety of factors, including:

•

- Differences in the timing among the maturity or repricing of assets, liabilities and off-balance sheet instruments. For example, if liabilities reprice more quickly than assets and funding interest rates are declining, net interest income will increase initially.
- Differences in the amounts of assets, liabilities and off-balance sheet instruments that are repricing at the same time. For example, if more deposit liabilities are repricing than assets when general interest rates are declining, net interest income will increase initially.
- Differences in the amounts by which short-term and long-term market interest rates change (for example, changes in the slope of the yield curve) because the Firm has the ability to lend at long-term fixed rates and borrow at variable or short-term fixed rates. Based on these scenarios, the Firm's net interest income would be affected negatively by a sudden and unanticipated increase in short-term rates paid on its liabilities (e.g., deposits) without a corresponding increase in long-term rates received on its assets (e.g., loans). Conversely, higher long-term rates received on assets generally are beneficial to net interest income, particularly when the increase is not accompanied by rising short-term rates paid on liabilities.
- The impact of changes in the maturity of various assets, liabilities or off-balance sheet instruments as interest rates change. For example, if more borrowers than forecasted pay down higher-rate loan balances when general interest rates are declining, net interest income may decrease initially.

The Firm manages interest rate exposure related to its assets and liabilities on a consolidated, corporate-wide basis. Business units transfer their interest rate risk to Treasury through a transfer-pricing system, which takes into account the elements of interest rate exposure that can be risk-managed in financial markets. These elements include asset and liability balances and contractual rates of interest, contractual principal payment schedules, expected prepayment experience, interest rate reset dates and maturities, rate indices used for repricing, and any interest rate ceilings or floors for adjustable rate products. All transfer-pricing assumptions are dynamically reviewed.

The Firm manages this interest rate risk generally through its investment securities portfolio and related derivatives. The Firm evaluates its nontrading interest rate risk exposure through the stress testing of earnings-at-risk, which measures the extent to which changes in interest rates will affect the Firm's core net interest income (see page 16 of this Form 10-Q for further discussion of core net interest income) and interest rate-sensitive fees ("nontrading interest rate-sensitive revenue"). Earnings-at-risk excludes the impact of trading activities and MSRs as these sensitivities are captured under VaR.

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

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

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

	Immediate change in rates			
(in millions)	+200bp	+100bp	-100bp	-200bp
September 30, 2012	$3,905	$2,183	NM (a)	NM (a)
December 31, 2011	4,046	2,326	NM (a)	NM (a)

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

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

Additionally, another interest rate scenario used by the Firm — involving a steeper yield curve with long-term rates rising by 100 basis points and short-term rates staying at current levels — results in a 12-month pretax net interest income benefit of $779 million. The increase in net interest income under this scenario is due to reinvestment of maturing assets at the higher long-term rates, with funding costs remaining unchanged.

Risk monitoring and control

Limits

Market risk is controlled primarily through a series of limits, which reflect the Firm's risk appetite in the context of the market environment and business strategy. In setting limits, the Firm takes into consideration factors such as the Firm's overall risk appetite, market volatility, product liquidity, accommodation of client business and management experience. The Firm maintains different levels of limits. Corporate level limits include VaR and stress limits. Similarly, line of business limits include VaR and stress limits and may be supplemented by loss advisories, nonstatistical measurements and profit and loss drawdowns. Limits may also be allocated within the lines of business, as well at the portfolio level.

Limits are established by Market Risk in agreement with the lines of business, and in accordance with the overall risk appetite of the Firm. Limits are reviewed regularly by Market Risk and updated as appropriate, with any changes approved by lines of business management and Market Risk. Senior management, including the Firm's Chief Executive Officer and Chief Risk Officer, are responsible for reviewing and approving certain of these risk limits on an ongoing basis. All limits that have not been reviewed within specified time periods by Market Risk are escalated to senior management. The lines of business are responsible for adhering to established limits against which exposures are monitored and reported by a group within Market Risk.

Limit breaches are required to be reported by a group within risk management in a timely manner to the appropriate persons in senior management. Market risk management consults with Firm senior management and lines of business senior management to determine the appropriate course of action required to return to compliance, which may include the reduction in risk in order to remedy the excess. Any limit excesses for three days or longer, or that are over limit by more than 30%, are escalated to senior management and the Firmwide Risk Committee.

Model review

The Firm uses risk management models, including VaR and stress models, for the measurement, monitoring and management of risk positions. Valuation models are employed by the Firm to value certain financial instruments which cannot otherwise be valued using quoted prices. These valuation models may also be employed as inputs to risk management models, for example in VaR and economic stress models. The Firm also makes use of models for a number of other purposes, including the calculation of regulatory capital requirements.

Models are owned by various functions within the Firm based on the specific purposes of such models. For example, VaR models and certain regulatory capital models are owned by the line-of-business aligned risk management functions. Owners of the models are responsible for the development, implementation and testing of models, as well as referral of models to the Model Review Group (within the Model Risk and Development Group) for review and approval. Once models have been approved, the model owners are required to maintain a robust operating environment and to monitor and evaluate the performance of models on an ongoing basis. It is also their responsibility to enhance models in response to changes in the portfolios and for changes in product and market developments, as well as improvements in available modeling techniques and systems capabilities, and to submit such enhancements to the Model Review Group for review.

The Model Review Group reports within the Model Risk and Development Group, which in turn reports to the Chief Risk Officer. The Model Review Group is independent of the model owners and is responsible for reviewing and approving a wide range of models including risk management, valuation and certain regulatory capital models used by the Firm.

Models are tiered by the model owner based on an internal standard according to their complexity, the exposure associated with the model and the Firm’s reliance on the model. This tiering is subject to the approval of the Model Review Group. The model reviews conducted by the Model Review Group consider a number of factors about the model’s suitability for valuation or risk management of a particular product, or other purposes. The factors considered include the assigned model tier, whether the model accurately reflects the characteristics of the instruments and its significant risks, the selection and reliability of model inputs, consistency with models for similar products, the appropriateness of any model-related adjustments, and sensitivity to input parameters and assumptions that cannot be observed from the market. When reviewing a model, the Model Review Group analyzes and challenges the model methodology and the reasonableness of model assumptions and may perform or require additional testing, including back-testing of model outcomes. Model reviews are approved by the appropriate level of management within the Model Review Group based on the relevant tier of the model.

Under the Firm’s model risk policy, new significant valuation, risk management and regulatory capital models, as well as major changes to such models, are required to be reviewed and approved by the Model Review Group prior to implementation into the operating environment. In addition, previously approved models are reviewed and re-approved periodically. The Model Review Group performs an annual Firmwide model risk assessment where developments in the product or market are considered in determining whether models which have already been reviewed need to be examined again.

In the event that the Model Review Group does not approve a model, escalation to senior management is required and the model owner is required to remediate the model within a time period as agreed upon with the Model Review Group. The model owner is also required to resubmit the model for review to the Model Review Group and to take appropriate actions to mitigate the model risk in the interim. The actions taken will depend on the model that is disapproved and may include, for example, limitation of trading activity. The Firm also ensures that there are other appropriate risk measurement tools in place to augment the model that is subject to remediation.

In limited circumstances, exceptions to the Firm’s model risk policy may be granted by the Model Review Group to allow a model to be used prior to review or approval. Such exceptions have been applied to a small number of models and where this is the case, compensating controls similar to those described above have been put in place.

For a summary of valuations based on models, see Critical Accounting Estimates Used by the Firm on page 108 of this Form 10-Q and Note 3 on pages 184–198 of JPMorgan Chase’s 2011 Annual Report.

Risk reporting

Nonstatistical risk measures, VaR, loss advisories and limit excesses are reported daily to the lines of business and to senior management. Market risk exposure trends, VaR trends, profit-and-loss changes and portfolio concentrations are reported weekly. Stress-test results are also reported weekly to the lines of business and to senior management.

COUNTRY RISK MANAGEMENT

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

The Firm is exposed to country risk through its wholesale lending, investing, and market-making activities, whether cross-border or locally funded. Country exposure includes activity with both government and private-sector entities in a country. Under the Firm's internal risk management approach, country exposure is reported based on the country where the majority of the assets of the obligor, counterparty, issuer or guarantor are located or where the majority of its revenue is derived, which may be different than the domicile (legal residence) of the obligor, counterparty, issuer or guarantor (and therefore may be different that the basis on which the Firm's wholesale credit exposure is reported.) Exposures are generally measured by considering the Firm's risk to an immediate default of the counterparty or obligor, with zero recovery. Assumptions are sometimes required in determining the measurement and allocation of country exposure, particularly in the case of certain tranched credit derivatives. Different measurement approaches or assumptions would affect the amount of reported country exposure.

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

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

Top 20 country exposures

	September 30, 2012			
(in billions)	Lending[(a)]	Trading and investing[(b)(c)]	Other[(d)]	Total exposure
United Kingdom	$30.4	$53.4	$6.0	$89.8
Germany	25.4	32.9	—	58.3
France	13.8	26.5	—	40.3
Netherlands	4.3	29.9	4.1	38.3
Switzerland	31.2	0.2	1.0	32.4
Australia	6.9	17.0	—	23.9
Canada	12.9	5.5	0.6	19.0
Brazil	6.1	11.2	—	17.3
China	9.1	4.3	0.7	14.1
India	6.8	7.2	—	14.0
Korea	6.1	6.2	0.4	12.7
Japan	4.1	5.9	—	10.0
Mexico	2.0	5.9	—	7.9
Hong Kong	3.4	3.6	0.3	7.3
Singapore	3.9	1.7	0.8	6.4
Italy	3.3	2.6	—	5.9
Taiwan	2.5	2.8	—	5.3
Malaysia	1.7	2.7	0.8	5.2
Russia	2.6	2.5	—	5.1
Chile	1.6	3.0	0.3	4.9

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

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

(c)

Includes single-name and index and tranched credit derivatives for which one or more of the underlying reference entities is in a country listed in the above table. Beginning on March 31, 2012, the Firm's country risk reporting reflects enhanced measurement of tranched credit derivatives.

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

Selected European exposure

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

The following table presents the Firm's direct exposure to these five countries at September 30, 2012, as measured under the Firm's internal risk management approach. For individual exposures, corporate clients represent approximately 81% of the Firm's non-sovereign exposure in these five countries, and substantially all of the remaining 19% of the non-sovereign exposure is to the banking sector.

September 30, 2012 (in billions)	Lending net of Allowance[(a)]	AFS securities[(b)]	Trading[(c)(d)]	Derivative collateral[(e)]	Portfolio hedging[(f)]	Total exposure
Spain						
Sovereign	$—	$ 0.4	$ 0.6	$ —	$ —	$ 1.0
Non-sovereign	3.4	—	3.9	(3.3)	(0.3)	3.7
Total Spain exposure	$ 3.4	$ 0.4	$ 4.5	$ (3.3)	$ (0.3)	$ 4.7
Italy						
Sovereign	$—	$ —	$ 9.5	$ (1.3)	$ (4.7)	$ 3.5
Non-sovereign	3.3	0.1	0.4	(1.1)	(0.3)	2.4
Total Italy exposure	$ 3.3	$ 0.1	$ 9.9	$ (2.4)	$ (5.0)	$ 5.9
Ireland						
Sovereign	$—	$ 0.3	$ 0.1	$ —	$ (0.3)	$ 0.1
Non-sovereign	0.5	—	1.5	(0.3)	—	1.7
Total Ireland exposure	$ 0.5	$ 0.3	$ 1.6	$ (0.3)	$ (0.3)	$ 1.8
Portugal						
Sovereign	$—	$ —	$ 0.4	$ —	$ (0.4)	$ —
Non-sovereign	0.5	—	(0.7)	(0.4)	—	(0.6)
Total Portugal exposure	$ 0.5	$ —	$ (0.3)	$ (0.4)	$ (0.4)	$ (0.6)
Greece						
Sovereign	$—	$ —	$ —	$ —	$ —	$ —
Non-sovereign	—	—	0.5	(0.6)	—	(0.1)
Total Greece exposure	$—	$ —	$ 0.5	$ (0.6)	$ —	$ (0.1)
Total exposure	$ 7.7	$ 0.8	$ 16.2	$ (7.0)	$ (6.0)	$ 11.7

(a) Lending includes loans and accrued interest receivable, deposits with banks, acceptances, other monetary assets, issued letters of credit net of participations, and undrawn commitments to extend credit. Amounts are presented net of the allowance for credit losses of $112 million (Spain), $57 million (Italy), $3 million (Ireland), $18 million (Portugal), and $12 million (Greece) specifically attributable to these countries. Includes $2.4 billion of unfunded lending exposure at September 30, 2012. These exposures consist typically of committed, but unused corporate credit agreements, with market-based lending terms and covenants.

(b) Both the notional and the fair value of AFS securities were approximately $0.8 billion at September 30, 2012.

(c) Primarily includes: $18.5 billion of counterparty exposure on derivative and securities financings, $3.3 billion of issuer exposure on debt and equity securities held in trading, $(5.8) billion of net protection from credit derivatives, including $(4.3) billion related to the synthetic credit portfolio managed by IB. Securities financings of approximately $15.6 billion were collateralized with approximately $17.3 billion of cash and marketable securities as of September 30, 2012.

(d) Beginning on March 31, 2012, the Firm's country risk reporting reflects enhanced measurement of tranched credit derivatives.

(e) Includes cash and marketable securities pledged to the Firm, of which approximately 98% of the collateral was cash at September 30, 2012.

(f)

Reflects net protection purchased through the Firm's credit portfolio management activities, which are managed separately from its market-making activities. Predominantly includes single-name CDS and also includes index credit derivatives and short bond positions. It does not include the synthetic credit portfolio.

Effect of credit derivatives on selected European exposures

Country exposures in the Selected European exposure table have been reduced by purchasing protection through single-name, index, and tranched credit derivatives.

The following table presents the effect of purchased and sold credit derivatives on the Trading and Portfolio Hedging activities in the Selected European exposure table.

September 30, 2012	Trading			Portfolio hedging		
(in billions)	Purchased	Sold	Net	Purchased	Sold	Net
Spain	$(114.0)	$112.2	$(1.8)	$(2.6)	$2.3	$(0.3)
Italy	(148.7)	146.3	(2.4)	(12.0)	7.3	(4.7)
Ireland	(6.5)	6.5	—	(1.4)	1.1	(0.3)
Portugal	(39.6)	38.3	(1.3)	(1.4)	1.0	(0.4)
Greece	(9.4)	9.1	(0.3)	(0.3)	0.3	—
Total	$(318.2)	$312.4	$(5.8)	$(17.7)	$12.0	$(5.7)

Under the Firm's internal risk management approach, all credit derivatives are reported based on the country where the majority of the assets of the reference entity are located. Exposures are measured assuming that all of the reference entities in a particular country default simultaneously with zero recovery. For example, single-name and index credit derivatives are measured at the notional amount, net of the fair value of the derivative receivable or payable. Exposures for index credit derivatives, which may include several underlying reference entities, are determined by evaluating the relevant country for each of the reference entities underlying the named index, and allocating the applicable amount of the notional and fair value of the index credit derivative to each of the relevant countries. Tranched credit derivatives are measured by assuming simultaneous default of all reference entities in that country. The total line represents the simple sum of the individual countries. Changes in the Firm's methodology or assumptions would produce different results.

The credit derivatives reflected in the "Trading" column include those from the Firm's market-making activities as well as $(4.3) billion of net purchased protection in the synthetic credit portfolio managed by IB beginning in July 2012. Based on scheduled maturities and risk reduction actions being taken in the synthetic credit portfolio, the amount of protection provided by the synthetic credit portfolio relative to the five named countries is likely to be substantially reduced over time.

The credit derivatives reflected in the "Portfolio hedging" column are used in the Firm's Credit Portfolio Management activities, which are intended to mitigate the credit risk associated with traditional lending activities and derivative counterparty exposure. These credit derivatives include both purchased and sold protection, where the sold protection is generally used to close out purchased protection when appropriate under the Firm's risk mitigation strategies. In its Credit Portfolio Management activities, the Firm generally seeks to purchase credit protection with a maturity date that is the same or similar to the maturity date of the exposures for which the protection was purchased. However, there are instances where the purchased protection has a shorter maturity date than the maturity date of the exposure for which the protection was purchased. These exposures are actively monitored and managed by the Firm. The effectiveness of the Firm's CDS protection as a hedge of the Firm's exposures may vary depending upon a number of factors, including the contractual terms of the CDS. For further information about credit derivatives see Credit derivatives on pages 80–81, and Note 5 on pages 136–144 of this Form 10-Q.

The Firm's net presentation in the table above reflects the manner in which this exposure is managed, and reflects, in the Firm's view, the substantial mitigation of market and counterparty credit risk in its credit derivative activities. Market risk is substantially mitigated because market-making activities, and to a lesser extent, hedging activities, often result in selling and purchasing protection related to the same underlying reference entity. For example, in each of the five countries as of September 30, 2012, the protection sold by the Firm was more than 88% offset by protection purchased on the identical reference entity.

In addition, counterparty credit risk has been substantially mitigated by the master netting and collateral agreements in place for these credit derivatives. As of September 30, 2012, 99% of the purchased protection presented in the table above is purchased under contracts that require posting of cash collateral; 91% is purchased from investment-grade counterparties domiciled outside of the select European countries; and 69% of the protection purchased offsets protection sold on the identical reference entity, with the identical counterparty subject to a master netting agreement.

* * *

Eurozone developments

During the third quarter of 2012, there was a continuation of structural challenges related to ongoing fiscal austerity, anemic growth, weak banking sectors and political turbulence in the Eurozone. These were reflected in elevated credit spreads throughout the peripheral Eurozone for much of the quarter. However, the ECB's announcement of its OMT program in early September helped reduce the possibility of tail risk scenarios, leading to an easing of government bond yields towards the end of the quarter. The Firm performs multiple stress tests in order to estimate the potential economic loss to its assets and liabilities under a variety of macroeconomic market stress events (See Economic-value stress testing on page 100 of this Form 10-Q). However, stress testing cannot predict the full consequences of a systemic market event, such as what might occur if the situation worsens or a country or countries exit the Eurozone. For further information see Part II, Item 1A, Risk Factors on pages 220–222 of this Form 10-Q.

105

PRIVATE EQUITY RISK MANAGEMENT

For a discussion of Private Equity Risk Management, see page 166 of JPMorgan Chase's 2011 Annual Report. At September 30, 2012, and December 31, 2011, the carrying value of the Private Equity portfolio was

$8.1 billion and $7.7 billion, respectively, of which $637 million and $805 million, respectively, represented securities with publicly available market quotations.

OPERATIONAL RISK MANAGEMENT

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

Cybersecurity

The Firm devotes significant resources to maintain and regularly update its systems and processes that are designed to protect the security of the Firm's computer systems, software, networks and other technology assets against attempts by third parties to obtain unauthorized access to confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage.

The Firm and several other U.S. financial institutions have recently experienced significant distributed denial-of-

service attacks from technically sophisticated and well-resourced third parties which were intended to disrupt consumer online banking services. The Firm has also experienced other attempts to breach the security of the Firm's systems and data. These cyberattacks have not, to date, resulted in any material disruption of the Firm's operations, material harm to the Firm's customers, or have had a material adverse effect on the Firm's results of operations.

LEGAL, FIDUCIARY AND REPUTATION RISK MANAGEMENT

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

SUPERVISION AND REGULATION

The following discussion should be read in conjunction with Regulatory developments on pages 10–11 of this Form 10-Q, and the Supervision and Regulation section on pages 1–7 of JPMorgan Chase's 2011 Form 10-K.

Dividends

At September 30, 2012, JPMorgan Chase's banking subsidiaries could pay, in the aggregate, $15.5 billion in dividends to their respective bank holding companies without the prior approval of their relevant banking regulators.

CRITICAL ACCOUNTING ESTIMATES USED BY THE FIRM

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

Allowance for credit losses

JPMorgan Chase's allowance for credit losses covers the retained wholesale and consumer loan portfolios, as well as the Firm's wholesale and consumer lending-related commitments. The allowance for loan losses is intended to adjust the value of the Firm's loan assets to reflect probable credit losses inherent in the loan portfolio as of the balance sheet date. Similarly, the allowance for lending-related commitments is established to cover probable credit losses inherent in the lending-related commitments portfolio as of the balance sheet date. For further discussion of the methodologies used in establishing the Firm's allowance for credit losses, see Allowance for Credit Losses on pages 155–157 and Note 15 on pages 252–255 of JPMorgan Chase's 2011 Annual Report; for amounts recorded as of September 30, 2012 and 2011, see Allowance for Credit Losses on pages 93–95 and Note 14 on page 176 of this Form 10-Q.

As noted in the discussion on page 168 of JPMorgan Chase's 2011 Annual Report, the Firm's allowance for credit losses is sensitive to numerous factors, depending on the portfolio. Changes in economic conditions or in the Firm's assumptions could affect the Firm's estimate of probable credit losses inherent in the portfolio at the balance sheet date. For example, deterioration in the following inputs would have the following effects on the Firm's modeled loss estimates as of September 30, 2012, without consideration of any offsetting or correlated effects of other inputs in the Firm's allowance for loan losses:

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

- A 5% decline in housing prices from current levels could result in an increase in credit loss estimates for PCI loans of approximately $700 million.
- A 5% decline in housing prices from current levels for the residential real estate portfolio, excluding PCI loans, could result in an increase to modeled annual loss estimates of approximately $300 million.
- A 50 basis point deterioration in forecasted credit card loss rates could imply an increase to modeled annualized credit card loan loss estimates of approximately $800 million.

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

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

Fair value of financial instruments, MSRs and commodities inventory

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

Assets measured at fair value

The following table includes the Firm's assets measured at fair value and the portion of such assets that are classified within level 3 of the valuation hierarchy. For further information, see Note 3 on pages 119–133 of this Form 10-Q.

	September 30, 2012		
(in billions, except ratio data)	Total assets at fair value	Total level 3 assets	
Trading debt and equity instruments	$367.1	$26.9	
Derivative receivables – gross	1,724.6	27.2	
Netting adjustment	(1,644.6)	—	
Derivative receivables – net	80.0	27.2	
AFS securities	365.9	27.4	
Loans	2.8	2.3	
MSRs	7.1	7.1	
Private equity investments	7.7	7.1	
Other	46.8	4.3	
Total assets measured at fair value on a recurring basis	877.4	102.3	
Total assets measured at fair value on a nonrecurring basis	4.1	3.7	
Total assets measured at fair value	$881.5	$106.0	(a)
Total Firm assets	$2,321.3		
Level 3 assets reported at fair value as a percentage of total Firm assets		4.6	%
Level 3 assets reported at fair value as a percentage of total Firm assets at fair value		12.0	%

(a) Included $52.1 billion of level 3 assets, consisting of recurring and nonrecurring assets carried by IB.

Valuation

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Firm has an established and well-documented process for determining fair value. Fair value is based on quoted market prices, where available. If listed prices or quotes are not available for an instrument or a similar instrument, fair value is generally based on models that consider relevant transaction data such as maturity and use as inputs market-based or independently sourced parameters. Estimating fair value requires the application of judgment. The type and level of judgment required is largely dependent on the amount of observable market information available to the Firm. For instruments valued using internally developed models that use significant unobservable inputs and are therefore classified within level 3 of the hierarchy, judgments used to estimate fair

value are more significant than those required when estimating the fair value of instruments classified within levels 1 and 2.

In arriving at an estimate of fair value for an instrument within level 3, management must first determine the appropriate model to use. Second, due to the lack of observability of significant inputs, management must assess all relevant empirical data in deriving valuation inputs — including, for example, transaction details, yield curves, interest rates, prepayment rates, default rates, volatilities, correlations, equity or debt prices, valuations of comparable instruments, foreign exchange rates and credit curves. Finally, management judgment must be applied to assess the appropriate level of valuation adjustments to reflect counterparty credit quality, the Firm's credit-worthiness, liquidity considerations, unobservable parameters, and for certain portfolios that meet specified criteria, the size of the net open risk position. The judgments made are typically affected by the type of product and its specific contractual terms, and the level of liquidity for the product or within the market as a whole. For further discussion of the valuation of level 3 instruments, including unobservable inputs used, see Note 3 on pages 119–133 of this Form 10-Q.

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

The Firm uses various methodologies and assumptions in the determination of fair value. The use of different methodologies or assumptions to those used by the Firm could result in a different estimate of fair value at the reporting date. For a detailed discussion of the Firm's valuation process and hierarchy, and determination of fair value for individual financial instruments, see Note 3 on pages 119–133 of this Form 10-Q and Note 3 on pages 184–198 of JPMorgan Chase's 2011 Annual Report.

Goodwill impairment

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

During the nine months ended September 30, 2012, the Firm updated the discounted cash flow valuations of certain consumer lending businesses in RFS and Card, which continue to have elevated risk for goodwill impairment due to their exposure to U.S. consumer credit risk and the effects of economic, regulatory and legislative changes. The assumptions used in the valuation of these businesses include: (a) estimates of future cash flows for the business (which are dependent on outstanding loan balances, net interest margin, operating expense, credit losses and the amount of capital necessary given the risk of business activities to meet regulatory capital requirements), and (b) the cost of equity used to discount those cash flows to a present value. Each of these factors requires significant judgment and the assumptions used are based on management's best estimate and most current projections, including the anticipated effects of regulatory and legislative changes, derived from the Firm's business forecasting process reviewed with senior management. These projections are consistent with the short-term assumptions discussed in the Business outlook on page 9 of this Form 10-Q, and, in the longer term, incorporate a set of macroeconomic assumptions and the Firm's best estimates of long-term growth and returns of its businesses. Where possible, the Firm uses third-party and peer data to benchmark its assumptions and estimates.

The estimated fair value of the Firm's consumer lending businesses in RFS and Card each exceeded their carrying values at September 30, 2012 by approximately 15%. Deterioration in economic market conditions, increased estimates of the effects of recent regulatory or legislative changes, or additional regulatory or legislative changes may result in declines in projected business performance beyond management's current expectations. For example, in RFS, such declines could result from increases in costs to resolve foreclosure-related matters or from deterioration in economic conditions that result in increased credit losses, including decreases in home prices beyond management's current expectations. In Card, declines in business performance could result from deterioration in economic conditions such as increased unemployment claims or bankruptcy filings that result in increased credit losses or changes in customer behavior that cause decreased account activity or receivable balances.

For its other businesses, the Firm reviewed current conditions (including the estimated effects of regulatory and legislative changes and current estimated market cost of equity) and prior projections of business performance. Based upon the updated valuations and reviews, the Firm concluded that goodwill allocated to all of its reporting units was not impaired at September 30, 2012.

In addition, the earnings or estimated cost of equity of the Firm's capital markets businesses could also be affected by regulatory or legislative changes.

Declines in business performance, increases in allocated equity capital, or increases in the estimated cost of equity, could cause the estimated fair values of the Firm's reporting units or their associated goodwill to decline, which could result in a material impairment charge to earnings in a future period related to some portion of the associated goodwill.

For additional information on goodwill, see Note 16 on pages 184–187 of this Form 10-Q.

Income taxes

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

Litigation reserves

For a description of the significant estimates and judgments associated with establishing litigation reserves, see Note 23 on pages 196–206 of this Form 10-Q, and Note 31 on pages 290–299 of JPMorgan Chase's 2011 Annual Report.

ACCOUNTING AND REPORTING DEVELOPMENTS

Fair value measurement and disclosures

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

Accounting for repurchase and similar agreements

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

Presentation of other comprehensive income

In June 2011, the FASB issued guidance that modifies the presentation of other comprehensive income in the Consolidated Financial Statements. The guidance requires that items of net income, items of other comprehensive income, and total comprehensive income be presented in one continuous statement or in two separate but consecutive statements. The guidance was effective in the first quarter of 2012, and the Firm adopted the new guidance by electing the two statement approach, effective January 1, 2012. The application of this guidance only affected the presentation of the Consolidated Financial Statements and had no impact on the Firm's Consolidated Balance Sheets or results of operations.

Balance sheet netting

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

FORWARD-LOOKING STATEMENTS

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

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

- Local, regional and international business, economic and political conditions and geopolitical events;
- Changes in laws and regulatory requirements, including as a result of recent financial services legislation;
- Changes in trade, monetary and fiscal policies and laws;
- Securities and capital markets behavior, including changes in market liquidity and volatility;
- Changes in investor sentiment or consumer spending or savings behavior;
- Ability of the Firm to manage effectively its capital and liquidity, including approval of its capital plans by banking regulators;
- Changes in credit ratings assigned to the Firm or its subsidiaries;
- Damage to the Firm’s reputation;
- Ability of the Firm to deal effectively with an economic slowdown or other economic or market disruption;
- Technology changes instituted by the Firm, its counterparties or competitors;
- Mergers and acquisitions, including the Firm’s ability to integrate acquisitions;
- Ability of the Firm to develop new products and services, and the extent to which products or services previously sold by the Firm (including but not limited to mortgages and asset-backed securities) require the Firm to incur liabilities or absorb losses not contemplated at their initiation or origination;
- Ability of the Firm to address enhanced regulatory requirements affecting its mortgage business;
- Acceptance of the Firm’s new and existing products and services by the marketplace and the ability of the Firm to increase market share;
- Ability of the Firm to attract and retain employees;
- Ability of the Firm to control expense;
- Competitive pressures;
- Changes in the credit quality of the Firm’s customers and counterparties;
- Adequacy of the Firm’s risk management framework, disclosure controls and procedures and internal control over financial reporting;
- Adverse judicial or regulatory proceedings;
- Changes in applicable accounting policies;
- Ability of the Firm to determine accurate values of certain assets and liabilities;
- Occurrence of natural or man-made disasters or calamities or conflicts, including any effect of any such disasters, calamities or conflicts on the Firm’s power generation facilities and the Firm’s other commodity-related activities;
- Ability of the Firm to maintain the security of its financial, accounting, technology, data processing and other operating systems and facilities;
- The other risks and uncertainties detailed in Part II, Item 1A: Risk Factors on pages 220–222 of this Form 10-Q; Part II, Item 1A: Risk Factors, on pages 175–175A of the Firm’s Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2012; Part II, Item 1A: Risk Factors, on pages 219–222 of the Firm’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2012; 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.

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

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

(in millions, except per share data)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Revenue				
Investment banking fees	$1,443	$1,052	$4,081	$4,778
Principal transactions	2,047	1,370	4,342	9,255
Lending- and deposit-related fees	1,562	1,643	4,625	4,838
Asset management, administration and commissions	3,336	3,448	10,189	10,757
Securities gains[(a)]	458	607	2,008	1,546
Mortgage fees and related income	2,377	1,380	6,652	1,996
Credit card income	1,428	1,666	4,156	4,799
Other income	1,519	780	3,537	2,236
Noninterest revenue	14,170	11,946	39,590	40,205
Interest income	13,629	15,160	42,429	46,239
Interest expense	2,653	3,343	8,641	10,681
Net interest income	10,976	11,817	33,788	35,558
Total net revenue	25,146	23,763	73,378	75,763
Provision for credit losses	1,789	2,411	2,729	5,390
Noninterest expense				
Compensation expense	7,503	6,908	23,543	22,740
Occupancy expense	973	935	3,014	2,848
Technology, communications and equipment expense	1,312	1,248	3,865	3,665
Professional and outside services	1,759	1,860	5,411	5,461
Marketing	607	926	1,929	2,329
Other expense	3,035	3,445	10,354	10,687
Amortization of intangibles	182	212	566	641
Total noninterest expense	15,371	15,534	48,682	48,371
Income before income tax expense	7,986	5,818	21,967	22,002
Income tax expense	2,278	1,556	6,375	6,754
Net income	$5,708	$4,262	$15,592	$15,248
Net income applicable to common stockholders	$5,346	$3,936	$14,556	$14,141
Net income per common share data				
Basic earnings per share	$1.41	$1.02	$3.82	$3.60
Diluted earnings per share	1.40	1.02	3.81	3.57
Weighted-average basic shares	3,803.3	3,859.6	3,810.4	3,933.2
Weighted-average diluted shares	3,813.9	3,872.2	3,822.6	3,956.5
Cash dividends declared per common share	$0.30	$0.25	$0.90	$0.75

(a) The following other-than-temporary impairment losses are included in securities gains for the periods presented.

(in millions)	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011

Debt securities the Firm does not intend to sell that have credit losses				
Total other-than-temporary impairment losses	$—	$—	$(113)	$(27)
Losses recorded in/(reclassified from) other comprehensive income	(2)	(15)	85	(31)
Total credit losses recognized in income	(2)	(15)	(28)	(58)
Securities the Firm intends to sell	(1)	—	(14)	—
Total other-than-temporary impairment losses recognized in income	$(3)	$(15)		