FIVE-YEAR SUMMARY OF CONSOLIDATED FINANCIAL HIGHLIGHTS

(unaudited)
(in millions, except per share, headcount and ratio data)

As of or for the year ended December 31,	2011	2010	2009	2008[c]	2007
Selected income statement data					
Noninterest revenue	$ 49,545	$ 51,693	$ 49,282	$ 28,473	$ 44,966
Net interest income	47,689	51,001	51,152	38,779	26,406
Total net revenue	97,234	102,694	100,434	67,252	71,372
Total noninterest expense	62,911	61,196	52,352	43,500	41,703
Pre-provision profit[a]	34,323	41,498	48,082	23,752	29,669
Provision for credit losses	7,574	16,639	32,015	19,445	6,864
Provision for credit losses - accounting conformity[b]	–	–	–	1,534	–
Income before income tax expense/(benefit) and extraordinary gain	26,749	24,859	16,067	2,773	22,805
Income tax expense/(benefit)	7,773	7,489	4,415	(926)	7,440
Income before extraordinary gain	18,976	17,370	11,652	3,699	15,365
Extraordinary gain[c]	–	–	76	1,906	–
Net income	$ 18,976	$ 17,370	$ 11,728	$ 5,605	$ 15,365
Per common share data					
Basic earnings					
Income before extraordinary gain	$ 4.50	$ 3.98	$ 2.25	$ 0.81	$ 4.38
Net income	4.50	3.98	2.27	1.35	4.38
Diluted earnings[d]					
Income before extraordinary gain	$ 4.48	$ 3.96	$ 2.24	$ 0.81	$ 4.33
Net income	4.48	3.96	2.26	1.35	4.33
Cash dividends declared per share	1.00	0.20	0.20	1.52	1.48
Book value per share	46.59	43.04	39.88	36.15	36.59
Common shares outstanding					
Average: Basic	3,900.4	3,956.3	3,862.8	3,501.1	3,403.6
Diluted	3,920.3	3,976.9	3,879.7	3,521.8	3,445.3
Common shares at period-end	3,772.7	3,910.3	3,942.0	3,732.8	3,367.4
Share price[e]					
High	$ 48.36	$ 48.20	$ 47.47	$ 50.63	$ 53.25
Low	27.85	35.16	14.96	19.69	40.15
Close	33.25	42.42	41.67	31.53	43.65
Market capitalization	125,442	165,875	164,261	117,695	146,986
Selected ratios					
Return on common equity ("ROE")[d]					
Income before extraordinary gain	11%	10%	6%	2%	13%
Net income	11	10	6	4	13
Return on tangible common equity ("ROTCE")[d]					
Income before extraordinary gain	15	15	10	4	22
Net income	15	15	10	6	22
Return on assets ("ROA")					
Income before extraordinary gain	0.86	0.85	0.58	0.21	1.06
Net income	0.86	0.85	0.58	0.31	1.06
Overhead ratio	65	60	52	65	58
Deposits-to-loans ratio	156	134	148	135	143
Tier 1 capital ratio[f]	12.3	12.1	11.1	10.9	8.4
Total capital ratio	15.4	15.5	14.8	14.8	12.6
Tier 1 leverage ratio	6.8	7.0	6.9	6.9	6.0
Tier 1 common capital ratio[g]	10.1	9.8	8.8	7.0	7.0
Selected balance sheet data (period-end)[f]					
Trading assets	$ 443,963	$ 489,892	$ 411,128	$ 509,983	$ 491,409
Securities	364,793	316,336	360,390	205,943	85,450
Loans	723,720	692,927	633,458	744,898	519,374
Total assets	2,265,792	2,117,605	2,031,989	2,175,052	1,562,147
Deposits	1,127,806	930,369	938,367	1,009,277	740,728
Long-term debt[h]	256,775	270,653	289,165	302,959	199,010
Common stockholders' equity	175,773	168,306	157,213	134,945	123,221
Total stockholders' equity	183,573	176,106	165,365	166,884	123,221
Headcount	260,157	239,831	222,316	224,961	180,667
Credit quality metrics					
Allowance for credit losses	$ 28,282	$ 32,983	$ 32,541	$ 23,823	$ 10,084
Allowance for loan losses to total retained loans	3.84%	4.71%	5.04%	3.18%	1.88%
Allowance for loan losses to retained loans excluding purchased credit-impaired loans[i]	3.35	4.46	5.51	3.62	1.88
Nonperforming assets	$ 11,036	$ 16,557	$ 19,741	$ 12,714	$ 3,933
Net charge-offs	12,237	23,673	22,965	9,835	4,538
Net charge-off rate	1.78%	3.39%	3.42%	1.73%	1.00%

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

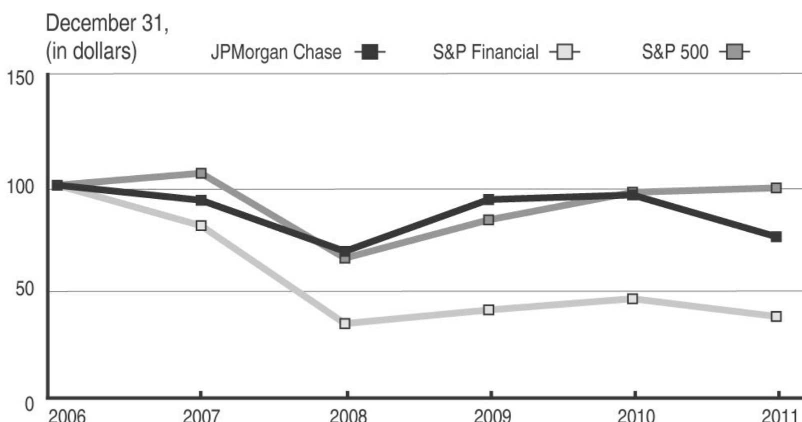
(b) Results for 2008 included an accounting conformity loan loss reserve provision related to the acquisition of Washington Mutual Bank's ("Washington Mutual") banking operations.
(c) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual. The acquisition resulted in negative goodwill, and accordingly, the Firm recorded an extraordinary gain. A preliminary gain of $1.9 billion was recognized at December 31, 2008. The final total extraordinary gain that resulted from the Washington Mutual transaction was $2.0 billion.
(d) The calculation of 2009 earnings per share ("EPS") and net income applicable to common equity includes a one-time, noncash reduction of $1.1 billion, or $0.27 per share, resulting from repayment of U.S. Troubled Asset Relief Program ("TARP") preferred capital in the second quarter of 2009. Excluding this reduction, the adjusted ROE and ROTCE were 7% and 11%, respectively, for 2009. The Firm views the adjusted ROE and ROTCE, both non-GAAP financial measures, as meaningful because they enable the comparability to prior periods.
(e) 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.
(f) Effective January 1, 2010, the Firm adopted accounting guidance that amended the accounting for the transfer of financial assets and the consolidation of variable interest entities ("VIEs"). Upon adoption of the guidance, the Firm consolidated its Firm-sponsored credit card securitization trusts, Firm-administered multi-seller conduits and certain other consumer loan securitization entities, primarily mortgage-related, adding $87.7 billion and $92.2 billion of assets and liabilities, respectively, and decreasing stockholders' equity and the Tier 1 capital ratio by $4.5 billion and 34 basis points, respectively. The reduction to stockholders' equity was driven by the establishment of an allowance for loan losses of $7.5 billion (pretax) primarily related to receivables held in credit card securitization trusts that were consolidated at the adoption date.
(g) 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 119–122 of this Annual Report.
(h) Effective January 1, 2011, the long-term portion of advances from Federal Home Loan Banks ("FHLBs") was reclassified from other borrowed funds to long-term debt. Prior periods have been revised to conform with the current presentation.
(i) Excludes the impact of residential real estate purchased credit-impaired ("PCI") loans. For further discussion, see Allowance for credit losses on pages 155–157 of this Annual Report.

FIVE-YEAR STOCK PERFORMANCE

The following table and graph compare the five-year cumulative total return for JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm") common stock with the cumulative return of the S&P 500 Index and the S&P Financial Index. The S&P 500 Index is a commonly referenced U.S. equity benchmark consisting of leading companies from different economic sectors. The S&P Financial Index is an index of 81 financial companies, all of which are components of the S&P 500. The Firm is a component of both industry indices.

The following table and graph assume simultaneous investments of $100 on December 31, 2006, in JPMorgan Chase common stock and in each of the above S&P indices. The comparison assumes that all dividends are reinvested.

December 31, (in dollars)	2006	2007	2008	2009	2010	**2011**
JPMorgan Chase	$ 100.00	$ 93.07	$ 69.58	$ 93.39	$ 95.50	**$ 76.29**
S&P Financial Index	100.00	81.37	36.36	42.62	47.79	**39.64**
S&P 500 Index	100.00	105.49	66.46	84.05	96.71	**98.75**



This section of JPMorgan Chase's Annual Report for the year ended December 31, 2011 ("Annual Report"), 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 308–311 for definitions of terms used throughout this Annual Report. The MD&A included in this Annual Report contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based on the current beliefs and expectations of JPMorgan Chase's management and are subject to significant risks and uncertainties. These risks and uncertainties could cause the Firm's actual results to differ materially from those set forth in such forward-looking statements. Certain of such risks and uncertainties are described herein (see Forward-looking Statements on page 175 of this Annual Report) and in JPMorgan Chase's Annual Report on Form 10-K for the year ended December 31, 2011 ("2011 Form 10-K"), in Part I, Item 1A: Risk factors; reference is hereby made to both.

INTRODUCTION

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 $183.6 billion in stockholders' equity as of December 31, 2011. The Firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing, asset management and private equity. Under the J.P. Morgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world's most prominent corporate, institutional and government clients.

JPMorgan Chase's principal bank subsidiaries are JPMorgan Chase Bank, National Association ("JPMorgan Chase Bank, N.A."), a national bank with U.S. branches in 23 states, and Chase Bank USA, National Association ("Chase Bank USA, N.A."), a national bank that is the Firm's credit card–issuing bank. JPMorgan Chase's principal nonbank subsidiary is J.P. Morgan Securities LLC ("JPMorgan Securities"), the Firm's U.S. investment banking firm. The bank and nonbank subsidiaries of JPMorgan Chase operate nationally as well as through overseas branches and subsidiaries, representative offices and subsidiary foreign banks. One of the Firm's principal operating subsidiaries in the United Kingdom ("U.K.") is J.P. Morgan Securities Ltd., a subsidiary of JPMorgan Chase Bank, N.A.

JPMorgan Chase's activities are organized, for management reporting purposes, into six business segments, as well as Corporate/Private Equity. The Firm's wholesale businesses comprise the Investment Bank, Commercial Banking, Treasury & Securities Services and Asset Management segments. The Firm's consumer businesses comprise the Retail Financial Services and Card Services & Auto segments. A description of the Firm's business segments, and the products and services they provide to their respective client bases, follows.

Investment Bank

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

Retail Financial Services

Retail Financial Services ("RFS") serves consumers and businesses through personal service at bank branches and through ATMs, online banking and telephone banking. RFS is organized into Consumer & Business Banking and Mortgage Banking (including Mortgage Production and Servicing, and Real Estate Portfolios). Consumer & Business Banking includes branch banking and business banking activities. Mortgage Production and Servicing includes mortgage origination and servicing activities. Real Estate Portfolios comprises residential mortgages and home equity loans, including the PCI portfolio acquired in the Washington Mutual transaction. Customers can use more than 5,500 bank branches (third largest nationally) and more than 17,200 ATMs (second largest nationally), as well as online and mobile banking around the clock. More than 33,500 branch salespeople assist customers with checking and savings accounts, mortgages, home equity and business loans, and investments across the 23-state footprint from New York and Florida to California. As one of the largest mortgage originators in the U.S., Chase helps customers buy or refinance homes resulting in approximately $150 billion of mortgage originations annually. Chase also services more than 8 million mortgages and home equity loans.

Card Services & Auto

Card Services & Auto ("Card") is one of the nation's largest credit card issuers, with over $132 billion in credit card loans. Customers have over 65 million open credit card accounts (excluding the commercial card portfolio), and used Chase credit cards to meet over $343 billion of their spending needs in 2011. Through its Merchant Services business, Chase Paymentech Solutions, Card is a global leader in payment processing and merchant acquiring. Consumers also can obtain loans through more than 17,200 auto dealerships and 2,000 schools and universities nationwide.

Commercial Banking

Commercial Banking ("CB") delivers extensive industry knowledge, local expertise and dedicated service to more than 24,000 clients nationally, including corporations, municipalities, financial institutions and not-for-profit entities with annual revenue generally ranging from $10 million to $2 billion, and nearly 35,000 real estate investors/owners. CB partners with the Firm's other businesses to provide comprehensive solutions, 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 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 $1.9 trillion, is a global leader in investment and wealth management. AM clients include institutions, retail investors and high-net-worth individuals in every major market throughout the world. AM offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity products, including money-market instruments and bank deposits. AM also provides trust and estate, banking and brokerage services to high-net-worth clients, and retirement services for corporations and individuals. The majority of AM's client assets are in actively managed portfolios.

EXECUTIVE OVERVIEW

This executive overview of the MD&A highlights selected information and may not contain all of the information that is important to readers of this Annual Report. 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 Annual Report should be read in its entirety.

Economic environment

The global economy lost some momentum during 2011 in the face of several new threats, some transitory and some more deeply entrenched. In the first half of the year, the earthquake and tsunami in Japan represented a significant setback to that country's important economy and probably disrupted activity elsewhere in the world as well, particularly in the global motor vehicle sector. Later in the year, severe floods in Thailand also disrupted motor vehicle supply chains. Furthermore, a sharp rise in oil prices in the spring in the wake of political unrest in the Middle East slowed consumer demand.

Although many of these shocks eased later in the year, Europe's financial crisis posed a new threat. Concerns about sovereign debt in Greece and other Eurozone countries, which raised doubts in the investor community about the viability of the European monetary union, as well as the sovereign debt exposures of the European banking system, were a source of stress in the global financial markets during the second half of 2011. In December 2011, the European Central Bank ("ECB") announced measures to support bank lending and money market activity, offering 36-month, 1 percent loans through two longer-term refinancing operations, known as LTROs. These programs replaced a 12-month lending facility established by the ECB in October 2011 and also allowed banks to use a wider variety of assets as collateral for the loans. The ECB's actions were expected to ease near-term concerns about European bank funding and liquidity.

Despite these headwinds, there were a number of promising developments in the U.S. during 2011. The credit environment improved as consumer and wholesale delinquencies decreased and lending for a broad range of purposes accelerated. Housing prices continued to be largely unchanged and rose in the non-distressed sector, while home builders continued to make good progress working off the excess housing inventory that was built in the last decade. Despite the turmoil in the summer months associated with the debt ceiling crisis and a worsening of the crisis in Europe, the U.S. job market continued to improve, with layoffs easing, employment expanding steadily, and unemployment falling. At the same time the financial health of the business sector, which was already strong, continued to improve. Reflecting these favorable trends, the equity market recovered from the late summer drop.

The Board of Governors of the Federal Reserve System (the "Federal Reserve") took several actions during 2011 to support a stronger economic recovery and to help support conditions in mortgage markets. These actions included extending the average maturity of its holdings of securities, reinvesting principal payments from its holdings of agency debt and U.S. government agency mortgage-backed securities into other agency mortgage-backed securities and maintaining its existing policy of rolling over maturing U.S. Department of the Treasury ("U.S. Treasury") securities at auction. The Federal Reserve maintained the target range for the federal funds rate at zero to one-quarter percent and, in January 2012, provided specific guidance regarding its prediction about policy rates, stating that economic conditions were likely to warrant exceptionally low levels for the federal funds rate at least through late 2014. Also, the Federal Reserve reactivated currency swap lines with the ECB in response to pressures in interbank term funding markets.

Financial performance of JPMorgan Chase

Year ended December 31, (in millions, except per share data and ratios)	**2011**	2010	Change
Selected income statement data			
Total net revenue	**$ 97,234**	$ 102,694	(5)%
Total noninterest expense	**62,911**	61,196	3
Pre-provision profit	**34,323**	41,498	(17)
Provision for credit losses	**7,574**	16,639	(54)
Net income	**18,976**	17,370	9
Diluted earnings per share	**4.48**	3.96	13
Return on common equity	**11%**	10%	
Capital ratios			
Tier 1 capital	**12.3**	12.1	
Tier 1 common	**10.1**	9.8	

Business overview

JPMorgan Chase reported full-year 2011 record net income of $19.0 billion, or $4.48 per share, on net revenue of $97.2 billion. Net income increased by $1.6 billion, or 9%, compared with net income of $17.4 billion, or $3.96 per share, in 2010. ROE for the year was 11%, compared with 10% for the prior year.

The increase in net income in 2011 was driven by a lower provision for credit losses, predominantly offset by lower net revenue and higher noninterest expense. The reduction in the provision for credit losses reflected continued improvement in the consumer portfolios. The decline in net revenue from 2010 was driven by lower net interest income, securities gains, mortgage fees and related income, and principal transactions revenue, partially offset by higher asset management, administration and commissions revenue and higher other income. The increase in noninterest expense was driven largely by higher compensation expense, reflecting increased headcount.

During 2011, the credit quality of the Firm's wholesale credit portfolio improved. The delinquency trends in the consumer business modestly improved, though the rate of improvement seen earlier in 2011 slowed somewhat in the latter half of the year. Mortgage net charge-offs and delinquencies modestly improved, but both remained at elevated levels. These positive consumer credit trends resulted in reductions in the allowance for loan losses in Card Services & Auto and in Retail Financial Services (excluding purchased credit-impaired loans). The allowance for loan losses associated with the Washington Mutual purchased credit-impaired loan portfolio in Retail Financial Services increased, reflecting higher than expected loss frequency relative to modeled lifetime loss estimates. Firmwide, net charge-offs were $12.2 billion for the year, down $11.4 billion, or 48%, from 2010, and nonperforming assets at year-end were $11.0 billion, down $5.5 billion, or 33%. Total firmwide credit reserves were $28.3 billion, resulting in a loan loss coverage ratio of 3.35% of total loans, excluding the purchased credit-impaired portfolio.

Net income performance varied among JPMorgan Chase's lines of business, but underlying metrics in each business showed positive trends. The second half of 2011 reflected a challenging investment banking and capital markets environment which contributed to lower revenue for the year in the Investment Bank (excluding debit valuation adjustment ("DVA") gains). However, the Investment Bank maintained its #1 ranking in Global Investment Banking Fees for the year. Consumer & Business Banking within Retail Financial Services opened 260 new branches and increased deposits by 8% in 2011. In the Card business, credit card sales volume (excluding Commercial Card) was up 10% for the year. Treasury & Securities Services reported record average liability balances, up 28% for 2011, and a 73% increase in trade loans. Commercial Banking also reported record average liability balances, up 26% for the year, and record revenue and net income for the year. The fourth quarter of 2011 also marked CB's sixth consecutive quarter of loan growth, including a 17% increase in middle-market loans over the prior year end. Asset Management reported record revenue for the year and achieved eleven consecutive quarters of positive long-term flows into assets under management.

JPMorgan Chase ended the year with a Basel I Tier 1 common ratio of 10.1%, compared with 9.8% at year-end 2010. This strong capital position enabled the Firm to repurchase $8.95 billion of common stock and warrants during 2011. The Firm estimated that its Basel III Tier 1 common ratio was approximately 7.9% at December 31, 2011. Total deposits increased to $1.1 trillion, up 21% from the prior year. Total stockholders' equity at December 31, 2011, was $183.6 billion. 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 119–123 of this Annual Report.

During 2011, the Firm worked to help its individual customers, corporate clients and the communities in which it does business. The Firm provided credit to and raised capital of more than $1.8 trillion for its clients during 2011, up 18% from 2010; this included $17 billion lent to small businesses, up 52%, and $68 billion to more than 1,200 not-for-profit and government entities, including states, municipalities, hospitals and universities. The Firm also originated more than 765,000 mortgages, and provided credit cards to approximately 8.5 million people. The Firm remains committed to helping homeowners and preventing foreclosures. Since the beginning of 2009, the Firm has offered more than 1.2 million mortgage modifications, of which approximately 452,000 have achieved permanent modification as of December 31, 2011.

The discussion that follows highlights the performance of each business segment compared with the prior year and presents results on a managed basis. Managed basis starts with the reported results under the accounting principles generally accepted in the United States of America ("U.S. GAAP") and, for each line of business and the Firm as a whole, includes certain reclassifications to present total net revenue on a tax-equivalent basis. Prior to January 1, 2010, the Firm's managed-basis presentation also included certain reclassification adjustments that assumed credit card loans securitized by Card remained on the Consolidated Balance Sheets. For more information about managed basis, as well as other non-GAAP financial measures used by management to evaluate the performance of each line of business, see pages 76–78 of this Annual Report.

Investment Bank net income increased modestly from the prior year as lower noninterest expense was predominantly offset by a lower benefit from the provision for credit losses. Net revenue for the year was approximately flat compared with 2010 and included a $1.4 billion gain from DVA on certain structured and derivative liabilities, compared with a DVA gain of $509 million in 2010. In 2011, this was partially offset by a $769 million loss, net of hedges, from credit valuation adjustments ("CVA") on derivative assets within Credit Portfolio, due to the widening of credit spreads for the Firm's counterparties. In 2010, net revenue was partially offset by a $403 million loss, net of hedges, from CVA. Fixed Income and Equity Markets revenue increased compared with the prior year partially due to the DVA gain. In addition, results in Fixed Income and Equity Markets reflected solid client revenue across most products. Investment banking fees decreased for the year as the impact of lower volumes in the second half of 2011 more than offset the strong level of fees reported in the first half of the year. The decrease in noninterest expense from the prior-year level was largely driven by lower compensation expense and the absence of

the U.K. Bank Payroll Tax. Return on equity for the year was 17% on $40.0 billion of average allocated capital.

Retail Financial Services net income decreased modestly compared with the prior year driven by higher noninterest expense and lower net revenue, predominantly offset by a lower provision for credit losses. The decline in net revenue was driven by lower mortgage fees and related income and lower net interest income, which reflected the impact of lower loan balances due to portfolio runoff, and narrower loan spreads. Higher investment sales revenue and deposit-related fees partially offset the decline in revenue. A modest improvement in delinquency trends and a decline in net charge-offs compared with 2010 resulted in the lower provision for credit losses; however, the provision continued to reflect elevated losses in the mortgage and home equity portfolios. Additionally, the provision for credit losses in 2011 reflected a lower addition to the allowance for loan losses for the purchased credit-impaired portfolio compared with the prior year. The increase in noninterest expense from the prior year was driven by investment in sales force and new branch builds as well as elevated foreclosure- and default-related costs, including $1.7 billion of expense for fees and assessments, as well as other costs of foreclosure-related matters. Return on equity for the year was 7% on $25.0 billion of average allocated capital.

Card Services & Auto net income increased in 2011 compared with the prior year driven by a lower provision for credit losses partially offset by lower net revenue and higher noninterest expense. The decrease in net revenue was driven by a decline in net interest income, reflecting lower average loan balances, the impact of legislative changes and a decreased level of fees. These decreases were largely offset by lower revenue reversals associated with lower net charge-offs. Credit card sales volume, excluding the Commercial Card portfolio, was up 10% from 2010. The lower provision for credit losses reflected lower net charge-offs partially offset by a lower reduction in the allowance for loan losses. The increase in noninterest expense was due to higher marketing expense and the inclusion of the Commercial Card business. Return on equity for the year was 28% on $16.0 billion of average allocated capital.

Commercial Banking reported record net revenue and net income for the second consecutive year. The increase in revenue was driven by higher net interest income resulting from growth in liability and loan balances, partially offset by spread compression on liability products. Average liability balances reached a record level in 2011, up 26% from 2010. End-of-period loan balances increased in each quarter of 2011 and were up 13% from year-end 2010. The provision for credit losses declined compared with the prior year. Noninterest expense increased from the level in 2010, primarily reflecting higher headcount-related expense. Return on equity for the year was 30% on $8.0 billion of average allocated capital.

Treasury & Securities Services net income increased from the prior year, driven by higher net revenue reflecting record deposit balances and a benefit from the Global Corporate Bank ("GCB") credit allocation, predominantly offset by higher noninterest expense. Worldwide Securities Services net revenue increased compared to 2010, driven by higher net interest income due to higher deposit balances and net inflows of assets under custody. Assets under custody of $16.9 trillion were up 5% from 2010. Treasury Services net revenue increased, driven by higher deposit balances and higher trade loan volumes, partially offset by the transfer of the Commercial Card business to Card in the first quarter of 2011. Higher noninterest expense was mainly driven by continued expansion into new markets and expenses related to exiting unprofitable business, partially offset by the transfer of the Commercial Card business to Card. Return on equity for the year was 17% on $7.0 billion of average allocated capital.

Asset Management net income decreased, reflecting higher noninterest expense, largely offset by record net revenue. The growth in net revenue was due to net inflows to products with higher margins, higher deposit and loan balances, and the effect of higher average market levels. This growth was partially offset by lower performance fees, narrower deposit spreads and lower loan-related revenue. Assets under supervision of $1.9 trillion increased 4% from the prior year, and assets under management of $1.3 trillion were up 3%. Both increases were due to net inflows to long-term and liquidity products, partially offset by the effect of lower market levels. In addition, deposit and custody inflows contributed to the increase in assets under supervision. The increase in noninterest expense was due to higher headcount-related expense and non-client-related litigation, partially offset by lower performance-based compensation. Return on equity for the year was 25% on $6.5 billion of average allocated capital.

Corporate/Private Equity net income decreased in 2011 as income in both Private Equity and Corporate declined. Lower private equity gains were primarily the result of net write-downs on privately-held investments and the absence of prior-year gains from sales in the Private Equity portfolio. In Corporate, lower net interest income was primarily driven by repositioning of the investment securities portfolio and lower funding benefits from financing portfolio positions. Lower securities gains also drove the decline in net income. In 2011, noninterest expense included $3.2 billion of litigation expense, predominantly for mortgage-related matters, compared with $5.7 billion of litigation expense in 2010.

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 175 and Risk Factors section of the 2011 Form 10-K.

JPMorgan Chase's outlook for the full-year 2012 should be viewed against the backdrop of the global and U.S. economies, financial markets activity, the geopolitical environment, the competitive environment, client activity levels, and regulatory and legislative developments in the U.S. and other countries where the Firm does business. Each of these linked factors will affect the performance of the Firm and its lines of business.

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

In the Mortgage Production and Servicing business within RFS, revenue in 2012 could be negatively affected by continued elevated levels of repurchases of mortgages previously sold, predominantly to U.S. government-sponsored entities ("GSEs"). Management estimates that realized mortgage repurchase losses could be approximately $350 million per quarter in 2012. Also for Mortgage Production and Servicing, management expects the business to continue to incur elevated default management and foreclosure-related costs including additional costs associated with the Firm's mortgage servicing processes, particularly its loan modification and foreclosure procedures. (See Enhancements to Mortgage Servicing on pages 152-153 and Note 17 on pages 267–271 of this Annual Report.)

For the Real Estate Portfolios within RFS, management believes that quarterly net charge-offs could be approximately $900 million. Given management's current estimate of portfolio runoff levels, the existing residential real estate portfolio is expected to decline by approximately 10% to 15% in 2012 from year-end 2011 levels. This reduction in the residential real estate portfolio is expected to reduce net interest income by approximately $500 million in 2012. However, over time, the reduction in net interest income is expected to be more than offset by an improvement in credit costs and lower expenses. In addition, as the portfolio continues to run off, management anticipates that approximately $1 billion of capital may become available for redeployment each year, subject to the capital requirements associated with the remaining portfolio.

In Card, the net charge-off rate for the combined Chase and Washington Mutual credit card portfolios (excluding Commercial Card) could increase in the first quarter of 2012 to approximately 4.50% from the 4.33% reported in the fourth quarter, reflecting normal seasonality.

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

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

In Private Equity, within the Corporate/Private Equity segment, earnings will likely continue to be volatile and be influenced by capital markets activity, market levels, the performance of the broader economy and investment-specific issues. Corporate's net interest income levels will generally trend with the size and duration of the investment securities portfolio. Corporate quarterly net income (excluding Private Equity results, significant nonrecurring items and litigation expense) could be approximately $200 million, though these results will depend on the decisions that the Firm makes over the course of the year with respect to repositioning of the investment securities portfolio.

The Firm faces a variety of litigation, including in its various roles as issuer and/or underwriter in mortgage-backed securities ("MBS") offerings, primarily related to offerings involving third parties other than the GSEs. It is possible that these matters will take a number of years to resolve; their ultimate resolution is inherently uncertain and reserves for such litigation matters may need to be increased in the future.

Management and the Firm's Board of Directors continually evaluate ways to deploy the Firm's strong capital base in order to enhance shareholder value. Such alternatives could include the repurchase of common stock and warrants, increasing the common stock dividend and pursuing alternative investment opportunities. Certain of such capital actions, such as increasing dividends, implementing common equity repurchase programs, or redeeming or repurchasing capital instruments, are subject to the Federal Reserve's Comprehensive Capital Analysis and Review ("CCAR") process. The Federal Reserve requires the Firm to submit a capital plan on an annual basis. The Firm submitted its 2012 capital plan on January 9, 2012. The Federal Reserve has indicated that it expects to provide notification of either its objection or non-objection to the Firm's capital plan by March 15, 2012.

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 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. While the Firm has made a preliminary assessment of the likely impact of certain of the anticipated changes, the Firm cannot, given the current status of the regulatory developments, quantify the possible effects on its business and operations of all of the significant changes that are currently underway. For further discussion of regulatory developments, see Supervision and regulation on pages 1-7 and Risk factors on pages 7-17 of the 2011 Form 10-K.

Subsequent events

Global settlement on servicing and origination of mortgages

On February 9, 2012, the Firm announced that it agreed to a settlement in principle (the "global settlement") with a number of federal and state government agencies, relating to the servicing and origination of mortgages. The global settlement, which is subject to the execution of a definitive agreement and court approval, calls for the Firm to, among other things: (i) make cash payments of approximately $1.1 billion; (ii) provide approximately $500 million of refinancing relief to certain "underwater" borrowers whose loans are owned by the Firm; and (iii) provide approximately $3.7 billion of additional relief for certain borrowers, including reductions of principal, payments to assist with short sales, deficiency balance waivers on past foreclosures and short sales, and forbearance assistance for unemployed homeowners. While the Firm expects to incur additional operating costs to comply with portions of the global settlement, the Firm's prior period results of operations have reflected the estimated costs of the global settlement. Accordingly, the Firm expects that the financial impact of the global settlement on the Firm's financial condition and results of operations for the first quarter of 2012 and future periods will not be material. For further information on this settlement, see "Subsequent events" in Note 2, and "Mortgage Foreclosure Investigations and Litigation" in Note 31 on pages 183–184 and 295–296, respectively, of this Annual Report.

Washington Mutual, Inc. bankruptcy plan confirmation

On February 17, 2012, a bankruptcy court confirmed the joint plan containing the global settlement agreement resolving numerous disputes among Washington Mutual, Inc. ("WMI"), JPMorgan Chase and the Federal Deposit Insurance Corporation ("FDIC") as well as significant creditor groups (the "WaMu Global Settlement"). Pursuant to this agreement, the Firm expects to recognize additional assets, including certain pension-related assets, as well as tax refunds, in future periods as the settlement is executed and various state and federal tax matters are resolved. For additional information related to the WaMu Global Settlement, see "Subsequent events" in Note 2, and "Washington Mutual Litigations" in Note 31 on page 183-184 and 298, respectively, of this Annual Report.

The following section provides a comparative discussion of JPMorgan Chase's Consolidated Results of Operations on a reported basis for the three-year period ended December 31, 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 168–172 of this Annual Report.

Revenue

Year ended December 31, (in millions)	2011	2010	2009
Investment banking fees	$ 5,911	$ 6,190	$ 7,087
Principal transactions	10,005	10,894	9,796
Lending- and deposit-related fees	6,458	6,340	7,045
Asset management, administration and commissions	14,094	13,499	12,540
Securities gains	1,593	2,965	1,110
Mortgage fees and related income	2,721	3,870	3,678
Credit card income	6,158	5,891	7,110
Other income	2,605	2,044	916
Noninterest revenue	49,545	51,693	49,282
Net interest income	47,689	51,001	51,152
Total net revenue	$ 97,234	$ 102,694	$ 100,434

2011 compared with 2010

Total net revenue for 2011 was $97.2 billion, a decrease of $5.5 billion, or 5%, from 2010. Results for 2011 were driven by lower net interest income in several businesses, lower securities gains in Corporate/Private Equity, lower mortgage fees and related income in RFS, and lower principal transactions revenue in Corporate/Private Equity. These declines were partially offset by higher asset management fees, largely in AM.

Investment banking fees decreased from 2010, predominantly due to declines in equity and debt underwriting fees. The impact from lower industry-wide volumes in the second half of 2011 more than offset the Firm's record level of debt underwriting fees in the first six months of the year. Advisory fees increased for the year, reflecting higher industry-wide completed M&A volumes relative to the 2010 level. For additional information on investment banking fees, which are primarily recorded in IB, see IB segment results on pages 81–84, and Note 7 on pages 211–212 of this Annual Report.

Principal transactions revenue, which consists of revenue from the Firm's market-making and private equity investing activities, decreased compared with 2010. This was driven by lower trading revenue and lower private equity gains. Trading revenue included a $1.4 billion gain from DVA on certain structured notes and derivative liabilities, resulting from the widening of the Firm's credit spreads, partially offset by a $769 million loss, net of hedges, from CVA on derivative assets within Credit Portfolio in IB, due to the widening of credit spreads of the Firm's counterparties. The prior year included a $509 million gain from DVA, partially offset by a $403 million loss, net of hedges, from CVA. Excluding DVA and CVA, lower trading revenue reflected the impact of the second half of 2011's challenging market conditions on Corporate and IB. Lower private equity gains were primarily due to net write-downs on privately-held investments and the absence of prior-year gains from sales in the Private Equity portfolio. For additional information on principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 81–84 and 107–108, respectively, and Note 7 on pages 211–212 of this Annual Report.

Lending- and deposit-related fees increased modestly in 2011 compared with the prior year. The increase was primarily driven by the introduction in the first quarter of 2011 of a new checking account product offering in RFS, and the subsequent conversion of certain existing accounts into the new product. The increase was offset partly by the impact of regulatory and policy changes affecting nonsufficient fund/overdraft fees in RFS. For additional information on lending- and deposit-related fees, which are mostly recorded in RFS, CB, TSS and IB, see RFS on pages 85–93, CB on pages 98–100, TSS on pages 101–103 and IB on pages 81–84 of this Annual Report.

Asset management, administration and commissions revenue increased from 2010, reflecting higher asset management fees in AM and RFS, driven by net inflows to products with higher margins and the effect of higher market levels; and higher administration fees in TSS, reflecting net inflows of assets under custody. For additional information on these fees and commissions, see the segment discussions for AM on pages 104–106, RFS on pages 85–93 and TSS on pages 101–103, and Note 7 on pages 211–212 of this Annual Report.

Securities gains decreased compared with the 2010 level, primarily due to the repositioning of the investment securities portfolio in response to changes in the current market environment and to rebalancing exposures. For additional information on securities gains, which are mostly recorded in the Firm's Corporate/Private Equity segment, see the Corporate/Private Equity segment discussion on pages 107–108, and Note 12 on pages 225–230 of this Annual Report.

Mortgage fees and related income decreased in 2011 compared with 2010, reflecting a MSR risk management loss of $1.6 billion for 2011, compared with income of $1.1 billion for 2010, largely offset by lower repurchase losses in 2011. The $1.6 billion loss was driven by a $7.1 billion loss due to a decrease in the fair value of the mortgage servicing rights ("MSRs") asset, which was predominantly offset by a $5.6 billion gain on the derivatives used to hedge the MSR asset. For additional information on

mortgage fees and related income, which is recorded primarily in RFS, see RFS's Mortgage Production and Servicing discussion on pages 89–91, and Note 17 on pages 267–271 of this Annual Report. For additional information on repurchase losses, see the Mortgage repurchase liability discussion on pages 115–118 and Note 29 on pages 283–289 of this Annual Report.

Credit card income increased during 2011, largely reflecting higher net interchange income associated with higher customer transaction volume on credit and debit cards, as well as lower partner revenue-sharing due to the impact of the Kohl's portfolio sale. These increases were partially offset by lower revenue from fee-based products, as well as the impact of the Durbin Amendment. For additional information on credit card income, see the Card and RFS segment results on pages 94–97, and pages 85–93, respectively, of this Annual Report.

Other income increased in 2011, driven by valuation adjustments on certain assets and incremental revenue from recent acquisitions in IB, and higher auto operating lease income in Card, resulting from growth in lease volume. Also contributing to the increase was a gain on the sale of an investment in AM.

Net interest income decreased in 2011 compared with the prior year, driven by lower average loan balances and yields in Card and RFS, reflecting the expected runoff of credit card balances and residential real estate loans; lower fees on credit card receivables, reflecting the impact of legislative changes; higher average interest-bearing deposit balances and related yields; and lower yields on securities, reflecting portfolio repositioning in anticipation of an increasing interest rate environment. The decrease was offset partially by lower revenue reversals associated with lower credit card charge-offs, and higher trading asset balances. The Firm's average interest-earning assets were $1.8 trillion for the 2011 full year, and the net yield on those assets, on a fully taxable-equivalent (“FTE”) basis, was 2.74%, a decrease of 32 basis points from 2010. For further information on the impact of the legislative changes on the Consolidated Statements of Income, see Card discussion on credit card legislation on page 94 of this Annual Report.

2010 compared with 2009

Total net revenue for 2010 was $102.7 billion, up by $2.3 billion, or 2%, from 2009. Results for 2010 were driven by a higher level of securities gains and private equity gains in Corporate/Private Equity, higher asset management fees in AM and administration fees in TSS, and higher other income in several businesses, partially offset by lower credit card income.

Investment banking fees decreased from 2009 due to lower equity underwriting and advisory fees, partially offset by higher debt underwriting fees. Competitive markets combined with flat industry-wide equity underwriting and completed M&A volumes, resulted in lower equity underwriting and advisory fees; while strong industry-wide loan syndication and high-yield bond volumes drove record debt underwriting fees in IB. For additional information on investment banking fees, which are primarily recorded in IB, see IB segment results on pages 81–84, and Note 7 on pages 211–212 of this Annual Report.

Principal transactions revenue increased compared with 2009. This was driven by the Private Equity business, which had significant private equity gains in 2010, compared with a small loss in 2009, reflecting improvements in market conditions. Trading revenue decreased, reflecting lower results in Corporate, offset by higher revenue in IB primarily reflecting DVA gains. For additional information on principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 81–84 and 107–108, respectively, and Note 7 on pages 211–212 of this Annual Report.

Lending- and deposit-related fees decreased in 2010 from 2009 levels, reflecting lower deposit-related fees in RFS associated, in part, with newly-enacted legislation related to non-sufficient funds and overdraft fees; this was partially offset by higher lending-related service fees in IB, primarily from growth in business volume, and in CB, primarily from higher commitment and letter-of-credit fees. For additional information on lending- and deposit-related fees, which are mostly recorded in IB, RFS, CB and TSS, see segment results for IB on pages 81–84, RFS on pages 85–93, CB on pages 98–100 and TSS on pages 101–103 of this Annual Report.

Asset management, administration and commissions revenue increased from 2009. The increase largely reflected higher asset management fees in AM, driven by the effect of higher market levels, net inflows to products with higher margins and higher performance fees; and higher administration fees in TSS, reflecting the effects of higher market levels and net inflows of assets under custody. This increase was partially offset by lower brokerage commissions in IB, as a result of lower market volumes. For additional information on these fees and commissions, see the segment discussions for AM on pages 104–106 and TSS on pages 101–103, and Note 7 on pages 211–212 of this Annual Report.

Securities gains were significantly higher in 2010 compared with 2009, resulting primarily from the repositioning of the portfolio in response to changes in the interest rate environment and to rebalance exposure. For additional information on securities gains, which are mostly recorded in the Firm's Corporate segment, see the Corporate/Private Equity segment discussion on pages 107–108, and Note 12 on pages 225–230 of this Annual Report.

Mortgage fees and related income increased in 2010 compared with 2009, driven by higher mortgage production revenue, reflecting increased mortgage origination volumes in RFS and AM, and wider margins, particularly in RFS. This increase was largely offset by higher repurchase losses in RFS (recorded as contra-revenue), which were attributable to higher estimated losses related to repurchase demands, predominantly from

GSEs. For additional information on mortgage fees and related income, which is recorded primarily in RFS, see RFS's Mortgage Production and Servicing discussion on pages 89–91, and Note 17 on pages 267–271 of this Annual Report. For additional information on repurchase losses, see the mortgage repurchase liability discussion on pages 115–118 and Note 30 on page 289 of this Annual Report.

Credit card income decreased during 2010, predominantly due to the impact of the accounting guidance related to VIEs, effective January 1, 2010, that required the Firm to consolidate the assets and liabilities of its Firm-sponsored credit card securitization trusts. Adoption of this guidance resulted in the elimination of all servicing fees received from Firm-sponsored credit card securitization trusts, which was offset by related increases in net interest income and provision for credit losses. Lower income from other fee-based products also contributed to the decrease in credit card income. Excluding the impact of the adoption of the accounting guidance, credit card income increased in 2010, reflecting higher customer charge volume on credit and debit cards. For a more detailed discussion of the impact of the adoption of the accounting guidance on the Consolidated Statements of Income, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 76–78 of this Annual Report. For additional information on credit card income, see the Card and RFS segment results on pages 94–97, and pages 85–93, respectively, of this Annual Report.

Other income increased in 2010, largely due to the write-down of securitization interests during 2009 and higher auto operating lease income in Card.

Net interest income was relatively flat in 2010 compared with 2009. The effect of lower loan balances was predominantly offset by the effect of the adoption of the new accounting guidance related to VIEs (which increased net interest income by approximately $5.8 billion in 2010). Excluding the impact of the adoption of the new accounting guidance, net interest income decreased, driven by lower average loan balances, primarily in Card, RFS and IB, reflecting the continued runoff of the credit card balances and residential real estate loans, and net repayments and loan sales; lower yields and fees on credit card receivables, reflecting the impact of legislative changes; and lower yields on securities in Corporate resulting from investment portfolio repositioning. The Firm's average interest-earning assets were $1.7 trillion in 2010, and the net yield on those assets, on a FTE basis, was 3.06%, a decrease of 6 basis points from 2009. For a more detailed discussion of the impact of the adoption of the new accounting guidance related to VIEs on the Consolidated Statements of Income, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 76–78 of this Annual Report. For further information on the impact of the legislative changes on the Consolidated Statements of Income, see Card discussion on credit card legislation on page 94 of this Annual Report.

Provision for credit losses

Year ended December 31, (in millions)	**2011**	2010	2009
Wholesale	**$ (23)**	$ (850)	$ 3,974
Consumer, excluding credit card	**4,672**	9,452	16,022
Credit card	**2,925**	8,037	12,019
Total consumer	**7,597**	17,489	28,041
Total provision for credit losses	**$ 7,574**	$ 16,639	$ 32,015

2011 compared with 2010

The provision for credit losses declined by $9.1 billion compared with 2010. The consumer, excluding credit card, provision was down, reflecting improved delinquency and charge-off trends across most portfolios, partially offset by an increase of $770 million, reflecting additional impairment of the Washington Mutual PCI loans portfolio. The credit card provision was down, driven primarily by improved delinquency trends and net credit losses. The benefit from the wholesale provision was lower in 2011 than in 2010, primarily reflecting loan growth and other portfolio activity. For a more detailed discussion of the loan portfolio and the allowance for credit losses, see the segment discussions for RFS on pages 85–93, Card on pages 94–97, IB on pages 81–84 and CB on pages 98–100, and the Allowance for credit losses section on pages 155–157 of this Annual Report.

2010 compared with 2009

The provision for credit losses declined by $15.4 billion compared with 2009, due to decreases in both the consumer and wholesale provisions. The decreases in the consumer provisions reflected reductions in the allowance for credit losses for mortgages and credit cards as a result of improved delinquency trends and lower estimated losses. This was partially offset by an increase in the allowance for credit losses associated with the Washington Mutual PCI loans portfolio, resulting from increased estimated future credit losses. The decrease in the wholesale provision in 2010 reflected a reduction in the allowance for credit losses, predominantly as a result of continued improvement in the credit quality of the commercial and industrial loan portfolio, reduced net charge-offs, and net repayments and loan sales. For a more detailed discussion of the loan portfolio and the allowance for credit losses, see the segment discussions for RFS on pages 85–93, Card on pages 94–97, IB on pages 81–84 and CB on pages 98–100, and the Allowance for Credit Losses section on pages 155–157 of this Annual Report.

Noninterest expense

Year ended December 31, (in millions)	2011	2010	2009
Compensation expense	**$ 29,037**	$ 28,124	$ 26,928
Noncompensation expense:			
Occupancy	**3,895**	3,681	3,666
Technology, communications and equipment	**4,947**	4,684	4,624
Professional and outside services	**7,482**	6,767	6,232
Marketing	**3,143**	2,446	1,777
Other[(a)(b)]	**13,559**	14,558	7,594
Amortization of intangibles	**848**	936	1,050
Total noncompensation expense	**33,874**	33,072	24,943
Merger costs	**–**	–	481
Total noninterest expense	**$ 62,911**	$ 61,196	$ 52,352

(a) Included litigation expense of $4.9 billion, $7.4 billion and $161 million for the years ended December 31, 2011, 2010 and 2009, respectively.
(b) Included foreclosed property expense of $718 million, $1.0 billion and $1.4 billion for the years ended December 31, 2011, 2010 and 2009, respectively.

2011 compared with 2010

Total noninterest expense for 2011 was $62.9 billion, up by $1.7 billion, or 3%, from 2010. The increase was driven by higher compensation expense and noncompensation expense.

Compensation expense increased from the prior year, due to investments in branch and mortgage production sales and support staff in RFS and increased headcount in AM, largely offset by lower performance-based compensation expense and the absence of the 2010 U.K. Bank Payroll Tax in IB.

The increase in noncompensation expense in 2011 was due to elevated foreclosure- and default-related costs in RFS, including $1.7 billion of expense for fees and assessments, as well as other costs of foreclosure-related matters, higher marketing expense in Card, higher FDIC assessments across businesses, non-client-related litigation expense in AM, and the impact of continued investments in the businesses, including new branches in RFS. These were offset partially by lower litigation expense in 2011 in Corporate and IB. Effective April 1, 2011, the FDIC changed its methodology for calculating the deposit insurance assessment rate for large banks. The new rule changed the assessment base from insured deposits to average consolidated total assets less average tangible equity, and changed the assessment rate calculation. For a further discussion of litigation expense, see Note 31 on pages 290–299 of this Annual Report. For a discussion of amortization of intangibles, refer to the Balance Sheet Analysis on pages 110–112, and Note 17 on pages 267–271 of this Annual Report.

2010 compared with 2009

Total noninterest expense for 2010 was $61.2 billion, up by $8.8 billion, or 17%, from 2009. The increase was driven by higher noncompensation expense, largely due to higher litigation expense, and the effect of investments in the businesses.

Compensation expense increased from the prior year, predominantly due to higher salary expense related to investments in the businesses, including additional sales staff in RFS and client advisors in AM, and the impact of the U.K. Bank Payroll Tax.

In addition to the aforementioned higher litigation expense, which was largely for mortgage-related matters in Corporate and IB, the increase in noncompensation expense was driven by higher marketing expense in Card; higher professional services expense, due to continued investments in new product platforms in the businesses, including those related to international expansion; higher default-related expense, including costs associated with foreclosure affidavit-related suspensions (recorded in other expense), for the serviced portfolio in RFS; and higher brokerage, clearing and exchange transaction processing expense in IB. Partially offsetting these increases was the absence of a $675 million FDIC special assessment recognized in 2009. For a further discussion of litigation expense, see Note 31 pages 290–299 of this Annual Report. For a discussion of amortization of intangibles, refer to Note 17 on pages 267–271 of this Annual Report.

There were no merger costs recorded in 2010, compared with merger costs of $481 million in 2009. For additional information on merger costs, refer to Note 11 on page 224 of this Annual Report.

Income tax expense

Year ended December 31, (in millions, except rate)	2011	2010	2009
Income before income tax expense and extraordinary gain	**$ 26,749**	$ 24,859	$ 16,067
Income tax expense	**7,773**	7,489	4,415
Effective tax rate	**29.1%**	30.1%	27.5%

2011 compared with 2010

The decrease in the effective tax rate compared with the prior year was predominantly the result of tax benefits associated with state and local income taxes. This was partially offset by higher reported pretax income and changes in the proportion of income subject to U.S. federal tax. In addition, the current year included tax benefits associated with the disposition of certain investments; the prior year included tax benefits associated with the resolution of tax audits. For additional information on income taxes, see Critical Accounting Estimates Used by the Firm on pages 168–172 and Note 26 on pages 279–281 of this Annual Report.

2010 compared with 2009

The increase in the effective tax rate compared with the prior year was predominantly the result of higher reported pretax book income, as well as changes in the proportion of income subject to U.S. federal and state and local taxes. These increases were partially offset by increased benefits associated with the undistributed earnings of certain non-U.S. subsidiaries that were deemed to be reinvested indefinitely, as well as tax benefits recognized upon the resolution of tax audits in 2010. For additional information on income taxes, see Critical Accounting Estimates Used by the Firm on pages 168–172 and Note 26 on pages 279–281 of this Annual Report.

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

The Firm prepares its consolidated financial statements using U.S. GAAP; these financial statements appear on pages 178–181 of this Annual Report. 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.

Prior to January 1, 2010, the Firm's managed-basis presentation also included certain reclassification adjustments that assumed credit card loans securitized by Card remained on the Consolidated Balance Sheets. Effective January 1, 2010, the Firm adopted accounting guidance that required the Firm to consolidate its Firm-sponsored credit card securitization trusts. As a result of the consolidation of the credit card securitization trusts, reported and managed basis relating to credit card securitizations are equivalent for periods beginning after January 1, 2010. The income, expense and credit costs associated with these securitization activities were recorded in the 2011 and 2010 Consolidated Statements of Income in the same classifications that were previously used to report such items on a managed basis. For additional information on the accounting guidance, see Note 16 on pages 256–267 of this Annual Report.

The presentation in 2009 of Card's results on a managed basis assumed that credit card loans that had been securitized and sold in accordance with U.S. GAAP remained on the Consolidated Balance Sheets, and that the earnings on the securitized loans were classified in the same manner as earnings on retained loans recorded on the Consolidated Balance Sheets. JPMorgan Chase had used this managed-basis information to evaluate the credit performance and overall financial performance of the entire managed credit card portfolio. JPMorgan Chase believed that this managed-basis information was useful to investors, as it enabled them to understand both the credit risks associated with the loans reported on the Consolidated Balance Sheets and the Firm's retained interests in securitized loans. For a reconciliation of 2009 reported to managed basis results for Card, see Card's segment results on pages 94–97 of this Annual Report. For information regarding the securitization process, and loans and residual interests sold and securitized, see Note 16 on pages 256–267 of this Annual Report.

Tangible common equity ("TCE"), a non-GAAP financial measure, represents 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, a non-GAAP financial ratio, measures the Firm's earnings as a percentage of TCE. Tier 1 common under Basel I and III rules, a non-GAAP financial measure, is used by management to assess the Firm's capital position in conjunction with its capital ratios under Basel I and III requirements. For additional information on Tier 1 common under Basel I and III, see Regulatory capital on pages 119–124 of this Annual Report. In management's view, these measures are meaningful to the Firm, as well as analysts and investors, in assessing the Firm's use of equity and in facilitating comparisons with competitors.

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.

Year ended December 31, (in millions, except per share and ratios)	2011			2010			2009			
	Reported Results	Fully tax-equivalent adjustments	Managed basis	Reported Results	Fully tax-equivalent adjustments	Managed basis	Reported Results	Credit card[b]	Fully tax-equivalent adjustments	Managed basis
Revenue										
Investment banking fees	**$ 5,911**	**$ –**	**$ 5,911**	$ 6,190	$ –	$ 6,190	$ 7,087	$ –	$ –	$ 7,087
Principal transactions	**10,005**	**–**	**10,005**	10,894	–	10,894	9,796	–	–	9,796
Lending- and deposit-related fees	**6,458**	**–**	**6,458**	6,340	–	6,340	7,045	–	–	7,045
Asset management, administration and commissions	**14,094**	**–**	**14,094**	13,499	–	13,499	12,540	–	–	12,540
Securities gains	**1,593**	**–**	**1,593**	2,965	–	2,965	1,110	–	–	1,110
Mortgage fees and related income	**2,721**	**–**	**2,721**	3,870	–	3,870	3,678	–	–	3,678
Credit card income	**6,158**	**–**	**6,158**	5,891	–	5,891	7,110	(1,494)	–	5,616
Other income	**2,605**	**2,003**	**4,608**	2,044	1,745	3,789	916	–	1,440	2,356
Noninterest revenue	**49,545**	**2,003**	**51,548**	51,693	1,745	53,438	49,282	(1,494)	1,440	49,228
Net interest income	**47,689**	**530**	**48,219**	51,001	403	51,404	51,152	7,937	330	59,419
Total net revenue	**97,234**	**2,533**	**99,767**	102,694	2,148	104,842	100,434	6,443	1,770	108,647
Noninterest expense	**62,911**	**–**	**62,911**	61,196	–	61,196	52,352	–	–	52,352
Pre-provision profit	**34,323**	**2,533**	**36,856**	41,498	2,148	43,646	48,082	6,443	1,770	56,295
Provision for credit losses	**7,574**	**–**	**7,574**	16,639	–	16,639	32,015	6,443	–	38,458
Income before income tax expense and extraordinary gain	**26,749**	**2,533**	**29,282**	24,859	2,148	27,007	16,067	–	1,770	17,837
Income tax expense	**7,773**	**2,533**	**10,306**	7,489	2,148	9,637	4,415	–	1,770	6,185
Income before extraordinary gain	**18,976**	**–**	**18,976**	17,370	–	17,370	11,652	–	–	11,652
Extraordinary gain	**–**	**–**	**–**	–	–	–	76	–	–	76
Net income	**$ 18,976**	**$ –**	**$ 18,976**	$ 17,370	$ –	$ 17,370	$ 11,728	$ –	$ –	$ 11,728
Diluted earnings per share[a]	**$ 4.48**	**$ –**	**$ 4.48**	$ 3.96	$ –	$ 3.96	$ 2.24	$ –	$ –	$ 2.24
Return on assets[a]	**0.86%**	**NM**	**0.86%**	0.85%	NM	0.85%	0.58%	NM	NM	0.55%
Overhead ratio	**65**	**NM**	**63**	60	NM	58	52	NM	NM	48
Loans – period-end	**$ 723,720**	**$ –**	**$ 723,720**	$ 692,927	$ –	$ 692,927	$ 633,458	$ 84,626	$ –	$ 718,084
Total assets – average	**2,198,198**	**–**	**2,198,198**	2,053,251	–	2,053,251	2,024,201	82,233	–	2,106,434

(a) Based on income before extraordinary gain.

(b) See pages 94–97 of this Annual Report for a discussion of the effect of credit card securitizations on Card's results.

Calculation of certain U.S. GAAP and non-GAAP metrics

The table below reflects the formulas used to calculate both the following U.S. GAAP and non-GAAP measures.

Return on common equity
Net income* / Average common stockholders' equity

Return on tangible common equity[c]
Net income* / Average tangible common equity

Return on assets
Reported net income / Total average assets
Managed net income / Total average managed assets[d]

Overhead ratio
Total noninterest expense / Total net revenue

* Represents net income applicable to common equity

(c) The Firm uses ROTCE, a non-GAAP financial measure, to evaluate its use of equity and to facilitate comparisons with competitors. Refer to the following table for the calculation of average tangible common equity.

(d) The Firm uses return on managed assets, a non-GAAP financial measure, to evaluate the overall performance of the managed credit card portfolio, including securitized credit card loans.

Average tangible common equity

Year ended December 31, (in millions)	**2011**	2010	2009
Common stockholders' equity	**$ 173,266**	$ 161,520	$ 145,903
Less: Goodwill	**48,632**	48,618	48,254
Less: Certain identifiable intangible assets	**3,632**	4,178	5,095
Add: Deferred tax liabilities[a]	**2,635**	2,587	2,547
Tangible common equity	**$ 123,637**	$ 111,311	$ 95,101

(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)]

Year ended December 31, (in millions, except rates)	2011	2010	2009
Net interest income - managed basis	$ **48,219**	$ 51,404	$ 59,419
Impact of market-based net interest income	**7,329**	7,112	8,238
Core net interest income	$ **40,890**	$ 44,292	$ 51,181
Average interest-earning assets - managed basis	$ **1,761,355**	$ 1,677,521	$ 1,735,866
Impact of market-based earning assets	**519,655**	470,927	428,471
Core average interest-earning assets	$ **1,241,700**	$ 1,206,594	$ 1,307,395
Net interest yield on interest-earning assets - managed basis	**2.74%**	3.06%	3.42%
Net interest yield on market-based activity	**1.41**	1.51	1.92
Core net interest yield on interest-earning assets	**3.29%**	3.67%	3.91%

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

2011 compared with 2010

Core net interest income decreased by $3.4 billion to $40.9 billion for 2011. The decrease was primarily driven by lower loan levels and yields in RFS and Card compared with 2010 levels. Core average interest-earning assets increased by $35.1 billion in 2011 to $1,241.7 billion. The increase was driven by higher levels of deposits with banks and securities borrowed due to wholesale and retail client deposit growth. The core net interest yield decreased by 38 basis points in 2011 driven by lower loan yields and higher deposit balances, and lower yields on investment securities due to portfolio mix and lower long-term interest rates.

2010 compared with 2009

Core net interest income decreased by $6.9 billion to $44.3 billion in 2010. The decrease was primarily driven by lower loan levels and yields in RFS, Card and IB compared with 2009 levels. Core average interest-earning assets decreased by $100.8 billion in 2010 to $1,206.6 billion. The decrease was primarily driven by lower loan balances and deposits with banks due to a decline in wholesale and retail deposits. The core net interest yield decreased by 24 basis points in 2010 driven by lower yields on loans and investment securities.

Impact of redemption of TARP preferred stock issued to the U.S. Treasury

The calculation of 2009 net income applicable to common equity included a one-time, noncash reduction of $1.1 billion resulting from the redemption of TARP preferred capital. Excluding this reduction, ROE would have been 7% for 2009. The Firm views adjusted ROE, a non-GAAP financial measure, as meaningful because it enables the comparability to the other periods reported.

Year ended December 31, 2009 (in millions, except ratios)	As reported	Excluding the TARP redemption
Return on equity		
Net income	$ 11,728	$ 11,728
Less: Preferred stock dividends	1,327	1,327
Less: Accelerated amortization from redemption of preferred stock issued to the U.S. Treasury	1,112	–
Net income applicable to common equity	$ 9,289	$ 10,401
Average common stockholders' equity	$ 145,903	$ 145,903
ROE	6%	7%

In addition, the calculation of diluted earnings per share ("EPS") for the year ended December 31, 2009, was also affected by the TARP repayment, as presented below.

Year ended December 31, 2009 (in millions, except per share)	As reported	Effect of TARP redemption
Diluted earnings per share		
Net income	$ 11,728	$ –
Less: Preferred stock dividends	1,327	–
Less: Accelerated amortization from redemption of preferred stock issued to the U.S. Treasury	1,112	1,112
Net income applicable to common equity	9,289	(1,112)
Less: Dividends and undistributed earnings allocated to participating securities	515	(62)
Net income applicable to common stockholders	8,774	(1,050)
Total weighted average diluted shares outstanding	3,879.7	3,879.7
Net income per share	$ 2.26	$ (0.27)

Other financial measures

The Firm also discloses the allowance for loan losses to total retained loans, excluding residential real estate purchased credit-impaired loans. For a further discussion of this credit metric, see Allowance for Credit Losses on pages 155–157 of this Annual Report.

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

The business segments are determined based on the products and services provided, or the type of customer served, and reflect the manner in which financial information is currently evaluated by management. Results of the lines of business are presented on a managed basis. For a definition of managed basis, see Explanation and Reconciliation of the Firm's use of non-GAAP financial measures, on pages 76–78 of this Annual Report.

Business segment changes

Commencing July 1, 2011, the Firm's business segments were reorganized as follows:

Auto and Student Lending transferred from the RFS segment and are reported with Card in a single segment. Retail Financial Services continues as a segment, organized in two components: Consumer & Business Banking (formerly Retail Banking) and Mortgage Banking (which includes Mortgage Production and Servicing, and Real Estate Portfolios).

The business segment information associated with RFS and Card have been revised to reflect the business reorganization retroactive to January 1, 2009.

JPMorgan Chase

Investment Bank	Retail Financial Services	Card Services & Auto	Commercial Banking	Treasury & Securities Services	Asset Management
Businesses:	**Businesses:**	**Businesses:**	**Businesses:**	**Businesses:**	**Businesses:**
•Investment Banking – Advisory – Debt and equity underwriting •Market-making – Fixed income – Commodities – Equities •Prime Services •Research •Corporate Lending •Credit Portfolio Management	•Consumer & Business Banking •Mortgage Production and Servicing •Real Estate Portfolios – Residential mortgage loans – Home equity loans and originations	•Card Services – Credit Card – Merchant Services •Auto •Student	•Middle Market Banking •Commercial Term Lending •Corporate Client Banking •Real Estate Banking	•Treasury Services •Worldwide Securities Services	•Private Banking •Investment Management: – Institutional – Retail •Highbridge

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. The Firm continues to assess the assumptions, methodologies and reporting classifications used for segment reporting, and further refinements may be implemented in future periods.

Revenue sharing

When business segments join efforts to sell products and services to the Firm's clients, the participating business segments agree to share revenue from those transactions. The segment results reflect these revenue-sharing agreements.

Funds transfer pricing

Funds transfer pricing is used to allocate interest income and expense to each business and transfer the primary interest rate risk exposures to the Treasury group within the Corporate/Private Equity business segment. The allocation process is unique to each business segment and considers the interest rate risk, liquidity risk and regulatory requirements of that segment as if it were operating independently, and as compared with its stand-alone peers. This process is overseen by senior management and reviewed by the Firm's Asset-Liability Committee ("ALCO"). Business segments may be permitted to retain certain interest rate exposures subject to management approval.

Capital allocation

Each line of business is allocated an amount of capital the Firm believes the business would require if it were operating independently, incorporating sufficient capital to

address regulatory capital requirements (including Basel III Tier 1 common capital requirements), economic risk measures and capital levels for similarly rated peers. For a further discussion on capital allocation, see Capital Management – Line of business equity on page 123 of this Annual Report.

Expense allocation

Where business segments use services provided by support units within the Firm, the costs of those support units are allocated to the business segments. The expense is allocated based on their actual cost or the lower of actual cost or market, as well as upon usage of the services provided. In contrast, certain other expense related to certain corporate functions, or to certain technology and operations, are not allocated to the business segments and are retained in Corporate. Retained expense includes: parent company costs that would not be incurred if the segments were stand-alone businesses; adjustments to align certain corporate staff, technology and operations allocations with market prices; and other one-time items not aligned with a particular business segment.

Segment Results – Managed Basis

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

Year ended December 31,	Total net revenue			Noninterest expense			Pre-provision profit[b]		
(in millions)	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Investment Bank[a]	**$ 26,274**	$ 26,217	$ 28,109	**$ 16,116**	$ 17,265	$ 15,401	**$ 10,158**	$ 8,952	$ 12,708
Retail Financial Services	**26,538**	28,447	29,797	**19,458**	16,483	15,512	**7,080**	11,964	14,285
Card Services & Auto	**19,141**	20,472	23,199	**8,045**	7,178	6,617	**11,096**	13,294	16,582
Commercial Banking	**6,418**	6,040	5,720	**2,278**	2,199	2,176	**4,140**	3,841	3,544
Treasury & Securities Services	**7,702**	7,381	7,344	**5,863**	5,604	5,278	**1,839**	1,777	2,066
Asset Management	**9,543**	8,984	7,965	**7,002**	6,112	5,473	**2,541**	2,872	2,492
Corporate/Private Equity[a]	**4,151**	7,301	6,513	**4,149**	6,355	1,895	**2**	946	4,618
Total	**$ 99,767**	$ 104,842	$ 108,647	**$ 62,911**	$ 61,196	$ 52,352	**$ 36,856**	$ 43,646	$ 56,295

Year ended December 31,	Provision for credit losses			Net income/(loss)			Return on equity		
(in millions, except ratios)	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Investment Bank[a]	**$ (286)**	$ (1,200)	$ 2,279	**$ 6,789**	$ 6,639	$ 6,899	**17%**	17%	21%
Retail Financial Services	**3,999**	8,919	14,754	**1,678**	1,728	(335)	**7**	7	(1)
Card Services & Auto	**3,621**	8,570	19,648	**4,544**	2,872	(1,793)	**28**	16	(10)
Commercial Banking	**208**	297	1,454	**2,367**	2,084	1,271	**30**	26	16
Treasury & Securities Services	**1**	(47)	55	**1,204**	1,079	1,226	**17**	17	25
Asset Management	**67**	86	188	**1,592**	1,710	1,430	**25**	26	20
Corporate/Private Equity[a]	**(36)**	14	80	**802**	1,258	3,030	**NM**	NM	NM
Total	**$ 7,574**	$ 16,639	$ 38,458	**$ 18,976**	$ 17,370	$ 11,728	**11%**	10%	6%

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

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

J.P. Morgan is one of the world's leading investment banks, with deep client relationships and broad product capabilities. The clients of 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.

Selected income statement data

Year ended December 31, (in millions, except ratios)	2011	2010	2009
Revenue			
Investment banking fees	**$ 5,859**	$ 6,186	$ 7,169
Principal transactions[a]	**8,324**	8,454	8,154
Lending- and deposit-related fees	**858**	819	664
Asset management, administration and commissions	**2,207**	2,413	2,650
All other income[b]	**723**	381	(115)
Noninterest revenue	**17,971**	18,253	18,522
Net interest income	**8,303**	7,964	9,587
Total net revenue[c]	**26,274**	26,217	28,109
Provision for credit losses	**(286)**	(1,200)	2,279
Noninterest expense			
Compensation expense	**8,880**	9,727	9,334
Noncompensation expense	**7,236**	7,538	6,067
Total noninterest expense	**16,116**	17,265	15,401
Income before income tax expense	**10,444**	10,152	10,429
Income tax expense	**3,655**	3,513	3,530
Net income	**$ 6,789**	$ 6,639	$ 6,899
Financial ratios			
Return on common equity	**17%**	17%	21%
Return on assets	**0.84**	0.91	0.99
Overhead ratio	**61**	66	55
Compensation expense as a percentage of total net revenue[d]	**34**	37	33

(a) Principal transactions included DVA related to derivatives and structured liabilities measured at fair value. DVA gains/(losses) were $1.4 billion, $509 million, and ($2.3) billion for the years ended December 31, 2011, 2010, and 2009, respectively.
(b) IB manages traditional credit exposures related to GCB on behalf of IB and TSS. Effective January 1, 2011, IB and TSS share the economics related to the Firm's GCB clients. IB recognizes this sharing agreement within all other income. The prior-year periods reflected the reimbursement from TSS for a portion of the total costs of managing the credit portfolio on behalf of TSS.
(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 $1.9 billion, $1.7 billion and $1.4 billion for the years ended December 31, 2011, 2010 and 2009, respectively.
(d) The compensation expense as a percentage of total net revenue ratio for the year ended December 31, 2010, excluding the payroll tax expense related to the U.K. Bank Payroll Tax on certain compensation awarded from December 9, 2009, to April 5, 2010, to relevant banking employees, which is a non-GAAP financial measure, was 35%. IB excluded this tax from the ratio because it enables comparability between periods.

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

Year ended December 31, (in millions)	2011	2010	2009
Revenue by business			
Investment banking fees:			
Advisory	**$ 1,792**	$ 1,469	$ 1,867
Equity underwriting	**1,181**	1,589	2,641
Debt underwriting	**2,886**	3,128	2,661
Total investment banking fees	**5,859**	6,186	7,169
Fixed income markets[a]	**15,337**	15,025	17,564
Equity markets[b]	**4,832**	4,763	4,393
Credit portfolio[c][d]	**246**	243	(1,017)
Total net revenue	**$ 26,274**	$ 26,217	$ 28,109

(a) Fixed income markets primarily include revenue related to market-making across global fixed income markets, including foreign exchange, interest rate, credit and commodities markets.
(b) Equity markets primarily include revenue related to market-making across global equity products, including cash instruments, derivatives, convertibles and Prime Services.
(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. See pages 143–144 of the Credit Risk Management section of this Annual Report for further discussion.
(d) IB manages traditional credit exposures related to GCB on behalf of IB and TSS. Effective January 1, 2011, IB and TSS share the economics related to the Firm's GCB clients. IB recognizes this sharing agreement within all other income. The prior-year periods reflected the reimbursement from TSS for a portion of the total costs of managing the credit portfolio on behalf of TSS.

2011 compared with 2010

Net income was $6.8 billion, up 2% compared with the prior year. These results primarily reflected similar net revenue compared with 2010, while lower noninterest expense was largely offset by a reduced benefit from the provision for credit losses. Net revenue included a $1.4 billion gain from DVA on certain structured and derivative liabilities resulting from the widening of the Firm's credit spreads. Excluding the impact of DVA, net revenue was $24.8 billion and net income was $5.9 billion.

Net revenue was $26.3 billion, compared with $26.2 billion in the prior year. Investment banking fees were $5.9 billion, down 5% from the prior year; these consisted of debt underwriting fees of $2.9 billion (down 8%), advisory fees of $1.8 billion (up 22%) and equity underwriting fees of $1.2 billion (down 26%). Fixed Income Markets revenue was $15.3 billion, compared with $15.0 billion in the prior year, with continued solid client revenue. The increase also reflects DVA gains of $553 million, compared with DVA gains of $287 million in the prior year. Equity Markets revenue was $4.8 billion, approximately flat compared with the prior year, as slightly lower performance was more than offset by DVA gains of $356 million, compared with DVA

gains of $181 million in the prior year. Credit Portfolio revenue was $246 million as net interest income and fees on retained loans, as well as DVA gains of $528 million were predominantly offset by a $769 million loss, net of hedges, from CVA on derivative assets. Results were approximately flat to the prior year, which included net CVA losses of $403 million.

The provision for credit losses was a benefit of $286 million, compared with a benefit of $1.2 billion in the prior year. The current-year provision reflected a net reduction in the allowance for loan losses largely driven by portfolio activity, partially offset by new loan growth. Net charge-offs were $161 million, compared with $735 million in the prior year.

Noninterest expense was $16.1 billion, down 7% driven primarily by lower compensation expense compared with the prior period which included the impact of the U.K. Bank Payroll Tax. Noncompensation expense was also lower compared with the prior year, which included higher litigation reserves. This decrease was partially offset by additional operating expense related to growth in business activities in 2011.

Return on Equity was 17% on $40.0 billion of average allocated capital.

2010 compared with 2009

Net income was $6.6 billion, down 4% compared with the prior year. These results primarily reflected lower net revenue as well as higher noninterest expense, largely offset by a benefit from the provision for credit losses, compared with an expense in the prior year.

Net revenue was $26.2 billion, compared with $28.1 billion in the prior year. Investment banking fees were $6.2 billion, down 14% from the prior year; these consisted of record debt underwriting fees of $3.1 billion (up 18%), equity underwriting fees of $1.6 billion (down 40%), and advisory fees of $1.5 billion (down 21%). Fixed Income Markets revenue was $15.0 billion, compared with $17.6 billion in the prior year. The decrease from the prior year largely reflected lower results in rates and credit markets, partially offset by DVA gains of $287 million from the widening of the Firm’s credit spread on certain structured liabilities, compared with DVA losses of $1.1 billion in the prior year. Equity Markets revenue was $4.8 billion, compared with $4.4 billion in the prior year, reflecting solid client revenue, as well as DVA gains of $181 million, compared with DVA losses of $596 million in the prior year. Credit Portfolio revenue was $243 million, primarily reflecting net interest income and fees on loans, partially offset by net CVA losses on derivative assets and mark-to-market losses on hedges of retained loans.

The provision for credit losses was a benefit of $1.2 billion, compared with an expense of $2.3 billion in the prior year. The current-year provision reflected a reduction in the allowance for loan losses, largely related to net repayments and loan sales. Net charge-offs were $735 million, compared with $1.9 billion in the prior year.

Noninterest expense was $17.3 billion, up $1.9 billion from the prior year, driven by higher noncompensation expense, which included increased litigation reserves, and higher compensation expense which included the impact of the U.K. Bank Payroll Tax.

Return on Equity was 17% on $40.0 billion of average allocated capital.

Selected metrics

As of or for the year ended December 31, (in millions, except headcount)	**2011**	2010	2009
Selected balance sheet data (period-end)			
Total assets	**$ 776,430**	$ 825,150	$ 706,944
Loans:			
Loans retained[(a)]	**68,208**	53,145	45,544
Loans held-for-sale and loans at fair value	**2,915**	3,746	3,567
Total loans	**71,123**	56,891	49,111
Equity	**40,000**	40,000	33,000
Selected balance sheet data (average)			
Total assets	**$ 812,779**	$ 731,801	$ 699,039
Trading assets-debt and equity instruments	**346,461**	307,061	273,624
Trading assets-derivative receivables	**73,201**	70,289	96,042
Loans:			
Loans retained[(a)]	**57,007**	54,402	62,722
Loans held-for-sale and loans at fair value	**3,119**	3,215	7,589
Total loans	**60,126**	57,617	70,311
Adjusted assets[(b)]	**600,160**	540,449	538,724
Equity	**40,000**	40,000	33,000
Headcount	**25,999**	26,314	24,654

(a) Loans retained included credit portfolio loans, leveraged leases and other held-for-investment loans, and excluded loans held-for-sale and loans at fair value.

(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 VIEs; (3) cash and securities segregated and on deposit for regulatory and other purposes; (4) goodwill and intangibles; and (5) securities received as collateral. The amount of adjusted assets is presented to assist the reader in comparing IB’s asset and capital levels to other investment banks in the securities industry. Asset-to-equity leverage ratios are commonly used as one measure to assess a company's capital adequacy. IB believes an adjusted asset amount that excludes the assets discussed above, which were considered to have a low risk profile, provides a more meaningful measure of balance sheet leverage in the securities industry.

Selected metrics

As of or for the year ended December 31, (in millions, except ratios)	2011	2010	2009
Credit data and quality statistics			
Net charge-offs	**$ 161**	$ 735	$ 1,904
Nonperforming assets:			
Nonaccrual loans:			
Nonaccrual loans retained[(a)(b)]	**1,035**	3,159	3,196
Nonaccrual loans held-for-sale and loans at fair value	**166**	460	308
Total nonaccrual loans	**1,201**	3,619	3,504
Derivative receivables	**14**	34	529
Assets acquired in loan satisfactions	**79**	117	203
Total nonperforming assets	**1,294**	3,770	4,236
Allowance for credit losses:			
Allowance for loan losses	**1,436**	1,863	3,756
Allowance for lending-related commitments	**418**	447	485
Total allowance for credit losses	**1,854**	2,310	4,241
Net charge-off rate[(a)(c)]	**0.28%**	1.35%	3.04%
Allowance for loan losses to period-end loans retained[(a)(c)]	**2.11**	3.51	8.25
Allowance for loan losses to nonaccrual loans retained[(a)(b)(c)]	**139**	59	118
Nonaccrual loans to period-end loans	**1.69**	6.36	7.13
Market risk-average trading and credit portfolio VaR – 95% confidence level			
Trading activities:			
Fixed income	**$ 50**	$ 65	$ 160
Foreign exchange	**11**	11	18
Equities	**23**	22	47
Commodities and other	**16**	16	20
Diversification[(d)]	**(42)**	(43)	(91)
Total trading VaR[(e)]	**58**	71	154
Credit portfolio VaR[(f)]	**33**	26	52
Diversification[(d)]	**(15)**	(10)	(42)
Total trading and credit portfolio VaR	**$ 76**	$ 87	$ 164

(a) Loans retained included credit portfolio loans, leveraged leases and other held-for-investment loans, and excluded loans held-for-sale and loans at fair value.
(b) Allowance for loan losses of $263 million, $1.1 billion and $1.3 billion were held against these nonaccrual loans at December 31, 2011, 2010 and 2009, respectively.
(c) Loans held-for-sale and loans at fair value were excluded when calculating the allowance coverage ratio and net charge-off rate.
(d) Average value-at-risk ("VaR") was less than the sum of the VaR of the components described above, due to portfolio diversification. The diversification effect reflects the fact that the risks were not perfectly correlated. The risk of a portfolio of positions is therefore usually less than the sum of the risks of the positions themselves.
(e) Trading VaR includes substantially all market-making and client-driven activities as well as certain risk management activities in IB, including the credit spread sensitivities of certain mortgage products 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 158–160 and the DVA sensitivity table on page 161 of this Annual Report for further details.
(f) Credit portfolio VaR includes the derivative CVA, hedges of the CVA and mark-to-market ("MTM") 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 MTM.

Market shares and rankings[(a)]

Year ended December 31,	2011 Market Share	2011 Rankings	2010 Market Share	2010 Rankings	2009 Market Share	2009 Rankings
Global investment banking fees[(b)]	**8.1%**	**#1**	7.6%	#1	9.0%	#1
Debt, equity and equity-related						
Global	**6.8**	**1**	7.2	1	8.8	1
U.S.	**11.1**	**1**	11.1	1	14.8	1
Syndicated loans						
Global	**11.0**	**1**	8.5	2	8.1	1
U.S.	**21.4**	**1**	19.1	2	21.8	1
Long-term debt[(c)]						
Global	**6.7**	**1**	7.2	2	8.4	1
U.S.	**11.2**	**1**	10.9	2	14.2	1
Equity and equity-related						
Global[(d)]	**6.8**	**3**	7.3	3	11.6	1
U.S.	**12.5**	**1**	13.1	2	15.5	2
Announced M&A[(e)]						
Global	**18.6**	**2**	15.9	4	23.7	3
U.S.	**27.5**	**2**	21.9	3	35.6	2

(a) Source: Dealogic. Global Investment Banking fees reflects ranking of fees and market share. Remainder of rankings reflects transaction volume rank and market share. Global announced M&A is based on transaction value at announcement; because of joint M&A assignments, M&A market share of all participants will add up to more than 100%. All other transaction volume-based rankings are based on proceeds, with full credit to each book manager/equal if joint.
(b) Global Investment Banking fees rankings exclude money market, short-term debt and shelf deals.
(c) Long-term debt rankings include investment-grade, high-yield, supranationals, sovereigns, agencies, covered bonds, asset-backed securities ("ABS") and mortgage-backed securities; and exclude money market, short-term debt, and U.S. municipal securities.
(d) Global Equity and equity-related ranking includes rights offerings and Chinese A-Shares.
(e) Announced M&A reflects the removal of any withdrawn transactions. U.S. announced M&A represents any U.S. involvement ranking.

According to Dealogic, the Firm was ranked #1 in Global Investment Banking Fees generated during 2011, based on revenue; #1 in Global Debt, Equity and Equity-related; #1 in Global Syndicated Loans; #1 in Global Long-Term Debt; #3 in Global Equity and Equity-related; and #2 in Global Announced M&A, based on volume.

International metrics

Year ended December 31, (in millions)	2011	2010	2009
Total net revenue[a]			
Europe/Middle East/Africa	**$ 8,418**	$ 7,380	$ 9,164
Asia/Pacific	**3,334**	3,809	3,470
Latin America/Caribbean	**1,079**	897	1,157
North America	**13,443**	14,131	14,318
Total net revenue	**$ 26,274**	$ 26,217	$ 28,109
Loans retained (period-end)[b]			
Europe/Middle East/Africa	**$ 15,905**	$ 13,961	$ 13,079
Asia/Pacific	**7,889**	5,924	4,542
Latin America/Caribbean	**3,148**	2,200	2,523
North America	**41,266**	31,060	25,400
Total loans	**$ 68,208**	$ 53,145	$ 45,544

(a) Regional revenue is based primarily on the domicile of the client and/or location of the trading desk.
(b) Includes retained loans based on the domicile of the customer. Excludes loans held-for-sale and loans at fair value.

Retail Financial Services serves consumers and businesses through personal service at bank branches and through ATMs, online banking and telephone banking. RFS is organized into Consumer & Business Banking and Mortgage Banking (including Mortgage Production and Servicing, and Real Estate Portfolios). Consumer & Business Banking includes branch banking and business banking activities. Mortgage Production and Servicing includes mortgage origination and servicing activities. Real Estate Portfolios comprises residential mortgages and home equity loans, including the PCI portfolio acquired in the Washington Mutual transaction. Customers can use more than 5,500 bank branches (third largest nationally) and more than 17,200 ATMs (second largest nationally), as well as online and mobile banking around the clock. More than 33,500 branch salespeople assist customers with checking and savings accounts, mortgages, home equity and business loans, and investments across the 23-state footprint from New York and Florida to California. As one of the largest mortgage originators in the U.S., Chase helps customers buy or refinance homes resulting in approximately $150 billion of mortgage originations annually. Chase also services more than 8 million mortgages and home equity loans.

Effective July 1, 2011, RFS was organized into two components: (1) Consumer & Business Banking (formerly Retail Banking) and (2) Mortgage Banking (including Mortgage Production and Servicing, and Real Estate Portfolios). For a further discussion of the business segment reorganization, see Business segment changes on page 79, and Note 33 on pages 300–303 of this Annual Report.

Selected income statement data Year ended December 31, (in millions, except ratios)	2011	2010	2009
Revenue			
Lending- and deposit-related fees	**$ 3,190**	$ 3,061	$ 3,897
Asset management, administration and commissions	**1,991**	1,776	1,665
Mortgage fees and related income	**2,714**	3,855	3,794
Credit card income	**2,025**	1,955	1,634
Other income	**485**	580	424
Noninterest revenue	**10,405**	11,227	11,414
Net interest income	**16,133**	17,220	18,383
Total net revenue[(a)]	**26,538**	28,447	29,797
Provision for credit losses	**3,999**	8,919	14,754
Noninterest expense			
Compensation expense	**8,044**	7,072	6,349
Noncompensation expense	**11,176**	9,135	8,834
Amortization of intangibles	**238**	276	329
Total noninterest expense	**19,458**	16,483	15,512
Income/(loss) before income tax expense/(benefit)	**3,081**	3,045	(469)
Income tax expense/(benefit)	**1,403**	1,317	(134)
Net income/(loss)	**$ 1,678**	$ 1,728	$ (335)
Financial ratios			
Return on common equity	**7%**	7%	(1)%
Overhead ratio	**73**	58	52
Overhead ratio excluding core deposit intangibles[(b)]	**72**	57	51

(a) Total net revenue included tax-equivalent adjustments associated with tax-exempt loans to municipalities and other qualified entities of $7 million, $8 million and $9 million for the years ended December 31, 2011, 2010 and 2009, respectively.
(b) 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 $238 million, $276 million and $328 million for the years ended December 31, 2011, 2010 and 2009, respectively.

2011 compared with 2010

Retail Financial Services reported net income of $1.7 billion, down 3% when compared with the prior year.

Net revenue was $26.5 billion, a decrease of $1.9 billion, or 7%, compared with the prior year. Net interest income was $16.1 billion, down by $1.1 billion, or 6%, reflecting the impact of lower loan balances, due to portfolio runoff, and narrower loan spreads. Noninterest revenue was $10.4 billion, down by $822 million, or 7%, driven by lower mortgage fees and related income partially offset by higher investment sales revenue and higher deposit-related fees.

The provision for credit losses was $4.0 billion, a decrease of $4.9 billion from the prior year. While delinquency trends and net charge-offs improved compared with the prior year, the current-year provision continued to reflect elevated losses in the mortgage and home equity portfolios. The current year provision also included a $230 million net reduction in the allowance for loan losses which reflects a reduction of $1.0 billion in the allowance related to the non-credit-impaired portfolio, as estimated losses in the portfolio have declined, predominantly offset by an increase of $770 million reflecting additional impairment of the Washington Mutual PCI portfolio due to higher-than-expected default frequency relative to modeled lifetime loss estimates. The prior-year provision reflected a higher impairment on the PCI portfolio and higher net charge-offs. See Consumer Credit Portfolio on pages 145–154 of this Annual Report for the net charge-off amounts and rates.

Noninterest expense was $19.5 billion, an increase of $3.0 billion, or 18%, from the prior year driven by elevated foreclosure- and default-related costs, including $1.7 billion for fees and assessments, as well as other costs of foreclosure-related matters during 2011, compared with $350 million in 2010.

2010 compared with 2009

Net income was $1.7 billion, compared with a net loss of $335 million in the prior year.

Net revenue was $28.4 billion, a decrease of $1.4 billion, or 5%, compared with the prior year. Net interest income was $17.2 billion, down by $1.2 billion, or 6%, reflecting the impact of lower loan and deposit balances and narrower

loan spreads, partially offset by a shift to wider-spread deposit products. Noninterest revenue was $11.2 billion, a decrease of $187 million, or 2%, compared with the prior year, as lower deposit-related fees were partially offset by higher debit card income.

The provision for credit losses was $8.9 billion, compared with $14.8 billion in the prior year. The current-year provision reflected an addition to the allowance for loan losses of $3.4 billion for the PCI portfolio and a reduction in the allowance for loan losses of $1.7 billion, predominantly for the mortgage loan portfolios. In comparison, the prior-year provision reflected an addition to the allowance for loan losses of $5.5 billion, predominantly for the home equity and mortgage portfolios, and also included an addition of $1.6 billion for the PCI portfolio. While delinquency trends and net charge-offs improved compared with the prior year, the provision continued to reflect elevated losses for the mortgage and home equity portfolios. See Consumer Credit Portfolio on page 145–154 of this Annual Report for the net charge-off amounts and rates.

Noninterest expense was $16.5 billion, an increase of $971 million, or 6%, from the prior year, reflecting higher default-related expense.

Selected metrics

As of or for the year ended December 31, (in millions, except headcount and ratios)	2011	2010	2009
Selected balance sheet data (period-end)			
Total assets	**$ 274,795**	$ 299,950	$ 322,185
Loans:			
Loans retained	**232,555**	253,904	280,246
Loans held-for-sale and loans at fair value[(a)]	**12,694**	14,863	12,920
Total loans	**245,249**	268,767	293,166
Deposits	**395,797**	369,925	356,614
Equity	**25,000**	24,600	22,457
Selected balance sheet data (average)			
Total assets	**$ 286,716**	$ 314,046	$ 344,727
Loans:			
Loans retained	**241,621**	268,902	296,959
Loans held-for-sale and loans at fair value[(a)]	**16,354**	15,395	16,236
Total loans	**257,975**	284,297	313,195
Deposits	**380,663**	361,525	366,996
Equity	**25,000**	24,600	22,457
Headcount	**133,075**	116,882	103,733

As of or for the year ended December 31, (in millions, except ratios)	2011	2010	2009
Credit data and quality statistics			
Net charge-offs	**$ 4,304**	$ 7,221	$ 9,233
Nonaccrual loans:			
Nonaccrual loans retained	**7,170**	8,568	10,373
Nonaccrual loans held-for-sale and loans at fair value	**103**	145	234
Total nonaccrual loans[(b)(c)(d)]	**7,273**	8,713	10,607
Nonperforming assets[(b)(c)(d)]	**8,064**	9,999	11,761
Allowance for loan losses	**15,247**	15,554	13,734
Net charge-off rate[(e)]	**1.78%**	2.69%	3.11%
Net charge-off rate excluding PCI loans[(e)(f)]	**2.49**	3.76	4.36
Allowance for loan losses to ending loans retained	**6.56**	6.13	4.90
Allowance for loan losses to ending loans retained excluding PCI loans[(f)]	**5.71**	5.86	6.11
Allowance for loan losses to nonaccrual loans retained[(b)(f)]	**133**	124	117
Nonaccrual loans to total loans	**2.97**	3.24	3.62
Nonaccrual loans to total loans excluding PCI loans[(b)]	**4.05**	4.45	5.01

(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.

(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 the individual loans within the pools, is not meaningful. Because the Firm is recognizing interest income on each pool of loans, they are all considered to be performing.

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

(d) At December 31, 2011, 2010 and 2009, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $11.5 billion, $9.4 billion and $9.0 billion, respectively, that are 90 or more days past due; and (2) real estate owned insured by U.S. government agencies of $954 million, $1.9 billion and $579 million, respectively. These amounts were excluded as reimbursement of insured amounts is proceeding normally. For further discussion, see Note 14 on pages 231–252 of this Annual Report which summarizes loan delinquency information.

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

(f) Excludes the impact of PCI loans that were acquired as part of the Washington Mutual transaction. These loans were accounted for at fair value on the acquisition date, which incorporated management's estimate, as of that date, of credit losses over the remaining life of the portfolio. An allowance for loan losses of $5.7 billion, $4.9 billion and $1.6 billion was recorded for these loans at December 31, 2011, 2010 and 2009, respectively; these amounts were also excluded from the applicable ratios. To date, no charge-offs have been recorded for these loans.

Consumer & Business Banking

Selected income statement data

Year ended December 31, (in millions, except ratios)	2011	2010	2009
Noninterest revenue	**$ 7,201**	$ 6,844	$ 7,204
Net interest income	**10,809**	10,884	10,864
Total net revenue	**18,010**	17,728	18,068
Provision for credit losses	**419**	630	1,176
Noninterest expense	**11,202**	10,717	10,421
Income before income tax expense	**6,389**	6,381	6,471
Net income	**$ 3,816**	$ 3,652	$ 3,915
Overhead ratio	**62%**	60%	58%
Overhead ratio excluding core deposit intangibles[a]	**61**	59	56

(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. 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 $238 million and $276 million and $328 million for the years ended December 31, 2011, 2010 and 2009, respectively.

2011 compared with 2010

Consumer & Business Banking reported net income of $3.8 billion, an increase of $164 million, or 4%, compared with the prior year.

Net revenue was $18.0 billion, up 2%, from the prior year. Net interest income was $10.8 billion, relatively flat compared with the prior year, as the impact from higher deposit balances was offset predominantly by the effect of lower deposit spreads. Noninterest revenue was $7.2 billion, an increase of 5%, driven by higher investment sales revenue and higher deposit-related fees.

The provision for credit losses was $419 million, compared with $630 million in the prior year. Net charge-offs were $494 million, compared with $730 million in the prior year.

Noninterest expense was $11.2 billion, up 5%, from the prior year resulting from investment in sales force and new branch builds.

2010 compared with 2009

Consumer & Business Banking reported net income of $3.7 billion, a decrease of $263 million, or 7%, compared with the prior year.

Total net revenue was $17.7 billion, down 2% compared with the prior year. The decrease was driven by lower deposit-related fees, largely offset by higher debit card income and a shift to wider-spread deposit products.

The provision for credit losses was $630 million, down $546 million compared with the prior year. The current-year provision reflected lower net charge-offs and a reduction of $100 million to the allowance for loan losses due to lower estimated losses, compared with a $300 million addition to the allowance for loan losses in the prior year. Net charge-offs were $730 million, compared with $876 million in the prior year.

Noninterest expense was $10.7 billion, up 3% compared with the prior year, resulting from sales force increases in Business Banking and bank branches.

Selected metrics

As of or for the year ended December 31, (in millions, except ratios)	2011	2010	2009
Business metrics			
Business banking origination volume	**$ 5,827**	$ 4,688	$ 2,299
End-of-period loans	**17,652**	16,812	16,974
End-of-period deposits:			
Checking	**147,779**	131,702	123,220
Savings	**191,891**	170,604	156,140
Time and other	**36,743**	45,967	58,185
Total end-of-period deposits	**376,413**	348,273	337,545
Average loans	**17,121**	16,863	17,991
Average deposits:			
Checking	**136,579**	123,490	116,568
Savings	**182,587**	166,112	151,909
Time and other	**41,574**	51,149	76,550
Total average deposits	**360,740**	340,751	345,027
Deposit margin	**2.82%**	3.00%	2.92%
Average assets	**$ 29,729**	$ 29,307	$ 29,791

Selected metrics

As of or for the year ended December 31, (in millions, except ratios and where otherwise noted)	2011	2010	2009
Credit data and quality statistics			
Net charge-offs	**$ 494**	$ 730	$ 876
Net charge-off rate	**2.89%**	4.32%	4.87%
Allowance for loan losses	**$ 798**	$ 875	$ 977
Nonperforming assets	**710**	846	839
Retail branch business metrics			
Investment sales volume	**$ 22,716**	$ 23,579	$ 21,784
Client investment assets	**137,853**	133,114	120,507
% managed accounts	**24%**	20%	13%
Number of:			
Branches	**5,508**	5,268	5,154
Chase Private Client branch locations	**262**	16	16
ATMs	**17,235**	16,145	15,406
Personal bankers[(a)]	**24,308**	21,735	18,009
Sales specialists[(a)]	**6,017**	4,876	3,915
Client advisors	**3,201**	3,066	2,731
Active online customers (in thousands)[(a)]	**17,334**	16,855	14,627
Active mobile customers (in thousands)[(a)]	**8,391**	5,337	1,249
Chase Private Clients	**21,723**	4,242	2,933
Checking accounts (in thousands)	**26,626**	27,252	25,712

(a) In 2011, the classification of personal bankers, sales specialists, and active online and mobile customers was refined; as such, prior periods have been revised to conform with the current presentation.

Mortgage Production and Servicing

Selected income statement data

Year ended December 31, (in millions, except ratios)	2011	2010	2009
Mortgage fees and related income	**$ 2,714**	$ 3,855	$ 3,794
Other noninterest revenue	**452**	413	442
Net interest income	**770**	904	973
Total net revenue	**3,936**	5,172	5,209
Provision for credit losses	**5**	58	15
Noninterest expense	**6,735**	4,139	3,244
Income/(loss) before income tax expense/(benefit)	**(2,804)**	975	1,950
Net income/(loss)	**$ (1,832)**	$ 569	$ 1,199
Overhead ratio	**171%**	80%	62%
Functional results			
Production			
Production revenue	**$ 3,395**	$ 3,440	$ 2,115
Production-related net interest & other income	**840**	869	1,079
Production-related revenue, excluding repurchase losses	**4,235**	4,309	3,194
Production expense	**1,895**	1,613	1,575
Income, excluding repurchase losses	**2,340**	2,696	1,619
Repurchase losses	**(1,347)**	(2,912)	(1,612)
Income/(loss) before income tax expense/(benefit)	**993**	(216)	7
Servicing			
Loan servicing revenue	**4,134**	4,575	4,942
Servicing-related net interest & other income	**390**	433	240
Servicing-related revenue	**4,524**	5,008	5,182
MSR asset modeled amortization	**(1,904)**	(2,384)	(3,279)
Default servicing expense[a]	**3,814**	1,747	1,002
Core servicing expense	**1,031**	837	682
Income/(loss), excluding MSR risk management	**(2,225)**	40	219
MSR risk management, including related net interest income/(expense)[b]	**(1,572)**	1,151	1,724
Income/(loss) before income tax expense/(benefit)	**(3,797)**	1,191	1,943
Net income/(loss)	**$ (1,832)**	$ 569	$ 1,199

Selected income statement data

Year ended December 31, (in millions)	2011	2010	2009
Supplemental mortgage fees and related income details			
Net production revenue:			
Production revenue	**$ 3,395**	$ 3,440	$ 2,115
Repurchase losses	**(1,347)**	(2,912)	(1,612)
Net production revenue	**2,048**	528	503
Net mortgage servicing revenue:			
Operating revenue:			
Loan servicing revenue	**4,134**	4,575	4,942
Changes in MSR asset fair value due to modeled amortization	**(1,904)**	(2,384)	(3,279)
Total operating revenue	**2,230**	2,191	1,663
Risk management:			
Changes in MSR asset fair value due to inputs or assumptions in model	**(7,117)**	(2,268)	5,804
Derivative valuation adjustments and other	**5,553**	3,404	(4,176)
Total risk management[b]	**(1,564)**	1,136	1,628
Total net mortgage servicing revenue	**666**	3,327	3,291
Mortgage fees and related income	**$ 2,714**	$ 3,855	$ 3,794

(a) Includes $1.7 billion of fees and assessments, as well as other costs of foreclosure-related matters for the year ended December 31, 2011, and $350 million for foreclosure-related matters for the year ended December 31, 2010.

(b) Predominantly includes: (1) changes in the MSR asset fair value due to changes in market interest rates and other modeled inputs and assumptions, and (2) changes in the value of the derivatives used to hedge the MSR asset. See Note 17 on pages 267–271 of this Annual Report for further information regarding changes in value of the MSR asset and related hedges.

2011 compared with 2010

Mortgage Production and Servicing reported a net loss of $1.8 billion, compared with net income of $569 million in the prior year.

Mortgage production pretax income was $993 million, compared with a pretax loss of $216 million in the prior year. Production-related revenue, excluding repurchase losses, was $4.2 billion, a decrease of 2% from the prior year reflecting lower volumes and narrower margins when compared with the prior year. Production expense was $1.9 billion, an increase of $282 million, or 17%, reflecting a strategic shift to higher-cost retail originations both through the branch network and direct to the consumer. Repurchase losses were $1.3 billion, compared with prior-year repurchase losses of $2.9 billion, which included a $1.6 billion increase in the repurchase reserve.

Mortgage servicing, including MSR risk management, resulted in a pretax loss of $3.8 billion, compared with pretax income of $1.2 billion in the prior year. Servicing-related revenue was $4.5 billion, a decline of 10% from the prior year, as a result of the decline in third-party loans serviced. MSR asset amortization was $1.9 billion, compared with $2.4 billion in the prior year; this reflected reduced amortization as a result of a lower MSR asset value. Servicing expense was $4.8 billion, an increase of $2.3 billion, driven by $1.7 billion recorded for fees and assessments, and other costs of foreclosures-related matters, as well as higher core and default servicing costs. MSR risk management was a loss of $1.6 billion, compared with income of $1.2 billion in the prior year, driven by refinements to the valuation model and related inputs. See Note 17 on pages 267-271 of this Annual Report for further information regarding changes in value of the MSR asset and related hedges.

2010 compared with 2009

Mortgage Production and Servicing reported net income of $569 million, a decrease of $630 million, or 53%, from the prior year.

Mortgage production pretax loss was $216 million, compared with pretax income of $7 million in the prior year. Production-related revenue, excluding repurchase losses, was $4.3 billion, an increase of 35% from the prior year reflecting wider mortgage margins and higher origination volumes when compared with the prior year. Production expense was $1.6 billion, an increase of $38 million, due to increased volumes. Repurchase losses were $2.9 billion, compared with prior-year repurchase losses of $1.6 billion. The current year losses included a $1.6 billion increase in the repurchase reserve, reflecting higher estimated future repurchase demands.

Mortgage servicing, including MSR risk management, resulted in pretax income of $1.2 billion, compared with pretax income of $1.9 billion in the prior year. Servicing-related revenue was $5.0 billion, a decline of 3% from the prior year, as a result of the decline in third-party loans serviced. MSR asset amortization was $2.4 billion compared with $3.3 billion in the prior year, reflecting reduced amortization as a result of a lower MSR asset value. Servicing expense was $2.6 billion, an increase of $900 million, driven by higher core and default servicing costs, including $350 million for foreclosure-related matters. MSR risk management income was $1.2 billion, compared with income of $1.7 billion in the prior year.

Selected metrics

As of or for the year ended December 31, (in millions, except ratios and where otherwise noted)	2011	2010	2009
Selected balance sheet data			
End-of-period loans:			
Prime mortgage, including option ARMs[a]	**$16,891**	$14,186	$11,964
Loans held-for-sale and loans at fair value[b]	**12,694**	14,863	12,920
Average loans:			
Prime mortgage, including option ARMs[a]	**14,580**	13,422	8,894
Loans held-for-sale and loans at fair value[b]	**16,354**	15,395	16,236
Average assets	**59,891**	57,778	51,317
Repurchase reserve (ending)	**3,213**	3,000	1,448
Credit data and quality statistics			
Net charge-offs:			
Prime mortgage, including option ARMs	**5**	41	14
Net charge-off rate:			
Prime mortgage, including option ARMs	**0.03%**	0.31%	0.17%
30+ day delinquency rate[c]	**3.15**	3.44	2.89
Nonperforming assets[d]	**$ 716**	$ 729	$ 575
Business metrics (in billions)			
Origination volume by channel			
Retail	**$ 87.2**	$ 68.8	$ 53.9
Wholesale[e]	**0.5**	1.3	3.6
Correspondent[e]	**52.1**	75.3	81.0
CNT (negotiated transactions)	**5.8**	10.2	12.2
Total origination volume	**$ 145.6**	$ 155.6	$ 150.7
Application volume by channel			
Retail	**$ 137.2**	$ 115.1	$ 90.9
Wholesale[e]	**1.0**	2.4	4.9
Correspondent[e]	**66.5**	97.3	110.8
Total application volume	**$ 204.7**	$ 214.8	$ 206.6
Third-party mortgage loans serviced (ending)	**$ 902.2**	$ 967.5	$1,082.1
Third-party mortgage loans serviced (average)	**937.6**	1,037.6	1,119.1
MSR net carrying value (ending)	**7.2**	13.6	15.5
Ratio of MSR net carrying value (ending) to third-party mortgage loans serviced (ending)	**0.80%**	1.41%	1.43%
Ratio of loan servicing revenue to third-party mortgage loans serviced (average)	**0.44**	0.44	0.44
MSR revenue multiple[f]	**1.82x**	3.20x	3.25x

(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 115-118 of this Annual Report.

(b) Loans at fair value consist 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. These loans

totaled $12.7 billion, $14.7 billion and $12.5 billion at December 31, 2011, 2010 and 2009, respectively. Average balances of these loans totaled $16.3 billion, $15.2 billion and $15.8 billion for the years ended December 31, 2011, 2010 and 2009, respectively.

(c) At December 31, 2011, 2010 and 2009, excluded mortgage loans insured by U.S. government agencies of $12.6 billion, $10.3 billion and $9.7 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 14 on pages 231–252 of this Annual Report which summarizes loan delinquency information.

(d) At December 31, 2011, 2010 and 2009, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $11.5 billion, $9.4 billion and $9.0 billion, respectively, that are 90 or more days past due; and (2) real estate owned insured by U.S. government agencies of $954 million, $1.9 billion and $579 million, respectively. These amounts were excluded as reimbursement of insured amounts is proceeding normally. For further discussion, see Note 14 on pages 231–252 of this Annual Report which summarizes loan delinquency information.

(e) Includes rural housing loans sourced through brokers and correspondents, which are underwritten and closed in conjunction with the U.S. Department of Agriculture Rural Development, who acts as the guarantor in the transaction.

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

Mortgage Production and Servicing revenue comprises the following:

Net production revenue – Includes net gains or losses on originations and sales of prime and subprime mortgage loans, other production-related fees and losses related to the repurchase of previously-sold loans.

Net mortgage servicing revenue includes the following components:

(a) Operating revenue comprises:

- all gross income earned from servicing third-party mortgage loans including stated service fees, excess service fees, late fees and other ancillary fees; and
- modeled MSR asset amortization (or time decay).

(b) Risk management comprises:

- changes in MSR asset fair value due to market-based inputs such as interest rates, as well as updates to assumptions used in the MSR valuation model; and
- derivative valuation adjustments and other, which represents changes in the fair value of derivative instruments used to offset the impact of changes in interest rates to the MSR valuation model.

Mortgage origination channels comprise the following:

Retail – Borrowers buy or refinance a home through direct contact with a mortgage banker employed by the Firm using a branch office, the Internet or by phone. Borrowers are frequently referred to a mortgage banker by a banker in a Chase branch, real estate brokers, home builders or other third parties.

Wholesale – Third-party mortgage brokers refer loan application packages to the Firm. The Firm then underwrites and funds the loan. Brokers are independent loan originators that specialize in counseling applicants on available home financing options, but do not provide funding for loans. Chase materially eliminated broker-originated loans in 2008, with the exception of a small number of loans guaranteed by the U.S. Department of Agriculture under its Section 502 Guaranteed Loan program that serves low-and-moderate income families in small rural communities.

Correspondent – Banks, thrifts, other mortgage banks and other financial institutions sell closed loans to the Firm.

Correspondent negotiated transactions ("CNTs") – Mid-to-large-sized mortgage lenders, banks and bank-owned mortgage companies sell servicing to the Firm on an as-originated basis (excluding sales of bulk servicing). These transactions supplement traditional production channels and provide growth opportunities in the servicing portfolio in periods of stable and rising interest rates.

Real Estate Portfolios

Selected income statement data

Year ended December 31, (in millions, except ratios)	2011	2010	2009
Noninterest revenue	$ 38	$ 115	$ (26)
Net interest income	4,554	5,432	6,546
Total net revenue	**4,592**	5,547	6,520
Provision for credit losses	3,575	8,231	13,563
Noninterest expense	1,521	1,627	1,847
Income/(loss) before income tax expense/(benefit)	**(504)**	(4,311)	(8,890)
Net income/(loss)	**$ (306)**	$ (2,493)	$ (5,449)
Overhead ratio	33%	29%	28%

2011 compared with 2010

Real Estate Portfolios reported a net loss of $306 million, compared with a net loss of $2.5 billion in the prior year. The improvement was driven by a lower provision for credit losses, partially offset by lower net revenue.

Net revenue was $4.6 billion, down by $955 million, or 17%, from the prior year. The decrease was driven by a decline in net interest income as a result of lower loan balances due to portfolio runoff and narrower loan spreads.

The provision for credit losses was $3.6 billion, compared with $8.2 billion in the prior year, reflecting an improvement in charge-off trends and a net reduction of the allowance for loan losses of $230 million. The net change in the allowance reflected a $1.0 billion reduction related to the non-credit-impaired portfolios as estimated losses declined, predominately offset by an increase of $770 million reflecting additional impairment of the Washington Mutual PCI portfolio due to higher-than-expected default frequency relative to modeled lifetime loss estimates. The prior-year provision reflected a higher impairment of the PCI portfolio and higher net charge-offs. See Consumer Credit Portfolio on pages 145–154 of this Annual Report for the net charge-off amounts and rates.

Noninterest expense was $1.5 billion, down by $106 million, or 7%, from the prior year, reflecting a decrease in foreclosed asset expense due to temporary delays in foreclosure activity.

2010 compared with 2009

Real Estate Portfolios reported a net loss of $2.5 billion, compared with a net loss of $5.4 billion in the prior year. The improvement was driven by a lower provision for credit losses, partially offset by lower net interest income.

Net revenue was $5.5 billion, down by $973 million, or 15%, from the prior year. The decrease was driven by a decline in net interest income as a result of lower loan balances, reflecting net portfolio runoff.

The provision for credit losses was $8.2 billion, compared with $13.6 billion in the prior year. The current-year provision reflected a $1.9 billion reduction in net charge-offs and a $1.6 billion reduction in the allowance for the mortgage loan portfolios. This reduction in the allowance for loan losses included the effect of $632 million of charge-offs related to an adjustment of the estimated net realizable value of the collateral underlying delinquent residential home loans. The remaining reduction of the allowance of approximately $950 million was a result of an improvement in delinquencies and lower estimated losses, compared with prior year additions of $3.6 billion for the home equity and mortgage portfolios. Additionally, the current-year provision reflected an addition to the allowance for loan losses of $3.4 billion for the PCI portfolio, compared with a prior year addition of $1.6 billion for this portfolio. See Consumer Credit Portfolio on pages 145–154 of this Annual Report for the net charge-off amounts and rates.

Noninterest expense was $1.6 billion, down by $220 million, or 12%, from the prior year, reflecting lower default-related expense.

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 December 31, 2011, the remaining weighted-average life of the PCI loan portfolio is expected to be 7.5 years. The loan balances are expected to decline more rapidly in the earlier years as the most troubled loans are liquidated, and more slowly thereafter as the remaining troubled borrowers have limited refinancing opportunities. Similarly, default and servicing expense are expected to be higher in the earlier years and decline over time as liquidations slow down.

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

For further information, see Note 14, PCI loans, on pages 248–249 of this Annual Report.

Selected metrics

As of or for the year ended December 31, (in millions)	2011	2010	2009
Loans excluding PCI[a]			
End-of-period loans owned:			
Home equity	**$ 77,800**	$ 88,385	$ 101,425
Prime mortgage, including option ARMs	**44,284**	49,768	55,891
Subprime mortgage	**9,664**	11,287	12,526
Other	**718**	857	671
Total end-of-period loans owned	**$ 132,466**	$ 150,297	$ 170,513
Average loans owned:			
Home equity	**$ 82,886**	$ 94,835	$ 108,333
Prime mortgage, including option ARMs	**46,971**	53,431	62,155
Subprime mortgage	**10,471**	12,729	13,901
Other	**773**	954	841
Total average loans owned	**$ 141,101**	$ 161,949	$ 185,230
PCI loans[a]			
End-of-period loans owned:			
Home equity	**$ 22,697**	$ 24,459	$ 26,520
Prime mortgage	**15,180**	17,322	19,693
Subprime mortgage	**4,976**	5,398	5,993
Option ARMs	**22,693**	25,584	29,039
Total end-of-period loans owned	**$ 65,546**	$ 72,763	$ 81,245
Average loans owned:			
Home equity	**$ 23,514**	$ 25,455	$ 27,627
Prime mortgage	**16,181**	18,526	20,791
Subprime mortgage	**5,170**	5,671	6,350
Option ARMs	**24,045**	27,220	30,464
Total average loans owned	**$ 68,910**	$ 76,872	$ 85,232
Total Real Estate Portfolios			
End-of-period loans owned:			
Home equity	**$ 100,497**	$ 112,844	$ 127,945
Prime mortgage, including option ARMs	**82,157**	92,674	104,623
Subprime mortgage	**14,640**	16,685	18,519
Other	**718**	857	671
Total end-of-period loans owned	**$ 198,012**	$ 223,060	$ 251,758
Average loans owned:			
Home equity	**$ 106,400**	$ 120,290	$ 135,960
Prime mortgage, including option ARMs	**87,197**	99,177	113,410
Subprime mortgage	**15,641**	18,400	20,251
Other	**773**	954	841
Total average loans owned	**$ 210,011**	$ 238,821	$ 270,462
Average assets	**$ 197,096**	$ 226,961	$ 263,619
Home equity origination volume	**1,127**	1,203	2,479

(a) PCI loans represent loans acquired in the Washington Mutual transaction for which a deterioration in credit quality occurred between the origination date and JPMorgan Chase's acquisition date. These loans were initially recorded at fair value and accrete interest income over the estimated lives of the loans as long as cash flows are reasonably estimable, even if the underlying loans are contractually past due.

Credit data and quality statistics

As of or for the year ended December 31, (in millions, except ratios)	2011	2010	2009
Net charge-offs excluding PCI loans:[a]			
Home equity	**$ 2,472**	$ 3,444	$ 4,682
Prime mortgage, including option ARMs	**682**	1,573	1,935
Subprime mortgage	**626**	1,374	1,648
Other	**25**	59	78
Total net charge-offs	**$ 3,805**	$ 6,450	$ 8,343
Net charge-off rate excluding PCI loans:[a]			
Home equity	**2.98%**	3.63%	4.32%
Prime mortgage, including option ARMs	**1.45**	2.95	3.11
Subprime mortgage	**5.98**	10.82	11.86
Other	**3.23**	5.90	9.75
Total net charge-off rate excluding PCI loans	**2.70**	3.98	4.50
Net charge-off rate – reported:			
Home equity	**2.32%**	2.86%	3.45%
Prime mortgage, including option ARMs	**0.78**	1.59	1.70
Subprime mortgage	**4.00**	7.47	8.16
Other	**3.23**	5.90	9.75
Total net charge-off rate – reported	**1.81**	2.70	3.08
30+ day delinquency rate excluding PCI loans[b]	**5.69%**	6.45%	7.73%
Allowance for loan losses	**$ 14,429**	$ 14,659	$ 12,752
Nonperforming assets[c]	**6,638**	8,424	10,347
Allowance for loan losses to ending loans retained	**7.29%**	6.57%	5.06%
Allowance for loan losses to ending loans retained excluding PCI loans[a]	**6.58**	6.47	6.55

(a) Excludes the impact of PCI loans that were acquired as part of the Washington Mutual transaction. These loans were accounted for at fair value on the acquisition date, which incorporated management's estimate, as of that date, of credit losses over the remaining life of the portfolio. An allowance for loan losses of $5.7 billion, $4.9 billion and $1.6 billion was recorded for these loans at December 31, 2011, 2010 and 2009, respectively; these amounts were also excluded from the applicable ratios. To date, no charge-offs have been recorded for these loans.

(b) The delinquency rate for PCI loans was 23.30%, 28.20% and 27.62% at December 31, 2011, 2010 and 2009, respectively.

(c) 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 the 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.

CARD SERVICES & AUTO

Card Services & Auto is one of the nation's largest credit card issuers, with over $132 billion in credit card loans. Customers have over 65 million open credit card accounts (excluding the commercial card portfolio), and used Chase credit cards to meet over $343 billion of their spending needs in 2011. Through its Merchant Services business, Chase Paymentech Solutions, Card is a global leader in payment processing and merchant acquiring. Consumers also can obtain loans through more than 17,200 auto dealerships and 2,000 schools and universities nationwide.

Effective July 1, 2011, Card includes Auto and Student Lending. For a further discussion of the business segment reorganization, see Business segment changes on page 79, and Note 33 on pages 300–303 of this Annual Report.

Selected income statement data – managed basis[(a)(b)]

Year ended December 31, (in millions, except ratios)	2011	2010	2009
Revenue			
Credit card income	**$ 4,127**	$ 3,514	$ 3,613
All other income	**765**	764	93
Noninterest revenue[(c)]	**4,892**	4,278	3,706
Net interest income	**14,249**	16,194	19,493
Total net revenue[(d)]	**19,141**	20,472	23,199
Provision for credit losses	**3,621**	8,570	19,648
Noninterest expense			
Compensation expense	**1,826**	1,651	1,739
Noncompensation expense	**5,818**	5,060	4,362
Amortization of intangibles	**401**	467	516
Total noninterest expense[(e)]	**8,045**	7,178	6,617
Income/(loss) before income tax expense/ (benefit)	**7,475**	4,724	(3,066)
Income tax expense/ (benefit)	**2,931**	1,852	(1,273)
Net income/(loss)	**$ 4,544**	$ 2,872	$ (1,793)
Memo: Net securitization income/(loss)	**NA**	NA	(474)
Financial ratios[(a)]			
Return on common equity	**28%**	16%	(10)%
Overhead ratio	**42**	35	29

(a) Effective January 1, 2011, the commercial card business that was previously in TSS was transferred to Card. There is no material impact on the financial data; prior-year periods were not revised.
(b) Effective January 1, 2010, the Firm adopted accounting guidance related to VIEs. As a result of the consolidation of the securitization trusts, reported and managed basis are equivalent for periods beginning after January 1, 2010. See Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 76–78 of this Annual Report for additional information. Also, for further details regarding the Firm's application and impact of the VIE guidance, see Note 16 on pages 256–267 of this Annual Report.
(c) Included Commercial Card noninterest revenue of $290 million for the year ended December 31, 2011.
(d) Total net revenue included tax-equivalent adjustments associated with tax-exempt loans to certain qualified entities of $2 million, $7 million and $13 million for the years ended December 31, 2011, 2010 and 2009, respectively.
(e) Included Commercial Card noninterest expense of $298 million for the year ended December 31, 2011.

NA: Not applicable

2011 compared with 2010

Net income was $4.5 billion, compared with $2.9 billion in the prior year. The increase was driven primarily by lower net charge-offs, partially offset by a lower reduction in the allowance for loan losses compared with the prior year.

Net revenue was $19.1 billion, a decrease of $1.3 billion, or 7%, from the prior year. Net interest income was $14.2 billion, down by $1.9 billion, or 12%. The decrease was driven by lower average loan balances, the impact of legislative changes, and a decreased level of fees. These decreases were largely offset by lower revenue reversals associated with lower charge-offs. Noninterest revenue was $4.9 billion, an increase of $614 million, or 14%, from the prior year. The increase was driven by the transfer of the Commercial Card business to Card from Treasury & Securities Services in the first quarter of 2011, higher net interchange income, and lower partner revenue-sharing due to the impact of the Kohl's portfolio sale. These increases were partially offset by lower revenue from fee-based products. Excluding the impact of the Commercial Card business, noninterest revenue increased 8%.

The provision for credit losses was $3.6 billion, compared with $8.6 billion in the prior year. The current-year provision reflected lower net charge-offs and an improvement in delinquency rates, as well as a reduction of $3.9 billion to the allowance for loan losses due to lower estimated losses. The prior-year provision included a reduction of $6.2 billion to the allowance for loan losses. The net charge-off rate was 3.99%, down from 7.12% in the prior year; the 30+ day delinquency rate was 2.32%, down from 3.23% in the prior year. Excluding the Washington Mutual and Commercial Card portfolios, the Credit Card net charge-off rate[1] was 4.93%, down from 8.72% in the prior year; and the 30+ day delinquency rate[1] was 2.54%, down from 3.66% in the prior year. The Auto net charge-off rate was 0.32%, down from 0.63% in the prior year. The Student net charge-off rate was 3.10%, up from 2.61% in the prior year.

Noninterest expense was $8.0 billion, an increase of $867 million, or 12%, from the prior year, due to higher marketing expense and the inclusion of the Commercial Card business. Excluding the impact of the Commercial Card business, noninterest expense increased 8%.

In May 2009, the CARD Act was enacted. The changes required by the CARD Act were fully implemented by the end of the fourth quarter of 2010. The total estimated reduction in net income resulting from the CARD Act was approximately $750 million and $300 million in 2011 and 2010, respectively.

2010 compared with 2009

Net income was $2.9 billion, compared with a net loss of $1.8 billion in the prior year. The improved results were driven by a lower provision for credit losses, partially offset by lower net revenue.

End-of-period loans were $200.5 billion, a decrease of $24.7 billion, or 11%, from the prior year. Average loans were $207.9 billion, a decrease of $24.2 billion, or 10%, from the prior year. The declines in both end-of-period and average loans were predominantly due to a decline in Credit Card in lower-yielding promotional balances and the Washington Mutual portfolio runoff.

Net revenue was $20.5 billion, a decrease of $2.7 billion, or 12%, from the prior year. Net interest income was $16.2 billion, down by $3.3 billion, or 17%. The decrease in net interest income was driven by lower average loan balances, the impact of legislative changes, and a decreased level of fees. These decreases were offset partially by lower revenue reversals associated with lower charge-offs. Noninterest revenue was $4.3 billion, an increase of $572 million, or 15%, driven by the prior-year write-down of securitization interests and higher auto operating lease income, offset partially by lower revenue from fee-based products.

The provision for credit losses was $8.6 billion, compared with $19.6 billion in the prior year. The current-year provision reflected lower net charge-offs and a reduction of $6.2 billion to the allowance for loan losses due to lower estimated losses. The prior-year provision included an addition of $2.7 billion to the allowance for loan losses. The net charge-off rate was 7.12%, down from 7.37% in the prior year; and the 30+ day delinquency rate was 3.23%, down from 5.02% in the prior year. Card Services, excluding the Washington Mutual portfolio, net charge-off rate[1] was 8.72%, up from 8.45% in the prior year; and the 30+ day delinquency rate[1] was 3.66%, down from 5.52% in the prior year. The auto loan net charge-off rate was 0.63%, down from 1.44% in the prior year. The student loan net charge-off rate was 2.61%, up from 1.77% in the prior year.

Noninterest expense was $7.2 billion, an increase of $561 million, or 8%, due to higher marketing expense and higher auto operating lease depreciation expense.

[1] For Credit Card, includes loans held-for-sale, which are non-GAAP financial measures, to provide more meaningful measures that enable comparability with prior periods.

Selected metrics

As of or for the year ended December 31, (in millions, except headcount and ratios)	**2011**	2010	2009
Selected balance sheet data (period-end)[a]			
Managed assets	**$ 208,467**	$ 208,793	$ 255,029
Loans:			
Credit Card	**132,277**	137,676	78,786
Auto	**47,426**	48,367	46,031
Student	**13,425**	14,454	15,747
Total loans on balance sheets	**193,128**	200,497	140,564
Securitized credit card loans[b]	**NA**	NA	84,626
Total loans[c]	**$ 193,128**	$ 200,497	$ 225,190
Equity	**16,000**	18,400	17,543
Selected balance sheet data (average)[a]			
Managed assets	**$ 201,162**	$ 213,041	$ 255,519
Loans:			
Credit Card	**128,167**	144,367	87,029
Auto	**47,034**	47,603	43,558
Student	**13,986**	15,945	16,108
Total average loans on balance sheets	**189,187**	207,915	146,695
Securitized credit card loans[b]	**NA**	NA	85,378
Total average loans[d]	**$ 189,187**	$ 207,915	$ 232,073
Equity	**$ 16,000**	$ 18,400	$ 17,543
Headcount[a]	**27,585**	25,733	27,914
Credit data and quality statistics[a][b]			
Net charge-offs:			
Credit Card	**$ 6,925**	$ 14,037	$ 16,077
Auto	**152**	298	627
Student	**434**	387	253
Total net charge-offs	**$ 7,511**	$ 14,722	$ 16,957
Net charge-off rate:			
Credit Card[e]	**5.44%**	9.73%	9.33%
Auto	**0.32**	0.63	1.44
Student[f]	**3.10**	2.61	1.77
Total net charge-off rate	**3.99**	7.12	7.37

Selected metrics

As of or for the year ended December 31, (in millions, except ratios and where otherwise noted)	2011	2010	2009
Delinquency rates			
30+ day delinquency rate:			
Credit Card[g]	**2.81%**	4.14%	6.28%
Auto	**1.13**	1.22	1.63
Student[h][i]	**1.78**	1.53	1.50
Total 30+ day delinquency rate	**2.32**	3.23	5.02
90+ day delinquency rate – Credit Card[g]	**1.44**	2.25	3.59
Nonperforming assets[j]	**$ 228**	$ 269	$ 340
Allowance for loan losses:			
Credit Card[k]	**$ 6,999**	$ 11,034	$ 9,672
Auto and Student	**1,010**	899	1,042
Total allowance for loan losses	**$ 8,009**	$ 11,933	$ 10,714
Allowance for loan losses to period-end loans:			
Credit Card[g][k]	**5.30%**	8.14%	12.28%
Auto and Student[h]	**1.66**	1.43	1.73
Total allowance for loan losses to period-end loans	**4.15**	6.02	7.72
Business metrics			
Credit Card, excluding Commercial Card[a]			
Sales volume (in billions)	**$ 343.7**	$ 313.0	$ 294.1
New accounts opened	**8.8**	11.3	10.2
Open accounts[l]	**65.2**	90.7	93.3
Merchant Services			
Bank card volume (in billions)	**$ 553.7**	$ 469.3	$ 409.7
Total transactions (in billions)	**24.4**	20.5	18.0
Auto and Student			
Origination volume (in billions)			
Auto	**$ 21.0**	$ 23.0	$ 23.7
Student	**0.3**	1.9	4.2

The following are brief descriptions of selected business metrics within Card Services & Auto.

Sales volume – Dollar amount of cardmember purchases, net of returns.

Open accounts – Cardmember accounts with charging privileges.

Merchant Services business – A business that processes bank card transactions for merchants.

Bank card volume – Dollar amount of transactions processed for merchants.

Total transactions – Number of transactions and authorizations processed for merchants.

Auto origination volume - Dollar amount of loans and leases originated.

Commercial Card provides a wide range of payment services to corporate and public sector clients worldwide through the commercial card products. Services include procurement, corporate travel and entertainment, expense management services and business-to-business payment solutions.

As of or for the year ended December 31, (in millions, except ratios)	2011	2010	2009
Supplemental information[a][m]			
Card Services, excluding Washington Mutual portfolio			
Loans (period-end)	**$121,224**	$123,943	$143,759
Average loans	**116,186**	128,312	148,765
Net interest income[n]	**8.70%**	8.86%	8.97%
Net revenue[n]	**11.74**	11.22	10.63
Risk adjusted margin[n][o]	**9.39**	5.81	1.39
Net charge-offs	**$ 5,668**	$ 11,191	$ 12,574
Net charge-off rate[e]	**4.88%**	8.72%	8.45%
30+ day delinquency rate[g]	**2.53**	3.66	5.52
90+ day delinquency rate[g]	**1.29**	1.98	3.13
Card Services, excluding Washington Mutual and Commercial Card portfolios			
Loans (period-end)	**$119,966**	$123,943	$143,759
Average loans	**114,828**	128,312	148,765
Net interest income[n]	**8.87%**	8.86%	8.97%
Net revenue[n]	**11.69**	11.22	10.63
Risk adjusted margin[n][o]	**9.32**	5.81	1.39
Net charge-offs	**$ 5,666**	$ 11,191	$ 12,574
Net charge-off rate[e]	**4.93%**	8.72%	8.45%
30+ day delinquency rate[g][p]	**2.54**	3.66	5.52
90+ day delinquency rate[g][q]	**1.30**	1.98	3.13

(a) Effective January 1, 2011, the Commercial Card business that was previously in TSS was transferred to Card. There is no material impact on the financial data; prior-year periods were not revised. The commercial card portfolio is excluded from business metrics and supplemental information where noted. Headcount included 1,274 employees related to the transfer of this business.

(b) Effective January 1, 2010, the Firm adopted accounting guidance related to VIEs. As a result of the consolidation of the credit card securitization trusts, reported and managed basis relating to credit card securitizations are equivalent for periods beginning after January 1, 2010. For further details regarding the Firm's application and impact of the guidance, see Note 16 on pages 256–267 of this Annual Report.

(c) Total period-end loans included loans held-for-sale of $102 million, $2.2 billion and $1.7 billion at December 31, 2011, 2010 and 2009, respectively.

(d) Total average loans included loans held-for-sale of $833 million, $1.3 billion and $1.8 billion for the years ended December 31, 2011, 2010 and 2009, respectively.

(e) Average credit card loans included loans held-for-sale of $833 million and $148 million for the years ended December 31, 2011 and 2010, respectively. These amounts are excluded when calculating the net charge-off rate. For Card Services, excluding the Washington Mutual portfolio, and Card Services, excluding the Washington Mutual and Commercial Card portfolios, these amounts are included when calculating the net charge-off rate.

(f) Average student loans included loans held-for-sale of $1.1 billion and $1.8 billion for the years ended December 31, 2010 and 2009, respectively. These amounts are excluded when calculating the net charge-off rate.

(g) Period-end credit card loans included loans held-for-sale of $102 million and $2.2 billion at December 31, 2011 and 2010, respectively. No allowance for loan losses was recorded for these loans. These amounts are excluded when calculating the allowance for loan losses to period-end loans and delinquency rates. For Card Services, excluding the Washington Mutual portfolio, and Card Services, excluding the Washington Mutual and Commercial Card portfolios, these amounts are included when calculating the delinquency rates.

(h) Period-end student loans included loans held-for-sale of $1.7 billion at December 31, 2009. This amount is excluded when calculating the allowance for loan losses to period-end loans and the 30+ day delinquency rate.
(i) Excluded student loans insured by U.S. government agencies under the Federal Family Education Loan Program ("FFELP") of $989 million, $1.1 billion and $942 million at December 31, 2011, 2010 and 2009, respectively, that are 30 or more days past due. These amounts are excluded as reimbursement of insured amounts is proceeding normally.
(j) Nonperforming assets excluded student loans insured by U.S. government agencies under the FFELP of $551 million, $625 million and $542 million at December 31, 2011, 2010 and 2009, respectively, that are 90 or more days past due. These amounts are excluded as reimbursement of insured amounts is proceeding normally.
(k) Based on loans on the Consolidated Balance Sheets.
(l) Reflected the impact of portfolio sales in the second quarter of 2011.
(m) Supplemental information is provided for Card Services, excluding Washington Mutual and Commercial Card portfolios and including loans held-for-sale, which are non-GAAP financial measures, to provide more meaningful measures that enable comparability with prior periods.
(n) As a percentage of average managed loans.
(o) Represents total net revenue less provision for credit losses.
(p) At December 31, 2011, 2010 and 2009, the 30+ day delinquent loans for Card Services, excluding Washington Mutual and Commercial Card portfolios, were $3,047 million, $4,541 million and $7,930 million, respectively.
(q) At December 31, 2011, 2010 and 2009, the 90+ day delinquent loans for Card Services, excluding Washington Mutual and Commercial Card portfolios, were $1,557 million, $2,449 million and $4,503 million, respectively.
NA: Not applicable

Reconciliation from reported basis to managed basis

The financial information presented in the following table reconciles reported basis and managed basis to disclose the effect of securitizations reported by Card Services & Auto in 2009. Effective January 1, 2010, the Firm adopted accounting guidance related to VIEs. As a result of the consolidation of the credit card securitization trusts, reported and managed basis relating to credit card securitizations are equivalent for periods beginning after January 1, 2010. For further details regarding the Firm's application and impact of the guidance, see Note 16 on pages 256–267 of this Annual Report.

Year ended December 31, (in millions, except ratios)	2011	2010	2009
Income statement data			
Credit card income			
Reported	**$ 4,127**	$ 3,514	$ 5,107
Securitization adjustments	**NA**	NA	(1,494)
Managed credit card income	**$ 4,127**	$ 3,514	$ 3,613
Net interest income			
Reported	**$ 14,247**	$ 16,187	$ 11,543
Securitization adjustments	**NA**	NA	7,937
Fully tax-equivalent adjustments	**2**	7	13
Managed net interest income	**$ 14,249**	$ 16,194	$ 19,493
Total net revenue			
Reported	**$ 19,139**	$ 20,465	$ 16,743
Securitization adjustments	**NA**	NA	6,443
Fully tax-equivalent adjustments	**2**	7	13
Managed total net revenue	**$ 19,141**	$ 20,472	$ 23,199
Provision for credit losses			
Reported	**$ 3,621**	$ 8,570	$ 13,205
Securitization adjustments	**NA**	NA	6,443
Managed provision for credit losses	**$ 3,621**	$ 8,570	$ 19,648
Income tax expense/ (benefit)			
Reported	**$ 2,929**	$ 1,845	$ (1,286)
Fully tax-equivalent adjustments	**2**	7	13
Managed income tax expense/(benefit)	**$ 2,931**	$ 1,852	$ (1,273)
Balance sheet – average balances			
Total average assets			
Reported	**$ 201,162**	$ 213,041	$ 173,286
Securitization adjustments	**NA**	NA	82,233
Managed average assets	**$ 201,162**	$ 213,041	$ 255,519
Credit data and quality statistics			
Net charge-offs			
Reported	**$ 7,511**	$ 14,722	$ 10,514
Securitization adjustments	**NA**	NA	6,443
Managed net charge-offs	**$ 7,511**	$ 14,722	$ 16,957
Net charge-off rates			
Reported	**3.99%**	7.12%	7.26%
Securitized	**NA**	NA	7.55
Managed net charge-off rate	**3.99**	7.12	7.37

NA: Not applicable

COMMERCIAL BANKING

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

Commercial Banking is divided into four primary client segments: Middle Market Banking, Commercial Term Lending, Corporate Client Banking, and Real Estate Banking. Middle Market Banking covers corporate, municipal, financial institution and not-for-profit clients, with annual revenue generally ranging between $10 million and $500 million. Commercial Term Lending primarily provides term financing to real estate investors/owners for multifamily properties as well as financing office, retail and industrial properties. Corporate Client Banking, known as Mid-Corporate Banking prior to 2011, covers clients with annual revenue generally ranging between $500 million and $2 billion and focuses on clients that have broader investment banking needs. Real Estate Banking provides full-service banking to investors and developers of institutional-grade real estate properties. Lending and investment activity within the Community Development Banking and Chase Capital segments are included in other.

Selected income statement data

Year ended December 31, (in millions, except ratios)	2011	2010	2009
Revenue			
Lending- and deposit-related fees	**$ 1,081**	$ 1,099	$ 1,081
Asset management, administration and commissions	**136**	144	140
All other income[(a)]	**978**	957	596
Noninterest revenue	**2,195**	2,200	1,817
Net interest income	**4,223**	3,840	3,903
Total net revenue[(b)]	**6,418**	6,040	5,720
Provision for credit losses	**208**	297	1,454
Noninterest expense			
Compensation expense	**886**	820	776
Noncompensation expense	**1,361**	1,344	1,359
Amortization of intangibles	**31**	35	41
Total noninterest expense	**2,278**	2,199	2,176
Income before income tax expense	**3,932**	3,544	2,090
Income tax expense	**1,565**	1,460	819
Net income	**$ 2,367**	$ 2,084	$ 1,271
Revenue by product			
Lending[(c)]	**$ 3,455**	$ 2,749	$ 2,663
Treasury services[(c)]	**2,270**	2,632	2,642
Investment banking	**498**	466	394
Other	**195**	193	21
Total Commercial Banking revenue	**$ 6,418**	$ 6,040	$ 5,720
IB revenue, gross[(d)]	**$ 1,421**	$ 1,335	$ 1,163
Revenue by client segment			
Middle Market Banking	**$ 3,145**	$ 3,060	$ 3,055
Commercial Term Lending	**1,168**	1,023	875
Corporate Client Banking[(e)]	**1,261**	1,154	1,102
Real Estate Banking	**416**	460	461
Other	**428**	343	227
Total Commercial Banking revenue	**$ 6,418**	$ 6,040	$ 5,720
Financial ratios			
Return on common equity	**30%**	26%	16%
Overhead ratio	**35**	36	38

(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 $345 million, $238 million, and $170 million for the years ended December 31, 2011, 2010 and 2009, respectively.

(c) Effective January 1, 2011, product revenue from commercial card and standby letters of credit transactions was included in lending. For the year ended December 31, 2011, the impact of the change was $438 million. In prior-year periods, it was reported in treasury services.

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

(e) Corporate Client Banking was known as Mid-Corporate Banking prior to January 1, 2011.

2011 compared with 2010

Record net income was $2.4 billion, an increase of $283 million, or 14%, from the prior year. The improvement was driven by higher net revenue and a reduction in the provision for credit losses, partially offset by an increase in noninterest expense.

Net revenue was a record $6.4 billion, up by $378 million, or 6%, compared with the prior year. Net interest income was $4.2 billion, up by $383 million, or 10%, driven by growth in liability and loan balances partially offset by spread compression on liability products. Noninterest revenue was $2.2 billion, flat compared with the prior year.

On a client segment basis, revenue from Middle Market Banking was $3.1 billion, an increase of $85 million, or 3%, from the prior year due to higher liability and loan balances offset by spread compression on liability products and lower lending- and deposit-related fees. Revenue from Commercial Term Lending was $1.2 billion, an increase of $145 million, or 14%, and includes the full year impact of the purchase of a $3.5 billion loan portfolio during the third quarter of 2010. Revenue from Corporate Client Banking was $1.3 billion, an increase of $107 million, or 9% due to growth in liability and loan balances and higher lending- and deposit-related fees, partially offset by spread compression on liability products. Revenue from Real Estate Banking was $416 million, a decrease of $44 million, or 10%, driven by a reduction in loan balances and lower gains on sales of loans and other real estate owned, partially offset by wider loan spreads.

The provision for credit losses was $208 million, compared with $297 million in the prior year. Net charge-offs were $187 million (0.18% net charge-off rate) compared with $909 million (0.94% net charge-off rate) in the prior year. The reduction was largely related to commercial real estate. The allowance for loan losses to period-end loans retained was 2.34%, down from 2.61% in the prior year. Nonaccrual loans were $1.1 billion, down by $947 million, or 47% from the prior year, largely as a result of commercial real estate repayments and loans sales.

Noninterest expense was $2.3 billion, an increase of $79 million, or 4% from the prior year, reflecting higher headcount-related expense.

2010 compared with 2009

Record net income was $2.1 billion, an increase of $813 million, or 64%, from the prior year. The increase was driven by a reduction in the provision for credit losses and higher net revenue.

Net revenue was a record $6.0 billion, up by $320 million, or 6%, compared with the prior year. Net interest income was $3.8 billion, down by $63 million, or 2%, driven by spread compression on liability products and lower loan balances, predominantly offset by growth in liability balances and wider loan spreads. Noninterest revenue was $2.2 billion, an increase of $383 million, or 21%, from the prior year, reflecting higher net gains from asset sales, higher lending- and deposit-related fees, an improvement in the market conditions impacting the value of investments held at fair value, higher investment banking fees and increased community development investment-related revenue.

On a client segment basis, revenue from Middle Market Banking was $3.1 billion, flat compared with the prior year. Revenue from Commercial Term Lending was $1.0 billion, an increase of $148 million, or 17%, and included the impact of the purchase of a $3.5 billion loan portfolio during the third quarter of 2010 and higher net gains from asset sales. Corporate Client Banking revenue was $1.2 billion, an increase of $52 million, or 5%, compared with the prior year due to wider loan spreads, higher lending- and deposit-related fees and higher investment banking fees offset partially by reduced loan balances. Real Estate Banking revenue was $460 million, flat compared with the prior year.

The provision for credit losses was $297 million, compared with $1.5 billion in the prior year. The decline was mainly due to stabilization in the credit quality of the loan portfolio and refinements to credit loss estimates. Net charge-offs were $909 million (0.94% net charge-off rate), compared with $1.1 billion (1.02% net charge-off rate) in the prior year. The allowance for loan losses to period-end loans retained was 2.61%, down from 3.12% in the prior year. Nonaccrual loans were $2.0 billion, a decrease of $801 million, or 29%, from the prior year.

Noninterest expense was $2.2 billion, an increase of $23 million, or 1%, compared with the prior year reflecting higher headcount-related expense partially offset by lower volume-related expense.

Selected metrics

Year ended December 31, (in millions, except headcount and ratios)	2011	2010	2009
Selected balance sheet data (period-end)			
Total assets	**$ 158,040**	$ 142,646	$ 130,280
Loans:			
Loans retained	**111,162**	97,900	97,108
Loans held-for-sale and loans at fair value	**840**	1,018	324
Total loans	**$ 112,002**	$ 98,918	$ 97,432
Equity	**8,000**	8,000	8,000
Period-end loans by client segment			
Middle Market Banking	**$ 44,437**	$ 37,942	$ 34,170
Commercial Term Lending	**38,583**	37,928	36,201
Corporate Client Banking[a]	**16,747**	11,678	12,500
Real Estate Banking	**8,211**	7,591	10,619
Other	**4,024**	3,779	3,942
Total Commercial Banking loans	**$ 112,002**	$ 98,918	$ 97,432
Selected balance sheet data (average)			
Total assets	**$ 146,230**	$ 133,654	$ 135,408
Loans:			
Loans retained	**103,462**	96,584	106,421
Loans held-for-sale and loans at fair value	**745**	422	317
Total loans	**$ 104,207**	$ 97,006	$ 106,738
Liability balances[b]	**174,729**	138,862	113,152
Equity	**8,000**	8,000	8,000
Average loans by client segment			
Middle Market Banking	**$ 40,759**	$ 35,059	$ 37,459
Commercial Term Lending	**38,107**	36,978	36,806
Corporate Client Banking[a]	**13,993**	11,926	15,951
Real Estate Banking	**7,619**	9,344	12,066
Other	**3,729**	3,699	4,456
Total Commercial Banking loans	**$ 104,207**	$ 97,006	$ 106,738
Headcount	**5,520**	4,881	4,151

Year ended December 31, (in millions, except headcount and ratios)	2011	2010	2009
Credit data and quality statistics			
Net charge-offs	**$ 187**	$ 909	$ 1,089
Nonperforming assets			
Nonaccrual loans:			
Nonaccrual loans retained[c]	**1,036**	1,964	2,764
Nonaccrual loans held-for-sale and loans held at fair value	**17**	36	37
Total nonaccrual loans	**1,053**	2,000	2,801
Assets acquired in loan satisfactions	**85**	197	188
Total nonperforming assets	**1,138**	2,197	2,989
Allowance for credit losses:			
Allowance for loan losses	**2,603**	2,552	3,025
Allowance for lending-related commitments	**189**	209	349
Total allowance for credit losses	**2,792**	2,761	3,374
Net charge-off rate[d]	**0.18%**	0.94%	1.02%
Allowance for loan losses to period-end loans retained	**2.34**	2.61	3.12
Allowance for loan losses to nonaccrual loans retained[c]	**251**	130	109
Nonaccrual loans to total period-end loans	**0.94**	2.02	2.87

(a) Corporate Client Banking was known as Mid-Corporate Banking prior to January 1, 2011.
(b) Liability balances include deposits, as well as deposits that are swept to on-balance sheet liabilities (e.g., commercial paper, federal funds purchased, time deposits and securities loaned or sold under repurchase agreements) as part of customer cash management programs.
(c) Allowance for loan losses of $176 million, $340 million and $581 million was held against nonaccrual loans retained at December 31, 2011, 2010 and 2009, respectively.
(d) Loans held-for-sale and loans at fair value were excluded when calculating the net charge-off rate.

Treasury & Securities Services 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 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 AM businesses to serve clients firmwide. Certain TS revenue is included in other segments' results. Worldwide Securities Services holds, values, clears and services securities, cash and alternative investments for investors and broker-dealers, and manages depositary receipt programs globally.

Selected income statement data

Year ended December 31, (in millions, except ratio data)	2011	2010	2009
Revenue			
Lending- and deposit-related fees	**$ 1,240**	$ 1,256	$ 1,285
Asset management, administration and commissions	**2,748**	2,697	2,631
All other income	**556**	804	831
Noninterest revenue	**4,544**	4,757	4,747
Net interest income	**3,158**	2,624	2,597
Total net revenue	**7,702**	7,381	7,344
Provision for credit losses	**1**	(47)	55
Credit allocation income/(expense)[a]	**8**	(121)	(121)
Noninterest expense			
Compensation expense	**2,824**	2,734	2,544
Noncompensation expense	**2,971**	2,790	2,658
Amortization of intangibles	**68**	80	76
Total noninterest expense	**5,863**	5,604	5,278
Income before income tax expense	**1,846**	1,703	1,890
Income tax expense	**642**	624	664
Net income	**$ 1,204**	$ 1,079	$ 1,226
Financial ratios			
Return on common equity	**17%**	17%	25%
Pretax margin ratio	**24**	23	26
Overhead ratio	**76**	76	72
Pre-provision profit ratio[b]	**24**	24	28

(a) IB manages traditional credit exposures related to GCB on behalf of IB and TSS. Effective January 1, 2011, 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. The prior years reflected a reimbursement to IB for a portion of the total costs of managing the credit portfolio. IB recognizes this credit allocation as a component of all other income.

(b) Pre-provision profit ratio represents total net revenue less total noninterest expense divided by total net revenue. This reflects the operating performance before the impact of credit, and is another measure of performance for TSS against the performance of competitors.

Year ended December 31, (in millions)	2011	2010	2009
Revenue by business			
Worldwide Securities Services ("WSS")			
Investor Services	**$ 3,019**	$ 2,869	$ 2,836
Clearance, Collateral Management and Depositary Receipts	**842**	814	806
Total WSS revenue	**$ 3,861**	$ 3,683	$ 3,642
Treasury Services ("TS")			
Transaction Services	**$ 3,240**	$ 3,233	$ 3,312
Trade Finance	**601**	465	390
Total TS revenue	**$ 3,841**	$ 3,698	$ 3,702

2011 compared with 2010

Net income was $1.2 billion, an increase of $125 million, or 12%, from the prior year.

Net revenue was $7.7 billion, an increase of $321 million, or 4%, from the prior year. Excluding the impact of the Commercial Card business, net revenue was up 7%. Worldwide Securities Services net revenue was $3.9 billion, an increase of $178 million, or 5%. The increase was driven mainly by higher net interest income due to higher deposit balances and net inflows of assets under custody. Treasury Services net revenue was $3.8 billion, an increase of $143 million, or 4%. The increase was driven by higher deposit balances as well as higher trade loan volumes, partially offset by the transfer of the Commercial Card business to Card in the first quarter of 2011. Excluding the impact of the Commercial Card business, TS net revenue increased 10%.

TSS generated firmwide net revenue of $10.2 billion, including $6.4 billion by Treasury Services; of that amount, $3.8 billion was recorded in Treasury Services, $2.3 billion in Commercial Banking and $265 million in other lines of business. The remaining $3.9 billion of firmwide net revenue was recorded in Worldwide Securities Services.

The provision for credit losses was an expense of $1 million, compared with a benefit of $47 million in the prior year.

Noninterest expense was $5.9 billion, an increase of $259 million, or 5%, from the prior year. The increase was mainly driven by continued expansion into new markets and expenses related to exiting unprofitable business, partially offset by the transfer of the Commercial Card business to Card. Excluding the impact of the Commercial Card business, TSS noninterest expense increased 10%.

Results for 2011 included an $8 million pretax benefit related to the traditional credit portfolio for GCB clients that are managed jointly by IB and TSS.

2010 compared with 2009

Net income was $1.1 billion, a decrease of $147 million, or 12%, from the prior year. These results reflected higher noninterest expense partially offset by the benefit from the provision for credit losses and higher net revenue.

Net revenue was $7.4 billion, an increase of $37 million, or 1%, from the prior year. Treasury Services net revenue was $3.7 billion, relatively flat compared with the prior year as lower spreads on liability products were offset by higher trade loan and card product volumes. Worldwide Securities Services net revenue was $3.7 billion, relatively flat compared with the prior year as higher market levels and net inflows of assets under custody were offset by lower spreads in securities lending, lower volatility on foreign exchange, and lower balances on liability products.

TSS generated firmwide net revenue of $10.3 billion, including $6.6 billion by Treasury Services; of that amount, $3.7 billion was recorded in Treasury Services, $2.6 billion in Commercial Banking and $247 million in other lines of business. The remaining $3.7 billion of firmwide net revenue was recorded in Worldwide Securities Services.

The provision for credit losses was a benefit of $47 million, compared with an expense of $55 million in the prior year. The decrease in the provision expense was primarily due to an improvement in credit quality.

Noninterest expense was $5.6 billion, up $326 million, or 6%, from the prior year. The increase was driven by continued investment in new product platforms, primarily related to international expansion and higher performance-based compensation.

Selected metrics

Year ended December 31, (in millions, except headcount data)	**2011**	2010	2009
Selected balance sheet data (period-end)			
Total assets	**$ 68,665**	$ 45,481	$ 38,054
Loans[(a)]	**42,992**	27,168	18,972
Equity	**7,000**	6,500	5,000
Selected balance sheet data (average)			
Total assets	**$ 56,151**	$ 42,494	$ 35,963
Loans[(a)]	**34,268**	23,271	18,397
Liability balances	**318,802**	248,451	248,095
Equity	**7,000**	6,500	5,000
Headcount	**27,825**	29,073	26,609

Year ended December 31, (in millions, except ratio data, and where otherwise noted)	**2011**	2010	2009
Credit data and quality statistics			
Net charge-offs	**$ –**	$ 1	$ 19
Nonaccrual loans	**4**	12	14
Allowance for credit losses:			
Allowance for loan losses	**65**	65	88
Allowance for lending-related commitments	**49**	51	84
Total allowance for credit losses	**114**	116	172
Net charge-off rate	**–%**	–%	0.10%
Allowance for loan losses to period-end loans	**0.15**	0.24	0.46
Allowance for loan losses to nonaccrual loans	**NM**	NM	NM
Nonaccrual loans to period-end loans	**0.01**	0.04	0.07
WSS business metrics			
Assets under custody ("AUC") by assets class (period-end) (in billions)			
Fixed income	**$ 10,926**	$ 10,364	$ 10,073
Equity	**4,878**	4,850	4,090
Other[(b)]	**1,066**	906	722
Total AUC	**$ 16,870**	$ 16,120	$ 14,885
Liability balances (average)	**100,660**	79,457	86,936
TS business metrics			
TS liability balances (average)	**218,142**	168,994	161,159
Trade finance loans (period-end)	**36,696**	21,156	10,227

(a) Loan balances include trade finance loans, wholesale overdrafts and commercial card. Effective January 1, 2011, the commercial card loan business (of approximately $1.2 billion) that was previously in TSS was transferred to Card. There is no material impact on the financial data; the prior years were not revised.

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

Selected metrics

Year ended December 31, (in millions, except where otherwise noted)	2011	2010	2009
International metrics			
Net revenue by geographic region[a]			
Asia/Pacific	**$ 1,235**	$ 978	$ 845
Latin America/Caribbean	**329**	257	221
Europe/Middle East/Africa	**2,658**	2,389	2,462
North America	**3,480**	3,757	3,816
Total net revenue	**$ 7,702**	$ 7,381	$ 7,344
Average liability balances[a]			
Asia/Pacific	**$ 43,524**	$ 32,862	$ 28,501
Latin America/Caribbean	**12,625**	11,558	8,231
Europe/Middle East/Africa	**123,920**	102,014	101,683
North America	**138,733**	102,017	109,680
Total average liability balances	**$ 318,802**	$ 248,451	$ 248,095
Trade finance loans (period-end)[a]			
Asia/Pacific	**$ 19,280**	$ 11,834	$ 4,519
Latin America/Caribbean	**6,254**	3,628	2,458
Europe/Middle East/Africa	**9,726**	4,874	2,171
North America	**1,436**	820	1,079
Total trade finance loans	**$ 36,696**	$ 21,156	$ 10,227
AUC (period-end)(in billions)[a]			
North America	**$ 9,735**	$ 9,836	$ 9,391
All other regions	**7,135**	6,284	5,494
Total AUC	**$ 16,870**	$ 16,120	$ 14,885
TSS firmwide disclosures[b]			
TS revenue – reported	**$ 3,841**	$ 3,698	$ 3,702
TS revenue reported in CB[c]	**2,270**	2,632	2,642
TS revenue reported in other lines of business	**265**	247	245
TS firmwide revenue[d]	**6,376**	6,577	6,589
WSS revenue	**3,861**	3,683	3,642
TSS firmwide revenue[d]	**$ 10,237**	$ 10,260	$ 10,231
TSS total foreign exchange (“FX”) revenue[d]	**658**	636	661
TS firmwide liability balances (average)[e]	**393,022**	308,028	274,472
TSS firmwide liability balances (average)[e]	**493,531**	387,313	361,247
Number of:			
U.S.$ ACH transactions originated	**3,906**	3,892	3,896
Total U.S.$ clearing volume (in thousands)	**129,417**	122,123	113,476
International electronic funds transfer volume (in thousands)[f]	**250,537**	232,453	193,348
Wholesale check volume	**2,333**	2,060	2,184
Wholesale cards issued (in thousands)[g]	**25,187**	29,785	27,138

(a) Total net revenue, average liability balances, trade finance loans and AUC are based on the domicile of the client.
(b) 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.
(c) Effective January 1, 2011, certain CB revenues were excluded in the TS firmwide metrics; they are instead directly captured within CB’s lending revenue by product. The impact of this change was $438 million for the year ended December 31, 2011. In previous years, these revenues were included in CB’s treasury services revenue by product.
(d) 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.
(e) Firmwide liability balances include liability balances recorded in CB.
(f) International electronic funds transfer includes non-U.S. dollar Automated Clearing House (“ACH”) and clearing volume.
(g) Wholesale cards issued and outstanding include commercial, stored value, prepaid and government electronic benefit card products. Effective January 1, 2011, the commercial card portfolio was transferred from TSS to Card.

Description of a business metric within TSS:

Liability balances include deposits, as well as deposits that are swept to on-balance sheet liabilities (e.g., commercial paper, federal funds purchased, time deposits and securities loaned or sold under repurchase agreements) as part of customer cash management programs.

Description of selected products and services within TSS:

Investor Services includes primarily custody, fund accounting and administration, and securities lending products sold principally to asset managers, insurance companies and public and private investment funds.

Clearance, Collateral Management & Depositary Receipts primarily includes broker-dealer clearing and custody services, including tri-party repo transactions, collateral management products, and depositary bank services for American and global depositary receipt programs.

Transaction Services includes a broad range of products that enable clients to manage payments and receipts, as well as invest and manage funds. Products include U.S. dollar and multi-currency clearing, ACH, lockbox, disbursement and reconciliation services, check deposits, and currency related services.

Trade Finance enables the management of cross-border trade for bank and corporate clients. Products include loans directly tied to goods crossing borders, export/import loans, commercial letters of credit, standby letters of credit, and supply chain finance.

ASSET MANAGEMENT

Asset Management, with assets under supervision of $1.9 trillion, is a global leader in investment and wealth management. AM clients include institutions, retail investors and high-net-worth individuals in every major market throughout the world. AM offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity products, including money market instruments and bank deposits. AM also provides trust and estate, banking and brokerage services to high-net-worth clients, and retirement services for corporations and individuals. The majority of AM's client assets are in actively managed portfolios.

Selected income statement data

Year ended December 31, (in millions, except ratios)	2011	2010	2009
Revenue			
Asset management, administration and commissions	**$ 6,748**	$ 6,374	$ 5,621
All other income	**1,147**	1,111	751
Noninterest revenue	**7,895**	7,485	6,372
Net interest income	**1,648**	1,499	1,593
Total net revenue	**9,543**	8,984	7,965
Provision for credit losses	**67**	86	188
Noninterest expense			
Compensation expense	**4,152**	3,763	3,375
Noncompensation expense	**2,752**	2,277	2,021
Amortization of intangibles	**98**	72	77
Total noninterest expense	**7,002**	6,112	5,473
Income before income tax expense	**2,474**	2,786	2,304
Income tax expense	**882**	1,076	874
Net income	**$ 1,592**	$ 1,710	$ 1,430
Revenue by client segment			
Private Banking	**$ 5,116**	$ 4,860	$ 4,320
Institutional	**2,273**	2,180	2,065
Retail	**2,154**	1,944	1,580
Total net revenue	**$ 9,543**	$ 8,984	$ 7,965
Financial ratios			
Return on common equity	**25%**	26%	20%
Overhead ratio	**73**	68	69
Pretax margin ratio	**26**	31	29

2011 compared with 2010

Net income was $1.6 billion, a decrease of $118 million, or 7%, from the prior year. These results reflected higher noninterest expense, largely offset by higher net revenue and a lower provision for credit losses.

Net revenue was $9.5 billion, an increase of $559 million, or 6%, from the prior year. Noninterest revenue was $7.9 billion, up by $410 million, or 5%, due to net inflows to products with higher margins and the effect of higher market levels, partially offset by lower performance fees and lower loan-related revenue. Net interest income was $1.6 billion, up by $149 million, or 10%, due to higher deposit and loan balances, partially offset by narrower deposit spreads.

Revenue from Private Banking was $5.1 billion, up 5% from the prior year due to higher deposit and loan balances and higher brokerage revenue, partially offset by narrower deposit spreads and lower loan-related revenue. Revenue from Institutional was $2.3 billion, up 4% due to net inflows to products with higher margins and the effect of higher market levels. Revenue from Retail was $2.2 billion, up 11% due to net inflows to products with higher margins and the effect of higher market levels.

The provision for credit losses was $67 million, compared with $86 million in the prior year.

Noninterest expense was $7.0 billion, an increase of $890 million, or 15%, from the prior year, due to higher headcount-related expense and non-client-related litigation, partially offset by lower performance-based compensation.

2010 compared with 2009

Net income was $1.7 billion, an increase of $280 million, or 20%, from the prior year, due to higher net revenue and a lower provision for credit losses, largely offset by higher noninterest expense.

Net revenue was a record $9.0 billion, an increase of $1.0 billion, or 13%, from the prior year. Noninterest revenue was $7.5 billion, an increase of $1.1 billion, or 17%, due to the effect of higher market levels, net inflows to products with higher margins, higher loan originations, and higher performance fees. Net interest income was $1.5 billion, down by $94 million, or 6%, from the prior year, due to narrower deposit spreads, largely offset by higher deposit and loan balances.

Revenue from Private Banking was $4.9 billion, up 13% from the prior year due to higher loan originations, higher deposit and loan balances, the effect of higher market levels and net inflows to products with higher margins, partially offset by narrower deposit spreads. Revenue from Institutional was $2.2 billion, up 6% due to the effect of higher market levels, partially offset by liquidity outflows. Revenue from Retail was $1.9 billion, up 23% due to the effect of higher market levels and net inflows to products with higher margins, partially offset by lower valuations of seed capital investments.

The provision for credit losses was $86 million, compared with $188 million in the prior year, reflecting an improving credit environment.

Noninterest expense was $6.1 billion, an increase of $639 million, or 12%, from the prior year, resulting from increased headcount and higher performance-based compensation.

Selected metrics

Business metrics

As of or for the year ended December 31, (in millions, except headcount, ranking data and where otherwise noted)	2011	2010	2009
Number of:			
Client advisors[(a)]	**2,444**	2,281	1,936
Retirement planning services participants (in thousands)	**1,798**	1,580	1,628
JPMorgan Securities brokers	**439**	415	376
% of customer assets in 4 & 5 Star Funds[(b)]	**43%**	49%	42%
% of AUM in 1st and 2nd quartiles:[(c)]			
1 year	**48**	67	57
3 years	**72**	72	62
5 years	**78**	80	74
Selected balance sheet data (period-end)			
Total assets	**$ 86,242**	$ 68,997	$ 64,502
Loans	**57,573**	44,084	37,755
Equity	**6,500**	6,500	7,000
Selected balance sheet data (average)			
Total assets	**$ 76,141**	$ 65,056	$ 60,249
Loans	**50,315**	38,948	34,963
Deposits	**106,421**	86,096	77,005
Equity	**6,500**	6,500	7,000
Headcount	**18,036**	16,918	15,136
Credit data and quality statistics			
Net charge-offs	**$ 92**	$ 76	$ 117
Nonaccrual loans	**317**	375	580
Allowance for credit losses:			
Allowance for loan losses	**209**	267	269
Allowance for lending-related commitments	**10**	4	9
Total allowance for credit losses	**219**	271	278
Net charge-off rate	**0.18%**	0.20%	0.33%
Allowance for loan losses to period-end loans	**0.36**	0.61	0.71
Allowance for loan losses to nonaccrual loans	**66**	71	46
Nonaccrual loans to period-end loans	**0.55**	0.85	1.54

(a) Effective January 1, 2011, the methodology used to determine client advisors was revised. Prior periods have been revised.
(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.

AM's client segments comprise the following:

Private Banking offers investment advice and wealth management services to high- and ultra-high-net-worth individuals, families, money managers, business owners and small corporations worldwide, including investment management, capital markets and risk management, tax and estate planning, banking, capital raising and specialty-wealth advisory services.

Institutional brings comprehensive global investment services – including asset management, pension analytics, asset-liability management and active risk-budgeting strategies – to corporate and public institutions, endowments, foundations, not-for-profit organizations and governments worldwide.

Retail provides worldwide investment management services and retirement planning and administration, through third-party and direct distribution of a full range of investment vehicles.

J.P. Morgan Asset Management has two high-level measures of its overall fund performance.

- Percentage of assets under management in funds rated 4- and 5-stars (three years). Mutual fund rating services rank funds based on their risk-adjusted performance over various periods. A 5-star rating is the best and represents the top 10% of industry wide ranked funds. A 4-star rating represents the next 22% of industry wide ranked funds. The worst rating is a 1-star rating.
- Percentage of assets under management in first- or second- quartile funds (one, three and five years). Mutual fund rating services rank funds according to a peer-based performance system, which measures returns according to specific time and fund classification (small-, mid-, multi- and large-cap).

Assets under supervision

2011 compared with 2010

Assets under supervision were $1.9 trillion at December 31, 2011, an increase of $81 billion, or 4%, from the prior year. Assets under management were $1.3 trillion, an increase of $38 billion, or 3%. Both increases were due to net inflows to long-term and liquidity products, partially offset by the impact of lower market levels. Custody, brokerage, administration and deposit balances were $585 billion, up by $43 billion, or 8%, due to deposit and custody inflows.

2010 compared with 2009

Assets under supervision were $1.8 trillion at December 31, 2010, an increase of $139 billion, or 8%, from the prior year. Assets under management were $1.3 trillion, an increase of $49 billion, or 4%, due to the effect of higher market levels and net inflows in long-term products, largely offset by net outflows in liquidity products. Custody, brokerage, administration and deposit balances were $542 billion, up by $90 billion, or 20%, due to custody and brokerage inflows and the effect of higher market levels.

Assets under supervision[a]

As of or the year ended December 31, (in billions)	2011	2010	2009
Assets by asset class			
Liquidity	**$ 515**	$ 497	$ 591
Fixed income	**336**	289	226
Equity and multi-asset	**372**	404	339
Alternatives	**113**	108	93
Total assets under management	**1,336**	1,298	1,249
Custody/brokerage/ administration/deposits	**585**	542	452
Total assets under supervision	**$ 1,921**	$ 1,840	$ 1,701
Assets by client segment			
Private Banking	**$ 291**	$ 284	$ 270
Institutional[b]	**722**	703	731
Retail[b]	**323**	311	248
Total assets under management	**$ 1,336**	$ 1,298	$ 1,249
Private Banking	**$ 781**	$ 731	$ 636
Institutional[b]	**723**	703	731
Retail[b]	**417**	406	334
Total assets under supervision	**$ 1,921**	$ 1,840	$ 1,701
Mutual fund assets by asset class			
Liquidity	**$ 458**	$ 446	$ 539
Fixed income	**107**	92	67
Equity and multi-asset	**147**	169	143
Alternatives	**8**	7	9
Total mutual fund assets	**$ 720**	$ 714	$ 758

(a) Excludes assets under management of American Century Companies, Inc., in which the Firm sold its ownership interest on August 31, 2011. The Firm previously had an ownership interest of 41% and 42% in American Century Companies, Inc., whose AUM is not included in the table above, at December 31, 2010 and 2009, respectively.
(b) In 2011, the client hierarchy used to determine asset classification was revised, and the prior-year periods have been revised.

Year ended December 31, (in billions)	2011	2010	2009
Assets under management rollforward			
Beginning balance	**$ 1,298**	$ 1,249	$ 1,133
Net asset flows:			
Liquidity	**18**	(89)	(23)
Fixed income	**40**	50	34
Equity, multi-asset and alternatives	**13**	19	17
Market/performance/other impacts	**(33)**	69	88
Ending balance, December 31	**$ 1,336**	$ 1,298	$ 1,249
Assets under supervision rollforward			
Beginning balance	**$ 1,840**	$ 1,701	$ 1,496
Net asset flows	**123**	28	50
Market/performance/other impacts	**(42)**	111	155
Ending balance, December 31	**$ 1,921**	$ 1,840	$ 1,701

International metrics

Year ended December 31, (in billions, except where otherwise noted)	2011	2010	2009
Total net revenue (in millions)[a]			
Europe/Middle East/Africa	**$ 1,704**	$ 1,642	$ 1,380
Asia/Pacific	**971**	925	752
Latin America/Caribbean	**808**	541	426
North America	**6,060**	5,876	5,407
Total net revenue	**$ 9,543**	$ 8,984	$ 7,965
Assets under management			
Europe/Middle East/Africa	**$ 278**	$ 282	$ 293
Asia/Pacific	**105**	111	99
Latin America/Caribbean	**34**	35	19
North America	**919**	870	838
Total assets under management	**$ 1,336**	$ 1,298	$ 1,249
Assets under supervision			
Europe/Middle East/Africa	**$ 329**	$ 331	$ 338
Asia/Pacific	**139**	147	125
Latin America/Caribbean	**89**	84	55
North America	**1,364**	1,278	1,183
Total assets under supervision	**$ 1,921**	$ 1,840	$ 1,701

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

The Corporate/Private Equity sector comprises Private Equity, Treasury, the Chief Investment Office ("CIO"), corporate staff units and expense that is centrally managed. Treasury and CIO manage capital, liquidity and structural risks of the Firm. The corporate staff units include Central Technology and Operations, Internal Audit, Executive Office, Finance, Human Resources, Marketing & Communications, Legal & Compliance, Corporate Real Estate and General Services, Risk Management, Corporate Responsibility and Strategy & Development. Other centrally managed expense includes the Firm's occupancy and pension-related expense, net of allocations to the business.

Selected income statement data

Year ended December 31, (in millions, except headcount)	2011	2010	2009
Revenue			
Principal transactions	**$ 1,434**	$ 2,208	$ 1,574
Securities gains	**1,600**	2,898	1,139
All other income	**604**	253	58
Noninterest revenue	**3,638**	5,359	2,771
Net interest income	**505**	2,063	3,863
Total net revenue[a]	**4,143**	7,422	6,634
Provision for credit losses	**(36)**	14	80
Noninterest expense			
Compensation expense	**2,425**	2,357	2,811
Noncompensation expense[b]	**6,884**	8,788	3,597
Merger costs	**–**	–	481
Subtotal	**9,309**	11,145	6,889
Net expense allocated to other businesses	**(5,160)**	(4,790)	(4,994)
Total noninterest expense	**4,149**	6,355	1,895
Income before income tax expense/(benefit) and extraordinary gain	**30**	1,053	4,659
Income tax expense/(benefit)[c]	**(772)**	(205)	1,705
Income before extraordinary gain	**802**	1,258	2,954
Extraordinary gain[d]	**–**	–	76
Net income	**$ 802**	$ 1,258	$ 3,030
Total net revenue			
Private equity	**$ 836**	$ 1,239	$ 18
Corporate	**3,307**	6,183	6,616
Total net revenue	**$ 4,143**	$ 7,422	$ 6,634
Net income			
Private equity	**$ 391**	$ 588	$ (78)
Corporate[e]	**411**	670	3,108
Total net income	**$ 802**	$ 1,258	$ 3,030
Total assets (period-end)	**$693,153**	$ 526,588	$ 595,877
Headcount	**22,117**	20,030	20,119

(a) Total net revenue included tax-equivalent adjustments, predominantly due to tax-exempt income from municipal bond investments of $298 million, $226 million and $151 million for the years ended December 31, 2011, 2010 and 2009, respectively.

(b) Included litigation expense of $3.2 billion and $5.7 billion for the years ended December 31, 2011 and 2010, respectively, compared with net benefits of $0.3 billion for the year ended December 31, 2009.

(c) Includes tax benefits recognized upon the resolution of tax audits.

(d) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual from the FDIC for $1.9 billion. The acquisition resulted in negative goodwill, and accordingly, the Firm recorded an extraordinary gain. A preliminary gain of $1.9 billion was recognized at December 31, 2008. As a result of the final refinement of the purchase price allocation in 2009, the Firm recognized a $76 million increase in the extraordinary gain. The final total extraordinary gain that resulted from the Washington Mutual transaction was $2.0 billion.

(e) 2009 included merger costs and the extraordinary gain related to the Washington Mutual transaction, as well as items related to the Bear Stearns merger, including merger costs, asset management liquidation costs and JPMorgan Securities broker retention expense.

2011 compared with 2010

Net income was $802 million, compared with $1.3 billion in the prior year.

Private Equity net income was $391 million, compared with $588 million in the prior year. Net revenue was $836 million, a decrease of $403 million, primarily related to net write-downs on privately-held investments and the absence of prior-year gains from sales. Noninterest expense was $238 million, a decrease of $85 million from the prior year.

Corporate reported net income of $411 million, compared with net income of $670 million in the prior year. Net revenue was $3.3 billion, including $1.6 billion of securities gains. Net interest income in 2011 was lower compared with 2010, primarily driven by repositioning of the investment securities portfolio and lower funding benefits from financing the portfolio.

Noninterest expense was $4.1 billion which included $3.2 billion of litigation expense, predominantly for mortgage-related matters. Noninterest expense in the prior year was $6.4 billion, which included $5.7 billion of litigation expense.

2010 compared with 2009

Net income was $1.3 billion compared with $3.0 billion in the prior year. The decrease was driven by higher litigation expense, partially offset by higher net revenue.

Net income for Private Equity was $588 million, compared with a net loss of $78 million in the prior year, reflecting the impact of improved market conditions on certain investments in the portfolio. Net revenue was $1.2 billion compared with $18 million in the prior year, reflecting private equity gains of $1.3 billion compared with losses of $54 million in 2009. Noninterest expense was $323 million, an increase of $182 million, driven by higher compensation expense.

Net income for Corporate was $670 million, compared with $3.1 billion in the prior year. Results for 2010 reflect after-tax litigation expense of $3.5 billion, lower net interest

income and trading gains, partially offset by a higher level of securities gains, primarily driven by repositioning of the investment securities portfolio in response to changes in the interest rate environment and to rebalance exposure. The prior year included merger-related net loss of $635 million and a $419 million FDIC assessment.

Treasury and CIO

Selected income statement and balance sheet data

Year ended December 31, (in millions)	2011	2010	2009
Securities gains[a]	**$ 1,385**	$ 2,897	$ 1,147
Investment securities portfolio (average)	**330,885**	323,673	324,037
Investment securities portfolio (ending)	**355,605**	310,801	340,163
Mortgage loans (average)	**13,006**	9,004	7,427
Mortgage loans (ending)	**13,375**	10,739	8,023

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

For further information on the investment securities portfolio, see Note 3 and Note 12 on pages 184–198 and 225–230, respectively, of this Annual Report. For further information on CIO VaR and the Firm's nontrading interest rate-sensitive revenue at risk, see the Market Risk Management section on pages 158–163 of this Annual Report.

Private Equity Portfolio

Selected income statement and balance sheet data

Year ended December 31, (in millions)	2011	2010	2009
Private equity gains/(losses)			
Realized gains	**$ 1,842**	$ 1,409	$ 109
Unrealized gains/(losses)[a]	**(1,305)**	(302)	(81)
Total direct investments	**537**	1,107	28
Third-party fund investments	**417**	241	(82)
Total private equity gains/(losses)[b]	**$ 954**	$ 1,348	$ (54)

Private equity portfolio information[c]

Direct investments

December 31, (in millions)	2011	2010	2009
Publicly held securities			
Carrying value	**$ 805**	$ 875	$ 762
Cost	**573**	732	743
Quoted public value	**896**	935	791
Privately held direct securities			
Carrying value	**4,597**	5,882	5,104
Cost	**6,793**	6,887	5,959
Third-party fund investments[d]			
Carrying value	**2,283**	1,980	1,459
Cost	**2,452**	2,404	2,079
Total private equity portfolio			
Carrying value	**$ 7,685**	$ 8,737	$ 7,325
Cost	**$ 9,818**	$ 10,023	$ 8,781

(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 184–198 of this Annual Report.
(d) Unfunded commitments to third-party private equity funds were $789 million, $1.0 billion and $1.5 billion at December 31, 2011, 2010 and 2009, respectively.

2011 compared with 2010

The carrying value of the private equity portfolio at December 31, 2011, was $7.7 billion, down from $8.7 billion at December 31, 2010. The decrease in the portfolio is predominantly driven by sales of investments, partially offset by new investments. The portfolio represented 5.7% of the Firm's stockholders' equity less goodwill at December 31, 2011, down from 6.9% at December 31, 2010.

2010 compared with 2009

The carrying value of the private equity portfolio at December 31, 2010, was $8.7 billion, up from $7.3 billion at December 31, 2009. The portfolio increase was primarily due to incremental follow-on investments. The portfolio represented 6.9% of the Firm's stockholders' equity less goodwill at December 31, 2010, up from 6.3% at December 31, 2009.

During the years ended December 31, 2011 and 2010, the Firm recorded approximately $24.5 billion and $22.0 billion, respectively, of managed revenue derived from clients, customers and counterparties domiciled outside of North America. Of those amounts, approximately 66% and 64%, respectively, were derived from Europe/Middle East/ Africa ("EMEA"); approximately 25% and 28%, respectively, from Asia/Pacific; and approximately 9% and 8%, respectively, from Latin America/Caribbean. For additional information regarding international operations, see Note 32 on pages 299–300 of this Annual Report.

International Wholesale Activities

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

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

As of or for the year ended December 31,	EMEA		Asia/Pacific		Latin America/ Caribbean	
(in millions, except headcount and where otherwise noted)	**2011**	2010	**2011**	2010	**2011**	2010
Revenue[(a)]	**$ 16,141**	$ 14,149	**$ 5,971**	$ 6,082	**$ 2,232**	$ 1,697
Countries of operation	**33**	33	**16**	16	**9**	8
New offices	**3**	6	**2**	7	**4**	2
Total headcount[(b)]	**16,178**	16,122	**20,172**	19,153	**1,378**	1,201
Front-office headcount	**5,993**	5,872	**4,253**	4,168	**569**	486
Significant clients[(c)]	**920**	881	**480**	448	**154**	139
Deposits (average)[(d)]	**$168,882**	$142,859	**$ 57,684**	$ 53,268	**$ 5,318**	$ 6,263
Loans (period-end)[(e)]	**36,637**	27,934	**31,119**	20,552	**25,141**	16,480
Assets under management (in billions)	**278**	282	**105**	111	**34**	35
Assets under supervision (in billions)	**329**	331	**139**	147	**89**	84
Assets under custody (in billions)	**5,430**	4,810	**1,426**	1,321	**279**	153

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

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

BALANCE SHEET ANALYSIS

Selected Consolidated Balance Sheets data

December 31, (in millions)	2011	2010
Assets		
Cash and due from banks	**$ 59,602**	$ 27,567
Deposits with banks	**85,279**	21,673
Federal funds sold and securities purchased under resale agreements	**235,314**	222,554
Securities borrowed	**142,462**	123,587
Trading assets:		
Debt and equity instruments	**351,486**	409,411
Derivative receivables	**92,477**	80,481
Securities	**364,793**	316,336
Loans	**723,720**	692,927
Allowance for loan losses	**(27,609)**	(32,266)
Loans, net of allowance for loan losses	**696,111**	660,661
Accrued interest and accounts receivable	**61,478**	70,147
Premises and equipment	**14,041**	13,355
Goodwill	**48,188**	48,854
Mortgage servicing rights	**7,223**	13,649
Other intangible assets	**3,207**	4,039
Other assets	**104,131**	105,291
Total assets	**$2,265,792**	$2,117,605
Liabilities		
Deposits	**$1,127,806**	$ 930,369
Federal funds purchased and securities loaned or sold under repurchase agreements	**213,532**	276,644
Commercial paper	**51,631**	35,363
Other borrowed funds[(a)]	**21,908**	34,325
Trading liabilities:		
Debt and equity instruments	**66,718**	76,947
Derivative payables	**74,977**	69,219
Accounts payable and other liabilities	**202,895**	170,330
Beneficial interests issued by consolidated VIEs	**65,977**	77,649
Long-term debt[(a)]	**256,775**	270,653
Total liabilities	**2,082,219**	1,941,499
Stockholders' equity	**183,573**	176,106
Total liabilities and stockholders' equity	**$2,265,792**	$2,117,605

(a) Effective January 1, 2011, $23.0 billion of long-term advances from FHLBs were reclassified from other borrowed funds to long-term debt. The prior-year period has been revised to conform with the current presentation. For additional information, see Notes 3 and 21 on pages 184–198 and 273–275, respectively, of this Annual Report.

Consolidated Balance Sheets overview

JPMorgan Chase's assets and liabilities increased from December 31, 2010, largely due to a significant level of deposit inflows from wholesale clients and, to a lesser extent, consumer clients. The higher level of inflows since the beginning of the year, which accelerated after the first quarter, contributed to increases in both cash and due from banks, and deposits with banks, particularly balances due from Federal Reserve Banks and other banks. In addition, the increase in total assets was driven by a higher level of securities and loans. These increases were offset partially by lower trading assets, specifically debt and equity instruments. The increase in total liabilities was driven by the significant increase in deposits and, to a lesser extent, higher accounts payable, partially offset by a lower level of securities sold under repurchase agreements. The increase in stockholders' equity primarily reflected 2011 net income, net of repurchases of common equity.

The following paragraphs provide a description of each of the specific line captions on the Consolidated Balance Sheets. For the line captions that had significant changes from December 31, 2010, a discussion of the changes is also included.

Cash and due from banks and deposits with banks

The Firm uses these instruments as part of its liquidity management activities. Cash and due from banks and deposits with banks increased significantly, reflecting the placement of funds with various central banks, including Federal Reserve Banks; the increase in these funds predominantly resulted from the overall growth in wholesale client deposits. For additional information, see the deposits discussion below.

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

The Firm uses these instruments to support its client-driven market-making and risk management activities and to manage its cash positions. In particular, securities purchased under resale agreements and securities borrowed are used to provide funding or liquidity to clients through short-term purchases and borrowings of their securities by the Firm. Securities purchased under resale agreements and securities borrowed increased, predominantly in Corporate due to higher excess cash positions at year end.

Trading assets and liabilities – debt and equity instruments

Debt and equity trading instruments are used primarily for client-driven market-making activities. These instruments consist predominantly of fixed-income securities, including government and corporate debt; equity securities, including convertible securities; loans, including prime mortgages and other loans warehoused by RFS and IB for sale or securitization purposes and accounted for at fair value; and

physical commodities inventories generally carried at the lower of cost or fair value. Trading assets – debt and equity instruments decreased, driven by client market-making activity in IB; this resulted in lower levels of equity securities, U.S. government and agency mortgage-backed securities, and non-U.S. government securities. For additional information, refer to Note 3 on pages 184–198 of this Annual Report.

Trading assets and liabilities – derivative receivables and payables

The Firm uses derivative instruments predominantly for market-making activities. Derivatives enable customers and the Firm to manage their exposure to fluctuations in interest rates, currencies and other markets. The Firm also uses derivative instruments to manage its market and credit exposure. Derivative receivables and payables increased, predominantly due to increases in interest rate derivative balances driven by declining interest rates, and higher commodity derivative balances driven by price movements in base metals and energy. For additional information, refer to Derivative contracts on pages 141–144, and Note 3 and Note 6 on pages 184–198 and 202–210, respectively, of this Annual Report.

Securities

Substantially all of the securities portfolio is classified as available-for-sale ("AFS") and used primarily to manage the Firm's exposure to interest rate movements and to invest cash resulting from excess liquidity. Securities increased, largely due to repositioning of the portfolio in Corporate in response to changes in the market environment. This repositioning increased the levels of non-U.S. government debt and residential mortgage-backed securities, as well as collateralized loan obligations and commercial mortgage-backed securities, and reduced the levels of U.S. government agency securities. For additional information related to securities, refer to the discussion in the Corporate/Private Equity segment on pages 107–108, and Note 3 and Note 12 on pages 184–198 and 225–230, respectively, of this Annual Report.

Loans and allowance for loan losses

The Firm provides loans to a variety of customers, from large corporate and institutional clients to individual consumers and small businesses. Loans increased, reflecting continued growth in client activity across all of the Firm's wholesale businesses and regions. This increase was offset by a decline in consumer, excluding credit card loan balances, due to paydowns, portfolio run-off and charge-offs, and in credit card loans, due to higher repayment rates, run-off of the Washington Mutual portfolio and the Firm's sale of the Kohl's portfolio.

The allowance for loan losses decreased predominantly due to lower estimated losses in the credit card loan portfolio, reflecting improved delinquency trends and lower levels of credit card outstandings, and the impact of loan sales in the wholesale portfolio. For a more detailed discussion of the loan portfolio and the allowance for loan losses, refer to Credit Risk Management on pages 132–157, and Notes 3, 4, 14 and 15 on pages 184–198, 198–200, 231–252 and 252–255, respectively, of this Annual Report.

Accrued interest and accounts receivable

This caption consists of accrued interest receivables from interest-earning assets; receivables from customers; receivables from brokers, dealers and clearing organizations; and receivables from failed securities sales. Accrued interest and accounts receivable decreased, primarily in IB, driven by a large reduction in customer margin receivables due to changes in client activity.

Premises and Equipment

The Firm's premises and equipment consist of land, buildings, leasehold improvements, furniture and fixtures, hardware and software, and other equipment. The increase in premises and equipment was predominantly due to renovation of JPMorgan Chase's headquarters in New York City; the purchase of a building in London; retail branch expansion in the U.S.; and investments in technology hardware and software, as well as other equipment. The increase was partially offset by depreciation and amortization.

Goodwill

Goodwill arises from business combinations and represents the excess of the purchase price of an acquired entity or business over the fair values assigned to the assets acquired and liabilities assumed. The decrease in goodwill was predominantly due to AM's sale of its investment in an asset manager. For additional information on goodwill, see Note 17 on pages 267–271 of this Annual Report.

Mortgage servicing rights

MSRs represent the fair value of net cash flows expected to be received for performing specified mortgage-servicing activities for others. MSRs decreased, predominantly as a result of a decline in market interest rates, amortization and other changes in valuation inputs and assumptions, including increased cost to service assumptions, partially offset by new MSR originations. For additional information on MSRs, see Note 17 on pages 267–271 of this Annual Report.

Other intangible assets

Other intangible assets consist of purchased credit card relationships, other credit card-related intangibles, core deposit intangibles and other intangibles. The decrease in other intangible assets was due to amortization. For additional information on other intangible assets, see Note 17 on pages 267–271 of this Annual Report.

Other assets

Other assets consist of private equity and other instruments, cash collateral pledged, corporate- and bank-owned life insurance policies, assets acquired in loan satisfactions (including real estate owned), and all other assets. Other assets remained relatively flat in 2011.

Deposits
Deposits represent a liability to customers, both retail and wholesale, related to non-brokerage funds held on their behalf. Deposits provide a stable and consistent source of funding for the Firm. Deposits increased significantly, predominantly due to an overall growth in wholesale client balances and, to a lesser extent, growth in consumer deposit balances. The increase in wholesale client balances, particularly in TSS and CB, was primarily driven by lower returns on other available alternative investments and low interest rates during 2011, and in AM, driven by growth in the number of clients and level of deposits. For more information on deposits, refer to the RFS and AM segment discussions on pages 85–93 and 104–106, respectively; the Liquidity Risk Management discussion on pages 127–132; and Notes 3 and 19 on pages 184–198 and 272, respectively, of this Annual Report. For more information on wholesale liability balances, which includes deposits, refer to the CB and TSS segment discussions on pages 98–100 and 101–103, respectively, of this Annual Report.

Federal funds purchased and securities loaned or sold under repurchase agreements
The Firm uses these instruments as part of its liquidity management activities and to support its client-driven market-making activities. In particular, federal funds purchased and securities loaned or sold under repurchase agreements are used by the Firm as short-term funding sources and to provide securities to clients for their short-term liquidity purposes. Securities sold under repurchase agreements decreased, predominantly in IB, reflecting the lower funding requirements of the Firm based on lower trading inventory levels, and change in the mix of funding sources. For additional information on the Firm's Liquidity Risk Management, see pages 127–132 of this Annual Report.

Commercial paper and other borrowed funds
The Firm uses commercial paper and other borrowed funds in its liquidity management activities to meet short-term funding needs, and in connection with a TSS liquidity management product, whereby excess client funds are transferred into commercial paper overnight sweep accounts. Commercial paper increased due to growth in the volume of liability balances in sweep accounts related to TSS's cash management product. Other borrowed funds, which includes short-term advances from FHLBs decreased, predominantly driven by maturities of short-term secured borrowings, unsecured bank notes and short-term FHLB advances. For additional information on the Firm's Liquidity Risk Management and other borrowed funds, see pages 127–132 of this Annual Report.

Accounts payable and other liabilities
Accounts payable and other liabilities consist of payables to customers; payables to brokers, dealers and clearing organizations; payables from failed securities purchases; accrued expense, including interest-bearing liabilities; and all other liabilities, including litigation reserves and obligations to return securities received as collateral. Accounts payable and other liabilities increased predominantly due to higher IB customer balances. For additional information on the Firm's accounts payable and other liabilities, see Note 20 on page 272 of this Annual Report.

Beneficial interests issued by consolidated VIEs
Beneficial interests issued by consolidated VIEs represent interest-bearing beneficial-interest liabilities, which decreased, predominantly due to maturities of Firm-sponsored credit card securitization transactions. For additional information on Firm-sponsored VIEs and loan securitization trusts, see Off–Balance Sheet Arrangements, and Note 16 on pages 256–267 of this Annual Report.

Long-term debt
The Firm uses long-term debt (including trust-preferred capital debt securities and long-term FHLB advances) to provide cost-effective and diversified sources of funds and as critical components of the Firm's liquidity and capital management activities. Long-term debt decreased, predominantly due to net redemptions and maturities of long-term borrowings. For additional information on the Firm's long-term debt activities, see the Liquidity Risk Management discussion on pages 127–132 of this Annual Report.

Stockholders' equity
Total stockholders' equity increased, predominantly due to net income, as well as net issuances and commitments to issue under the Firm's employee stock-based compensation plans. The increase was partially offset by repurchases of common equity; and the declaration of cash dividends on common and preferred stock.

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).

Special-purpose entities

The most common type of VIE is a special purpose entity ("SPE"). SPEs are commonly used in securitization transactions in order to isolate certain assets and distribute the cash flows from those assets to investors. SPEs are an important part of the financial markets, including the mortgage- and asset-backed securities and commercial paper markets, as they provide market liquidity by facilitating investors' access to specific portfolios of assets and risks. SPEs may be organized as trusts, partnerships or corporations and are typically established for a single, discrete purpose. SPEs are not typically operating entities and usually have a limited life and no employees. The basic SPE structure involves a company selling assets to the SPE; the SPE funds the purchase of those assets by issuing securities to investors.

JPMorgan Chase uses SPEs as a source of liquidity for itself and its clients by securitizing financial assets, and by creating investment products for clients. The Firm is involved with SPEs through multi-seller conduits, investor intermediation activities, and loan securitizations. As a result of changes in the accounting guidance, certain VIEs were consolidated on the Firm's Consolidated Balance Sheets effective January 1, 2010. For further information on the types of SPEs and the impact of the change in the accounting guidance, see Note 16 on pages 256–267 for further information on these types of SPEs.

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.

The Firm has no commitments to issue its own stock to support any SPE transaction, and its policies require that transactions with SPEs be conducted at arm's length and reflect market pricing. Consistent with this policy, no JPMorgan Chase employee is permitted to invest in SPEs with which the Firm is involved where such investment would violate the Firm's Code of Conduct. These rules prohibit employees from self-dealing and acting on behalf of the Firm in transactions with which they or their family have any significant financial interest.

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 December 31, 2011 and 2010, was $19.7 billion and $23.1 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 $11.0 billion and $10.5 billion at December 31, 2011 and 2010, respectively. The Firm could facilitate the refinancing of some of the clients' assets in order to reduce the funding obligation. For further information, see the discussion of Firm-administered multi-seller conduits in Note 16 on page 260 of this Annual Report.

The Firm also acts as liquidity provider for certain municipal bond vehicles. The liquidity provider's obligation to perform is conditional and is limited by certain termination events, which include bankruptcy or failure to pay by the municipal bond issuer or credit enhancement provider, an event of taxability on the municipal bonds or the immediate downgrade of the municipal bond to below investment grade. See Note 16 on pages 260–261 of this Annual Report for additional information.

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. For further discussion of lending-related commitments and guarantees and the Firm's accounting for them, see Lending-related commitments on page 144, and Note 29 (including a table that presents, as of December 31, 2011, the amounts, by contractual maturity, of off–balance sheet lending-related financial instruments, guarantees and other commitments) on pages 283–289, of this Annual Report. For a discussion of loan repurchase liabilities, see Mortgage repurchase liability on pages 115–118 and Note 29 on pages 283–289, respectively, of this Annual Report.

Contractual cash obligations

In the normal course of business, the Firm enters into various contractual obligations that may require future cash payments. Certain obligations are recognized on-balance sheet, while others are off-balance sheet under U.S. GAAP. The accompanying table summarizes, by remaining maturity, JPMorgan Chase's significant contractual cash obligations at December 31, 2011. The contractual cash obligations included in the table below reflect the minimum contractual obligation under legally enforceable contracts with terms that are both fixed and determinable. The carrying amount of on-balance sheet obligations on the Consolidated Balance Sheets may differ from the minimum contractual amount of the obligations reported below. For a discussion of mortgage loan repurchase liabilities, see Mortgage repurchase liability on pages 115–118 of this Annual Report. For further discussion of other obligations, see the Notes to Consolidated Financial Statements in this Annual Report.

Contractual cash obligations

By remaining maturity at December 31, (in millions)	2011					2010
	2012	2013-2014	2015-2016	After 2016	**Total**	**Total**
On-balance sheet obligations						
Deposits[a]	**$ 1,108,154**	**$ 9,681**	**$ 5,570**	**$ 2,065**	**$ 1,125,470**	$ 927,682
Federal funds purchased and securities loaned or sold under repurchase agreements	**200,049**	**11,271**	**875**	**1,337**	**213,532**	276,644
Commercial paper	**51,631**	**–**	**–**	**–**	**51,631**	35,363
Other borrowed funds[a]	**12,450**	**–**	**–**	**–**	**12,450**	24,611
Beneficial interests issued by consolidated VIEs	**39,729**	**14,317**	**3,464**	**8,467**	**65,977**	77,649
Long-term debt[a]	**50,077**	**59,749**	**43,464**	**83,615**	**236,905**	249,434
Other[b]	**1,355**	**1,136**	**924**	**2,617**	**6,032**	7,329
Total on-balance sheet obligations	**1,463,445**	**96,154**	**54,297**	**98,101**	**1,711,997**	1,598,712
Off-balance sheet obligations						
Unsettled reverse repurchase and securities borrowing agreements[c]	**39,939**	**–**	**–**	**–**	**39,939**	39,927
Contractual interest payments[d]	**9,551**	**13,006**	**9,669**	**44,192**	**76,418**	78,454
Operating leases[e]	**1,753**	**3,335**	**2,738**	**7,188**	**15,014**	16,000
Equity investment commitments[f]	**933**	**4**	**7**	**1,346**	**2,290**	2,468
Contractual purchases and capital expenditures	**1,244**	**713**	**288**	**415**	**2,660**	2,822
Obligations under affinity and co-brand programs	**1,197**	**1,996**	**1,875**	**325**	**5,393**	5,801
Other	**115**	**108**	**48**	**13**	**284**	567
Total off-balance sheet obligations	**54,732**	**19,162**	**14,625**	**53,479**	**141,998**	146,039
Total contractual cash obligations	**$ 1,518,177**	**$ 115,316**	**$ 68,922**	**$ 151,580**	**$ 1,853,995**	$ 1,744,751

(a) Excludes structured notes where the Firm is not obligated to return a stated amount of principal at the maturity of the notes, but is obligated to return an amount based on the performance of the structured notes.
(b) Primarily includes deferred annuity contracts, pension and postretirement obligations and insurance liabilities.
(c) For further information, refer to unsettled reverse repurchase and securities borrowing agreements in Note 29 on page 286 of this Annual Report.
(d) Includes accrued interest and future contractual interest obligations. Excludes interest related to structured notes where the Firm's payment obligation is based on the performance of certain benchmarks.
(e) Includes noncancelable operating leases for premises and equipment used primarily for banking purposes and for energy-related tolling service agreements. Excludes the benefit of noncancelable sublease rentals of $1.5 billion and $1.8 billion at December 31, 2011 and 2010, respectively.
(f) At December 31, 2011 and 2010, included unfunded commitments of $789 million and $1.0 billion, respectively, to third-party private equity funds that are generally valued as discussed in Note 3 on pages 184–198 of this Annual Report; and $1.5 billion and $1.4 billion of unfunded commitments, respectively, to other equity investments.

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. For transactions with the GSEs, these representations relate to type of collateral, underwriting standards, validity of certain borrower representations made in connection with the loan, primary mortgage insurance being in force for any mortgage loan with a loan-to-value ("LTV") ratio greater than 80% at the loan's origination date, and the use of the GSEs' standard legal documentation. 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. To the extent that repurchase demands that are received relate to loans that the Firm purchased from third parties that remain viable, the Firm typically will have the right to seek a recovery of related repurchase losses from the related third party.

To date, the repurchase demands the Firm has received from the GSEs primarily relate to loans originated from 2005 to 2008. Demands against pre-2005 and post-2008 vintages have not been significant; the Firm attributes this to the comparatively favorable credit performance of these vintages and to the enhanced underwriting and loan qualification standards implemented progressively during 2007 and 2008. From 2005 to 2008, excluding Washington Mutual, the principal amount of loans sold to the GSEs subject to certain representations and warranties for which the Firm may be liable was approximately $380 billion; this amount has not been adjusted for subsequent activity, such as borrower repayments of principal or repurchases completed to date. See the discussion below for information concerning the process the Firm uses to evaluate repurchase demands for breaches of representations and warranties, and the Firm's estimate of probable losses related to such exposure.

From 2005 to 2008, Washington Mutual sold approximately $150 billion principal amount of loans to the GSEs subject to certain representations and warranties. Subsequent to the Firm's acquisition of certain assets and liabilities of Washington Mutual from the FDIC in September 2008, the Firm resolved and/or limited certain current and future repurchase demands for loans sold to the GSEs by Washington Mutual, although it remains the Firm's position that such obligations remain with the FDIC receivership. The Firm will continue to evaluate and may pay (subject to reserving its rights for indemnification by the FDIC) certain future repurchase demands related to individual loans, subject to certain limitations, and has considered such potential repurchase demands in its repurchase liability. The Firm believes that the remaining GSE repurchase exposure related to Washington Mutual presents minimal future risk to the Firm's financial results.

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 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. While the terms of the securitization transactions vary, they generally differ from loan sales to the GSEs in that, among other things: (i) in order to direct the trustee to investigate potential claims, the security holders must make a formal request for the trustee to do so, and typically, this requires agreement of the holders of a specified percentage of the outstanding securities; (ii) generally, the mortgage loans are not required to meet all GSE eligibility criteria; and (iii) in many cases, the party demanding repurchase is required to demonstrate that a loan-level breach of a representation or warranty has materially and adversely affected the value of the loan. Of the $450 billion originally sold or deposited (including $165 billion by Washington Mutual, as to which the Firm maintains that certain of the repurchase obligations remain with the FDIC receivership), approximately $191 billion of principal has been repaid (including $71 billion related to Washington Mutual). In addition, approximately $97 billion of the principal amount of loans has been liquidated (including $35 billion related to Washington Mutual), with an average loss severity of 58%. Accordingly, the remaining outstanding principal balance of these loans (including Washington Mutual) was, as of December 31, 2011, approximately $162 billion, of which $55 billion was 60 days or more past due. The remaining outstanding principal balance of loans related to Washington Mutual was approximately $59 billion, of which $20 billion were 60 days or more past due.

Although there have been generalized allegations, as well as specific demands, that the Firm should repurchase loans sold or deposited into private-label securitizations, these claims for repurchases of loans sold or deposited into private-label securitizations (including claims from insurers that have guaranteed certain obligations of the securitization trusts) have, thus far, generally manifested themselves through threatened or pending litigation. Accordingly, the Firm does not consider these claims in estimating its mortgage repurchase liability; rather, the Firm separately evaluates such exposures in establishing its litigation reserves. For additional information regarding litigation, see Note 31 on pages 290–299 of this Annual Report.

With respect to repurchase claims from private-label securitizations other than those considered in the Firm's litigation reserves, the Firm experienced an increase in the number of requests for loan files ("file requests") in the latter part of 2011; however, loan-level repurchase demands and repurchases from private-label securitizations have been limited to date. While it is possible that the volume of repurchases may increase in the future, the Firm cannot at the current time offer a reasonable estimate of probable future repurchases from such private-label securitizations. As a result, the Firm's mortgage repurchase liability primarily relates to loan sales to the GSEs and is calculated predominantly based on the Firm's repurchase activity experience with the GSEs.

Repurchase demand process

The Firm first becomes aware that a GSE is evaluating a particular loan for repurchase when the Firm receives a file request from the GSE. Upon completing its review, the GSE may submit a repurchase demand to the Firm; historically, most file requests have not resulted in repurchase demands.

The primary reasons for repurchase demands from the GSEs relate to alleged misrepresentations primarily arising from: (i) credit quality and/or undisclosed debt of the borrower; (ii) income level and/or employment status of the borrower; and (iii) appraised value of collateral. Ineligibility of the borrower for the particular product, mortgage insurance rescissions and missing documentation are other reasons for repurchase demands. The successful rescission of mortgage insurance typically results in a violation of representations and warranties made to the GSEs and, therefore, has been a significant cause of repurchase demands from the GSEs. The Firm actively reviews all rescission notices from mortgage insurers and contests them when appropriate.

As soon as practicable after receiving a repurchase demand from a GSE, the Firm evaluates the request and takes appropriate actions based on the nature of the repurchase demand. Loan-level appeals with the GSEs are typical and the Firm seeks to resolve the repurchase demand (i.e., either repurchase the loan or have the repurchase demand rescinded) within three to four months of the date of receipt. In many cases, the Firm ultimately is not required to repurchase a loan because it is able to resolve the purported defect. Although repurchase demands may be made until the loan is paid in full, most repurchase demands from the GSEs historically have related to loans that became delinquent in the first 24 months following origination.

When the Firm accepts a repurchase demand from one of the GSEs, the Firm may either (i) repurchase the loan or the underlying collateral from the GSE at the unpaid principal balance of the loan plus accrued interest, or (ii) reimburse the GSE for its realized loss on a liquidated property (a "make-whole" payment).

Estimated mortgage repurchase liability

To estimate the Firm's mortgage repurchase liability arising from breaches of representations and warranties, the Firm considers the following factors, which are predominantly based on the Firm's historical repurchase activity with the GSEs:

(i) the level of outstanding unresolved repurchase demands,
(ii) estimated probable future repurchase demands, considering information about file requests, delinquent and liquidated loans, resolved and unresolved mortgage insurance rescission notices and the Firm's historical experience,
(iii) the potential ability of the Firm to cure the defects identified in the repurchase demands ("cure rate"),
(iv) the estimated severity of loss upon repurchase of the loan or collateral, make-whole settlement, or indemnification,
(v) the Firm's potential ability to recover its losses from third-party originators, and
(vi) the terms of agreements with certain mortgage insurers and other parties.

Based on these factors, the Firm has recognized a mortgage repurchase liability of $3.6 billion and $3.3 billion as of December 31, 2011 and 2010, respectively.

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

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

(in millions)	**December 31, 2011**	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
GSEs and other[(b)]	**$ 2,345**	$ 2,133	$ 1,826	$ 1,321	$ 1,251
Mortgage insurers	**1,034**	1,112	1,093	1,240	1,121
Overlapping population[(c)]	**(113)**	(155)	(145)	(127)	(104)
Total	**$ 3,266**	$ 3,090	$ 2,774	$ 2,434	$ 2,268

(a) Mortgage repurchase demands associated with pending or threatened litigation are not reported in this table because the Firm separately evaluates its exposure to such repurchase demands in establishing its litigation reserves.
(b) The Firm's outstanding repurchase demands are predominantly from the GSEs. Other represents repurchase demands received from parties other than the GSEs that have been presented in accordance with the terms of the underlying sale or securitization agreement.
(c) Because the GSEs may make repurchase demands based on mortgage insurance rescission notices that remain unresolved, certain loans may be subject to both an unresolved mortgage insurance rescission notice and an outstanding repurchase demand.

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

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

(in millions)	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
Pre-2005	**$ 39**	$ 34	$ 32	$ 15	$ 39
2005	**55**	200	57	45	73
2006	**315**	232	363	158	198
2007	**804**	602	510	381	539
2008	**291**	323	301	249	254
Post-2008	**81**	153	89	94	65
Total repurchase demands received	**$ 1,585**	$ 1,544	$ 1,352	$ 942	$ 1,168

(a) Mortgage repurchase demands associated with pending or threatened litigation are not reported in this table because the Firm separately evaluates its exposure to such repurchase demands in establishing its litigation reserves.

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

(in millions)	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
Pre-2005	**$ 4**	$ 3	$ 3	$ 5	$ 3
2005	**12**	15	24	32	9
2006	**19**	31	39	65	53
2007	**48**	63	72	144	142
2008	**26**	30	31	49	50
Post-2008	**2**	1	1	1	1
Total mortgage insurance rescissions received[(a)]	**$ 111**	$ 143	$ 170	$ 296	$ 258

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

Since the beginning of 2010, the Firm's overall cure rate, excluding Washington Mutual, has been approximately 50%. Repurchases that have resulted from mortgage insurance rescissions are reflected in the Firm's overall cure rate. While the actual cure rate may vary from quarter to quarter, the Firm expects that the overall cure rate will remain in the 40-50% range for the foreseeable future.

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

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

The Firm has entered into agreements with two mortgage insurers to resolve their claims on certain portfolios for which the Firm is a servicer. These two agreements cover and have resolved approximately one-third of the Firm's total mortgage insurance rescission risk exposure, both in terms of the unpaid principal balance of serviced loans covered by mortgage insurance and the amount of mortgage insurance coverage. The impact of these agreements is reflected in the mortgage repurchase liability and the outstanding mortgage insurance rescission notices as of December 31, 2011 disclosed above. The Firm has considered its remaining unresolved mortgage insurance rescission risk exposure in estimating the mortgage repurchase liability as of December 31, 2011.

Substantially all of the estimates and assumptions underlying the Firm's established methodology for computing its recorded mortgage repurchase liability – including the amount of probable future demands from purchasers, trustees or investors (which is in part based on historical experience), the ability of the Firm to cure identified defects, the severity of loss upon repurchase or foreclosure and recoveries from third parties – require application of a significant level of management judgment. Estimating the mortgage repurchase liability is further complicated by historical data that is not necessarily indicative of future expectations and uncertainty

surrounding numerous external factors, including: (i) economic factors (for example, further declines in home prices and changes in borrower behavior may lead to increases in the number of defaults, the severity of losses, or both), and (ii) the level of future demands, which is dependent, in part, on actions taken by third parties, such as the GSEs, mortgage insurers, trustees and investors. While the Firm uses the best information available to it in estimating its mortgage repurchase liability, the estimation process is inherently uncertain, imprecise and potentially volatile as additional information is obtained and external factors continue to evolve.

The following table summarizes the change in the mortgage repurchase liability for each of the periods presented.

Summary of changes in mortgage repurchase liability[a]

Year ended December 31, (in millions)	2011	2010	2009
Repurchase liability at beginning of period	**$ 3,285**	$ 1,705	$ 1,093
Realized losses[b]	**(1,263)**	(1,423)	(1,253) [d]
Provision for repurchase losses	**1,535**	3,003	1,865
Repurchase liability at end of period	**$ 3,557** [c]	$ 3,285	1,705

(a) Mortgage repurchase liabilities associated with pending or threatened litigation are not reported in this table because the Firm separately evaluates its exposure to such repurchases in establishing its litigation reserves.
(b) Includes principal losses and accrued interest on repurchased loans, "make-whole" settlements, settlements with claimants, and certain related expense. For the years ended 2011, 2010 and 2009, make-whole settlements were $640 million, $632 million and $277 million, respectively.
(c) Includes $173 million at December 31, 2011, related to future demands on loans sold by Washington Mutual to the GSEs.
(d) Includes the Firm's resolution with the GSEs of certain current and future repurchase demands for certain loans sold by Washington Mutual. The unpaid principal balance of loans related to this resolution is not included in the table below, which summarizes the unpaid principal balance of repurchased loans.

The following table summarizes the total unpaid principal balance of repurchases during the periods indicated.

Unpaid principal balance of mortgage loan repurchases[a]

Year ended December 31, (in millions)	2011	2010	2009
Ginnie Mae[b]	**$ 5,981**	$ 8,717	$ 6,966
GSEs and other[c][d]	**1,334**	1,773	1,019
Total	**$ 7,315**	$ 10,490	$ 7,985

(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 also excludes mortgage loan repurchases associated with pending or threatened litigation because the Firm separately evaluates its exposure to such repurchases in establishing its litigation reserves.
(b) In substantially all cases, these repurchases represent the Firm's voluntary repurchase of certain delinquent loans from loan pools as permitted by Ginnie Mae guidelines (i.e., they do not result from repurchase demands due to breaches of representations and warranties). The Firm typically elects to repurchase these delinquent loans as it continues to service them and/or manage the foreclosure process in accordance with applicable requirements of Ginnie Mae, the Federal Housing Administration ("FHA"), Rural Housing Services ("RHS") and/or the U.S. Department of Veterans Affairs ("VA").
(c) Predominantly all of the repurchases related to demands by GSEs.
(d) Nonaccrual loans held-for-investment included $477 million, $354 million and $218 million at December 31, 2011, 2010 and 2009, respectively, of loans repurchased as a result of breaches of representations and warranties.

For additional information regarding the mortgage repurchase liability, see Note 29 on pages 283-289 of this Annual Report.

A strong capital position is essential to the Firm's business strategy and competitive position. The Firm's capital strategy focuses on long-term stability, which enables the Firm to build and invest in market-leading businesses, even in a highly stressed environment. Senior management considers the implications on the Firm's capital strength prior to making any decision on future business activities. Capital and earnings are inextricably linked, as earnings directly affect capital generation for the Firm. In addition to considering the Firm's earnings outlook, senior management evaluates all sources and uses of capital and makes decisions to vary sources or uses to preserve the Firm's capital strength.

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

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

To meet these objectives, the Firm maintains a robust and disciplined capital adequacy assessment process, which is performed regularly, and is intended to enable the Firm to remain well-capitalized and fund ongoing operations under adverse conditions. The process assesses the potential impact of alternative economic and business scenarios on earnings and capital for the Firm's businesses individually and in the aggregate over a rolling three-year period. Economic scenarios, and the parameters underlying those scenarios, are defined centrally and applied uniformly across the businesses. These scenarios are articulated in terms of macroeconomic factors, which are key drivers of business results; global market shocks, which generate short-term but severe trading losses; and operational risk events, which generate significant losses. However, when defining a broad range of scenarios, realized events can always be worse. Accordingly, management considers additional stresses outside these scenarios as necessary.

The Firm utilized this capital adequacy process in completing the Federal Reserve Comprehensive Capital Analysis and Review ("CCAR"). The Federal Reserve requires the Firm to submit a capital plan on an annual basis. The Firm submitted its 2012 capital plan on January 9, 2012. The Federal Reserve has indicated that it expects to provide notification of either its objection or non-objection to the Firm's capital plan by March 15, 2012.

Capital adequacy is also evaluated with the Firm's liquidity risk management processes. For further information on the Firm's Liquidity Risk Management, see pages 127–132 of this Annual Report.

The quality and composition of capital are key factors in senior management's evaluation of the Firm's capital adequacy. Accordingly, the Firm holds a significant amount of its capital in the form of common equity. The Firm uses three capital measurements in assessing its levels of capital:

- *Regulatory capital* – The capital required according to standards stipulated by U.S. bank regulatory agencies.
- *Economic risk capital* – The capital required as a result of a bottom-up assessment of the underlying risks of the Firm's business activities, utilizing internal risk-assessment methodologies.
- *Line of business equity* – The amount of equity the Firm believes each business segment would require if it were operating independently, which incorporates sufficient capital to address economic risk measures, regulatory capital requirements and capital levels for similarly rated peers.

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 December 31, 2011 and 2010, JPMorgan Chase and all of its banking subsidiaries were well-capitalized and each met all capital requirements to which it was subject.

In connection with the U.S. Government's Supervisory Capital Assessment Program in 2009, U.S. banking regulators developed a new measure of capital, Tier 1 common, which is defined as Tier 1 capital less elements of Tier 1 capital not in the form of common equity — such as perpetual preferred stock, noncontrolling interests in subsidiaries and trust preferred capital debt securities. Tier 1 common, a non-GAAP financial measure, is used by banking regulators, investors and analysts to assess and compare the quality and composition of the Firm's capital with the capital of other financial services companies. The Firm uses Tier 1 common along with the other capital measures to assess and monitor its capital position.

At December 31, 2011 and 2010, 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 4% well-capitalized standard established at the time of the Supervisory Capital Assessment Program. For more information, see Note 28 on pages 281–283 of this Annual Report.

The following table presents the regulatory capital, assets and risk-based capital ratios for JPMorgan Chase at December 31, 2011 and 2010. These amounts are determined in accordance with regulations issued by the Federal Reserve and OCC.

Risk-based capital ratios

December 31,	2011	2010
Capital ratios		
Tier 1 capital	**12.3%**	12.1%
Total capital	**15.4**	15.5
Tier 1 leverage	**6.8**	7.0
Tier 1 common[(a)]	**10.1**	9.8

(a) The Tier 1 common ratio is Tier 1 common capital divided by 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

December 31, (in millions)	2011	2010
Total stockholders' equity	**$ 183,573**	$ 176,106
Less: Preferred stock	**7,800**	7,800
Common stockholders' equity	**175,773**	168,306
Effect of certain items in accumulated other comprehensive income/(loss) excluded from Tier 1 common	**(970)**	(748)
Less: Goodwill[(a)]	**45,873**	46,915
Fair value DVA on derivative and structured note liabilities related to the Firm's credit quality	**2,150**	1,261
Investments in certain subsidiaries and other	**993**	1,032
Other intangible assets[(a)]	**2,871**	3,587
Tier 1 common	**122,916**	114,763
Preferred stock	**7,800**	7,800
Qualifying hybrid securities and noncontrolling interests[(b)]	**19,668**	19,887
Total Tier 1 capital	**150,384**	142,450
Long-term debt and other instruments qualifying as Tier 2	**22,275**	25,018
Qualifying allowance for credit losses	**15,504**	14,959
Adjustment for investments in certain subsidiaries and other	**(75)**	(211)
Total Tier 2 capital	**37,704**	39,766
Total qualifying capital	**$ 188,088**	$ 182,216
Risk-weighted assets	**$ 1,221,198**	$ 1,174,978
Total adjusted average assets	**$ 2,202,087**	$ 2,024,515

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

The Firm's Tier 1 common was $122.9 billion at December 31, 2011, an increase of $8.2 billion from December 31, 2010. The increase was predominantly due to net income (adjusted for DVA) of $18.1 billion, lower deductions related to goodwill and other intangibles of $1.8 billion, and net issuances and commitments to issue common stock under the Firm's employee stock-based compensation plans of $2.1 billion. The increase was partially offset by $8.95 billion (on a trade-date basis) of repurchases of common stock and warrants and $4.7 billion of dividends on common and preferred stock. The Firm's Tier 1 capital was $150.4 billion at December 31, 2011, an increase of $7.9 billion from December 31, 2010. The increase in Tier 1 capital reflected the increase in Tier 1 common.

Additional information regarding the Firm's capital ratios and the federal regulatory capital standards to which it is subject is presented in Supervision and regulation and Part I, Item 1A, Risk Factors, on pages 1–7 and 7–17, respectively, of the 2011 Form 10-K, and Note 28 on pages 281–283 of this Annual Report.

Basel II

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

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

"Basel 2.5"

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

Basel III

In addition to the Basel II Framework, on December 16, 2010, the Basel Committee issued the final version of the Capital Accord, commonly referred to as "Basel III," which revised Basel II by, among other things, narrowing the definition of capital, increasing capital requirements for specific exposures, introducing minimum standards for short-term liquidity coverage – the liquidity coverage ratio (the "LCR") – and term funding – the net stable funding ratio (the "NSFR"), and establishing an international leverage ratio. The LCR is a short-term liquidity measure which identifies a firm's unencumbered, high-quality liquid assets that can be converted into cash to meet net cash outflows during a 30-day severe stress scenario. The NSFR measures the amount of longer-term, stable sources of funding available to support the portion of all assets (on- and off-balance sheet) that cannot be monetized over a one-year period of extended stress. The Basel Committee also announced higher capital ratio requirements under Basel III, which provide that the common equity requirement will be increased to 7%, comprised of a minimum ratio of 4.5% plus a 2.5% capital conservation buffer.

On June 25, 2011, the Basel Committee announced an agreement to require global systemically important banks ("GSIBs") to maintain Tier 1 common requirements above the 7% minimum in amounts ranging from an additional 1% to an additional 2.5%. The Basel Committee also stated it intended to require certain GSIBs to maintain a further Tier 1 common requirement of an additional 1% under certain circumstances, to act as a disincentive for the GSIB from taking actions that would further increase its systemic importance. On July 19, 2011, the Basel Committee published a proposal on the GSIB assessment methodology, which reflects an approach based on five broad categories: size; interconnectedness; lack of substitutability; cross-jurisdictional activity; and complexity. In late September, the Basel Committee finalized the GSIB assessment methodology and Tier 1 common requirements.

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

Estimated Tier 1 common under Basel III rules

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

The Firm estimates that its Tier 1 common ratio under Basel III rules would be 7.9% as of December 31, 2011. Management considers this estimate as a key measure to assess the Firm's capital position in conjunction with its capital ratios under Basel I requirements, in order to enable management, investors and analysts to compare the Firm's capital under the Basel III capital standards with similar estimates provided by other financial services companies.

December 31, 2011 (in millions, except ratios)		
Tier 1 common under Basel I rules	$	122,916
Adjustments related to AOCI for AFS securities and defined benefit pension and other postretirement employee benefit plans		919
Deduction for net defined benefit pension asset		(1,430)
All other adjustments		(534)
Estimated Tier 1 common under Basel III rules	$	121,871
Estimated risk-weighted assets under Basel III rules[(a)]	$	1,545,801
Estimated Tier 1 common ratio under Basel III rules[(b)]		7.9%

(a) Key differences in the calculation of risk-weighted assets between Basel I and Basel III include: (a) Basel III credit risk risk-weighted assets ("RWA") is based on risk-sensitive approaches which largely rely on the use of internal credit models and parameters, whereas Basel I RWA is based on fixed supervisory risk weightings which vary only by counterparty type and asset class; (b) Basel III market risk RWA reflects the new capital requirements related to trading assets and securitizations, which include incremental capital requirements for stress VaR, correlation trading, and re-securitization positions; and (c) Basel III includes RWA for operational risk, whereas Basel I does not.
(b) The Tier 1 common ratio is Tier 1 common divided by RWA.

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

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

The Basel III revisions governing liquidity and capital requirements are subject to prolonged observation and transition periods. The observation periods for both the LCR and NSFR began in 2011, with implementation in 2015 and 2018, respectively. The transition period for banks to meet the revised Tier 1 common requirement will begin in 2013, with implementation on January 1, 2019. The Firm fully expects to be in compliance with the higher Basel III capital

standards, as well as any additional Dodd-Frank Act capital requirements, as they become effective. The additional capital requirements for GSIBs will be phased-in starting January 1, 2016, with full implementation on January 1, 2019.

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

Broker-dealer regulatory capital

JPMorgan Chase's principal U.S. broker-dealer subsidiaries are J.P. Morgan Securities LLC ("JPMorgan Securities") and J.P. Morgan Clearing Corp. ("JPMorgan Clearing"). JPMorgan Clearing is a subsidiary of JPMorgan Securities and provides clearing and settlement services. JPMorgan Securities and JPMorgan Clearing are each subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (the "Net Capital Rule"). JPMorgan Securities and JPMorgan Clearing are also each registered as futures commission merchants and subject to Rule 1.17 of the Commodity Futures Trading Commission ("CFTC"). Effective June 1, 2011, J.P. Morgan Futures Inc., a registered Futures Commission Merchant and a wholly owned subsidiary of JPMorgan Chase, merged with and into JPMorgan Securities. The merger created a combined Broker-Dealer/Futures Commission Merchant entity that provides capital and operational efficiencies.

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 December 31, 2011, JPMorgan Securities' net capital, as defined by the Net Capital Rule, was $11.1 billion, exceeding the minimum requirement by $9.5 billion, and JPMorgan Clearing's net capital was $7.4 billion, exceeding the minimum requirement by $5.5 billion.

In addition to its minimum net capital requirement, JPMorgan Securities is required to hold tentative net capital in excess of $1.0 billion and is also required to notify the SEC 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 December 31, 2011, JPMorgan Securities had tentative net capital in excess of the minimum and notification requirements.

Economic risk capital

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

Year ended December 31, (in billions)	Yearly Average		
	2011	2010	2009
Credit risk	**$ 48.2**	$ 49.7	$ 51.3
Market risk	**14.5**	15.1	15.4
Operational risk	**8.5**	7.4	8.5
Private equity risk	**6.9**	6.2	4.7
Economic risk capital	**78.1**	78.4	79.9
Goodwill	**48.6**	48.6	48.3
Other[a]	**46.6**	34.5	17.7
Total common stockholders' equity	**$ 173.3**	$ 161.5	$ 145.9

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

Credit risk capital

Credit risk capital is estimated separately for the wholesale businesses (IB, CB, TSS and AM) and consumer businesses (RFS and Card).

Credit risk capital for the overall wholesale credit portfolio is defined in terms of unexpected credit losses, both from defaults and from declines in the portfolio value due to credit deterioration, measured over a one-year period at a confidence level consistent with an "AA" credit rating standard. Unexpected losses are losses in excess of those for which allowances for credit losses are maintained. The capital methodology is based on several principal drivers of credit risk: exposure at default (or loan-equivalent amount), default likelihood, credit spreads, loss severity and portfolio correlation.

Credit risk capital for the consumer portfolio is based on product and other relevant risk segmentation. Actual segment-level default and severity experience are used to estimate unexpected losses for a one-year horizon at a confidence level consistent with an "AA" credit rating standard. See Credit Risk Management on pages 132–157 of this Annual Report for more information about these credit risk measures.

Market risk capital

The Firm calculates market risk capital guided by the principle that capital should reflect the risk of loss in the value of portfolios and financial instruments caused by adverse movements in market variables, such as interest and foreign exchange rates, credit spreads, and securities and commodities prices, taking into account the liquidity of the financial instruments. Results from daily VaR, biweekly stress-tests, issuer credit spreads and default risk calculations, as well as other factors, are used to determine appropriate capital levels. Market risk capital is allocated to each business segment based on its risk assessment. See Market Risk Management on pages 158–163 of this Annual Report for more information about these market risk measures.

Operational risk capital

Capital is allocated to the lines of business for operational risk using a risk-based capital allocation methodology which estimates operational risk on a bottom-up basis. The operational risk capital model is based on actual losses and potential scenario-based stress losses, with adjustments to the capital calculation to reflect changes in the quality of the control environment or the use of risk-transfer products. The Firm believes its model is consistent with the Basel II Framework. See Operational Risk Management on pages 166–167 of this Annual Report for more information about operational risk.

Private equity risk capital

Capital is allocated to privately- and publicly-held securities, third-party fund investments, and commitments in the private equity portfolio to cover the potential loss associated with a decline in equity markets and related asset devaluations. In addition to negative market fluctuations, potential losses in private equity investment portfolios can be magnified by liquidity risk. Capital allocation for the private equity portfolio is based on measurement of the loss experience suffered by the Firm and other market participants over a prolonged period of adverse equity market conditions.

Line of business equity

The Firm's framework for allocating capital is based on the following objectives:

- Integrate firmwide and line of business capital management activities;
- Measure performance consistently across all lines of business; and
- Provide comparability with peer firms for each of the lines of business

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

Line of business equity

December 31, (in billions)	**2011**	2010
Investment Bank	**$ 40.0**	$ 40.0
Retail Financial Services	**25.0**	24.6
Card Services & Auto	**16.0**	18.4
Commercial Banking	**8.0**	8.0
Treasury & Securities Services	**7.0**	6.5
Asset Management	**6.5**	6.5
Corporate/Private Equity	**73.3**	64.3
Total common stockholders' equity	**$ 175.8**	$ 168.3

Line of business equity

Year ended December 31, (in billions)	Yearly Average		
	2011	2010	2009
Investment Bank	**$ 40.0**	$ 40.0	$ 33.0
Retail Financial Services	**25.0**	24.6	22.5
Card Services & Auto	**16.0**	18.4	17.5
Commercial Banking	**8.0**	8.0	8.0
Treasury & Securities Services	**7.0**	6.5	5.0
Asset Management	**6.5**	6.5	7.0
Corporate/Private Equity	**70.8**	57.5	52.9
Total common stockholders' equity	**$ 173.3**	$ 161.5	$ 145.9

Effective January 1, 2010, the Firm enhanced its line of business equity framework to better align equity assigned to the lines of business with changes anticipated to occur in each line of business, and to reflect the competitive and regulatory landscape. The lines of business are now capitalized based on the Tier 1 common standard, rather than the Tier 1 capital standard. Effective January 1, 2011, capital allocated to Card was reduced by $2.4 billion to $16.0 billion, largely reflecting portfolio runoff and the improving risk profile of the business; capital allocated to TSS was increased by $500 million, to $7.0 billion, reflecting growth in the underlying business.

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

Capital actions

Dividends

On February 23, 2009, the Board of Directors reduced the Firm's quarterly common stock dividend from $0.38 to $0.05 per share, effective with the dividend paid on April 30, 2009, to shareholders of record on April 6, 2009. The action enabled the Firm to retain approximately $5.5 billion in common equity in each of 2010 and 2009, and was taken to ensure the Firm had sufficient capital strength in the event the very weak economic conditions that existed at the beginning of 2009 deteriorated further. JPMorgan Chase declared quarterly cash dividends on its common stock in the amount of $0.05 per share for each quarter of 2010 and 2009.

On March 18, 2011, the Board of Directors increased the Firm's quarterly common stock dividend from $0.05 to $0.25 per share, effective with the dividend paid on April 30, 2011, to shareholders of record on April 6, 2011. 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 this Annual Report.

The following table shows the common dividend payout ratio based on reported net income.

Year ended December 31,	**2011**	2010	2009
Common dividend payout ratio	**22%**	5%	9%

Common equity repurchases

On March 18, 2011, the Board of Directors approved a $15.0 billion common equity (i.e., common stock and warrants) repurchase program, of which $8.95 billion was authorized for repurchase in 2011. The $15.0 billion repurchase program superseded a $10.0 billion repurchase program approved in 2007. During 2011 and 2010, the Firm repurchased (on a trade-date basis) an aggregate of 240 million and 78 million shares of common stock and warrants, for $8.95 billion and $3.0 billion, at an average price per unit of $37.35 and $38.49, respectively. The Firm did not repurchase any of the warrants during 2010, and did not repurchase any shares of its common stock or warrants during 2009.

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.

The authorization to repurchase common equity will be utilized at management's discretion, and the timing of purchases and the exact amount of common equity that may be repurchased is subject to various factors, including market conditions; legal considerations affecting the amount and timing of repurchase activity; the Firm's capital position (taking into account goodwill and intangibles); internal capital generation; and alternative investment opportunities. The repurchase program does not include specific price targets or timetables; may be executed through open market purchases or privately negotiated transactions, or utilizing Rule 10b5-1 programs; and may be suspended at any time.

For additional information regarding repurchases of the Firm's equity securities, see Part II, Item 5: Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities, on pages 18–20 of JPMorgan Chase's 2011 Form 10-K.

Issuance

Common stock

On June 5, 2009, the Firm issued $5.8 billion, or 163 million shares, of common stock at $35.25 per share. The proceeds from these issuances were used for general corporate purposes. For additional information regarding common stock, see Note 23 on pages 276-277 of this Annual Report.

Capital Purchase Program

Pursuant to the U.S. Treasury's Capital Purchase Program, on October 28, 2008, the Firm issued to the U.S. Treasury a Warrant to purchase up to 88,401,697 shares of the Firm's common stock, at an exercise price of $42.42 per share, subject to certain antidilution and other adjustments. The U.S. Treasury exchanged the Warrant for 88,401,697 warrants, each of which was a warrant to purchase a share of the Firm's common stock at an exercise price of $42.42 per share and, on December 11, 2009, the U.S. Treasury sold the warrants to the public in a secondary public offering for $950 million. In 2011, the Firm repurchased 10,167,698 of these warrants as part of the common equity repurchase program discussed above. The warrants are exercisable, in whole or in part, at any time and from time to time until October 28, 2018.

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 is encouraged.

The Firm's overall risk appetite is established in the context of the Firm's capital, earnings power, and diversified business model. The Firm employs a formalized risk appetite framework to clearly link risk appetite and return targets, controls and capital management. The Firm's CEO is responsible for setting the overall risk appetite of the Firm and the LOB CEOs are responsible for setting the risk appetite for their respective lines of business. 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.

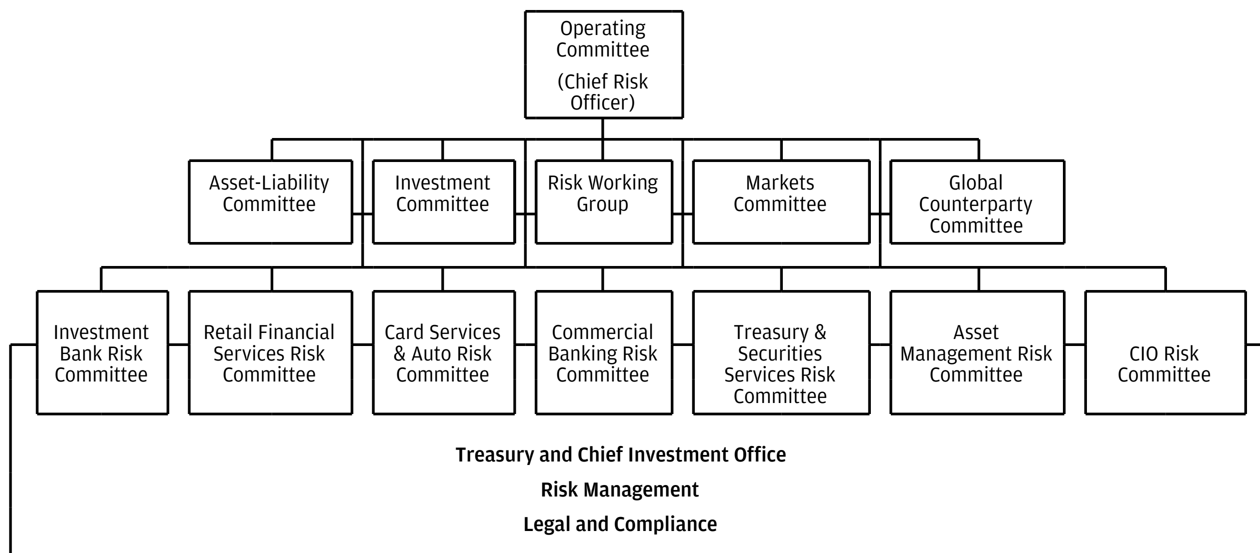
Overlaying line of business risk management are four corporate functions with risk management–related responsibilities: Risk Management, the Chief Investment Office, Corporate Treasury, and Legal and Compliance.

Risk Management operates independently of the lines of businesses to provide oversight of firmwide risk management and controls, and is viewed as a partner in achieving appropriate business objectives. Risk Management coordinates and communicates with each line of business through the line of business risk committees and chief risk officers 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 operational risk, as well as risk reporting, risk policy and risk technology and operations. Risk technology and operations is responsible for building the information technology infrastructure used to monitor and manage risk.

The Chief Investment Office and Corporate Treasury are responsible for measuring, monitoring, reporting and managing the Firm's liquidity, interest rate and foreign exchange risk, and other structural 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 an Investment Committee, an Asset-Liability Committee and three other risk-related committees – the Risk Working Group, the Global Counterparty Committee and the Markets Committee. All of these committees are accountable to the Operating Committee. The membership of these committees are composed of senior management of the Firm, including representatives of the lines of business, Risk Management, Finance and other senior executives. The committees meet frequently 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 impact of risk factors are considered broadly across the Firm's businesses.



The Asset-Liability Committee ("ALCO"), 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 Corporate Treasury in the Corporate/Private Equity segment), 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 Risk Working Group, chaired by the Firm's Chief Risk Officer, meets monthly to review issues that cross lines of business such as risk policy, risk methodology, risk concentrations, regulatory capital and other regulatory issues, and such other topics referred to it by line of business risk committees.

The Markets Committee, chaired by the Firm's Chief Risk Officer, meets weekly to review, monitor and discuss significant risk matters, which may include credit, market and operational risk issues; market moving events; large transactions; hedging strategies; transactions that may give rise to reputation risk or conflicts of interest; and other issues.

The Global Counterparty Committee, chaired by the Firm's Chief Risk Officer, reviews exposures to counterparties when such exposure levels are above portfolio-established thresholds. The Committee meets quarterly to review total exposures with these counterparties, with particular focus on counterparty trading exposures 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 Risk Policy Committee oversees senior management risk-related responsibilities, including reviewing management policies and performance against these policies and related benchmarks. 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. In addition, individuals who manage risk positions, particularly those that are complex, are responsible for identifying and estimating potential losses that could arise from specific or unusual events that may not be captured in other models, and for communicating those risks to senior management.
- 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. 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.

LIQUIDITY RISK MANAGEMENT

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

JPMorgan Chase's primary sources of liquidity include a diversified deposit base, which was $1,127.8 billion at December 31, 2011, and access to the equity capital markets and to long-term unsecured and secured funding sources, including through asset securitizations and borrowings from FHLBs. Additionally, JPMorgan Chase maintains significant amounts of highly-liquid unencumbered assets. The Firm actively monitors the availability of funding in the wholesale markets across various geographic regions and in various currencies. The Firm's ability to generate funding from a broad range of sources in a variety of geographic locations and in a range of tenors is intended to enhance financial flexibility and limit funding concentration risk.

Management considers the Firm's liquidity position to be strong, based on its liquidity metrics as of December 31, 2011, and believes that the Firm's unsecured and secured funding capacity is sufficient to meet its on- and off-balance sheet obligations. The Firm was able to access the funding markets as needed during the year ended December 31, 2011, despite increased market volatility.

Governance

The Firm's liquidity risk governance process is designed to ensure that its liquidity position remains strong. The Asset-Liability Committee reviews and approves the Firm's liquidity policy and contingency funding plan. Corporate Treasury is responsible for executing the Firm's liquidity policy and contingency funding plan as well as measuring, monitoring, reporting and managing the Firm's liquidity risk profile. JPMorgan Chase centralizes the management of global funding and liquidity risk within Corporate Treasury. This centralized approach maximizes liquidity access, minimizes funding costs and enhances global identification and coordination of liquidity risk and involves frequent communication with the business segments, disciplined management of liquidity at the parent holding company, comprehensive market-based pricing of all financial assets and liabilities, continuous balance sheet monitoring, frequent stress testing of liquidity sources, and frequent reporting and communication provided to senior management and the Board of Directors regarding the Firm's liquidity position.

Liquidity monitoring

The Firm employs a variety of metrics to monitor and manage liquidity. One set of analyses used by the Firm relates to the timing of liquidity sources versus liquidity uses (e.g., funding gap analysis and parent holding company funding, as discussed below). A second set of analyses focuses on measurements of the Firm's reliance on short-term unsecured funding as a percentage of total liabilities, as well as the relationship of short-term unsecured funding to highly-liquid assets, the deposits-to-loans ratio and other balance sheet measures.

The Firm performs regular liquidity stress tests as part of its liquidity monitoring activities. The purpose of the liquidity stress tests is intended to ensure sufficient liquidity for the Firm under both idiosyncratic and systemic market stress conditions. These scenarios measure the Firm's liquidity position across a full-year horizon by analyzing the net funding gaps resulting from contractual and contingent cash and collateral outflows versus the Firm's ability to generate additional liquidity by pledging or selling excess collateral and issuing unsecured debt. The scenarios are produced for the parent holding company and major bank subsidiaries as well as the Firm's principal U.S. broker-dealer subsidiary.

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

Parent holding company

Liquidity monitoring of the parent holding company takes

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

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

Global Liquidity Reserve

In addition to the parent holding company, the Firm maintains a significant amount of liquidity – primarily at its bank subsidiaries, but also at its nonbank subsidiaries. The Global Liquidity Reserve represents consolidated sources of available liquidity to the Firm, including cash on deposit at central banks, and cash proceeds reasonably expected to be received in secured financings of highly liquid, unencumbered securities, such as government-issued debt, government- and FDIC-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 December 31, 2011, the Global Liquidity Reserve was estimated to be approximately $379 billion, compared with approximately $262 billion at December 31, 2010. The increase in the Global Liquidity Reserve reflected the placement of funds with various central banks, including Federal Reserve Banks, which was driven by an increase in deposits during the second half of 2011. For further discussion see Sources of funds below.

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

Basel III

On December 16, 2010, the Basel Committee published the final Basel III rules pertaining to capital and liquidity requirements, including minimum standards for short-term liquidity coverage – the liquidity coverage ratio (the "LCR") – and term funding – the net stable funding ratio (the "NSFR"). For more information, see the discussion on Basel III on pages 121–122 of this Annual Report.

Funding

Sources of funds

A key strength of the Firm is its diversified deposit franchise, through the RFS, CB, TSS and AM lines of business, which provides a stable source of funding and decreases reliance on the wholesale markets. As of December 31, 2011, total deposits for the Firm were $1,127.8 billion, compared with $930.4 billion at December 31, 2010. The significant increase in deposits was predominantly due to an overall growth in wholesale client balances and, to a lesser extent, consumer deposit balances. The increase in wholesale client balances, particularly in TSS and CB, was primarily driven by lower returns on other available alternative investments and low interest rates during 2011. Also contributing to the increase in deposits was growth in the number of clients and level of deposits in AM and RFS (the RFS deposits were net of attrition related to the conversion of Washington Mutual Free Checking accounts). Average total deposits for the Firm were $1,012.0 billion and $881.1 billion for the years ended December 31, 2011 and 2010, respectively.

The Firm typically experiences higher customer deposit inflows at period-ends. A significant portion of the Firm's deposits are retail deposits (35% and 40% at December 31, 2011 and 2010, respectively), which are considered particularly stable as they are less sensitive to interest rate changes or market volatility. A significant portion of the Firm's wholesale deposits are also considered to be stable sources of funding due to the nature of the relationships from which they are generated, particularly customers' operating service relationships with the Firm. As of December 31, 2011, the Firm's deposits-to-loans ratio was 156%, compared with 134% at December 31, 2010. 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 79–80 and 110–112, respectively, of this Annual Report.

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

The Firm's short-term secured sources of funding consist of securities loaned or sold under agreements to repurchase and other short-term secured other borrowed funds. Secured long-term funding sources include asset-backed

securitizations, and borrowings from the Chicago, Pittsburgh and San Francisco FHLBs.

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

Short-term funding

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

Total commercial paper liabilities were $51.6 billion as of December 31, 2011, compared with $35.4 billion as of December 31, 2010. However, of those totals, $47.4 billion and $29.2 billion as of December 31, 2011 and 2010, respectively, originated from deposits that customers chose to sweep into commercial paper liabilities as a cash management product offered by the Firm. Therefore, commercial paper liabilities sourced from wholesale funding markets were $4.2 billion as of December 31, 2011, compared with $6.2 billion as of December 31, 2010; the average balance of commercial paper liabilities sourced from wholesale funding markets were $6.1 billion and $9.5 billion for the years ended December 31, 2011 and 2010, respectively.

Securities loaned or sold under agreements to repurchase, which generally mature between one day and three months, are secured predominantly by high-quality securities collateral, including government-issued debt, agency debt and agency MBS. The balances of securities loaned or sold under agreements to repurchase, which constitute a significant portion of the federal funds purchased and securities loaned or sold under repurchase agreements, was $212.0 billion as of December 31, 2011, compared with $273.3 billion as of December 31, 2010; the average balance was $252.6 billion and $271.5 billion for the years ended December 31, 2011 and 2010, respectively. At December 31, 2011, the decline in the balance, compared with the balance at December 31, 2010, and the average balance for the year ended December 31, 2011, was driven largely by lower financing of the Firm's trading assets and change in the mix of funding sources. The balances associated with securities loaned or sold under agreements to repurchase fluctuate over time due to customers' investment and financing activities; the Firm's demand for financing; the Firm's matched book activity; the ongoing management of the mix of the Firm's liabilities, including its secured and unsecured financing (for both the investment and market-making portfolios); and other market and portfolio factors.

Total other borrowed funds was $21.9 billion as of December 31, 2011, compared with $34.3 billion as of December 31, 2010; the average balance of other borrowed funds was $30.9 billion and $33.0 billion for the years ended December 31, 2011 and 2010, respectively. At December 31, 2011, the decline in the balance, compared with the balance at December 31, 2010, and the average balances for the year ended December 31, 2011, was predominantly driven by maturities of short-term unsecured bank notes, short-term FHLB advances, and other secured short-term borrowings.

For additional information, see the Balance Sheet Analysis on pages 110–112, Note 13 on page 231 and the table of Short-term and other borrowed funds on page 307 of this Annual Report.

Long-term funding and issuance

During the year ended December 31, 2011, the Firm issued $49.0 billion of long-term debt, including $29.0 billion of senior notes issued in the U.S. market, $5.2 billion of senior notes issued in non-U.S. markets, and $14.8 billion of IB structured notes. In addition, in January 2012, the Firm issued $3.3 billion of senior notes in the U.S. market and $2.1 billion of senior notes in non-U.S. markets. During the year ended December 31, 2010, the Firm issued $36.1 billion of long-term debt, including $17.1 billion of senior notes issued in U.S. markets, $2.9 billion of senior notes issued in non-U.S. markets, $1.5 billion of trust preferred capital debt securities and $14.6 billion of IB structured notes. During the year ended December 31, 2011, $58.5 billion of long-term debt matured or was redeemed, including $18.7 billion of IB structured notes. During the year ended December 31, 2010, $53.4 billion of long-term debt matured or was redeemed, including $907 million of trust preferred capital debt securities and $22.8 billion of IB structured notes.

In addition to the unsecured long-term funding and issuances discussed above, the Firm securitizes consumer credit card loans, residential mortgages, auto loans and student loans for funding purposes. During the year ended December 31, 2011, the Firm securitized $1.8 billion of credit card loans; $14.0 billion of loan securitizations matured or were redeemed, including $13.6 billion of credit card loan securitizations, $156 million of residential mortgage loan securitizations and $322 million of student loan securitizations. During the year ended December 31, 2010, the Firm did not securitize any loans for funding purposes; $25.8 billion of loan securitizations matured or were redeemed, including $24.9 billion of credit card loan securitizations, $294 million of residential mortgage loan securitizations, $326 million of student loan securitizations, and $210 million of auto loan securitizations.

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

During the year ended December 31, 2011, the Firm borrowed $4.0 billion in long-term advances from the FHLBs and there were $9.2 billion of maturities. For the year ended December 31, 2010, the Firm borrowed $18.7 billion in long-term advances from the FHLBs, which was offset by $18.6 billion of maturities.

Cash flows

For the years ended December 31, 2011, 2010 and 2009, cash and due from banks increased $32.0 billion and $1.4 billion, and decreased $689 million, respectively. The following discussion highlights the major activities and transactions that affected JPMorgan Chase's cash flows during 2011, 2010 and 2009, respectively.

Cash flows from operating activities

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

For the year ended December 31, 2011, net cash provided by operating activities was $95.9 billion. This resulted from a net decrease in trading assets and liabilities–debt and equity instruments, driven by client market-making activity in IB; an increase in accounts payable and other liabilities predominantly due to higher IB customer balances; and a decrease in accrued interest and accounts receivables, primarily in IB, driven by a large reduction in customer margin receivables due to changes in client activity. Partially offsetting these cash proceeds was an increase in securities borrowed, predominantly in Corporate due to higher excess cash positions at year-end. 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.

For the year ended December 31, 2010, net cash used by operating activities was $3.8 billion, mainly driven by an increase primarily in trading assets–debt and equity instruments; principally due to improved market activity primarily in equity securities, foreign debt and physical commodities, partially offset by an increase in trading liabilities due to higher levels of positions taken to facilitate customer-driven activity. Net cash was provided by net income and from adjustments for non-cash items such as the provision for credit losses, depreciation and amortization and stock-based compensation. Additionally, proceeds from sales and paydowns of loans originated or purchased with an initial intent to sell were higher than cash used to acquire such loans.

For the year ended December 31, 2009, net cash provided by operating activities was $122.8 billion, reflecting the net decline in trading assets and liabilities affected by the impact of the challenging capital markets environment that existed in 2008, and continued into the first half of 2009. Net cash generated from operating activities was higher than net income, largely as a result of adjustments for non-cash items such as the provision for credit losses. In addition, proceeds from sales, securitizations and paydowns of loans originated or purchased with an initial intent to sell were higher than cash used to acquire such loans, but the cash flows from these loan activities remained at reduced levels as a result of the lower activity in these markets.

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 year ended December 31, 2011, net cash of $170.8 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, predominantly resulting from the overall growth in wholesale client deposits; an increase in loans reflecting continued growth in client activity across all of the Firm's wholesale businesses and regions; net purchases of AFS securities, largely due to repositioning of the portfolio in Corporate in response to changes in the market environment; and an increase in securities purchased under resale agreements, predominantly in Corporate due to higher excess cash positions at year-end. Partially offsetting these cash outflows were a decline in consumer, excluding credit card, loan balances due to paydowns and portfolio run-off, and in credit card loans, due to higher repayment rates, run-off of the Washington Mutual portfolio and the Firm's sale of the Kohl's portfolio.

For the year ended December 31, 2010, net cash of $54.0 billion was provided by investing activities. This resulted from a decrease in deposits with banks largely due to a decline in deposits placed with the Federal Reserve Bank and lower interbank lending as market stress eased since the end of 2009; net proceeds from sales and maturities of AFS securities used in the Firm's interest rate risk management activities in Corporate; and a net decrease in the credit card loan portfolio, driven by the expected runoff of the Washington Mutual portfolio, a decline in lower-yielding promotional credit card balances, continued runoff of loan balances in the consumer, excluding credit card portfolio, primarily related to residential real estate, and repayments and loan sales in the wholesale portfolio, primarily in IB and CB; the decrease was partially offset by higher originations across the wholesale and consumer businesses. Partially offsetting these cash proceeds was an increase in securities purchased under resale agreements,

predominantly due to higher financing volume in IB; and cash used for business acquisitions, primarily RBS Sempra.

For the year ended December 31, 2009, net cash of $29.4 billion was provided by investing activities, primarily from a decrease in deposits with banks reflecting lower demand for inter-bank lending and lower deposits with the Federal Reserve Bank relative to the elevated levels at the end of 2008; a net decrease in the loan portfolio across most businesses, driven by continued lower customer demand and loan sales in the wholesale portfolio, lower charge volume on credit cards, slightly higher credit card securitizations, and paydowns; and the maturity of all asset-backed commercial paper issued by money market mutual funds in connection with the Federal Reserve Bank of Boston's Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility ("AML facility"). Largely offsetting these cash proceeds were net purchases of AFS securities associated with the Firm's management of interest rate risk and investment of cash resulting from an excess funding position.

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 year ended December 31, 2011, net cash provided by financing activities was $107.7 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. The increase in wholesale client balances, particularly in TSS and CB, was primarily driven by lower returns on other available alternative investments and low interest rates during 2011, and in AM, driven by growth in the number of clients and level of deposits. In addition, there was 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, reflecting the lower funding requirements of the Firm based on lower trading inventory levels, and change in the mix of funding sources; for net repayments of long-term borrowings, including a decrease in long-term debt, predominantly due to net redemptions and maturities, as well as 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 secured borrowings, unsecured bank notes and short-term FHLB advances; and for repurchases of common stock and warrants, and payments of cash dividends on common and preferred stock.

In 2010, net cash used in financing activities was $49.2 billion. This resulted from net repayments of long-term borrowings as new issuances were more than offset by payments primarily reflecting a decline in beneficial interests issued by consolidated VIEs due to maturities related to Firm-sponsored credit card securitization trusts; a decline in deposits associated with wholesale funding activities due to the Firm's lower funding needs; lower deposit levels in TSS, offset partially by net inflows from existing customers and new business in AM, CB and RFS; a decline in commercial paper and other borrowed funds due to lower funding requirements; payments of cash dividends; and repurchases of common stock. Cash was generated as a result of an increase in securities sold under repurchase agreements largely as a result of an increase in activity levels in IB partially offset by a decrease in CIO reflecting repositioning activities.

In 2009, net cash used in financing activities was $153.1 billion; this reflected a decline in wholesale deposits, predominantly in TSS, driven by the continued normalization of wholesale deposit levels resulting from the mitigation of credit concerns, compared with the heightened market volatility and credit concerns in the latter part of 2008; a decline in other borrowings, due to the absence of borrowings from the Federal Reserve under the Term Auction Facility program; net repayments of short-term advances from FHLBs and the maturity of the nonrecourse advances under the Federal Reserve Bank of Boston AML Facility; the June 17, 2009, repayment in full of the $25.0 billion principal amount of Series K Preferred Stock issued to the U.S. Treasury; and the payment of cash dividends on common and preferred stock. Cash was also used for the net repayment of long-term borrowings as issuances of FDIC-guaranteed debt and non-FDIC guaranteed debt in both the U.S. and European markets were more than offset by repayments including long-term advances from FHLBs. Cash proceeds resulted from an increase in securities loaned or sold under repurchase agreements, partly attributable to favorable pricing and to financing the increased size of the Firm's AFS securities portfolio; and the issuance of $5.8 billion of common stock. There were no repurchases of common stock or the warrants during 2009.

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 113, and Note 6 on pages 202–210, respectively, of this Annual Report.

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

The credit ratings of the parent holding company and each of the Firm's significant banking subsidiaries as of December 31, 2011, were as follows.

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

On July 18, 2011, Moody's placed the long-term debt ratings of the Firm and its subsidiaries under review for possible downgrade. The Firm's current long-term debt ratings by Moody's reflect "support uplift" above the Firm's stand-alone financial strength due to Moody's assessment of the likelihood of U.S. government support. Moody's action was directly related to Moody's placing the U.S. government's Aaa rating on review for possible downgrade on July 13, 2011. Moody's indicated that the action did not reflect a change to Moody's opinion of the Firm's stand-alone financial strength. The short-term debt ratings of the Firm and its subsidiaries were affirmed and were not affected by the action. Subsequently, on August 3, 2011, Moody's confirmed the long-term debt ratings of the Firm and its subsidiaries at their current levels and assigned a negative outlook on the ratings. The rating confirmation was directly related to Moody's confirmation on August 2, 2011, of the Aaa rating assigned to the U.S. government.

On November 29, 2011, S&P lowered the long-term debt rating of the parent holding company from A+ to A, and the long-term and short-term debt ratings of the Firm's significant banking subsidiaries from AA- to A+ and from A-1+ to A-1, respectively. The action resulted from a review of the Firm along with all other banks rated by S&P under S&P's revised bank rating criteria. The downgrade had no adverse impact on the Firm's ability to fund itself.

The senior unsecured ratings from Moody's and Fitch on JPMorgan Chase and its principal bank subsidiaries remained unchanged at December 31, 2011, from December 31, 2010. At December 31, 2011, Moody's outlook was negative, while S&P's and Fitch's outlooks were stable.

On February 15, 2012, Moody's announced that it had placed 17 banks and securities firms with global capital markets operations on review for possible downgrade, including JPMorgan Chase. As part of this announcement, the long-term ratings of the Firm and its major operating entities were placed on review for possible downgrade, while all of the Firm's short-term ratings were affirmed.

If the Firm's senior long-term debt ratings were downgraded by one notch or two notches, the Firm believes its cost of funds would increase; however, the Firm's ability to fund itself would not be materially adversely impacted. JPMorgan Chase's unsecured debt does not contain requirements that would call for an acceleration of payments, maturities or changes in the structure of the existing debt, provide any limitations on future borrowings or require additional collateral, based on unfavorable changes in the Firm's credit ratings, financial ratios, earnings, or stock price.

Rating agencies continue to evaluate various ratings factors, such as regulatory reforms, economic uncertainty and sovereign creditworthiness, and their potential impact on ratings of financial institutions. Although the Firm closely monitors and endeavors to manage factors influencing its credit ratings, there is no assurance that its credit ratings will not be changed in the future.

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss from obligor or counterparty default. The Firm provides credit (for example, through loans, lending-related commitments, guarantees and derivatives) to a variety of customers, from large corporate and institutional clients to the individual consumers and small businesses. Loans originated or acquired by the Firm's wholesale businesses are generally retained on the balance sheet. Credit risk management actively monitors the wholesale portfolio to ensure that it is well diversified across industry, geography, risk rating, maturity and individual client categories. Portfolio management for wholesale loans includes, for the Firm's syndicated loan business, distributing originations into the market place and targeting exposure held in the retained wholesale portfolio at less than 10% of the customer facility. With regard to the consumer credit market, the Firm focuses on creating a portfolio that is diversified from a product, industry and geographic perspective. Loss mitigation strategies are being employed for all residential real estate portfolios. These strategies include interest rate reductions, term or payment extensions, principal and interest deferral and other actions intended to minimize economic loss and avoid foreclosure. In the mortgage business, originated loans are either retained in the mortgage portfolio or securitized and sold to U.S. government agencies and U.S. government-sponsored enterprises.

Credit risk organization
Credit risk management is overseen by the Chief Risk Officer and implemented within the lines of business. The Firm's credit risk management governance consists of the following functions:

- Establishing a comprehensive credit risk policy framework
- Monitoring and managing credit risk across all portfolio segments, including transaction and line approval
- Assigning and managing credit authorities in connection with the approval of all credit exposure
- Managing criticized exposures and delinquent loans
- Determining the allowance for credit losses and ensuring appropriate credit risk-based capital management

Risk identification and measurement
The Firm is exposed to credit risk through lending and capital markets activities. Credit Risk Management works in partnership with the business segments in identifying and aggregating exposures across all lines of business. To measure credit risk, the Firm employs several methodologies for estimating the likelihood of obligor or counterparty default. Methodologies for measuring credit risk vary depending on several factors, including type of asset (e.g., consumer versus wholesale), risk measurement parameters (e.g., delinquency status and borrower's credit score versus wholesale risk-rating) and risk management and collection processes (e.g., retail collection center versus centrally managed workout groups). Credit risk measurement is based on the amount of exposure should the obligor or the counterparty default, the probability of default and the loss severity given a default event. Based on these factors and related market-based inputs, the Firm estimates both probable losses and unexpected losses for the wholesale and consumer portfolios as follows:

- Probable credit losses are based primarily upon statistical estimates of credit losses as a result of obligor or counterparty default. However, probable losses are not the sole indicators of risk.
- Unexpected losses, reflected in the allocation of credit risk capital, represent the potential volatility of actual losses relative to the probable level of incurred losses.

Risk measurement for the wholesale portfolio is assessed primarily on a risk-rated basis; for the consumer portfolio, it is assessed primarily on a credit-scored basis.

Risk-rated exposure
Risk ratings are assigned to differentiate risk within the portfolio and are reviewed on an ongoing basis by Credit Risk Management and revised, if needed, to reflect the borrowers' current financial positions, risk profiles and the related collateral. For portfolios that are risk-rated, probable and unexpected loss calculations are based on estimates of probability of default and loss severity given a default. These risk-rated portfolios are generally held in IB, CB, TSS and AM; they also include approximately $20.0 billion of certain business banking loans in RFS and certain auto loans in Card that are risk-rated because they have characteristics similar to commercial loans. Probability of default is the likelihood that a loan will default and will not be repaid. Probability of default is calculated for each client who has a risk-rated loan. Loss given default is an estimate of losses given a default event and takes into consideration collateral and structural support for each credit facility. Calculations and assumptions are based on management information systems and methodologies which are under continual review.

Credit-scored exposure
For credit-scored portfolios (generally held in RFS and Card), probable loss is based on a statistical analysis of inherent losses expected to emerge over discrete periods of time for each portfolio. The credit-scored portfolio includes residential real estate loans, credit card loans, certain auto and business banking loans, and student loans. Probable credit losses inherent in the portfolio are estimated using sophisticated portfolio modeling, credit scoring and decision-support tools, which take into account factors such as delinquency, LTV ratios, credit scores and geography. These analyses are applied to the Firm's current portfolios in order to estimate the severity of losses, which determines the amount of probable losses. Other risk characteristics utilized to evaluate probable losses include recent loss experience in the portfolios, changes in origination sources, portfolio seasoning, potential borrower behavior and the macroeconomic environment. These factors and analyses are updated on a quarterly basis or more frequently as market conditions dictate.

Risk monitoring and control
The Firm has developed policies and practices that are designed to preserve the independence and integrity of the approval and decision-making process of extending credit and to ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels. The policy framework establishes credit approval authorities, concentration limits, risk-rating methodologies, portfolio review parameters and guidelines for management of distressed exposures. In addition, certain models, assumptions and inputs used in evaluating and monitoring credit risk are independently validated by groups that are separate from the line of businesses.

For consumer credit risk, delinquency and other trends, including any concentrations at the portfolio level, are monitored for potential problems, as certain of these trends can be ameliorated through changes in underwriting policies and portfolio guidelines. Consumer Credit Risk Management evaluates delinquency and other trends against business expectations, current and forecasted economic conditions, and industry benchmarks. Historical and forecasted trends are incorporated into the modeling of estimated consumer credit losses and are part of the monitoring of the credit risk profile of the portfolio. In the Firm's consumer credit portfolio, the Internal Audit

department periodically tests the internal controls around the modeling process including the integrity of the data utilized. For further discussion of consumer loans, see Note 14 on pages 231–252 of this Annual Report.

Wholesale credit risk is monitored regularly at an aggregate portfolio, industry and individual counterparty basis with established concentration limits that are reviewed and revised, as deemed appropriate by management, typically on an annual basis. Industry and counterparty limits, as measured in terms of exposure and economic credit risk capital, are subject to stress-based loss constraints.

Management of the Firm's wholesale exposure is accomplished through a number of means including:

- Loan syndications and participations
- Loan sales and securitizations
- Credit derivatives
- Use of master netting agreements
- Collateral and other risk-reduction techniques

In addition to Risk Management, the Firm's Internal Audit department performs periodic exams, as well as continuous review, where appropriate, of the Firm's consumer and wholesale portfolios.

For risk-rated portfolios, a credit review group within the Internal Audit department is responsible for:

- Independently assessing and validating the changing risk grades assigned to exposures; and
- Evaluating the effectiveness of business units' risk ratings, including the accuracy and consistency of risk grades, the timeliness of risk grade changes and the justification of risk grades in credit memoranda

Risk reporting

To enable monitoring of credit risk and decision-making, aggregate credit exposure, credit quality forecasts, concentration levels and risk profile changes are reported regularly to senior Credit Risk Management. Detailed portfolio reporting of industry, customer, product and geographic concentrations occurs monthly, and the appropriateness of the allowance for credit losses is reviewed by senior management at least on a quarterly basis. Through the risk reporting and governance structure, credit risk trends and limit exceptions are provided regularly to, and discussed with, senior management. For further discussion of Risk monitoring and control, see pages 126–127 of this Annual Report.

CREDIT PORTFOLIO

2011 Credit Risk Overview

In the first half of 2011, the credit environment showed signs of improvement compared with 2010. During the second half of the year, macroeconomic conditions became more challenging, with increased market volatility and heightened concerns around the European financial crisis. Over the course of the year, the Firm continued to actively manage its underperforming and nonaccrual loans and reduce such exposures through repayments, loan sales and workouts. The Firm also saw decreased downgrade, default and charge-off activity and improved consumer delinquency trends. At the same time, the Firm increased its overall lending activity driven by the wholesale businesses. The combination of these factors resulted in an improvement in the credit quality of the portfolio compared with 2010 and contributed to the Firm's reduction in the allowance for credit losses, particularly in Card.

The credit quality of the Firm's wholesale portfolio improved in 2011. The rise in commercial client activity resulted in an increase in credit exposure across all businesses, regions and products. Underwriting guidelines across all areas of lending continue to remain in focus, consistent with evolving market conditions and the Firm's risk management activities. The wholesale portfolio continues to be actively managed, in part by conducting ongoing, in-depth reviews of credit quality and of industry, product and client concentrations. During the year, criticized assets, nonperforming assets and charge-offs decreased from higher levels experienced in 2010, including a reduction in nonaccrual loans by over one half. As a result, the ratio of nonaccrual loans to total loans, the net charge-off rate and the allowance for loan loss coverage ratio all declined. For further discussion of wholesale loans, see Note 14 on pages 231–252 of this Annual Report.

The credit performance of the consumer portfolio across the entire product spectrum has improved, particularly in credit card, with lower levels of delinquent loans and charge-offs. Weak overall economic conditions continued to have a negative impact on the number of real estate loans charged off, while continued weak housing prices have resulted in an elevated severity of loss recognized on these defaulted loans. The Firm has taken proactive steps to assist homeowners most in need of financial assistance throughout the economic downturn. In addition, the Firm has taken actions since the onset of the economic downturn in 2007 to tighten underwriting and loan qualification standards and to eliminate certain products and loan origination channels, which have resulted in the reduction of credit risk and improved credit performance for recent loan vintages. For further discussion of the consumer credit environment and consumer loans, see Consumer Credit Portfolio on pages 145–154 and Note 14 on pages 231–252 of this Annual Report.

The following table presents JPMorgan Chase's credit portfolio as of December 31, 2011 and 2010. Total credit exposure was $1.8 trillion at December 31, 2011, an

increase of $44.4 billion from December 31, 2010, reflecting increases in loans of $30.8 billion, lending related commitments of $17.0 billion and derivative receivables of $12.0 billion. These increases were partially offset by a decrease in receivables from customers and interests in purchased receivables of $15.4 billion. The $44.4 billion net increase during 2011 in total credit exposure reflected an increase in the wholesale portfolio of $88.6 billion partially offset by a decrease in the consumer portfolio of $44.2 billion.

The Firm provided credit to and raised capital of more than $1.8 trillion for its clients during 2011, up 18% from 2010; this included $17 billion lent to small businesses, up 52%, and $68 billion to more than 1,200 not-for-profit and government entities, including states, municipalities, hospitals and universities. The Firm also originated more than 765,000 mortgages, and provided credit cards to approximately 8.5 million consumers. The Firm remains committed to helping homeowners and preventing foreclosures. Since the beginning of 2009, the Firm has offered more than 1.2 million mortgage modifications of which approximately 452,000 have achieved permanent modification as of December 31, 2011.

In the table below, reported loans include loans retained (i.e., held-for-investment); loans held-for-sale (which are carried at the lower of cost or fair value, with changes in value recorded in noninterest revenue); and loans accounted for at fair value. For additional information on the Firm's loans and derivative receivables, including the Firm's accounting policies, see Note 14 and Note 6 on pages 231–252 and 202–210, respectively, of this Annual Report. Average retained loan balances are used for net charge-off rate calculations.

Total credit portfolio

As of or for the year ended December 31,	Credit exposure		Nonperforming[c][d][e]		Net charge-offs		Average annual net charge-off rate[f]	
(in millions, except ratios)	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Loans retained	**$ 718,997**	$ 685,498	**$ 9,810**	$ 14,345	**$ 12,237**	$ 23,673	**1.78%**	3.39%
Loans held-for-sale	**2,626**	5,453	**110**	341	**—**	—	**—**	—
Loans at fair value	**2,097**	1,976	**73**	155	**—**	—	**—**	—
Total loans – reported	**723,720**	692,927	**9,993**	14,841	**12,237**	23,673	**1.78**	3.39
Derivative receivables	**92,477**	80,481	**18**	34	**NA**	NA	**NA**	NA
Receivables from customers and interests in purchased receivables	**17,561**	32,932	**—**	—	**—**	—	**—**	—
Total credit-related assets	**833,758**	806,340	**10,011**	14,875	**12,237**	23,673	**1.78**	3.39
Lending-related commitments[a]	**975,662**	958,709	**865**	1,005	**NA**	NA	**NA**	NA
Assets acquired in loan satisfactions								
Real estate owned	**NA**	NA	**975**	1,610	**NA**	NA	**NA**	NA
Other	**NA**	NA	**50**	72	**NA**	NA	**NA**	NA
Total assets acquired in loan satisfactions	**NA**	NA	**1,025**	1,682	**NA**	NA	**NA**	NA
Total credit portfolio	**$ 1,809,420**	$ 1,765,049	**$ 11,901**	$ 17,562	**$ 12,237**	$ 23,673	**1.78%**	3.39%
Net credit derivative hedges notional[b]	**$ (26,240)**	$ (23,108)	**$ (38)**	$ (55)	**NA**	NA	**NA**	NA
Liquid securities and other cash collateral held against derivatives	**(21,807)**	(16,486)	**NA**	NA	**NA**	NA	**NA**	NA

(a) The amounts in nonperforming represent commitments that are risk rated as nonaccrual.

(b) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage both performing and nonperforming credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. For additional information, see Credit derivatives on pages 143–144 and Note 6 on pages 202–210 of this Annual Report.

(c) At December 31, 2011 and 2010, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $11.5 billion and $9.4 billion, respectively, that are 90 or more days past due; (2) real estate owned insured by U.S. government agencies of $954 million and $1.9 billion, respectively; and (3) student loans insured by U.S. government agencies under the FFELP of $551 million and $625 million, respectively, that are 90 or more days past due. These amounts were excluded as reimbursement of insured amounts is proceeding normally. In addition, the Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance issued by the Federal Financial Institutions Examination Council ("FFIEC"). Credit card loans are charged-off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.

(d) Excludes PCI loans 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.

(e) At December 31, 2011 and 2010, total nonaccrual loans represented 1.38% and 2.14% of total loans .

(f) For the years ended December 31, 2011 and 2010, net charge-off rates were calculated using average retained loans of $688.2 billion and $698.2 billion, respectively. These average retained loans include average PCI loans of $69.0 billion and $77.0 billion, respectively. Excluding these PCI loans, the Firm's total charge-off rates would have been 1.98% and 3.81%, respectively.

WHOLESALE CREDIT PORTFOLIO

As of December 31, 2011, wholesale exposure (IB, CB, TSS and AM) increased by $88.6 billion from December 31, 2010. The overall increase was primarily driven by increases of $55.4 billion in loans, $36.7 billion in lending-related commitments and $12.0 billion in derivative receivables. These increases were partially offset by a decrease in receivables from customers and interests in purchased receivables of $15.5 billion. The growth in wholesale loans and lending related commitments represented increased client activity across all businesses and all regions. The increase in derivative receivables was predominantly due to increases in interest rate derivatives driven by declining interest rates, and higher commodity derivatives driven by price movements in base metals and energy. The decrease in receivables from customers and interests in purchased receivables was due to changes in client activity, primarily in IB. Effective January 1, 2011, the commercial card credit portfolio (composed of approximately $5.3 billion of lending-related commitments and $1.2 billion of loans) that was previously in TSS was transferred to Card.

Wholesale credit portfolio

December 31,	Credit exposure		Nonperforming[d]	
(in millions)	**2011**	2010	**2011**	2010
Loans retained	**$ 278,395**	$ 222,510	**$ 2,398**	$ 5,510
Loans held-for-sale	**2,524**	3,147	**110**	341
Loans at fair value	**2,097**	1,976	**73**	155
Loans – reported	**283,016**	227,633	**2,581**	6,006
Derivative receivables	**92,477**	80,481	**18**	34
Receivables from customers and interests in purchased receivables[a]	**17,461**	32,932	**—**	—
Total wholesale credit-related assets	**392,954**	341,046	**2,599**	6,040
Lending-related commitments[b]	**382,739**	346,079	**865**	1,005
Total wholesale credit exposure	**$ 775,693**	$ 687,125	**$ 3,464**	$ 7,045
Net credit derivative hedges notional[c]	**$ (26,240)**	$ (23,108)	**$ (38)**	$ (55)
Liquid securities and other cash collateral held against derivatives	**(21,807)**	(16,486)	**NA**	NA

(a) Receivables from customers primarily represent margin loans to prime and retail brokerage customers, which are included in accrued interest and accounts receivable on the Consolidated Balance Sheets. Interests in purchased receivables represents ownership interests in cash flows of a pool of receivables transferred by third-party sellers into bankruptcy-remote entities, generally trusts, which are included in other assets on the Consolidated Balance Sheets.
(b) The amounts in nonperforming represent commitments that are risk-rated as nonaccrual.
(c) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage both performing and nonperforming credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. For additional information, see Credit derivatives on pages 143–144, and Note 6 on pages 202–210 of this Annual Report.
(d) Excludes assets acquired in loan satisfactions.

The following table presents summaries of the maturity and ratings profiles of the wholesale portfolio as of December 31, 2011 and 2010. The increase in loans retained was predominately in loans to investment-grade ("IG") counterparties and was largely loans having a shorter maturity profile. The ratings scale is based on the Firm's internal risk ratings, which generally correspond to the ratings as defined by S&P and Moody's. Also included in this table is the notional value of net credit derivative hedges; the counterparties to these hedges are predominantly investment-grade banks and finance companies.

Wholesale credit exposure – maturity and ratings profile

	Maturity profile[c]				Ratings profile			
December 31, 2011					Investment-grade	Noninvestment-grade		
(in millions, except ratios)	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	**Total**	AAA/Aaa to BBB-/Baa3	BB+/Ba1 & below	**Total**	Total % of IG
Loans retained	**$ 113,222**	**$ 101,959**	**$ 63,214**	**$ 278,395**	**$ 197,070**	**$ 81,325**	**$ 278,395**	**71%**
Derivative receivables				**92,477**			**92,477**	
Less: Liquid securities and other cash collateral held against derivatives				**(21,807)**			**(21,807)**	
Total derivative receivables, net of all collateral	**8,243**	**29,910**	**32,517**	**70,670**	**57,637**	**13,033**	**70,670**	**82**
Lending-related commitments	**139,978**	**233,396**	**9,365**	**382,739**	**310,107**	**72,632**	**382,739**	**81**
Subtotal	**261,443**	**365,265**	**105,096**	**731,804**	**564,814**	**166,990**	**731,804**	**77**
Loans held-for-sale and loans at fair value[a]				**4,621**			**4,621**	
Receivables from customers and interests in purchased receivables				**17,461**			**17,461**	
Total exposure – net of liquid securities and other cash collateral held against derivatives				**$ 753,886**			**$ 753,886**	
Net credit derivative hedges notional[b]	**$ (2,034)**	**$ (16,450)**	**$ (7,756)**	**$ (26,240)**	**$ (26,300)**	**$ 60**	**$ (26,240)**	**100%**

	Maturity profile[c]				Ratings profile			
December 31, 2010					Investment-grade	Noninvestment-grade		
(in millions, except ratios)	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	**Total**	AAA/Aaa to BBB-/Baa3	BB+/Ba1 & below	**Total**	Total % of IG
Loans retained	$ 78,017	$ 85,987	$ 58,506	$ 222,510	$ 146,047	$ 76,463	$ 222,510	66%
Derivative receivables				80,481			80,481	
Less: Liquid securities and other cash collateral held against derivatives				(16,486)			(16,486)	
Total derivative receivables, net of all collateral	11,499	24,415	28,081	63,995	47,557	16,438	63,995	74
Lending-related commitments	126,389	209,299	10,391	346,079	276,298	69,781	346,079	80
Subtotal	215,905	319,701	96,978	632,584	469,902	162,682	632,584	74
Loans held-for-sale and loans at fair value[a]				5,123			5,123	
Receivables from customers and interests in purchased receivables				32,932			32,932	
Total exposure – net of liquid securities and other cash collateral held against derivatives				$ 670,639			$ 670,639	
Net credit derivative hedges notional[b]	$ (1,228)	$ (16,415)	$ (5,465)	$ (23,108)	$ (23,159)	$ 51	$ (23,108)	100%

(a) Represents loans held-for-sale primarily related to syndicated loans and loans transferred from the retained portfolio, and loans at fair value.
(b) Represents the net notional amounts of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP.
(c) The maturity profiles of retained loans and lending-related commitments are based on the remaining contractual maturity. The maturity profiles of derivative receivables are based on the maturity profile of average exposure. For further discussion of average exposure, see Derivative receivables on pages 141–144 of this Annual Report.

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

Wholesale credit exposure – selected industry exposures

The Firm focuses on the management and diversification of its industry exposures, with particular attention paid to industries with actual or potential credit concerns. Exposures deemed criticized generally represent a ratings profile similar to a rating of "CCC+"/"Caa1" and lower, as defined by S&P and Moody's, respectively. The total criticized component of the portfolio, excluding loans held-for-sale and loans at fair value, decreased 29% to $15.9 billion at December 31, 2011, from $22.4 billion at December 31, 2010. The decrease was primarily related to net repayments and loan sales.

Below are summaries of the top 25 industry exposures as of December 31, 2011 and 2010. For additional information on industry concentrations, see Note 5 on page 201 of this Annual Report.

As of or for the year ended December 31, 2011 (in millions)			Noninvestment-grade						
	Credit exposure[d]	Investment-grade	Noncriticized	Criticized performing	Criticized nonperforming	30 days or more past due and accruing loans	Full year net charge-offs/ (recoveries)	Credit derivative hedges[e]	Liquid securities and other cash collateral held against derivative receivables
Top 25 industries[a]									
Banks and finance companies	$ 71,440	$ 59,115	$ 11,742	$ 560	$ 23	$ 20	$ (211)	$ (3,053)	$ (9,585)
Real estate	67,594	40,921	21,541	4,246	886	411	256	(97)	(359)
Healthcare	42,247	35,147	6,817	247	36	166	–	(304)	(320)
State and municipal governments[b]	41,930	40,565	1,124	225	16	23	–	(185)	(147)
Oil and gas	35,437	25,004	10,337	96	–	3	–	(119)	(88)
Asset managers	33,465	28,835	4,530	99	1	24	–	–	(4,807)
Consumer products	29,637	19,728	9,439	447	23	3	13	(272)	(50)
Utilities	28,650	23,557	4,423	614	56	–	76	(105)	(359)
Retail and consumer services	22,891	14,568	7,796	464	63	15	1	(96)	(1)
Technology	17,898	12,494	5,085	319	–	–	4	(191)	–
Central government	17,138	16,524	488	126	–	–	–	(9,796)	(813)
Machinery and equipment manufacturing	16,498	9,014	7,375	103	6	1	(1)	(19)	–
Transportation	16,305	12,061	4,070	149	25	6	17	(178)	–
Metals/mining	15,254	8,716	6,388	150	–	6	(19)	(423)	–
Insurance	13,092	9,425	3,064	591	12	–	–	(552)	(454)
Business services	12,408	7,093	5,168	113	34	17	22	(20)	(2)
Securities firms and exchanges	12,394	10,799	1,564	30	1	10	73	(395)	(3,738)
Media	11,909	6,853	3,921	720	415	1	18	(188)	–
Building materials/construction	11,770	5,175	5,674	917	4	6	(4)	(213)	–
Chemicals/plastics	11,728	7,867	3,720	140	1	–	–	(95)	(20)
Telecom services	11,552	8,502	2,235	814	1	2	5	(390)	–
Automotive	9,910	5,699	4,188	23	–	9	(11)	(819)	–
Aerospace	8,560	7,646	848	66	–	7	–	(208)	–
Agriculture/paper manufacturing	7,594	4,888	2,586	120	–	9	–	-	–
Leisure	5,650	3,051	1,752	629	218	1	1	(81)	(26)
All other[c]	180,660	161,568	17,011	1,486	595	1,099	200	(8,441)	(1,038)
Subtotal	$ 753,611	$ 584,815	$ 152,886	$ 13,494	$ 2,416	$ 1,839	$ 440	$ (26,240)	$ (21,807)
Loans held-for-sale and loans at fair value	4,621								
Receivables from customers and interests in purchased receivables	17,461								
Total	$ 775,693								

Presented below is a discussion of several industries to which the Firm has significant exposure, as well as industries the Firm continues to monitor because of actual or potential credit concerns. For additional information, refer to the tables above and on the next page.

- **Banks and finance companies:** Exposure to this industry increased by $5.6 billion or 8%, and criticized exposure decreased 3%, compared with 2010. The portfolio increased from 2010 and the investment grade portion remained high in proportion to the overall industry increase. At December 31, 2011, 83% of the portfolio continued to be rated investment-grade, unchanged from 2010.
- **Real estate:** Exposure to this sector increased by $3.2 billion or 5%, in 2011 to $67.6 billion. The increase was primarily driven by CB, partially offset by decreases in credit exposure in IB. The credit quality of this industry improved as the investment-grade portion of this industry increased by 19% from 2010, while the criticized portion declined by 45% from 2010, primarily as a result of repayments and loans sales. The ratio of nonaccrual loans to total loans decreased to 2% from 5% in line with the decrease in real estate criticized exposure. For further information on commercial real estate loans, see Note 14 on pages 231–252 of this Annual Report.

As of or for the year ended December 31, 2010 (in millions)	Credit exposure[d]	Investment-grade	Noninvestment-grade Noncriticized	Criticized performing	Criticized nonperforming	30 days or more past due and accruing loans	Full year net charge-offs/ (recoveries)	Credit derivative hedges[e]	Liquid securities and other cash collateral held against derivative receivables
Top 25 industries[a]									
Banks and finance companies	$ 65,867	$ 54,839	$ 10,428	$ 467	$ 133	$ 26	$ 69	$ (3,456)	$ (9,216)
Real estate	64,351	34,440	20,569	6,404	2,938	399	862	(76)	(57)
Healthcare	41,093	33,752	7,019	291	31	85	4	(768)	(161)
State and municipal governments[b]	35,808	34,641	912	231	24	34	3	(186)	(233)
Oil and gas	26,459	18,465	7,850	143	1	24	–	(87)	(50)
Asset managers	29,364	25,533	3,401	427	3	7	–	–	(2,948)
Consumer products	27,508	16,747	10,379	371	11	217	1	(752)	(2)
Utilities	25,911	20,951	4,101	498	361	3	49	(355)	(230)
Retail and consumer services	20,882	12,021	8,316	338	207	8	23	(623)	(3)
Technology	14,348	9,355	4,534	399	60	47	50	(158)	–
Central government	11,173	10,677	496	–	–	–	–	(6,897)	(42)
Machinery and equipment manufacturing	13,311	7,690	5,372	244	5	8	2	(74)	(2)
Transportation	9,652	6,630	2,739	245	38	–	(16)	(132)	–
Metals/mining	11,426	5,260	5,748	362	56	7	35	(296)	–
Insurance	10,918	7,908	2,690	320	–	–	(1)	(805)	(567)
Business services	11,247	6,351	4,735	115	46	11	15	(5)	–
Securities firms and exchanges	9,415	7,678	1,700	37	–	–	5	(38)	(2,358)
Media	10,967	5,808	3,945	672	542	2	92	(212)	(3)
Building materials/construction	12,808	6,557	5,065	1,129	57	9	6	(308)	–
Chemicals/plastics	12,312	8,375	3,656	274	7	–	2	(70)	–
Telecom services	10,709	7,582	2,295	821	11	3	(8)	(820)	–
Automotive	9,011	3,915	4,822	269	5	–	52	(758)	–
Aerospace	5,732	4,903	732	97	–	–	–	(321)	–
Agriculture/paper manufacturing	7,368	4,510	2,614	242	2	8	7	(44)	(2)
Leisure	5,405	2,895	1,367	941	202	–	90	(253)	(21)
All other[c]	146,025	128,074	15,648	1,499	804	954	385	(5,614)	(591)
Subtotal	$ 649,070	$ 485,557	$ 141,133	$ 16,836	$ 5,544	$ 1,852	$ 1,727	$ (23,108)	$ (16,486)
Loans held-for-sale and loans at fair value	5,123								
Receivables from customers and interests in purchased receivables	32,932								
Total	$ 687,125								

(a) All industry rankings are based on exposure at December 31, 2011. The industry rankings presented in the table as of December 31, 2010, are based on the industry rankings of the corresponding exposures at December 31, 2011, not actual rankings of such exposures at December 31, 2010.

(b) In addition to the credit risk exposure to states and municipal governments at December 31, 2011 and 2010, noted above, the Firm held $16.7 billion and $14.0 billion, respectively, of trading securities and $16.5 billion and $11.6 billion, respectively, of AFS securities issued by U.S. state and municipal governments. For further information, see Note 3 and Note 12 on pages 184–198 and 225–230, respectively, of this Annual Report.

(c) For further information on the All other category refer to the discussion in the following section on page 140 of this Annual Report. All other for credit derivative hedges includes credit default swap ("CDS") index hedges of CVA.

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

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

- **State and municipal governments:** Exposure to this segment increased by $6.1 billion or 17% in 2011 to $41.9 billion. Lending-related commitments comprise approximately 67% of exposure to this sector, generally in the form of bond and commercial paper liquidity and standby letter of credit commitments. Credit quality of the portfolio remains high as 97% of the portfolio was rated investment-grade, unchanged from 2010. Criticized exposure was less than 1% of this industry's exposure. The non-U.S. portion of this industry was less than 5% of the total. The Firm continues to actively monitor and manage this exposure in light of the challenging environment faced by state and municipal governments. For further discussion of commitments for bond liquidity and standby letters of credit, see Note 29 on pages 283–289 of this Annual Report.
- **Media:** Exposure to this industry increased by 9% to $11.9 billion in 2011. Criticized exposure of $1.1 billion decreased by 7% in 2011 from $1.2 billion, but remains elevated relative to total industry exposure due to continued pressure on the traditional media business model from expanding digital and online technology.
- **All other:** All other at December 31, 2011 (excluding loans held-for-sale and loans at fair value), included $180.7 billion of credit exposure. Concentrations of exposures include: (1) Individuals, Private Education & Civic Organizations, which were 54% of this category and (2) SPEs which were 35% of this category. Each of these categories has high credit quality, and over 90% of each of these categories were rated investment-grade. SPEs provide secured financing (generally backed by receivables, loans or bonds with a diverse group of obligors); the lending in this category was all secured and well-structured. For further discussion of SPEs, see Note 1 on pages 182–183 and Note 16 on pages 256–267 of this Annual Report. The remaining exposure within this category is well-diversified, with no category being more than 6% of its total.

The following table presents the geographic distribution of wholesale credit exposure including nonperforming assets and past due loans as of December 31, 2011 and 2010. The geographic distribution of the wholesale portfolio is determined based predominantly on the domicile of the borrower.

	Credit exposure				Nonperforming					
December 31, 2011 (in millions)	Loans	Lending-related commitments	Derivative receivables	Total credit exposure	Nonaccrual loans[(a)]	Derivatives	Lending-related commitments	Total non-performing credit exposure	Assets acquired in loan satisfactions	30 days or more past due and accruing loans
Europe/Middle East/Africa	**$ 36,637**	**$ 60,681**	**$ 43,204**	**$ 140,522**	**$ 44**	**$ —**	**$ 25**	**$ 69**	**$ —**	**$ 68**
Asia/Pacific	**31,119**	**17,194**	**10,943**	**59,256**	**1**	**13**	**—**	**14**	**—**	**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**	**13**	**41**	**488**	**3**	**296**
Total U.S.	**183,231**	**277,325**	**31,526**	**492,082**	**1,964**	**5**	**824**	**2,793**	**176**	**1,543**
Loans held-for-sale and loans at fair value	**4,621**	**—**	**—**	**4,621**	**183**	**NA**	**—**	**183**	**NA**	**—**
Receivables from customers and interests in purchased receivables	**—**	**—**	**—**	**17,461**	**—**	**NA**	**NA**	**—**	**NA**	**—**
Total	**$ 283,016**	**$ 382,739**	**$ 92,477**	**$ 775,693**	**$ 2,581**	**$ 18**	**$ 865**	**$ 3,464**	**$ 179**	**$ 1,839**

	Credit exposure				Nonperforming					
December 31, 2010 (in millions)	Loans	Lending-related commitments	Derivative receivables	Total credit exposure	Nonaccrual loans[(a)]	Derivatives	Lending-related commitments	Total non-performing credit exposure	Assets acquired in loan satisfactions	30 days or more past due and Accruing loans
Europe/Middle East/Africa	$ 27,934	$ 58,418	$ 35,196	$ 121,548	$ 153	$ 1	$ 23	$ 177	$ —	$ 127
Asia/Pacific	20,552	15,002	10,991	46,545	579	21	—	600	—	74
Latin America/Caribbean	16,480	12,170	5,634	34,284	649	—	13	662	1	131
Other North America	1,185	6,149	2,039	9,373	6	—	5	11	—	—
Total non-U.S.	66,151	91,739	53,860	211,750	1,387	22	41	1,450	1	332
Total U.S.	156,359	254,340	26,621	437,320	4,123	12	964	5,099	320	1,520
Loans held-for-sale and loans at fair value	5,123	—	—	5,123	496	NA	—	496	NA	—
Receivables from customers and interests in purchased receivables	—	—	—	32,932	—	NA	NA	—	NA	—
Total	$ 227,633	$ 346,079	$ 80,481	$ 687,125	$ 6,006	$ 34	$ 1,005	$ 7,045	$ 321	$ 1,852

(a) At December 31, 2011 and 2010, the Firm held an allowance for loan losses of $496 million and $1.6 billion, respectively, related to nonaccrual retained loans resulting in allowance coverage ratios of 21% and 29%, respectively. Wholesale nonaccrual loans represented 0.91% and 2.64% of total wholesale loans at December 31, 2011 and 2010, respectively.

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 14 on pages 231–252 of this Annual Report.

The Firm actively manages wholesale credit exposure. One way of managing credit risk is through sales of loans and lending-related commitments. During 2011, the Firm sold $5.2 billion of loans and commitments, recognizing net gains of $22 million. During 2010, the Firm sold $8.3 billion of loans and commitments, recognizing net gains of $99 million. These results included gains or losses on sales of nonaccrual loans, if any, as discussed below. These sale activities are not related to the Firm's securitization activities. For further discussion of securitization activity, see Liquidity Risk Management and Note 16 on pages 127–132 and 256–267 respectively, of this Annual Report.

The following table presents the change in the nonaccrual loan portfolio for the years ended December 31, 2011 and 2010. Nonaccrual wholesale loans decreased by $3.4 billion from December 31, 2010, primarily reflecting net repayments and loan sales.

Wholesale nonaccrual loan activity

Year ended December 31, (in millions)	2011	2010
Beginning balance	**$ 6,006**	$ 6,904
Additions	**2,519**	9,249
Reductions:		
Paydowns and other	**2,841**	5,540
Gross charge-offs	**907**	1,854
Returned to performing status	**807**	364
Sales	**1,389**	2,389
Total reductions	**5,944**	10,147
Net additions/(reductions)	**(3,425)**	(898)
Ending balance	**$ 2,581**	$ 6,006

The following table presents net charge-offs, which are defined as gross charge-offs less recoveries, for the years ended December 31, 2011 and 2010. The amounts in the table below do not include gains or losses from sales of nonaccrual loans.

Wholesale net charge-offs

Year ended December 31, (in millions, except ratios)	2011	2010
Loans – reported		
Average loans retained	**$ 245,111**	$ 213,609
Net charge-offs/(recoveries)	**440**	1,727
Net charge-off/(recovery) rate	**0.18%**	0.81%

Derivative contracts

In the normal course of business, the Firm uses derivative instruments predominantly for market-making activity. Derivatives enable customers and the Firm to manage exposures to fluctuations in interest rates, currencies and other markets. The Firm also uses derivative instruments to manage its credit exposure. For further discussion of derivative contracts, see Note 5 and Note 6 on page 201 and 202–210, respectively, of this Annual Report.

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

Derivative receivables

	Derivative receivables	
December 31, (in millions)	2011	2010
Interest rate	**$ 46,369**	$ 32,555
Credit derivatives	**6,684**	7,725
Foreign exchange	**17,890**	25,858
Equity	**6,793**	4,204
Commodity	**14,741**	10,139
Total, net of cash collateral	**92,477**	80,481
Liquid securities and other cash collateral held against derivative receivables	**(21,807)**	(16,486)
Total, net of all collateral	**$ 70,670**	$ 63,995

Derivative receivables reported on the Consolidated Balance Sheets were $92.5 billion and $80.5 billion at December 31, 2011 and 2010, respectively. These represent the fair value of the derivative contracts after giving effect to legally enforceable master netting agreements, cash collateral held by the Firm and the CVA. However, in management's view, the appropriate measure of current credit risk should take into consideration additional liquid securities (primarily U.S. government and agency securities and other G7 government bonds) and other cash collateral held by the Firm of $21.8 billion and $16.5 billion at December 31, 2011 and 2010, 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 December 31, 2011 and 2010, the Firm held $17.6 billion and $18.0 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 6 on pages 202–210 of this Annual Report.

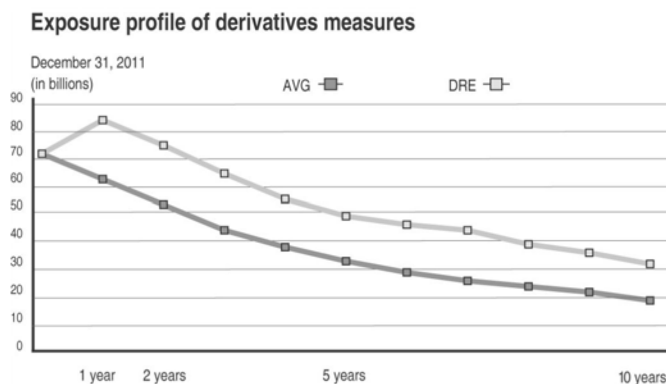
While useful as a current view of credit exposure, the net fair value of the derivative receivables does not capture the potential future variability of that credit exposure. To capture the potential future variability of credit exposure, the Firm calculates, on a client-by-client basis, three measures of potential derivatives-related credit loss: Peak, Derivative Risk Equivalent ("DRE"), and Average exposure ("AVG"). These measures all incorporate netting and collateral benefits, where applicable.

Peak exposure to a counterparty is an extreme measure of exposure calculated at a 97.5% confidence level. DRE exposure is a measure that expresses the risk of derivative exposure on a basis intended to be equivalent to the risk of loan exposures. The measurement is done by equating the unexpected loss in a derivative counterparty exposure (which takes into consideration both the loss volatility and the credit rating of the counterparty) with the unexpected loss in a loan exposure (which takes into consideration only the credit rating of the counterparty). DRE is a less extreme measure of potential credit loss than Peak and is the primary measure used by the Firm for credit approval of derivative transactions.

Finally, AVG is a measure of the expected fair value of the Firm's derivative receivables at future time periods, including the benefit of collateral. AVG exposure over the total life of the derivative contract is used as the primary metric for pricing purposes and is used to calculate credit capital and the CVA, as further described below. AVG exposure was $53.6 billion and $45.3 billion at December 31, 2011 and 2010, respectively, compared with derivative receivables, net of all collateral, of $70.7 billion and $64.0 billion at December 31, 2011 and 2010, respectively.

The fair value of the Firm's derivative receivables incorporates an adjustment, the CVA, to reflect the credit quality of counterparties. The CVA is based on the Firm's AVG to a counterparty and the counterparty's credit spread in the credit derivatives market. The primary components of changes in CVA are credit spreads, new deal activity or unwinds, and changes in the underlying market environment. The Firm believes that active risk management is essential to controlling the dynamic credit risk in the derivatives portfolio. In addition, the Firm's risk management process takes into consideration the potential impact of wrong-way risk, which is broadly defined as the potential for increased correlation between the Firm's exposure to a counterparty (AVG) and the counterparty's credit quality. Many factors may influence the nature and magnitude of these correlations over time. To the extent that these correlations are identified, the Firm may adjust the CVA associated with that counterparty's AVG. The Firm risk manages exposure to changes in CVA by entering into credit derivative transactions, as well as interest rate, foreign exchange, equity and commodity derivative transactions.

The accompanying graph shows exposure profiles to derivatives over the next 10 years as calculated by the DRE and AVG metrics. The two measures generally show declining exposure after the first year, if no new trades were added to the portfolio.



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

Ratings profile of derivative receivables

Rating equivalent	2011		2010	
December 31, (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	**$ 25,100**	**35%**	$ 23,342	36%
A+/A1 to A-/A3	**22,942**	**32**	15,812	25
BBB+/Baa1 to BBB-/Baa3	**9,595**	**14**	8,403	13
BB+/Ba1 to B-/B3	**10,545**	**15**	13,716	22
CCC+/Caa1 and below	**2,488**	**4**	2,722	4
Total	**$ 70,670**	**100%**	$ 63,995	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 December 31, 2011, unchanged compared with December 31, 2010. The Firm posted $82.1 billion and $58.3 billion of collateral at December 31, 2011 and 2010, respectively.

Credit derivatives

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

As a purchaser of credit protection, the Firm has risk that the counterparty providing the credit protection will default. As a seller of credit protection, the Firm has risk that the underlying entity referenced in the contract will be subject to a credit event. Upon the occurrence of a credit event, which may include, among other events, the bankruptcy or failure to pay by, or certain restructurings of the debt of, the reference entity, neither party has recourse to the reference entity. The protection purchaser has recourse to the protection seller for the difference between the face value of the credit derivative contract and the fair value of the reference obligation at the time of settling the credit derivative contract. The determination as to whether a credit event has occurred is made by the relevant ISDA Determination Committee, comprised of 10 sell-side and five buy-side ISDA member firms.

One type of credit derivatives the Firm enters into with counterparties are CDS. The large majority of CDS are subject to collateral arrangements to protect the Firm from counterparty credit risk. The use of collateral to settle against defaulting counterparties has generally performed as designed and has significantly mitigated the Firm's exposure to these counterparties. In 2011 the frequency and size of defaults related to the underlying debt referenced in credit derivatives was lower than 2010. For a more detailed description of credit derivatives, including other types of credit derivatives, see Credit derivatives in Note 6 on pages 202–210 of this Annual Report.

The Firm uses credit derivatives for two primary purposes: first, in its capacity as a market-maker in the dealer/client business to meet the needs of customers; and second, in order to mitigate the Firm's own credit risk associated with its overall derivative receivables and traditional commercial credit lending exposures (loans and unfunded commitments). For further information on the Firm's dealer/client business, see Credit derivatives in Note 6, on pages 202–210 of this Annual Report.

The following table presents the Firm's notional amounts of credit derivatives protection purchased and sold as of December 31, 2011 and 2010, distinguishing between dealer/client activity and credit portfolio activity.

Credit derivative notional amounts

	2011					2010				
	Dealer/client		Credit portfolio			Dealer/client		Credit portfolio		
December 31, (in millions)	Protection purchased[b]	Protection sold	Protection purchased	Protection sold	Total	Protection purchased[b]	Protection sold	Protection purchased	Protection sold	Total
Credit default swaps	**$ 2,800,975**	**$ 2,839,361**	**$ 26,371**	**$ 131**	**$ 5,666,838**	$ 2,661,657	$ 2,658,825	$ 23,523	$ 415	$ 5,344,420
Other credit derivatives[a]	**27,246**	**79,711**	**–**	**–**	**106,957**	34,250	93,776	–	–	128,026
Total	**$ 2,828,221**	**$ 2,919,072**	**$ 26,371**	**$ 131**	**$ 5,773,795**	$ 2,695,907	$ 2,752,601	$ 23,523	$ 415	$ 5,472,446

(a) Primarily consists of total return swaps and credit default swap options.
(b) At December 31, 2011 and 2010, included $2,803 billion and $2,662 billion, respectively, of notional exposure where the Firm has sold protection on the identical underlying reference instruments.

Dealer/client business

Within the dealer/client business, the Firm actively manages credit derivatives by buying and selling credit protection, predominantly on corporate debt obligations, according to client demand. For further information, see Note 6 on pages 202–210 of this Annual Report. At December 31, 2011, the total notional amount of protection purchased and sold increased by $298.8 billion from year-end 2010, primarily due to increased activity, particularly in the EMEA region.

Credit portfolio activities

Management of the Firm's wholesale exposure is accomplished through a number of means including loan syndication and participations, loan sales, securitizations, credit derivatives, use of master netting agreements, and collateral and other risk-reduction techniques. The Firm also manages its wholesale credit exposure by purchasing protection through single-name and portfolio credit derivatives to manage the credit risk associated with loans, lending-related commitments and derivative receivables. Changes in credit risk on the credit derivatives are expected to offset changes in credit risk on the loans, lending-related commitments or derivative receivables. This activity does not reduce the reported level of assets on the Consolidated Balance Sheets or the level of reported off-balance sheet commitments, although it does provide the Firm with credit risk protection.

Use of single-name and portfolio credit derivatives

December 31, (in millions)	Notional amount of protection purchased and sold 2011	2010
Credit derivatives used to manage:		
Loans and lending-related commitments	$ **3,488**	$ 6,698
Derivative receivables	**22,883**	16,825
Total protection purchased	**26,371**	23,523
Total protection sold	**131**	415
Credit derivatives hedges notional, net	$ **26,240**	$ 23,108

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

Net gains and losses on credit portfolio hedges

Year ended December 31, (in millions)	2011	2010	2009
Hedges of loans and lending-related commitments	$ **(32)**	$ (279)	$ (3,258)
CVA and hedges of CVA	**(769)**	(403)	1,920
Net gains/(losses)	$ **(801)**	$ (682)	$ (1,338)

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 $206.5 billion and $178.9 billion as of December 31, 2011 and 2010, respectively.

CONSUMER CREDIT PORTFOLIO

JPMorgan Chase's consumer portfolio consists primarily of residential real estate loans, credit cards, auto loans, business banking loans, and student loans. The Firm's primary focus is on serving the prime segment of the consumer credit market. For further information on consumer loans, see Note 14 on pages 231–252 of this Annual Report.

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, 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 14 on pages 231–252 of this Annual Report.

The credit performance of the consumer portfolio across the entire product spectrum has improved, particularly in credit card, but high unemployment and weak overall economic conditions continued to result in an elevated number of residential real estate loans that were charged-off, and weak housing prices continued to negatively affect the severity of loss recognized on residential real estate loans that defaulted. Early-stage residential real estate delinquencies (30–89 days delinquent) declined during the first half of the year, but flattened during the second half of the year, while late-stage delinquencies (150+ days delinquent), excluding government guaranteed loans, have steadily declined in 2011. In spite of the declines, residential real estate loan delinquencies remained 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 continued 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, ongoing weak economic conditions and housing prices, the estimated effects of the mortgage foreclosure-related settlement with federal and state officials, 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 behind a delinquent or modified senior lien) have resulted in a high level of uncertainty regarding credit risk in the residential real estate portfolio and have been considered in estimating the allowance for loan losses.

Since the global economic crisis began in mid-2007, the Firm has taken actions to reduce risk exposure to consumer loans by tightening both underwriting and loan qualification standards, as well as eliminating certain products and loan origination channels for residential real estate lending. To manage the risk associated with lending-related commitments, the Firm has reduced or canceled certain lines of credit as permitted by law. For example, the Firm may reduce or close home equity lines of credit when there are significant decreases in the value of the underlying property or when there has been a demonstrable decline in the creditworthiness of the borrower. Also, the Firm typically closes credit card lines when the borrower is 60 days or more past due. The tightening of underwriting criteria for auto loans has resulted in the reduction of both extended-term and high LTV financing. In addition, new originations of private student loans are limited to school-certified loans, the majority of which include a qualified co-borrower.

The following table presents managed consumer credit-related information (including RFS, Card Services & Auto, and residential real estate loans reported in Asset Management and the Corporate/Private Equity segment) for the dates indicated. For further information about the Firm's nonaccrual and charge-off accounting policies, see Note 14 on pages 231-252 of this Annual Report.

Consumer credit portfolio

As of or for the year ended December 31, (in millions, except ratios)	Credit exposure		Nonaccrual loans[g][h]		Net charge-offs		Average annual net charge-off rate[i][j]	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Consumer, excluding credit card								
Loans, excluding PCI loans and loans held-for-sale								
Home equity – senior lien	**$ 21,765**	$ 24,376	**$ 495**	$ 479	**$ 284**	$ 262	**1.20%**	1.00%
Home equity – junior lien	**56,035**	64,009	**792**	784	**2,188**	3,182	**3.69**	4.63
Prime mortgage, including option ARMs	**76,196**	74,539	**3,462**	4,320	**708**	1,627	**0.95**	2.15
Subprime mortgage	**9,664**	11,287	**1,781**	2,210	**626**	1,374	**5.98**	10.82
Auto[a]	**47,426**	48,367	**118**	141	**152**	298	**0.32**	0.63
Business banking	**17,652**	16,812	**694**	832	**494**	707	**2.89**	4.23
Student and other	**14,143**	15,311	**69**	67	**420**	459	**2.85**	2.85
Total loans, excluding PCI loans and loans held-for-sale	**242,881**	254,701	**7,411**	8,833	**4,872**	7,909	**1.97**	3.00
Loans – PCI[b]								
Home equity	**22,697**	24,459	**NA**	NA	**NA**	NA	**NA**	NA
Prime mortgage	**15,180**	17,322	**NA**	NA	**NA**	NA	**NA**	NA
Subprime mortgage	**4,976**	5,398	**NA**	NA	**NA**	NA	**NA**	NA
Option ARMs	**22,693**	25,584	**NA**	NA	**NA**	NA	**NA**	NA
Total loans – PCI	**65,546**	72,763	**NA**	NA	**NA**	NA	**NA**	NA
Total loans – retained	**308,427**	327,464	**7,411**	8,833	**4,872**	7,909	**1.54**	2.32
Loans held-for-sale[c]	**—**	154	**—**	—	**—**	—	**—**	—
Total consumer, excluding credit card loans	**308,427**	327,618	**7,411**	8,833	**4,872**	7,909	**1.54**	2.32
Lending-related commitments								
Home equity – senior lien[d]	**16,542**	17,662						
Home equity – junior lien[d]	**26,408**	30,948						
Prime mortgage	**1,500**	1,266						
Subprime mortgage	**—**	—						
Auto	**6,694**	5,246						
Business banking	**10,299**	9,702						
Student and other	**864**	579						
Total lending-related commitments	**62,307**	65,403						
Receivables from customers[e]	**100**	—						
Total consumer exposure, excluding credit card	**370,834**	393,021						
Credit Card								
Loans retained[f]	**132,175**	135,524	**1**	2	**6,925**	14,037	**5.44**	9.73
Loans held-for-sale	**102**	2,152	**—**	—	**—**	—	**—**	—
Total credit card loans	**132,277**	137,676	**1**	2	**6,925**	14,037	**5.44**	9.73
Lending-related commitments[d]	**530,616**	547,227						
Total credit card exposure	**662,893**	684,903						
Total consumer credit portfolio	**$ 1,033,727**	$ 1,077,924	**$ 7,412**	$ 8,835	**$ 11,797**	$ 21,946	**2.66%**	4.53%
Memo: Total consumer credit portfolio, excluding PCI	**$ 968,181**	$ 1,005,161	**$ 7,412**	$ 8,835	**$ 11,797**	$ 21,946	**3.15%**	5.38%

(a) At December 31, 2011 and 2010, excluded operating lease-related assets of $4.4 billion and $3.7 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) Represents prime mortgage loans held-for-sale.
(d) 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.
(e) 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.
(f) Includes billed finance charges and fees net of an allowance for uncollectible amounts.
(g) At December 31, 2011 and 2010, nonaccrual loans excluded: (1) mortgage loans insured by U.S. government agencies of $11.5 billion and $9.4 billion,

respectively, that are 90 or more days past due; and (2) student loans insured by U.S. government agencies under the FFELP of $551 million and $625 million, respectively, that are 90 or more days past due. These amounts were excluded as reimbursement of insured amounts is proceeding normally. In addition, the Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance. Under guidance issued by the FFIEC, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.

(h) 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.

(i) Average consumer loans held-for-sale were $924 million and $1.5 billion, respectively, for the years ended December 31, 2011 and 2010. These amounts were excluded when calculating net charge-off rates.

(j) Net charge-off rates for 2010 reflect the impact of an aggregate $632 million adjustment related to the Firm's estimate of the net realizable value of the collateral underlying the loans at the charge-off date. Absent this adjustment, net charge-off rates would have been 0.92%, 4.57%, 1.73% and 8.87% for home equity – senior lien; home equity – junior lien; prime mortgage, including option ARMs; and subprime mortgage, respectively. Total consumer, excluding credit card and PCI loans, and total consumer, excluding credit card, net charge-off rates would have been 2.76% and 2.14%, respectively, excluding this adjustment.

Consumer, excluding credit card

Portfolio analysis

Consumer loan balances declined during the year ended December 31, 2011, due to paydowns, portfolio run-off and charge-offs. Credit performance has improved across most portfolios but remains under stress. The following discussion relates to the specific loan and lending-related categories. PCI loans are generally excluded from individual loan product discussions and are addressed separately below. For further information about the Firm's consumer portfolio, including information about delinquencies, loan modifications and other credit quality indicators, see Note 14 on pages 231–252 of this Annual Report.

Home equity: Home equity loans at December 31, 2011, were $77.8 billion, compared with $88.4 billion at December 31, 2010. The decrease in this portfolio primarily reflected loan paydowns and charge-offs. Both senior lien and junior lien nonaccrual loans increased slightly from 2010. Senior lien early-stage delinquencies were relatively flat to 2010 and charge-offs increased slightly, but junior lien early-stage delinquencies and charge-offs showed improvement.

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 open-ended, revolving loans for a 10-year period, after which time the HELOC converts to a loan with a 20-year amortization period. At the time of origination, the borrower typically selects one of two minimum payment options that will generally remain in effect during the revolving period: a monthly payment of 1% of the outstanding balance, or interest-only payments based on a variable index (typically Prime).

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

At December 31, 2011, the Firm estimates that its home equity portfolio contained approximately $3.7 billion of junior lien loans where the borrower has a first mortgage loan that is either delinquent or has been modified ("high-risk seconds"). Such loans are considered to pose a higher risk of default than that of junior lien loans for which the senior lien is neither delinquent nor modified. Of this estimated $3.7 billion balance, the Firm owns approximately 5% and services approximately 30% of the related senior lien loans to these same borrowers. The Firm estimates the balance of its total exposure to high-risk seconds on a quarterly basis using summary-level output from a database of information about senior and junior lien mortgage and home equity loans maintained by one of the bank regulatory agencies. This database comprises loan-level data provided by a number of servicers across the industry (including JPMorgan Chase). 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.

Mortgage: Mortgage loans at December 31, 2011, including prime, subprime and loans held-for-sale, were $85.9 billion, compared with $86.0 billion at December 31, 2010. Balances remained relatively flat as declines resulting from paydowns, portfolio run-off and the charge-off or liquidation of delinquent loans were offset by new prime mortgage originations and Ginnie Mae loans that the Firm elected to repurchase. Net charge-offs decreased from 2010 as a result of improvement in delinquencies, but remained elevated.

Prime mortgages, including option adjustable-rate mortgages ("ARMs") and loans held-for-sale, were $76.2 billion at December 31, 2011, compared with $74.7 billion at December 31, 2010. The increase was due primarily to

prime mortgage originations and Ginnie Mae loans that the Firm elected to repurchase, partially offset by the charge-off or liquidation of delinquent loans, paydowns, and portfolio run-off of option ARM loans. Excluding loans insured by U.S. government agencies, both early-stage and late-stage delinquencies showed modest improvement during the year but remained elevated. Nonaccrual loans showed improvement, but also remained elevated as a result of ongoing foreclosure processing delays. Net charge-offs declined year-over-year but remained high.

Option ARM loans, which are included in the prime mortgage portfolio, were $7.4 billion and $8.1 billion and represented 10% and 11% of the prime mortgage portfolio at December 31, 2011 and 2010, respectively. The decrease in option ARM loans resulted from portfolio run-off partially offset by the purchase of loans previously securitized as the securitization entities were terminated. The Firm's option ARM loans, other than those held in the PCI portfolio, are primarily loans with lower LTV ratios and higher borrower FICO scores. Accordingly, the Firm expects substantially lower losses on this portfolio when compared with the PCI option ARM pool. As of December 31, 2011, approximately 6% of option ARM borrowers were delinquent, 3% were making interest-only or negatively amortizing payments, and 91% were making amortizing payments (such payments are not necessarily fully amortizing). Approximately 85% of borrowers within the portfolio are subject to risk of payment shock due to future payment recast, as only a limited number of these loans have been modified. The cumulative amount of unpaid interest added to the unpaid principal balance due to negative amortization of option ARMs was not material at either December 31, 2011 or 2010. The Firm estimates the following balances of option ARM loans will experience a recast that results in a payment increase: $160 million in 2012, $528 million in 2013 and $636 million in 2014. The Firm did not originate option ARMs and new originations of option ARMs were discontinued by Washington Mutual prior to the date of JPMorgan Chase's acquisition of its banking operations.

Subprime mortgages at December 31, 2011, were $9.7 billion, compared with $11.3 billion at December 31, 2010. The decrease was due to portfolio run-off and the charge-off or liquidation of delinquent loans. Both early-stage and late-stage delinquencies improved from December 31, 2010. However, delinquencies and nonaccrual loans remained at elevated levels. Net charge-offs improved from the prior year.

Auto: Auto loans at December 31, 2011, were $47.4 billion, compared with $48.4 billion at December 31, 2010. Loan balances declined due to paydowns and payoffs, which were only partially offset by new originations reflecting the impact of increased competition. Delinquent and nonaccrual loans have decreased from December 31, 2010. Net charge-offs declined from the prior year as a result of a decline in loss severity due to a strong used-car market nationwide. The auto loan portfolio reflected a high concentration of prime-quality credits.

Business banking: Business banking loans at December 31, 2011, were $17.7 billion, compared with $16.8 billion at December 31, 2010. 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 some improvement from December 31, 2010, but remain elevated. Net charge-offs declined from the prior year.

Student and other: Student and other loans at December 31, 2011, were $14.1 billion, compared with $15.3 billion at December 31, 2010. The decrease was primarily due to paydowns and charge-offs of student loans. Other loans primarily include other secured and unsecured consumer loans. Delinquencies and nonaccrual loans remained elevated, but charge-offs decreased from 2010.

Purchased credit-impaired loans: PCI loans at December 31, 2011, were $65.5 billion, compared with $72.8 billion at December 31, 2010. This portfolio represents loans acquired in the Washington Mutual transaction, which were recorded at fair value at the time of acquisition.

During 2011, in connection with the Firm's quarterly review of the PCI portfolios' expected cash flows, management concluded that it was probable that higher expected credit losses would result in a decrease to the expected cash flows in certain portfolios. As a result, the Firm recognized an additional $770 million of impairment related to the home equity, prime mortgage and subprime mortgage PCI portfolios. As a result of this impairment, the Firm increased the allowance for loan losses for this portfolio. At 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, compared with an allowance for loan losses at December 31, 2010, of $1.6 billion, $1.8 billion, $1.5 billion and $98 million.

As of December 31, 2011, approximately 31% of the option ARM PCI loans were delinquent and 42% have been modified into fixed-rate, fully amortizing loans. Substantially all of the remaining loans are making amortizing payments, although such payments are not necessarily fully amortizing; in addition, substantially all of these loans are subject to the risk of payment shock due to future payment recast. The cumulative amount of unpaid interest added to the unpaid principal balance of the option ARM PCI pool was $1.1 billion and $1.4 billion at December 31, 2011 and 2010, respectively. The Firm estimates the following balances of option ARM PCI loans will experience a recast that results in a payment increase: $2.1 billion in 2012 and $361 million in 2013 and $410 million in 2014.

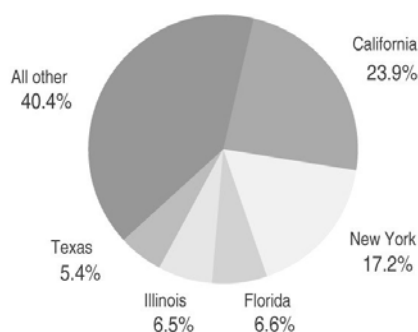
The following table provides a summary of lifetime principal loss estimates included in both the nonaccretable difference and the allowance for loan losses. Lifetime principal loss estimates, which exclude the effect of foregone interest as a result of loan modifications, were relatively unchanged from December 31, 2010 to December 31, 2011. Although the credit quality of the non-modified PCI loans generally deteriorated during 2011, this was offset by a decrease in estimated principal losses on the modified portion of the PCI portfolio. The impairment recognized in the fourth quarter of 2011 was driven by an increase in estimated principal losses on non-modified PCI loans, as the improvement in estimated principal losses on modified PCI loans was predominately offset by contractual interest cash flows foregone as a result of the modification. Principal charge-offs will not be recorded on these pools until the nonaccretable difference has been fully depleted.

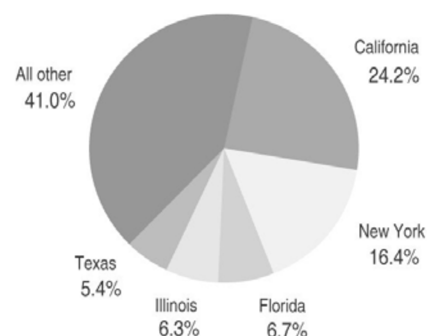
Summary of lifetime principal loss estimates	Lifetime loss estimates[(a)]		LTD liquidation losses[(b)]	
December 31, (in billions)	**2011**	2010	**2011**	2010
Home equity	**$ 14.9**	$ 14.7	**$ 10.4**	$ 8.8
Prime mortgage	**4.6**	4.9	**2.3**	1.5
Subprime mortgage	**3.8**	3.7	**1.7**	1.2
Option ARMs	**11.5**	11.6	**6.6**	4.9
Total	**$ 34.8**	$ 34.9	**$ 21.0**	$ 16.4

(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 $9.4 billion and $14.1 billion at December 31, 2011 and 2010, 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





(a) Represents residential real estate loans retained, excluding purchased credit-impaired loans acquired in the Washington Mutual transaction and loans insured by U.S. government agencies.

The consumer, excluding credit card, loan portfolio is geographically diverse.

At both December 31, 2011 and 2010, 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, $79.5 billion, or 54%, were concentrated in California, New York, Arizona, Florida and Michigan at December 31, 2011, compared with $86.4 billion, or 54%, at December 31, 2010. The unpaid principal balance of PCI loans concentrated in these five states represented 72% of total PCI loans at both December 31, 2011 and 2010.

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 83% at both December 31, 2011 and 2010. Excluding mortgage loans insured by U.S. government agencies and PCI loans, 24% of the retained portfolio had a current estimated LTV ratio greater than 100%, and 10% of the retained portfolio had a current estimated LTV ratio greater than 125% at both December 31, 2011 and 2010. 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

	2011				2010			
December 31, (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[(c)]	Net carrying value[(c)]	Ratio of net carrying value to current estimated collateral value[(c)]
Home equity	**$ 25,064**	**117%** [(b)]	**$ 20,789**	**97%**	$ 28,312	117% [(b)]	$ 22,876	95%
Prime mortgage	**16,060**	**110**	**13,251**	**91**	18,928	109	15,556	90
Subprime mortgage	**7,229**	**115**	**4,596**	**73**	8,042	113	5,300	74
Option ARMs	**26,139**	**109**	**21,199**	**89**	30,791	111	24,090	87

(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 at December 31, 2011 and 2010, of $1.9 billion and $1.6 billion for home equity, respectively, $1.9 billion and $1.8 billion for prime mortgage, respectively, $1.5 billion and $1.5 billion for option ARMs, respectively, and $380 million and $98 million for subprime mortgage, respectively. Prior-period amounts have been revised to conform to the current-period presentation.

The current estimated average LTV ratios were 117% and 140% for California and Florida PCI loans, respectively, at December 31, 2011, compared with 118% and 135%, respectively, at December 31, 2010. Continued pressure on housing prices in California and Florida have contributed negatively to both the current estimated average LTV ratio and the ratio of net carrying value to current estimated collateral value for loans in the PCI portfolio. Of the PCI portfolio, 62% had a current estimated LTV ratio greater than 100%, and 31% had a current estimated LTV ratio greater than 125% at December 31, 2011, compared with 63% and 31%, respectively, at December 31, 2010.

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 14 on pages 231–252 of this Annual Report.

Loan modification activities - residential real estate loans

For both the Firm's on–balance sheet loans and loans serviced for others, more than 1.2 million mortgage modifications have been offered to borrowers and approximately 461,000 have been approved since the beginning of 2009. Of these, approximately 452,000 have achieved permanent modification as of December 31, 2011. Of the remaining modifications offered, 23% are in a trial period or still being reviewed for a modification, while 77% have dropped out of the modification program or otherwise were not eligible for final modification.

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

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

home equity lines of credit, future lending commitments related to the modified loans are canceled as part of the terms of the modification.

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

The performance of modified loans generally differs by product type and also based on whether the underlying loan is in the PCI portfolio, due both to differences in credit quality and in the types of modifications provided. Performance metrics for modifications to the residential real estate portfolio, excluding PCI loans, that have been seasoned more than six months show weighted average redefault rates of 21% for senior lien home equity, 14% for junior lien home equity, 13% for prime mortgages including option ARMs, and 28% 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 19% for home equity, 22% for prime mortgages, 9% for option ARMs and 31% for subprime mortgages. The favorable performance of the option ARM modifications is the result of a targeted proactive program which fixed 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 December 31, 2011. However, given the limited experience, ultimate performance of the modifications remain uncertain.

The following table presents information as of December 31, 2011 and 2010, 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 year ended December 31, 2011, see Note 14 on pages 231–252 on this Annual Report.

Modified residential real estate loans

December 31, (in millions)	2011 On-balance sheet loans	2011 Nonaccrual on-balance sheet loans[d]	2010 On-balance sheet loans	2010 Nonaccrual on-balance sheet loans[d]
Modified residential real estate loans – excluding PCI loans[a][b]				
Home equity – senior lien	**$ 335**	**$ 77**	$ 226	$ 38
Home equity – junior lien	**657**	**159**	283	63
Prime mortgage, including option ARMs	**4,877**	**922**	2,084	534
Subprime mortgage	**3,219**	**832**	2,751	632
Total modified residential real estate loans – excluding PCI loans	**$ 9,088**	**$ 1,990**	$ 5,344	$ 1,267
Modified PCI loans[c]				
Home equity	**$ 1,044**	**NA**	$ 492	NA
Prime mortgage	**5,418**	**NA**	3,018	NA
Subprime mortgage	**3,982**	**NA**	3,329	NA
Option ARMs	**13,568**	**NA**	9,396	NA
Total modified PCI loans	**$ 24,012**	**NA**	$ 16,235	NA

(a) Amounts represent the carrying value of modified residential real estate loans.
(b) At December 31, 2011 and 2010, $4.3 billion and $3.0 billion, respectively, of loans modified subsequent to repurchase from Ginnie Mae in accordance with the standards of the appropriate government agency (i.e., FHA, VA, RHS) were excluded from loans accounted for as TDRs. When such loans perform subsequent to modification in accordance with Ginnie Mae guidelines, they are generally sold back into Ginnie Mae loan pools. Modified loans that do not re-perform become subject to foreclosure. For additional information about sales of loans in securitization transactions with Ginnie Mae, see Note 16 on pages 256–267 of this Annual Report.
(c) Amounts represent the unpaid principal balance of modified PCI loans.
(d) Loans modified in a TDR that are on nonaccrual status may be returned to accrual status when repayment is reasonably assured and the borrower has made a minimum of six payments under the new terms. As of December 31, 2011 and 2010, nonaccrual loans included $886 million and $580 million, respectively, of TDRs for which the borrowers had not yet made six payments under the modified terms.

Foreclosure prevention: Foreclosure is a last resort, and the Firm makes significant efforts to help borrowers stay in their homes. Since the third quarter of 2009, the Firm has prevented two foreclosures (through loan modification, short sales, and other foreclosure prevention means) for every foreclosure completed.

The Firm has a well-defined foreclosure prevention process when a borrower fails to pay on his or her loan. Customer contacts are attempted multiple times in various ways to pursue options other than foreclosure. In addition, if the Firm is unable to contact a customer, various reviews are completed of a borrower's facts and circumstances before a foreclosure sale is completed. By the time of a foreclosure sale, borrowers have not made a payment on average for more than 17 months.

Nonperforming assets

The following table presents information as of December 31, 2011 and 2010, about consumer, excluding credit card, nonperforming assets.

Nonperforming assets[(a)]		
December 31, (in millions)	**2011**	2010
Nonaccrual loans[(b)(c)]		
Home equity – senior lien	**$ 495**	$ 479
Home equity – junior lien	**792**	784
Prime mortgage, including option ARMs	**3,462**	4,320
Subprime mortgage	**1,781**	2,210
Auto	**118**	141
Business banking	**694**	832
Student and other	**69**	67
Total nonaccrual loans	**7,411**	8,833
Assets acquired in loan satisfactions		
Real estate owned	**802**	1,294
Other	**44**	67
Total assets acquired in loan satisfactions	**846**	1,361
Total nonperforming assets	**$ 8,257**	$ 10,194

(a) At December 31, 2011 and 2010, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $11.5 billion and $9.4 billion, respectively, that are 90 or more days past due; (2) real estate owned insured by U.S. government agencies of $954 million and $1.9 billion, respectively; and (3) student loans insured by U.S. government agencies under the FFELP of $551 million and $625 million, respectively, that are 90 or more days past due. These amounts were excluded as reimbursement of insured amounts is proceeding normally.

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

(c) At December 31, 2011 and 2010, consumer, excluding credit card nonaccrual loans represented 2.40% and 2.70%, respectively, of total consumer, excluding credit card loans.

Nonaccrual loans: Total consumer, excluding credit card, nonaccrual loans were $7.4 billion at December 31, 2011, compared with $8.8 billion at December 31, 2010. Nonaccrual loans have declined, but remain at elevated levels. The elongated foreclosure processing timelines is expected to continue to result in elevated levels of nonaccrual loans in the residential real estate portfolios. In addition, modified loans have also contributed to the elevated level of nonaccrual loans, since the Firm's policy requires modified loans that are on nonaccrual to remain on nonaccrual status until payment is reasonably assured and the borrower has made a minimum of six payments under the modified terms. Nonaccrual loans in the residential real estate portfolio totaled $6.5 billion at December 31, 2011, of which 69% were greater than 150 days past due; this compared with nonaccrual residential real estate loans of $7.8 billion at December 31, 2010, of which 71% were greater than 150 days past due. At December 31, 2011 and 2010, modified residential real estate loans of $2.0 billion and $1.3 billion, respectively, were classified as nonaccrual loans, of which $886 million and $580 million, respectively, had yet to make six payments under their modified terms; the remaining nonaccrual modified loans have redefaulted. In the aggregate, the unpaid principal balance of residential real estate loans greater than 150 days past due was charged down by approximately 50% and 46% to estimated collateral value at December 31, 2011 and 2010, respectively.

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 $492 million from $1.3 billion at December 31, 2010, to $802 million at December 31, 2011.

Enhancements to mortgage servicing

During the second quarter of 2011, the Firm entered into Consent Orders with banking regulators relating to its residential mortgage servicing, foreclosure and loss-mitigation activities. In their Orders, the regulators have mandated significant changes to the Firm's servicing and default business and outlined requirements to implement these changes. In accordance with the requirements of the Consent Orders, the Firm submitted comprehensive action plans, the plans have been approved, and the Firm has commenced implementation. The plans sets 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 Consent 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 Consent 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 Consent 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 has begun its review. For additional information, see "Mortgage Foreclosure Investigations and Litigation" in Note 31 on pages 290–299 of this Annual Report.

In connection with the Firm's February 2012 settlement with the U.S. Department of Justice, other federal agencies, and the State Attorneys General relating to the Firm's residential mortgage servicing, foreclosure, loss mitigation and origination activities, the Firm will make significant further changes to its servicing and default business pursuant to servicing standards agreed upon in the settlement. The servicing standards include, among other items, the following enhancements to the Firm's servicing of loans: a pre-foreclosure notice to all borrowers, which will include account information, holder status, and loss mitigation steps taken; enhancements to payment application and collections processes; strengthening procedures for filings in bankruptcy proceedings; deploying specific restrictions on "dual track" of foreclosure and loss mitigation; standardizing the process for appeal of loss mitigation denials; and implementing certain restrictions on fees, including the waiver of certain fees while a borrower's loss mitigation application is being evaluated.

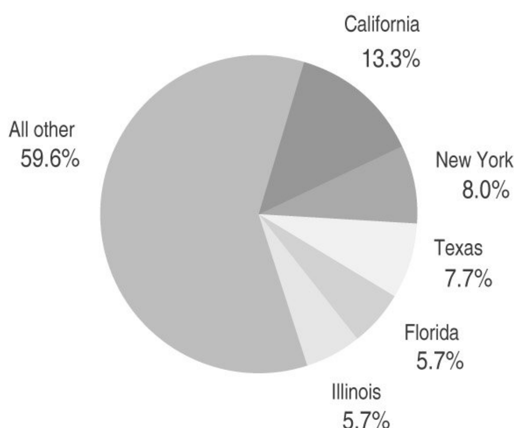
Credit Card

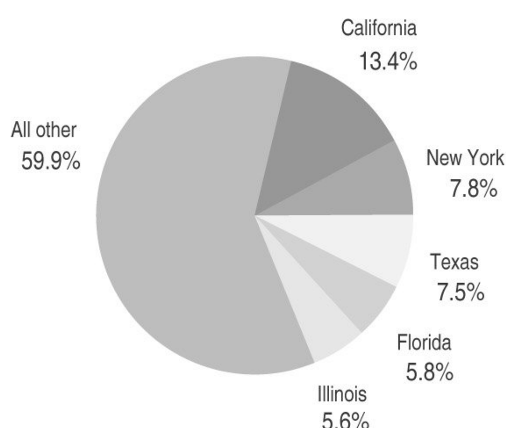
Total credit card loans were $132.3 billion at December 31, 2011, a decrease of $5.4 billion from December 31, 2010, due to higher repayment rates, runoff of the Washington Mutual portfolio and the Firm’s sale of the $3.7 billion Kohl’s portfolio on April 1, 2011.

For the retained credit card portfolio, the 30+ day delinquency rate decreased to 2.81% at December 31, 2011, from 4.14% at December 31, 2010. For the years ended December 31, 2011 and 2010, the net charge-off rates were 5.44% and 9.73% respectively. The delinquency trend showed improvement in the first half of the year, but delinquencies flattened during the second half of the year. 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 December 31, 2011 and 2010. Loan concentration for the top five states of California, New York, Texas, Florida and Illinois consisted of $53.6 billion in receivables, or 40% of the retained loan portfolio, at December 31, 2011, compared with $54.4 billion, or 40%, at December 31, 2010.

Total retained credit card loans, excluding the Washington Mutual portfolio, were $121.1 billion at December 31, 2011, compared with $121.8 billion at December 31, 2010. The 30+ day delinquency rate was 2.53% at December 31, 2011, down from 3.73% at December 31, 2010. For the years ended December 31, 2011 and 2010, the net charge-off rates were 4.91% and 8.73% respectively.

Retained credit card loans in the Washington Mutual portfolio were $11.1 billion at December 31, 2011, compared with $13.7 billion at December 31, 2010. The Washington Mutual portfolio’s 30+ day delinquency rate was 5.82% at December 31, 2011, down from 7.74% at December 31, 2010. For the years ended December 31, 2011 and 2010, the net charge-off rates were 10.49% and 17.73% respectively.





Modifications of credit card loans

At December 31, 2011 and 2010, the Firm had $7.2 billion and $10.0 billion, respectively, of on–balance sheet 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. The decrease in modified credit card loans outstanding from December 31, 2010, was attributable to a reduction in new modifications as well as ongoing payments and charge-offs on previously modified credit card loans.

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

For additional information about loan modification programs to borrowers, see Note 14 on pages 231–252 of this Annual Report.

COMMUNITY REINVESTMENT ACT EXPOSURE

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

At December 31, 2011 and 2010, the Firm's CRA loan portfolio was approximately $15 billion and $16 billion, respectively. At December 31, 2011 and 2010, 63% and 65%, respectively, of the CRA portfolio were residential mortgage loans; 17% and 15%, respectively, were business banking loans; 14%, for both periods, were commercial real estate loans; and 6%, for both periods, were other loans. CRA nonaccrual loans were 6% of the Firm's total nonaccrual loans at both December 31, 2011 and 2010, respectively. For the years ended December 31, 2011 and 2010, net charge-offs in the CRA portfolio were 3% for both periods, of the Firm's net charge-offs.

ALLOWANCE FOR CREDIT LOSSES

JPMorgan Chase's allowance for loan losses covers the wholesale (risk-rated), and 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 168–169 and Note 15 on pages 252–255 of this Annual Report.

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 December 31, 2011, 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 $28.3 billion at December 31, 2011, a decrease of $4.7 billion from $33.0 billion at December 31, 2010. The credit card allowance for loan losses decreased by $4.0 billion from December 31, 2010, primarily as a result of lower estimated losses primarily related to improved delinquency trends as well as lower levels of outstandings. The wholesale allowance for loan losses decreased by $445 million from December 31, 2010, primarily related to the impact of loan sales. The consumer, excluding credit card, allowance for loan losses decreased $177 million largely due to a reduction of $1.0 billion in the allowance related to the non-credit-impaired residential real estate portfolio, as estimated losses in that portfolio declined, predominantly offset by a $770 million increase related to an increase in estimated lifetime losses in the PCI portfolio.

The allowance for lending-related commitments for both the wholesale and consumer, excluding credit card portfolios, which is reported in other liabilities, totaled $673 million and $717 million at December 31, 2011 and 2010, respectively.

The credit ratios in the table below 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

Year ended December 31, (in millions, except ratios)	2011 Wholesale	2011 Consumer, excluding credit card	2011 Credit card	2011 Total	2010 Wholesale	2010 Consumer, excluding credit card	2010 Credit card	2010 Total
Allowance for loan losses								
Beginning balance at January 1,	**$ 4,761**	**$ 16,471**	**$ 11,034**	**$ 32,266**	$ 7,145	$ 14,785	$ 9,672	$ 31,602
Cumulative effect of change in accounting principles[(a)]	**—**	**—**	**—**	**—**	14	127	7,353	7,494
Gross charge-offs	**916**	**5,419**	**8,168**	**14,503**	1,989	8,383	15,410	25,782
Gross recoveries	**(476)**	**(547)**	**(1,243)**	**(2,266)**	(262)	(474)	(1,373)	(2,109)
Net charge-offs	**440**	**4,872**	**6,925**	**12,237**	1,727	7,909	14,037	23,673
Provision for loan losses	**17**	**4,670**	**2,925**	**7,612**	(673)	9,458	8,037	16,822
Other	**(22)**	**25**	**(35)**	**(32)**	2	10	9	21
Ending balance at December 31,	**$ 4,316**	**$ 16,294**	**$ 6,999**	**$ 27,609**	$ 4,761	$ 16,471	$ 11,034	$ 32,266
Impairment methodology								
Asset-specific[(b)]	**$ 516**	**$ 828**	**$ 2,727**	**$ 4,071**	$ 1,574	$ 1,075	$ 4,069	$ 6,718
Formula-based	**3,800**	**9,755**	**4,272**	**17,827**	3,187	10,455	6,965	20,607
PCI	**—**	**5,711**	**—**	**5,711**	—	4,941	—	4,941
Total allowance for loan losses	**$ 4,316**	**$ 16,294**	**$ 6,999**	**$ 27,609**	$ 4,761	$ 16,471	$ 11,034	$ 32,266
Allowance for lending-related commitments								
Beginning balance at January 1,	**$ 711**	**$ 6**	**$ —**	**$ 717**	$ 927	$ 12	$ —	$ 939
Cumulative effect of change in accounting principles[(a)]	**—**	**—**	**—**	**—**	(18)	—	—	(18)
Provision for lending-related commitments	**(40)**	**2**	**—**	**(38)**	(177)	(6)	—	(183)
Other	**(5)**	**(1)**	**—**	**(6)**	(21)	—	—	(21)
Ending balance at December 31,	**$ 666**	**$ 7**	**$ —**	**$ 673**	$ 711	$ 6	$ —	$ 717
Impairment methodology								
Asset-specific	**$ 150**	**$ —**	**$ —**	**$ 150**	$ 180	$ —	$ —	$ 180
Formula-based	**516**	**7**	**—**	**523**	531	6	—	537
Total allowance for lending-related commitments	**$ 666**	**$ 7**	**$ —**	**$ 673**	$ 711	$ 6	$ —	$ 717
Total allowance for credit losses	**$ 4,982**	**$ 16,301**	**$ 6,999**	**$ 28,282**	$ 5,472	$ 16,477	$ 11,034	$ 32,983
Memo:								
Retained loans, end of period	**$ 278,395**	**$ 308,427**	**$ 132,175**	**$ 718,997**	$ 222,510	$ 327,464	$ 135,524	$ 685,498
Retained loans, average	**245,111**	**315,736**	**127,334**	**688,181**	213,609	340,334	144,219	698,162
PCI loans, end of period	**21**	**65,546**	**—**	**65,567**	44	72,763	—	72,807
Credit ratios								
Allowance for loan losses to retained loans	**1.55%**	**5.28%**	**5.30%**	**3.84%**	2.14%	5.03%	8.14%	4.71%
Allowance for loan losses to retained nonaccrual loans[(c)]	**180**	**220**	**NM**	**281**	86	186	NM	225
Allowance for loan losses to retained nonaccrual loans excluding credit card	**180**	**220**	**NM**	**210**	86	186	NM	148
Net charge-off rates[(d)]	**0.18**	**1.54**	**5.44**	**1.78**	0.81	2.32	9.73	3.39
Credit ratios, excluding residential real estate PCI loans								
Allowance for loan losses to retained loans [(e)]	**1.55**	**4.36**	**5.30**	**3.35**	2.14	4.53	8.14	4.46
Allowance for loan losses to retained nonaccrual loans[(c)(e)]	**180**	**143**	**NM**	**223**	86	131	NM	190
Allowance for loan losses to retained nonaccrual loans excluding credit card[(c)(e)]	**180**	**143**	**NM**	**152**	86	131	NM	114
Net charge-off rates[(d)]	**0.18%**	**1.97%**	**5.44%**	**1.98%**	0.81%	3.00%	9.73%	3.81%

(a) Effective January 1, 2010, the Firm adopted accounting guidance related to VIEs. Upon adoption of the guidance, the Firm consolidated its Firm-sponsored credit card securitization trusts, its Firm-administered multi-seller conduits and certain other consumer loan securitization entities, primarily mortgage-related. As a result, $7.4 billion,

$14 million and $127 million, respectively, of allowance for loan losses were recorded on-balance sheet with the consolidation of these entities. For further discussion, see Note 16 on pages 256–267 of this Annual Report.
(b) Includes risk-rated loans that have been placed on nonaccrual status and loans that have been modified in a TDR.
(c) The Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance. Under the guidance issued by the FFIEC, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.
(d) Charge-offs are not recorded on PCI loans until actual losses exceed estimated losses recorded as purchase accounting adjustments at the time of acquisition.
(e) Excludes the impact of PCI loans acquired as part of the Washington Mutual transaction.

Provision for credit losses

For the year ended December 31, 2011, the provision for credit losses was $7.6 billion down 54% from 2010. For the year ended December 31, 2011, the consumer, excluding credit card, provision for credit losses was $4.7 billion, down 51% from 2010, reflecting improved delinquency and net charge-off trends in 2011 across most portfolios, partially offset by an increase of $770 million reflecting additional impairment of the Washington Mutual PCI loans portfolio. The credit card provision for credit losses was $2.9 billion, down 64% from the prior year period, driven primarily by improved delinquency and net charge-offs which led to a reduction in the allowance for loan losses for both the prior and current year periods. For the year ended December 31, 2011, the wholesale provision for credit losses was a benefit of $23 million, compared with a benefit of $850 million in the prior-year period. The change in the wholesale provision when compared with the prior year period primarily reflects loan growth and other portfolio activity including the effect of lower net-charge offs on the provision.

Year ended December 31,	Provision for loan losses			Provision for lending-related commitments			Total provision for credit losses		
(in millions)	**2011**	2010	2009	**2011**	2010	2009	**2011**	2010	2009
Wholesale	**$ 17**	$ (673)	$ 3,684	**$ (40)**	$ (177)	$ 290	**$ (23)**	$ (850)	$ 3,974
Consumer, excluding credit card	**4,670**	9,458	16,032	**2**	(6)	(10)	**4,672**	9,452	16,022
Credit card – reported[(a)]	**2,925**	8,037	12,019	**—**	—	—	**2,925**	8,037	12,019
Total provision for credit losses – reported	**7,612**	16,822	31,735	**(38)**	(183)	280	**7,574**	16,639	32,015
Credit card – securitized[(a)(b)]	**NA**	NA	6,443	**NA**	NA	—	**NA**	NA	6,443
Total provision for credit losses – managed	**$ 7,612**	$ 16,822	$ 38,178	**$ (38)**	$ (183)	$ 280	**$ 7,574**	$ 16,639	$ 38,458

(a) Effective January 1, 2010, the Firm adopted accounting guidance related to VIEs. As a result of the consolidation of the credit card securitization trusts, reported and managed basis relating to credit card securitizations are equivalent for periods beginning after January 1, 2010. For further discussion regarding the Firm's application and the impact of the new guidance, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 76–78 of this Annual Report.
(b) Loans securitized are defined as loans that were sold to unconsolidated securitization trusts and were not included in reported loans. For further discussion of credit card securitizations, see Note 16 on pages 256–267 of this Annual Report.

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 market prices or rates.

Market risk management
Market Risk is an independent risk management function that works in close partnership with the business segments to identify and monitor market risks throughout the Firm and to define market risk policies and procedures. The risk management function is headed by the Firm's Chief Risk Officer.

Market Risk seeks to 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 comprehensive identification and verification of market risks within its units. 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 the fixed income, foreign exchange, equities and commodities markets. This trading activity may lead to a potential decline in net income due to adverse changes in market rates. In addition to these risks, there are risks in IB's credit portfolio from retained loans and commitments, derivative credit valuation adjustments, hedges of the credit valuation adjustments and the fair value of hedges of the retained loan portfolio. Additional risk positions result from the debit valuation adjustments taken on certain structured liabilities and derivatives to reflect the credit quality of the Firm.

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 interest rate risks, as well as option and basis risk. Option 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.

CIO is primarily concerned with managing structural risks which arise out of the various business activities of the Firm. Market Risk measures and monitors the gross structural exposures as well as the net exposures related to these activities.

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
- Revenue 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. Each business day, as part of its risk management activities, the Firm undertakes a comprehensive VaR calculation that includes the majority of its material market risks. VaR provides a consistent cross-business measure of risk profiles and levels of diversification and is used for comparing risks across businesses and monitoring limits. These VaR results are reported to senior management and regulators, and they are utilized in regulatory capital calculations.

The Firm calculates VaR to estimate possible economic outcomes for its current positions using historical simulation, which measures risk across instruments and portfolios in a consistent, comparable way. The simulation is based on data for the previous 12 months. This approach assumes that historical changes in market values are representative of the distribution of potential outcomes in the immediate future. VaR is calculated using a one day time horizon and an expected tail-loss methodology, and approximates a 95% confidence level. This means that, assuming current changes in market values are consistent with the historical changes used in the simulation, the Firm would expect to incur losses greater than that predicted by VaR estimates five times in every 100 trading days, or about 12 to 13 times a year. However, differences between current and historical market price volatility may result in fewer or greater VaR exceptions than the number indicated by the historical simulation. The Firm's VaR calculation is highly granular and incorporates numerous risk factors, which are selected based on the risk profile of each portfolio.

The 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

As of or for the year ended December 31,	**2011**			2010			At December 31,	
(in millions)	Avg.	Min	Max	Avg.	Min	Max	**2011**	2010
IB VaR by risk type								
Fixed income	**$ 50**	**$ 31**	**$ 68**	$ 65	$ 33	$ 95	**$ 49**	$ 52
Foreign exchange	**11**	**6**	**19**	11	6	20	**19**	16
Equities	**23**	**15**	**42**	22	10	52	**19**	30
Commodities and other	**16**	**8**	**24**	16	11	32	**22**	13
Diversification benefit to IB trading VaR	**(42)** [a]	**NM** [b]	**NM** [b]	(43) [a]	NM [b]	NM [b]	**(55)** [a]	(34) [a]
IB trading VaR	**58**	**34**	**80**	71	40	107	**54**	77
Credit portfolio VaR	**33**	**19**	**55**	26	15	40	**42**	27
Diversification benefit to IB trading and credit portfolio VaR	**(15)** [a]	**NM** [b]	**NM** [b]	(10) [a]	NM [b]	NM [b]	**(20)** [a]	(5) [a]
Total IB trading and credit portfolio VaR	**76**	**42**	**102**	87	50	128	**76**	99
Other VaR								
Mortgage Production and Servicing VaR	**30**	**6**	**98**	23	8	47	**16**	9
Chief Investment Office ("CIO") VaR	**57**	**30**	**80**	61	44	80	**77**	56
Diversification benefit to total other VaR	**(17)** [a]	**NM** [b]	**NM** [b]	(13) [a]	NM [b]	NM [b]	**(10)** [a]	(10) [a]
Total other VaR	**70**	**46**	**110**	71	48	100	**83**	55
Diversification benefit to total IB and other VaR	**(45)** [a]	**NM** [b]	**NM** [b]	(59) [a]	NM [b]	NM [b]	**(46)** [a]	(65) [a]
Total IB and other VaR	**$ 101**	**$ 67**	**$ 147**	$ 99	$ 66	$ 142	**$ 113**	$ 89

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

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

VaR Measurement

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

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

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

As noted above, IB, Credit portfolio and other VaR does not include the retained Credit portfolio, which is not marked to market; however, it does include hedges of those positions. It also does not include DVA on derivative and structured liabilities to reflect the credit quality of the Firm; principal investments (mezzanine financing, tax-oriented investments, etc.); and certain securities and investments held by the Corporate/Private Equity line of business, including private equity investments, capital management positions and longer-term investments managed by CIO. These longer-term positions are managed through the Firm's nontrading interest rate-sensitive revenue-at-risk and other cash flow-monitoring processes, rather than by using a VaR measure. Principal investing activities and Private Equity positions are managed using stress and scenario analyses. See the DVA sensitivity table on page 161 of this Annual Report for further details. For a discussion of Corporate/Private Equity, see pages 107–108 of this Annual Report.

2011 and 2010 VaR results

As presented in the table above, average total IB and other VaR was $101 million for 2011, compared with $99 million for 2010. The increase in average VaR was driven by a decrease in diversification benefit across the Firm.

Average total IB trading and credit portfolio VaR for 2011 was $76 million compared with $87 million for 2010. The decrease in IB trading VaR was driven by a decline in market volatility in the first half of 2011, a reduction in average credit spreads, and a reduction in exposure mainly

in the fixed income risk component.

CIO VaR averaged $57 million in 2011, compared with $61 million for 2010. The decrease was also driven by a decline in market volatility in the first half of 2011, as well as position changes.

Mortgage Production and Servicing VaR averaged $30 million for 2011, compared with $23 million for 2010. The increase was driven by position changes in the MSR Portfolio.

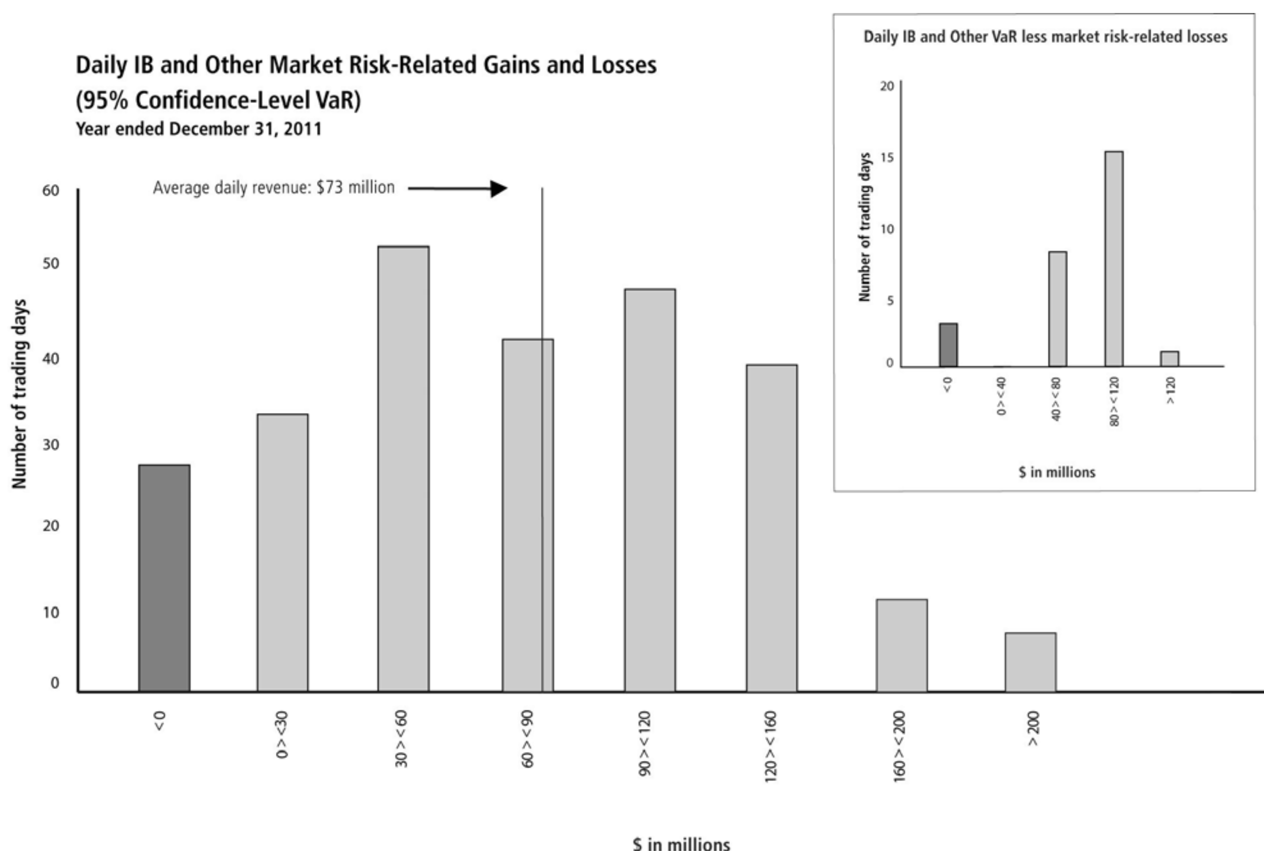
The Firm's average IB and other VaR diversification benefit was $45 million or 31% of the sum for 2011, compared with $59 million or 37% of the sum for 2010. In general, over the course of the year, VaR exposure can vary significantly as positions change, market volatility fluctuates and diversification benefits change.

VaR back-testing

The Firm conducts daily back-testing of VaR against its market risk related revenue. In the year ended December 31, 2011, losses were sustained on 27 days, of which three days exceeded the VaR measure.

The following histogram illustrates the daily market risk related gains and losses for IB, CIO and Mortgage Production and Servicing positions for 2011. This market risk related revenue is defined as the change in value of: principal transactions revenue for IB and CIO (less Private Equity gains/losses and revenue from longer-term CIO investments); trading-related net interest income for IB, CIO and Mortgage Production and Servicing; IB brokerage commissions, underwriting fees or other revenue; revenue from syndicated lending facilities that the Firm intends to distribute; and mortgage fees and related income for the Firm's mortgage pipeline and warehouse loans, MSRs, and all related hedges. Daily firmwide market risk related revenue excludes gains and losses from DVA.

The chart shows that the Firm posted market risk related gains on 233 of the 260 days in this period, with seven days exceeding $200 million. The inset graph looks at those days on which the Firm experienced losses and depicts the amount by which the VaR exceeded the actual loss on each of those days.



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

Debit valuation adjustment sensitivity

December 31, (in millions)	One basis-point increase in JPMorgan Chase's credit spread
2011	**$ 35**
2010	35

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

Nonstatistical risk measures
Nonstatistical risk measures as well as stress testing 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 revenue drawdowns
Loss advisories and net revenue drawdowns are tools used to highlight trading losses above certain levels of risk tolerance. Net revenue drawdown is defined as the decline in net revenue since the year-to-date peak revenue level.

Risk identification for large exposures
Individuals who manage risk positions in IB 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")
The VaR and stress-test measures described above illustrate the total economic sensitivity of the Firm's Consolidated Balance Sheets to changes in market variables. The effect of interest rate exposure on reported net income is also important. Interest rate risk represents one of the Firm's significant market risk exposures. This risk arises not only from trading activities but also from the Firm's traditional banking activities which include extension of loans and credit facilities, taking deposits and issuing debt (i.e., asset/liability management positions including accrual loans within IB and CIO, and off–balance sheet positions). ALCO establishes the Firm's interest rate risk policies, sets risk guidelines and limits and reviews the risk profile of the Firm. 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, earnings 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, earnings 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 earnings 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 earnings, 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, earnings 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 78 of this Annual Report for further discussion on 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 earnings, over the following 12 months. These tests highlight exposures to various interest rate-sensitive factors, such as the rates themselves (e.g., the prime lending rate), pricing strategies on deposits, optionality and changes in product mix. The tests include forecasted balance sheet changes, such as asset sales and securitizations, as well as prepayment and reinvestment behavior. Mortgage prepayment assumptions are based on current interest rates compared with underlying contractual rates, the time since origination, and other factors which are updated periodically based on historical experience and forward market expectations. The amount and pricing assumptions of deposits that have no stated maturity are based on historical performance, the competitive environment, customer behavior, and product mix.

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

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

	Immediate change in rates			
December 31, (in millions)	+200bp	+100bp	-100bp	-200bp
2011	**$ 4,046**	**$ 2,326**	**NM** [(a)]	**NM** [(a)]
2010	2,465	1,483	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, 2010, resulted from investment portfolio repositioning and an assumed higher level of 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.

Additionally, another interest rate scenario used by the Firm – involving a steeper yield curve with long-term rates rising by 100 basis points and short-term rates staying at current levels – results in a 12-month pretax earnings benefit of $669 million. The increase in earnings under this scenario is due to reinvestment of maturing assets at the higher long-term rates, with funding costs remaining unchanged.

Risk monitoring and control

Limits

Market risk is controlled primarily through a series of limits. Limits 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 senior management risk appetite, market volatility, product liquidity, accommodation of client business and management experience.

Market risk management regularly reviews and updates risk limits. Senior management, including the Firm's Chief Executive Officer and Chief Risk Officer, is responsible for reviewing and approving certain risk limits on an ongoing basis.

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. Businesses are responsible for adhering to established limits, against which exposures are monitored and reported. Limit breaches are reported in a timely manner to senior management, and the affected line-of-business is required to reduce trading positions or consult with senior management on the appropriate action.

Model review

Some of the Firm's financial instruments cannot be valued based on quoted market prices but are instead valued using pricing models. These pricing models and VaR models are used for management of risk positions, such as reporting against limits, as well as for valuation. The Model Risk Group, which is independent of the businesses and market risk management, reviews the models the Firm uses and assesses model appropriateness and consistency. The model reviews consider a number of factors about the model's suitability for valuation and risk management of a particular product. These factors include whether the model accurately reflects the characteristics of the transaction and its significant risks, the suitability and convergence properties of numerical algorithms, reliability of data sources, consistency of the treatment with models for similar products, and sensitivity to input parameters and assumptions that cannot be priced from the market. Reviews are conducted of new or changed models, as well

as previously accepted models, to assess whether there have been any changes in the product or market that may affect the model's validity and whether there are theoretical or competitive developments that may require reassessment of the model's adequacy. For a summary of valuations based on models, see Critical Accounting Estimates Used by the Firm on pages 168–172 and Note 3 on pages 184–198 of this 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

Country risk is the risk that a sovereign event or action alters the value or terms of contractual obligations of counterparties and issuers related to a country. The Firm has a comprehensive country risk management framework for assessing country risks, determining risk tolerance, and measuring and monitoring direct country exposures in the Firm's wholesale lines of business, including CIO. The Country Risk Management group is responsible for developing guidelines and policy for managing country risk in both emerging and developed countries. The Country Risk Management group actively monitors the wholesale portfolio to ensure the Firm's country risk exposures are diversified and that exposure levels are appropriate given the Firm's strategy and risk tolerance relative to a country.

Country risk organization

The Country Risk Management group is an independent risk management function which works in close partnership with other risk functions and across wholesale lines of business, including CIO. The Country Risk Management governance consists of the following functions:

- Developing guidelines and policies consistent with a comprehensive country risk framework
- Assigning sovereign ratings and assessing country risks
- Measuring and monitoring country risk exposure across the Firm
- Managing country limits and reporting utilization to senior management
- Developing surveillance tools for early identification of potential country risk concerns
- Providing country risk scenario analysis

Country risk identification and measurement

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

- Lending exposures are measured at the total committed amount (funded and unfunded), net of the allowance for credit losses and cash and marketable securities collateral received
- AFS securities are measured at par value
- Securities financing exposures are measured at their receivable balance, net of collateral received
- Debt and equity securities in market-making and investing activities are measured at the fair value of all positions, both long and short positions
- Counterparty exposure on derivative receivables, including credit derivative receivables, is measured at the derivative's fair value, net of the fair value of the related collateral
- Credit derivatives protection purchased and sold are reported based on the underlying reference entity and is measured at the notional amount of protection purchased or sold, net of the fair value of the recognized derivative receivable or payable. Credit derivatives protection purchased and sold in the Firm's market-making activities are presented on a net basis, as such activities often result in selling and purchasing protection related to the same underlying reference entity, and which reflects the manner in which the Firm manages these exposures

In addition, the Firm also has indirect exposures to country risk (for example, related to the collateral received on securities financing receivables or related to client clearing activities). These indirect exposures are managed in the normal course of business through the Firm's credit, market, and operational risk governance, rather than through the country risk governance.

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

Country risk monitoring and control

The Country Risk Policy Group establishes guidelines for sovereign ratings reviews and limit management. In addition, the Country Risk Management group uses surveillance tools for early identification of potential country risk concerns, such as signaling models and ratings indicators. The limit framework includes a risk-tier approach and stress testing procedures for assessing the potential risk of loss associated with a significant sovereign crisis. Country ratings and limits activity are actively monitored and reported on a regular basis. Country limit requirements are reviewed and approved by senior management as often as necessary, but at least annually. For further information on market-risk stress testing the Firm performs in the normal course of business, see Market Risk Management on pages 161–162 of this Annual Report. For further information on credit loss estimates, see Critical Accounting Estimates – Allowance for credit losses on pages 168–169 of this Annual Report.

Country risk reporting

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

Top 20 country exposures

December 31, 2011 (in billions)	Lending[a]	Trading and investing[b]	Other[c]	Total exposure
United Kingdom	$ 23.6	$ 58.4	$ 12.1	$ 94.1
Switzerland	41.4	1.1	0.5	43.0
Netherlands	4.7	34.5	2.9	42.1
France	16.8	13.9	–	30.7
Germany	13.6	16.0	–	29.6
Australia	7.6	20.4	–	28.0
Brazil	5.3	14.1	–	19.4
Canada	9.1	5.9	0.2	15.2
India	7.8	7.1	–	14.9
Korea	7.7	5.7	–	13.4
China	7.0	4.4	0.2	11.6
Japan	3.5	5.4	–	8.9
Hong Kong	3.5	4.2	–	7.7
Mexico	3.2	4.5	–	7.7
Belgium	2.1	5.2	0.1	7.4
Spain	3.3	3.8	0.1	7.2
Italy	3.1	3.4	0.1	6.6
Singapore	3.0	2.2	1.0	6.2
Sweden	1.6	3.6	0.5	5.7
Taiwan	2.8	2.5	–	5.3

(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 capital invested in local entities and physical commodity storage.

Selected European exposure

Several European countries, including Spain, Italy, Ireland, Portugal and Greece, have been subject to credit deterioration due to weaknesses in their economic and fiscal situations. The Firm believes its exposure to these five countries is modest relative to the Firm's overall risk exposures and is manageable given the size and types of exposures to each of the countries and the diversification of the aggregate exposure. The Firm continues to conduct business and support client activity in these countries and, therefore, the Firm's aggregate net exposures and sector distribution may vary over time. In addition, the net exposures may be affected by changes in market conditions, including the effects of interest rates and credit spreads on market valuations. The Firm is closely monitoring its exposures in these countries. The following table presents the Firm's direct exposure to these five countries at December 31, 2011, as measured under the Firm's internal risk management approach.

December 31, 2011 (in billions)	Lending[a]	AFS securities[b]	Trading[c]	Derivative collateral[d]	Portfolio hedging[e]	Total exposure
Spain						
Sovereign	$ –	$ 2.0	$ –	$ –	$ (0.1)	$ 1.9
Non-sovereign	3.3	0.2	4.4	(2.3)	(0.3)	5.3
Total Spain exposure	$ 3.3	$ 2.2	$ 4.4	$ (2.3)	$ (0.4)	$ 7.2
Italy						
Sovereign	$ –	$ –	$ 6.4	$ (1.1)	$ (2.8)	$ 2.5
Non-sovereign	3.1	0.1	2.9	(1.5)	(0.5)	4.1
Total Italy exposure	$ 3.1	$ 0.1	$ 9.3	$ (2.6)	$ (3.3)	$ 6.6
Other (Ireland, Portugal and Greece)						
Sovereign	$ –	$ 1.0	$ 0.1	$ –	$ (0.9)	$ 0.2
Non-sovereign	1.4	–	2.1	(1.4)	(0.1)	2.0
Total other exposure	$ 1.4	$ 1.0	$ 2.2	$ (1.4)	$ (1.0)	$ 2.2
Total exposure	$ 7.8	$ 3.3	$ 15.9	$ (6.3)	$ (4.7)	$ 16.0

(a) Lending includes loans and accrued interest receivable, net of the allowance for loan losses, deposits with banks, acceptances, other monetary assets, issued letters of credit net of participations, and undrawn commitments to extend credit. Includes $2.2 billion of unfunded lending exposure at December 31, 2011. These exposures consist typically of committed, but unused corporate credit agreements, with market-based lending terms and covenants.
(b) The fair value of AFS securities was $3.1 billion at December 31, 2011.
(c) Includes: (1) $1.2 billion of issuer exposure on debt and equity securities held in trading, as well as market-making CDS exposure and (2) $14.5 billion of derivative and securities financing counterparty exposure. As of December 31, 2011, there were approximately $18.4 billion of securities financing receivables, which were collateralized with approximately $21.5 billion of marketable securities.
(d) Includes cash and marketable securities pledged to the Firm, of which approximately 98% of the collateral was cash as of December 31, 2011,
(e) Reflects net CDS protection purchased through the Firm's credit portfolio management activities, which are managed separately from its market-making activities.

Corporate clients represent approximately 77% of the Firm's non-sovereign net exposure in these five countries, and substantially all of the remaining 23% of the non-sovereign exposure is to the banking sector.

The table above includes single-name CDS protection sold and purchased, as well as portfolio and tranche CDS for which one or more of the underlying reference entities is in one of the named European countries. As of December 31, 2011, the notional amount of single-name CDS protection sold and purchased related to these countries was $142.4 billion and $147.3 billion, respectively, on a gross basis, before consideration of counterparty master netting agreements or collateral arrangements. In each of the five countries, the aggregate gross notional amount of single-name protection sold was more than 97% offset by the aggregate gross notional amount of single-name protection purchased on the same reference entities on which the Firm sold protection. The notional amount of single-name CDS protection sold and purchased related to these countries, after consideration of counterparty master netting agreements (which is a measure used by certain market peers and therefore presented for comparative purposes), was $13.7 billion and $18.5 billion, respectively.

The fair value of the single-name CDS protection sold and purchased in the five named European countries as of December 31, 2011 was $22.9 billion and $24.1 billion, respectively, prior to consideration of collateral and master netting agreements, and was $2.7 billion and $3.9 billion, respectively, after consideration of counterparty master netting agreements for single-name credit derivatives within the selected European countries.

The Firm's credit derivative activity is presented on a net basis, as market-making activities often result in selling and purchasing protection related to the same underlying reference entity. This presentation reflects the manner in which this exposure is managed, and reflects, in the Firm's view, the substantial mitigation of counterparty credit and market risk in its credit derivative activities. The Firm believes that the counterparty credit risk on credit derivative purchased protection has been substantially mitigated based on the following characteristics, by notional amount, as of December 31, 2011:

- 99% is purchased under contracts that require posting of cash collateral;
- 83% is purchased from investment-grade counterparties domiciled outside of the select European countries;
- 75% of the protection purchased offsets protection sold on the identical reference entity, with the identical counterparty subject to master netting agreements.

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

The effectiveness of the Firm's CDS protection as a hedge of the Firm's exposures may vary depending upon a number of factors, including the contractual terms of the CDS. For further information about credit derivatives see Credit derivatives on pages 143–144 of this Annual report.

PRIVATE EQUITY RISK MANAGEMENT

The Firm makes principal investments in private equity. The illiquid nature and long-term holding periods associated with these investments differentiates private equity risk from the risk of positions held in the trading portfolios. The Firm's approach to managing private equity risk is consistent with the Firm's general risk governance structure. Targeted levels for total and annual investments are established in order to manage the overall size of the portfolios. Industry and geographic concentration limits are in place and intended to ensure diversification of the portfolios. All investments are approved by investment committees that include executives who are not part of the investing businesses. An independent valuation function is responsible for reviewing the appropriateness of the carrying values of private equity investments in accordance with relevant accounting policies. At December 31, 2011 and 2010, the carrying value of the Private Equity portfolio was $7.7 billion and $8.7 billion, respectively, of which $805 million and $875 million, respectively, represented securities with publicly available market quotations. For further information on the Private Equity portfolio, see page 108 of this Annual Report.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events.

Overview

Operational risk is inherent in each of the Firm's businesses and support activities. Operational risk can manifest itself in various ways, including errors, fraudulent acts, business interruptions, inappropriate behavior of employees, or vendors that do not perform in accordance with their arrangements. These events could result in financial losses and other damage to the Firm, including reputational harm.

To monitor and control operational risk, the Firm maintains a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment. The goal is to keep operational risk at appropriate levels, in light of the Firm's financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment to which it is subject. Notwithstanding these control measures, the Firm incurs operational losses.

The Firm's approach to operational risk management is intended to mitigate such losses by supplementing traditional control-based approaches to operational risk with risk measures, tools and disciplines that are risk-specific, consistently applied and utilized firmwide. Key themes are transparency of information, escalation of key issues and accountability for issue resolution.

One of the ways operational loss is mitigated is through insurance maintained by the Firm. The Firm purchases insurance to be in compliance with local laws and regulations, as well as to serve other needs of the Firm. Insurance may also be required by third parties with whom the Firm does business. The insurance purchased is reviewed and approved by senior management.

The Firm's operational risk framework is supported by Phoenix, an internally designed operational risk software tool. Phoenix integrates the individual components of the operational risk management framework into a unified, web-based tool. Phoenix enhances the capture, reporting and analysis of operational risk data by enabling risk identification, measurement, monitoring, reporting and analysis to be done in an integrated manner, thereby enabling efficiencies in the Firm's monitoring and management of its operational risk.

For purposes of identification, monitoring, reporting and analysis, the Firm categorizes operational risk events as follows:

- Client service and selection
- Business practices
- Fraud, theft and malice
- Execution, delivery and process management
- Employee disputes
- Disasters and public safety
- Technology and infrastructure failures, including cybersecurity breaches

Control assessment

In order to evaluate the effectiveness of the control environment in mitigating operational risk, the businesses utilize the Firm's standard self-assessment process and supporting architecture. The goal of the self-assessment process is for each business to identify the key operational risks specific to its environment and assess the degree to which it maintains appropriate controls. Action plans are developed for control issues that are identified, and businesses are held accountable for tracking and resolving these issues on a timely basis.

Risk measurement

Operational risk is measured for each business on the basis of historical loss experience using a statistically based loss-distribution approach. The current business environment, potential scenarios and measures of the control environment are then factored into determining firmwide operational risk capital. This methodology is designed to comply with the advanced measurement rules under the Basel II Framework.

Risk monitoring

The Firm has a process for monitoring operational risk-event data, permitting analysis of errors and losses as well

as trends. Such analysis, performed both at a line-of-business level and by risk-event type, enables identification of the causes associated with risk events faced by the businesses. Where available, the internal data can be supplemented with external data for comparative analysis with industry patterns.

Risk reporting and analysis
Operational risk management reports provide information, including actual operational loss levels, self-assessment results and the status of issue resolution to the lines of business and senior management. The purpose of these reports is to enable management to maintain operational risk at appropriate levels within each line of business, to escalate issues and to provide consistent data aggregation across the Firm's businesses and support areas.

Audit alignment
Internal Audit utilizes a risk-based program of audit coverage to provide an independent assessment of the design and effectiveness of key controls over the Firm's operations, regulatory compliance and reporting. This includes reviewing the operational risk framework, the effectiveness of the business self-assessment process, and the loss data-collection and reporting activities.

REPUTATION AND FIDUCIARY RISK MANAGEMENT

The Firm's success depends not only on its prudent management of the liquidity, credit, market and operational risks that are part of its business risk, but equally on the maintenance among its many constituents–customers and clients, investors, regulators, as well as the general public–of a reputation for business practices of the highest quality. Attention to reputation has always been a key aspect of the Firm's practices, and maintenance of the Firm's reputation is the responsibility of each individual employee at the Firm. JPMorgan Chase bolsters this individual responsibility in many ways, including through the Firm's Code of Conduct (the "Code"), which is based on the Firm's fundamental belief that no one should ever sacrifice integrity – or give the impression that he or she has – even if one thinks it would help the Firm's business. The Code requires prompt reporting of any known or suspected violation of the Code, any internal Firm policy, or any law or regulation applicable to the Firm's business. It also requires the reporting of any illegal conduct, or conduct that violates the underlying principles of the Code, by any of the Firm's customers, suppliers, contract workers, business partners or agents. Concerns may be reported anonymously and the Firm prohibits retaliation against employees for the good faith reporting of any actual or suspected violations of the Code.

In addition to training of employees with regard to the principles and requirements of the Code, and requiring annual affirmation by each employee of compliance with the Code, the Firm has established policies and procedures, and has in place various oversight functions, intended to promote the Firm's culture of "doing the right thing." These include a Conflicts Office which examines wholesale transactions with the potential to create conflicts of interest for the Firm. In addition, each line of business has a risk committee which includes in its mandate oversight of the reputational risks in its business that may produce significant losses or reputational damage; some lines of business, including the IB, have separate risk committees comprised of senior representatives of business and control functions. In addition, in IB, there are several regional reputation risk committees. The Firm has also established a Consumer Reputational Risk Committee, comprised of senior management from the Firm's Operating Committee, including the heads of its primary consumer facing businesses, RFS and Card, that helps to ensure that the Firm has a consistent, disciplined focus on the review of the impact on consumers of Chase products and practices, including any that could raise reputational issues.

Fiduciary Risk Management
Fiduciary Risk Management is part of the relevant line of business risk committees. Senior business, legal and compliance management, who have particular responsibility for fiduciary issues, work with the relevant businesses' risk committees with the goal of ensuring that the businesses providing investment or risk management products or services that give rise to fiduciary duties to clients perform at the appropriate standard relative to their fiduciary relationship with a client. Of particular focus are the policies and practices that address a business' responsibilities to a client, including performance and service requirements and expectations; client suitability determinations; and disclosure obligations and communications. In this way, the relevant line of business risk committees provide oversight of the Firm's efforts to monitor, measure and control the performance and risks that may arise in the delivery of products or services to clients that give rise to such fiduciary duties, as well as those stemming from any of the Firm's fiduciary responsibilities under the Firm's various employee benefit plans.

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 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. 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 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 this Annual Report.

The determination of the allowance for credit losses involves significant judgment on a number of matters, as discussed below.

Wholesale loans and lending-related commitments

The Firm's methodology for determining the allowance for loan losses and the allowance for lending-related commitments requires the early identification of credits that are deteriorating. The Firm uses a risk-rating system to determine the credit quality of its wholesale loans. Wholesale loans are reviewed for information affecting the obligor's ability to fulfill its obligations. In assessing the risk rating of a particular loan, among the factors considered are the obligor's debt capacity and financial flexibility, the level of the obligor's earnings, the amount and sources for repayment, the level and nature of contingencies, management strength, and the industry and geography in which the obligor operates. These factors are based on an evaluation of historical and current information and involve subjective assessment and interpretation. Emphasizing one factor over another or considering additional factors could affect the risk rating assigned by the Firm to that loan.

The Firm applies its judgment to establish loss factors used in calculating the allowances. Wherever possible, the Firm uses independent, verifiable data or the Firm's own historical loss experience in its models for estimating the allowances. Many factors can affect estimates of loss, including volatility of loss given default, probability of default and rating migrations. Consideration is given as to whether the loss estimates should be calculated as an average over the entire credit cycle or at a particular point in the credit cycle, as well as to which external data should be used and when they should be used. Choosing data that are not reflective of the Firm's specific loan portfolio characteristics could also affect loss estimates. The application of different inputs would change the amount of the allowance for credit losses determined appropriate by the Firm.

Management also applies its judgment to adjust the loss factors derived, taking into consideration model imprecision, external factors and economic events that have occurred but are not yet reflected in the loss factors. Historical experience of both loss given default and probability of default are considered when estimating these adjustments. Factors related to concentrated and deteriorating industries also are incorporated where relevant. These estimates are based on management's view of uncertainties that relate to current macroeconomic and political conditions, quality of underwriting standards and other relevant internal and external factors affecting the credit quality of the current portfolio.

Consumer loans and lending-related commitments, excluding PCI loans

The allowance for credit losses for the consumer portfolio, including credit card, is calculated by applying statistical expected loss factors to outstanding principal balances over an estimated loss emergence period to arrive at an estimate of losses in the portfolio. The loss emergence period represents the time period between the date at which the loss is estimated to have been incurred and the ultimate realization of that loss (through a charge-off). Estimated loss emergence periods may vary by product and may change over time; management applies judgment in estimating loss emergence periods, using available credit information and trends. In addition, management applies judgment to the statistical loss estimates for each loan portfolio category, using delinquency trends and other risk characteristics to estimate probable credit losses inherent in the portfolio. Management uses additional statistical methods and considers portfolio and collateral valuation trends to review the appropriateness of the primary statistical loss estimate.

The statistical calculation is then adjusted to take into consideration model imprecision, external factors and current economic events that have occurred but that are not yet reflected in the factors used to derive the statistical calculation; these adjustments are accomplished in part by analyzing the historical loss experience for each major product segment. In the current economic environment, it is difficult to predict whether historical loss experience is

indicative of future loss levels. Management applies judgment in making this adjustment, taking into account uncertainties associated with current macroeconomic and political conditions, quality of underwriting standards, borrower behavior, the estimated effects of the mortgage foreclosure-related settlement with federal and state officials, uncertainties regarding the ultimate success of loan modifications, and other relevant internal and external factors affecting the credit quality of the portfolio. For junior lien products, management considers the delinquency and/or modification status of any senior liens in determining the adjustment. The application of different inputs into the statistical calculation, and the assumptions used by management to adjust the statistical calculation, are subject to management judgment, and emphasizing one input or assumption over another, or considering other inputs or assumptions, could affect the estimate of the allowance for loan losses for the consumer credit portfolio.

The allowance for credit losses for the consumer portfolio, including credit card, is sensitive to changes in the economic environment, delinquency status, the realizable value of collateral, FICO scores, borrower behavior and other risk factors. Significant judgment is required to estimate the duration of current weak overall economic conditions, as well as the impact on housing prices and the labor market. The allowance for credit losses is highly sensitive to both home prices and unemployment rates, and in the current market it is difficult to estimate how potential changes in one or both of these factors might affect the allowance for credit losses. For example, while both factors are important determinants of overall allowance levels, changes in one factor or the other may not occur at the same rate, or changes may be directionally inconsistent such that improvement in one factor may offset deterioration in the other. In addition, changes in these factors would not necessarily be consistent across all geographies or product types. Finally, it is difficult to predict the extent to which changes in both or either of these factors would ultimately affect the frequency of losses, the severity of losses or both.

PCI loans

In connection with the Washington Mutual transaction, JPMorgan Chase acquired certain PCI loans, which are accounted for as described in Note 14 on pages 231–252 of this Annual Report. The allowance for loan losses for the PCI portfolio is based on quarterly estimates of the amount of principal and interest cash flows expected to be collected over the estimated remaining lives of the loans.

These cash flow projections are based on estimates regarding default rates, loss severities, the amounts and timing of prepayments and other factors that are reflective of current and expected future market conditions. These estimates are dependent on assumptions regarding the level of future home price declines, and the duration of current weak overall economic conditions, among other factors. These estimates and assumptions require significant management judgment and certain assumptions are highly subjective.

Allowance for credit losses sensitivity

As noted above, 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 December 31, 2011, 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 $1.9 billion.
- An adverse national home price scenario (reflecting an additional 8% decline in housing prices when geographically weighted for the PCI portfolio), could result in an increase in credit loss estimates for PCI loans of approximately $1.5 billion.
- The same adverse scenario, weighted for the residential real estate portfolio, excluding PCI loans, could result in an increase to modeled annual loss estimates of approximately $600 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 loans accounted for at the lower of cost or fair value that are only subject to fair value adjustments under certain circumstances.

Under U.S. GAAP there is a three-level valuation hierarchy for disclosure of fair value measurements. An instrument's categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Therefore, for instruments classified in levels 1 and 2 of the hierarchy, where inputs are principally based on observable market data, there is less judgment applied in arriving at a fair value measurement. For instruments classified within level 3 of the hierarchy, judgments are more significant. The Firm reviews and updates the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next related to the observability of inputs to a fair value measurement may result in a reclassification between hierarchy levels.

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 184–198 of this Annual Report.

December 31, (in billions, except ratio data)	2011 Total assets at fair value	2011 Total level 3 assets
Trading debt and equity instruments	$ 351.5	$ 33.0
Derivative receivables – gross	1,884.5	35.0
Netting adjustment	(1,792.0)	–
Derivative receivables – net	92.5	35.0
AFS securities	364.8	25.5
Loans	2.1	1.6
MSRs	7.2	7.2
Private equity investments	7.6	6.8
Other	49.1	4.4
Total assets measured at fair value on a recurring basis	874.8	113.5
Total assets measured at fair value on a nonrecurring basis	5.3	4.9
Total assets measured at fair value	$ 880.1	$ 118.4 (a)
Total Firm assets	$ 2,265.8	
Level 3 assets as a percentage of total Firm assets		5.2%
Level 3 assets as a percentage of total Firm assets at fair value		13.5%

(a) At December 31, 2011, included $63.0 billion of level 3 assets, consisting of recurring and nonrecurring assets carried by IB.

Valuation

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, fair value is based on internally developed models that consider relevant transaction data such as maturity and use as inputs market-based or independently sourced market parameters. For further information on the Firm's valuation process, see Note 3 on pages 184–198 of this Annual Report.

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

The Firm has numerous controls in place to ensure that its valuations are appropriate. An independent model review group reviews the Firm's valuation models and approves them for use for specific products. All valuation models of the Firm are subject to this review process. A price verification group, independent from the risk-taking functions, ensures observable market prices and market-based parameters are used for valuation whenever possible. For those products with material parameter risk for which observable market levels do not exist, an independent review of the assumptions made on pricing is performed. Additional review includes deconstruction of the model valuations for certain structured instruments into their components; benchmarking valuations, where possible, to similar products; validating valuation estimates through actual cash settlement; and detailed review and explanation of recorded gains and losses, which are analyzed daily and over time. Valuation adjustments, which are also determined by the independent price verification group, are based on established policies and applied consistently over time. Any changes to the valuation methodology are reviewed by management to confirm the changes are justified. As markets and products develop and the pricing for certain products becomes more transparent, the Firm continues to refine its valuation methodologies.

Imprecision in estimating unobservable market inputs can affect the amount of revenue or loss recorded for a particular position. Furthermore, while the Firm believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. For a detailed discussion of the determination of fair value for individual financial instruments, see Note 3 on pages 184–198 of this Annual Report.

Goodwill impairment

Under U.S. GAAP, goodwill must be allocated to reporting units and tested for impairment at least annually. The Firm's process and methodology used to conduct goodwill impairment testing is described in Note 17 on pages 267–271 of this Annual Report.

Management applies significant judgment when estimating the fair value of its reporting units. Estimates of fair value are dependent upon estimates of (a) the future earnings potential of the Firm's reporting units, including the estimated effects of regulatory and legislative changes, such as the Dodd-Frank Act, the CARD Act, and limitations on non-sufficient funds and overdraft fees and (b) the relevant cost of equity and long-term growth rates. Imprecision in estimating these factors can affect the estimated fair value of the reporting units.

Based upon the updated valuations for all of its reporting units, the Firm concluded that goodwill allocated to its reporting units was not impaired at December 31, 2011 nor was any goodwill written off during 2011. The fair values of a significant majority of the Firm's reporting units exceeded their carrying values by substantial amounts (excess fair value as a percent of carrying value ranged from approximately 20% to 200%) and did not indicate a significant risk of goodwill impairment based on current projections and valuations.

However, the fair value of the Firm's consumer lending businesses in RFS and Card each exceeded their carrying values by less than 15% and the associated goodwill remains at an elevated risk for goodwill impairment due to their exposure to U.S. consumer credit risk and the effects of regulatory and legislative changes. The assumptions used in the valuation of these businesses include (a) estimates of future cash flows for the business (which are dependent on portfolio outstanding balances, net interest margin, operating expense, credit losses and the amount of capital necessary given the risk of business activities), 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, derived from the Firm's business forecasting process reviewed with senior management. These projections are consistent with the short-term assumptions discussed in the Business Outlook on pages 68–69 of this Annual Report, 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.

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

For additional information on goodwill, see Note 17 on pages 267–271 of this Annual Report.

Income taxes

JPMorgan Chase is subject to the income tax laws of the various jurisdictions in which it operates, including U.S. federal, state and local and non-U.S. jurisdictions. These laws are often complex and may be subject to different interpretations. To determine the financial statement impact of accounting for income taxes, including the provision for income tax expense and unrecognized tax benefits, JPMorgan Chase must make assumptions and judgments about how to interpret and apply these complex tax laws to numerous transactions and business events, as well as make judgments regarding the timing of when certain items may affect taxable income in the U.S. and non-U.S. tax jurisdictions.

JPMorgan Chase's interpretations of tax laws around the world are subject to review and examination by the various taxing authorities in the jurisdictions where the Firm operates, and disputes may occur regarding its view on a tax position. These disputes over interpretations with the various taxing authorities may be settled by audit, administrative appeals or adjudication in the court systems of the tax jurisdictions in which the Firm operates. JPMorgan Chase regularly reviews whether it may be assessed additional income taxes as a result of the resolution of these matters, and the Firm records additional reserves as appropriate. In addition, the Firm may revise its estimate of income taxes due to changes in income tax laws, legal interpretations and tax planning strategies. It is possible that revisions in the Firm's estimate of income taxes may materially affect the Firm's results of operations in any reporting period.

The Firm's provision for income taxes is composed of current and deferred taxes. Deferred taxes arise from differences between assets and liabilities measured for financial reporting versus income tax return purposes. Deferred tax assets are recognized if, in management's judgment, their realizability is determined to be more likely

than not. The Firm has also recognized deferred tax assets in connection with certain net operating losses. The Firm performs regular reviews to ascertain whether deferred tax assets are realizable. These reviews include management's estimates and assumptions regarding future taxable income, which also incorporates various tax planning strategies, including strategies that may be available to utilize net operating losses before they expire. In connection with these reviews, if it is determined that a deferred tax asset is not realizable, a valuation allowance is established. The valuation allowance may be reversed in a subsequent reporting period if the Firm determines that, based on revised estimates of future taxable income or changes in tax planning strategies, it is more likely than not that all or part of the deferred tax asset will become realizable. As of December 31, 2011, management has determined it is more likely than not that the Firm will realize its deferred tax assets, net of the existing valuation allowance.

JPMorgan Chase does not provide U.S. federal income taxes on the undistributed earnings of certain non-U.S. subsidiaries, to the extent that such earnings have been reinvested abroad for an indefinite period of time. Changes to the income tax rates applicable to these non-U.S. subsidiaries may have a material impact on the effective tax rate in a future period if such changes were to occur.

The Firm adjusts its unrecognized tax benefits as necessary when additional information becomes available. Uncertain tax positions that meet the more-likely-than-not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit that management believes is more likely than not to be realized upon settlement. It is possible that the reassessment of JPMorgan Chase's unrecognized tax benefits may have a material impact on its effective tax rate in the period in which the reassessment occurs.

For additional information on income taxes, see Note 26 on pages 279–281 of this Annual Report.

Litigation reserves

For a description of the significant estimates and judgments associated with establishing litigation reserves, see Note 31 on pages 290–299 of this Annual Report.

Fair value measurement and disclosures
In January 2010, the FASB issued guidance that requires new disclosures, and clarifies existing disclosure requirements, about fair value measurements. The clarifications and the requirement to separately disclose transfers of instruments between level 1 and level 2 of the fair value hierarchy was effective for interim reporting periods beginning after December 15, 2009; the Firm adopted this guidance in the first quarter of 2010. In addition, a new requirement to provide purchases, sales, issuances and settlements in the level 3 rollforward on a gross basis was effective for fiscal years beginning after December 15, 2010. The Firm adopted the new guidance, effective January 1, 2011. For information about fair value measurements, see Note 3 on pages 184–198 of this Annual Report.

In May 2011, the 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 is effective in the first quarter of 2012. The application of this guidance is not expected to have a material effect on the Firm's Consolidated Balance Sheets or results of operations.

Determining whether a restructuring is a troubled debt restructuring
In April 2011, the FASB issued guidance to clarify existing standards for determining whether a modification represents a TDR from the perspective of the creditor. In addition, the guidance established an effective date for enhanced disclosures related to TDRs. The guidance and new disclosures became effective in the third quarter of 2011 and were applied retrospectively to January 1, 2011. For information regarding the Firm's TDRs, see Note 14 on pages 231–252 of this Annual Report. 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 is effective for new transactions or existing transactions that are modified beginning January 1, 2012. The Firm has accounted for its repurchase and similar agreements as secured financings, and therefore, the Firm does not expect the application of this guidance will have an impact on the Firm’s Consolidated Balance Sheets or results of operations.

Presentation of other comprehensive income
In June 2011, the FASB issued guidance that modifies the presentation of other comprehensive income in the Consolidated Financial Statements. The guidance requires that items of net income, items of other comprehensive income, and total comprehensive income be presented in one continuous statement or in two separate but consecutive statements. For public companies the guidance is effective for interim and annual reporting periods beginning after December 15, 2011. However, in December 2011, the FASB issued guidance that deferred the presentation requirements relating to reclassifications of items out of accumulated other comprehensive income and into the income statement. The application of this guidance will only affect the presentation of the Consolidated Financial Statements and will have 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 is 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.

NONEXCHANGE TRADED COMMODITY DERIVATIVE CONTRACTS AT FAIR VALUE

In the normal course of business, JPMorgan Chase trades nonexchange-traded commodity derivative contracts. To determine the fair value of these contracts, the Firm uses various fair value estimation techniques, primarily based on internal models with significant observable market parameters. The Firm's nonexchange-traded commodity derivative contracts are primarily energy-related.

The following table summarizes the changes in fair value for nonexchange-traded commodity derivative contracts for the year ended December 31, 2011.

Year ended December 31, 2011 (in millions)	Asset position	Liability position
Net fair value of contracts outstanding at January 1, 2011	$ 8,166	$ 7,184
Effect of legally enforceable master netting agreements	41,284	41,919
Gross fair value of contracts outstanding at January 1, 2011	49,450	49,103
Contracts realized or otherwise settled	(22,855)	(20,826)
Fair value of new contracts	21,517	23,195
Changes in fair values attributable to changes in valuation techniques and assumptions	–	–
Other changes in fair value	(1,495)	(2,260)
Gross fair value of contracts outstanding at December 31, 2011	46,617	49,212
Effect of legally enforceable master netting agreements	(33,495)	(35,695)
Net fair value of contracts outstanding at December 31, 2011	$ 13,122	$ 13,517

The following table indicates the maturities of nonexchange-traded commodity derivative contracts at December 31, 2011.

December 31, 2011 (in millions)	Asset position	Liability position
Maturity less than 1 year	$ 20,876	$ 18,993
Maturity 1–3 years	16,564	16,949
Maturity 4–5 years	7,745	7,593
Maturity in excess of 5 years	1,432	5,677
Gross fair value of contracts outstanding at December 31, 2011	46,617	49,212
Effect of legally enforceable master netting agreements	(33,495)	(35,695)
Net fair value of contracts outstanding at December 31, 2011	$ 13,122	$ 13,517

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 Annual Report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Firm also may make forward-looking statements in its other documents filed or furnished with the Securities and Exchange Commission. In addition, the Firm’s senior management may make forward-looking statements orally to analysts, investors, representatives of the media and others.

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

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

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