JPMORGAN CHASE & CO
Form 10-K
February 28, 2013

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

For the fiscal year ended December 31, 2012	Commission file number 1-5805
JPMorgan Chase & Co. (Exact name of registrant as specified in its charter)	
Delaware (State or other jurisdiction of incorporation or organization)	13-2624428 (I.R.S. employer identification no.)
270 Park Avenue, New York, New York (Address of principal executive offices)	10017 (Zip code)

Registrant's telephone number, including area code: (212) 270-6000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock	The New York Stock Exchange The London Stock Exchange The Tokyo Stock Exchange
Warrants, each to purchase one share of Common Stock	The New York Stock Exchange
Depositary Shares, each representing a one-four hundredth interest in a share of 8.625% Non-Cumulative Preferred Stock, Series J	The New York Stock Exchange
Depositary Shares, each representing a one-four hundredth interest in a share of 5.50% Non-Cumulative Preferred Stock, Series O	The New York Stock Exchange
Guarantee of 7.00% Capital Securities, Series J, of J.P. Morgan Chase Capital X	The New York Stock Exchange
Guarantee of 5.875% Capital Securities, Series K, of J.P. Morgan Chase Capital XI	The New York Stock Exchange
Guarantee of 6.25% Capital Securities, Series L, of J.P. Morgan Chase Capital XII	The New York Stock Exchange
Guarantee of 6.20% Capital Securities, Series N, of JPMorgan Chase Capital XIV	The New York Stock Exchange
Guarantee of 6.35% Capital Securities, Series P, of JPMorgan Chase Capital XVI	The New York Stock Exchange
Guarantee of 6.625% Capital Securities, Series S, of JPMorgan Chase Capital XIX	The New York Stock Exchange
Guarantee of 6.875% Capital Securities, Series X, of JPMorgan Chase Capital XXIV	The New York Stock Exchange
Guarantee of 6.70% Capital Securities, Series CC, of JPMorgan Chase Capital XXIX	The New York Stock Exchange
Guarantee of 7.20% Preferred Securities of BANK ONE Capital VI	The New York Stock Exchange
	The New York Stock Exchange

KEYnotes Exchange Traded Notes Linked to the First Trust Enhanced 130/30 Large Cap Index	
Alerian MLP Index ETNs due May 24, 2024	NYSE Arca, Inc.
JPMorgan Double Short US 10 Year Treasury Futures ETNs due September 30, 2025	NYSE Arca, Inc.
JPMorgan Double Short US Long Bond Treasury Futures ETNs due September 30, 2025	NYSE Arca, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ý Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes ý No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

x Large accelerated filer	o Accelerated filer	o Non-accelerated filer (Do not check if a smaller reporting company)	o Smaller reporting company

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

The aggregate market value of JPMorgan Chase & Co. common stock held by non-affiliates as of June 30, 2012: $134,979,087,091

Number of shares of common stock outstanding as of January 31, 2013: 3,827,466,945

Documents incorporated by reference: Portions of the registrant’s Proxy Statement for the annual meeting of stockholders to be held on May 21, 2013, are incorporated by reference in this Form 10-K in response to Items 10, 11, 12, 13 and 14 of Part III.

Form 10-K Index

Part I

ITEM 1: BUSINESS

Overview

JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm"), 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." or "United States"), with operations worldwide; the Firm had $2.4 trillion in assets and $204.1 billion in stockholders' equity as of December 31, 2012. The Firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing, asset management and private equity. Under the J.P. Morgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world's most prominent corporate, institutional and government clients.

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

The Firm's website is www.jpmorganchase.com. JPMorgan Chase makes available free of charge, through its website, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after it electronically files such material with, or furnishes such material to, the U.S. Securities and Exchange Commission (the "SEC"). The Firm has adopted, and posted on its website, a Code of Ethics for its Chairman and Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and other senior financial officers.

Business segments

JPMorgan Chase's activities are organized, for management reporting purposes, into four major reportable business segments, as well as a Corporate/Private Equity segment. The Firm's consumer business is the Consumer & Community Banking segment. The Corporate & Investment Bank, Commercial Banking, and Asset Management segments comprise the Firm's wholesale businesses.

A description of the Firm's business segments and the products and services they provide to their respective client bases is provided in the "Business segment results" section of Management's discussion and analysis of financial condition and results of operations ("MD&A"), beginning on page 64 and in Note 33 on pages 326–329.

Competition

JPMorgan Chase and its subsidiaries and affiliates operate in a highly competitive environment. Competitors include other banks, brokerage firms, investment banking companies, merchant banks, hedge funds, commodity trading companies, private equity firms, insurance companies, mutual fund companies, credit card companies, mortgage banking companies, trust companies, securities processing companies, automobile financing companies, leasing companies, e-commerce and other Internet-based companies, and a variety of other financial services and advisory companies. JPMorgan Chase's businesses generally compete on the basis of the quality and range of their products and services, transaction execution, innovation and price. Competition also varies based on the types of clients, customers, industries and geographies served. With respect to some of its geographies and products, JPMorgan Chase competes globally; with respect to others, the Firm competes on a regional basis. The Firm's ability to compete also depends on its ability to attract and retain its professional and other personnel, and on its reputation.

The financial services industry has experienced consolidation and convergence in recent years, as financial institutions involved in a broad range of financial products and services have merged and, in some cases, failed. This convergence trend is expected to continue. Consolidation could result in competitors of JPMorgan Chase gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. It is likely that competition will become even more intense as companies continue to expand their operations globally and as the Firm's businesses continue to compete with other financial institutions that are or may become larger or better capitalized, that may have a stronger local presence in certain geographies or that operate under different rules and regulatory regimes than the Firm.

Supervision and regulation

The Firm is subject to regulation under state and federal laws in the United States, as well as the applicable laws of each of the various jurisdictions outside the United States in which the Firm does business.

Regulatory reform: On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which is intended to make significant structural reforms to the financial services industry. The Dodd-Frank Act instructs U.S. federal banking and other regulatory agencies to conduct approximately 285 rule-makings and 130 studies and reports. These regulatory agencies include the Commodity Futures Trading Commission (the "CFTC"); the

Securities and Exchange Commission (the "SEC"); the Board of Governors of the Federal Reserve System (the "Federal Reserve"); the Office of the Comptroller of the Currency (the "OCC"); the Federal Deposit Insurance Corporation (the "FDIC"); the Bureau of Consumer Financial Protection (the "CFPB"); and the Financial Stability Oversight Council (the "FSOC"). As a result of the Dodd-Frank Act rule-making and other regulatory reforms, 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 regulations, while, at the same time, best meeting the needs and expectations of its clients. Given the current status of the regulatory developments, the Firm cannot currently quantify the possible effects on its business and operations of all of the significant changes that are currently underway. For more information, see "Risk Factors" on pages 8–21. Certain of these changes include the following:

- Comprehensive Capital Analysis and Review ("CCAR") and stress testing. In December 2011, the Federal Reserve issued final rules regarding the submission of capital plans by bank holding companies with total assets of $50 billion or more. Pursuant to these rules, the Federal Reserve requires the Firm to submit a capital plan on an annual basis. In October 2012, the Federal Reserve and OCC issued rules requiring the Firm and certain of its bank subsidiaries to perform stress tests under one stress scenario created by the Firm as well as three scenarios (baseline, adverse and severely adverse) mandated by the Federal Reserve. If the Federal Reserve objects to the Firm's capital plan, the Firm will be unable to make any capital distributions unless approved by the Federal Reserve. For more information, see "CCAR and stress testing" on pages 5–6.
- Resolution plan. In September 2011, the FDIC and the Federal Reserve issued, pursuant to the Dodd-Frank Act, a final rule that requires bank holding companies with assets of $50 billion or more and companies designated as systemically important by the FSOC to submit periodically to the Federal Reserve and the FDIC a plan for resolution under the Bankruptcy Code in the event of material distress or failure (a "resolution plan"). In January 2012, the FDIC also issued a final rule that requires insured depository institutions with assets of $50 billion or more to submit periodically to the FDIC a plan for resolution under the Federal Deposit Insurance Act in the event of failure. The timing of initial, annual and interim resolution plan submissions under both rules is the same. The Firm's initial resolution plan submissions were filed by July 1, 2012, and annual updates will be due by July 1 each year.
- Derivatives. Under the Dodd-Frank Act, the Firm will be subject to comprehensive regulation of its derivatives business (including capital and margin requirements, central clearing of standardized over-the-counter derivatives and the requirement that they be traded on regulated trading platforms) and heightened supervision. Further, some of the rules for derivatives will apply extraterritorially to U.S. firms doing business with clients outside of the United States. The Dodd-Frank Act also requires banking entities, such as JPMorgan Chase, to significantly restructure their derivatives businesses, including changing the legal entities through which derivatives activities are conducted.
- Volcker Rule. The Firm will also be affected by the requirements of Section 619 of the Dodd-Frank Act, and specifically the provisions prohibiting proprietary trading and restricting the activities involving private equity and hedge funds (the "Volcker Rule"). On October 11, 2011, regulators proposed regulations to implement the Volcker Rule. These are currently expected to be finalized in 2013. Under the proposed rules, "proprietary trading" is defined as the trading of securities, derivatives, or futures (or options on any of the foregoing) as principal, where such trading is principally for the purpose of short-term resale, benefiting from actual or expected short-term price movements and realizing short-term arbitrage profits. The proposed rule's definition of proprietary trading specifically excludes market-making-related activity, certain government issued securities trading and certain risk management activities. The Firm ceased some prohibited proprietary trading activities during 2010 and has since exited substantially all such activities.
- Money Market Fund Reform. In November 2012, the FSOC and the Financial Stability Board (the "FSB") issued separate proposals regarding money market fund reform. Pursuant to Section 120 of the Dodd-Frank Act, the FSOC published proposed recommendations that the SEC proceed with structural reforms of money market funds, including, among other possibilities, requiring that money market funds adopt a floating net asset value, mandating a capital buffer and requiring a hold-back on redemptions for certain shareholders. On January 15, 2013, the FSOC announced

that it had extended the comment period for the proposed recommendations at the request of the Chairman of the SEC. It is expected that the SEC will issue its own rule proposal on money market fund reform in the near future. The FSB endorsed and published for public consultation 15 policy recommendations proposed by the International Organization of Securities Commissions ("IOSCO"), including requiring money market funds to adopt a floating net asset value. The FSB has stated that it expects to publish final recommendations in September 2013 and, thereafter, work on procedures for the consistent implementation of the policy recommendations.

- Capital. The treatment of trust preferred securities as Tier 1 capital for regulatory capital purposes will be phased out over a three year period, beginning in 2013. In addition, in June 2011, the Basel Committee and the FSB announced that certain global systemically important banks ("GSIBs") would be required to maintain additional capital, above the Basel III Tier 1 common equity minimum, in amounts ranging from 1% to 2.5%, depending upon the bank's systemic importance. In June 2012, the Federal Reserve, the OCC and FDIC issued final rules for implementing ratings alternatives for the computation of risk-based capital for market risk exposures, which will result in significantly higher capital requirements for many securitization exposures. For more information, see "Capital requirements" on pages 4–5.
- FDIC Deposit Insurance Fund Assessments. In February 2011, the FDIC issued a final rule changing the assessment base and the method for calculating the deposit insurance assessment rate. These changes became effective on April 1, 2011, and resulted in a substantial increase in the assessments that the Firm's bank subsidiaries pay annually to the FDIC. For example, in 2011, these changes resulted in an increase of approximately $600 million in assessments. For more information, see "Deposit insurance" on page 6.
- Bureau of Consumer Financial Protection. The Dodd-Frank Act established the CFPB as a new regulatory agency. The CFPB has authority to regulate providers of credit, payment and other consumer financial products and services. The CFPB has examination authority over large banks, such as JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A., with respect to the banks' consumer financial products and services. The CFPB issued final regulations regarding mortgages, which will become effective in January 2014. For more information, see "CFPB regulations regarding mortgages" on page 7 and "Other supervision and regulation" on pages 7–8.
- Heightened prudential standards for systemically important financial institutions. The Dodd-Frank Act creates a structure to regulate systemically important financial companies, and subjects them to heightened prudential standards. For more information, see "Systemically important financial institutions" below.
- Debit interchange. On October 1, 2011, the Federal Reserve adopted final rules implementing the "Durbin Amendment" provisions of the Dodd-Frank Act, which limit the amount the Firm can charge for each debit card transaction it processes.

Other proposals have been made internationally, including additional capital and liquidity requirements that will apply to non-U.S. subsidiaries of JPMorgan Chase, such as J.P.

Morgan Securities plc. For further information, see "Risk Factors" on pages 8–21.

Systemically important financial institutions: The Dodd-Frank Act creates a structure to regulate systemically important financial institutions, and subjects them to heightened prudential standards, including heightened capital, leverage, liquidity, risk management, resolution plan, single-counterparty credit limits, and early remediation requirements. Systemically important financial institutions will be supervised by the Federal Reserve. Bank holding companies with over $50 billion in assets, including JPMorgan Chase, and certain nonbank financial companies that are designated by the FSOC, will be considered systemically important financial institutions subject to the heightened standards and supervision.

In addition, if the regulators determine that the size or scope of activities of the company pose a threat to the safety and soundness of the company or the financial stability of the United States, the regulators have the power to require such companies to sell or transfer assets and terminate activities.

On December 20, 2011, the Federal Reserve issued proposed rules to implement certain of these heightened prudential standards, including:

- Risk management standards. The proposal would require oversight of enterprise-wide risk management by a stand-alone risk committee of the board of directors and a chief risk officer. Among other things, the risk committee of the board of directors of a bank holding company would be required to review and approve the liquidity costs, benefits, and risk of each significant new line of business and product.
- Liquidity stress testing. The proposal would require a company to conduct a liquidity stress test at least monthly.
- Stress tests. Stress tests would be conducted annually by the Federal Reserve, and semi-annually by the company.
- Single Counterparty Exposure Limits. The proposal would limit net credit exposure of a bank holding company to a single counterparty as a percentage of regulatory capital. There would be a two-tier counterparty credit limit: (1) a

general limit that prohibits a bank holding company (including its subsidiaries) from having aggregate net credit exposure to any single unaffiliated counterparty (including its subsidiaries) in excess of 25% of the company's capital stock and surplus; and (2) a more stringent limit between a bank holding company with over $500 billion in total assets, and all its subsidiaries, and any counterparty with over $500 billion in total assets, and all of its subsidiaries, of 10% of the company's capital stock and surplus.

For more information, see "Capital requirements" on pages 4–5 and "Prompt corrective action and early remediation" on page 6.

Permissible business activities: JPMorgan Chase elected to become a financial holding company as of March 13, 2000, pursuant to the provisions of the Gramm-Leach-Bliley Act. If a financial holding company or any depository institution controlled by a financial holding company ceases to meet certain capital or management standards, the Federal Reserve may impose corrective capital and/or managerial requirements on the financial holding company and place limitations on its ability to conduct the broader financial activities permissible for financial holding companies. In addition, the Federal Reserve may require divestiture of the holding company's depository institutions if the deficiencies persist. Federal regulations also provide that if any depository institution controlled by a financial holding company fails to maintain a satisfactory rating under the Community Reinvestment Act, the Federal Reserve must prohibit the financial holding company and its subsidiaries from engaging in any additional activities other than those permissible for bank holding companies that are not financial holding companies.

The Federal Reserve has proposed rules under which the Federal Reserve could impose restrictions on systemically important financial institutions that are experiencing financial weakness, which restrictions could include limits on acquisitions, among other things. For more information on the restrictions, see "Prompt corrective action and early remediation" on page 6.

Financial holding companies and bank holding companies are required to obtain the approval of the Federal Reserve before they may acquire more than five percent of the voting shares of an unaffiliated bank. Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act"), the Federal Reserve may approve an application for such an acquisition without regard to whether the transaction is prohibited under the law of any state, provided that the acquiring bank holding company, before or after the acquisition, does not control more than 10% of the total amount of deposits of insured depository institutions in the United States or more than 30% (or such greater or lesser amounts as permitted under state law) of the total deposits of insured depository institutions in the state in which the acquired bank has its home office or a branch. In addition, the Dodd-Frank Act restricts acquisitions by financial companies if, as a result of the acquisition, the total liabilities of the financial company would exceed 10% of the total liabilities of all financial companies. For non-U.S. financial companies, liabilities are calculated using only the risk-weighted assets of their U.S. operations. U.S. financial companies must include all of their risk-weighted assets (including assets held overseas). This could have the effect of allowing a non-U.S. financial company to grow to hold significantly more than 10% of the U.S. market without exceeding the concentration limit. Under the Dodd-Frank Act, the Firm must provide written notice to the Federal Reserve prior to acquiring direct or indirect ownership or control of any voting shares of any company with over $10 billion in assets that is engaged in "financial in nature" activities.

Dividend restrictions: Federal law imposes limitations on the payment of dividends by national banks. Dividends payable by JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A., as national bank subsidiaries of JPMorgan Chase, are limited to the lesser of the amounts calculated under a "recent earnings" test and an "undivided profits" test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year's net income combined with the retained net income of the two preceding years, unless the national bank obtains the approval of the OCC. Under the undivided profits test, a dividend may not be paid in excess of a bank's "undivided profits." See Note 27 on page 306 for the amount of dividends that the Firm's principal bank subsidiaries could pay, at January 1, 2013, to their respective bank holding companies without the approval of their banking regulators.

In addition to the dividend restrictions described above, the OCC, the Federal Reserve and the FDIC have authority to prohibit or limit the payment of dividends by the banking organizations they supervise, including JPMorgan Chase and its bank and bank holding company subsidiaries, if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization. Under proposed rules issued by the Federal Reserve, dividends are restricted once any one of three risk-based capital ratios (tier 1 common, tier 1 capital, or total capital) falls below their respective minimum capital ratio requirement (inclusive of the GSIB surcharge) plus 2.5%.

Moreover, the Federal Reserve has issued rules requiring bank holding companies, such as JPMorgan Chase, to submit to the Federal Reserve a capital plan on an annual basis and receive a notice of non-objection from the Federal

Reserve before taking capital actions, such as paying dividends, implementing common equity repurchase programs or redeeming or repurchasing capital instruments. For more information, see "CCAR and stress testing" on pages 5–6.

Capital requirements: Federal banking regulators have adopted risk-based capital and leverage guidelines that require the Firm's capital-to-assets ratios to meet certain minimum standards.

The risk-based capital ratio is determined by allocating assets and specified off-balance sheet financial instruments into risk-weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk. Under the guidelines, capital is divided into two tiers: Tier 1 capital and Tier 2 capital. The amount of Tier 2 capital may not exceed the amount of Tier 1 capital. Total capital is the sum of Tier 1 capital and Tier 2 capital. Under the guidelines, banking organizations are required to maintain a total capital ratio (total capital to risk-weighted assets) of 8% and a Tier 1 capital ratio of 4%. For a further description of these guidelines, see Note 28 on pages 306–308.

The federal banking regulators also have established minimum leverage ratio guidelines. The leverage ratio is defined as Tier 1 capital divided by adjusted average total assets. The minimum leverage ratio is 4% for bank holding companies. Bank holding companies may be expected to maintain ratios well above the minimum levels, depending upon their particular condition, risk profile and growth plans. The minimum risk-based capital requirements adopted by the 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 operations. In December 2010, the Basel Committee finalized further revisions to the Accord ("Basel III") which narrowed the definition of capital, increased capital requirements for specific exposures, introduced short-term liquidity coverage and term funding standards, and established an international leverage ratio.
In June 2011, the U.S. federal banking agencies issued rules to establish a permanent Basel I floor under Basel II/Basel III calculations. For further description of these capital requirements, see pages 4–5.
In connection with the U.S. Government's Supervisory Capital Assessment Program in 2009, U.S. banking regulators developed an additional 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. In June 2012, the U.S. banking regulators revised, effective July 1, 2013, certain capital requirements for trading positions and securitizations ("Basel 2.5"). For more information, see Regulatory capital on pages 117–120.
In June 2011, the Basel Committee and the FSB announced that GSIBs would be required to maintain additional capital, above the Basel III Tier 1 common equity minimum, in amounts ranging from 1% to 2.5%, depending upon the bank's systemic importance. In November 2012, the FSB announced that the Firm would be in the category subject to a 2.5% capital surcharge. Furthermore, in order to provide a disincentive for banks facing the highest required level of Tier 1 common equity to "increase materially their global systemic importance in the future," an additional 1% charge could be applied. The Federal Reserve has issued a proposed rule-making that incorporates the concept of a capital surcharge for GSIBs.
The Basel III revisions governing the capital requirements are subject to prolonged observation and transition periods.

The transition period for banks to meet the revised Tier 1 common equity requirement were to begin in 2013, with implementation on January 1, 2019. 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.
In addition to capital requirements, the Basel Committee has also proposed two new measures of liquidity risk: the "Liquidity Coverage Ratio" and the "Net Stable Funding Ratio," which are intended to measure, over different time spans, the amount of liquid assets held by the Firm. The observation periods for both these standards began in 2011, with implementation commencing in 2015 and 2018, respectively.
The Dodd-Frank Act prohibits the use of external credit ratings in federal regulations. In June 2012, the Federal Reserve, OCC and FDIC issued final rules implementing ratings alternatives for the computation of risk-based capital for market risk exposures, which will result in significantly higher capital requirements for many securitization exposures.
For additional information regarding the Firm's regulatory capital, see Regulatory capital on pages 117–120.
CCAR and stress testing: In December 2011, the Federal Reserve issued final rules regarding the submission of capital plans by bank holding companies with total assets of $50 billion or more. Pursuant to these rules, the Federal Reserve requires the Firm to submit a capital plan on an annual basis. In October 2012, the Federal Reserve issued rules requiring bank holding companies with over $50 billion in total assets to perform an annual stress test and report the results to the Federal Reserve in January. The results of the annual stress test will also be publicly disclosed, and will be used as a factor in determining whether the Federal Reserve will or will not object to the bank holding company's capital plan. On January 7, 2013, the Firm submitted its capital plan to the Federal Reserve under the

Federal Reserve's 2013 CCAR process. The Firm's plan relates to the last three quarters of 2013 and the first quarter of 2014 (that is, the 2013 CCAR capital plan relates to dividends to be declared commencing in June 2013 and payable in July 2013, and to common equity repurchases and other capital actions commencing April 1, 2013). The Firm expects to receive the Federal Reserve's final response to its plan no later than March 14, 2013. In reviewing the capital plan, the Federal Reserve will consider both quantitative and qualitative factors. Quantitative assessments will include, among other things, the Firm's ability to continue to meet supervisory expectation for minimum capital ratios and a Basel I Tier 1 common capital ratio of at least 5% throughout the planning horizon under severely adverse stress conditions of the stress test, even if the Firm did not reduce planned capital actions. Qualitative assessments will include, among other things, the comprehensiveness of the plan, the assumptions and analyses underlying the Firm's capital plan, and any relevant supervisory information. If the Federal Reserve objects to the Firm's capital plan, the Firm will be unable to make any capital distributions unless approved by the Federal Reserve. Bank holding companies must perform an additional stress test in the middle of the year and publicly disclose those results as well. The OCC issued similar regulations that require national banks with over $10 billion in total assets to perform annual stress tests. Accordingly, the Firm will be required to submit separate stress tests to the OCC for its national bank subsidiaries that exceed that threshold.

Prompt corrective action and early remediation: The Federal Deposit Insurance Corporation Improvement Act of 1991 requires the relevant federal banking regulator to take "prompt corrective action" with respect to a depository institution if that institution does not meet certain capital adequacy standards. While these regulations apply only to banks, such as JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A., the Federal Reserve is authorized to take appropriate action against the parent bank holding company, such as JPMorgan Chase & Co., based on the undercapitalized status of any bank subsidiary. In certain instances, the bank holding company would be required to guarantee the performance of the capital restoration plan for its undercapitalized subsidiary.

In addition, in December 2011, the Federal Reserve issued proposed rules which provide for early remediation of systemically important financial companies that experience financial weakness. These proposed restrictions could include limits on capital distributions, acquisitions, and requirements to raise additional capital.

Deposit Insurance: The FDIC deposit insurance fund provides insurance coverage for certain deposits, which insurance is funded through assessments on banks, such as JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A. Higher levels of bank failures during the financial crisis have dramatically increased resolution costs of the FDIC. In addition, the amount of FDIC insurance coverage for insured deposits has been increased from $100,000 per depositor to $250,000 per depositor. In light of the increased stress on the deposit insurance fund caused by these developments, and in order to maintain a strong funding position and restore the reserve ratios of the deposit insurance fund, the FDIC has increased assessment rates of insured institutions generally. As required by the Dodd-Frank Act, the FDIC issued a final rule in February 2011 that changes the assessment base from insured deposits to average consolidated total assets less average tangible equity, and changes the assessment rate calculation. These changes became effective on April 1, 2011, and resulted in a substantial increase in the assessments that the Firm's bank subsidiaries pay annually to the FDIC. For example, in 2011, these changes resulted in an increase of approximately $600 million in assessments.

Powers of the FDIC upon insolvency of an insured depository institution or the Firm: Upon the insolvency of an insured depository institution, the FDIC will be appointed the conservator or receiver under the Federal Deposit Insurance Act. In such an insolvency, the FDIC has the power:

- to transfer any assets and liabilities to a new obligor without the approval of the institution's creditors;
- to enforce the institution's contracts pursuant to their terms; or
- to repudiate or disaffirm any contract or lease to which the institution is a party.

The above provisions would be applicable to obligations and liabilities of JPMorgan Chase's subsidiaries that are insured depository institutions, such as JPMorgan Chase Bank, N.A., and Chase Bank USA, N.A., including, without limitation, obligations under senior or subordinated debt issued by those banks to investors (referred to below as "public noteholders") in the public markets.

Under federal law, the claims of a receiver of an insured depository institution for administrative expense and the claims of holders of U.S. deposit liabilities (including the FDIC) have priority over the claims of other unsecured creditors of the institution, including public noteholders and depositors in non-U.S. offices. As a result, whether or not the FDIC would ever seek to repudiate any obligations held by public noteholders or depositors in non-U.S. offices of any subsidiary of the Firm that is an insured depository institution, such as JPMorgan Chase Bank, N.A., such persons would be treated differently from, and could receive, if anything, substantially less than the depositors in U.S. offices of the depository institution. However, the U.K. Financial Services Authority (the "FSA") has recently issued a proposal that may require the Firm to either obtain equal treatment for U.K. depositors or "subsidiarize" in the U.K.

An FDIC-insured depository institution can be held liable for any loss incurred or expected to be incurred by the FDIC in connection with another FDIC-insured institution under common control with such institution being "in default" or "in danger of default" (commonly referred to as "cross-guarantee" liability). An FDIC cross-guarantee claim against a depository institution is generally superior in right of payment to claims of the holding company and its affiliates against such depository institution.

Under the Dodd-Frank Act, where a systemically important financial institution, such as JPMorgan Chase, is in default or danger of default, the FDIC may be appointed receiver in order to conduct an orderly liquidation of such systemically important financial institution. The FDIC has issued rules to implement its orderly liquidation authority, and is expected to propose additional rules. The FDIC has powers as receiver similar to those described above. However, the details of certain powers will be the subject of additional rule-makings and have not yet been fully delineated.

The Bank Secrecy Act: The Bank Secrecy Act ("BSA") requires all financial institutions, including banks and securities broker-dealers, to, among other things, establish a risk-based system of internal controls reasonably designed to prevent money laundering and the financing of terrorism. The BSA includes a variety of record-keeping and reporting requirements (such as cash and suspicious activity reporting), as well as due diligence/know-your-customer documentation requirements. The Firm has established a global anti-money laundering program in order to comply with BSA requirements. In January 2013, the Firm entered into Consent Orders with the OCC and the Federal Reserve relating to its BSA and Anti-Money Laundering policies, procedures and controls.

Regulation by Federal Reserve: The Federal Reserve acts as an "umbrella regulator" and certain of JPMorgan Chase's subsidiaries are regulated directly by additional authorities based on the particular activities of those subsidiaries. For example, JPMorgan Chase Bank, N.A., and Chase Bank USA, N.A., are regulated by the OCC. See "Other supervision and regulation" on pages 7–8 for a further description of the regulatory supervision to which the Firm's subsidiaries are subject.

Holding company as source of strength for bank subsidiaries: Effective July 2011, provisions of the Dodd-Frank Act codified the Federal Reserve's historical policy that requires a bank holding company to serve as a source of financial strength for any depository institution subsidiary and to commit resources to support these subsidiaries in circumstances where it might not do so absent such policy. However, because the Gramm-Leach-Bliley Act provides for functional regulation of financial holding company activities by various regulators, the Gramm-Leach-Bliley Act prohibits the Federal Reserve from requiring payment by a holding company or subsidiary to a depository institution if the functional regulator of the payor objects to such payment. In such a case, the Federal Reserve could instead require the divestiture of the depository institution and impose operating restrictions pending the divestiture.

Restrictions on transactions with affiliates: The bank subsidiaries of JPMorgan Chase are subject to certain restrictions imposed by federal law on extensions of credit to, and certain other transactions with, the Firm and certain other affiliates, and on investments in stock or securities of JPMorgan Chase and those affiliates. These restrictions prevent JPMorgan Chase and other affiliates from borrowing from a bank subsidiary unless the loans are secured in specified amounts and are subject to certain other limits. For more information, see Note 27 on page 306. Effective in 2012, the Dodd-Frank Act extended such restrictions to derivatives and securities lending transactions. In addition, the Dodd-Frank Act's Volcker Rule imposes similar restrictions on transactions between banking entities, such as JPMorgan Chase and its subsidiaries, and hedge funds or private equity funds for

which the banking entity serves as the investment manager, investment advisor or sponsor.

CFPB regulations regarding mortgages: The CFPB issued final regulations regarding mortgages, which will become effective in January 2014 and which will prohibit mortgage servicers from beginning foreclosure proceedings until a mortgage loan is 120 days delinquent. During this period, the borrower may apply for a loan modification or other option and the servicer cannot begin foreclosure until the application has been addressed. The CFPB issued another final regulation in December 2012 imposing an "ability to repay" requirement for residential mortgage loans. A creditor (or its assignee) will be liable to the borrower for damages if the creditor fails to make a "good faith and reasonable determination of a borrower's reasonable ability to repay as of consummation." Borrowers can sue the creditor or assignee for up to three years after closing, and can raise an ability to repay claim against the servicer as a set off at any point during the loan's life if in foreclosure. A "Qualified Mortgage" as defined in the regulation is generally protected from such suits.

Other supervision and regulation: The Firm's banks and certain of its nonbank subsidiaries are subject to direct supervision and regulation by various other federal and state authorities (some of which are considered "functional regulators" under the Gramm-Leach-Bliley Act). JPMorgan Chase's national bank subsidiaries, such as JPMorgan Chase Bank, N.A., and Chase Bank USA, N.A., are subject to supervision and regulation by the OCC and, in certain matters, by the Federal Reserve and the FDIC. Supervision and regulation by the responsible regulatory agency generally includes comprehensive annual reviews of all major aspects of the relevant bank's business and condition, stress tests of banks and imposition of periodic reporting requirements and limitations on investments, among other powers.

The Firm conducts securities underwriting, dealing and brokerage activities in the United States through J.P. Morgan Securities LLC and other broker-dealer subsidiaries, all of which are subject to regulations of the SEC, the Financial

Industry Regulatory Authority and the New York Stock Exchange, among others. The Firm conducts similar securities activities outside the United States subject to local regulatory requirements. In the United Kingdom, those activities are conducted by J.P. Morgan Securities plc, which is regulated by the FSA. It is expected that, during 2013, regulation of J.P. Morgan Securities plc will transition to the Prudential Regulation Authority (PRA), pursuant to the U.K. Government's plan under the Financial Services Act 2012 to restructure regulatory competences as between the PRA (which will be a subsidiary of the Bank of England having responsibility for prudential regulation of banks and other systemically important institutions) and the Financial Conduct Authority (which will regulate prudential matters for other firms and conduct matters for all participants).

JPMorgan Chase mutual funds also are subject to regulation by the SEC, in addition to the supervision already described above with respect to money market mutual funds.
The Firm has subsidiaries that are members of futures exchanges in the United States and abroad and are registered accordingly.
In the United States, two subsidiaries are registered as futures commission merchants, and other subsidiaries are either registered with the CFTC as commodity pool operators and commodity trading advisors or exempt from such registration. These CFTC-registered subsidiaries are also members of the National Futures Association. The Firm's U.S. energy business is subject to regulation by the Federal Energy Regulatory Commission. It is also subject to other extensive and evolving energy, commodities, environmental and other governmental regulation both in the United States and other jurisdictions globally.
Under the Dodd-Frank Act, the CFTC and SEC will be the regulators of the Firm's derivatives businesses. JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC and J.P. Morgan Ventures Energy Corporation have registered with the CFTC as swap dealers. The Firm expects that JPMorgan Chase Bank, N.A. and J.P. Morgan Securities LLC will also register with the SEC as security-based swap dealers.
The types of activities in which the non-U.S. branches of JPMorgan Chase Bank, N.A. and the international subsidiaries of JPMorgan Chase may engage are subject to various restrictions imposed by the Federal Reserve. Those non-U.S. branches and international subsidiaries also are subject to the laws and regulatory authorities of the countries in which they operate.
The activities of JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A. as consumer lenders also are subject to regulation under various U.S. federal laws, including the Truth-in-Lending, Equal Credit Opportunity, Fair Credit Reporting, Fair Debt Collection Practice, Electronic Funds Transfer and CARD acts, as well as various state laws. These statutes impose requirements on consumer loan origination and collection practices. Under the Dodd-Frank Act, the CFPB will be responsible for rule-making and enforcement pursuant to such statutes.
Under the requirements imposed by the Gramm-Leach-Bliley Act, JPMorgan Chase and its subsidiaries are required periodically to disclose to their retail customers the Firm's policies and practices with respect to the sharing of nonpublic customer information with JPMorgan Chase affiliates and others, and the confidentiality and security of that information. Under the Gramm-Leach-Bliley Act, retail customers also must be given the opportunity to "opt out" of information-sharing arrangements with nonaffiliates, subject to certain exceptions set forth in the Gramm-Leach-Bliley Act.

Item 1A: RISK FACTORS

The following discussion sets forth the material risk factors that could affect JPMorgan Chase's financial condition and operations. Readers should not consider any descriptions of such factors to be a complete set of all potential risks that could affect the Firm.

Regulatory Risk

JPMorgan Chase operates within a highly regulated industry, and the Firm's businesses and results are significantly affected by the laws and regulations to which it is subject.
As a global financial services firm, JPMorgan Chase is subject to extensive and comprehensive regulation under federal and state laws in the United States and the laws of the various jurisdictions outside the United States in which the Firm does business. These laws and regulations significantly affect the way that the Firm does business, and can restrict the scope of its existing businesses and limit its ability to expand its product offerings or to pursue acquisitions, or can make its products and services more expensive for clients and customers.
The U.S. Department of the Treasury, the FSOC, the SEC, the CFTC, the Federal Reserve, the OCC, the CFPB and the FDIC are all engaged in extensive rule-making mandated by the Dodd-Frank Act, and a substantial amount of the rule-making remains to be done. As a result, the complete impact of the Dodd-Frank Act on the Firm's business, operations and earnings remains uncertain. Certain aspects of the Dodd-Frank Act and such rule-making are discussed in more detail below. For further information, see Supervision and regulation on pages 1–8.

Debit interchange. The Firm believes that, as a result of the “Durbin Amendment” provisions of the Dodd-Frank Act, which limit the amount that the Firm can charge for each debit card transaction, the Firm’s annualized net income has been reduced by approximately $600 million per year. Although the Firm continues to consider various actions to mitigate this reduction in net income, it is unlikely that any such actions will wholly offset such reduction.

Volcker Rule. Until the final regulations under the Volcker Rule are adopted, the precise definition of prohibited “proprietary trading”, the scope of any exceptions, including those related to market-making and hedging activities, and the scope of permitted hedge fund and private equity fund investments remain uncertain. It is unclear under the proposed rules whether some portion of the Firm’s market-making-related and risk mitigation activities, as currently conducted, will be required to be curtailed or will be otherwise adversely affected. In addition, the rules, if enacted as proposed, could prohibit the Firm’s participation and investment in certain securitization structures and could bar the Firm from sponsoring or investing in certain non-U.S. funds. Also, should regulators not exercise their authority to permit the Firm to hold certain investments, including those in illiquid private equity funds, beyond the minimum statutory divestment period, the Firm could incur substantial losses when it disposes of such investments. The Firm may be forced to sell such investments at a substantial discount in the secondary market as a result of both the constrained timing of such sales and the possibility that other financial institutions are likewise liquidating investments at the same time.

Derivatives. In addition to imposing comprehensive regulation on the Firm's derivatives businesses, the Dodd-Frank Act also requires banking entities, such as JPMorgan Chase, to significantly restructure their derivatives businesses, including changing the legal entities through which such businesses are conducted. Further, some of the rules for swaps will apply extraterritorially to U.S. firms doing business with clients outside of the United States. Clients of non-U.S. firms doing business outside the United States may not be required to comply with the same rules in similar transactions. This disparity in the application of the different rules could place JPMorgan Chase at a significant competitive disadvantage to its non-U.S. competitors, which could have a material adverse effect on the earnings and profitability of the Firm's wholesale businesses.

Heightened prudential standards for systemically important financial institutions. Under the Dodd-Frank Act, JPMorgan Chase is considered to be a systemically important financial institution and is subject to heightened prudential standards and supervision. If the proposed rules issued by the Federal Reserve in December 2011 are adopted as currently proposed, they are likely to increase the Firm's operational, compliance and risk management costs, and could have an adverse effect on the Firm's business, results of operations or financial condition.

CFPB. The CFPB has issued final regulations regarding mortgages which will become effective in January 2014 and which will prohibit mortgage servicers from beginning foreclosure proceedings until a mortgage loan is 120 days delinquent, and will impose an "ability to repay" requirement for residential mortgage loans. Other new regulatory requirements or changes to existing requirements that the CFPB may promulgate could require changes in JPMorgan Chase's consumer businesses, result in increased compliance costs and impair the profitability of such businesses. In addition, as a result of the Dodd-Frank Act's potential expansion of the authority of state attorneys general to bring actions to enforce federal consumer protection legislation, the Firm could potentially be subject to additional state lawsuits and enforcement actions, thereby further increasing its legal and compliance costs.

Resolution. The FDIC and the Federal Reserve have issued a final rule that requires the Firm to submit periodically to the Federal Reserve and the FDIC a resolution plan under the Bankruptcy Code in the event of material financial distress or failure (a "resolution plan"). The FDIC also issued a final rule that requires the Firm to submit periodic contingency plans to the FDIC under the Federal Deposit Insurance Act outlining its resolution plan in the event of its failure. The Firm's initial resolution plan submissions were filed in July

2012, and updates are due annually. If the FDIC and the Federal Reserve determine that the Firm's resolution plan is not credible or would not facilitate an orderly resolution under the Bankruptcy Code, the FDIC and the Federal Reserve may jointly impose more stringent capital, leverage or liquidity requirements on the Firm, or restrictions on the growth, activities or operations of the Firm, or require the Firm to restructure, reorganize or divest certain assets or operations in order to facilitate an orderly resolution. Any such measures, particularly those aimed at the disaggregation of the Firm, may reduce the Firm's capital, adversely affect the Firm's operations and profitability, increase the Firm's systems, technology and managerial costs, lessen efficiencies and economies of scale and potentially impede the Firm's business strategies.

In addition, holders of subordinated debt or preferred stock issued by the Firm may be fully subordinated to interests held by the U.S. government in the event that the Firm enters into a receivership, insolvency, liquidation or similar proceeding.

Concentration Limits. The Dodd-Frank Act restricts acquisitions by financial companies if, as a result of the acquisition, the total liabilities of the financial company would exceed 10% of the total liabilities of all financial companies in the United States. The Federal Reserve is expected to issue rules related to these provisions in 2013. This concentration limit could restrict the Firm's ability to make acquisitions in the future, thereby adversely affecting its growth prospects.

The total impact of the Dodd-Frank Act cannot be fully assessed without taking into consideration how non-U.S. policymakers and regulators respond to the Dodd-Frank Act and the implementing regulations under the Act, and how the cumulative effects of both U.S. and non-U.S. laws and regulations will affect the businesses and operations of the Firm. Additional legislative or regulatory actions in the United States, as well as in the other countries in which the Firm operates, could result in a significant loss of revenue for the Firm, limit the Firm's ability to pursue business opportunities in which it might otherwise consider engaging, affect the value of assets that the Firm holds, require the Firm to increase its prices and therefore reduce demand for its products, impose additional costs on the Firm, or otherwise adversely affect the Firm's businesses. Accordingly, any such new or additional legislation or regulations could have an adverse effect on the Firm's business, results of operations or financial condition.

Non-U.S. regulations and initiatives may be inconsistent or may conflict with current or proposed regulations in the United States, which could create increased compliance and other costs and adversely affect the Firm's business, operations or profitability.

The EU has created a European Systemic Risk Board to monitor financial stability, and the Group of Twenty Finance Ministers and Central Bank Governors ("G-20") broadened the membership and scope of the Financial Stability Forum in 2008 to form the FSB. These institutions, which are charged with developing ways to promote cross-border financial stability, are considering various proposals to address risks associated with global financial institutions. Some of the initiatives adopted include increased capital requirements for certain trading instruments or exposures and compensation limits on certain employees located in affected countries. In the U.K., regulators have increased liquidity requirements for local financial institutions, including regulated U.K. subsidiaries of non-U.K. bank holding companies and branches of non-U.K. banks located in the U.K.; adopted a Bank Tax Levy that applies to balance sheets of branches and subsidiaries of non-U.K. banks; proposed that non-U.K. banks either obtain equal treatment for U.K. depositors or "subsidiarize" in the U.K.; and proposed the creation of resolution and recovery plans by U.K. regulated entities, among other initiatives.

In the EU, there is an extensive and complex program of proposed regulatory enhancement which reflects, in part, the EU's commitments to policies of the G-20 together with other plans specific to the EU. This program includes the European Market Infrastructure Regulation ("EMIR") which, among other things, would require central clearing of standardized derivatives and which is likely to be phased in starting in 2013. It also includes the revision of the existing Markets in Financial Instruments Directive ("MiFID II") to deliver, among other things, the G20 commitment to on-venue trading of derivatives. Both EMIR and MiFID II include many other regulatory requirements that may have wide-ranging and material effects on the Firm's business operations.

The EU is also currently considering significant revisions to laws covering: depositary activities; credit rating activities; resolution of banks, investment firms and market infrastructures; anti-money-laundering controls; data security and privacy; and corporate governance in financial firms, together with implementation in the EU of the Basel III capital standards. In addition, the Firm is monitoring any potential implications for its business of developments in relation to both bank structure (in respect of which both the EU itself and a variety of EU Member States unilaterally are considering new rules) and the EU's plans for a single supervisory mechanism for systemic banks under the European Central Bank. For example, the U.K. Independent Commission on Banking (the "Vickers Commission") proposed provisions, which are now set forth in draft legislation, that would mandate the separation (or "ring-fencing") of deposit-taking activities from securities trading and other analogous activities within banks, subject to certain exemptions. The final legislation is expected to adopt and include the supplemental recommendation of the Parliamentary Commission on Banking Standards (the "Tyrie Commission") that such ring-fences should be "electrified" by the imposition of mandatory forced separation on banking institutions that are deemed to test the limits of the safeguards. It is believed that the Firm will have the benefit of the above-referenced exemptions from the requirement to "ring-fence," but this cannot be determined until the criteria are known with certainty.

Parallel but distinct draft provisions have been published by the French and German governments which could affect the Firm's operations in those countries.

It is not possible to determine at the current time how these various proposals will affect the Firm's businesses, or how each relate to the European Commission's forthcoming legislative proposals on bank structure arising out of the Report of the High Level Expert Group on Reforming the Structure of the EU Banking Sector (the "Liikanen Group"). However, as regulatory requirements that are being proposed by these various regulators may be inconsistent or conflict with regulations to which the Firm is subject in the United States (as well as in other parts of the world), the Firm may, if these proposals are adopted, be subjected to higher compliance and legal costs, as well as the possibility of higher operational, capital and liquidity costs, all of which could have an adverse effect on the Firm's business, results of operations and profitability in the future.

The Basel III capital standards will impose additional capital, liquidity and other requirements on the Firm that could decrease its competitiveness and profitability.

The Basel Committee on Banking Supervision (the "Basel Committee") announced in December 2010 revisions to its Capital Accord; such revisions are commonly referred to as "Basel III". Basel III will require higher capital ratio requirements for banks, narrow the definition of capital, expand the definition of risk-weighted assets, and introduce short-term liquidity and term funding standards, among other things. In June 2012, the U.S. federal banking agencies published proposed capital rules to implement Basel III.

Capital Surcharge. In June 2011, the Basel Committee and the FSB proposed that GSIBs be required to maintain additional capital above the Basel III Tier 1 common equity minimum. See page 5 in Item 1: Business, for further information on the proposed capital change. Based on the Firm's current understanding of these new capital requirements, the Firm expects that it will be in compliance with all of the standards to which it will be subject as they become effective. However, compliance with these capital standards may reduce the Firm's return on equity or cause the Firm to alter the types of products it offers to its customers and clients, thereby causing the Firm's products to become less attractive or placing the Firm at a competitive disadvantage to financial institutions, both within and outside the United States, that are not subject to the same capital surcharge.

Liquidity Coverage and Net Stable Funding Ratios. The Basel Committee has also proposed two new measures of liquidity risk: the "liquidity coverage ratio" and the "net stable funding ratio," which are intended to measure, during an acute stress, over different time spans, the amount of the liquid assets held by the Firm in relation to liquidity required. If the ratios are finalized as currently proposed, the Firm may need to incur additional costs to raise liquidity and to take certain mitigating actions, such as ceasing to offer certain products to its customers and clients or charging higher fees for extending certain lines of credit, in order to be in compliance with such ratios. Accordingly, compliance with these liquidity coverage standards could adversely affect the Firm's funding costs or reduce its profitability in the future.

Elimination of Use of External Credit Ratings. The Federal Reserve, the OCC and the FDIC have issued final rules for risk-based capital guidelines which eliminate the use of external credit ratings for the calculation of risk-weighted assets. This will result in a significant increase in the calculation of the Firm's risk-weighted assets, which will require the Firm to hold more capital, increase its cost of doing business and place the Firm at a competitive disadvantage to non-U.S. competitors.

Expanded regulatory oversight of JPMorgan Chase's consumer businesses will increase the Firm's compliance costs and risks and may negatively affect the profitability of such businesses.

JPMorgan Chase's consumer businesses are subject to increasing regulatory oversight and scrutiny with respect to its compliance with consumer laws and regulations, including changes implemented as part of the Dodd-Frank Act. The Firm has entered into Consent Orders with its banking regulators relating to its Bank Secrecy Act ("BSA") and Anti-Money Laundering ("AML") policies, procedures and controls and with respect to its residential mortgage servicing, foreclosure and loss-mitigation activities. The Firm also agreed in 2012 to a global settlement with a number of federal and state government agencies relating to the servicing and origination of mortgages. The mortgage-related Consent Order and global settlement require the Firm to make cash payments and provide certain refinancing and other borrower relief, as well as to adhere to certain enhanced mortgage servicing standards, and the BSA/AML Consent Order will require the Firm to make enhancements to its procedures, make investments in its technology and hire additional personnel, all of which will increase the Firm's operational and compliance costs.

New regulatory requirements or changes to existing requirements that the CFPB may promulgate could require changes in the product offerings and practices of JPMorgan Chase's consumer businesses and affect the profitability of such businesses.

Finally, as a result of increasing federal and state scrutiny of the Firm's consumer practices, the Firm may face a greater number or wider scope of investigations, enforcement actions and litigation, thereby increasing its costs associated with responding to or defending such actions. In addition, increased regulatory inquiries and investigations, as well as any additional legislative or regulatory developments affecting the Firm's consumer businesses, and any required changes to the Firm's business operations resulting from these developments, could result in significant loss of revenue, limit the products or services the Firm offers, require the Firm to increase its prices and therefore reduce demand for its products, impose

additional compliance costs on the Firm, cause harm to the Firm's reputation or otherwise adversely affect the Firm's consumer businesses. If the Firm does not appropriately comply with current or future legislation and regulations that apply to its consumer operations, the Firm may be subject to fines, penalties or judgments, or material regulatory restrictions on its businesses, which could adversely affect the Firm's operations and, in turn, its financial results.

Implementation of the Firm's resolution plan under the U.S. resolution plan rules could materially impair the claims of JPMorgan Chase debt holders.

As noted above, in July 2012 JPMorgan Chase submitted to the Federal Reserve and the FDIC its initial plan for resolution of the Firm. The Firm's resolution plan includes strategies to resolve the Firm under the Bankruptcy Code, and also recommends to the FDIC and the Federal Reserve the Firm's proposed optimal strategy to resolve the Firm under the special resolution procedure provided in Title II of the Dodd-Frank Act ("Title II").

The Firm's recommendation for its optimal Title II strategy would involve a "single point of entry" recapitalization model in which the FDIC would use its power to create a "bridge entity" for JPMorgan Chase, transfer the systemically important and viable parts of the Firm's business, principally the stock of JPMorgan Chase & Co.'s main operating subsidiaries and any intercompany claims against such subsidiaries, to the bridge entity, recapitalize those businesses by contributing some or all of such intercompany claims to the capital of such subsidiaries, and by exchanging debt claims against JPMorgan Chase & Co. for equity in the bridge entity. If the Firm were to be resolved under this strategy, no assurance can be given that the value of the stock of the bridge entity distributed to the holders of debt obligations of JPMorgan Chase & Co. would be sufficient to repay or satisfy all or part of the principal amount of, and

interest on, the debt obligations for which such stock was exchanged.
Market Risk
JPMorgan Chase’s results of operations have been, and may continue to be, adversely affected by U.S. and international financial market and economic conditions.
JPMorgan Chase’s businesses are materially affected by economic and market conditions, including the liquidity of the global financial markets; the level and volatility of debt and equity prices, interest rates and currency and commodities prices; investor sentiment; events that reduce confidence in the financial markets; inflation and unemployment; the availability and cost of capital and credit; the occurrence of natural disasters, acts of war or terrorism; and the health of U.S. or international economies.
In the Firm’s wholesale businesses, the above-mentioned factors can affect transactions involving the Firm’s underwriting and advisory businesses; the realization of cash returns from its private equity business; the volume of transactions that the Firm executes for its customers and,

therefore, the revenue that the Firm receives from commissions and spreads; and the willingness of financial sponsors or other investors to participate in loan syndications or underwritings managed by the Firm.
The Firm generally maintains extensive positions in the fixed income, currency, commodities and equity markets to facilitate client demand and provide liquidity to clients. The Firm may have market-making positions that lack pricing transparency or liquidity. The revenue derived from these positions is affected by many factors, including the Firm's success in effectively hedging its market and other risks, volatility in interest rates and equity, debt and commodities markets, credit spreads, and availability of liquidity in the capital markets, all of which are affected by economic and market conditions. The Firm anticipates that revenue relating to its market-making and private equity businesses will continue to experience volatility, which will affect pricing or the ability to realize returns from such activities, and that this could materially adversely affect the Firm's earnings.
The fees that the Firm earns for managing third-party assets are also dependent upon general economic conditions. For example, a higher level of U.S. or non-U.S. interest rates or a downturn in securities markets could affect the valuations of the third-party assets that the Firm manages or holds in custody, which, in turn, could affect the Firm's revenue. Macroeconomic or market concerns may also prompt outflows from the Firm's funds or accounts.
Changes in interest rates will affect the level of assets and liabilities held on the Firm's balance sheet and the revenue that the Firm earns from net interest income. A low interest rate environment or a flat or inverted yield curve may adversely affect certain of the Firm's businesses by compressing net interest margins, reducing the amounts that the Firm earns on its investment securities portfolio, or reducing the value of its mortgage servicing rights ("MSR") asset, thereby reducing the Firm's net interest income and other revenues.
The Firm's consumer businesses are particularly affected by domestic economic conditions, including U.S. interest rates; the rate of unemployment; housing prices; the level of consumer confidence; changes in consumer spending; and the number of personal bankruptcies. If the current positive trends in the U.S. economy are not sustained, this could diminish demand for the products and services of the Firm's consumer businesses, or increase the cost to provide such products and services. In addition, adverse economic conditions, such as declines in home prices or persistent high levels of unemployment, could lead to an increase in mortgage, credit card and other loan delinquencies and higher net charge-offs, which can reduce the Firm's earnings.
Widening of credit spreads makes it more expensive for the Firm to borrow on both a secured and unsecured basis. Credit spreads widen or narrow not only in response to Firm-specific events and circumstances, but also as a result of general economic and geopolitical events and conditions.

Changes in the Firm's credit spreads will impact, positively or negatively, the Firm's earnings on liabilities that are recorded at fair value.
Despite improved financial market conditions, many of the structural issues facing the Eurozone remain and problems could resurface which could have significant adverse effects on JPMorgan Chase's business, results of operations, financial condition and liquidity.
Notwithstanding improved financial market conditions, many of the structural issues facing the Eurozone remain and problems could resurface which could have significant adverse effects on JPMorgan Chase's business, results of operations, financial condition and liquidity, particularly if they lead to sovereign debt default, significant bank failures or defaults and/or the exit of one or more countries from the European Monetary Union (the "EMU").
The ECB's Outright Monetary Transaction program continues to underpin an improved risk environment, shifting the focus of the crisis from immediate financing strains to the more structural challenges of fiscal retrenchment and stimulation of GDP growth. However, financial market conditions could materially worsen if, for example, consecutive Eurozone countries were to default on their sovereign debt, significant bank failures or defaults in these countries were to occur, and/or one or more of the members of the Eurozone were to exit the EMU. Yields on government bonds of certain Eurozone countries, including Greece, Ireland, Italy, Portugal and Spain, have remained volatile, despite various stabilization packages and facilities that have been implemented to assist various distressed Eurozone countries. Concerns have been and continue to be raised as to the financial effectiveness of the assistance measures taken to date and such concerns could intensify. Concerns could also be triggered by political developments, with key elections in Italy and Germany during 2013, and ongoing uncertainty about the tolerance of austerity across

the Eurozone.

Continued economic turmoil in the Eurozone could lead to a further deterioration of global economic conditions and thereby adversely affect the Firm’s business and results of operations in Europe and elsewhere. There can be no assurance that the various steps that JPMorgan Chase has taken to protect its businesses, results of operations and financial condition against the results of the Eurozone crisis will be sufficient.

Further, the effects of the Eurozone debt crisis could be even more significant if they lead to a partial or complete break-up of the EMU. The partial or full break-up of the EMU would be unprecedented and its impact highly uncertain. The exit of one or more countries from the EMU or the dissolution of the EMU could lead to redenomination of certain obligations of obligors in exiting countries. Any such exit and redenomination would cause significant uncertainty with respect to outstanding obligations of counterparties and debtors in any exiting country, whether sovereign or otherwise, and lead to complex and lengthy disputes and litigation. The resulting uncertainty and market stress could also cause, among other things, severe disruption to equity markets, significant increases in bond yields generally, potential failure or default of financial institutions, including those of systemic importance, a significant decrease in global liquidity, a freeze-up of global credit markets and a potential worldwide recession. Any combination of such events could negatively impact JPMorgan Chase's businesses, financial condition and results of operations. In addition, one or more EMU exits and currency redenominations could be accompanied by imposition of capital, exchange and similar controls, which could further negatively impact JPMorgan Chase's cross-border risk and other aspects of its businesses and its earnings. See "Management's Discussion and Analysis - Country Risk Management" on pages 170–173 for a discussion of the Firm's European exposures.

Changes are being considered in the method for determining LIBOR and it is not apparent how any such changes could affect the value of LIBOR-linked obligations of JPMorgan Chase, or how such changes could affect the Firm's financial condition or results of operations.

Beginning in 2008, concerns have been raised about the accuracy of the calculation of the daily London Inter-Bank Offered Rate ("LIBOR"), which is currently overseen by the British Bankers' Association (the "BBA"). The BBA has taken steps to change the process for determining LIBOR by increasing the number of banks surveyed to set LIBOR and to strengthen the oversight of the process. The final report of the Wheatley Review of LIBOR, published in September 2012, set forth recommendations relating to the setting and administration of LIBOR, including the gradual phasing out of certain currencies and maturities. In December 2012 the U.K. government adopted legislation enacting one of those recommendations, making it a criminal offense to attempt to manipulate the setting of benchmark rates. The U.K. government also announced that the U.K. Financial Services Authority ("FSA") intends to incorporate the rest of the Wheatley Review recommendations in new regulations relating to the LIBOR process.

At the present time it is uncertain the extent of changes, if any, may be required or made by the FSA or other governmental or regulatory authorities in the method for determining LIBOR. Accordingly, at the present time it is not apparent whether or to what extent any such changes would have an adverse impact on the value of any LIBOR-linked debt securities issued by the Firm or any loans, derivatives and other financial obligations or extensions of credit for which the Firm is an obligor, or whether or to what extent any such changes would have an adverse effect on the value of any LIBOR-linked securities, loans, derivatives and other financial obligations or extensions of credit held by or due to the Firm, or on the Firm's financial condition or results of operations.

Credit Risk

The financial condition of JPMorgan Chase's customers, clients and counterparties, including other financial institutions, could adversely affect the Firm.

If the current positive economic trends globally are not sustained, more of JPMorgan Chase's customers may become delinquent on their loans or other obligations to the Firm which, in turn, could result in a higher level of charge-offs and provisions for credit losses, or in requirements that the Firm purchase assets from or provide other funding to its clients and counterparties, any of which could adversely affect the Firm's financial condition. Moreover, a significant deterioration in the credit quality of one of the Firm's counterparties could lead to concerns in the market about the credit quality of other counterparties in the same industry, thereby exacerbating the Firm's credit risk exposure, and increasing the losses (including mark-to-market losses) that the Firm could incur in its market-making and clearing businesses.

Financial services institutions are interrelated as a result of market-making, trading, clearing, counterparty, or other relationships. The Firm routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose the Firm to credit risk and, in some cases, disputes and litigation in the event of a default by the counterparty or client.

During periods of market stress or illiquidity, the Firm's credit risk also may be further increased when the Firm cannot realize the fair value of the collateral held by it or when collateral is liquidated at prices that are not sufficient to recover the full amount of the loan, derivative or other exposure due to the Firm. Further, disputes with obligors as to the valuation of collateral significantly increase in times of market stress and illiquidity. Periods of illiquidity could produce losses if the Firm is unable to realize the fair value of collateral or manage declines in the value of collateral.

Concentration of credit and market risk could increase the potential for significant losses.

JPMorgan Chase has exposure to increased levels of risk when customers are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. As a result, the Firm regularly monitors various segments of its portfolio exposures to assess potential concentration risks. The Firm's efforts to diversify or hedge its credit portfolio against concentration risks may not be successful.

In addition, disruptions in the liquidity or transparency of the financial markets may result in the Firm's inability to sell, syndicate or realize the value of its positions, thereby leading to increased concentrations. The inability to reduce the Firm's positions may not only increase the market and credit risks associated with such positions, but also increase the level of risk-weighted assets on the Firm's balance sheet, thereby increasing its capital requirements and funding costs, all of which could adversely affect the operations and profitability of the Firm's businesses.

JPMorgan Chase's role as a clearing and custody bank in the U.S. tri-party repurchase business exposes it to credit risks, including intra-day credit risk.

The Firm is a market leader in providing clearing, custodial and prime brokerage services for financial services companies. In addition, the Firm acts as a clearing and custody bank in the U.S. tri-party repurchase transaction market. Many of these transactions expose the Firm to credit risk in the event of a default by the counterparty or client and, in the case of its role in the U.S. tri-party repurchase business, can expose the Firm to intra-day credit risk of the cash borrowers, usually broker-dealers; however, this exposure is secured by collateral and typically extinguished through the settlement process by the end of the day. The Firm actively participated in the Tri-Party Repo Infrastructure Reform Task Force sponsored by the Federal Reserve Bank of New York, which issued recommendations to modify and improve the infrastructure of tri-party repurchase transactions in order to, among other things, mitigate intra-day credit exposure. The Firm has implemented many of the recommendations and intends to implement the intra-day credit recommendations by the end of 2013. As a result, the Firm expects its intra-day credit exposure after implementation of all the Task Force recommendations to be substantially reduced. Nevertheless, if a broker-dealer that is party to a repurchase transaction cleared by the Firm becomes bankrupt or insolvent, the Firm may become involved in disputes and litigation with the broker-dealer's bankruptcy estate and other creditors, or involved in regulatory investigations, all of which can increase the Firm's operational and litigation costs and may result in losses if the securities in the repurchase transaction decline in value.

Liquidity Risk

If JPMorgan Chase does not effectively manage its liquidity, its business could suffer.

JPMorgan Chase's liquidity is critical to its ability to operate its businesses. Some potential conditions that could impair the Firm's liquidity include markets that become illiquid or are otherwise experiencing disruption, unforeseen cash or capital requirements (including, among others, commitments that may be triggered to special purpose entities ("SPEs") or other entities), difficulty in selling or inability to sell assets, unforeseen outflows of cash or collateral, and lack of market or customer confidence in the Firm or financial markets in general. These conditions may be caused by events over which the Firm has little or no control. The widespread crisis in investor confidence and resulting liquidity crisis experienced in 2008 and into early 2009 increased the Firm's cost of funding and limited its access to some of its traditional sources of liquidity such as securitized debt offerings backed by mortgages, credit card receivables and other assets, and there is no assurance that these conditions could not occur in the future.

If the Firm's access to stable and low cost sources of funding, such as bank deposits, are reduced, the Firm may need to raise alternative funding which may be more expensive or of limited availability.

As a holding company, JPMorgan Chase & Co. relies on the earnings of its subsidiaries for its cash flow and, consequently, its ability to pay dividends and satisfy its debt and other obligations. These payments by subsidiaries may take the form of dividends, loans or other payments. Several of JPMorgan Chase & Co.'s principal subsidiaries are subject to dividend distribution or capital adequacy requirements or other regulatory restrictions on their ability to provide such payments. Limitations in the payments that JPMorgan Chase & Co. receives from its subsidiaries could reduce its liquidity position.

Some regulators have proposed legislation or regulations requiring large banks to incorporate a separate subsidiary in countries in which they operate, and to maintain independent capital and liquidity for such subsidiaries. If adopted, these requirements could hinder the Firm's ability to efficiently manage its funding and liquidity in a centralized manner.

Reductions in the Firm's credit ratings may adversely affect its liquidity and cost of funding, as well as the value of debt obligations issued by the Firm.

JPMorgan Chase & Co. and certain of its subsidiaries, including JPMorgan Chase Bank, N.A., are currently rated by credit rating agencies. In 2012, Moody's and Fitch downgraded the ratings of JPMorgan Chase & Co. In addition, as of year-end 2012, Moody's had JPMorgan Chase & Co., and S&P had JPMorgan Chase & Co., JPMorgan Chase Bank, N.A. and certain other subsidiaries, on "negative" outlook, indicating the possibility of a further downgrade in ratings.

Although the Firm closely monitors and manages factors influencing its credit ratings, there is no assurance that such ratings will not be lowered in the future. For example, the rating agencies, have indicated that further control failures by the Firm (such as was evidenced in the Chief Investment Office ("CIO") matter discussed below), deterioration in capital, liquidity and asset quality levels, or a significant increase in risk appetite could put downward pressure on the Firm's ratings. Additionally, the rating agencies have indicated that they intend to re-evaluate the credit ratings of systemically important financial institutions in light of the provisions of the Dodd-Frank Act that seek to eliminate any implicit government support for such institutions.

Furthermore, the rating agencies continue to evaluate economic and geopolitical trends, including sovereign creditworthiness, elevated economic uncertainty and higher funding spreads, all of which could lead to downgrades in the credit ratings of global banks, including the Firm. There is no assurance that any such downgrades from rating agencies, if they affected the Firm's credit ratings, would not occur at times of broader market instability when the

Firm’s options for responding to events may be more limited and general investor confidence is low.
Further, a reduction in the Firm’s credit ratings could reduce the Firm’s access to debt markets, materially increase the cost of issuing debt, trigger additional collateral or funding requirements, and decrease the number of investors and counterparties willing or permitted, contractually or otherwise, to do business with or lend to the Firm, thereby curtailing the Firm’s business operations and reducing its profitability. In addition, any such reduction in credit ratings may increase the credit spreads charged by the market for taking credit risk on JPMorgan Chase & Co. and its subsidiaries and, as a result, could adversely affect the value of debt obligations that they have issued or may issue in the future.

Legal Risk

JPMorgan Chase faces significant legal risks, both from regulatory investigations and proceedings and from private actions brought against the Firm.

JPMorgan Chase is named as a defendant or is otherwise involved in various legal proceedings, including class actions and other litigation or disputes with third parties. There is no assurance that litigation with private parties will not increase in the future. Actions currently pending against the Firm may result in judgments, settlements, fines, penalties or other results adverse to the Firm, which could materially adversely affect the Firm’s business, financial condition or results of operations, or cause serious reputational harm to the Firm. As a participant in the financial services industry, it is likely that the Firm will continue to experience a high level of litigation related to its businesses and operations.

The Firm’s businesses and operations are also subject to increasing regulatory oversight and scrutiny, which may lead to additional regulatory investigations or enforcement actions. In 2012, the Firm was the subject of Consent Orders from its banking regulators and entered into a global settlement with federal and state governmental agencies relating to its mortgage servicing and origination activities. In January 2013, the Firm also entered into Consent Orders with its banking regulators related to risk management, model governance and other control functions related to CIO and certain other trading activities at the Firm and with respect to the Firm’s and certain of its bank subsidiaries’ policies, procedures and controls relating to compliance with BSA and AML requirements. As the regulators continue to examine the operations of the Firm and its bank subsidiaries, there is no assurance that additional consent orders or other enforcement actions will not be issued by them in the future. These and other initiatives from federal and state officials may subject the Firm to further judgments, settlements, fines or penalties, or cause the Firm to be required to restructure its operations and activities, all of which could lead to reputational issues, or higher operational costs, thereby reducing the Firm’s revenue.

Business and Operational Risks

JPMorgan Chase’s operations are subject to risk of loss from unfavorable economic, monetary and political developments in the United States and around the world.

JPMorgan Chase’s businesses and earnings are affected by the fiscal and other policies that are adopted by various U.S. and non-U.S. regulatory authorities and agencies. The Federal Reserve regulates the supply of money and credit in the United States and its policies determine in large part the cost of funds for lending and investing in the United States and the return earned on those loans and investments. Changes in Federal Reserve policies (as well as the fiscal and monetary policies of non-U.S. central banks or regulatory authorities and agencies) are beyond the Firm’s control and, consequently, the impact of changes in these policies on the Firm’s activities and results of operations is difficult to predict.

The Firm’s businesses and revenue are also subject to risks inherent in investing and market-making in securities of companies worldwide. These risks include, among others, risk of loss from unfavorable political, legal or other developments, including social or political instability, in the countries in which such companies operate, as well as the other risks and considerations as described further below.

Several of the Firm’s businesses engage in transactions with, or trade in obligations of, U.S. and non-U.S. governmental entities, including national, state, provincial, municipal and local authorities. These activities can expose the Firm to enhanced sovereign, credit-related, operational and reputational risks, including the risks that a governmental entity may default on or restructure its obligations or may claim that actions taken by government officials were beyond the legal authority of those officials, which could adversely affect the Firm's financial condition and results of operations.

Further, various countries in which the Firm operates or invests, or in which the Firm may do so in the future, have in the past experienced severe economic disruptions particular to those countries or regions. As noted above, concerns regarding the fiscal condition of certain countries within the Eurozone continue and there is no assurance such concerns will not lead to "market contagion" beyond those countries in the Eurozone or beyond the Eurozone. Accordingly, it is possible that economic disruptions in certain countries, even in countries in which the Firm does not conduct business or have operations, will adversely affect the Firm.

JPMorgan Chase's international growth strategy may be hindered by local political, social and economic factors, and will be subject to additional compliance costs and risks.

JPMorgan Chase has expanded, and plans to continue to grow, its international wholesale businesses in Europe/Middle East/Africa ("EMEA"), Asia/Pacific and Latin America/Caribbean. As part of its international growth strategy, the Firm seeks to provide a wider range of

financial services to its clients that conduct business in those regions and to expand its international operations.
Many of the countries in which JPMorgan Chase intends to grow its wholesale businesses have economies or markets that are less developed and more volatile, and may have legal and regulatory regimes that are less established or predictable, than the United States and other developed markets in which the Firm currently operates. Some of these countries have in the past experienced severe economic disruptions, including extreme currency fluctuations, high inflation, or low or negative growth, among other negative conditions, or have imposed restrictive monetary policies such as currency exchange controls and other laws and restrictions that adversely affect the local and regional business environment. In addition, these countries have historically been more susceptible to unfavorable political, social or economic developments which have in the past resulted in, and may in the future lead to, social unrest, general strikes and demonstrations, outbreaks of hostilities, overthrow of incumbent governments, terrorist attacks or other forms of internal discord, all of which can adversely affect the Firm's operations or investments in such countries. Political, social or economic disruption or dislocation in countries or regions in which the Firm seeks to expand its wholesale businesses can hinder the growth and profitability of those operations, and there can be no assurance that the Firm will be able to successfully execute its international growth initiatives.

Less developed legal and regulatory systems in certain countries can also have adverse consequences on the Firm's operations in those countries, including, among others, the absence of a statutory or regulatory basis or guidance for engaging in specific types of business or transactions, or the inconsistent application or interpretation of existing laws and regulations; uncertainty as to the enforceability of contractual obligations; difficulty in competing in economies in which the government controls or protects all or a portion of the local economy or specific businesses, or where graft or corruption may be pervasive; and the threat of arbitrary regulatory investigations, civil litigations or criminal prosecutions.

Revenue from international operations and trading in non-U.S. securities and other obligations may be subject to negative fluctuations as a result of the above considerations, as well as due to governmental actions including expropriation, nationalization, confiscation of assets, price controls, capital controls, exchange controls, and changes in laws and regulations. The impact of these fluctuations could be accentuated as some trading markets are smaller, less liquid and more volatile than larger markets. Also, any of the above-mentioned events or circumstances in one country can, and has in the past, affected the Firm's operations and investments in another country or countries, including the Firm's operations in the United States. As a result, any such unfavorable conditions

or developments could have an adverse impact on the Firm's business and results of operations.

Conducting business in countries with less developed legal and regulatory regimes often requires the Firm to devote significant additional resources to understanding, and monitoring changes in, local laws and regulations, as well as structuring its operations to comply with local laws and regulations and implementing and administering related internal policies and procedures. There can be no assurance that the Firm will always be successful in its efforts to conduct its business in compliance with laws and regulations in countries with less predictable legal and regulatory systems. In addition, the Firm can also incur higher costs, and face greater compliance risks, in structuring its operations outside the United States to comply with U.S. anti-corruption and anti-money laundering laws and regulations.

JPMorgan Chase's results of operations may be adversely affected by loan repurchase and indemnity obligations.

In connection with the sale and securitization of loans (whether with or without recourse), the originator is generally required to make a variety of representations and warranties regarding both the originator and the loans being sold or securitized. JPMorgan Chase and some of its subsidiaries have made such representations and warranties in connection with the sale and securitization of loans, and the Firm will continue to do so when it securitizes loans it has originated. If a loan that does not comply with such representations or warranties is sold or securitized, the Firm may be obligated to repurchase the loan and incur any associated loss directly, or the Firm may be obligated to indemnify the purchaser against any such losses. Since 2010, the costs of repurchasing mortgage loans that had been sold to U.S. government-sponsored entities ("GSEs"), such as Fannie Mae and Freddie Mac, have been elevated, and there is no assurance that such costs will not continue to be elevated in the future. Accordingly, repurchase or indemnity obligations to the GSEs or to private third-party purchasers could materially and adversely affect the Firm's results of operations and earnings in the future.

The repurchase liability that the Firm records with respect to its loan repurchase obligations to the GSEs is estimated based on several factors, including the level of current and estimated probable future repurchase demands made by purchasers, the Firm's ability to cure the defects identified in the repurchases demands, the severity of loss upon repurchase or foreclosure, the Firm's potential ability to recover certain losses from third-party originators, and the terms of agreements with certain mortgage insurers and other parties. While the Firm believes that its current repurchase liability reserves are adequate, the factors referred to above are subject to change based on the GSEs' future behavior, the economic environment and other uncertainties. Accordingly, there is no assurance that such reserves will not be increased in the future.

The Firm also faces litigation related to securitizations, primarily related to securitizations not sold to the GSEs. The

Firm separately evaluates its exposure to such litigation in establishing its litigation reserves. While the Firm believes that its current reserves in respect of such litigation matters are adequate, there can be no assurance that such reserves will not need to be increased in the future.

JPMorgan Chase may incur additional costs and expenses in ensuring that it satisfies requirements relating to mortgage servicing and foreclosures.

The Firm has, as described above, entered into the Consent Orders with its banking regulators relating to its residential mortgage servicing, foreclosure and loss-mitigation activities, and agreed to the global settlement with federal and state government agencies relating to the servicing and origination of mortgages. The Firm expects to incur additional costs and expenses in connection with its efforts to enhance its mortgage origination, servicing and foreclosure procedures, including the enhancements required under the Consent Orders and the global settlement. In addition, the GSEs impose compensatory fees on their mortgage servicers, including the Firm, if such servicers are unable to comply with the foreclosure timetables mandated by the GSEs, and such fees may continue to be imposed on the Firm in the future.

JPMorgan Chase's commodities activities are subject to extensive regulation, potential catastrophic events and environmental risks and regulation that may expose the Firm to significant cost and liability.

JPMorgan Chase engages in the storage, transportation, marketing or trading of several commodities, including metals, agricultural products, crude oil, oil products, natural gas, electric power, emission credits, coal, freight, and related products and indices. The Firm is also engaged in power generation and has invested in companies engaged in wind energy and in sourcing, developing and trading emission reduction credits. As a result of all of these activities, the Firm is subject to extensive and evolving energy, commodities, environmental, and other governmental laws and regulations. The Firm expects laws and regulations affecting its commodities activities to expand in scope and complexity, and to restrict some of the Firm's activities, which could result in lower revenues from the Firm's commodities activities. In addition, the Firm may incur substantial costs in complying with current or future laws and regulations, and the failure to comply with these laws and regulations may result in substantial civil and criminal fines and penalties. Furthermore, liability may be incurred without regard to fault under certain environmental laws and regulations for remediation of contaminations.

The Firm's commodities activities also further expose the Firm to the risk of unforeseen and catastrophic events, including natural disasters, leaks, spills, explosions, release of toxic substances, fires, accidents on land and at sea, wars, and terrorist attacks that could result in personal injuries, loss of life, property damage, damage to the Firm's reputation and suspension of operations. The Firm's commodities activities are also subject to disruptions, many

of which are outside of the Firm's control, from the breakdown or failure of power generation equipment, transmission lines or other equipment or processes, and the contractual failure of performance by third-party suppliers or service providers, including the failure to obtain and deliver raw materials necessary for the operation of power generation facilities. The Firm's actions to mitigate its risks related to the above-mentioned considerations may not prove adequate to address every contingency. In addition, insurance covering some of these risks may not be available, and the proceeds, if any, from insurance recovery may not be adequate to cover liabilities with respect to particular incidents. As a result, the Firm's financial condition and results of operations may be adversely affected by such events.

JPMorgan Chase relies on its systems, employees and certain counterparties, and certain failures could materially adversely affect the Firm's operations.

JPMorgan Chase's businesses are dependent on the Firm's ability to process, record and monitor a large number of complex transactions. If the Firm's financial, accounting, or other data processing systems fail or have other significant shortcomings, the Firm could be materially adversely affected. The Firm is similarly dependent on its employees. The Firm could be materially adversely affected if one or more of its employees causes a significant operational breakdown or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates the Firm's operations or systems. Third parties with which the Firm does business could also be sources of operational risk to the Firm, including with respect to breakdowns or failures of the systems or misconduct by the employees of such parties. In addition, as the Firm changes processes or introduces new products and services, the

Firm may not fully appreciate or identify new operational risks that may arise from such changes. Any of these occurrences could diminish the Firm's ability to operate one or more of its businesses, or result in potential liability to clients, increased operating expenses, higher litigation costs (including fines and sanctions), reputational damage, regulatory intervention or weaker competitive standing, any of which could materially adversely affect the Firm.

If personal, confidential or proprietary information of customers or clients in the Firm's possession were to be mishandled or misused, the Firm could suffer significant regulatory consequences, reputational damage and financial loss. Such mishandling or misuse could include circumstances where, for example, such information was erroneously provided to parties who are not permitted to have the information, either through the fault of the Firm's systems, employees, or counterparties, or where such information was intercepted or otherwise inappropriately taken by third parties.

The Firm may be subject to disruptions of its operating systems arising from events that are wholly or partially beyond the Firm's control, which may include, for example, security breaches (as discussed further below); electrical or telecommunications outages; failures of computer servers or other damage to the Firm's property or assets; natural disasters; health emergencies or pandemics; or events arising from local or larger scale political events, including terrorist acts. JPMorgan Chase maintains a global resiliency and crisis management program that is intended to ensure that the Firm has the ability to recover its critical business functions and supporting assets, including staff, technology and facilities, in the event of a business interruption. While the Firm believes that its current resiliency plans are both sufficient and adequate, there can be no assurance that such plans will fully mitigate all potential business continuity risks to the Firm. Any failures or disruptions of the Firm's systems or operations could give rise to losses in service to customers and clients, adversely affect the Firm's business and results of operations by subjecting the Firm to losses or liability, or require the Firm to expend significant resources to correct the failure or disruption, as well as by exposing the Firm to litigation, regulatory fines or penalties or losses not covered by insurance.

A breach in the security of JPMorgan Chase's systems could disrupt its businesses, result in the disclosure of confidential information, damage its reputation and create significant financial and legal exposure for the Firm.

Although JPMorgan Chase devotes significant resources to maintain and regularly upgrade its systems and processes that are designed to protect the security of the Firm's computer systems, software, networks and other technology assets and the confidentiality, integrity and availability of information belonging to the Firm and its customers, there is no assurance that all of the Firm's security measures will provide absolute security. JPMorgan Chase and other financial services institutions and companies engaged in data processing have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyberattacks and other means. The Firm and several other U.S. financial institutions have also experienced several significant distributed denial-of-service attacks from technically sophisticated and well-resourced third parties which were intended to disrupt consumer online banking services.

Despite the Firm's efforts to ensure the integrity of its systems, it is possible that the Firm may not be able to anticipate or to implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because security attacks can originate from a wide variety of sources, including third parties outside the Firm such as persons who are involved with organized crime or associated with external service providers or who may be linked to terrorist organizations or hostile foreign governments. Those parties may also

attempt to fraudulently induce employees, customers or other users of the Firm's systems to disclose sensitive information in order to gain access to the Firm's data or that of its customers or clients. These risks may increase in the future as the Firm continues to increase its mobile-payment and other internet-based product offerings and expands its internal usage of web-based products and applications.

A successful penetration or circumvention of the security of the Firm's systems could cause serious negative consequences for the Firm, including significant disruption of the Firm's operations, misappropriation of confidential information of the Firm or that of its customers, or damage to computers or systems of the Firm and those of its customers and counterparties, and could result in violations of applicable privacy and other laws, financial loss to the Firm or to its customers, loss of confidence in the Firm's security measures, customer dissatisfaction, significant litigation exposure, and harm to the Firm's reputation, all of which could have a material adverse effect on the Firm.

JPMorgan Chase's acquisitions and the integration of acquired businesses may not result in all of the benefits anticipated.

JPMorgan Chase has in the past and may in the future seek to expand its business by acquiring other businesses. There can be no assurance that the Firm's acquisitions will have the anticipated positive results, including results relating to: the total cost of integration; the time required to complete the integration; the amount of longer-term cost savings; the overall performance of the combined entity; or an improved price for JPMorgan Chase & Co.'s common stock. Integration efforts could divert management attention and resources, which could adversely affect the Firm's operations or results. The Firm cannot provide assurance that any such integration efforts would not result in the occurrence of unanticipated costs or losses.

Acquisitions may also result in business disruptions that cause the Firm to lose customers or cause customers to move their business to competing financial institutions. It is possible that the integration process related to acquisitions could result in the disruption of the Firm's ongoing businesses or inconsistencies in standards, controls, procedures and policies that could adversely affect the Firm's ability to maintain relationships with clients, customers, depositors and other business partners. The loss of key employees in connection with an acquisition could adversely affect the Firm's ability to successfully conduct its business.

Risk Management

JPMorgan Chase's framework for managing risks and its risk management procedures and practices may not be effective in mitigating risk and loss to the Firm.

JPMorgan Chase's risk management framework seeks to mitigate risk and loss to the Firm. The Firm has established processes and procedures intended to identify, measure, monitor, report and analyze the types of risk to which the Firm is subject, including liquidity risk, credit risk, market risk, interest rate risk, country risk, principal risk, operational risk, legal and fiduciary risk, and reputational risk, among others. However, as with any risk management framework, there are inherent limitations to the Firm's risk management strategies because there may exist, or develop in the future, risks that the Firm has not appropriately anticipated or identified. If the Firm's risk management framework proves ineffective, the Firm could suffer unexpected losses and could be materially adversely affected. As the Firm's businesses change and grow and the markets in which they operate continue to evolve, the Firm's risk management framework may not always keep sufficient pace with those changes. As a result, there is the risk that the credit and market risks associated with new products or new business strategies may not be appropriately identified, monitored or managed. In addition, in a difficult or less liquid market environment, the Firm's risk management strategies may not be effective because other market participants may be attempting to use the same or similar strategies to deal with the challenging market conditions. In such circumstances, it may be difficult for the Firm to reduce its risk positions due to the activity of such other market participants.

The Firm's products, including loans, leases, lending commitments, derivatives, trading account assets and assets held-for-sale, as well as cash management and clearing activities, expose the Firm to credit risk. As one of the nation's largest lenders, the Firm has exposures arising from its many different products and counterparties, and the credit quality of the Firm's exposures can have a significant impact on its earnings. The Firm establishes allowances for probable credit losses that are inherent in its credit exposure, including unfunded lending commitments. The Firm also employs stress testing and other techniques to determine the capital and liquidity necessary to protect the Firm in the event of adverse economic or market events. These processes are critical to the Firm's financial results and condition, and require difficult, subjective and complex judgments, including forecasts of how economic conditions might impair the ability of the Firm's borrowers and counterparties to repay their loans or other obligations. As is the case with any such assessments, there is always the chance that the Firm will fail to identify the proper factors or that the Firm will fail to accurately estimate the impact of factors that it identifies.

JPMorgan Chase's market-making businesses may expose the Firm to unexpected market, credit and operational risks that could cause the Firm to suffer unexpected losses. Severe declines in asset values, unanticipated credit events, or unforeseen circumstances that may cause previously uncorrelated factors to become correlated (and vice versa) may create losses resulting from risks not appropriately taken into account in the development, structuring or pricing of a financial instrument such as a derivative. Certain of the Firm's derivative transactions require the physical settlement by delivery of securities, commodities or obligations that the Firm does not own; if the Firm is unable to obtain such securities, commodities or obligations

within the required timeframe for delivery, this could cause the Firm to forfeit payments otherwise due to it and could result in settlement delays, which could damage the Firm's reputation and ability to transact future business. In addition, in situations where trades are not settled or confirmed on a timely basis, the Firm may be subject to heightened credit and operational risk, and in the event of a default, the Firm may be exposed to market and operational losses. In particular, disputes regarding the terms or the settlement procedures of derivative contracts could arise, which could force the Firm to incur unexpected costs, including transaction, legal and litigation costs, and impair the Firm's ability to manage effectively its risk exposure from these products.

Many of the Firm's risk management strategies or techniques have a basis in historical market behavior, and all such strategies and techniques are based to some degree on management's subjective judgment. For example, many models used by the Firm are based on assumptions regarding correlations among prices of various asset classes or other market indicators. In times of market stress, or in the event of other unforeseen circumstances, previously uncorrelated indicators may become correlated, or conversely, previously correlated indicators may make unrelated movements. These sudden market movements or unanticipated or unidentified market or economic movements have in some circumstances limited the effectiveness of the Firm's risk management strategies, causing the Firm to incur losses. The Firm cannot provide assurance that its risk management framework, including the Firm's underlying assumptions or strategies, will at all times be accurate and effective.

In connection with the Firm's internal review of the reported losses in the synthetic credit portfolio managed by CIO, management concluded that during the first quarter of 2012 CIO's risk management had been ineffective in dealing with the growth in the size and complexity of the portfolio during the first quarter of 2012. Among other matters, the Firm’s internal review found that CIO lacked a robust risk committee structure; that CIO’s risk limits were insufficiently granular and should have been reassessed in light of the positions being added to the synthetic credit portfolio in the first quarter of 2012; that CIO risk management was insufficiently engaged in the approval and implementation during the first quarter of 2012 of a new CIO Value-at-Risk (“VaR”) model related to the portfolio (before that model was discontinued and the previous model was restored); and that there was inadequate escalation to the Firm’s management of certain risk issues relating to the portfolio. The Firm has taken steps to correct such lapses, including, among other things, appointing a new Chief Risk Officer for CIO/Treasury/Corporate (“CTC”); adding resources and talent in CIO risk management; instituting new CTC risk committees to improve governance and controls and ensure tighter linkages between CIO, Treasury and other activities in the Corporate sector; and introducing more granular risk limits for CIO.

Part I

In January 2013, JPMorgan Chase & Co. entered into a Consent Order with the Federal Reserve and JPMorgan Chase Bank, N.A. entered into a Consent Order with the OCC relating to the banking regulators' reviews of the CIO matter. These Consent Orders relate to risk management, model governance and other control functions related to CIO and certain other trading activities at the Firm. Many of the actions required by the Consent Orders have already been, or are in the process of being, implemented by the Firm.

While the Firm has taken, and is taking, steps to correct the lapses in the CIO risk management framework, there is no assurance that new or additional lapses in the Firm's risk management framework and governance structure could not occur in the future. Any such lapses or other inadequacies in the design or implementation of the Firm's risk management framework, governance, procedures or practices could, individually or in the aggregate, cause unexpected losses for the Firm, materially and adversely affect the Firm's financial condition and results of operations, require significant resources to remediate any risk management deficiency, attract heightened regulatory scrutiny, expose the Firm to regulatory investigations or legal proceedings, subject the Firm to fines, penalties or judgments, harm the Firm's reputation, or otherwise cause a decline in investor confidence.

Lapses in disclosure controls and procedures or internal control over financial reporting could materially and adversely affect the Firm's operations, profitability or reputation.

The Firm is committed to maintaining high standards of internal control over financial reporting and disclosure controls and procedures. Nevertheless, in a firm as large and complex as JPMorgan Chase, lapses or deficiencies in disclosure controls and procedures or in the Firm's internal control over financial reporting may occur from time to time. On July 13, 2012, the Firm reported that it had determined that a material weakness existed in its internal control over financial reporting at March 31, 2012. This determination related to the valuation control function for the synthetic credit portfolio managed by CIO during the first quarter of 2012. As a result of the material weakness, management also concluded that the Firm's disclosure controls and procedures were not effective at March 31, 2012. Management has taken steps to remediate the internal control deficiency, including enhancing management supervision of valuation matters. The control deficiency was substantially remediated by June 30, 2012, and was closed-out by September 30, 2012.

There can be no assurance that the Firm's disclosure controls and procedures will be effective in the future or that a material weakness or significant deficiency in internal control over financial reporting could not occur again. Any such lapses or deficiencies may materially and adversely affect the Firm's business and results of operations or financial condition, restrict its ability to access the capital markets, require the Firm to expend significant resources to correct the lapses or deficiencies, expose the Firm to regulatory or legal proceedings, subject it to fines, penalties or judgments, harm the Firm's reputation, or otherwise cause a decline in investor confidence.

Other Risks

The financial services industry is highly competitive, and JPMorgan Chase's inability to compete successfully may adversely affect its results of operations.

JPMorgan Chase operates in a highly competitive environment and the Firm expects competitive conditions to continue to intensify as the financial services industry produces better-capitalized and more geographically diverse companies that are capable of offering a wider array of financial products and services at more competitive prices. Competitors include other banks, brokerage firms, investment banking companies, merchant banks, hedge funds, commodity trading companies, private equity firms, insurance companies, mutual fund companies, credit card companies, mortgage banking companies, trust companies, securities processing companies, automobile financing companies, leasing companies, e-commerce and other Internet-based companies, and a variety of other financial services and advisory companies. Technological advances and the growth of e-commerce have made it possible for non-depository institutions to offer products and services that traditionally were banking products, and for financial institutions and other companies to provide electronic and Internet-based financial solutions, including electronic securities trading. The Firm's businesses generally compete on the basis of the quality and variety of the Firm's products and services, transaction execution, innovation, reputation and price. Ongoing or increased competition in any one or all of these areas may put downward pressure on prices for the Firm's products and services or may cause the Firm to lose market share. Increased competition also may require the Firm to make additional capital investments in its businesses in order to remain competitive. These investments may increase expense or may require the Firm to extend more of its capital on behalf of clients in order to execute larger, more competitive transactions. The Firm cannot provide assurance that the significant competition in the financial services industry will not materially adversely affect its future results of operations.

Competitors of the Firm's non-U.S. wholesale businesses are typically subject to different, and in some cases, less stringent, legislative and regulatory regimes. For example, the regulatory objectives underlying several provisions of the Dodd-Frank Act, including the prohibition on proprietary trading under the Volcker Rule and the derivatives "push-out" rules, have not been embraced by governments and regulatory agencies outside the United States and may not be implemented into law in most countries. The more restrictive laws and regulations applicable to U.S. financial services institutions, such as JPMorgan Chase, can put the Firm at a competitive disadvantage to its non-U.S. competitors, including prohibiting the Firm from engaging in certain transactions, making the Firm's pricing of certain transactions more expensive for clients or adversely affecting the Firm's cost structure for providing certain products, all of which can reduce the revenue and profitability of the Firm's wholesale businesses.

JPMorgan Chase's ability to attract and retain qualified employees is critical to the success of its business, and failure to do so may materially adversely affect the Firm's performance.

JPMorgan Chase's employees are the Firm's most important resource, and in many areas of the financial services industry, competition for qualified personnel is intense. The imposition on the Firm or its employees of restrictions on executive compensation may adversely affect the Firm's ability to attract and retain qualified senior management and employees. If the Firm is unable to continue to retain and attract qualified employees, the Firm's performance, including its competitive position, could be materially adversely affected.

JPMorgan Chase's financial statements are based in part on assumptions and estimates which, if incorrect, could cause unexpected losses in the future.

Pursuant to accounting principles generally accepted in the United States, JPMorgan Chase is required to use certain assumptions and estimates in preparing its financial statements, including in determining allowances for credit losses, mortgage repurchase liability and reserves related to litigation, among other items. Certain of the Firm's financial instruments, including trading assets and liabilities, available-for-sale securities, certain loans, MSRs, private equity investments, structured notes and certain repurchase and resale agreements, among other items, require a determination of their fair value in order to prepare the Firm's financial statements. Where quoted market prices are not available, the Firm may make fair value determinations based on internally developed models or other means which ultimately rely to some degree on management estimation and judgment. In addition, sudden illiquidity in markets or declines in prices of certain loans and securities may make it more difficult to value certain balance sheet items, which may lead to the possibility that such valuations will be subject to further change or adjustment. If assumptions or estimates underlying the Firm's financial statements are incorrect, the Firm may experience material losses.

Damage to JPMorgan Chase's reputation could damage its businesses.

Maintaining trust in JPMorgan Chase is critical to the Firm's ability to attract and maintain customers, investors and employees. Damage to the Firm's reputation can therefore cause significant harm to the Firm's business and prospects. Harm to the Firm's reputation can arise from numerous sources, including, among others, employee misconduct, compliance failures, litigation or regulatory outcomes or governmental investigations. In addition, a failure to deliver appropriate standards of service and quality, or a failure or

perceived failure to treat customers and clients fairly, can result in customer dissatisfaction, litigation and heightened regulatory scrutiny, all of which can lead to lost revenue, higher operating costs and harm to the Firm's reputation. Adverse publicity regarding the Firm, whether or not true, may result in harm to the Firm's prospects. Actions by the financial services industry generally or by certain members of or individuals in the industry can also affect the Firm's reputation. For example, the role played by financial services firms in the financial crisis, including concerns that consumers have been treated unfairly by financial institutions, has damaged the reputation of the industry as a whole. Should any of these or other events or factors that can undermine the Firm's reputation occur, there is no assurance that the additional costs and expenses that the Firm may need to incur to address the issues giving rise to the reputational harm could not adversely affect the Firm's earnings and results of operations.

Management of potential conflicts of interests has become increasingly complex as the Firm continues to expand its business activities through more numerous transactions, obligations and interests with and among the Firm's clients. The failure to adequately address, or the perceived failure to adequately address, conflicts of interest could affect the willingness of clients to deal with the Firm, or give rise to litigation or enforcement actions, as well as cause serious reputational harm to the Firm.

ITEM 1B: UNRESOLVED SEC STAFF COMMENTS

None.

ITEM 2: PROPERTIES

JPMorgan Chase's headquarters is located in New York City at 270 Park Avenue, a 50-story office building owned by JPMorgan Chase. This location contains approximately 1.3 million square feet of space.

In total, JPMorgan Chase owned or leased approximately 12.0 million square feet of commercial office and retail space in New York City at December 31, 2012. JPMorgan Chase and its subsidiaries also own or lease significant administrative and operational facilities in Chicago, Illinois (3.7 million square feet); Houston and Dallas, Texas (3.7 million square feet); Columbus, Ohio (2.8 million square feet); Phoenix, Arizona (1.4 million square feet); Jersey City, New Jersey (1.0 million square feet); and 5,614 retail branches in 23 states. At December 31, 2012, the Firm occupied approximately 68.9 million total square feet of space in the United States.

At December 31, 2012, the Firm also owned or leased approximately 5.6 million square feet of space in Europe, the Middle East and Africa. In the United Kingdom, at December 31, 2012, JPMorgan Chase owned or leased approximately 4.3 million square feet of office space and owned a 378,000 square-foot operations center. JPMorgan Chase acquired a 999-year leasehold interest at 25 Bank Street in London's Canary Wharf in 2010. 25 Bank Street, with 1.4 million square feet of space, became the new

European headquarters of the Corporate & Investment Bank in 2012.

In 2008, JPMorgan Chase had acquired a 999-year leasehold interest in land at London's Canary Wharf and had entered into a building agreement to develop the site and construct a European headquarters building. However, with the acquisition of 25 Bank Street, JPMorgan Chase signed an amended building agreement in December 2010 for the continued development of the Canary Wharf site for future use. The amended terms extend the building agreement to October 30, 2016.

JPMorgan Chase and its subsidiaries also occupy offices and other administrative and operational facilities in the Asia/Pacific region, Latin America and North America under ownership and leasehold agreements aggregating approximately 5.4 million square feet of space at December 31, 2012. This includes leases for administrative and operational facilities in India (2.0 million square feet) and the Philippines (1.0 million square feet).

The properties occupied by JPMorgan Chase are used across all of the Firm's business segments and for corporate purposes. JPMorgan Chase continues to evaluate its current and projected space requirements and may determine from time to time that certain of its premises and facilities are no longer necessary for its operations. There is no assurance that the Firm will be able to dispose of any such excess premises or that it will not incur charges in connection with such dispositions. Such disposition costs may be material to the Firm's results of operations in a given period. For a discussion of occupancy expense, see the Consolidated Results of Operations on pages 72–75.

ITEM 3: LEGAL PROCEEDINGS

For a description of the Firm's material legal proceedings, see Note 31 on pages 316–325.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

Part II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for registrant's common equity

The outstanding shares of JPMorgan Chase common stock are listed and traded on the New York Stock Exchange, the London Stock Exchange and the Tokyo Stock Exchange. For the quarterly high and low prices of JPMorgan Chase's common stock for the last two years, see the section entitled "Supplementary information – Selected quarterly financial data (unaudited)" on pages 331–332. For a comparison of the cumulative total return for JPMorgan Chase common stock with the comparable total return of the S&P 500 Index, the KBW Bank Index and the S&P Financial Index over the five-year period ended

December 31, 2012, see "Five-year stock performance," on page 63.

JPMorgan Chase declared and paid quarterly cash dividends on its common stock in the amount of $0.30 per share for each quarter of 2012, $0.25 per share for each quarter of 2011 and $0.05 per share for each quarter of 2010.

The common dividend payout ratio, based on reported net income, was 23% for 2012, 22% for 2011 and 5% for 2010. For a discussion of restrictions on dividend payments, see Note 22 and Note 27 on page 300 and page 306, respectively. At January 31, 2013, there were 217,055 holders of record of JPMorgan Chase common stock. For information regarding securities authorized for issuance under the Firm's employee stock-based compensation plans, see Item 12 on page 26.

Repurchases under the common equity repurchase program

On March 13, 2012, the Board of Directors authorized a $15.0 billion common equity (i.e., common stock and warrants) repurchase program (the "2012 program"), of which up to $12.0 billion was approved for repurchase in 2012 and up to an additional $3.0 billion is approved through the end of the first quarter of 2013. During 2012 and 2011, the Firm repurchased (on a trade-date basis) 31 million and 229 million shares of common stock, for $1.3 billion and $8.8 billion, respectively. During 2012 and 2011, the Firm repurchased 18 million and 10 million warrants, for $238 million and $122 million, respectively. The Firm did not make any repurchases after May 17, 2012. As of December 31, 2012, $13.4 billion of authorized repurchase capacity remained under the program.

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 and regulatory 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.

Shares repurchased pursuant to the common equity repurchase program during 2012 were as follows.

Year ended December 31, 2012	Common stock: Total shares of common stock repurchased	Common stock: Average price paid per share of common stock[(b)]	Warrants: Total warrants repurchased	Warrants: Average price paid per warrant[(b)]	Aggregate repurchases of common equity (in millions)[(b)]	Dollar value of remaining authorized repurchase (in millions)[(c)]	
Repurchases under the prior $15.0 billion program[(a)]	2,604,500	$33.10	—	$—	$86	$6,050	(d)
Repurchases under the new $15.0 billion program	2,867,870	45.29	—	—	130	14,870	
First quarter[(a)]	5,472,370	39.49	—	—	216	14,870	
Second quarter	28,070,715	42.72	18,471,300	12.90	1,437	13,433	
Third quarter	—	—	—	—	—	13,433	
October	—	—	—	—	—	13,433	
November	—	—	—	—	—	13,433	
December	—	—	—	—	—	13,433	
Fourth quarter	—	—	—	—	—	13,433	
Year-to-date[(a)]	33,543,085	$42.19	18,471,300	$12.90	$1,653	$13,433	

(a) Includes $86 million of repurchases in December 2011, which settled in early January 2012.
(b) Excludes commissions cost.
(c) The amount authorized by the Board of Directors excludes commissions cost.
(d) The unused portion of the prior $15.0 billion program was canceled when the $15.0 billion 2012 program was authorized.

Repurchases under the stock-based incentive plans

Participants in the Firm's stock-based incentive plans may have shares of common stock withheld to cover income taxes. Shares withheld to pay income taxes are repurchased pursuant to the terms of the applicable plan and not under the Firm's repurchase program. Shares repurchased pursuant to these plans during 2012, were as follows.

Year ended December 31, 2012	Total shares of common stock repurchased	Average price paid per share of common stock
First quarter	406	$45.81
Second quarter	32	39.72
Third quarter	28	35.98
October	—	—
November	154,125	41.10
December	—	—
Fourth quarter	154,125	41.10
Year-to-date	154,591	$41.11

ITEM 6: SELECTED FINANCIAL DATA

For five-year selected financial data, see "Five-year summary of consolidated financial highlights (unaudited)" on pages 62–63.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations, entitled "Management's discussion and analysis," appears on pages 64–184. Such information should be read in conjunction with the Consolidated Financial Statements and Notes thereto, which appear on pages 188–330.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of the quantitative and qualitative disclosures about market risk, see the Market Risk Management section of Management's discussion and analysis on pages 163–169.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements, together with the Notes thereto and the report thereon dated February 28, 2013 of PricewaterhouseCoopers LLP, the Firm's independent registered public accounting firm, appear on pages 187–330.

Supplementary financial data for each full quarter within the two years ended December 31, 2012, are included on pages 331–332 in the table entitled "Selected quarterly financial data (unaudited)." Also included is a "Glossary of terms'' on pages 333–335.

Part II

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A: CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of the Firm's management, including its Chairman and Chief Executive Officer and its Chief Financial Officer, of the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the Chairman and Chief Executive Officer and the Chief Financial Officer concluded that these disclosure controls and procedures were effective. See Exhibits 31.1 and 31.2 for the Certification statements issued by the Chairman and Chief Executive Officer and Chief Financial Officer.

The Firm is committed to maintaining high standards of internal control over financial reporting. Nevertheless, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, in a firm as large and complex as JPMorgan Chase, lapses or deficiencies in internal controls may occur from time to time, and there can be no assurance that any such deficiencies will not result in significant deficiencies or material weaknesses in internal controls in the future. For further information, see "Management's report on internal control over financial reporting" on page 186. There was no change in the Firm's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that occurred during the three months ended December 31, 2012, that has materially affected, or is reasonably likely to materially affect, the Firm's internal control over financial reporting.

ITEM 9B: OTHER INFORMATION

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, which added Section 13(r) to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), an issuer is required to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with individuals or entities designated pursuant to certain Executive Orders. Disclosure is generally required even where the activities, transactions or dealings were conducted in compliance with applicable law.

Carlson Wagonlit Travel ("CWT"), a business travel management firm in which JPMorgan Chase has invested through its merchant banking activities, may be deemed to be an affiliate of the Firm, as that term is defined in Exchange Act Rule 12b-2. CWT has informed the Firm that, during the year ended December 31, 2012, it booked approximately 30 flights (of the approximately 59 million transactions it booked in 2012) to Iran on Iran Air for passengers, including employees of foreign governments and non-governmental organizations. All of such flights originated outside of the United States from countries that permit travel to Iran, and none of such passengers were persons designated under Executive Orders 13224 or 13382 or were employees of foreign governments that are targets of U.S. sanctions. CWT and the Firm believe that this activity is permissible pursuant to certain exemptions from U.S. sanctions for travel-related transactions under the International Emergency Economic Powers Act, as amended. CWT had approximately $27,000 in gross revenues attributable to these transactions. CWT has informed the Firm that it intends to continue to engage in this activity so long as such activity is permitted under U.S. law.

Part III

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Executive officers of the registrant

Name	Age (at December 31, 2012)	Positions and offices
James Dimon	56	Chairman of the Board, Chief Executive Officer and President.
Frank J. Bisignano	53	Co-Chief Operating Officer since July 2012. He had been Chief Executive Officer of Mortgage Banking from February 2011 until December 2012 and Chief Administrative Officer from 2005 until July 2012.
Douglas L. Braunstein[(a)]	51	Vice Chairman since January 1, 2013. He had been Chief Financial Officer from June 2010 until December 31, 2012, and was head of Investment Banking for the Americas since 2008, prior to which he had served in a number of senior Investment Banking roles, including as head of Global Mergers and Acquisitions.
Michael J. Cavanagh	46	Co-Chief Executive Officer of the Corporate & Investment Bank since July 2012. He had been Chief Executive Officer of Treasury & Securities Services (now part of Corporate & Investment Bank) from June 2010 until July 2012, prior to which he had been Chief Financial Officer.
Stephen M. Cutler	51	General Counsel since February 2007. Prior to joining JPMorgan Chase, he was a partner and co-chair of the Securities Department at the law firm of WilmerHale.
John L. Donnelly	56	Head of Human Resources since January 2009. Prior to joining JPMorgan Chase, he had been Global Head of Human Resources at Citigroup, Inc. since 2007 and Head of Human Resources and Corporate Affairs for Citi Markets and Banking business from 1998 until 2007.
Mary Callahan Erdoes	45	Chief Executive Officer of Asset Management since September 2009, prior to which she had been Chief Executive Officer of Private Banking.
John J. Hogan[(b)]	46	Chief Risk Officer since January 2012. He had been Chief Risk Officer of the Investment Bank (now part of Corporate & Investment Bank) since 2006.
Marianne Lake[(a)]	43	Chief Financial Officer since January 1, 2013. She had been Chief Financial Officer of the Consumer & Community Banking business ("CCB") and prior to the organization of CCB served since 2009 as Chief Financial Officer for the consumer business unit now part of CCB. She previously had served as Global Controller of the Investment Bank from 2007 to 2009, prior to which she had served in a number of senior financial officer roles.
Douglas B. Petno	47	Chief Executive Officer of Commercial Banking since January 2012. He had been Chief Operating Officer of Commercial Banking since October 2010, prior to which he had been Global Head of Natural Resources in the Investment Bank.
Daniel E. Pinto	50	Co-Chief Executive Officer of the Corporate & Investment Bank since July 2012 and Chief Executive Officer of Europe, the Middle East and Africa since June 2011. He had been head or co-head of the Investment Bank Global Fixed Income business (now part of Corporate &

		Investment Bank) from November 2009 until July 2012. He was Global Head of Emerging Markets from 2006 until 2009, and was also responsible for the Global Credit Trading & Syndicate business from 2008 until 2009.
Gordon A. Smith	54	Chief Executive Officer of Consumer & Community Banking since December 2012 prior to which he had been Co-Chief Executive Officer since July 2012. He had been Chief Executive Officer of Card Services since 2007 and of the Auto Finance and Student Lending businesses since 2011. Prior to joining JPMorgan Chase, he was with American Express Company and was, from 2005 until 2007, president of American Express' Global Commercial Card business.
Matthew E. Zames	42	Co-Chief Operating Officer since July 2012 and head of Mortgage Banking Capital Markets since January 2012. He had been Chief Investment Officer from May until September 2012 and was co-head of the Investment Bank Global Fixed Income business (now part of Corporate & Investment Bank) from November 2009 until May 2012 and co-head of Mortgage Banking Capital Markets from July 2011 until January 2012, prior to which he had served in a number of senior Investment Banking Fixed Income management roles.

(a) On January 1, 2013, Ms. Lake was named Chief Financial Officer and appointed to the Operating Committee. At that date, Mr. Braunstein became Vice Chairman of JPMorgan Chase and retired from the Operating Committee; he is no longer an executive officer of the registrant.

(b) As of February 1, 2013, Mr. Hogan is on a leave of absence.

Unless otherwise noted, during the five fiscal years ended December 31, 2012, all of JPMorgan Chase's above-named executive officers have continuously held senior-level positions with JPMorgan Chase. There are no family relationships among the foregoing executive officers. See also Item 13.

Parts III and IV

ITEM 11: EXECUTIVE COMPENSATION
See Item 13.
ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS
For security ownership of certain beneficial owners and management, see Item 13 below.

The following table details the total number of shares available for issuance under JPMorgan Chase's employee stock-based incentive plans (including shares available for issuance to nonemployee directors). The Firm is not authorized to grant stock-based incentive awards to nonemployees, other than to nonemployee directors.

December 31, 2012	Number of shares to be issued upon exercise of outstanding options/SARs	Weighted-average exercise price of outstanding options/SARs	Number of shares remaining available for future issuance under stock compensation plans
Plan category			
Employee stock-based incentive plans approved by shareholders	111,710,849	$ 42.82	283,322,413 (a)
Employee stock-based incentive plans not approved by shareholders	4,194,767	32.36	—
Total	115,905,616	$ 42.44	283,322,413

(a) Represents future shares available under the shareholder-approved Long-Term Incentive Plan, as amended and restated effective May 17, 2011.

All future shares will be issued under the shareholder-approved Long-Term Incentive Plan, as amended and restated effective May 17, 2011. For further discussion, see Note 10 on pages 241–243.
ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE
Information to be provided in Items 10, 11, 12, 13 and 14 of Form 10-K and not otherwise included herein is incorporated by reference to the Firm's definitive proxy statement for its 2012 Annual Meeting of Stockholders to be held on May 21, 2013, which will be filed with the SEC within 120 days of the end of the Firm's fiscal year ended December 31, 2012.
ITEM 14: PRINCIPAL ACCOUNTING FEES AND SERVICES
See Item 13.

Part IV

ITEM 15: EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Exhibits, financial statement schedules

1	Financial statements The Consolidated Financial Statements, the Notes thereto and the report of the Independent Registered Public Accounting Firm thereon listed in Item 8 are set forth commencing on page 187.
2	Financial statement schedules
3	Exhibits
3.1	Restated Certificate of Incorporation of JPMorgan Chase & Co., effective April 5, 2006 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed April 7, 2006).
3.2	Certificate of Designations of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series I (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed April 24, 2008).

3.3	Certificate of Designations of 8.625% Non-Cumulative Preferred Stock, Series J (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K/A of JPMorgan Chase & Co. (File No. 1-5805) filed September 17, 2008).
3.4	Certificate of Designations of 5.50% Non-Cumulative Preferred Stock, Series O (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed August 27, 2012).
3.5	By-laws of JPMorgan Chase & Co., effective January 19, 2010 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed January 25, 2010).
4.1	Indenture, dated as of October 21, 2010, between JPMorgan Chase & Co. and Deutsche Bank Trust Company Americas, as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No.1-5805) filed October 21, 2010).
4.2	Indenture, dated as of October 21, 2010, between JPMorgan Chase & Co. and U.S. Bank Trust National Association, as Trustee (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No.1-5805) filed October 21, 2010).
4.3	Indenture, dated as of May 25, 2001, between JPMorgan Chase & Co. and Bankers Trust Company (succeeded by Deutsche Bank Trust Company Americas), as Trustee (incorporated by reference to Exhibit 4(a)(1) to the Registration Statement on Form S-3 of JPMorgan Chase & Co. (File No. 333-52826) filed June 13, 2001).
4.4	Form of Deposit Agreement (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed April 24, 2008).
4.5	Form of Deposit Agreement (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed August 21, 2008).
4.6	Deposit Agreement, dated August 27, 2012, among JPMorgan Chase & Co., Computershare Shareowner Services LLC, as depositary, and the holders from time to time of Depositary Receipts relating to the 5.50% Non-Cumulative Preferred Stock, Series O (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed August 27, 2012).
4.7	Form of Warrant to purchase common stock (incorporated by reference to Exhibit 4.2 to the Form 8-A of JPMorgan Chase & Co. (File No. 1-5805) filed December 11, 2009).

Other instruments defining the rights of holders of long-term debt securities of JPMorgan Chase & Co. and its subsidiaries are omitted pursuant to Section (b)(4)(iii)(A) of Item 601 of Regulation S-K. JPMorgan Chase & Co. agrees to furnish copies of these instruments to the SEC upon request.

10.1	Deferred Compensation Plan for Non-Employee Directors of JPMorgan Chase & Co., as amended and restated July 2001 and as of December 31, 2004 (incorporated by reference to Exhibit 10.1 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2007).[a]

10.2	2005 Deferred Compensation Plan for Non-Employee Directors of JPMorgan Chase & Co., effective as of January 1, 2005 (incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2007).[a]
10.3	Post-Retirement Compensation Plan for Non-Employee Directors of The Chase Manhattan Corporation, as amended and restated, effective May 21, 1996 (incorporated by reference to Exhibit 10.3 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2008).[a]
10.4	2005 Deferred Compensation Program of JPMorgan Chase & Co., restated effective as of December 31, 2008 (incorporated by reference to Exhibit 10.4 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2008).[a]
10.5	JPMorgan Chase & Co. Long-Term Incentive Plan as amended and restated effective May 17, 2011 (incorporated by reference to Appendix C of the Schedule 14A of JPMorgan Chase & Co. (File No. 1-5805) filed April 7, 2011).[a]
10.6	Key Executive Performance Plan of JPMorgan Chase & Co., as amended and restated effective January 1, 2009 (incorporated by reference to Appendix D of the Schedule 14A of JPMorgan Chase & Co. (File No. 1-5805) filed March 31, 2008).[a]
10.7	Excess Retirement Plan of JPMorgan Chase & Co., restated and amended as of December 31, 2008, as amended (incorporated by reference to Exhibit 10.7 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2009).[a]
10.8	1995 Stock Incentive Plan of J.P. Morgan & Co. Incorporated and Affiliated Companies, as amended, dated December 11, 1996 (incorporated by reference to Exhibit 10.8 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2008).[a]

Part IV

10.9	Executive Retirement Plan of JPMorgan Chase & Co., as amended and restated December 31, 2008 (incorporated by reference to Exhibit 10.9 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2008).[a]
10.10	Amendment to Bank One Corporation Director Stock Plan, as amended and restated effective February 1, 2003 (incorporated by reference to Exhibit 10.10 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2008).[a]
10.11	Summary of Bank One Corporation Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.19 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).[a]
10.12	Bank One Corporation Stock Performance Plan, as amended and restated effective February 20, 2001 (incorporated by reference to Exhibit 10.12 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2008).[a]
10.13	Bank One Corporation Supplemental Savings and Investment Plan, as amended and restated effective December 31, 2008 (incorporated by reference to Exhibit 10.13 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2008).[a]
10.14	Revised and Restated Banc One Corporation 1989 Stock Incentive Plan, effective January 18, 1989 (incorporated by reference to Exhibit 10.14 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2008).[a]
10.15	Banc One Corporation Revised and Restated 1995 Stock Incentive Plan, effective April 17, 1995 (incorporated by reference to Exhibit 10.15 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2008).[a]
10.16	Form of JPMorgan Chase & Co. Long-Term Incentive Plan Award Agreement of January 22, 2008 stock appreciation rights (incorporated by reference to Exhibit 10.25 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2007).[a]
10.17	Form of JPMorgan Chase & Co. Long-Term Incentive Plan Award Agreement of January 22, 2008 stock appreciation rights for James Dimon (incorporated by reference to Exhibit 10.27 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2007).[a]
10.18	Form of JPMorgan Chase & Co. Long-Term Incentive Plan Terms and Conditions for stock appreciation rights, dated as of January 20, 2009 (incorporated by reference to Exhibit 10.20 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2008).[a]
10.19	Form of JPMorgan Chase & Co. Long-Term Incentive Plan Terms and Conditions for Operating Committee member stock appreciation rights, dated as of January 20, 2009 (incorporated by reference to Exhibit 10.21 to the Annual Report on Form 10-K of JPMorgan

	Chase & Co. (File No. 1-5805) for the year ended December 31, 2008).[a]
10.20	Form of JPMorgan Chase & Co. Long-Term Incentive Plan Terms and Conditions for Operating Committee member stock appreciation rights, dated as of February 3, 2010 (incorporated by reference to Exhibit 10.23 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2009).[a]
10.21	Forms of JPMorgan Chase & Co. Long-Term Incentive Plan Terms and Conditions for stock appreciation rights and restricted stock units, dated as of January 19, 2011 and February 16, 2011 (incorporated by reference to Exhibit 10.24 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2011).[a]
10.22	Forms of JPMorgan Chase & Co. Long-Term Incentive Plan Terms and Conditions for stock appreciation rights and restricted stock units, dated as of January 18, 2012 (incorporated by reference to Exhibit 10.25 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2011).[a]
10.23	Forms of JPMorgan Chase & Co. Long-Term Incentive Plan Terms and Conditions for stock appreciation rights and restricted stock units for Operating Committee members, dated as of January 17, 2013.[a][b]
10.24	Form of JPMorgan Chase & Co. Performance-Based Incentive Compensation Plan, effective as of January 1, 2006, as amended (incorporated by reference to Exhibit 10.27 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2009).[a]
12.1	Computation of ratio of earnings to fixed charges.[b]
12.2	Computation of ratio of earnings to fixed charges and preferred stock dividend requirements.[b]

21	List of subsidiaries of JPMorgan Chase & Co.(b)
22.1	Annual Report on Form 11-K of The JPMorgan Chase 401(k) Savings Plan for the year ended December 31, 2012 (to be filed pursuant to Rule 15d-21 under the Securities Exchange Act of 1934).
23	Consent of independent registered public accounting firm.(b)
31.1	Certification.(b)
31.2	Certification.(b)
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(c)
101.INS	XBRL Instance Document.(b)(d)
101.SCH	XBRL Taxonomy Extension Schema Document.(b)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.(b)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.(b)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.(b)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.(b)

(a) This exhibit is a management contract or compensatory plan or arrangement.

(b) Filed herewith.

(c) Furnished herewith. This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

(d) Pursuant to Rule 405 of Regulation S-T, includes the following financial information included in the Firm’s Annual Report on Form 10-K for the year ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language) interactive data files: (i) the Consolidated statements of income for the years ended December 31, 2012, 2011 and 2010, (ii) the Consolidated statements of comprehensive income for the years ended December 31, 2012, 2011 and 2010, (iii) the Consolidated balance sheets as of December 31, 2012 and 2011, (iv) the Consolidated statements of changes in stockholders’ equity for the years ended December 31, 2012, 2011 and 2010, (v) the Consolidated statements of cash flows for the years ended December 31, 2012, 2011 and 2010, and (vi) the Notes to consolidated financial statements.

Pages 30–60 not used

Table of contents

Financial:

Financial

FIVE-YEAR SUMMARY OF CONSOLIDATED FINANCIAL HIGHLIGHTS

(unaudited)

As of or for the year ended December 31, (in millions, except per share, ratio and headcount data)	2012	2011	2010	2009	2008[b]
Selected income statement data					
Total net revenue	$97,031	$97,234	$102,694	$100,434	$67,252
Total noninterest expense	64,729	62,911	61,196	52,352	43,500
Pre-provision profit	32,302	34,323	41,498	48,082	23,752
Provision for credit losses	3,385	7,574	16,639	32,015	19,445
Provision for credit losses - accounting conformity[a]	—	—	—	—	1,534
Income before income tax expense/(benefit) and extraordinary gain	28,917	26,749	24,859	16,067	2,773
Income tax expense/(benefit)	7,633	7,773	7,489	4,415	(926)
Income before extraordinary gain	21,284	18,976	17,370	11,652	3,699
Extraordinary gain[b]	—	—	—	76	1,906
Net income	$21,284	$18,976	$17,370	$11,728	$5,605
Per common share data					
Basic earnings					
Income before extraordinary gain	$5.22	$4.50	$3.98	$2.25	$0.81
Net income	5.22	4.50	3.98	2.27	1.35
Diluted earnings[c]					
Income before extraordinary gain	$5.20	$4.48	$3.96	$2.24	$0.81
Net income	5.20	4.48	3.96	2.26	1.35
Cash dividends declared per share	1.20	1.00	0.20	0.20	1.52
Book value per share	51.27	46.59	43.04	39.88	36.15
Tangible book value per share[d]	38.75	33.69	30.18	27.09	22.52
Common shares outstanding					
Average: Basic	3,809.4	3,900.4	3,956.3	3,862.8	3,501.1
Diluted	3,822.2	3,920.3	3,976.9	3,879.7	3,521.8
Common shares at period-end	3,804.0	3,772.7	3,910.3	3,942.0	3,732.8
Share price[e]					
High	$46.49	$48.36	$48.20	$47.47	$50.63
Low	30.83	27.85	35.16	14.96	19.69
Close	43.97	33.25	42.42	41.67	31.53
Market capitalization	167,260	125,442	165,875	164,261	117,695
Selected ratios					
Return on common equity ("ROE")[c]					
Income before extraordinary gain	11 %	11 %	10 %	6 %	2 %
Net income	11	11	10	6	4
Return on tangible common equity ("ROTCE")[c][d]					
Income before extraordinary gain	15	15	15	10	4
Net income	15	15	15	10	6
Return on assets ("ROA")					
Income before extraordinary gain	0.94	0.86	0.85	0.58	0.21
Net income	0.94	0.86	0.85	0.58	0.31
Return on risk-weighted assets[f]					
Income before extraordinary gain	1.65	1.58	1.50	0.95	0.32
Net income	1.65	1.58	1.50	0.95	0.49
Overhead ratio	67	65	60	52	65

Deposits-to-loans ratio	163	156	134	148	135
Tier 1 capital ratio[g]	12.6	12.3	12.1	11.1	10.9
Total capital ratio	15.3	15.4	15.5	14.8	14.8
Tier 1 leverage ratio	7.1	6.8	7.0	6.9	6.9
Tier 1 common capital ratio[h]	11.0	10.1	9.8	8.8	7.0
Selected balance sheet data (period-end)[g]					
Trading assets	$450,028	$443,963	$489,892	$411,128	$509,983
Securities	371,152	364,793	316,336	360,390	205,943
Loans	733,796	723,720	692,927	633,458	744,898
Total assets	2,359,141	2,265,792	2,117,605	2,031,989	2,175,052
Deposits	1,193,593	1,127,806	930,369	938,367	1,009,277
Long-term debt	249,024	256,775	270,653	289,165	302,959
Common stockholders’ equity	195,011	175,773	168,306	157,213	134,945
Total stockholders’ equity	204,069	183,573	176,106	165,365	166,884
Headcount	258,965	260,157	239,831	222,316	224,961
Credit quality metrics					
Allowance for credit losses	$22,604	$28,282	$32,983	$32,541	$23,823
Allowance for loan losses to total retained loans	3.02%	3.84%	4.71%	5.04%	3.18%
Allowance for loan losses to retained loans excluding purchased credit-impaired loans[i]	2.43	3.35	4.46	5.51	3.62
Nonperforming assets	$11,734	$11,315	$16,682	$19,948	$12,780
Net charge-offs	9,063	12,237	23,673	22,965	9,835
Net charge-off rate	1.26%	1.78%	3.39%	3.42%	1.73%

(a) Results for 2008 included a conforming loan loss provision related to the acquisition of Washington Mutual Bank's ("Washington Mutual") banking operations.

(b) 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.

(c) 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.

(d) Tangible book value per share and ROTCE are non-GAAP financial measures. Tangible book value per share represents the Firm's tangible common equity divided by period-end common shares. ROTCE measures the Firm's annualized earnings as a percentage of tangible common equity. For further discussion of these measures, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 76–77 of this Annual Report.

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

(g) 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.

(h) Basel I Tier 1 common capital ratio ("Tier 1 common ratio") is Tier 1 common capital ("Tier 1 common") divided by risk-weighted assets. The Firm uses Tier 1 common capital along with the other capital measures to assess and monitor its capital position. For further discussion of the Tier 1 common capital ratio, see Regulatory capital on pages 117–120 of this Annual Report.

(i) Excludes the impact of residential real estate purchased credit-impaired ("PCI") loans. For further discussion, see Allowance for credit losses on pages 159–162 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, the KBW Bank 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 KBW Bank Index seeks to reflect the performance of banks and thrifts that are publicly-traded in the U.S. and is composed of 24 leading national money center and regional banks and thrifts. The S&P Financial Index is an index of 80 financial companies, all of which are components of the S&P 500. The Firm is a component of all three industry indices.

The following table and graph assume simultaneous investments of $100 on December 31, 2007, in JPMorgan Chase common stock and in each of the above indices. The comparison assumes that all dividends are reinvested.

December 31, (in dollars)	2007	2008	2009	2010	2011	2012
JPMorgan Chase	$100.00	$74.87	$100.59	$102.91	$82.36	$112.15
KBW Bank Index	100.00	52.45	51.53	63.56	48.83	64.97
S&P Financial Index	100.00	44.73	52.44	58.82	48.81	62.92

S&P 500 Index	100.00	63.00	79.68	91.68	93.61	108.59

This section of JPMorgan Chase's Annual Report for the year ended December 31, 2012 ("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 333–335 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 185 of this Annual Report) and in JPMorgan Chase's Annual Report on Form 10-K for the year ended December 31, 2012 ("2012 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 $2.4 trillion in assets and $204.1 billion in stockholders' equity as of December 31, 2012. The Firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing, asset management and private equity. Under the J.P. Morgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world's most prominent corporate, institutional and government clients.

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

JPMorgan Chase's activities are organized, for management reporting purposes, into four major reportable business segments, as well as a Corporate/Private Equity segment. The Firm's consumer business is the Consumer & Community Banking segment. The Corporate & Investment Bank, Commercial Banking, and Asset Management segments comprise the Firm's wholesale businesses. A description of the Firm's business segments, and the products and services they provide to their respective client bases, follows.

Consumer & Community Banking

Consumer & Community Banking ("CCB") serves consumers and businesses through personal service at bank branches and through ATMs, online, mobile and telephone banking. CCB is organized into Consumer & Business Banking, Mortgage Banking (including Mortgage Production, Mortgage Servicing and Real Estate Portfolios) and Card, Merchant Services & Auto ("Card"). Consumer & Business Banking offers deposit and investment products and services to consumers, and lending, deposit, and cash management and payment solutions to small businesses. Mortgage Banking includes mortgage origination and servicing activities, as well as portfolios comprised of residential mortgages and home equity loans, including the purchased credit impaired ("PCI") portfolio acquired in the Washington Mutual transaction. Card issues credit cards to consumers and small businesses, provides payment services to corporate and public sector clients through its commercial card products, offers payment processing services to merchants, and provides auto and student loan services.

Corporate & Investment Bank

The Corporate & Investment Bank (“CIB”) offers a broad suite of investment banking, market-making, prime brokerage, and treasury and securities products and services to a global client base of corporations, investors, financial institutions, government and municipal entities. Within Banking, the CIB 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, as well as loan origination and syndication. Also included in Banking is Treasury Services, which includes transaction services, comprised primarily of cash management and liquidity solutions, and trade finance products. The Markets & Investor Services segment of the CIB is a global market-maker in cash securities and derivative instruments, and also offers sophisticated risk management solutions, prime brokerage, and research. Markets & Investor Services also includes the Securities Services business, a leading global custodian which holds, values, clears and services securities, cash and alternative investments for investors and broker-dealers, and manages depositary receipt programs globally.

Commercial Banking

Commercial Banking (“CB”) delivers extensive industry knowledge, local expertise and dedicated service to U.S. and U.S. multinational clients, including corporations, municipalities, financial institutions and non-profit entities with annual revenue generally ranging from $20 million to $2 billion. CB provides financing to real estate investors and owners. Partnering with the Firm’s other businesses, CB provides comprehensive financial solutions, including lending, treasury services, investment banking and asset management to meet its clients’ domestic and international financial needs.

Asset Management

Asset Management ("AM"), with client assets of $2.1 trillion, is a global leader in investment and wealth management. AM clients include institutions, high-net-worth individuals and retail investors in every major market throughout the world. AM offers investment management across all major asset classes including equities, fixed income, alternatives and money market funds. AM also offers multi-asset investment management, providing solutions to a broad range of clients’ investment needs. For individual investors, AM also provides retirement products and services, brokerage and banking services including trust and estate, loans, mortgages and deposits. The majority of AM’s client assets are in actively managed portfolios.

Management's discussion and analysis

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, market, and country 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 Eurozone crisis was center stage the beginning of the year, with social stresses and fears of breakup of the Euro. However, strong stands by Eurozone states and the European Central Bank ("ECB") helped stabilize the Eurozone later in the year. The ECB's Outright Monetary Transactions ("OMT") program showed its commitment to provide a safety net for European nations. Eurozone member states also took crucial steps toward further fiscal integration by handing over power to the ECB to regulate the largest banks in the Euro area and by passing more budgetary authority to the European Union. Despite the easing of the crisis, the economies of many of the European Union member countries stalled in 2012.

Asia's developing economies continued to expand in 2012, although growth was significantly slower than the previous year, reducing global inflationary pressures.

In the U.S., the economy grew at a modest pace and the unemployment rate declined to a four year low of 7.8% by the end of 2012 as U.S. labor market conditions continued to improve. The U.S. housing market turned the corner during 2012 as the sector continued to show signs of improvement: excess inventories were reduced, prices began to rise and home affordability improved in most areas of the country as household incomes stabilized and mortgage rates declined to historic lows. Homebuilder confidence improved to the highest level in six years and housing starts increased to the highest level in four years during 2012. At the same time, inflation remained below the Board of Governors of the Federal Reserve System's (the "Federal Reserve") 2% long-run goal.

The Federal Reserve maintained the target range for the federal funds rate at zero to one quarter percent and tied the interest rate forecasts to the evolution of the economy, in particular inflation and unemployment rates. Additionally, the Federal Reserve announced a new asset purchase program that would be open-ended and is intended to speed up the pace of the U.S. economic recovery and produce sustained improvement in the labor market.

Financial markets reacted favorably when the U.S. Congress reached an agreement to resolve the so-called "fiscal cliff" by passing the American Taxpayer Relief Act of 2012. This Act made permanent most of the tax cuts initiated in 2001 and 2003 and allowed the tax rate on the top income bracket, which was increased to $450,000 annually for joint tax filers, to revert to 39.6% from 35.0%. Spending and debt ceiling issues were postponed into 2013.

Going into 2013, the U.S. economy is likely to be affected by the continuing uncertainty about Europe's financial crisis, the Federal Reserve's monetary policy, and the ongoing fiscal debate over the U.S. debt limit, government spending and taxes.

Financial performance of JPMorgan Chase

Year ended December 31, (in millions, except per share data and ratios)	2012	2011	Change
Selected income statement data			
Total net revenue	$97,031	$97,234	— %
Total noninterest expense	64,729	62,911	3
Pre-provision profit	32,302	34,323	(6)
Provision for credit losses	3,385	7,574	(55)
Net income	21,284	18,976	12
Diluted earnings per share	5.20	4.48	16
Return on common equity	11 %	11 %	
Capital ratios			
Tier 1 capital	12.6	12.3	
Tier 1 common	11.0	10.1	

Business overview

JPMorgan Chase reported full-year 2012 record net income of $21.3 billion, or $5.20 per share, on net revenue of $97.0 billion. Net income increased by $2.3 billion, or 12%, compared with net income of $19.0 billion, or $4.48 per share, in 2011. ROE for both 2012 and 2011 was 11%.

The increase in net income in 2012 was driven by a lower provision for credit losses, partially offset by higher noninterest expense. Net revenue was flat compared with 2011 as lower principal transactions revenue and lower net interest income were offset by higher mortgage fees and related income, higher other income, and higher securities gains. Principal transactions revenue for 2012 included losses from the synthetic credit portfolio. The increase in noninterest expense was driven by higher compensation expense.

The decline in the provision for credit losses reflected a lower consumer provision as net charge-offs decreased and the related allowance for credit losses was reduced by $5.5 billion in 2012. The decline in the consumer allowance reflected improved delinquency trends and reduced estimated losses in the real estate and credit card loan portfolios. The wholesale credit environment remained favorable throughout 2012. Firmwide, net charge-offs were $9.1 billion for the year, down $3.2 billion, or 26%, from 2011, and nonperforming assets at year-end were $11.7 billion, up $419 million, or 4%. The current year included the effect of regulatory guidance implemented during 2012, which resulted in the Firm reporting an additional $3.0 billion of nonperforming loans at December 31, 2012 (see Consumer, excluding credit card on pages 140–148 of this Annual Report for further information). Before the impact of these reporting changes, nonperforming assets would have been $8.7 billion at December 31, 2012. The total firmwide allowance for credit losses was $22.6 billion, resulting in a loan loss coverage ratio of 2.43% of total loans, excluding the purchased credit-impaired portfolio.

The Firm's 2012 results reflected strong underlying performance across virtually all its businesses, with strong lending and deposit growth. Consumer & Business Banking within Consumer & Community Banking added 106 branches and increased deposits by 11% in 2012. Business Banking loans increased to a record $18.9 billion, up 7% compared with 2011. Mortgage Banking reported strong production revenue driven by strong originations growth. In Card, Merchant Services & Auto, credit card sales volume (excluding Commercial Card) was up 11% for the year. The Corporate & Investment Bank maintained its #1 ranking in Global Investment Banking Fees and reported record assets under custody of $18.8 trillion at December 31, 2012. Commercial Banking reported record net revenue of $6.8 billion and record net income of $2.6 billion in 2012. Commercial Banking loans increased to a record $128.2 billion, a 14% increase compared with the prior year. Asset Management reported record revenue in 2012 and achieved its fifteenth consecutive quarter of positive net long-term client flows into assets under management. Asset Management also increased loan balances to a record $80.2 billion at December 31, 2012.

JPMorgan Chase ended the year with a Basel I Tier 1 common ratio of 11.0%, compared with 10.1% at year-end 2011. The Firm estimated that its Basel III Tier 1 common ratio was approximately 8.7% at December 31, 2012, taking into account the impact of final Basel 2.5 rules and the proposals set forth in the Federal Reserve's Notice of Proposed Rulemaking ("NPR"). Total deposits increased to $1.2 trillion, up 6% from the prior year. Total stockholders' equity at December 31, 2012, was $204.1 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 117–120 of this Annual Report.)

During 2012, the Firm worked to help its customers, corporate clients and the communities in which it does business. The Firm provided credit and raised capital of more than $1.8 trillion for its clients during 2012; this included $20 billion lent to small businesses and $85 billion for nearly 1,500 non-profit and government entities, including states, municipalities, hospitals and universities. The Firm also originated more than 920,000 mortgages, and provided credit cards to approximately 6.7 million people. Since the beginning of 2009, the Firm has offered nearly 1.4 million mortgage modifications and of these approximately 610,000 have achieved permanent modifications.

In addition, despite the damage and disruption at many of its branches and facilities caused by Superstorm Sandy at the end of October 2012, the Firm continued to assist customers, clients and borrowers in the affected areas. The Firm continued to dispense cash through ATMs, loan money, provide liquidity to customers, and settle trades, and it waived a number of checking account and loan fees, including late payment fees, for the benefit of its customers.

Consumer & Community Banking net income increased compared to the prior year, reflecting higher net revenue and lower provision for credit losses, partially offset by higher noninterest expense. Net revenue increased, driven by higher noninterest revenue. Net interest income decreased, driven by lower deposit margins and lower loan balances due to net portfolio runoff, largely offset by the impact of higher deposit balances. Noninterest revenue increased, driven by higher mortgage fees and related income, partially offset by lower debit card revenue, reflecting the impact of the Durbin Amendment. The provision for credit losses in 2012 was $3.8 billion compared with $7.6 billion in the prior year. The current-year provision reflected a $5.5 billion reduction in the allowance for loan losses due to improved delinquency trends and lower estimated losses in the mortgage loan and credit card portfolios. The prior-year provision reflected a $4.2 billion reduction in the allowance for loan losses. Noninterest expense increased in 2012 compared with the prior year, driven by higher production expense reflecting higher volumes, investments in sales force and partially offset by lower marketing expense in Card. Return on equity for the year was 25% on $43.0 billion of average allocated capital.

Corporate & Investment Bank net income increased in 2012 compared with the prior year, reflecting slightly higher net revenue, lower noninterest expense and a larger benefit from the provision for credit losses. Net revenue for 2012 included a $930 million loss from debit valuation adjustments ("DVA") on structured notes and derivative liabilities resulting from the tightening of the Firm's credit spreads. The prior year net revenue included a $1.4 billion gain from DVA. The provision for credit losses was a larger benefit in 2012 compared with the prior year. The current-year benefit reflected recoveries and a net reduction in the allowance for credit losses both related to the restructuring of certain nonperforming loans, current credit trends and other portfolio activity. Noninterest expense was down slightly driven by lower compensation expense. Return on equity for the year was 18%, or 19% excluding DVA (a non-GAAP financial measure), on $47.5 billion of average allocated capital.

Commercial Banking reported record net income for 2012, reflecting an increase in net revenue and a decrease in the provision for credit losses, partially offset by higher noninterest expense. Net revenue was a record, driven by higher net interest income and higher noninterest revenue. Net interest income increased, driven by growth in loan and liability balances, partially offset by spread compression on loan and liability products. Noninterest revenue increased compared with the prior year, largely driven by increased investment banking revenue. Noninterest expense increased, primarily reflecting higher headcount-related expense. Return on equity for the year was 28% on $9.5 billion of average allocated capital.

Asset Management net income increased in 2012, driven by higher net revenue. Net revenue increased, driven by net inflows to products with higher margins and higher net interest income resulting from higher loan and deposit balances. Noninterest expense was flat compared with the prior year. Return on equity for the year was 24% on $7.0 billion of average allocated capital.

Corporate/Private Equity reported a net loss in 2012, compared with net income in the prior year driven by losses in Treasury and Chief Investment Office ("CIO"). Treasury and CIO net revenue included $5.8 billion of principal transactions losses from the synthetic credit portfolio in CIO during the first six months of 2012 and $449 million of losses during the third quarter of 2012 on the retained index credit derivative positions. During the third quarter, CIO effectively closed out the index credit derivative positions that were retained following the transfer of the remainder of the synthetic credit portfolio to CIB on July 2, 2012. Treasury and CIO net revenue also included securities gains of $2.0 billion for the year. The current-year net revenue also included $888 million of extinguishment gains related to the redemption of trust preferred securities. Net interest income was negative in 2012, and significantly lower than the prior year, primarily reflecting the impact of lower portfolio yields and higher deposit balances across the Firm.

Other Corporate reported a net loss in 2012. Noninterest revenue included a benefit of $1.1 billion as a result of the Washington Mutual bankruptcy settlement and a $665 million gain for the recovery on a Bear Stearns-related subordinated loan. Noninterest expense included an expense of $3.7 billion for additional litigation reserves, predominantly for mortgage-related matters. The prior year included expense of $3.2 billion for additional litigation reserves.

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

2013 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 185 of this Annual Report and the Risk Factors section on pages 8–21 of the 2012 Form 10-K.

JPMorgan Chase's outlook for the full year 2013 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 CCB, the Firm estimates that, given the current low interest rate environment, continued deposit spread compression could negatively impact annual net income by approximately $400 million in 2013. This decline may be offset by the impact of deposit balance growth, although the exact extent of any such deposit growth cannot be determined at this time.

In the Mortgage Banking business within CCB, management expects to continue to incur elevated default- and foreclosure-related costs, including additional costs associated with the Firm's mortgage servicing processes, particularly its loan modification and foreclosure procedures. In addition, management believes that the high production margins experienced in recent quarters likely peaked in 2012 and will decline over time. Management also expects there will be continued elevated levels of repurchases of mortgages previously sold, predominantly to U.S. government-sponsored entities ("GSEs"). However, based on current trends and estimates, management believes that the existing mortgage repurchase liability is sufficient to cover such losses.

For Real Estate Portfolios within Mortgage Banking, management believes that total quarterly net charge-offs may be approximately $550 million, subject to economic conditions. If the positive credit trends in the residential real estate portfolio continue or accelerate and economic uncertainty declines, the related allowance for loan losses may be reduced over time. Given management's current estimate of portfolio runoff levels, the residential real estate portfolio is expected to decline by approximately 10% to 15% in 2013 from year-end 2012 levels. The run-off in the residential real estate portfolio can be expected to reduce annual net interest income by approximately $600 million in 2013. Over time, the reduction in net interest income should be offset by an improvement in credit costs and lower expenses.
In Card Services within CCB, the Firm expects that, if current positive credit trends continue, the card- related allowance for loan losses could be reduced by up to $1 billion over the course of 2013.
The currently anticipated results for CCB described above could be adversely affected if economic conditions, including U.S. housing prices or the unemployment rate, do not continue to improve. Management continues to closely monitor the portfolios in these businesses.
In Private Equity, within the Corporate/Private Equity segment, earnings will likely continue to be volatile and

influenced by capital markets activity, market levels, the performance of the broader economy and investment-specific issues.

For Treasury and CIO, within the Corporate/Private Equity segment, management expects a quarterly net loss of approximately $300 million with that amount likely to vary driven by the implied yield curve and management decisions related to the positioning of the investment securities portfolio.

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

Management expects the Firm's net interest income to be generally flat during 2013, as modest pressure on the net yield on interest-earning assets is expected to be generally offset by anticipated growth in interest-earning assets.

The Firm continues to focus on expense discipline and is targeting expense for 2013 to be approximately $1 billion lower than in 2012 (not taking into account, for such purposes, any expenses in each year related to corporate litigation and foreclosure-related matters).

CIO synthetic credit portfolio

On August 9, 2012, the Firm restated its previously-filed interim financial statements for the quarterly period ended March 31, 2012. The restatement related to valuations of certain positions in the synthetic credit portfolio of the Firm's CIO. The restatement had the effect of reducing the Firm's reported net income for the three months ended March 31, 2012, by $459 million. The restatement had no impact on any of the Firm's Consolidated Financial Statements as of June 30, 2012, and December 31, 2011, or for the three and six months ended June 30, 2012 and 2011. For more information about the restatement and the related valuation matter, see the Firm's Form 10-Q for the quarter ended June 30, 2012, filed on August 9, 2012.

Management also determined that a material weakness existed in the Firm's internal control over financial reporting at March 31, 2012. Management has taken steps to remediate the material weakness, including enhancing management supervision of valuation matters. These remedial steps were substantially implemented by June 30, 2012; however, in accordance with the Firm's internal control compliance program, the material weakness designation could not be closed until the remedial processes were operational for a period of time and successfully tested. The testing was successfully completed during the third quarter of 2012 and the control deficiency was closed at September 30, 2012. For additional information concerning the remedial changes in, and related testing of, the Firm's internal control over financial reporting, see Part I, Item 4: Controls and Procedures in the Firm's Form 10-Q for the quarter ended September 30, 2012, filed on November 8, 2012.

On July 2, 2012, the majority of the synthetic credit portfolio was transferred from the CIO to the Firm's CIB, which has the expertise, trading platforms and market franchise to manage these positions to maximize their economic value. An aggregate position of approximately $12 billion notional was retained in CIO. By the end of the third quarter of 2012, CIO effectively closed out the index credit derivative positions that had been retained by it following the transfer. CIO incurred losses of $5.8 billion from the synthetic credit portfolio for the six months ended June 30, 2012, and losses of $449 million from the retained index credit derivative positions for the three months ended September 30, 2012, which were recorded in the principal transactions revenue line item of the income statement. CIB continues to actively manage and reduce the risks in the remaining synthetic credit portfolio that had been transferred to it on July 2, 2012. This portion of the portfolio experienced modest losses in each of the two quarters of 2012 following the transfer; these losses were included in Fixed Income Markets Revenue for CIB (and also recorded in the principal transactions revenue).

On January 16, 2013, the Firm announced that the Firm's Management Task Force and the independent Review Committee of the Firm's Board of Directors (the "Board Review Committee") had each concluded their reviews relating to the 2012 losses by the CIO and had released their respective reports. The Board Review Committee's Report sets forth recommendations relating to the Board's oversight of the Firm's risk management processes, all of which have been approved by the full Board of Directors and have been, or are in the process of being, implemented.

The Management Task Force Report, in addition to summarizing the key events and setting forth its observations regarding the losses incurred in CIO's synthetic credit portfolio, describes the broad range of remedial measures taken by the Firm to respond to the lessons it has learned from the CIO events, including:

- revamping the governance, mandate and reporting and control processes of CIO;
- implementing numerous risk management changes, including improvements in model governance and market risk; and
- effecting a series of changes to the Risk function's governance, organizational structure and interaction with the Board.

The Board of Directors formed the Board Review Committee in May 2012 to oversee the scope and work of the Management Task Force review, assess the Firm's risk management processes related to the issues raised in the Management Task Force review, and to report to the Board of Directors on the Review Committee's findings and recommendations. In performing these tasks, the Board Review Committee, with the assistance of its own counsel and expert advisor, conducted an independent review, including analyzing the voluminous documentary record and conducting interviews of Board members and numerous current and former employees of the Firm. Based on its review, the Board Review Committee concurred in the substance of the Management Task Force Report. The Management Task Force Report and the Board Review Committee Report set out facts that in their view were the most relevant for their respective purposes. Others (including regulators conducting their own investigations) may have a different view of the facts, or may focus on other facts, and may also draw different conclusions regarding the facts and issues.

The Board Review Committee Report recommends a number of enhancements to the Board's own practices to strengthen its oversight of the Firm's risk management processes. The Board Review Committee noted that some of its recommendations were already being followed by the Board or the Risk Policy Committee or have recently been put into effect.

The Board Review Committee's recommendations include:

- better focused and clearer reporting of presentations to the Board's Risk Policy Committee, with particular emphasis on the key risks for each line of business, identification of significant future changes to the business and its risk profile, and adequacy of staffing, technology and other resources;
- clarifying to management the Board's expectations regarding the capabilities, stature, and independence of the Firm's risk management personnel;
- more systematic reporting to the Risk Policy Committee on significant model risk, model approval and model governance, on setting of significant risk limits and responses to significant limit excessions, and with respect to regulatory matters requiring attention;
- further clarification of the Risk Policy Committee's role and responsibilities, and more coordination of matters presented to the Risk Policy Committee and the Audit Committee;
- concurrence by the Risk Policy Committee in the hiring or firing of the Chief Risk Officer and that it be consulted with respect to the setting of such Chief Risk Officer's compensation; and
- staff with appropriate risk expertise be added to the Firm's Internal Audit function and that Internal Audit more systematically include the risk management function in its audits.

The Board of Directors will continue to oversee the Firm's remediation efforts to ensure they are fully implemented.

Also, on January 14, 2013, the Firm and JPMorgan Chase Bank, N.A., entered into Consent Orders with, respectively, the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency ("the OCC") that relate to risk management, model governance and other control functions related to CIO and certain other trading activities at the Firm. Many of the actions required by the Consent Orders are consistent with those recommended by the Management Task Force and the Board Review Committee and, as such, a number of them have been, or are in the process of being, implemented. The

Firm is committed to the full remediation of all issues identified in the Consent Orders.

The CIO synthetic credit portfolio losses have resulted in litigation against the Firm, as well as heightened regulatory scrutiny and may lead to additional regulatory or legal proceedings, in addition to the consent orders noted above. Such regulatory and legal proceedings may expose the Firm to fines, penalties, judgments or losses, harm the Firm's reputation or otherwise cause a decline in investor confidence. For a description of the regulatory and legal developments relating to the CIO matters described above, see Note 31 on pages 316–325 of this Annual Report.

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 an unprecedented increase in regulation and supervision, and such changes could have a significant impact on how the Firm conducts business. For example, under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), U.S. federal banking and other regulatory agencies are instructed to conduct approximately 285 rulemakings and 130 studies and reports. These agencies include the Federal Reserve, the Office of the Comptroller of the Currency (the "OCC"), the Federal Deposit Insurance Corporation (the "FDIC"), the Commodity Futures Trading Commission, the U.S. Securities and Exchange Commission (the "SEC") and the Bureau of Consumer Financial Protection (the "CFPB"). 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 regulations while, at the same time, best meeting the needs and expectations of its clients.

During 2012, for example, the Firm submitted to the Federal Reserve and the FDIC its “resolution plan” in the event of a material distress or failure, registered several of its subsidiaries with the CFTC as swap dealers, and continued its planning and implementation efforts with respect to new regulations affecting its derivatives, trading and money market mutual funds businesses. The Firm also faces regulatory initiatives relating to its structure, including push-out of certain derivatives activities from its subsidiary banks under Section 716 of the Dodd-Frank Act, a proposed requirement from the U.K. Financial Services Authority (the “FSA”) requiring the Firm to either obtain equal treatment for the U.K. depositors of its U.S. bank who makes deposits in the U.K., or “subsidiarize” in the U.K., and various other proposed U.K. and EU initiatives that could affect its ability to allocate capital and liquidity efficiently among its global operations. Additional efforts are underway to comply with the higher capital requirements of the new Basel Accords (both the “Basel 2.5” requirements effective January 1, 2013 as well as the additional capital requirements of “Basel III”). The Firm is also preparing to comply with Basel III’s new liquidity measures -- the “liquidity coverage ratio” (“LCR”) and the “net stable funding ratio" ("NSFR") - which require the Firm to hold specified types of "high quality" liquid assets to meet assumed levels of cash outflows following a stress event. Management's current objective is for the Firm to reach, by the end of 2013, an estimated Basel III Tier I common ratio of 9.5% (including the impact of the Basel 2.5 rules and the estimated impact of the other applicable requirements set forth in the Federal Reserve's Advanced NPR issued in June 2012). The Firm is currently targeting reaching a 100% LCR, based on its current understanding of these requirements, by the end of 2013.

Furthermore, the Firm is experiencing heightened scrutiny by its regulators of its compliance with new and existing regulations, including those issued under the Bank Secrecy Act, the Unfair and Deceptive Acts or Practices laws, the Real Estate Settlement Procedures Act ("RESPA"), the Truth in Lending Act, laws governing the Firm's consumer collections practices and the laws administered by the Office of Foreign Control, among others. The Firm is also under scrutiny by its supervisors with respect to its controls and operational processes, such as those relating to model development, review, governance and approvals. On January 14, 2013, the Firm and three of its subsidiary banks, including JPMorgan Chase Bank, N.A. entered into Consent Orders with the Federal Reserve and the OCC relating principally to the Firm's and such banks' BSA/AML policies and procedures. Also on January 14, 2013, the Firm and JPMorgan Chase Bank, N.A. entered into Consent Orders arising out of their reviews of the Firm's Chief Investment Office. These latter Consent Orders relate to risk management, model governance and other control functions related to CIO and certain other trading activities at the Firm. The Firm expects that its banking supervisors will in the future continue to take more formal enforcement actions against the Firm rather than issuing informal supervisory actions or criticisms.

While the effect of the changes in law and the heightened scrutiny of its regulators is likely to result in additional costs, the Firm cannot, given the current status of regulatory and supervisory developments, quantify the possible effects on its business and operations of all the significant changes that are currently underway. For further discussion of regulatory developments, see Supervision and regulation on pages 1–8 and Risk factors on pages 8–21.

On January 7, 2013, the Firm submitted its capital plan to the Federal Reserve under the Federal Reserve's 2013 Comprehensive Capital Analysis and Review ("CCAR") process. The Firm's plan relates to the last three quarters of 2013 and the first quarter of 2014 (that is, the 2013 CCAR capital plan relates to dividends to be declared commencing in June 2013 and payable in July 2013, and to common equity repurchases and other capital actions commencing April 1, 2013). The Firm expects to receive the Federal Reserve's final response to its plan no later than March 14, 2013. With respect to the Firm's 2012 CCAR capital plan, the Firm expects that its Board of Directors will declare the regular quarterly common stock dividend of $0.30 per share for the 2013 first quarter at its Board meeting to be

held on March 19, 2013. In addition, pursuant to a non-objection received from the Federal Reserve on November 5, 2012 with respect to the 2012 capital plan it resubmitted in August 2012, the Firm is authorized to repurchase up to $3.0 billion of common equity in the first quarter of 2013. The timing and exact amount of any common equity to be repurchased under the program will depend on various factors, including market conditions; the Firm's capital position; organic and other investment opportunities, and legal and regulatory considerations, among other factors. For more information, see Capital management on pages 116–122.

Business events

Superstorm Sandy

On October 29, 2012, the mid-Atlantic and Northeast regions of the U.S. were affected by Superstorm Sandy, which caused major flooding and wind damage and resulted in major disruptions to individuals and businesses and significant damage to homes and communities in the affected regions. Despite the damage and disruption to many of its branches and facilities, the Firm has been assisting its customers, clients and borrowers in the affected areas. The Firm has continued to dispense cash via ATMs and branches, loan money, provide liquidity to customers, and settle trades, and it waived a number of checking account and loan fees, including late payment fees. Superstorm Sandy did not have a material impact on the 2012 financial results of the Firm and the Firm does not anticipate total losses due to the storm will be material.

Subsequent events

Mortgage foreclosure settlement agreement with the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System

On January 7, 2013, the Firm announced that it and a number of other financial institutions entered into a settlement agreement with the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System providing for the termination of the independent foreclosure review programs (the “Independent Foreclosure Review”). Under this settlement, the Firm will make a cash payment of $753 million into a settlement fund for distribution to qualified borrowers. The Firm has also committed an additional $1.2 billion to foreclosure prevention actions, which will be fulfilled through credits given to the Firm for modifications, short sales and other specified types of borrower relief. Foreclosure prevention actions that earn credit under the Independent Foreclosure Review settlement are in addition to actions taken by the Firm to earn credit under the global settlement entered into by the Firm with state and federal agencies. The estimated impact of the foreclosure prevention actions required under the Independent Foreclosure Review settlement have been considered in the Firm’s allowance for loan losses. The Firm recognized a pretax charge of approximately $700 million in the fourth quarter of 2012 related to the Independent Foreclosure Review settlement.

CONSOLIDATED RESULTS OF OPERATIONS

The following section provides a comparative discussion of JPMorgan Chase's Consolidated Results of Operations on a reported basis for the three-year period ended December 31, 2012. 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 178–182 of this Annual Report.

Revenue

Year ended December 31, (in millions)	2012	2011	2010
Investment banking fees	$5,808	$5,911	$6,190
Principal transactions	5,536	10,005	10,894
Lending- and deposit-related fees	6,196	6,458	6,340
Asset management, administration and commissions	13,868	14,094	13,499
Securities gains	2,110	1,593	2,965
Mortgage fees and related income	8,687	2,721	3,870
Card income	5,658	6,158	5,891
Other income[(a)]	4,258	2,605	2,044
Noninterest revenue	52,121	49,545	51,693
Net interest income	44,910	47,689	51,001
Total net revenue	$97,031	$97,234	$102,694

(a) Included operating lease income of $1.3 billion, $1.2 billion and $971 million for the years ended December 31, 2012, 2011 and 2010, respectively.

2012 compared with 2011

Total net revenue for 2012 was $97.0 billion, down slightly from 2011. Results for 2012 were driven by lower principal transactions revenue from losses incurred by CIO, and lower net interest income. These items were predominantly offset by higher mortgage fees and related income in CCB and higher other income in Corporate/Private Equity.

Investment banking fees decreased slightly from 2011, reflecting lower advisory fees on lower industry-wide volumes, and to a lesser extent, slightly lower equity underwriting fees on industry-wide volumes that were flat from the prior year. These declines were predominantly offset by record debt underwriting fees, driven by favorable market conditions and the impact of continued low interest rates. For additional information on investment banking fees, which are primarily recorded in CIB, see CIB segment results pages 92–95 and Note 7 on pages 228–229 of this Annual Report.

Principal transactions revenue, which consists of revenue primarily from the Firm's market-making and private equity investing activities, decreased compared with 2011, predominantly due to $5.8 billion of losses incurred by CIO from the synthetic credit portfolio for the six months ended June 30, 2012, and $449 million of losses incurred by CIO from the retained index credit derivative positions for the three months ended September 30, 2012; and additional modest losses incurred by CIB from the synthetic credit portfolio in each of the third and fourth quarters of 2012.

Principal transaction revenue also included a $930 million loss in 2012, compared with a $1.4 billion gain in 2011, from DVA on structured notes and derivative liabilities, resulting from the tightening of the Firm's credit spreads. These declines were partially offset by higher market-making revenue in CIB, driven by strong client revenue and higher revenue in rates-related products, as well as a $665 million gain recognized in Other Corporate associated with the recovery on a Bear Stearns-related subordinated loan. Private equity gains decreased in 2012, predominantly due to lower unrealized and realized gains on private investments, partially offset by higher unrealized gains on public securities. For additional information on principal transactions revenue, see CIB and Corporate/Private Equity

segment results on pages 92–95 and 102–104, respectively, and Note 7 on pages 228–229 of this Annual Report.
Lending- and deposit-related fees decreased in 2012 compared with the prior year. The decrease predominantly reflected lower lending-related fees in CIB and lower deposit-related fees in CCB. For additional information on lending- and deposit-related fees, which are mostly recorded in CCB, CIB and CB, see the segment results for CCB on pages 80–91, CIB on pages 92–95 and CB on pages 96–98 of this Annual Report.

Asset management, administration and commissions revenue decreased from 2011. The decrease was largely driven by lower brokerage commissions in CIB. This decrease was largely offset by higher asset management fees in AM driven by net client inflows, the effect of higher market levels, and higher performance fees; and higher investment service fees in CCB, as a result of growth in branch sales of investment products. For additional information on these fees and commissions, see the segment discussions for CIB on pages 92–95, CCB on pages 80–91, AM on pages 99–101, and Note 7 on pages 228–229 of this Annual Report.

Securities gains increased, compared with the 2011 level, reflecting the results of repositioning the CIO available-for-sale ("AFS") securities portfolio. 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 102–104, and Note 12 on pages 244–248 of this Annual Report.

Mortgage fees and related income increased significantly in 2012 compared with 2011. The increase resulted from higher production revenue, reflecting wider margins driven by favorable market conditions; and higher volumes due to historically low interest rates and the Home Affordable Refinance Programs ("HARP"). The increase also resulted from a favorable swing in risk management results related to mortgage servicing rights ("MSR"), which was a gain of $619 million in 2012, compared with a loss of $1.6 billion in 2011. For additional information on mortgage fees and related income, which is recorded predominantly in CCB, see CCB's Mortgage Production and Mortgage Servicing discussion on pages 85–87, and Note 17 on pages 291–295 of this Annual Report.

Card income decreased during 2012, driven by lower debit card revenue, reflecting the impact of the Durbin Amendment; and to a lesser extent, higher amortization of loan origination costs. The decrease in credit card income was offset partially by higher net interchange income associated with growth in credit card sales volume, and higher merchant servicing revenue. For additional information on credit card income, see the CCB segment results on pages 80–91 of this Annual Report.

Other income increased in 2012 compared with the prior year, largely due to a $1.1 billion benefit from the Washington Mutual bankruptcy settlement, and $888 million of extinguishment gains in Corporate/Private Equity related to the redemption of trust preferred securities ("TruPS"). The extinguishment gains were related to adjustments applied to the cost basis of the TruPS during the period they were in a qualified hedge accounting relationship. These items were offset partially by the absence of a prior-year gain on the sale of an investment in AM.

Net interest income decreased in 2012 compared with the prior year, predominantly reflecting the impact of lower average trading asset balances, the runoff of higher-yielding loans, faster prepayment of mortgage-backed securities, limited reinvestment opportunities, as well as the impact of lower interest rates across the Firm's interest-earning assets. The decrease in net interest income was partially offset by lower deposit and other borrowing costs. The Firm's average interest-earning assets were $1.8 trillion for 2012, and the net yield on those assets, on a fully taxable-equivalent ("FTE") basis, was 2.48%, a decrease of 26 basis points from 2011.

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 CCB, 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.

Principal transactions revenue 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 structured notes and derivative liabilities, resulting from the widening of the Firm's credit spreads; this was partially offset by a $769 million loss, net of hedges, from CVA on derivative assets in CIB's credit portfolio, due to the widening of credit spreads related to 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 challenging market conditions on Corporate and CIB during the second half of 2011. 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.

Lending- and deposit-related fees increased modestly in 2011 compared with the prior year. The increase was primarily driven by the introduction of a new checking account product offering by CCB in the first quarter of 2011, 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 CCB.

Asset management, administration and commissions revenue increased from 2010, reflecting higher asset management fees in AM and CCB, driven by net inflows to products with higher margins and the effect of higher market levels; and higher administration fees in CIB, reflecting net inflows of assets under custody.

Securities gains decreased, compared with the 2010 level, primarily due to the repositioning of the AFS portfolio in response to changes in the current market environment and to rebalancing exposures.

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 ("MSR") asset, which was predominantly offset by a $5.6 billion gain on the derivatives used to hedge the MSR asset. For additional information on repurchase losses, see the Mortgage repurchase liability discussion on pages 111–115 and Note 29 on pages 308–315 of this Annual Report.

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.

Other income increased in 2011, driven by valuation adjustments on certain assets and incremental revenue from recent acquisitions in CIB, and higher auto operating lease income in CCB, resulting from growth in lease volume.

Management's discussion and analysis

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 CCB, 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 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 CCB discussion on credit card legislation on page 89 of this Annual Report.

Provision for credit losses

Year ended December 31, (in millions)	2012	2011	2010
Consumer, excluding credit card	$302	$4,672	$9,452
Credit card	3,444	2,925	8,037
Total consumer	3,746	7,597	17,489
Wholesale	(361)	(23)	(850)
Total provision for credit losses	$3,385	$7,574	$16,639

2012 compared with 2011

The provision for credit losses decreased by $4.2 billion from 2011. The decrease was driven by a lower provision for consumer, excluding credit card loans, which reflected a reduction in the allowance for loan losses, due primarily to lower estimated losses in the non-PCI residential real estate portfolio as delinquency trends improved, partially offset by the impact of charge-offs of Chapter 7 loans. A higher level of recoveries and lower charge-offs in the wholesale provision also contributed to the decrease. These items were partially offset by a higher provision for credit card loans, largely due to a smaller reduction in the allowance for loan losses in 2012 compared with the prior year. For a more detailed discussion of the loan portfolio and the allowance for credit losses, see the segment discussions for CCB on pages 80–91, CIB on pages 92–95 and CB on pages 96–98, and Allowance For Credit Losses on pages 159–162 of this Annual Report.

2011 compared with 2010

The provision for credit losses declined by $9.1 billion from 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.

Noninterest expense

Year ended December 31, (in millions)	2012	2011	2010
Compensation expense	$30,585	$29,037	$28,124
Noncompensation expense:			
Occupancy	3,925	3,895	3,681
Technology, communications and equipment	5,224	4,947	4,684
Professional and outside services	7,429	7,482	6,767
Marketing	2,577	3,143	2,446
Other[(a)(b)]	14,032	13,559	14,558
Amortization of intangibles	957	848	936
Total noncompensation expense	34,144	33,874	33,072
Total noninterest expense	$64,729	$62,911	$61,196

(a) Included litigation expense of $5.0 billion, $4.9 billion and $7.4 billion for the years ended December 31, 2012, 2011 and 2010, respectively.

(b) Included FDIC-related expense of $1.7 billion, $1.5 billion and $899 million for the years ended December 31, 2012, 2011 and 2010, respectively.

2012 compared with 2011

Total noninterest expense for 2012 was $64.7 billion, up by $1.8 billion, or 3%, from 2011. Compensation expense drove the increase from the prior year.

Compensation expense increased from the prior year, predominantly due to investments in the businesses, including the sales force in CCB and bankers in the other businesses, partially offset by lower compensation expense in CIB.

Noncompensation expense for 2012 increased from the prior year, reflecting continued investments in the businesses, including branch builds in CCB; higher expense related to growth in business volume in CIB and CCB; higher regulatory deposit insurance assessments; expenses related to exiting a non-core product and writing-off intangible assets in CCB; and higher litigation expense in Corporate/Private Equity. These increases were partially offset by lower litigation expense in AM and CCB (including the Independent Foreclosure Review settlement) and lower marketing expense in CCB. For a further discussion of litigation expense, see Note 31 on pages 316–325 of this Annual Report. For a discussion of amortization of intangibles, refer to Note 17 on pages 291–295 of this Annual Report.

2011 compared with 2010
Total noninterest expense for 2011 was $62.9 billion, up by $1.7 billion, or 3%, from 2010. Both compensation and noncompensation expense contributed to the increase.
Compensation expense increased from the prior year, due to investments in branch and mortgage production sales and support staff in CCB 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 CIB.
The increase in noncompensation expense in 2011 was due to elevated foreclosure- and default-related costs in CCB, including $1.7 billion of expense for fees and assessments, as well as other costs of foreclosure-related matters, higher marketing expense in CCB, 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 CCB. These were offset partially by lower litigation expense in 2011 in Corporate and CIB. 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.

Income tax expense

Year ended December 31, (in millions, except rate)	2012	2011	2010
Income before income tax expense	$28,917	$26,749	$24,859
Income tax expense	7,633	7,773	7,489
Effective tax rate	26.4 %	29.1 %	30.1 %

2012 compared with 2011
The decrease in the effective tax rate compared with the prior year was largely the result of changes in the proportion of income subject to U.S. federal and state and local taxes, as well as higher tax benefits associated with tax audits and tax-advantaged investments. This was partially offset by higher reported pretax income and lower benefits associated with the disposition of certain investments. The current and prior periods include deferred tax benefits associated with state and local income taxes. For additional information on income taxes, see Critical Accounting Estimates Used by the Firm on pages 178–182 and Note 26 on pages 303–305 of this Annual Report.
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 U.S. 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.

Management's discussion and analysis

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

The Firm prepares its consolidated financial statements using accounting principles generally accepted in the U.S.("U.S. GAAP"); these financial statements appear on pages 188–192 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.

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.

	2012			2011			2010		
Year ended December 31, (in millions, except ratios)	Reported Results	Fully tax-equivalent adjustments[(a)]	Managed basis	Reported Results	Fully tax-equivalent adjustments[(a)]	Managed basis	Reported Results	Fully tax-equivalent adjustments[(a)]	Managed basis
Other income	$4,258	$ 2,116	$6,374	$2,605	$ 2,003	$4,608	$2,044	$ 1,745	$3,789
Total noninterest revenue	52,121	2,116	54,237	49,545	2,003	51,548	51,693	1,745	53,438
Net interest income	44,910	743	45,653	47,689	530	48,219	51,001	403	51,404
Total net revenue	97,031	2,859	99,890	97,234	2,533	99,767	102,694	2,148	104,842
Pre-provision profit	32,302	2,859	35,161	34,323	2,533	36,856	41,498	2,148	43,646
Income before income tax expense	28,917	2,859	31,776	26,749	2,533	29,282	24,859	2,148	27,007
Income tax expense	7,633	2,859	10,492	7,773	2,533	10,306	7,489	2,148	9,637
Overhead ratio	67 %	NM	65 %	65 %	NM	63 %	60 %	NM	58 %

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

Tangible common equity ("TCE"), ROTCE, tangible book value per share ("TBVS"), and Tier 1 common under Basel I and III rules are each non-GAAP financial measures. TCE represents the Firm's common stockholders' equity (i.e., total stockholders' equity less preferred stock) less goodwill and identifiable intangible assets (other than MSRs), net of related deferred tax liabilities. ROTCE measures the Firm's earnings as a percentage of TCE. TBVS represents the Firm's tangible common equity divided by period-end common shares. Tier 1 common under Basel I and III rules are used by management, along with other capital measures, to assess and monitor the Firm's capital position. TCE, ROTCE, and TBVS are meaningful to the Firm, as well as analysts and investors, in assessing the Firm's use of equity. For additional information on Tier 1 common under Basel I and III, see Regulatory capital on pages 117–120 of this Annual Report. All of the aforementioned measures are useful to the Firm, as well as analysts and investors, in facilitating comparison of the Firm with competitors.

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[(a)]
Net income* / Average tangible common equity
Return on assets
Reported net income / Total average assets
Return on risk-weighted assets
Annualized earnings / Average risk-weighted assets
Overhead ratio
Total noninterest expense / Total net revenue
* Represents net income applicable to common equity
(a) 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.

Average tangible common equity

Year ended December 31, (in millions)	2012	2011	2010
Common stockholders' equity	$184,352	$173,266	$161,520
Less: Goodwill	48,176	48,632	48,618
Less: Certain identifiable intangible assets	2,833	3,632	4,178
Add: Deferred tax liabilities[a]	2,754	2,635	2,587
Tangible common equity	$136,097	$123,637	$111,311

(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 (which excludes the impact of CIB'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 CIB's market-based net interest income and the related assets. Management believes the exclusion of CIB's market-based activities provides investors and analysts a more meaningful measure by which to analyze the non-market-related business trends of the Firm and provides a comparable measure to other financial institutions that are primarily focused on core lending, investing and deposit-raising activities.

Core net interest income data[a]

Year ended December 31, (in millions, except rates)	2012	2011	2010
Net interest income - managed basis[b][c]	$45,653	$48,219	$51,404
Less: Market-based net interest income	5,787	7,329	7,112
Core net interest income[b]	$39,866	$40,890	$44,292
Average interest-earning assets	$1,842,417	$1,761,355	$1,677,521
Less: Average market-based earning assets	499,339	519,655	470,927
Core average interest-earning assets	$1,343,078	$1,241,700	$1,206,594
Net interest yield on interest-earning assets - managed basis	2.48 %	2.74 %	3.06 %
Net interest yield on market-based activity	1.16	1.41	1.51
Core net interest yield on core average interest-earning assets	2.97 %	3.29 %	3.67 %

(a) Includes core lending, investing and deposit-raising activities on a managed basis across CCB, CIB, CB, AM, Corporate/Private Equity; excludes the market-based activities within the CIB.
(b) Interest includes the effect of related hedging derivatives. Taxable-equivalent amounts are used where applicable.
(c) For a reconciliation of net interest income on a reported and managed basis, see reconciliation from the Firm's reported U.S. GAAP results to managed basis on page 76.

2012 compared with 2011

Core net interest income decreased by $1.0 billion to $39.9 billion for 2012 and core average interest-earning assets increased by $101.4 billion in 2012 to $1,343.1 billion. The decline in net interest income in 2012 reflected the impact of the runoff of higher-yielding loans, faster prepayment of mortgage-backed securities, limited reinvestment opportunities, as well as the impact of lower interest rates across the Firm's interest-earning assets. The decrease in net interest income was partially offset by lower deposit and other borrowing costs. The increase in average interest-earning assets was driven by higher deposits with banks and other short-term investments, increased levels of loans, and an increase in investment securities. The core net interest yield decreased by 32 basis points to 2.97% in

2012, primarily driven by the runoff of higher-yielding loans as well as lower customer loan rates, higher financing costs associated with mortgage-backed securities, limited reinvestment opportunities, and was slightly offset by lower customer deposit rates.

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 CCB 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.

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 159–162 of this Annual Report.

BUSINESS SEGMENT RESULTS

The Firm is managed on a line of business basis. There are four major reportable business segments – Consumer & Community Banking, Corporate & Investment Bank, Commercial Banking and Asset Management. In addition, there is a Corporate/Private Equity segment.

The business segments are determined based on the products and services provided, or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. Results of these 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 76–77 of this Annual Report.

Business segment changes

Commencing with the fourth quarter of 2012, the Firm's business segments have been reorganized as follows:

Retail Financial Services and Card Services & Auto ("Card") business segments were combined to form one business segment called Consumer & Community Banking ("CCB"), and Investment Bank and Treasury & Securities Services business segments were combined to form one business segment called Corporate & Investment Bank ("CIB"). Commercial Banking ("CB") and Asset Management ("AM") were not affected by the aforementioned changes. A technology function supporting online and mobile banking was transferred from Corporate/Private Equity to the CCB business segment. This transfer did not materially affect the results of either the CCB business segment or Corporate/Private Equity.

The business segment information that follows has been revised to reflect the business reorganization retroactive to January 1, 2010.

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 Corporate/Private Equity. 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 business segment is allocated capital, taking into consideration the capital the business segment 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. The amount of capital assigned to each business is referred to as equity. Effective January 1, 2012, the Firm revised the capital allocated to certain businesses, reflecting additional refinement of each segment's estimated Basel III Tier 1 common capital requirements and balance sheet trends. For a further discussion of capital allocation, including refinements to the capital allocations that became effective on January 1, 2013, see Capital Management – Line of business equity on page 121 of this Annual Report.

Expense allocation

Where business segments use services provided by support units within the Firm, or another business segment, the costs of those services are allocated to the respective business segments. The expense is generally allocated based on actual cost and 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		
(in millions)	2012	2011	2010	2012	2011	2010	2012	2011	2010
Consumer & Community Banking	$49,945	$45,687	$48,927	$28,790	$27,544	$23,706	$21,155	$18,143	$25,221
Corporate & Investment Bank	34,326	33,984	33,477	21,850	21,979	22,869	12,476	12,005	10,608
Commercial Banking	6,825	6,418	6,040	2,389	2,278	2,199	4,436	4,140	3,841
Asset Management	9,946	9,543	8,984	7,104	7,002	6,112	2,842	2,541	2,872
Corporate/Private Equity	(1,152)	4,135	7,414	4,596	4,108	6,310	(5,748)	27	1,104
Total	$99,890	$99,767	$104,842	$64,729	$62,911	$61,196	$35,161	$36,856	$43,646

Year ended December 31,	Provision for credit losses			Net income/(loss)			Return on equity		
(in millions, except ratios)	2012	2011	2010	2012	2011	2010	2012	2011	2010
Consumer & Community Banking	$3,774	$7,620	$17,489	$10,611	$6,202	$4,578	25%	15%	11%
Corporate & Investment Bank	(479)	(285)	(1,247)	8,406	7,993	7,718	18	17	17
Commercial Banking	41	208	297	2,646	2,367	2,084	28	30	26
Asset Management	86	67	86	1,703	1,592	1,710	24	25	26
Corporate/Private Equity	(37)	(36)	14	(2,082)	822	1,280	NM	NM	NM
Total	$3,385	$7,574	$16,639	$21,284	$18,976	$17,370	11%	11%	10%

CONSUMER & COMMUNITY BANKING

Consumer & Community Banking ("CCB") serves consumers and businesses through personal service at bank branches and through ATMs, online, mobile and telephone banking. CCB is organized into Consumer & Business Banking, Mortgage Banking (including Mortgage Production, Mortgage Servicing and Real Estate Portfolios) and Card, Merchant Services & Auto ("Card"). Consumer & Business Banking offers deposit and investment products and services to consumers, and lending, deposit, and cash management and payment solutions to small businesses. Mortgage Banking includes mortgage origination and servicing activities, as well as portfolios comprised of residential mortgages and home equity loans, including the PCI portfolio acquired in the Washington Mutual transaction. Card issues credit cards to consumers and small businesses, provides payment services to corporate and public sector clients through its commercial card products, offers payment processing services to merchants, and provides auto and student loan services.

Selected income statement data

Year ended December 31, (in millions, except ratios)	2012		2011		2010	
Revenue						
Lending- and deposit-related fees	$3,121		$3,219		$3,117	
Asset management, administration and commissions	2,092		2,044		1,831	
Mortgage fees and related income	8,680		2,714		3,855	
Card income	5,446		6,152		5,469	
All other income	1,456		1,177		1,241	
Noninterest revenue	20,795		15,306		15,513	
Net interest income	29,150		30,381		33,414	
Total net revenue	49,945		45,687		48,927	
Provision for credit losses	3,774		7,620		17,489	
Noninterest expense						
Compensation expense	11,231		9,971		8,804	
Noncompensation expense	16,784		16,934		14,159	
Amortization of intangibles	775		639		743	
Total noninterest expense	28,790		27,544		23,706	
Income before income tax expense	17,381		10,523		7,732	
Income tax expense	6,770		4,321		3,154	
Net income	$10,611		$6,202		$4,578	
Financial ratios						
Return on common equity	25	%	15	%	11	%
Overhead ratio	58		60		48	

2012 compared with 2011

Consumer & Community Banking net income was $10.6 billion, up 71% when compared with the prior year. The increase was driven by higher net revenue and lower provision for credit losses, partially offset by higher noninterest expense.

Net revenue was $49.9 billion, up $4.3 billion, or 9%, compared with the prior year. Net interest income was $29.2 billion, down $1.2 billion, or 4%, driven by lower deposit margins and lower loan balances due to portfolio runoff, largely offset by higher deposit balances. Noninterest revenue was $20.8 billion, up $5.5 billion, or 36%, driven by higher mortgage fees and related income, partially offset by lower debit card revenue, reflecting the impact of the Durbin Amendment.

The provision for credit losses was $3.8 billion compared with $7.6 billion in the prior year. The current-year provision reflected a $5.5 billion reduction in the allowance for loan losses due to improved delinquency trends and reduced estimated losses in the real estate and credit card loan portfolios. Current-year total net charge-offs were $9.3 billion, including $800 million of charge-offs related to regulatory guidance. Excluding these charge-offs, net charge-offs during the year would have been $8.5 billion compared with $11.8 billion in the prior year. For more information, including net charge-off amounts and rates, see Consumer Credit Portfolio on pages 138–149 of this Annual Report.

Noninterest expense was $28.8 billion, an increase of $1.2 billion, or 5%, compared with the prior year, driven by higher production expense reflecting higher volumes, and investments in sales force, partially offset by lower costs related to mortgage-related matters and lower marketing expense in Card.

2011 compared with 2010

Consumer & Community Banking net income was $6.2 billion, up 35% when compared with the prior year. The increase was driven by lower provision for credit losses, largely offset by higher noninterest expense and lower net revenue.

Net revenue was $45.7 billion, down $3.2 billion, or 7%, compared with the prior year. Net interest income was $30.4 billion, down $3.0 billion, or 9%, reflecting the impact of lower loan balances, the impact of legislative changes in Card and a decreased level of fees in Card, largely offset by lower revenue reversals associated with lower net charge-offs in Card. Noninterest revenue was $15.3 billion, down $207 million, or 1%, driven by lower mortgage fees and related income, largely offset by the transfer of the Commercial Card business to Card from CIB in the first quarter of 2011 and higher net interchange income in Card.

The provision for credit losses was $7.6 billion, a decrease of $9.9 billion from the prior year. The current year provision included a $4.2 billion net reduction in the allowance for loan losses due to improved delinquency trends and lower estimated losses primarily in Card. The prior year provision reflected a reduction in the allowance for loan losses of $4.3 billion due to lower estimated losses primarily in Card.

Noninterest expense was $27.5 billion, up $3.8 billion, or 16%, 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 in Mortgage Banking, as well as higher marketing expense in Card.

Selected metrics

As of or for the year ended December 31, (in millions, except headcount and ratios)	2012	2011	2010
Selected balance sheet data (period-end)			
Total assets	$463,608	$483,307	$508,775
Loans:			
Loans retained	402,963	425,581	452,249
Loans held-for-sale and loans at fair value[(a)]	18,801	12,796	17,015
Total loans	421,764	438,377	469,264
Deposits	438,484	397,825	371,861
Equity	43,000	41,000	43,000
Selected balance sheet data (average)			
Total assets	$464,197	$487,923	$527,101
Loans:			
Loans retained	408,559	429,975	475,549
Loans held-for-sale and loans at fair value[(a)]	18,006	17,187	16,663
Total loans	426,565	447,162	492,212
Deposits	413,911	382,678	363,645
Equity	43,000	41,000	43,000
Headcount	159,467	161,443	143,226

Selected metrics

As of or for the year ended December 31, (in millions, except headcount and ratios)	2012		2011		2010	
Credit data and quality statistics						
Net charge-offs[(b)]	$9,280		$11,815		$21,943	
Nonaccrual loans:						
Nonaccrual loans retained	9,114		7,354		8,770	
Nonaccrual loans held-for-sale and loans at fair value	39		103		145	
Total nonaccrual loans[(c)(d)(e)(f)]	9,153		7,457		8,915	
Nonperforming assets[(c)(d)(e)(f)]	9,830		8,292		10,268	
Allowance for loan losses	17,752		23,256		27,487	
Net charge-off rate[(b)(g)]	2.27	%	2.75	%	4.61	%
Net charge-off rate, excluding PCI loans[(b)(g)]	2.68		3.27		5.50	
Allowance for loan losses to period-end loans retained	4.41		5.46		6.08	
Allowance for loan losses to period-end loans retained, excluding PCI loans[(h)]	3.51		4.87		5.94	
	72		143		131	

Allowance for loan losses to nonaccrual loans retained, excluding credit card(c)(f)(h)			
Nonaccrual loans to total period-end loans, excluding credit card(f)	3.12	2.44	2.69
Nonaccrual loans to total period-end loans, excluding credit card and PCI loans(c)(f)	3.91	3.10	3.44
Business metrics			
Number of:			
Branches	5,614	5,508	5,268
ATMs	18,699	17,235	16,145
Active online customers (in thousands)	31,114	29,749	28,708
Active mobile customers (in thousands)	12,359	8,203	4,873

(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) Net charge-offs and net charge-off rates for the year ended December 31, 2012, included $800 million of charge-offs, recorded in accordance with regulatory guidance. Excluding these charges-offs, net charge-offs for the year ended December 31, 2012, would have been $8.5 billion and excluding these charge-offs and PCI loans, the net charge-off rate for the year ended December 31, 2012, would have been 2.45%. For further information, see Consumer Credit Portfolio on pages 138–149 of this Annual Report.

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

(d) Certain mortgages originated with the intent to sell are classified as trading assets on the Consolidated Balance Sheets.

(e) At December 31, 2012, 2011 and 2010, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $10.6 billion, $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 $1.6 billion, $954 million, and $1.9 billion, respectively; and (3) student loans insured by U.S. government agencies under the Federal Family Education Loan Program ("FFELP") of $525 million, $551 million, and $625 million, respectively, that are 90 or more days past due. These amounts were excluded from nonaccrual loans as reimbursement of insured amounts is proceeding normally.

(f) Nonaccrual loans included $3.0 billion of loans at December 31, 2012, based upon regulatory guidance. For further information, see Consumer Credit Portfolio on pages 138–149 of this Annual Report.

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

(h) An allowance for loan losses of $5.7 billion at December 31, 2012 and 2011, and $4.9 billion at December 31, 2010 was recorded for PCI loans; these amounts were also excluded from the applicable ratios.

Management's discussion and analysis

Consumer & Business Banking

Selected income statement data Year ended December 31, (in millions, except ratios)	2012	2011	2010
Revenue			
Lending- and deposit-related fees	$3,068	$3,160	$3,025
Asset management, administration and commissions	1,637	1,559	1,390
Card income	1,353	2,024	1,953
All other income	481	467	484
Noninterest revenue	6,539	7,210	6,852
Net interest income	10,673	10,808	10,884
Total net revenue	17,212	18,018	17,736
Provision for credit losses	311	419	630
Noninterest expense	11,453	11,243	10,762
Income before income tax expense	5,448	6,356	6,344
Net income	$3,263	$3,796	$3,630
Overhead ratio	67 %	62 %	61 %
Overhead ratio, excluding core deposit intangibles[(a)]	65	61	59

(a) Consumer & Business Banking ("CBB") 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 CBB's CDI amortization expense related to prior business combination transactions of $200 million, $238 million, and $276 million for the years ended December 31, 2012, 2011 and 2010, respectively.

2012 compared with 2011

Consumer & Business Banking net income was $3.3 billion, a decrease of $533 million, or 14%, compared with the prior year. The decrease was driven by lower net revenue and higher noninterest expense, partially offset by lower provision for credit losses.

Net revenue was $17.2 billion, down 4% from the prior year. Net interest income was $10.7 billion, down 1% from the prior year, driven by the impact of lower deposit margins, predominantly offset by higher deposit balances. Noninterest revenue was $6.5 billion, down 9% from the prior year, driven by lower debit card revenue, reflecting the impact of the Durbin Amendment.

The provision for credit losses was $311 million, compared with $419 million in the prior year. The current-year provision reflected a $100 million reduction in the allowance for loan losses. Net charge-offs were $411 million compared with $494 million in the prior year.

Noninterest expense was $11.5 billion, up 2% from the prior year, resulting from investment in the sales force and new branch builds.

2011 compared with 2010

Consumer & Business Banking net income was $3.8 billion, an increase of $166 million, or 5%, compared with the prior year. The increase was driven by higher net revenue and lower provision for credit losses, offset by higher noninterest expense.

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 predominantly offset by the effect of

lower deposit margins. Noninterest revenue was $7.2 billion, up 5% from the prior year, 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 4% from the prior year, resulting from investment in sales force and new branch builds.

Selected metrics

As of or for the year ended December 31, (in millions, except ratios)	2012	2011	2010
Business metrics			
Business banking origination volume	$6,542	$5,827	$4,688
Period-end loans	18,883	17,652	16,812
Period-end deposits:			
Checking	170,322	147,779	131,702
Savings	216,422	191,891	170,604
Time and other	31,752	36,745	45,967
Total period-end deposits	418,496	376,415	348,273
Average loans	18,104	17,121	16,863
Average deposits:			
Checking	153,385	136,579	123,490
Savings	204,449	182,587	166,112
Time and other	34,224	41,576	51,152
Total average deposits	392,058	360,742	340,754
Deposit margin	2.57 %	2.82 %	3.00 %
Average assets	$30,987	$29,774	$29,321

Selected metrics As of or for the year ended December 31, (in millions, except ratios and where otherwise noted)	2012	2011	2010
Credit data and quality statistics			
Net charge-offs	$411	$494	$730
Net charge-off rate	2.27%	2.89%	4.32%
Allowance for loan losses	$698	$798	$875
Nonperforming assets	488	710	846
Retail branch business metrics			
Investment sales volume	$26,036	$22,716	$23,579
Client investment assets	158,502	137,853	133,114
% managed accounts	29%	24%	20%
Number of:			
Chase Private Client branch locations	1,218	262	16
Personal bankers	23,674	24,308	21,735
Sales specialists	6,076	6,017	4,876
Client advisors	2,963	3,201	3,066
Chase Private Clients	105,700	21,723	4,242
Accounts (in thousands)[(a)]	28,073	26,626	27,252

(a) Includes checking accounts and Chase Liquid^{SM} cards (launched in the second quarter of 2012).

Mortgage Banking

Selected income statement data Year ended December 31, (in millions, except ratios)	2012	2011	2010
Revenue			
Mortgage fees and related income	$8,680	$2,714	$3,855
All other income	475	490	528
Noninterest revenue	9,155	3,204	4,383
Net interest income	4,808	5,324	6,336
Total net revenue	13,963	8,528	10,719
Provision for credit losses	(490)	3,580	8,289
Noninterest expense	9,121	8,256	5,766
Income/(loss) before income tax expense/(benefit)	5,332	(3,308)	(3,336)
Net income/(loss)	$3,341	$(2,138)	$(1,924)
Overhead ratio	65%	97%	54%

2012 compared with 2011

Mortgage Banking net income was $3.3 billion, compared with a net loss of $2.1 billion in the prior year. The increase was driven by higher net revenue and lower provision for credit losses, partially offset by higher noninterest expense.

Net revenue was $14.0 billion, up $5.4 billion, or 64%, compared with the prior year. Net interest income was $4.8 billion, down $516 million, or 10%, resulting from lower loan balances due to portfolio runoff. Noninterest revenue was $9.2 billion, up $6.0 billion compared with the prior year, driven by higher mortgage fees and related income.

The provision for credit losses was a benefit of $490 million, compared with a provision expense of $3.6 billion in the prior year. The current year reflected a $3.85 billion reduction in the allowance for loan losses due to improved

delinquency trends and lower estimated losses.
Noninterest expense was $9.1 billion, an increase of $865 million, or 10%, compared with the prior year, driven by higher production expense reflecting higher volumes, partially offset by lower costs related to mortgage-related matters.
2011 compared with 2010
Mortgage Banking reported a net loss of $2.1 billion, compared with a net loss of $1.9 billion in the prior year. The increase in net loss was driven by higher noninterest expense and lower net revenue, offset by lower provision for credit losses.
Net revenue was $8.5 billion, down $2.2 billion, or 20%, compared with the prior year. Net interest income was $5.3 billion, down $1.0 billion, or 16%, from the prior year, resulting from lower loan balances due to portfolio runoff. Noninterest revenue was $3.2 billion, down $1.2 billion, or 27%, from the prior year, driven by lower mortgage fees and related income.
The provision for credit losses was $3.6 billion, down $4.7 billion, or 57% compared with the prior year due to lower estimated losses as delinquency trends and charge-offs continued to improve. 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 of the PCI portfolio and higher net charge-offs.
Noninterest expense was $8.3 billion, an increase of $2.5 billion, or 43%, compared with the prior year, driven by elevated foreclosure- and default-related costs in Mortgage Servicing.

Management's discussion and analysis

Functional results

Year ended December 31, (in millions, except ratios)	2012	2011	2010
Mortgage Production			
Production revenue	$5,783	$3,395	$3,440
Production-related net interest & other income	787	840	869
Production-related revenue, excluding repurchase losses	6,570	4,235	4,309
Production expense[(a)]	2,747	1,895	1,613
Income, excluding repurchase losses	3,823	2,340	2,696
Repurchase losses	(272)	(1,347)	(2,912)
Income/(loss) before income tax expense/(benefit)	3,551	993	(216)
Mortgage Servicing			
Loan servicing revenue	3,772	4,134	4,575
Servicing-related net interest & other income	407	390	433
Servicing-related revenue	4,179	4,524	5,008
MSR asset modeled amortization	(1,222)	(1,904)	(2,384)
Default servicing expense	3,707	3,814	1,747
Core servicing expense	1,033	1,031	837
Income/(loss), excluding MSR risk management	(1,783)	(2,225)	40
MSR risk management, including related net interest income/(expense)	616	(1,572)	1,151
Income/(loss) before income tax expense/(benefit)	(1,167)	(3,797)	1,191
Real Estate Portfolios			
Noninterest revenue	43	38	115
Net interest income	4,049	4,554	5,432
Total net revenue	4,092	4,592	5,547
Provision for credit losses	(509)	3,575	8,231
Noninterest expense	1,653	1,521	1,627
Income/(loss) before income tax expense/(benefit)	2,948	(504)	(4,311)
Mortgage Banking income/(loss) before income tax expense/(benefit)	$5,332	$(3,308)	$(3,336)
Mortgage Banking net income/(loss)	$3,341	$(2,138)	$(1,924)
Overhead ratios			
Mortgage Production	43%	65%	111%
Mortgage Servicing	133	462	68
Real Estate Portfolios	40	33	29

(a) Includes credit costs associated with Production.

Selected income statement data

Year ended December 31, (in millions)	2012	2011	2010
Supplemental mortgage fees and related income details			

Net production revenue:			
Production revenue	$5,783	$3,395	$3,440
Repurchase losses	(272)	(1,347)	(2,912)
Net production revenue	5,511	2,048	528
Net mortgage servicing revenue:			
Operating revenue:			
Loan servicing revenue	3,772	4,134	4,575
Changes in MSR asset fair value due to modeled amortization	(1,222)	(1,904)	(2,384)
Total operating revenue	2,550	2,230	2,191
Risk management:			
Changes in MSR asset fair value due to market interest rates	(587)	(5,390)	(2,224)
Other changes in MSR asset fair value due to inputs or assumptions in model[(a)]	(46)	(1,727)	(44)
Changes in derivative fair value and other	1,252	5,553	3,404
Total risk management	619	(1,564)	1,136
Total net mortgage servicing revenue	3,169	666	3,327
Mortgage fees and related income	$8,680	$2,714	$3,855

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

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:
– gross income earned from servicing third-party mortgage loans including stated service fees, excess service 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
– changes in derivative fair value 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 who 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 that 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 transactions). These transactions supplement traditional production channels and provide growth opportunities in the servicing portfolio in periods of stable and rising interest rates.

2012 compared with 2011
Mortgage Production pretax income was $3.6 billion, an increase of $2.6 billion compared with the prior year. Mortgage production-related revenue, excluding repurchase losses, was $6.6 billion, an increase of $2.3 billion, or 55%, from the prior year. These results reflected wider margins, driven by favorable market conditions, and higher volumes due to historically low interest rates and the Home Affordable Refinance Programs ("HARP"). Production expense, including credit costs, was $2.7 billion, an increase of $852 million, or 45%, reflecting higher volumes and additional litigation costs. Repurchase losses were $272 million, compared with $1.3 billion in the prior year.

The current-year reflected a reduction in the repurchase liability of $683 million compared with a build of $213 million in the prior year, primarily driven by improved cure rates on Agency repurchase demands and lower outstanding repurchase demand pipeline. For further information, see Mortgage repurchase liability on pages 111–115 of this Annual Report.
Mortgage Servicing reported a pretax loss of $1.2 billion, compared with a pretax loss of $3.8 billion in the prior year. Mortgage servicing revenue, including amortization, was $3.0 billion, an increase of $337 million, or 13%, from the prior year, driven by lower mortgage servicing rights ("MSR") asset amortization expense as a result of lower MSR asset value, partially offset by lower loan servicing revenue due to the decline in the third-party loans serviced. MSR risk management income was $616 million, compared with a loss of $1.6 billion in the prior year. The prior year MSR risk management loss was driven by refinements to the valuation model and related inputs. See Note 17 on pages 291–295 of this Annual Report for further information regarding changes in value of the MSR asset and related hedges.
Servicing expense was $4.7 billion, down 2% from the prior year, but elevated in both the current and prior year primarily due to higher default servicing costs.

Real Estate Portfolios pretax income was $2.9 billion, compared with a pretax loss of $504 million in the prior year. The improvement was driven by a benefit from the provision for credit losses, reflecting the continued improvement in credit trends, partially offset by lower net revenue. Net revenue was $4.1 billion, down $500 million, or 11%, 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. The provision for credit losses reflected a benefit of $509 million, compared with a provision expense of $3.6 billion in the prior year. The current-year provision reflected a $3.9 billion reduction in the allowance for loan losses due to improved delinquency trends and lower estimated losses. Current-year net charge-offs totaled $3.3 billion, including $744 million of charge-offs, related to regulatory guidance, compared with $3.8 billion in the prior year. See Consumer Credit Portfolio on pages 138–149 of this Annual Report for the net charge-off amounts and rates. Nonaccrual loans were $7.9 billion, compared with $5.9 billion in the prior year. Excluding the impact of certain regulatory guidance, nonaccrual loans would have been $4.9 billion at December 31, 2012. For more information on the reporting of Chapter 7 loans and performing junior liens that are subordinate to senior liens that are 90 days or more past due as nonaccrual, see Consumer Credit Portfolio on pages 138–149 of this Annual Report. Noninterest expense was $1.7 billion, up $132 million, or 9%, compared with the prior year due to an increase in servicing costs.

2011 compared with 2010

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 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 reported a pretax loss of $3.8 billion, compared with pretax income of $1.2 billion in the prior year. Mortgage servicing revenue, including amortization was $2.6 billion, or flat compared with the prior year. 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. 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 foreclosure-related matters, as well as higher core and default servicing costs. See Note 17 on pages 291–295 of this Annual Report for further information regarding changes in value of the MSR asset and related hedges.

Real Estate Portfolios reported a pretax loss of $504 million, compared with a pretax loss of $4.3 billion in the prior year. The improvement was driven by 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 138–149 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.

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, 2012, the remaining weighted-average life of the PCI loan portfolio is expected to be 8 years. The loan balances are expected to decline more rapidly over the next three to four years as the most troubled loans are liquidated, and more slowly thereafter as the remaining troubled borrowers have limited refinancing opportunities. Similarly, default and servicing expense are expected to be higher in the earlier years and decline over time as liquidations slow down.

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

For further information, see Note 14, PCI loans, on pages 266–268 of this Annual Report.

Mortgage Production and Servicing

Selected metrics			
As of or for the year ended December 31, (in millions, except ratios)	2012	2011	2010
Selected balance sheet data			
Period-end loans:			
Prime mortgage, including option ARMs[a]	$17,290	$16,891	$14,186
Loans held-for-sale and loans at fair value[b]	18,801	12,694	14,863
Average loans:			
Prime mortgage, including option ARMs[a]	17,335	14,580	13,422
Loans held-for-sale and loans at fair value[b]	17,573	16,354	15,395
Average assets	59,837	59,891	57,778
Repurchase liability (period-end)	2,530	3,213	3,000
Credit data and quality statistics			
Net charge-offs:			
Prime mortgage, including option ARMs	19	5	41
Net charge-off rate:			
Prime mortgage, including option ARMs	0.11 %	0.03 %	0.31 %
30+ day delinquency rate[c]	3.05	3.15	3.44
Nonperforming assets[d]	$638	$716	$729

(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 111–115 of this Annual Report.

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

(c) At December 31, 2012, 2011 and 2010, excluded mortgage loans insured by U.S. government agencies of $11.8 billion, $12.6 billion, and $10.3 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 250–275 of this Annual Report which summarizes loan delinquency information.

(d) At December 31, 2012, 2011 and 2010, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $10.6 billion, $11.5 billion, and $9.4 billion, respectively, that are 90 or more days past due; and (2) real estate owned insured by U.S. government agencies of $1.6 billion, $954 million, and $1.9 billion, respectively. These amounts were excluded from nonaccrual loans as reimbursement of insured amounts is proceeding normally. For further discussion, see Note 14 on pages 250–275 of this Annual Report which summarizes loan delinquency information.

Selected metrics			
As of or for the year ended December 31, (in millions, except ratios and where otherwise noted)	2012	2011	2010
Business metrics (in billions)			
Origination volume by channel			
Retail	$101.4	$87.2	$68.8
Wholesale[a]	0.3	0.5	1.3
Correspondent[a]	73.1	52.1	75.3
CNT (negotiated transactions)	6.0	5.8	10.2
Total origination volume	$180.8	$145.6	$155.6

Application volume by channel			
Retail	$164.5	$137.2	$115.1
Wholesale[a]	0.7	1.0	2.4
Correspondent[a]	100.5	66.5	97.3
Total application volume	$265.7	$204.7	$214.8
Third-party mortgage loans serviced (period-end)	$859.4	$902.2	$967.5
Third-party mortgage loans serviced (average)	847.0	937.6	1,037.6
MSR net carrying value (period-end)	7.6	7.2	13.6
Ratio of MSR net carrying value (period-end) to third-party mortgage loans serviced (period-end)	0.88 %	0.80 %	1.41 %
Ratio of loan servicing-related revenue to third-party mortgage loans serviced (average)	0.46	0.44	0.44
MSR revenue multiple[b]	1.91x	1.82x	3.20x

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

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

Management's discussion and analysis

Real Estate Portfolios

Selected metrics

As of or for the year ended December 31, (in millions)	2012	2011	2010
Loans, excluding PCI			
Period-end loans owned:			
Home equity	$67,385	$77,800	$88,385
Prime mortgage, including option ARMs	41,316	44,284	49,768
Subprime mortgage	8,255	9,664	11,287
Other	633	718	857
Total period-end loans owned	$117,589	$132,466	$150,297
Average loans owned:			
Home equity	$72,674	$82,886	$94,835
Prime mortgage, including option ARMs	42,311	46,971	53,431
Subprime mortgage	8,947	10,471	12,729
Other	675	773	954
Total average loans owned	$124,607	$141,101	$161,949
PCI loans			
Period-end loans owned:			
Home equity	$20,971	$22,697	$24,459
Prime mortgage	13,674	15,180	17,322
Subprime mortgage	4,626	4,976	5,398
Option ARMs	20,466	22,693	25,584
Total period-end loans owned	$59,737	$65,546	$72,763
Average loans owned:			
Home equity	$21,840	$23,514	$25,455
Prime mortgage	14,400	16,181	18,526
Subprime mortgage	4,777	5,170	5,671
Option ARMs	21,545	24,045	27,220
Total average loans owned	$62,562	$68,910	$76,872
Total Real Estate Portfolios			
Period-end loans owned:			
Home equity	$88,356	$100,497	$112,844
Prime mortgage, including option ARMs	75,456	82,157	92,674
Subprime mortgage	12,881	14,640	16,685
Other	633	718	857
Total period-end loans owned	$177,326	$198,012	$223,060
Average loans owned:			
Home equity	$94,514	$106,400	$120,290
Prime mortgage, including option ARMs	78,256	87,197	99,177
Subprime mortgage	13,724	15,641	18,400
Other	675	773	954
Total average loans owned	$187,169	$210,011	$238,821
Average assets	$175,712	$197,096	$226,961
Home equity origination volume	1,420	1,127	1,203

Credit data and quality statistics

As of or for the year ended December 31, (in millions, except ratios)	2012	2011	2010
Net charge-offs, excluding PCI loans[a]			

Home equity	$2,385		$2,472		$3,444	
Prime mortgage, including option ARMs	454		682		1,573	
Subprime mortgage	486		626		1,374	
Other	16		25		59	
Total net charge-offs	$3,341		$3,805		$6,450	
Net charge-off rate, excluding PCI loans:(a)						
Home equity	3.28	%	2.98	%	3.63	%
Prime mortgage, including option ARMs	1.07		1.45		2.95	
Subprime mortgage	5.43		5.98		10.82	
Other	2.37		3.23		5.90	
Total net charge-off rate, excluding PCI loans	2.68		2.70		3.98	
Net charge-off rate – reported:(a)						
Home equity	2.52	%	2.32	%	2.86	%
Prime mortgage, including option ARMs	0.58		0.78		1.59	
Subprime mortgage	3.54		4.00		7.47	
Other	2.37		3.23		5.90	
Total net charge-off rate – reported	1.79		1.81		2.70	
30+ day delinquency rate, excluding PCI loans(b)	5.03	%	5.69	%	6.45	%
Allowance for loan losses, excluding PCI loans	$4,868		$8,718		$9,718	
Allowance for PCI loans	5,711		5,711		4,941	
Allowance for loan losses	$10,579		$14,429		$14,659	
Nonperforming assets(c)(d)	8,439		6,638		8,424	
Allowance for loan losses to period-end loans retained	5.97	%	7.29	%	6.57	%
Allowance for loan losses to period-end loans retained, excluding PCI loans	4.14		6.58		6.47	

(a) Net charge-offs and net charge-off rates for the year ended December 31, 2012, included $744 million of charge-offs related to regulatory guidance. Excluding these charges-offs, net charge-offs for the year ended December 31, 2012, would have been $1.8 billion, $410 million and $416 million for the home equity, prime mortgage, including option ARMs, and subprime mortgage portfolios, respectively. Net charge-off rates for the same period, excluding these charge-offs and PCI loans, would have been 2.41%, 0.97% and 4.65% for the home equity, prime mortgage, including option ARMs, and subprime mortgage portfolios, respectively. For further information, see Consumer Credit Portfolio on pages 138–149 of this Annual Report.

(b) The delinquency rate for PCI loans was 20.14%, 23.30%, and 28.20% at December 31, 2012, 2011 and 2010, respectively.

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

(d) Nonperforming assets at December 31, 2012, included loans based upon regulatory guidance. For further information, see Consumer Credit Portfolio on pages 138–149 of this Annual Report.

Card, Merchant Services & Auto Selected income statement data Year ended December 31, (in millions, except ratios)	2012	2011	2010
Revenue			
Card income	$4,092	$4,127	$3,514
All other income	1,009	765	764
Noninterest revenue	5,101	4,892	4,278
Net interest income	13,669	14,249	16,194
Total net revenue	18,770	19,141	20,472
Provision for credit losses	3,953	3,621	8,570
Noninterest expense	8,216	8,045	7,178
Income before income tax expense	6,601	7,475	4,724
Net income	$4,007	$4,544	$2,872
Overhead ratio	44 %	42 %	35 %

2012 compared with 2011

Card, Merchant Services & Auto net income was $4.0 billion, a decrease of $537 million, or 12%, compared with the prior year. The decrease was driven by lower net revenue and higher provision for credit losses.

Net revenue was $18.8 billion, a decrease of $371 million, or 2%, from the prior year. Net interest income was $13.7 billion, down $580 million, or 4%, from the prior year. The decrease was driven by narrower loan spreads and lower average loan balances, partially offset by lower revenue reversals associated with lower net charge-offs. Noninterest revenue was $5.1 billion, an increase of $209 million, or 4%, from the prior year. The increase was driven by higher net interchange income, including lower partner revenue-sharing due to the impact of the Kohl’s portfolio sale on April 1, 2011, and higher merchant servicing revenue, partially offset by higher amortization of loan origination costs.

The provision for credit losses was $4.0 billion, compared with $3.6 billion in the prior year. The current-year provision reflected lower net charge-offs and a $1.6 billion reduction in the allowance for loan losses due to lower estimated losses. The prior-year provision included a $3.9 billion reduction in the allowance for loan losses. The Credit Card net charge-off rate[1] was 3.94%, down from 5.40% in the prior year; and the 30+ day delinquency rate[1] was 2.10%, down from 2.81% in the prior year. The net charge-off rate would have been 3.87% absent a policy change on restructured loans that do not comply with their modified payment terms. The Auto net charge-off rate was 0.39%, up from 0.32% in the prior year, including $53 million of charge-offs related to regulatory guidance. Excluding these charge-offs, the net charge-off rate would have been 0.28%.

Noninterest expense was $8.2 billion, an increase of $171 million, or 2%, from the prior year, driven by expenses related to a non-core product that is being exited and the write-off of intangible assets associated with a non-strategic relationship, partially offset by lower marketing expense.

2011 compared with 2010

Card, Merchant Services & Auto 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 CIB 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 Credit Card net charge-off rate[1] was 5.40%, down from 9.72% in the prior year; and the 30+ day delinquency rate[1] was 2.81%, down from 4.07% in the prior year. The Auto net charge-off rate was 0.32%, down from 0.63% 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.

[1] The net charge-off and 30+ day delinquency rates presented for credit card loans, which include loans held-for-sale, are non-GAAP financial measures. Management uses this as an additional measure to assess the performance of the portfolio.

Selected metrics

As of or for the year ended December 31, (in millions, except ratios and where otherwise noted)	2012	2011	2010
Selected balance sheet data (period-end)			
Loans:			
Credit Card	$127,993	$132,277	$137,676
Auto	49,913	47,426	48,367
Student	11,558	13,425	14,454
Total loans	$189,464	$193,128	$200,497
Selected balance sheet data (average)			
Total assets	$197,661	$201,162	$213,041
Loans:			
Credit Card	125,464	128,167	144,367
Auto	48,413	47,034	47,603
Student	12,507	13,986	15,945
Total loans	$186,384	$189,187	$207,915
Business metrics			
Credit Card, excluding Commercial Card			
Sales volume (in billions)	$381.1	$343.7	$313.0
New accounts opened	6.7	8.8	11.3
Open accounts	64.5	65.2	90.7
Accounts with sales activity	30.6	30.7	39.9
% of accounts acquired online	51 %	32 %	15 %
Merchant Services			
Merchant processing volume (in billions)	$655.2	$553.7	$469.3
Total transactions (in billions)	29.5	24.4	20.5
Auto & Student			
Origination volume (in billions)			
Auto	$23.4	$21.0	$23.0
Student	0.2	0.3	1.9

The following are brief descriptions of selected business metrics within Card, Merchant Services & Auto.
Card Services includes the Credit Card and Merchant Services businesses.
Merchant Services is a business that processes transactions for merchants.
Total transactions – Number of transactions and authorizations processed for merchants.
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.

Sales volume - Dollar amount of cardmember purchases, net of returns.
Open accounts – Cardmember accounts with charging privileges.
Auto origination volume - Dollar amount of auto loans and leases originated.

Selected metrics As of or for the year ended December 31, (in millions, except ratios)	2012		2011		2010	
Credit data and quality statistics						
Net charge-offs:						
Credit Card	$4,944		$6,925		$14,037	
Auto[a]	188		152		298	
Student	377		434		387	
Total net charge-offs	$5,509		$7,511		$14,722	
Net charge-off rate:						
Credit Card[b]	3.95	%	5.44	%	9.73	%
Auto[a]	0.39		0.32		0.63	
Student[c]	3.01		3.10		2.61	
Total net charge-off rate	2.96		3.99		7.12	
Delinquency rates						
30+ day delinquency rate:						
Credit Card[d]	2.10		2.81		4.14	
Auto	1.25		1.13		1.22	
Student[e]	2.13		1.78		1.53	
Total 30+ day delinquency rate	1.87		2.32		3.23	
90+ day delinquency rate – Credit Card[d]	1.02		1.44		2.25	
Nonperforming assets[a][f]	$265		$228		$269	
Allowance for loan losses:						
Credit Card	$5,501		$6,999		$11,034	
Auto & Student	954		1,010		899	
Total allowance for loan losses	$6,455		$8,009		$11,933	
Allowance for loan losses to period-end loans:						
Credit Card[d]	4.30	%	5.30	%	8.14	%
Auto & Student	1.55		1.66		1.43	
Total allowance for loan losses to period-end loans	3.41		4.15		6.02	

(a) Net charge-offs and net charge-off rates for the year ended December 31, 2012, included $53 million of charge-offs related to regulatory guidance. Excluding these charge-offs, net charge-offs for the year ended December 31, 2012, would have been $135 million, and the net charge-off rate would have been 0.28%. Nonperforming assets at December 31, 2012, included $51 million of loans based upon regulatory guidance.

(b) Average credit card loans included loans held-for-sale of $433 million, $833 million and $148 million for the years ended December 31, 2012, 2011 and 2010, respectively. These amounts are excluded when calculating the net charge-off rate.

(c) Average student loans included loans held-for-sale of $1.1 billion for the year ended December 31, 2010. There were no loans held-for-sale for all other periods. This amount is excluded when calculating the net charge-off rate.

(d) Period-end credit card loans included loans held-for-sale of $102 million and $2.2 billion at December 31, 2011 and 2010, respectively. These amounts are excluded when calculating delinquency rates and the allowance for loan losses to period-end loans. There were no loans held-for-sale at December 31, 2012. No allowance for loan losses was recorded for these loans.

(e) Excluded student loans insured by U.S. government agencies under the FFELP of $894 million, $989 million and $1.1 billion at December 31, 2012, 2011 and 2010, respectively, that are 30 or more days past

due. These amounts are excluded as reimbursement of insured amounts is proceeding normally.

(f) Nonperforming assets excluded student loans insured by U.S. government agencies under the FFELP of $525 million, $551 million and $625 million at December 31, 2012, 2011 and 2010, respectively, that are 90 or more days past due. These amounts are excluded as reimbursement of insured amounts is proceeding normally.

Card Services supplemental information

Year ended December 31, (in millions, except ratios)	2012	2011	2010
Revenue			
Noninterest revenue	$3,887	$3,740	$3,277
Net interest income	11,611	12,084	13,886
Total net revenue	15,498	15,824	17,163
Provision for credit losses	3,444	2,925	8,037
Noninterest expense	6,566	6,544	5,797
Income before income tax expense	5,488	6,355	3,329
Net income	$3,344	$3,876	$2,074
Percentage of average loans:			
Noninterest revenue	3.10 %	2.92 %	2.27 %
Net interest income	9.25	9.43	9.62
Total net revenue	12.35	12.35	11.89

Management's discussion and analysis

CORPORATE & INVESTMENT BANK

The Corporate & Investment Bank ("CIB") offers a broad suite of investment banking, market-making, prime brokerage, and treasury and securities products and services to a global client base of corporations, investors, financial institutions, government and municipal entities. Within Banking, the CIB 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, as well as loan origination and syndication. Also included in Banking is Treasury Services, which includes transaction services, comprised primarily of cash management and liquidity solutions, and trade finance products. The Markets & Investor Services segment of the CIB is a global market-maker in cash securities and derivative instruments, and also offers sophisticated risk management solutions, prime brokerage, and research. Markets & Investor Services also includes the Securities Services business, a leading global custodian which 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)	2012	2011	2010
Revenue			
Investment banking fees	$5,769	$5,859	$6,186
Principal transactions[(a)]	9,510	8,347	8,474
Lending- and deposit-related fees	1,948	2,098	2,075
Asset management, administration and commissions	4,693	4,955	5,110
All other income	1,184	1,264	1,044
Noninterest revenue	23,104	22,523	22,889
Net interest income	11,222	11,461	10,588
Total net revenue[(b)]	34,326	33,984	33,477
Provision for credit losses	(479)	(285)	(1,247)
Noninterest expense			
Compensation expense	11,313	11,654	12,418
Noncompensation expense	10,537	10,325	10,451
Total noninterest expense	21,850	21,979	22,869
Income before income tax expense	12,955	12,290	11,855
Income tax expense	4,549	4,297	4,137
Net income	$8,406	$7,993	$7,718

(a) Included DVA on structured notes and derivative liabilities measured at fair value. DVA gains/(losses) were $(930) million, $1.4 billion and $509 million for the years ended December 31, 2012, 2011 and 2010, respectively.

(b) 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 $2.0 billion, $1.9 billion and $1.7 billion for the years ended December 31, 2012, 2011 and 2010, respectively.

Selected income statement data Year ended December 31, (in millions, except ratios)	2012	2011	2010
Financial ratios			
Return on common equity[(a)]	18%	17%	17%
Overhead ratio	64	65	68
Compensation expense as a percentage of total net revenue[(b)]	33	34	37

Revenue by business			
Advisory	$1,491	$1,792	$1,469
Equity underwriting	1,026	1,181	1,589
Debt underwriting	3,252	2,886	3,128
Total investment banking fees	5,769	5,859	6,186
Treasury Services	4,249	3,841	3,698
Lending	1,331	1,054	811
Total Banking	11,349	10,754	10,695
Fixed Income Markets[c]	15,412	14,784	14,738
Equity Markets	4,406	4,476	4,582
Securities Services	4,000	3,861	3,683
Credit Adjustments & Other[d][e]	(841)	109	(221)
Total Markets & Investor Services	22,977	23,230	22,782
Total net revenue	$34,326	$33,984	$33,477

(a) Return on equity excluding DVA, a non-GAAP financial measure, was 19%, 15% and 16% for the years ended December 31, 2012, 2011 and 2010, respectively.

(b) Compensation expense as a percentage of total net revenue excluding DVA, a non-GAAP financial measure, was 32%, 36% and 38% for the years ended December 31, 2012, 2011 and 2010, respectively. In addition, compensation expense as a percent of total net revenue for the year ended December 31, 2010, excluding both DVA and 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 36%.

(c) Includes results of the synthetic credit portfolio that was transferred from the CIO effective July 2, 2012.

(d) Primarily includes credit portfolio credit valuation adjustments ("CVA") net of associated hedging activities; DVA on structured notes and derivative liabilities; and nonperforming derivative receivable results effective in the first quarter of 2012 and thereafter.

(e) Included DVA on structured notes and derivative liabilities measured at fair value. DVA gains/(losses) were $(930) million, $1.4 billion and $509 million for the years ended December 31, 2012, 2011 and 2010, respectively.

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

2012 compared with 2011

Net income was $8.4 billion, up 5% compared with the prior year. These results primarily reflected slightly higher net revenue compared with 2011, lower noninterest expense and a larger benefit from the provision for credit losses. Net revenue included a $930 million loss from DVA on structured notes and derivative liabilities resulting from the tightening of the Firm's credit spreads. Excluding the impact of DVA, net revenue was $35.3 billion and net income was $9.0 billion, compared with $32.5 billion and $7.1 billion in the prior year, respectively.

Net revenue was $34.3 billion, compared with $34.0 billion in the prior year. Banking revenues were $11.3 billion, compared with $10.8 billion in the prior year. Investment banking fees were $5.8 billion, down 2% from the prior year; these consisted of record debt underwriting fees of $3.3 billion (up 13%), advisory fees of $1.5 billion (down 17%) and equity underwriting fees of $1.0 billion (down 13%). Industry-wide debt capital markets volumes were at their second highest annual level since 2006, as the low rate environment continued to fuel issuance and refinancing activity. In contrast there was lower industry-wide announced mergers and acquisitions activity, while industry-wide equity underwriting volumes remained steady. Treasury Services revenue was a record $4.2 billion compared with $3.8 billion in the prior year driven by continued deposit balance growth and higher average trade loans outstanding during the year. Lending revenue was $1.3 billion, compared with $1.1 billion in the prior year due to higher net interest income on increased average retained loans as well as higher fees on lending-related commitments. This was partially offset by higher fair value losses on credit risk-related hedges of the retained loan portfolio.

Markets and Investor Services revenue was $23.0 billion compared to $23.2 billion in the prior year. Combined Fixed Income and Equity Markets revenue was $19.8 billion, up from $19.3 billion the prior year as client revenue remained strong across most products, with particular strength in rates-related products, which improved from the prior year. 2012 generally saw credit spread tightening and lower volatility in both the credit and equity markets compared with the prior year, during which macroeconomic concerns, including those in the Eurozone, caused credit spread widening and generally more volatile market conditions, particularly in the second half of the year. Securities Services revenue was $4.0 billion compared with $3.9 billion the prior year primarily driven by higher deposit balances. Assets under custody grew to a record $18.8 trillion by the end of 2012, driven by both market appreciation as well as net inflows. Credit Adjustments & Other was a loss of $841 million, driven predominantly by DVA, which was a loss of $930 million due to the tightening of the Firm's credit spreads.

The provision for credit losses was a benefit of $479 million, compared with a benefit of $285 million in the prior year, as credit trends remained stable. The current-year benefit reflected recoveries and a net reduction in the allowance for credit losses, both related to the restructuring of certain nonperforming loans, current credit trends and other portfolio activities. Net recoveries were $284 million, compared with net charge-offs of $161 million in the prior year. Nonperforming loans were down 49% from the prior year.

Noninterest expense was $21.9 billion, down 1%, driven primarily by lower compensation expense.

Return on equity was 18% on $47.5 billion of average allocated capital.

2011 compared with 2010

Net income was $8.0 billion, up 4% compared with the prior year. These results primarily reflected higher net revenue compared with 2010, and lower noninterest expense, largely offset by a reduced benefit from the provision for credit losses. Net revenue included a $1.4 billion gain from DVA on structured notes and derivative liabilities resulting from the widening of the Firm's credit spreads. Excluding the impact of DVA, net revenue was $32.5 billion and net income was $7.1 billion, compared with $33.0 billion and $7.4 billion in the prior year, respectively.

Net revenue was $34.0 billion, compared with $33.5 billion in the prior year. Banking revenues were $10.8 billion, compared with $10.7 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%). Treasury Services revenue was $3.8 billion compared with $3.7 billion in the prior year 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. Lending revenue was $1.1 billion, compared with $811 million in the prior year, driven by lower fair value losses on hedges of the retained loan portfolio.

Markets and Investor Services revenue was $23.2 billion compared with $22.8 billion the year prior. Fixed Income Markets revenue was $14.8 billion, compared with $14.7 billion in the prior year, with continued solid client revenue. Equity Markets revenue was $4.5 billion compared with $4.6 billion the prior year on slightly lower performance. Securities Services revenue was $3.9 billion compared with $3.7 billion the prior year driven by higher

Management's discussion and analysis

net interest income due to higher deposit balances and net inflows of assets under custody. Credit Adjustments & Other was a gain of $109 million compared with a loss of $221 million in the prior year.
The provision for credit losses was a benefit of $285 million, compared with a benefit of $1.2 billion in the prior year. The benefit in 2011 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 $736 million in the prior year.
Noninterest expense was $22.0 billion, down 4% 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 business growth as well as expenses related to exiting unprofitable business.
Return on equity was 17% on $47.0 billion of average allocated capital.

Selected metrics

As of or for the year ended December 31, (in millions, except headcount)	2012	2011	2010
Selected balance sheet data (period-end)			
Assets	$876,107	$845,095	$870,631
Loans:			
Loans retained[a]	109,501	111,099	80,208
Loans held-for-sale and loans at fair value	5,749	3,016	3,851
Total loans	115,250	114,115	84,059
Equity	47,500	47,000	46,500
Selected balance sheet data (average)			
Assets	$854,670	$868,930	$774,295
Trading assets-debt and equity instruments	312,944	348,234	309,383
Trading assets-derivative receivables	74,874	73,200	70,286
Loans:			
Loans retained[a]	110,100	91,173	77,620
Loans held-for-sale and loans at fair value	3,502	3,221	3,268
Total loans	113,602	94,394	80,888
Equity	47,500	47,000	46,500
Headcount	52,151	53,557	55,142

(a) Loans retained includes credit portfolio loans, trade finance loans, other held-for-investment loans and overdrafts.

Selected metrics

As of or for the year ended December 31, (in millions, except ratios and where otherwise noted)	2012	2011	2010
Credit data and quality statistics			
Net charge-offs/(recoveries)	$(284)	$161	$736
Nonperforming assets:			
Nonaccrual loans:			
Nonaccrual loans retained[a][b]	535	1,039	3,171
Nonaccrual loans held-for-sale and loans at fair value	82	166	460
Total nonaccrual loans	617	1,205	3,631
Derivative receivables[c]	239	293	159
Assets acquired in loan satisfactions	64	79	117

Total nonperforming assets	920	1,577	3,907
Allowance for credit losses:			
Allowance for loan losses	1,300	1,501	1,928
Allowance for lending-related commitments	473	467	498
Total allowance for credit losses	1,773	1,968	2,426
Net charge-off/(recovery) rate[(a)]	(0.26)%	0.18 %	0.95 %
Allowance for loan losses to period-end loans retained[(a)]	1.19	1.35	2.40
Allowance for loan losses to period-end loans retained, excluding trade finance and conduits[(d)]	2.52	3.06	4.90
Allowance for loan losses to nonaccrual loans retained[(a)(b)]	243	144	61
Nonaccrual loans to total period-end loans	0.54	1.06	4.32
Business metrics			
Assets under custody ("AUC") by asset class (period-end) in billions:			
Fixed Income	$11,745	$10,926	$10,364
Equity	5,637	4,878	4,850
Other[(e)]	1,453	1,066	906
Total AUC	$18,835	$16,870	$16,120
Client deposits and other third party liabilities (average)[(f)]	$355,766	$318,802	$248,451
Trade finance loans (period-end)	35,783	36,696	21,156

(a) Loans retained includes credit portfolio loans, trade finance loans, other held-for-investment loans and overdrafts.

(b) Allowance for loan losses of $153 million, $263 million and $1.1 billion were held against these nonaccrual loans at December 31, 2012, 2011 and 2010, respectively.

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

(d) Management uses allowance for loan losses to period-end loans retained, excluding trade finance and conduits, a non-GAAP financial measure, as a more relevant metric to reflect the allowance coverage of the retained lending portfolio.

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

(f) Client deposits and other third party liabilities pertain to the Treasury Services and Securities Services businesses, and include deposits, as well as deposits that are swept to on-balance sheet liabilities (e.g., commercial paper, federal funds purchased and securities loaned or sold under repurchase agreements) as part of their client cash management program.

Market shares and rankings[(a)]

Year ended December 31,	2012 Market Share	Rankings	2011 Market Share	Rankings	2010 Market Share	Rankings
Global investment banking fees[(b)]	7.6%	#1	8.1%	#1	7.6%	#1
Debt, equity and equity-related						
Global	7.2	1	6.7	1	7.2	1
U.S.	11.5	1	11.1	1	11.1	1
Syndicated loans						
Global	9.6	1	10.8	1	8.5	2
U.S.	17.6	1	21.2	1	19.1	2
Long-term debt[(c)]						
Global	7.1	1	6.7	1	7.2	2
U.S.	11.6	1	11.2	1	10.9	2
Equity and equity-related						
Global[(d)]	7.8	4	6.8	3	7.3	3
U.S.	10.4	5	12.5	1	13.1	2
Announced M&A[(e)]						
Global	18.5	2	18.3	2	15.9	4
U.S.	21.5	2	26.7	2	21.9	3

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

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

International metrics Year ended December 31, (in millions)	2012	2011	2010
Total net revenue[(a)]			
Europe/Middle East/Africa	$10,639	$11,102	$9,740
Asia/Pacific	4,100	4,589	4,775
Latin America/Caribbean	1,524	1,409	1,154
Total international net revenue	16,263	17,100	15,669
North America	18,063	16,884	17,808
Total net revenue	$34,326	$33,984	$33,477
Loans (period-end)[(a)]			
Europe/Middle East/Africa	$30,266	$29,484	$21,072
Asia/Pacific	27,193	27,803	18,251
Latin America/Caribbean	10,220	9,692	5,928
Total international loans	67,679	66,979	45,251
North America	41,822	44,120	34,957
Total loans	$109,501	$111,099	$80,208
Client deposits and other third-party liabilities (average)[(a)(b)]			
Europe/Middle East/Africa	$127,326	$123,920	$102,014
Asia/Pacific	51,180	43,524	32,862
Latin America/Caribbean	11,052	12,625	11,558
Total international	$189,558	$180,069	$146,434
North America	166,208	138,733	102,017
Total client deposits and other third-party liabilities	$355,766	$318,802	$248,451
AUC (period-end) (in billions)[(a)]			
North America	$10,504	$9,735	$9,836
All other regions	8,331	7,135	6,284
Total AUC	$18,835	$16,870	$16,120

(a) Total net revenue is based primarily on the domicile of the client or location of the trading desk, as applicable. Loans outstanding (excluding loans-held-for-sale and loans carried at fair value), client deposits and AUC are based predominantly on the domicile of the client.

(b) Client deposits and other third-party liabilities pertain to the Treasury Services and Securities Services businesses, and include deposits, as well as deposits that are swept to on-balance sheet liabilities (e.g., commercial paper, federal funds purchased and securities loaned or sold under repurchase agreements) as part of their client cash management program.

COMMERCIAL BANKING

Commercial Banking delivers extensive industry knowledge, local expertise and dedicated service to U.S. and U.S. multinational clients, including corporations, municipalities, financial institutions and non-profit entities with annual revenue generally ranging from $20 million to $2 billion. CB provides financing to real estate investors and owners. Partnering with the Firm's other businesses, CB provides comprehensive financial solutions, including lending, treasury services, investment banking and asset management to meet its clients' domestic and international financial needs.

Selected income statement data

Year ended December 31, (in millions, except ratios)	2012	2011	2010
Revenue			
Lending- and deposit-related fees	$1,072	$1,081	$1,099
Asset management, administration and commissions	130	136	144
All other income[(a)]	1,081	978	957
Noninterest revenue	2,283	2,195	2,200
Net interest income	4,542	4,223	3,840
Total net revenue[(b)]	6,825	6,418	6,040
Provision for credit losses	41	208	297
Noninterest expense			
Compensation expense[(c)]	1,014	936	863
Noncompensation expense[(c)]	1,348	1,311	1,301
Amortization of intangibles	27	31	35
Total noninterest expense	2,389	2,278	2,199
Income before income tax expense	4,395	3,932	3,544
Income tax expense	1,749	1,565	1,460
Net income	$2,646	$2,367	$2,084
Revenue by product			
Lending[(d)]	$3,675	$3,455	$2,749
Treasury services[(d)]	2,428	2,270	2,632
Investment banking	545	498	466
Other	177	195	193
Total Commercial Banking revenue	$6,825	$6,418	$6,040
Investment banking revenue, gross	$1,597	$1,421	$1,335
Revenue by client segment			
Middle Market Banking	$3,334	$3,145	$3,060
Commercial Term Lending	1,194	1,168	1,023
Corporate Client Banking	1,456	1,261	1,154
Real Estate Banking	438	416	460
Other	403	428	343
Total Commercial Banking revenue	$6,825	$6,418	$6,040
Financial ratios			
Return on common equity	28 %	30 %	26 %
Overhead ratio	35	35	36

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

(b) Included tax-equivalent adjustments, predominantly due to 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, of $381 million, $345 million, and $238 million for the years ended December 31, 2012, 2011 and 2010, respectively.

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

(d) Effective January 1, 2011, product revenue from commercial card and standby letters of credit transactions was included in lending. For the years ended December 31, 2012 and 2011, the impact of the change was $434 million and $438 million, respectively. For the year ended December 31, 2010, it was reported in treasury services.

CB revenue comprises the following:

Lending includes a variety of financing alternatives, which are predominantly provided on a basis secured by receivables, inventory, equipment, real estate or other assets. Products include term loans, revolving lines of credit, bridge financing, asset-based structures, leases, commercial card products and standby letters of credit.

Treasury services includes revenue from a broad range of products and services that enable CB clients to manage payments and receipts, as well as invest and manage funds.

Investment banking includes revenue from a range of products providing CB clients with sophisticated capital-raising alternatives, as well as balance sheet and risk management tools through advisory, equity underwriting, and loan syndications. Revenue from Fixed income and Equity market products available to CB clients is also included. Investment banking revenue, gross, represents total revenue related to investment banking products sold to CB clients.

Other product revenue primarily includes tax-equivalent adjustments generated from Community Development Banking activity and certain income derived from principal transactions.

Commercial Banking is divided into four primary client segments for management reporting purposes: Middle Market Banking, Commercial Term Lending, Corporate Client Banking, and Real Estate Banking.

Middle Market Banking covers corporate, municipal, financial institution and non-profit clients, with annual revenue generally ranging between $20 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 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.

Other primarily includes lending and investment activity within the Community Development Banking and Chase Capital businesses.

2012 compared with 2011

Record net income was $2.6 billion, an increase of $279 million, or 12%, from the prior year. The improvement was driven by an increase in net revenue and a decrease in the provision for credit losses, partially offset by higher noninterest expense.

Net revenue was a record $6.8 billion, an increase of $407 million, or 6%, from the prior year. Net interest income was $4.5 billion, up by $319 million, or 8%, driven by growth in loans and client deposits, partially offset by spread compression. Loan growth was strong across all client segments and industries. Noninterest revenue was $2.3 billion, up by $88 million, or 4%, compared with the prior year, largely driven by increased investment banking revenue.

Revenue from Middle Market Banking was $3.3 billion, an increase of $189 million, or 6%, from the prior year driven by higher loans and client deposits, partially offset by lower spreads from lending and deposit products. Revenue from Commercial Term Lending was $1.2 billion, an increase of $26 million, or 2%. Revenue from Corporate Client Banking was $1.5 billion, an increase of $195 million, or 15%, driven by growth in loans and client deposits and higher revenue from investment banking products, partially offset by lower lending spreads. Revenue from Real Estate Banking was $438 million, an increase of $22 million, or 5%, partially driven by higher loan balances.

The provision for credit losses was $41 million, compared with $208 million in the prior year. Net charge-offs were $35 million (0.03% net charge-off rate) compared with net charge-offs of $187 million (0.18% net charge-off rate) in 2011. The decrease in the provision and net charge-offs was largely driven by improving trends in the credit quality of the portfolio. Nonaccrual loans were $673 million, down by $380 million or 36%, due to repayments and loan sales. The allowance for loan losses to period-end retained loans was 2.06%, down from 2.34%.

Noninterest expense was $2.4 billion, an increase of $111 million, or 5% from the prior year, reflecting higher compensation expense driven by expansion, portfolio growth and increased regulatory requirements.

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 client deposits and loan balances partially offset by spread compression on client deposits. 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 client deposits and loan balances, partially offset by spread compression on client deposits 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 client deposits and loan balances and higher lending- and deposit-related fees, partially offset by spread compression on client deposits. 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.

Management's discussion and analysis

Selected metrics

As of or for the year ended December 31, (in millions, except headcount and ratios)	2012	2011	2010
Selected balance sheet data (period-end)			
Total assets	$181,502	$158,040	$142,646
Loans:			
Loans retained	126,996	111,162	97,900
Loans held-for-sale and loans at fair value	1,212	840	1,018
Total loans	$128,208	$112,002	$98,918
Equity	9,500	8,000	8,000
Period-end loans by client segment			
Middle Market Banking	$50,701	$44,437	$37,942
Commercial Term Lending	43,512	38,583	37,928
Corporate Client Banking	21,558	16,747	11,678
Real Estate Banking	8,552	8,211	7,591
Other	3,885	4,024	3,779
Total Commercial Banking loans	$128,208	$112,002	$98,918
Selected balance sheet data (average)			
Total assets	$165,111	$146,230	$133,654
Loans:			
Loans retained	119,218	103,462	96,584
Loans held-for-sale and loans at fair value	882	745	422
Total loans	$120,100	$104,207	$97,006
Client deposits and other third-party liabilities[(a)]	195,912	174,729	138,862
Equity	9,500	8,000	8,000
Average loans by client segment			
Middle Market Banking	$47,198	$40,759	$35,059
Commercial Term Lending	40,872	38,107	36,978
Corporate Client Banking	19,383	13,993	11,926
Real Estate Banking	8,562	7,619	9,344
Other	4,085	3,729	3,699
Total Commercial Banking loans	$120,100	$104,207	$97,006
Headcount[(b)]	6,120	5,787	5,126

As of or for the year ended December 31, (in millions, except headcount and ratios)	2012	2011	2010
Credit data and quality statistics			
Net charge-offs	$35	$187	$909
Nonperforming assets			
Nonaccrual loans:			
Nonaccrual loans retained[(c)]	644	1,036	1,964
Nonaccrual loans held-for-sale and loans held at fair value	29	17	36
Total nonaccrual loans	673	1,053	2,000

Assets acquired in loan satisfactions	14		85		197	
Total nonperforming assets	687		1,138		2,197	
Allowance for credit losses:						
Allowance for loan losses	2,610		2,603		2,552	
Allowance for lending-related commitments	183		189		209	
Total allowance for credit losses	2,793		2,792		2,761	
Net charge-off rate[d]	0.03	%	0.18	%	0.94	%
Allowance for loan losses to period-end loans retained	2.06		2.34		2.61	
Allowance for loan losses to nonaccrual loans retained[c]	405		251		130	
Nonaccrual loans to total period-end loans	0.52		0.94		2.02	

(a) Client deposits and other third-party liabilities include deposits, as well as deposits that are swept to on-balance sheet liabilities (e.g., commercial paper, federal funds purchased, and securities loaned or sold under repurchase agreements) as part of client cash management programs.

(b) Effective July 1, 2012, certain Treasury Services product sales staff supporting CB were transferred from CIB to CB. For further discussion of this transfer, see footnote (c) on page 96 of this Annual Report.

(c) Allowance for loan losses of $107 million, $176 million and $340 million was held against nonaccrual loans retained at December 31, 2012, 2011 and 2010, respectively.

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

ASSET MANAGEMENT

Asset Management, with client assets of $2.1 trillion, is a global leader in investment and wealth management. AM clients include institutions, high-net-worth individuals and retail investors in every major market throughout the world. AM offers investment management across all major asset classes including equities, fixed income, alternatives and money market funds. AM also offers multi-asset investment management, providing solutions to a broad range of clients' investment needs. For individual investors, AM also provides retirement products and services, brokerage and banking services including trust and estate, loans, mortgages and deposits. The majority of AM's client assets are in actively managed portfolios.

Selected income statement data

Year ended December 31, (in millions, except ratios)	2012		2011		2010	
Revenue						
Asset management, administration and commissions	$7,041		$6,748		$6,374	
All other income	806		1,147		1,111	
Noninterest revenue	7,847		7,895		7,485	
Net interest income	2,099		1,648		1,499	
Total net revenue	9,946		9,543		8,984	
Provision for credit losses	86		67		86	
Noninterest expense						
Compensation expense	4,405		4,152		3,763	
Noncompensation expense	2,608		2,752		2,277	
Amortization of intangibles	91		98		72	
Total noninterest expense	7,104		7,002		6,112	
Income before income tax expense	2,756		2,474		2,786	
Income tax expense	1,053		882		1,076	
Net income	$1,703		$1,592		$1,710	
Revenue by client segment						
Private Banking	$5,426		$5,116		$4,860	
Institutional	2,386		2,273		2,180	
Retail	2,134		2,154		1,944	
Total net revenue	$9,946		$9,543		$8,984	
Financial ratios						
Return on common equity	24	%	25	%	26	%
Overhead ratio	71		73		68	
Pretax margin ratio	28		26		31	

2012 compared with 2011

Net income was $1.7 billion, an increase of $111 million, or 7%, from the prior year. These results reflected higher net revenue, partially offset by higher noninterest expense and a higher provision for credit losses.

Net revenue was $9.9 billion, an increase of $403 million, or 4%, from the prior year. Noninterest revenue was $7.8 billion, down $48 million, or 1%, due to lower loan-related revenue and the absence of a prior-year gain on the sale of an investment. These decreases were predominantly offset by net client inflows, higher valuations of seed capital investments, the effect of higher market levels, higher brokerage revenue and higher performance fees. Net interest income was $2.1 billion, up $451 million, or 27%, due to higher loan and deposit balances.

Revenue from Private Banking was $5.4 billion, up 6% from the prior year due to higher net interest income from loan and deposit balances and higher brokerage revenue, partially offset by lower loan-related fee revenue. Revenue from Institutional was $2.4 billion, up 5% due to net client inflows and the effect of higher market levels. Revenue

from Retail was $2.1 billion, down 1% due to the absence of a prior-year gain on the sale of an investment, predominantly offset by higher valuations of seed capital investments and higher performance fees.
The provision for credit losses was $86 million, compared with $67 million in the prior year.
Noninterest expense was $7.1 billion, an increase of $102 million, or 1%, from the prior year, due to higher performance-based compensation and higher headcount-related expense, partially offset by the absence of non-client-related litigation expense.
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 $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 $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.

Management's discussion and analysis

Selected metrics

Business metrics			
As of or for the year ended December 31, (in millions, except headcount, ranking data, ratios and where otherwise noted)	2012	2011	2010
Number of:			
Client advisors[(a)]	2,821	2,883	2,696
Retirement planning services participants (in thousands)	1,961	1,798	1,580
% of customer assets in 4 & 5 Star Funds[(b)]	47 %	43 %	49 %
% of AUM in 1st and 2nd quartiles:[(c)]			
1 year	67	48	67
3 years	74	72	72
5 years	76	78	80
Selected balance sheet data (period-end)			
Total assets	$108,999	$86,242	$68,997
Loans[(d)]	80,216	57,573	44,084
Equity	7,000	6,500	6,500
Selected balance sheet data (average)			
Total assets	$97,447	$76,141	$65,056
Loans	68,719	50,315	38,948
Deposits	129,208	106,421	86,096
Equity	7,000	6,500	6,500
Headcount	18,480	18,036	16,918
Credit data and quality statistics			
Net charge-offs	$64	$92	$76
Nonaccrual loans	250	317	375
Allowance for credit losses:			
Allowance for loan losses	248	209	267
Allowance for lending-related commitments	5	10	4
Total allowance for credit losses	253	219	271
Net charge-off rate	0.09 %	0.18 %	0.20 %
Allowance for loan losses to period-end loans	0.31	0.36	0.61
Allowance for loan losses to nonaccrual loans	99	66	71
Nonaccrual loans to period-end loans	0.31	0.55	0.85

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

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

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

(d) Included $10.9 billion of prime mortgage loans reported in the Consumer, excluding credit card, loan portfolio at December 31, 2012.

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, non-profit organizations and governments worldwide.
Retail provides worldwide investment management services and retirement planning and administration, through financial intermediaries and direct distribution of a full range of investment products.
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
2012 compared with 2011
Assets under supervision were $2.1 trillion at December 31, 2012, an increase of $174 billion, or 9%, from the prior year. Assets under management were $1.4 trillion, an increase of $90 billion, or 7%, due to the effect of higher market levels and net inflows to long-term products, partially offset by net outflows from liquidity products. Custody, brokerage, administration and deposit balances were $669 billion, up $84 billion, or 14%, due to the effect of higher market levels and custody and brokerage inflows.
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.
Assets under supervision

December 31, (in billions)	2012	2011	2010
Assets by asset class			
Liquidity	$475	$515	$497
Fixed income	386	336	289
Equity and multi-asset	447	372	404
Alternatives	118	113	108
Total assets under management	1,426	1,336	1,298
Custody/brokerage/administration/deposits	669	585	542
Total assets under supervision	$2,095	$1,921	$1,840
Assets by client segment			
Private Banking	$318	$291	$284
Institutional	741	722	703
Retail	367	323	311
Total assets under management	$1,426	$1,336	$1,298
Private Banking	$877	$781	$731
Institutional	741	723	703
Retail	477	417	406
Total assets under supervision	$2,095	$1,921	$1,840
Mutual fund assets by asset class			
Liquidity	$410	$458	$446
Fixed income	136	107	92
Equity and multi-asset	180	147	169
Alternatives	5	8	7
Total mutual fund assets	$731	$720	$714

Year ended December 31, (in billions)	2012	2011	2010
Assets under management rollforward			
Beginning balance	$1,336	$1,298	$1,249
Net asset flows:			
Liquidity	(43)	18	(89)
Fixed income	30	40	50
Equity, multi-asset and alternatives	30	13	19
Market/performance/other impacts	73	(33)	69

Ending balance, December 31	$1,426	$1,336	$1,298
Assets under supervision rollforward			
Beginning balance	$1,921	$1,840	$1,701
Net asset flows	60	123	28
Market/performance/other impacts	114	(42)	111
Ending balance, December 31	$2,095	$1,921	$1,840
International metrics			
Year ended December 31, (in billions, except where otherwise noted)	2012	2011	2010
Total net revenue (in millions)[(a)]			
Europe/Middle East/Africa	$1,641	$1,704	$1,642
Asia/Pacific	967	971	925
Latin America/Caribbean	772	808	541
North America	6,566	6,060	5,876
Total net revenue	$9,946	$9,543	$8,984
Assets under management			
Europe/Middle East/Africa	$258	$278	$282
Asia/Pacific	114	105	111
Latin America/Caribbean	45	34	35
North America	1,009	919	870
Total assets under management	$1,426	$1,336	$1,298
Assets under supervision			
Europe/Middle East/Africa	$317	$329	$331
Asia/Pacific	160	139	147
Latin America/Caribbean	110	89	84
North America	1,508	1,364	1,278
Total assets under supervision	$2,095	$1,921	$1,840

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

Management's discussion and analysis

CORPORATE/PRIVATE EQUITY

The Corporate/Private Equity segment comprises Private Equity, Treasury, Chief Investment Office ("CIO"), and Other Corporate, which includes corporate staff units and expense that is centrally managed. Treasury and CIO are predominantly responsible for measuring, monitoring, reporting and managing the Firm's liquidity, funding, capital and structural interest rate and foreign exchange risks. The corporate staff units include Central Technology and Operations, Internal Audit, Executive, Finance, Human Resources, Legal & Compliance, Global Real Estate, General Services, Operational Control, Risk Management, and Corporate Responsibility & Public Policy. Other centrally managed expense includes the Firm's occupancy and pension-related expense that are subject to allocation to the businesses.

Selected income statement data

Year ended December 31, (in millions, except headcount)	2012	2011	2010
Revenue			
Principal transactions	$(4,268)	$1,434	$2,208
Securities gains	2,024	1,600	2,898
All other income	2,452	595	245
Noninterest revenue	208	3,629	5,351
Net interest income	(1,360)	506	2,063
Total net revenue[(a)]	(1,152)	4,135	7,414
Provision for credit losses	(37)	(36)	14
Noninterest expense			
Compensation expense	2,622	2,324	2,276
Noncompensation expense[(b)]	7,353	6,693	8,641
Subtotal	9,975	9,017	10,917
Net expense allocated to other businesses	(5,379)	(4,909)	(4,607)
Total noninterest expense	4,596	4,108	6,310
Income before income tax expense/(benefit)	(5,711)	63	1,090
Income tax expense/(benefit) [(c)]	(3,629)	(759)	(190)
Net income	$(2,082)	$822	$1,280
Total net revenue			
Private equity	$601	$836	$1,239
Treasury and CIO	(3,064)	3,196	6,642
Other Corporate	1,311	103	(467)
Total net revenue	$(1,152)	$4,135	$7,414
Net income			
Private equity	$292	$391	$588
Treasury and CIO	(2,093)	1,349	3,576
Other Corporate	(281)	(918)	(2,884)
Total net income	$(2,082)	$822	$1,280
Total assets (period-end)	$728,925	$693,108	$526,556
Headcount	22,747	21,334	19,419

(a) Included tax-equivalent adjustments, predominantly due to tax-exempt income from municipal bond investments of $443 million, $298 million and $226 million for the years ended December 31, 2012, 2011 and 2010, respectively.

(b) Included litigation expense of $3.7 billion, $3.2 billion and $5.7 billion for the years ended December 31, 2012, 2011 and 2010, respectively.

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

2012 compared with 2011

Net loss was $2.1 billion, compared with a net income of $822 million in the prior year.

Private Equity reported net income of $292 million, compared with net income of $391 million in the prior year. Net revenue was $601 million, compared with $836 million in the prior year, due to lower unrealized and realized gains on private investments, partially offset by higher unrealized gains on public securities. Noninterest expense was $145 million, down from $238 million in the prior year.

Treasury and CIO reported a net loss of $2.1 billion, compared with net income of $1.3 billion in the prior year. Net revenue was a loss of $3.1 billion, compared with net revenue of $3.2 billion in the prior year. The current year loss reflected $5.8 billion of losses incurred by CIO from the synthetic credit portfolio for the six months ended June 30, 2012, and $449 million of losses from the retained index credit derivative positions for the three months ended September 30, 2012. These losses were partially offset by securities gains of $2.0 billion. The current year revenue reflected $888 million of extinguishment gains related to the redemption of trust preferred securities, which are included in all other income in the above table. The extinguishment gains were related to adjustments applied to the cost basis of the trust preferred securities during the period they were in a qualified hedge accounting relationship. Net interest income was negative $683 million, compared with $1.4 billion in the prior year, primarily reflecting the impact of lower portfolio yields and higher deposit balances across the Firm.

Other Corporate reported a net loss of $281 million, compared with a net loss of $918 million in the prior year. Noninterest revenue of $1.8 billion was driven by a $1.1 billion benefit for the Washington Mutual bankruptcy settlement, which is included in all other income in the above table, and a $665 million gain from the recovery on a Bear Stearns-related subordinated loan. Noninterest expense of $3.9 billion was up $943 million compared with the prior year. The current year included expense of $3.7 billion for additional litigation reserves, largely for mortgage-related matters. The prior year included expense of $3.2 billion for additional litigation reserves.

2011 compared with 2010
Net income was $822 million, compared with $1.3 billion in the prior year.
Private Equity reported net income of $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 private investments and the absence of prior year gains on sales. Noninterest expense was $238 million, a decrease of $85 million from the prior year.
Treasury and CIO reported net income of $1.3 billion, compared with net income of $3.6 billion in the prior year. Net revenue was $3.2 billion, including $1.4 billion of security 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.
Other Corporate reported a net loss of $918 million, compared with a net loss of $2.9 billion in the prior year. Net revenue was $103 million, compared with a net loss of $467 million in the prior year. Noninterest expense was $2.9 billion which included $3.2 billion of additional litigation reserves, predominantly for mortgage-related matters. Noninterest expense in the prior year was $5.5 billion which included $5.7 billion of additional litigation reserves.
Treasury and CIO overview
Treasury and CIO are predominantly responsible for measuring, monitoring, reporting and managing the Firm's liquidity, funding, capital and structural interest rate and foreign exchange risks. The risks managed by Treasury and CIO arise from the activities undertaken by the Firm's four major reportable business segments to serve their respective client bases, which generate both on- and off-balance sheet assets and liabilities.
Treasury is responsible for, among other functions, funds transfer pricing. Funds transfer pricing is used to transfer structural interest rate risk and foreign exchange risk of the Firm to Treasury and CIO and allocate interest income and expense to each business based on market rates. CIO, through its management of the investment portfolio, generates net interest income to pay the lines of business market rates. Any variance (whether positive or negative) between amounts generated by CIO through its investment portfolio activities and amounts paid to or received by the lines of business are retained by CIO, and are not reflected in line of business segment results. Treasury and CIO activities operate in support of the overall Firm.
CIO achieves the Firm's asset-liability management objectives generally by investing in high-quality securities that are managed for the longer-term as part of the Firm's AFS investment portfolio. Unrealized gains and losses on securities held in the AFS portfolio are recorded in other comprehensive income. For further information about securities in the AFS portfolio, see Note 3 and Note 12 on

pages 196–214 and 244–248, respectively, of this Annual Report. CIO also uses securities that are not classified within the AFS portfolio, as well as derivatives, to meet the Firm's asset-liability management objectives. Securities not classified within the AFS portfolio are recorded in trading assets and liabilities; realized and unrealized gains and losses on such securities are recorded in the principal transactions revenue line in the Consolidated Statements of Income. For further information about securities included in trading assets and liabilities, see Note 3 on pages 196–214 of this Annual Report. Derivatives used by CIO are also classified as trading assets and liabilities. For further information on derivatives, including the classification of realized and unrealized gains and losses, see Note 6 on pages 218–227 of this Annual Report.
CIO's AFS portfolio consists of U.S. and non-U.S. government securities, agency and non-agency mortgage-backed securities, other asset-backed securities and corporate and municipal debt securities. Treasury's AFS portfolio consists of U.S. and non-U.S. government securities and corporate debt securities. At December 31, 2012, the total Treasury and CIO AFS portfolios were $344.1 billion and $21.3 billion, respectively; the average credit rating of the securities comprising the Treasury and CIO AFS portfolios was AA+ (based upon external ratings where available and where not available, based primarily upon internal ratings that correspond to ratings as defined by S&P and Moody's). See Note 12 on pages 244–248 of this Annual Report for further information on the details of the Firm's AFS portfolio.
For further information on liquidity and funding risk, see Liquidity Risk Management on pages 127–133 of this Annual Report. For information on interest rate, foreign exchange and other risks, and CIO VaR and the Firm's nontrading interest rate-sensitive revenue at risk, see Market Risk Management on pages 163–169 of this Annual Report.
Selected income statement and balance sheet data

As of or for the year ended December 31, (in millions)	2012	2011	2010
Securities gains[(a)]	$2,028	$1,385	$2,897
Investment securities portfolio (average)	358,029	330,885	323,673
Investment securities portfolio (period–end)	365,421	355,605	310,801
Mortgage loans (average)	10,241	13,006	9,004
Mortgage loans (period-end)	7,037	13,375	10,739

(a) Reflects repositioning of the investment securities portfolio.

Private Equity portfolio

Selected income statement and balance sheet data

Year ended December 31, (in millions)	2012	2011	2010
Private equity gains/(losses)			
Realized gains	$17	$1,842	$1,409
Unrealized gains/(losses)[(a)]	639	(1,305)	(302)
Total direct investments	656	537	1,107
Third-party fund investments	134	417	241
Total private equity gains/(losses)[(b)]	$790	$954	$1,348

(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.

Private equity portfolio information[(a)]

Direct investments December 31, (in millions)	2012	2011	2010
Publicly held securities			
Carrying value	$578	$805	$875
Cost	350	573	732
Quoted public value	578	896	935
Privately held direct securities			
Carrying value	5,379	4,597	5,882
Cost	6,584	6,793	6,887
Third-party fund investments[(b)]			
Carrying value	2,117	2,283	1,980
Cost	1,963	2,452	2,404
Total private equity portfolio			
Carrying value	$8,074	$7,685	$8,737
Cost	$8,897	$9,818	$10,023

(a) For more information on the Firm's policies regarding the valuation of the private equity portfolio, see Note 3 on pages 196–214 of this Annual Report.

(b) Unfunded commitments to third-party private equity funds were $370 million, $789 million and $1.0 billion at December 31, 2012, 2011 and 2010, respectively.

2012 compared with 2011

The carrying value of the private equity portfolio at December 31, 2012, was $8.1 billion, up from $7.7 billion at December 31, 2011. The increase in the portfolio was predominantly driven by new investments and unrealized gains, partially offset by sales of investments. The portfolio represented 5.2% of the Firm's stockholders' equity less goodwill at December 31, 2012, down from 5.7% at December 31, 2011.

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 was 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.

INTERNATIONAL OPERATIONS

During the years ended December 31, 2012, 2011 and 2010, the Firm recorded approximately $18.5 billion, $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 57%, 66% and 64%, respectively, were derived from Europe/Middle East/Africa ("EMEA"); approximately 30%, 25% and 28%, respectively, from Asia/Pacific; and approximately 13%, 9% and 8%, respectively, from Latin America/Caribbean. For additional information regarding international operations, see Note 32 on page 326 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, (in millions, except headcount and where otherwise noted)	EMEA			Asia/Pacific			Latin America/Caribbean		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Revenue[(a)]	$10,398	$16,141	$14,149	$5,590	$5,971	$6,082	$2,327	$2,232	$1,697
Countries of operation	33	33	33	17	16	16	9	9	8
New offices	—	1	6	2	2	7	—	4	2
Total headcount[(b)]	15,533	16,178	16,122	20,548	20,172	19,153	1,436	1,378	1,201
Front-office headcount	5,917	5,993	5,872	4,195	4,253	4,168	644	569	486
Significant clients[(c)]	992	938	900	492	479	451	164	140	126
Deposits (average)[(d)]	$169,693	$168,882	$142,859	$57,329	$57,684	$53,268	$4,823	$5,318	$6,263
Loans (period-end)[(e)]	40,760	36,637	27,934	30,287	31,119	20,552	30,322	25,141	16,480
Assets under management (in billions)	258	278	282	114	105	111	45	34	35
Assets under supervision (in billions)	317	329	331	160	139	147	110	89	84
Assets under custody (in billions)	6,502	5,430	4,810	1,577	1,426	1,321	252	279	153

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

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

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

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

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

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

Management's discussion and analysis

BALANCE SHEET ANALYSIS

Selected Consolidated Balance Sheets data

December 31, (in millions)	2012	2011
Assets		
Cash and due from banks	$53,723	$59,602
Deposits with banks	121,814	85,279
Federal funds sold and securities purchased under resale agreements	296,296	235,314
Securities borrowed	119,017	142,462
Trading assets:		
Debt and equity instruments	375,045	351,486
Derivative receivables	74,983	92,477
Securities	371,152	364,793
Loans	733,796	723,720
Allowance for loan losses	(21,936)	(27,609)
Loans, net of allowance for loan losses	711,860	696,111
Accrued interest and accounts receivable	60,933	61,478
Premises and equipment	14,519	14,041
Goodwill	48,175	48,188
Mortgage servicing rights	7,614	7,223
Other intangible assets	2,235	3,207
Other assets	101,775	104,131
Total assets	$2,359,141	$2,265,792
Liabilities		
Deposits	$1,193,593	$1,127,806
Federal funds purchased and securities loaned or sold under repurchase agreements	240,103	213,532
Commercial paper	55,367	51,631
Other borrowed funds	26,636	21,908
Trading liabilities:		
Debt and equity instruments	61,262	66,718
Derivative payables	70,656	74,977
Accounts payable and other liabilities	195,240	202,895
Beneficial interests issued by consolidated VIEs	63,191	65,977
Long-term debt	249,024	256,775
Total liabilities	2,155,072	2,082,219
Stockholders' equity	204,069	183,573
Total liabilities and stockholders' equity	$2,359,141	$2,265,792

Consolidated Balance Sheets overview

JPMorgan Chase's total assets increased 4% and total liabilities increased 3% from December 31, 2011. The increase in total assets was predominantly due to higher securities purchased under resale agreements and deposits with banks, reflecting the deployment of the Firm's excess cash. The increase in total liabilities was predominantly due to higher deposits, reflecting a higher level of consumer and wholesale balances; and higher securities sold under repurchase agreements associated with financing the Firm's assets. The increase in stockholders' equity was predominantly due to net income.

The following paragraphs provide a description of specific line captions on the Consolidated Balance Sheets. For the line captions that had significant changes from December 31, 2011, 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 cash and liquidity management activities. The net increase reflected the placement of the Firm's excess funds with various central banks, primarily Federal Reserve Banks. For additional information, refer to the Liquidity Risk Management discussion on pages 127–133 of this Annual Report.

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. The increase in securities purchased under resale agreements was due primarily to deployment of the Firm's excess cash by Treasury; the decrease in securities borrowed reflects a shift in deployment of excess cash to resale agreements as well as lower client activity in CIB.

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 CCB and CIB for sale or securitization purposes and accounted for at fair value; and physical commodities inventories generally carried at the lower of cost or market (market approximates fair value). The increase in trading assets in 2012 was driven by client-driven market-making activity in CIB, which resulted in higher levels of non-U.S. government debt securities, partially offset by a decrease in physical commodities inventories. For additional information, refer to Note 3 on pages 196–214 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 credit exposure.

Derivative receivables decreased primarily related to the decline in the U.S. dollar, and tightening of credit spreads;

these changes resulted in reductions to interest rate, credit derivative, and foreign exchange balances.
Derivative payables decreased primarily related to the decline in the U.S. dollar, and tightening of credit spreads; these changes resulted in reductions to interest rate, and credit derivative balances. For additional information, refer to Derivative contracts on pages 156–159, and Note 3 and Note 6 on pages 196–214 and 218–227, respectively, of this Annual Report.

Securities

Substantially all of the securities portfolio is classified as 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 reinvestment and repositioning of the CIO AFS portfolio, which increased the levels of non-U.S. government debt and residential mortgage-backed securities ("MBS") as well as obligations of U.S. states and municipalities; the increase was mainly offset by decreases in corporate debt securities and U.S. government agency-issued MBS. For additional information related to securities, refer to the discussion in the Corporate/Private Equity segment on pages 102–104, and Note 3 and Note 12 on pages 196–214 and 244–248, respectively, of this Annual Report.

Loans and allowance for loan losses

The Firm provides loans to a variety of customers, ranging from large corporate and institutional clients, to individual customers and small businesses. Loan balances increased throughout 2012 due to higher levels of wholesale loans, primarily in CB and AM, partially offset by lower balances of consumer loans. The increase in wholesale loans was driven by higher wholesale activity across most of the Firm's regions and businesses. The decline in consumer, excluding credit card, loans was predominantly due to mortgage-related paydowns, portfolio run-off, and net charge-offs. The decline in credit card loans was due to higher repayment rates.

The allowance for loan losses decreased across all portfolio segments, but the most significant portion of the reduction occurred in the consumer allowances, predominantly related to the continuing trend of improved delinquencies across most portfolios, notably non-PCI residential real estate and credit card. The wholesale allowance also decreased, driven by recoveries, the restructuring of certain nonperforming loans, current credit trends and other portfolio activity.

For a more detailed discussion of the loan portfolio and the allowance for loan losses, refer to Credit Risk Management on pages 134–162, and Notes 3, 4, 14 and 15 on pages 196–214, 214–216, 250–275 and 276–279, respectively, of this Annual Report.

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 largely due to retail branch expansion in the U.S. and other investments in facilities globally.

Mortgage servicing rights

MSRs represent the fair value of net cash flows expected to be received for performing specified mortgage-servicing activities for third parties. The increase in the MSR asset was predominantly due to originations and purchases, partially offset by dispositions and amortization. These net additions were partially offset by changes due to market interest rates and, to a lesser extent, other changes in valuation due to inputs and assumptions. For additional information on MSRs, see Note 17 on pages 291–295 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 compared to the prior year.

Deposits

Deposits represent a liability to both retail and wholesale customers related to non-brokerage accounts held on their behalf. Deposits provide a stable and consistent source of funding for the Firm. The increase in deposits was due to growth in both consumer and wholesale deposits. Consumer deposit balances increased throughout the year, largely driven by a focus on sales activity, lower attrition due to initiatives to improve customer experience and the impact of network expansion. The increase in wholesale client balances was due to higher client operating balances in CIB; a higher level of seasonal inflows at year-end in both CIB and AM; and in AM, clients realizing capital gains in anticipation of changes in U.S. tax rates; these increases were partially offset by lower balances related to changes in FDIC insurance coverage. For more information on deposits, refer to the CCB and AM segment discussions on pages 80–91 and 99–101, respectively; the Liquidity Risk Management discussion on pages 127–133; and Notes 3 and 19 on pages 196–214 and 296, respectively, of this Annual Report. For more information on wholesale client deposits, refer to the CB and CIB segment discussions on pages 96–98 and 92–95, 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. The increase was due to higher secured financing of the Firm’s assets. For additional information on the Firm's Liquidity Risk Management, see pages 127–133 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 CIB liquidity management product, whereby clients choose to sweep their deposits into commercial paper. Commercial paper increased due to higher commercial paper issuance from wholesale funding markets to meet short-term funding needs, partially offset by a decline in the volume of liability balances related to CIB's liquidity management product. Other borrowed funds increased due to higher secured short-term borrowings and unsecured short-term borrowings to meet short-term funding needs. For additional information on the Firm's Liquidity Risk Management and other borrowed funds, see pages 127–133 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; income taxes payable; 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 decreased predominantly due to lower CIB client balances, partially offset by increases in income taxes payables and litigation reserves related to mortgage foreclosure-related matters. For additional information on the Firm's accounts payable and other liabilities, see Note 20 on page 296 of this Annual Report.

Beneficial interests issued by consolidated VIEs

Beneficial interests issued by consolidated VIEs represent interest-bearing beneficial-interest liabilities, which decreased primarily due to credit card maturities and a reduction in outstanding conduit commercial paper held by third parties, partially offset by new credit card issuances and new consolidated municipal bond vehicles. For additional information on Firm-sponsored VIEs and loan securitization trusts, see Off–Balance Sheet Arrangements, and Note 16 on pages 280–291 of this Annual Report.

Long-term debt

The Firm uses long-term debt (including TruPS 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, primarily due to the redemption of TruPS. For additional information on the Firm's long-term debt activities, see the Liquidity Risk Management discussion on pages 127–133 of this Annual Report.

Stockholders' equity

Total stockholders' equity increased, predominantly due to net income; a net increase in AOCI driven by net unrealized market value increases on AFS securities, predominantly non-U.S. residential MBS and corporate debt securities, and obligations of U.S. states and municipalities, partially offset by realized gains; issuances and commitments to issue under the Firm's employee stock-based compensation plans; and the issuance of preferred stock. The increase was partially offset by the repurchases of common equity, and the declaration of cash dividends on common and preferred stock.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL CASH OBLIGATIONS

JPMorgan Chase is involved with several types of off–balance sheet arrangements, including through nonconsolidated 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 an SPE. SPEs are commonly used in securitization transactions in order to isolate certain assets and distribute the cash flows from those assets to investors. SPEs are an important part of the financial markets, including the mortgage- and asset-backed securities and commercial paper markets, as they provide market liquidity by facilitating investors’ access to specific portfolios of assets and risks. 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. See Note 16 on pages 280–291 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 such 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, 2012 and 2011, was $18.1 billion and $19.7 billion, respectively. 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. These unfunded lending-related commitments were $10.9 billion and $11.0 billion at December 31, 2012 and 2011, 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 pages 284–285 of this Annual Report.

The Firm also acts as liquidity provider for certain municipal bond vehicles. The Firm’s obligation to perform as liquidity provider 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 280–291 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. The contractual amount of these financial instruments represents the maximum possible credit risk to the Firm should the counterparty draw upon the commitment or the Firm be required to fulfill its obligation under the guarantee, and should the counterparty subsequently fail to perform according to the terms of the contract. Most of these commitments and guarantees expire without being drawn or a default occurring. As a result, the total contractual amount of these instruments is not, in the Firm's view, representative of its actual future credit exposure or funding requirements. For further discussion of lending-related commitments and guarantees and the Firm's accounting for them, see Lending-related commitments on page 156, and Note 29 (including a table that presents, as of December 31, 2012, the amounts, by contractual maturity, of off–balance sheet lending-related financial instruments, guarantees and other commitments) on pages 308–315, of this Annual Report. For a discussion of loan repurchase liabilities, see Mortgage repurchase liability on pages 111–115 and Note 29 on pages 308–315, 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, 2012. 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 111–115 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,	2012					2011
(in millions)	2013	2014-2015	2016-2017	After 2017	Total	Total
On-balance sheet obligations						
Deposits[a]	$1,175,886	$7,440	$5,434	$3,016	$1,191,776	$1,125,470
Federal funds purchased and securities loaned or sold under repurchase agreements	236,875	1,464	500	1,264	240,103	213,532
Commercial paper	55,367	—	—	—	55,367	51,631
Other borrowed funds[a]	15,357		—	—	15,357	12,450
Beneficial interests issued by consolidated VIEs[a]	40,071	11,310	4,710	5,930	62,021	65,977
Long-term debt[a]	26,256	63,515	57,998	83,454	231,223	236,905
Other[b]	1,120	1,025	915	2,647	5,707	6,032
Total on-balance sheet obligations	1,550,932	84,754	69,557	96,311	1,801,554	1,711,997
Off-balance sheet obligations						
Unsettled reverse repurchase and securities borrowing agreements[c]	34,871	—	—	—	34,871	39,939
Contractual interest payments[d]	7,703	11,137	8,195	29,245	56,280	76,418
Operating leases[e]	1,788	3,282	2,749	6,536	14,355	15,014
Equity investment commitments[f]	449	6	2	1,452	1,909	2,290
Contractual purchases and capital expenditures	1,232	634	382	497	2,745	2,660
Obligations under affinity and co-brand programs	980	1,924	1,336	66	4,306	5,393
Other	32	2	—	—	34	284
Total off-balance sheet obligations	47,055	16,985	12,664	37,796	114,500	141,998
Total contractual cash obligations	$1,597,987	$101,739	$82,221	$134,107	$1,916,054	$1,853,995

(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 312 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 $1.7 billion and $1.5 billion at December 31, 2012 and 2011, respectively.

(f) At December 31, 2012 and 2011, included unfunded commitments of $370 million and $789 million, respectively, to third-party private equity funds that are generally valued as discussed in Note 3 on pages 196–214 of this Annual Report; and $1.5 billion and $1.5 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. Repurchases resulting from 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. As of December 31, 2012, the Firm believes that it has no remaining exposure related to loans sold by Washington Mutual to the GSEs.

The Firm also sells loans in securitization transactions with Ginnie Mae; these loans are typically insured or guaranteed by another government agency. The Firm, in its role as servicer, may elect, but is typically not required, to repurchase delinquent loans securitized by Ginnie Mae, including those that have been sold back to Ginnie Mae

subsequent to modification. Because principal amounts due under the terms of these repurchased loans continue to be insured and the reimbursement of insured amounts continues to proceed normally, the Firm has not recorded any mortgage repurchase liability related to these loans. However, the Civil Division of the United States Attorney's Office for the Southern District of New York is conducting an investigation concerning the Firm's compliance with the requirements of the Federal Housing Administration's Direct Endorsement Program. The Firm is cooperating in that investigation.

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 $197 billion of principal has been repaid (including $72 billion related to Washington Mutual). In addition, approximately $118 billion of the principal amount of such loans has been liquidated (including $43 billion related to Washington Mutual), with an average loss severity of 60%. Accordingly, the remaining outstanding principal balance of these loans (including Washington Mutual) was, as of December 31, 2012, approximately $135 billion, of which $39 billion was 60 days or more past due. The remaining outstanding principal balance of loans related to Washington Mutual was approximately $50 billion, of which $14 billion were 60 days or more past due.

There have been generalized allegations, as well as specific demands, that the Firm repurchase loans sold or deposited into private-label securitizations (including claims from insurers that have guaranteed certain obligations of the securitization trusts). Although the Firm encourages parties to use the contractual repurchase process established in the governing agreements, these private-label repurchase claims have generally manifested themselves through threatened or pending litigation. Accordingly, the liability related to repurchase demands associated with all of the private-label securitizations described above is separately evaluated by the Firm in establishing its litigation reserves. For additional information regarding litigation, see Note 31 on pages 316–325 of this Annual Report.

Repurchase demand process - GSEs

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, the majority of repurchase demands from the GSEs have historically related to loans that became delinquent in the first 24 months following origination. More recently, the Firm has observed an increase in repurchase demands from the GSEs with respect to loans to borrowers who have made more than 24 months of payments before defaulting.

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 experience 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 $2.8 billion and $3.6 billion as of December 31, 2012 and 2011, respectively. The Firm's mortgage repurchase liability is intended to cover repurchase losses associated with all loans previously sold in connection with loan sale and securitization transactions with the GSEs, regardless of when those losses occur or how they are ultimately resolved (e.g., repurchase, make-whole payment). While uncertainties continue to exist with respect to both GSE behavior and the economic environment, the Firm believes that the model inputs and assumptions that it uses to estimate its mortgage repurchase liability are becoming increasingly seasoned and stable. Based on these model inputs, which take into account all available information, and also considering projections regarding future uncertainty, including the GSEs' current behavior, the Firm has become increasingly confident in its ability to estimate reliably its mortgage repurchase liability. For these reasons, the Firm believes that its mortgage repurchase liability at December 31, 2012, is sufficient to cover probable future repurchase losses arising from loan sale and securitization transactions with the GSEs.

The following table provides information about outstanding repurchase demands and unresolved mortgage insurance rescission notices, excluding those related to Washington Mutual, by counterparty type, at each of the past five quarter-end dates. The table includes repurchase demands received from the GSEs as well as repurchase demands that have been presented to the Firm by trustees who assert authority to present such claims under the terms of the underlying sale or securitization agreement (but excludes repurchase demands asserted in or in connection with pending repurchase litigation). However, all mortgage repurchase demands associated with private-label securitizations (however asserted) are evaluated by the Firm in establishing its litigation reserves and are not considered in the Firm's mortgage repurchase liability.

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

(in millions)	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011
GSEs	$1,166	$1,533	$1,646	$1,868	$1,682
Mortgage insurers	1,014	1,036	1,004	1,000	1,034
Other[(a)]	887	1,697	981	756	663
Overlapping population[(b)]	(86)	(150)	(125)	(116)	(113)
Total	$2,981	$4,116	$3,506	$3,508	$3,266

(a) The decrease from September 30, 2012 predominantly relates to repurchase demands from private-label securitizations that had been presented in this table as of September 30, 2012 but that subsequently became subject to repurchase litigation in the fourth quarter of 2012; such repurchase demands are excluded from this table.

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

The following tables provide information about repurchase demands and mortgage insurance rescission notices received by loan origination vintage, excluding those related to Washington Mutual, for the past five quarters. The Firm expects repurchase demands to remain at elevated levels or to increase if there is a significant increase in private-label repurchase demands outside of pending repurchase litigation. Additionally, repurchase demands from the GSEs may continue to fluctuate from period to period. The Firm considers future repurchase demands, including this potential volatility, in estimating its mortgage repurchase liability.

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

(in millions)	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011
Pre-2005	$42	$33	$28	$41	$39
2005	42	103	65	95	55
2006	292	963	506	375	315
2007	241	371	420	645	804
2008	114	196	311	361	291
Post-2008	87	124	191	124	81
Total repurchase demands received	$818	$1,790	$1,521	$1,641	$1,585

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

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

(in millions)	Dec 31, 2012	Sep 30, 2012	Jun 30, 2012	Mar 31, 2012	Dec 31, 2011
Pre-2005	$6	$6	$9	$13	$4
2005	18	14	13	19	12

2006	35	46	26	36	19
2007	83	139	121	78	48
2008	26	37	51	32	26
Post-2008	7	8	6	4	2
Total mortgage insurance rescissions received[(a)]	$175	$250	$226	$182	$111

(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 2011, the Firm’s cumulative cure rate (excluding loans originated by Washington Mutual) has been approximately 60%. A significant portion of repurchase demands now relate to loans with a longer pay history, which historically have had higher cure rates. Repurchases that have resulted from mortgage insurance rescissions are reflected in the Firm’s overall cure rate. While the actual cure rate may vary from quarter to quarter, the Firm expects that the cumulative cure rate will remain in the 55-65% range for the foreseeable future.

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

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

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, 2012, disclosed on the prior page. The Firm has considered its remaining unresolved mortgage insurance rescission risk exposure in estimating the mortgage repurchase liability as of December 31, 2012.

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

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

Summary of changes in mortgage repurchase liability[a]

Year ended December 31, (in millions)	2012	2011	2010
Repurchase liability at beginning of period	$3,557	$3,285	$1,705
Realized losses[b]	(1,158)	(1,263)	(1,423)
Provision for repurchase losses[c]	412	1,535	3,003
Repurchase liability at end of period	$2,811	$3,557	3,285

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

(b) Includes principal losses and accrued interest on repurchased loans, "make-whole" settlements, settlements with claimants, and certain related expense. Make-whole settlements were $524 million, $640 million and $632 million, for the years ended December 31, 2012, 2011 and 2010, respectively.

(c) Includes $112 million, $52 million and $47 million of provision related to new loan sales for the years ended December 31, 2012, 2011 and 2010, respectively.

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

Unpaid principal balance of mortgage loan repurchases[a]

Year ended December 31, (in millions)	2012	2011	2010
Ginnie Mae[b]	$5,539	$5,981	$8,717
GSEs[c]	1,204	1,208	1,498
Other[c][d]	209	126	275
Total	$6,952	$7,315	$10,490

(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 repurchase demands asserted in or in connection with pending litigation.

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

(c) Nonaccrual loans held-for-investment included $465 million, $477 million and $354 million at December 31, 2012, 2011 and 2010, respectively, of loans repurchased as a result of breaches of representations and warranties.

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

For additional information regarding the mortgage repurchase liability, see Note 29 on pages 308–315 of this Annual Report.

The Firm also faces a variety of exposures resulting from repurchase demands and litigation arising out of its various roles as issuer and/or sponsor of mortgage-backed securities ("MBS") offerings in private-label securitizations. For further information, see Note 31 on pages 316–325 of this Annual Report.

CAPITAL MANAGEMENT

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. Prior to making any decisions on future business activities, senior management considers the implications on the Firm's capital strength. In addition to considering the Firm's earnings outlook, senior management evaluates all sources and uses of capital with a view to preserving the Firm's capital strength. Maintaining a strong balance sheet to manage through economic volatility is considered a strategic imperative by the Firm's Board of Directors, CEO and Operating Committee. The Firm's balance sheet philosophy focuses on risk-adjusted returns, strong capital and reserves, and robust liquidity.

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

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

These objectives are achieved through ongoing monitoring of the Firm's capital position, regular stress testing, and a capital governance framework. Capital management is intended to be flexible in order to react to a range of potential events. JPMorgan Chase has frequent firmwide and LOB processes for ongoing monitoring and active management of its capital position.

Capital governance

The Firm's senior management recognizes the importance of a capital management function that supports strategic decision-making. The Firm has established the Regulatory Capital Management Office ("RCMO") which is responsible for measuring, monitoring and reporting the Firm's capital and related risks. The RCMO is an integral component of the Firm's overall capital governance framework and is responsible for reviewing, approving and monitoring the implementation of the Firm's capital policies and strategies, as well as its capital adequacy assessment process. The Board's Risk Policy Committee assesses the capital adequacy assessment process and its components. This review encompasses evaluating the effectiveness of the capital adequacy process, the appropriateness of the risk tolerance levels, and the strength of the control infrastructure. For additional discussion on the Board's Risk Policy Committee, see Risk Management on pages 123–126 of this Annual Report.

Internal Capital Adequacy Assessment Process

Semiannually, the Firm completes the Internal Capital Adequacy Assessment Process ("ICAAP"), which provides management with a view of the impact of severe and unexpected events on earnings, balance sheet positions, reserves and capital. The Firm's ICAAP integrates stress testing protocols with capital planning.

The process assesses the potential impact of alternative economic and business scenarios on the Firm's earnings and capital. 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 idiosyncratic operational risk events. The scenarios are intended to capture and stress key vulnerabilities and idiosyncratic risks facing the Firm. However, when defining a broad range of scenarios, realized events can always be worse. Accordingly, management considers additional stresses outside these scenarios, as necessary. ICAAP results are reviewed by management and the Board of Directors.

Comprehensive Capital Analysis and Review ("CCAR")

The Federal Reserve requires large bank holding companies, including the Firm, to submit a capital plan on an annual basis. The Federal Reserve uses the CCAR and Dodd-Frank Act Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") stress test processes to ensure that large bank holding companies have sufficient capital during periods of economic and financial stress, and have robust, forward-looking capital assessment and planning processes in place that address each bank holding company's unique risks to enable them to have the ability to absorb losses under certain stress scenarios. Through the CCAR, the Federal Reserve evaluates each bank holding company's capital adequacy and internal capital adequacy assessment processes, as well as its plans to make capital distributions, such as dividend payments or stock repurchases.

The Firm's CCAR process is integrated into and employs the same methodologies utilized in the Firm's ICAAP process described above. The Firm submitted its 2012 capital plan on January 9, 2012, and received notice of the Federal Reserve's non-objection on March 13, 2012. The Firm increased the quarterly dividend on its common equity to $0.30 per share commencing in the first quarter of 2012, and during 2012 repurchased (on a trade-date basis) 31 million shares of common stock and 18 million warrants for $1.3 billion and $238 million, respectively. Following the voluntary cessation of its common equity repurchase program in May 2012, the Firm resubmitted its capital plan to the Federal Reserve under the 2012 CCAR process in August 2012. Pursuant to a non-objection received from the Federal Reserve on November 5, 2012, with respect to the resubmitted capital plan, the Firm is authorized to repurchase up to $3.0 billion of common equity in the first quarter of 2013. The timing and exact amount of any common equity to be repurchased under the program will depend on various factors, including market conditions; the Firm's capital position; organic and other investment opportunities; and legal and regulatory considerations, among other factors.

On January 7, 2013, the Firm submitted its capital plan to the Federal Reserve under the Federal Reserve's 2013 CCAR process. The Firm's plan relates to the last three quarters of 2013 and the first quarter of 2014 (that is, the 2013 CCAR capital plan relates to dividends to be declared commencing in June 2013, and to common equity repurchases and other capital actions commencing April 1, 2013). The Firm expects to receive the Federal Reserve's response to its plan no later than March 14, 2013. The Firm expects that its Board of Directors will declare the regular quarterly common stock dividend of $0.30 per share for the 2013 first quarter at its Board meeting to be held on March 19, 2013. For additional information on the Firm's capital actions, see Capital actions on page 122, and Notes 22 and 23 on pages 300 and 300–301, respectively, of this Annual Report.

Capital Disciplines

The Firm assesses capital based on:

- Regulatory capital requirements
- Economic risk capital assessment
- Line of business equity attribution

Regulatory capital is the capital required to be held by the Firm pursuant to the standards stipulated by U.S. bank regulatory agencies. Regulatory capital is the primary measure used to assess capital adequacy at JPMorgan Chase, as regulatory capital measures are the basis upon which the Federal Reserve objects or does not object to the Firm's planned capital actions as set forth in the Firm's CCAR submission.

Economic risk capital is assessed by evaluating the underlying risks of JPMorgan Chase's business activities using internal risk evaluation methods. These methods result in capital allocations for both individual and aggregated LOB transactions and can be grouped into four main categories:

- Credit risk
- Market risk
- Operational risk
- Private equity risk

These internal calculations result in the capital needed to cover JPMorgan Chase's business activities in the event of unexpected losses.

In determining line of business equity the Firm evaluates the amount of capital the line of business would require if it were operating independently, incorporating sufficient capital to address regulatory capital requirements (including Basel III Tier 1 common capital requirements as

discussed below), economic risk measures 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.

Basel

The minimum risk-based capital requirements adopted by the U.S. federal banking agencies follow the Capital Accord ("Basel I") of the Basel Committee on Banking Supervision ("Basel Committee"). In 2004, the Basel Committee published a revision to the Capital 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 Basel II framework, JPMorgan Chase is required to complete a qualification period of at least 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.

In connection with the U.S. Government's Supervisory Capital Assessment Program in 2009 ("SCAP"), U.S. banking regulators developed an additional 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 securities. The Federal Reserve employs a minimum 5% Tier 1 common ratio standard for CCAR purposes, in addition to the other minimum capital requirements under Basel I.

The following table presents the regulatory capital, assets and risk-based capital ratios for JPMorgan Chase at December 31, 2012 and 2011, under Basel I. As of December 31, 2012 and 2011, JPMorgan Chase and all of its banking subsidiaries were well-capitalized and each met all capital requirements to which it was subject.

Management's discussion and analysis

Risk-based capital ratios

December 31,	2012	2011
Capital ratios		
Tier 1 capital	12.6 %	12.3 %
Total capital	15.3	15.4
Tier 1 leverage	7.1	6.8
Tier 1 common[(a)]	11.0	10.1

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

At December 31, 2012 and 2011, JPMorgan Chase maintained Tier 1 and Total capital ratios in excess of the well-capitalized standards established by the Federal Reserve, as indicated in the above tables. In addition, at December 31, 2012 and 2011, the Firm's Tier 1 common ratio was significantly above the 5% CCAR standard. For more information, see Note 28 on pages 306–308 of this Annual Report.

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)	2012	2011
Total stockholders' equity	$204,069	$183,573
Less: Preferred stock	9,058	7,800
Common stockholders' equity	195,011	175,773
Effect of certain items in accumulated other comprehensive income/(loss) excluded from Tier 1 common	(4,198)	(970)
Less: Goodwill[(a)]	45,663	45,873
Fair value DVA on structured notes and derivative liabilities related to the Firm's credit quality	1,577	2,150
Investments in certain subsidiaries and other	920	993
Other intangible assets[(a)]	2,311	2,871
Tier 1 common	140,342	122,916
Preferred stock	9,058	7,800
Qualifying hybrid securities and noncontrolling interests[(b)]	10,608	19,668
Adjustment for investments in certain subsidiaries and other	(6)	—
Total Tier 1 capital	160,002	150,384
Long-term debt and other instruments qualifying as Tier 2	18,061	22,275
Qualifying allowance for credit losses	15,995	15,504
Adjustment for investments in certain subsidiaries and other	(22)	(75)
Total Tier 2 capital	34,034	37,704
Total qualifying capital	$194,036	$188,088
Risk-weighted assets	$1,270,378	$1,221,198
Total adjusted average assets	$2,243,242	$2,202,087

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

(b) Primarily includes trust preferred securities of certain business trusts.

The following table presents the changes in Tier 1 common, Tier 1 capital and Tier 2 capital for the year ended December 31, 2012.

Capital rollforward

Year ended December 31, (in millions)	2012
Tier 1 common at December 31, 2011	$122,916
Net income	21,284
Dividends declared	(5,376)
Net issuance of treasury stock	1,153

Changes in capital surplus	(998)
Effect of certain items in accumulated other comprehensive income/(loss) excluded from Tier 1 common	(69)
Qualifying non-controlling minority interests in consolidated subsidiaries	309
DVA on structured notes and derivative liabilities	573
Goodwill and other nonqualifying intangibles (net of deferred tax liabilities)	770
Other	(220)
Increase in Tier 1 common	17,426
Tier 1 common at December 31, 2012	$140,342
Tier 1 capital at December 31, 2011	$150,384
Change in Tier 1 common	17,426
Issuance of noncumulative perpetual preferred stock	1,258
Net redemption of qualifying trust preferred securities	(9,369)
Other	303
Increase in Tier 1 capital	9,618
Tier 1 capital at December 31, 2012	$160,002
Tier 2 capital at December 31, 2011	$37,704
Change in long-term debt and other instruments qualifying as Tier 2	(4,214)
Change in allowance for credit losses	491
Other	53
Decrease in Tier 2 capital	(3,670)
Tier 2 capital at December 31, 2012	$34,034
Total capital at December 31, 2012	$194,036

Risk-weighted assets were $1,270 billion at December 31, 2012, an increase of $49 billion from December 31, 2011. In addition to the growth in the Firm's assets, the increase in risk-weighted assets also reflected an adjustment to reflect regulatory guidance regarding a limited number of market risk models used for certain positions held by the Firm during the first half of 2012, including the synthetic credit portfolio. In the fourth quarter of 2012, the adjustment to RWA decreased substantially as a result of regulatory approval of certain market risk models and a reduction in related positions.

In June 2012, U.S. federal banking agencies published final rules that went into effect on January 1, 2013, that provide for additional capital requirements for trading positions and securitizations ("Basel 2.5"). It is currently estimated that implementation of these rules could result in approximately a 100 basis point decrease from the Firm's Basel I Tier 1 common ratio at December 31, 2012 (all other factors being constant).

In June 2012, U.S. federal banking agencies also published a Notice for Proposed Rulemaking ("NPR") for

implementing further revisions to the Capital Accord in the U.S. (such further revisions are commonly referred to as "Basel III"). Basel III revised Basel II by, among other things, narrowing the definition of capital, and increasing capital requirements for specific exposures. Basel III also includes higher capital ratio requirements and provides that the Tier 1 common capital requirement will be increased to 7%, comprised of a minimum ratio of 4.5% plus a 2.5% capital conservation buffer. Implementation of the 7% Tier 1 common capital requirement is required by January 1, 2019.
In addition, global systemically important banks ("GSIBs") will be required to maintain Tier 1 common requirements above the 7% minimum in amounts ranging from an additional 1% to an additional 2.5%. In November 2012, the Financial Stability Board ("FSB") indicated that it would require the Firm, as well as three other banks, to hold the additional 2.5% of Tier 1 common; the requirement will be phased in beginning in 2016. The Basel Committee also stated it intended to require certain GSIBs to hold an additional 1% of Tier 1 common under certain circumstances, to act as a disincentive for the GSIB from taking actions that would further increase its systemic importance. Currently, no GSIB (including the Firm) is required to hold this additional 1% of Tier 1 common.
In addition, pursuant to the requirements of the Dodd-Frank Act, U.S. federal banking agencies have proposed certain permanent Basel I floors under Basel II and Basel III capital calculations.
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. Tier 1 common under Basel III includes additional adjustments and deductions not included in Basel I Tier 1 common, such as the inclusion of AOCI related to AFS securities and defined benefit pension and other postretirement employee benefit ("OPEB") plans.
The Firm estimates that its Tier 1 common ratio under Basel III rules would be 8.7% as of December 31, 2012. The Tier 1 common ratio under both Basel I and Basel III are non-GAAP financial measures. However, such measures are used by bank regulators, investors and analysts as a key measure to assess the Firm's capital position and to compare the Firm's capital to that of other financial services companies.

December 31, 2012 (in millions, except ratios)		
Tier 1 common under Basel I rules	$140,342	
Adjustments related to AOCI for AFS securities and defined benefit pension and OPEB plans	4,077	
All other adjustments	(453	)
Estimated Tier 1 common under Basel III rules	$143,966	
Estimated risk-weighted assets under Basel III rules[(a)]	$1,647,903	
Estimated Tier 1 common ratio under Basel III rules[(b)]	8.7	%

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

The Firm's estimate of its Tier 1 common ratio under Basel III reflects its current understanding of the Basel III rules based on information currently published by the Basel Committee and U.S. federal banking agencies and on the application of such rules to its businesses as currently conducted; it excludes the impact of any changes the Firm may make in the future to its businesses as a result of implementing the Basel III rules, possible enhancements to certain market risk models, and any further implementation guidance from the regulators.
The Basel III capital requirements are subject to prolonged transition periods. The transition period for banks to meet the Tier 1 common requirement under Basel III was originally scheduled to begin in 2013, with full implementation on January 1, 2019. In November 2012, the U.S. federal banking agencies announced a delay in the implementation

dates for the Basel III capital requirements. The additional capital requirements for GSIBs will be phased in starting January 1, 2016, with full implementation on January 1, 2019. Management's current objective is for the Firm to reach, by the end of 2013, an estimated Basel III Tier I common ratio of 9.5%.

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 on pages 1–8 of the 2012 Form 10-K, and Note 28 on pages 306–308 of this Annual Report.

Broker-dealer regulatory capital

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

JPMorgan Securities and JPMorgan Clearing have elected to compute their minimum net capital requirements in accordance with the "Alternative Net Capital Requirements" of the Net Capital Rule. At December 31, 2012, JPMorgan Securities' net capital, as defined by the Net Capital Rule, was $13.5 billion, exceeding the minimum requirement by

$12.0 billion, and JPMorgan Clearing's net capital was $6.6 billion, exceeding the minimum requirement by $5.0 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, 2012, JPMorgan Securities had tentative net capital in excess of the minimum and notification requirements.

J.P. Morgan Securities plc (formerly J.P. Morgan Securities Ltd.) is a wholly-owned subsidiary of JPMorgan Chase Bank, N.A. and is the Firm's principal operating subsidiary in the U.K. It has authority to engage in banking, investment banking and broker-dealer activities. J.P. Morgan Securities plc is regulated by the U.K. Financial Services Authority ("FSA"). At December 31, 2012, it had total capital of $20.8 billion, or a Total capital ratio of 15.5% which exceeded the 8% well-capitalized standard applicable to it under Basel 2.5.

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.

	Yearly Average		
Year ended December 31, (in billions)	2012	2011	2010
Credit risk	$46.6	$48.2	$49.7
Market risk	17.5	14.5	15.1
Operational risk	15.9	8.5	7.4
Private equity risk	6.0	6.9	6.2
Economic risk capital	86.0	78.1	78.4
Goodwill	48.2	48.6	48.6
Other[(a)]	50.2	46.6	34.5
Total common stockholders' equity	$184.4	$173.3	$161.5

(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 (CIB, CB and AM) and consumer business (CCB).

Credit risk capital for the wholesale credit portfolio is defined in terms of unexpected credit losses, both from defaults and from declines in the value of the portfolio 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 the allowance for credit losses is 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. The decrease in credit risk capital in 2012 was driven by consumer portfolio runoff and continued model enhancements to better estimate future stress credit losses in the consumer portfolio. See Credit Risk Management on pages 134–135 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 the 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, weekly 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. The increase in market risk capital in 2012 was driven by increased risk in the synthetic credit portfolio. See Market Risk Management on pages 163–169 of this Annual Report for more information about these market risk measures.

Operational risk capital

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events. The operational risk capital model is based on actual losses and potential scenario-based losses, with adjustments to the capital calculation to reflect changes in the quality of the control environment. The increase in operational risk capital in 2012 was primarily due to continued model enhancements to better capture large historical loss events, including mortgage-related litigation costs. The increases that occurred during 2012 will be fully reflected in average operational risk capital in 2013. See Operational Risk Management on pages 175–176 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, within the Corporate/Private Equity segment, 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.

Line of business equity

The Firm's framework for allocating capital to its business segments 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

In determining line of business equity the Firm evaluates the amount of capital the line of business would require if it were operating independently, incorporating sufficient capital to address regulatory capital requirements (including Basel III Tier 1 common capital requirements as discussed below), 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	Yearly Average		
Year ended December 31, (in billions)	2012	2011	2010
Consumer & Community Banking	$43.0	$41.0	$43.0
Corporate & Investment Bank	47.5	47.0	46.5
Commercial Banking	9.5	8.0	8.0
Asset Management	7.0	6.5	6.5
Corporate/Private Equity	77.4	70.8	57.5
Total common stockholders' equity	$184.4	$173.3	$161.5

Effective January 1, 2012, the Firm revised the capital allocated to each of its businesses, reflecting additional refinement of each segment's Basel III Tier 1 common capital requirements.

In addition, effective January 1, 2013, the Firm further refined the capital allocation framework to align it with the revised line of business structure that became effective in the fourth quarter of 2012. The increase in equity levels for the lines of businesses is largely driven by the most current regulatory guidance on Basel 2.5 and Basel III requirements (including the NPR), principally for CIB and CIO, and by anticipated business growth.

Line of business equity	January 1,	December 31,	
(in billions)	2013[(a)]	2012	2011
Consumer & Community Banking	$46.0	$43.0	$41.0
Corporate & Investment Bank	56.5	47.5	47.0
Commercial Banking	13.5	9.5	8.0
Asset Management	9.0	7.0	6.5
Corporate/Private Equity	70.0	88.0	73.3
Total common stockholders' equity	$195.0	$195.0	$175.8

(a) Reflects refined capital allocations effective January 1, 2013 as discussed above.

The Firm will continue 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.

Management’s discussion and analysis

Capital actions

Issuance of preferred stock

On August 27, 2012, the Firm issued $1.3 billion of fixed–rate noncumulative perpetual preferred stock. For additional information on the Firm’s preferred stock, see Note 22 on page 300 of this Annual Report.

Dividends

JPMorgan Chase declared quarterly cash dividends on its common stock in the amount of $0.05 per share for each quarter of 2010.

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

For information regarding dividend restrictions, see Note 22 and Note 27 on pages 300 and 306, respectively, of this Annual Report.

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

Year ended December 31,	2012		2011		2010	
Common dividend payout ratio	23	%	22	%	5	%

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. On March 13, 2012, the Board of Directors authorized a new $15.0 billion common equity repurchase program, of which up to $12.0 billion was approved for repurchase in 2012 and up to an additional $3.0 billion was approved through the end of the first quarter of 2013. Following the voluntary cessation of its common equity repurchase program in May 2012, the Firm resubmitted its capital plan to the Federal Reserve under the 2012 CCAR process in August 2012. Pursuant to a non-objection received from the Federal Reserve on November 5, 2012, with respect to the resubmitted capital plan, the Firm is authorized to repurchase up to $3.0 billion of common equity in the first quarter of 2013. The timing and exact amount of any common equity to be repurchased under the program will depend on various factors, including market conditions; the Firm’s capital position; organic and other investment opportunities; and legal and regulatory considerations, among other factors.

During 2012, 2011 and 2010, the Firm repurchased (on a trade-date basis) 31 million, 229 million, and 78 million shares of common stock, for $1.3 billion, $8.8 billion and $3.0 billion, respectively. During 2012 and 2011, the Firm repurchased 18 million and 10 million warrants (originally issued to the U.S. Treasury in 2008 pursuant to its Capital Purchase Program), for $238 million and $122 million, respectively. The Firm did not repurchase any of the warrants during 2010.

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 22–23 of JPMorgan Chase’s 2012 Form 10-K and 2013 Business Outlook, on pages 68–69 of this Annual Report.

RISK MANAGEMENT

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

The Firm's overall risk appetite is established in the context of the Firm's capital, earnings power, and diversified business model. The Firm employs a formalized risk appetite framework to integrate the Firm's objectives with return targets, risk controls and capital management. The Firm's Chief Executive Officer ("CEO") is responsible for setting the overall firmwide risk appetite. The lines of business CEOs, Chief Risk Officers ("CROs") and Corporate/Private Equity senior management are responsible for setting the risk appetite for their respective lines of business or risk limits, within the Firm's limits, and these risk limits are subject to approval by the CEO and firmwide Chief Risk Officer ("CRO") or the Deputy CRO. 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 risks 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 as appropriate and controls. There are nine major risk types identified arising out of the business activities of the Firm: liquidity risk, credit risk, market risk, interest rate risk, country risk, principal risk, operational risk, legal risk, fiduciary risk and reputation risk.

Overlaying line of business risk management are corporate functions with risk management-related responsibilities: Risk Management, Treasury and CIO, the Regulatory Capital Management Office ("RCMO") the Firmwide Oversight and Control Group, Legal and Compliance and the Firmwide Valuation Governance Forum.

Risk Management reports independently of the lines of business to provide oversight of firmwide risk management and controls, and is viewed as a partner in achieving appropriate business risk and reward objectives. Risk Management coordinates and communicates with each line of business through the line of business risk committees and CROs to manage risk. The Risk Management function is headed by the Firm's Chief Risk Officer, who is a member of

the Firm's Operating Committee and who reports to the Chief Executive Officer and is accountable to the Board of Directors, primarily through the Board's Risk Policy Committee. The Chief Risk Officer is also a member of the line of business risk committees. Within the Firm's Risk Management function are units responsible for credit risk, market risk, country risk, principal risk, model risk and development, reputational risk and operational risk framework, as well as risk reporting and risk policy. Risk Management is supported by risk technology and operations functions that are responsible for building the information technology infrastructure used to monitor and manage risk.

The Risk Management organization maintains a Risk Operating Committee and the Risk Management Business Control Committees. The Risk Operating Committee focuses on risk management, including setting risk management priorities, escalation of risk issues, talent and resourcing, and other issues brought to its attention by line of business CEOs, CROs and cross-line of business risk officers (e.g., Country Risk, Market Risk and Model Risk). This committee meets bi-weekly and is led by the CRO or deputy-CRO. There are three business control committees within the Risk Management function (Wholesale Risk Business Control Committee, Consumer Risk Business Control Committee and the Corporate Risk Business Control Committee) which meet at least quarterly and focus on the control environment, including outstanding action plans, audit status, operational risk statistics (such as losses, risk indicators, etc.), compliance with critical control programs, and risk technology.

The Model Risk and Development unit, within the Risk Management function, provides oversight of the firmwide Model Risk policy, guidance with respect to a model's appropriate usage and conducts independent reviews of models.

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

Legal and Compliance has oversight for legal risk. In January 2013, the Compliance function was moved to report to the Firm's co-COOs in order to better align the function, which is a critical component of how the Firm manages its risk, with the Firm's Oversight and Control function. Compliance will continue to work closely with Legal, given their complementary missions. The Firm's Oversight and Control group is dedicated to enhancing the Firm's control framework, and to looking within and across the lines of business and the Corporate functions (including CIO) to identify and remediate control issues.

In addition, the Firm has a firm-wide Valuation Governance Forum ("VGF") comprising senior finance and risk executives to oversee the management of risks arising from valuation activities conducted across the Firm. The VGF is chaired by the firm-wide head of the valuation control function, and also includes sub-forums for the CIB, MB, and certain corporate functions including Treasury and CIO.

In addition to the risk committees of the lines of business and the above-referenced risk management functions, the Firm also has numerous management level committees focused on measuring, monitoring and managing risk. All of these committees are accountable to the CEO and Operating

Committee. The membership of these committees is composed of senior management of the Firm; membership varies across the committees and is based on the objectives of the individual committee. Typically membership includes representatives of the lines of business, CIO, Treasury, Risk Management, Finance, Legal and Compliance and other senior executives. The committees meet regularly to discuss a broad range of topics including, for example, current market conditions and other external events, risk exposures, and risk concentrations to ensure that the effects of risk issues are considered broadly across the Firm's businesses.

The Board of Directors exercises its oversight of the Firm's risk management principally through the Board's Risk Policy Committee and Audit Committee.

The Board's Risk Policy Committee oversees senior management risk-related responsibilities, including reviewing management policies and performance against these policies and related benchmarks. The Board's Risk Policy Committee also reviews firm level market risk limits at least annually. The CROs for each line of business and the heads of Country Risk, Market Risk, Model Risk and the Wholesale Chief Credit Officer meet with the Board's Risk Policy Committee on a regular basis. In addition, in

conjunction with the Firm's capital assessment process, the CEO or Chief Risk Officer is responsible for notifying the Risk Policy Committee of any results which are projected to exceed line of business or firmwide risk appetite tolerances. The CEO or CRO is required to notify the Chairman of the Board's Risk Policy Committee if certain firmwide limits are modified or exceeded.

The Audit Committee is responsible for oversight of guidelines and policies that govern the process by which risk assessment and management is undertaken. In addition, the Audit Committee reviews with management the system of internal controls that is relied upon to provide reasonable assurance of compliance with the Firm's operational risk management processes. In addition, Internal Audit, an independent function within the Firm that provides independent and objective assessments of the control environment, reports directly to the Audit Committee of the Board of Directors and administratively to the CEO. Internal Audit conducts regular independent reviews to evaluate the Firm's internal control structure and compliance with applicable regulatory requirements and is responsible for providing the Audit Committee, senior management and regulators with an independent assessment of the Firm's ability to manage and control risk.

Among the Firm's management level committees that are primarily responsible for certain risk-related functions are:

The Asset-Liability Committee, chaired by the Corporate Treasurer, monitors the Firm's overall interest rate risk and liquidity risk. ALCO is responsible for reviewing and approving the Firm's liquidity policy and contingency funding plan. ALCO also reviews the Firm's funds transfer pricing policy (through which lines of business "transfer" interest rate and foreign exchange risk to Treasury), nontrading interest rate-sensitive revenue-at-risk, overall interest rate position, funding requirements and strategy, and the Firm's securitization programs (and any required liquidity support by the Firm of such programs).

The Firmwide Risk Committee is co-chaired by the Firm's CEO and CRO or Deputy CRO. The Risk Governance Committee is chaired by the Firm's CRO and Deputy CRO. These committees meet monthly to review cross-line of business issues such as risk appetite, certain business activity and aggregate risk measures, risk policy, risk methodology regulatory capital and other regulatory issues, as referred by line of business risk committees. The Risk Governance Committee is also responsible for ensuring that line of business and firmwide risk reporting and compliance with risk appetite levels are monitored, in conjunction with the Firm's capital assessment process. Each line of business risk committee meets at least on a monthly basis and is co-chaired by the line of business CRO and CEO or equivalent. Each line of business risk committee is also attended by individuals from outside the line of business. It is the responsibility of committee members of the line of business risk committees to escalate line of business risk topics to the Firmwide Risk Committee as appropriate.

In addition to the above, there is the Investment Committee, chaired by the Firm's Chief Financial Officer that meets on an as needed basis and 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.

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 and operational services, is identified and aggregated through the Firm's risk management infrastructure. There are nine major risk types identified in the business activities of the Firm: liquidity risk, credit risk, market risk, interest rate risk, country risk, private equity risk, operational risk, legal and fiduciary risk, and reputation risk.
- Risk measurement: The Firm measures risk using a variety of methodologies, including calculating probable loss, unexpected loss and value-at-risk, and by conducting stress tests and making comparisons to external benchmarks. Measurement models and related assumptions are 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.

Model risk

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

Models are owned by various functions within the Firm based on the specific purposes of such models. For example, VaR models and certain regulatory capital models are owned by the line-of-business aligned risk management functions. Owners of the models are responsible for the development, implementation and testing of models, as well as referral of models to the Model Risk function (within the Model Risk and Development unit) for review and approval. Once models have been approved, the model owners maintain a robust operating environment and monitor and evaluate the performance of models on an ongoing basis. Model owners enhance models in response to changes in

the portfolios and for changes in product and market developments, as well as improvements in available modeling techniques and systems capabilities, and submit such enhancements to the Model Risk function for review.
The Model Risk function comprises the Model Review Group and the Model Governance Group and reports to the Model Risk and Development unit, which in turn reports to the Chief Risk Officer. The Model Risk function is independent of the model owners and reviews and approves a wide range of models, including risk management, valuation and certain regulatory capital models used by the Firm.
Models are tiered based on an internal standard according to their complexity, the exposure associated with the model and the Firm's reliance on the model. This tiering is subject to the approval of the Model Risk function. The model reviews conducted by the Model Risk function consider a number of factors about the model's suitability for valuation or risk management of a particular product, or other purposes. The factors considered include the assigned model tier, whether the model accurately reflects the characteristics of the instruments and its significant risks, the selection and reliability of model inputs, consistency with models for similar products, the appropriateness of any model-related adjustments, and sensitivity to input parameters and assumptions that cannot be observed from the market. When reviewing a model, the Model Risk function analyzes and challenges the model methodology and the reasonableness of model assumptions and may perform or require additional testing, including back-testing of model outcomes. Model reviews are approved by the appropriate level of management within the Model Risk function based on the relevant tier of the model.
Under the Firm's model risk policy, new significant models, as well as material changes to existing models, are reviewed and approved by the Model Risk function prior to implementation into the operating environment. The Model Risk function performs an annual Firmwide model risk assessment where developments in the product or market are considered in determining whether models need to be reviewed and approved again.

In the event that the Model Risk function does not approve a significant model, escalation to senior management is required and the model owner is required to remediate the model within a time period as agreed upon with the Model Risk function. The model owner is also required to resubmit the model for review to the Model Risk function and to take appropriate actions to mitigate the model risk in the interim. The actions taken will depend on the model that is disapproved and may include, for example, limitation of trading activity. The Firm may also implement other appropriate risk measurement tools in place to augment the model that is subject to remediation.
Exceptions to the Firm's model risk policy may be granted by the Model Risk function to allow a significant model to be used prior to review or approval. Such exceptions have been applied in limited circumstances, and where this is the case, compensating controls similar to those described above have been put in place.
For a summary of valuations based on models, see Critical Accounting Estimates Used by the Firm on pages 180–181 and Note 3 on pages 196–214 of this Annual Report.

LIQUIDITY RISK MANAGEMENT

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

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

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

- Measuring, managing, monitoring and reporting the Firm's current and projected liquidity sources and uses;
- Understanding the liquidity characteristics of the Firm's assets and liabilities;
- Defining and monitoring Firmwide and legal entity liquidity strategies, policies, guidelines, and contingency funding plans;
- Liquidity stress testing under a variety of adverse scenarios
- Managing funding mix and deployment of excess short-term cash;
- Defining and implementing funds transfer pricing ("FTP") across all lines of business and regions; and
- Defining and addressing the impact of regulatory changes on funding and liquidity.

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

Specific risk committees responsible for liquidity risk governance include ALCO as well as lines of business and regional asset and liability management committees. For further discussion of the risk committees, see Risk Management on pages 123–126 of this Annual Report.

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

LCR and NSFR

In December 2010, the Basel Committee introduced two new measures of liquidity risk: the liquidity coverage ratio ("LCR") which is intended to measure the amount of "high-quality liquid assets" held by the Firm during an acute stress, in relation to the estimated net cash outflows within the 30-day period; and the net stable funding ratio

("NSFR") which is intended to measure the "available" amount of stable funding relative to the "required" amount of stable funding over a 1-year horizon. The standards require that the LCR be no lower than 100% and the NSFR be greater than 100%.

In January 2013, the Basel Committee introduced certain amendments to the formulation of the LCR, and a revised timetable to phase-in the standard. The LCR will continue to become effective on January 1, 2015, but the minimum requirement will begin at 60%, increasing in equal annual stages to reach 100% on January 1, 2019. The Firm is currently targeting to attain a 100% LCR, based on its current understanding of the requirements, by the end of 2013. The NSFR is scheduled to become effective in 2018.

Funding

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

Sources of funds

A key strength of the Firm is its diversified deposit franchise, through each of its lines of business, which provides a stable source of funding and limits reliance on the wholesale funding markets. As of December 31, 2012, the Firm's deposits-to-loans ratio was 163%, compared with 156% at December 31, 2011.

As of December 31, 2012, total deposits for the Firm were $1,193.6 billion, compared with $1,127.8 billion at December 31, 2011 (55% and 54% of total liabilities at December 31, 2012 and 2011, respectively). The increase in deposits was predominantly due to growth in retail and wholesale deposits. For further information, see Balance Sheet Analysis on pages 106–108 of this Annual Report.

The Firm typically experiences higher customer deposit inflows at period-ends. Therefore, average deposit balances are more representative of deposit trends. The table below summarizes, by line of business, average deposits for the year ended December 31, 2012 and 2011, respectively.

Management's discussion and analysis

Deposits			Year ended December 31,	
	December 31,		Average	
(in millions)	2012	2011	2012	2011
Consumer & Community Banking	$438,484	$397,825	$413,911	$382,678
Corporate & Investment Bank	385,560	362,384	353,048	317,213
Commercial Banking	198,383	196,366	181,805	157,899
Asset Management	144,579	127,464	129,208	106,421
Corporate/Private Equity	26,587	43,767	27,911	47,779
Total Firm	$1,193,593	$1,127,806	$1,105,883	$1,011,990

A significant portion of the Firm's deposits are retail deposits (37% and 35% at December 31, 2012 and 2011, respectively), which are considered particularly stable as they are less sensitive to interest rate changes or market volatility. Additionally, the majority of the Firm's institutional deposits are also considered to be stable sources of funding since they are generated from customers that maintain operating service relationships with the Firm. For further discussions of deposit balance trends, see the discussion of the results for the Firm's business segments and the Balance Sheet Analysis on pages 80–104 and 106–108, respectively, of this Annual Report.

Short-term funding

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

The Firm's reliance on short-term unsecured funding sources is limited. A significant portion of the total commercial paper liabilities, approximately 72% as of December 31, 2012, as shown in the table below, were originated from deposits that customers choose to sweep into commercial paper liabilities as a cash management

program offered by CIB and are not sourced from wholesale funding markets.

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

At December 31, 2012, the balance of total unsecured and secured other borrowed funds increased, compared with the balance at December 31, 2011. The increase was primarily driven by an increase in term federal funds purchased and in CIB structured notes. The average balance for the year ended December 31, 2012, decreased from the prior year, predominantly driven by maturities of short-term unsecured bank notes and other unsecured borrowings, and other secured short-term borrowings.

For additional information, see the Balance Sheet Analysis on pages 106–108 and Note 13 on page 249 of this Annual Report. The following table summarizes by source select short-term unsecured and secured funding as of December 31, 2012 and 2011, and average balances for the year ended December 31, 2012 and 2011, respectively.

Select Short-term funding	December 31, 2012	December 31, 2011	Year ended December 31, Average	
(in millions)			2012	2011
Commercial paper:				
Wholesale funding	$15,589	$4,245	$14,302	$6,119

Client cash management	39,778	47,386	36,478	36,534
Total commercial paper	$55,367	$51,631	$50,780	$42,653
Other borrowed funds	$26,636	$21,908	$24,174	$30,943
Securities loaned or sold under agreements to repurchase:				
Securities sold under agreements to repurchase	$212,278	$191,649	$219,625	$228,514
Securities loaned	23,125	14,214	20,763	19,438
Total securities loaned or sold under agreements to repurchase[(a)(b)(c)]	$235,403	$205,863	$240,388	$247,952

(a) Excludes federal funds purchased.

(b) Excludes long-term structured repurchase agreements of $3.3 billion and $6.1 billion as of December 31, 2012 and 2011, respectively, and average balance of $7.0 billion and $4.6 billion for the years ended December 31, 2012 and 2011, respectively.

(c) Excludes long-term securities loaned of $457 million as of December 31, 2012, and average balance of $113 million for the year ended December 31, 2012. There were no long-term securities loaned as of December 31, 2011.

Long-term funding and issuance

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

The following table summarizes long-term unsecured issuance and maturities or redemption for the years ended December 31, 2012 and 2011, respectively. For additional information, see Note 21 on pages 297–299 of this Annual Report.

Long-term unsecured funding

Year ended December 31, (in millions)	2012	2011
Issuance		
Senior notes issued in the U.S. market	$15,695	$29,043
Senior notes issued in non-U.S. markets	8,341	5,173
Total senior notes	24,036	34,216
Trust preferred securities	—	—
Subordinated debt	—	—
Structured notes	15,525	14,761
Total long-term unsecured funding – issuance	$39,561	$48,977
Maturities/redemptions		
Total senior notes	$40,484	$36,773
Trust preferred securities	9,482	101
Subordinated debt	1,045	2,912
Structured notes	20,183	18,692
Total long-term unsecured funding – maturities/redemptions	$71,194	$58,478

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

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

The following table summarizes the securitization issuance and FHLB advances and their respective maturities or redemption for the years ended December 31, 2012 and 2011.

Long-term secured funding

Year ended December 31,	Issuance		Maturities/Redemptions	
(in millions)	2012	2011	2012	2011
Credit card securitization	$10,800	$1,775	$13,187	$13,556
Other securitizations[(a)]	—	—	487	478
FHLB advances	35,350	4,000	11,124	9,155
Total long-term secured funding	$46,150	$5,775	$24,798	$23,189

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

The Firm's wholesale businesses also securitize loans for client-driven transactions; those client-driven loan securitizations are not considered to be a source of funding for the Firm and are not included in the table above. For further description of the client-driven loan securitizations, see Note 16 on pages 280–291 of this Annual Report.

Parent holding company and subsidiary funding

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

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

- Number of months of pre-funding: The Firm targets pre-funding of the parent holding company to ensure that both contractual and non-contractual obligations can be met for at least 18 months assuming no access to wholesale funding markets. However, due to conservative liquidity management actions taken by the Firm, the current pre-funding of such obligations is greater than target.
- Excess cash: Excess cash is managed to ensure that daily cash requirements can be met in both normal and stressed environments. Excess cash generated by parent holding company issuance activity is placed on deposit with or as advances to both bank and nonbank subsidiaries or held as liquid collateral purchased through reverse repurchase agreements.
- Stress testing: The Firm conducts regular stress testing for the parent holding company and major bank subsidiaries as well as the Firm’s principal U.S. and U.K. broker-dealer subsidiaries to ensure sufficient liquidity for the Firm in a stressed environment. The Firm’s

liquidity management takes into consideration its subsidiaries' ability to generate replacement funding in the event the parent holding company requires repayment of the aforementioned deposits and advances. For further information, see the Stress testing discussion below.

Global Liquidity Reserve

The Global Liquidity Reserve includes cash on deposit at central banks, and cash proceeds reasonably expected to be received in secured financings of unencumbered high-quality securities (such as sovereign debt, government-guaranteed corporate debt, U.S. government agency debt, and agency MBS) that are available to the Firm on a consolidated basis. 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, 2012, the Global Liquidity Reserve was estimated to be approximately $491 billion, compared with approximately $379 billion at December 31, 2011. The Global Liquidity Reserve fluctuates due to changes in deposits, the Firm's purchase and investment activities and general market conditions.

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

Stress testing

Liquidity stress tests are intended to ensure sufficient liquidity for the Firm under a variety of adverse scenarios. Results of stress tests are therefore considered in the formulation of the Firm's funding plan and assessment of its liquidity position. Liquidity outflow assumptions are

modeled across a range of time horizons and varying degrees of market and idiosyncratic stress. Standard stress tests are performed on a regular basis and ad hoc stress tests are performed as required. Stress scenarios are produced for the parent holding company and the Firm's major bank subsidiaries as well as the Firm's principal U.S. and U.K. broker-dealer subsidiaries. In addition, separate regional liquidity stress testing is performed.

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

- Deposits

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

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

  Margin calls by exchanges or clearing houses;

  Collateral calls associated with ratings downgrade triggers and variation margin;

  Outflows of excess client collateral;

  Novation of derivative trades.
- Unfunded commitments

  Potential facility drawdowns reflecting the type of commitment and counterparty.

Contingency funding plan

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

Credit ratings

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

VIEs, and on derivatives and collateral agreements, see Special-purpose entities on page 109, and Credit risk, liquidity risk and credit-related contingent features in Note 5 on pages 224–225, 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 certain of the Firm's significant operating subsidiaries as of December 31, 2012, were as follows.

	JPMorgan Chase & Co.			JPMorgan Chase Bank, N.A. Chase Bank USA, N.A.			J.P. Morgan Securities LLC		
December 31, 2012	Long-term issuer	Short-term issuer	Outlook	Long-term issuer	Short-term issuer	Outlook	Long-term issuer	Short-term issuer	Outlook
Moody's Investor Services	A2	P-1	Negative	Aa3	P-1	Stable	A1	P-1	Stable
Standard & Poor's	A	A-1	Negative	A+	A-1	Negative	A+	A-1	Negative
Fitch Ratings	A+	F1	Stable	A+	F1	Stable	A+	F1	Stable

On June 21, 2012, Moody's downgraded the long-term ratings of the Firm and affirmed all its short-term ratings. The outlook for the parent holding company was left on negative reflecting Moody's view that government support for U.S. bank holding company creditors is becoming less certain and less predictable. Such ratings actions concluded Moody's review of 17 banks and securities firms with global capital markets operations, including the Firm, as a result of which all of these institutions were downgraded by various degrees.

Following the disclosure by the Firm, on May 10, 2012, of losses from the synthetic credit portfolio held by CIO, Fitch downgraded the Firm and placed all parent and subsidiary long-term ratings on Ratings Watch Negative. At that time, S&P also revised its outlook on the ratings of the Firm from Stable to Negative. Subsequently, on October 10, 2012, Fitch revised the outlook to Stable and affirmed the Firm's ratings.

The above-mentioned rating actions did not have a material adverse impact on the Firm's cost of funds and its ability to fund itself. Further downgrades of the Firm's long-term ratings by one notch or two notches could result in a downgrade of the Firm's short-term ratings. If this were to occur, the Firm believes its cost of funds could increase and access to certain funding markets could be reduced. The nature and magnitude of the impact of further ratings downgrades depends on numerous contractual and behavioral factors (which the Firm believes are incorporated in the Firm's liquidity risk and stress testing metrics). The Firm believes it maintains sufficient liquidity to withstand any potential decrease in funding capacity due to further ratings downgrades.

JPMorgan Chase's unsecured debt does not contain requirements that would call for an acceleration of payments, maturities or changes in the structure of the existing debt, provide any limitations on future borrowings or require additional collateral, based on unfavorable changes in the Firm's credit ratings, financial ratios, earnings, or stock price.

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

Management's discussion and analysis

Cash flows

For the years ended December 31, 2012, 2011 and 2010, cash and due from banks decreased $5.9 billion, and increased by $32.0 billion and $1.4 billion, respectively. The following discussion highlights the major activities and transactions that affected JPMorgan Chase's cash flows during 2012, 2011 and 2010, 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, 2012, net cash provided by operating activities was $25.1 billion. This resulted from a decrease in securities borrowed reflecting a shift in the deployment of excess cash to resale agreements, as well as lower client activity in CIB, and lower trading assets - derivative receivables, primarily related to the decline in the U.S. dollar and tightening of credit spreads. Partially offsetting these cash inflows was a decrease in accounts payable and other liabilities predominantly due to lower CIB client balances, and an increase in trading assets - debt and equity instruments driven by client-driven market-making activity in CIB. Net cash generated from operating activities was higher than net income largely as a result of adjustments for noncash items such as depreciation and amortization, provision for credit losses, and stock-based compensation. Cash used to acquire loans was higher than cash proceeds received from sales and paydowns of such loans originated and purchased with an initial intent to sell, and also reflected a lower level of activity over the prior-year period.

For the 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-driven market-making activity in CIB; an increase in accounts payable and other liabilities predominantly due to higher CIB client balances, and a decrease in accrued interest and accounts receivables, primarily in CIB, 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.

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, 2012, net cash of $119.8 billion was used in investing activities. This resulted from an increase in securities purchased under resale agreements due to deployment of the Firm's excess cash by Treasury; higher deposits with banks reflecting placements of the Firm's excess cash with various central banks, primarily Federal Reserve Banks; and higher levels of wholesale loans, primarily in CB and AM, driven by higher wholesale activity across most of the Firm's regions and businesses. Partially offsetting these cash outflows were a decline in consumer, excluding credit card, loans predominantly due to mortgage-related paydowns and portfolio run-off, and a decline in credit card loans due to higher repayment rates; and proceeds from maturities and sales of AFS securities, which were higher than the cash used to acquire new AFS securities.

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 CIB 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 CIB; and cash used for business acquisitions, primarily RBS Sempra.

Cash flows from financing activities

The Firm's financing activities predominantly include taking customer deposits, and issuing long-term debt as well as preferred and common stock. For the year ended December 31, 2012, net cash provided by financing activities was $87.7 billion. This was driven by proceeds from long-term borrowings and a higher level of securitized credit cards; an increase in deposits due to growth in both consumer and wholesale deposits (for additional information, see Balance Sheet Analysis on pages 106–108 of this Annual Report); an increase in federal funds purchased and securities loaned or sold under repurchase agreements due to higher secured financings of the Firm's assets; an increase in commercial paper issuance in the wholesale funding markets to meet short-term funding needs, partially offset by a decline in the volume of client deposits and other third-party liability balances related to CIB's liquidity management product; an increase in other borrowed funds due to higher secured and unsecured short-term borrowings to meet short-term funding needs; and proceeds from the issuance of preferred stock. Partially offsetting these cash inflows were redemptions and maturities of long-term borrowings, including TruPS, and securitized credit cards; and payments of cash dividends on common and preferred stock and repurchases of common stock and warrants.

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 CIB 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 CIB's cash management program. Cash was used to reduce securities sold under repurchase agreements, predominantly in CIB, 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 CIB, offset partially by net inflows from existing customers and new business in AM, CB and CCB; 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 CIB partially offset by a decrease in Corporate reflecting repositioning activities.

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss from obligor or counterparty default. The Firm provides credit to a variety of customers, ranging from large corporate and institutional clients to individual consumers and small businesses. In its consumer businesses, the Firm is exposed to credit risk through its real estate, credit card, auto, business banking and student lending businesses, with a primary focus of serving the prime segment of the consumer market. Originated mortgage loans are retained in the mortgage portfolio, or securitized or sold to U.S. government agencies and U.S. government-sponsored enterprises; other types of consumer loans are typically retained on balance sheet. In its wholesale businesses, the Firm is exposed to credit risk through its underwriting, lending and derivatives activities with and for clients and counterparties, as well as through its operating services activities, such as cash management and clearing activities. Loans originated or acquired by the Firm's wholesale businesses are generally retained on the balance sheet. The Firm's syndicated loan business, distributes a significant percentage of originations into the market and is an important component of portfolio management.

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 its lending, capital markets activities and operating services businesses. 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 probable and unexpected credit losses for the consumer and wholesale portfolios. Probable credit losses inherent in the Firm's loan portfolio and related commitments are reflected in the allowance for credit losses. These losses are estimated using statistical analyses and other factors as described in Note 15 on pages 276–279 of this Annual Report. However, probable losses are not the sole indicators of risk. Unexpected losses are reflected in the allocation of credit risk capital and represent the potential volatility of actual losses relative to the amount of probable losses inherent in the portfolio. The methodologies used to measure probable and unexpected credit losses depends on the characteristics of the credit exposure, as described below.

Scored exposure

The scored portfolio is generally held in CCB and includes residential real estate loans, credit card loans, certain auto and business banking loans, and student loans. For the scored portfolio, probable and unexpected credit losses are based on statistical analysis of credit losses over discrete periods of time. Probable credit losses inherent in the portfolio are estimated using portfolio modeling, credit scoring, and decision-support tools, which consider loan-level factors such as delinquency status, credit scores, collateral values, and other risk factors. Estimated probable and unexpected credit losses also consider uncertainties and other factors, including those related to current macroeconomic and political conditions, the quality of underwriting standards, and other internal and external factors. The factors and analysis are updated on a quarterly basis or more frequently as market conditions dictate.

Risk-rated exposure

Risk-rated portfolios are generally held in CIB, CB and AM, but also include certain business banking and auto dealer loans held in CCB that are risk-rated because they have characteristics similar to commercial loans. For the risk-rated portfolio, probable and unexpected credit losses are based on estimates of the probability of default and loss severity given a default. The estimation process begins with risk-ratings that are assigned to each loan facility to differentiate risk within the portfolio. These risk-ratings are reviewed on an ongoing basis by Credit Risk management and revised as needed to reflect the borrower's current financial position, risk profile and related collateral. The probability of default is the likelihood that a loan will default and not be fully repaid by the borrower. The probability of default is estimated for each borrower, and a loss given default is estimated considering the collateral and structural support for each credit facility. The calculations and assumptions are based on management information systems and methodologies that are under continual review.

Stress testing

Stress testing is important in measuring and managing credit risk in the Firm's credit portfolio. The process assesses the potential impact of alternative economic and business scenarios on estimated credit losses for the Firm. Economic scenarios, and the parameters underlying those scenarios, are defined centrally and applied consistently across the businesses. These scenarios are articulated in terms of macroeconomic factors, which may lead to credit migration, changes in delinquency trends and potential losses in the credit portfolio. In addition to the periodic stress testing processes, management also considers additional stresses outside these scenarios, as necessary.

Risk monitoring and management

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 improved through changes in underwriting policies and portfolio guidelines. Consumer Risk Management evaluates delinquency and other trends against business expectations, current and forecasted economic conditions, and industry benchmarks. 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. 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. Under the Firm's model risk policy, new significant risk management models, as well as major changes to such models, are required to be reviewed and approved by the Model Review Group prior to implementation into the operating environment. Internal Audit also 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 250–275 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 credit risk exposure is accomplished through a number of means including:

- Loan underwriting and credit approval process
- 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, Internal Audit 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 Internal Audit 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 effective 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 and the Board of Directors. For further discussion of Risk monitoring and control, see page 125 of this Annual Report.

CREDIT PORTFOLIO

2012 Credit Risk Overview

The credit environment in 2012 continued to improve, but concerns persisted around the European financial crisis and the U.S. fiscal situation. 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 saw decreased downgrade, default and charge-off activity and improved consumer delinquency trends. The Firm did see a minimal increase in delinquencies in the fourth quarter as a result of Superstorm Sandy but currently does not anticipate losses to be material. 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 2011 and contributed to the Firm's reduction in the allowance for credit losses. The current year included the effect of regulatory guidance implemented during 2012 which resulted in the Firm reporting an additional $3.0 billion of nonaccrual loans at December 31, 2012 (see page 146 in this Annual Report for further information). Excluding the impact of the reporting changes noted above, nonperforming loans would have decreased from 2011.

The credit performance of the consumer portfolio across the entire product spectrum has improved, 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. For further discussion of the consumer credit environment and consumer loans, see Consumer Credit Portfolio on pages 138–149 and Note 14 on pages 250–275 of this Annual Report.

The wholesale credit environment remained favorable throughout 2012. The rise in commercial client activity resulted in an increase in credit exposure across most businesses, regions and products. Underwriting guidelines across all areas of lending continue to remain a key point of 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, wholesale criticized assets, nonperforming assets and charge-offs decreased from the higher levels experienced in 2011, including a reduction in nonaccrual loans by 40%. 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 250–275 of this Annual Report.

The following table presents JPMorgan Chase's credit portfolio as of December 31, 2012 and 2011. Total credit exposure was $1.9 trillion at December 31, 2012, an increase of $51.1 billion from December 31, 2011, primarily reflecting an increase in the wholesale portfolio of $70.9 billion, partially offset by a decrease in the consumer portfolio of $19.8 billion. For further information on the changes in the credit portfolio, see Consumer Credit Portfolio on pages 138–149, and Wholesale Credit Portfolio on pages 150–159, of this Annual Report.
In the following table, reported loans include loans retained (i.e., held-for-investment); loans held-for-sale (which are carried at the lower of cost or fair value, with valuation changes recorded in noninterest revenue); and certain loans accounted for at fair value. The Firm also records certain loans accounted for at fair value in trading assets. For further information regarding these loans see Note 3 on pages 196–214 of this Annual Report. 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 250–275 and 218–227, respectively, of this Annual Report.
Total credit portfolio

December 31, 2012	Credit exposure		Nonperforming[b][c][d][e][f]	
(in millions)	2012	2011	2012	2011
Loans retained	$726,835	$718,997	$10,609	$9,810
Loans held-for-sale	4,406	2,626	18	110
Loans at fair value	2,555	2,097	93	73
Total loans – reported	733,796	723,720	10,720	9,993
Derivative receivables	74,983	92,477	239	297
Receivables from customers and other	23,761	17,561	—	—
Total credit-related assets	832,540	833,758	10,959	10,290
Assets acquired in loan satisfactions				
Real estate owned	NA	NA	738	975
Other	NA	NA	37	50
Total assets acquired in loan satisfactions	NA	NA	775	1,025
Total assets	832,540	833,758	11,734	11,315
Lending-related commitments	1,027,988	975,662	355	865
Total credit portfolio	$1,860,528	$1,809,420	$12,089	$12,180
Credit Portfolio Management derivatives notional, net[a]	$(27,447)	$(26,240)	$(25)	$(38)
Liquid securities and other cash collateral held against derivatives	(13,658)	(21,807)	NA	NA

Year ended December 31, (in millions, except ratios)	2012	2011
Net charge-offs[g]	$9,063	$12,237
Average retained loans		
Loans – reported	717,035	688,181
Loans – reported, excluding residential real estate PCI loans	654,454	619,227
Net charge-off rates[g]		
Loans – reported	1.26%	1.78%
Loans – reported, excluding PCI	1.38	1.98

(a) Represents the net notional amount of protection purchased and sold through credit derivatives used to manage both performing and nonperforming wholesale credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. Excludes the synthetic credit portfolio. For additional information, see Credit derivatives on pages 158–159 and Note 6 on pages 218–227 of this Annual Report.
(b)

Nonperforming includes nonaccrual loans, nonperforming derivatives, commitments that are risk rated as nonaccrual, real estate owned and other commercial and personal property.

(c) At December 31, 2012 and 2011, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $10.6 billion and $11.5 billion, respectively, that are 90 or more days past due; (2) real estate owned insured by U.S. government agencies of $1.6 billion and $954 million, respectively; and (3) student loans insured by U.S. government agencies under the FFELP of $525 million and $551 million, respectively, that are 90 or more days past due. These amounts were excluded from nonaccrual loans as reimbursement of insured amounts 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”).

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

At December 31, 2012 and 2011, total nonaccrual loans represented 1.46% and 1.38%, respectively, of total loans.

(e) At December 31, 2012, included $1.8 billion of Chapter 7 loans and $1.2 billion of performing junior liens that are subordinate to senior liens that are 90 days or more past due. For more information, see Consumer Credit Portfolio on pages 138–149 of this Annual Report.

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

(g) Net charge-offs and net charge-off rates for the year ended December 31, 2012, included $800 million of charge-offs of Chapter 7 loans. See Consumer Credit Portfolio on pages 138–149 of this Annual Report for further details.

CONSUMER CREDIT PORTFOLIO

JPMorgan Chase's consumer portfolio consists primarily of residential real estate loans, credit card loans, auto loans, business banking loans, and student loans. The Firm's primary focus is on serving the prime segment of the consumer credit market. For further information on consumer loans, see Note 14 on pages 250–275 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, loan-to-value ("LTV") ratios, FICO risk 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 250–275 of this Annual Report.

The credit performance of the consumer portfolio improved as the economy continued to slowly expand during 2012, resulting in a reduction in estimated credit losses, particularly in the residential real estate and credit card portfolios. However, high unemployment relative to the historical norm and weak housing prices continue to negatively impact the number of residential real estate loans being charged off and the severity of loss recognized on these loans. Early-stage residential real estate delinquencies (30–89 days delinquent), excluding government guaranteed loans, declined during the first half of the year, but increased during the second half of the year primarily due to seasonal impacts and the effect of Superstorm Sandy. Late-stage delinquencies (150+ days delinquent) continued to decline, but remain elevated. The elevated level of the late-stage delinquent loans is due, in part, to loss mitigation activities currently being undertaken and to elongated foreclosure processing timelines. Losses related to these loans continue to be recognized in accordance with the Firm's standard charge-off practices, but some delinquent loans that would otherwise have been foreclosed upon remain in the mortgage and home equity loan portfolios. In addition to these elevated levels of delinquencies, high unemployment and weak housing prices, uncertainties regarding the ultimate success of loan modifications, and the risk attributes of certain loans within the portfolio (e.g., loans with high LTV ratios, junior lien loans that are subordinate to a delinquent or modified senior lien) continue to contribute to uncertainty regarding overall residential real estate portfolio performance and have been considered in estimating the allowance for loan losses.

The following table presents consumer credit-related information held by CCB as well as residential real estate loans reported in the Asset Management and the Corporate/Private Equity segments for the dates indicated. For further information about the Firm's nonaccrual and charge-off accounting policies, see Note 14 on pages 250–275 of this Annual Report.

Consumer credit portfolio

As of or for the year ended December 31, (in millions, except ratios)	Credit exposure		Nonaccrual loans[f][g][h]		Net charge-offs[i]		Average annual net charge-off rate[i][j]	
	2012	2011	2012	2011	2012	2011	2012	2011
Consumer, excluding credit card								
Loans, excluding PCI loans and loans held-for-sale								
Home equity – senior lien	$19,385	$21,765	$931	$495	$279	$284	1.33 %	1.20 %
Home equity – junior lien	48,000	56,035	2,277	792	2,106	2,188	4.07	3.69
Prime mortgage, including option ARMs	76,256	76,196	3,445	3,462	487	708	0.64	0.95
Subprime mortgage	8,255	9,664	1,807	1,781	486	626	5.43	5.98
Auto[a]	49,913	47,426	163	118	188	152	0.39	0.32
Business banking	18,883	17,652	481	694	411	494	2.27	2.89
Student and other	12,191	14,143	70	69	340	420	2.58	2.85
Total loans, excluding PCI loans and loans held-for-sale	232,883	242,881	9,174	7,411				