J P MORGAN CHASE & CO
Form 10-Q
August 05, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011	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)

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

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

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

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

Number of shares of common stock outstanding as of July 31, 2011: 3,899,050,011

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JPMORGAN CHASE & CO.
CONSOLIDATED FINANCIAL HIGHLIGHTS
(unaudited)

(in millions, except per share, headcount and ratio data)						Six months ended June 30,	
As of or for the period ended,	2Q11	1Q11	4Q10	3Q10	2Q10	2011	2010
Selected income statement data							
Total net revenue	$26,779	$25,221	$26,098	$23,824	$25,101	$52,000	$52,772
Total noninterest expense	16,842	15,995	16,043	14,398	14,631	32,837	30,755
Pre-provision profit[(a)]	9,937	9,226	10,055	9,426	10,470	19,163	22,017
Provision for credit losses	1,810	1,169	3,043	3,223	3,363	2,979	10,373
Income before income tax expense	8,127	8,057	7,012	6,203	7,107	16,184	11,644
Income tax expense	2,696	2,502	2,181	1,785	2,312	5,198	3,523
Net income	$5,431	$5,555	$4,831	$4,418	$4,795	$10,986	$8,121
Per common share data							
Net income per share: Basic	$1.28	$1.29	$1.13	$1.02	$1.10	$2.57	$1.84
Diluted	1.27	1.28	1.12	1.01	1.09	2.55	1.83
Cash dividends declared per share[(b)]	0.25	0.25	0.05	0.05	0.05	0.50	0.10
Book value per share	44.77	43.34	43.04	42.29	40.99	44.77	40.99
Common shares outstanding							
Average: Basic	3,958.4	3,981.6	3,917.0	3,954.3	3,983.5	3,970.0	3,977.0
Diluted	3,983.2	4,014.1	3,935.2	3,971.9	4,005.6	3,998.6	4,000.2
Common shares at period-end	3,910.2	3,986.6	3,910.3	3,925.8	3,975.8	3,910.2	3,975.8
Share price[(c)]							
High	$47.80	$48.36	$43.12	$41.70	$48.20	$48.36	$48.20
Low	39.24	42.65	36.21	35.16	36.51	39.24	36.51
Close	40.94	46.10	42.42	38.06	36.61	40.94	36.61
Market capitalization	160,083	183,783	165,875	149,418	145,554	160,083	145,554
Selected ratios							
Return on common equity (“ROE”)	12 %	13 %	11 %	10 %	12 %	13 %	10 %
Return on tangible common equity (“ROTCE”)	17	18	16	15	17	18	15
Return on assets (“ROA”)	0.99	1.07	0.92	0.86	0.94	1.03	0.80
Overhead ratio	63	63	61	60	58	63	58
Deposits-to-loans ratio	152	145	134	131	127	152	127
Tier 1 capital ratio	12.4	12.3	12.1	11.9	12.1		
Total capital ratio	15.7	15.6	15.5	15.4	15.8		
Tier 1 leverage ratio	7.0	7.2	7.0	7.1	6.9		
	10.1	10.0	9.8	9.5	9.6		

Tier 1 common capital ratio[d]							
Selected balance sheet data (period-end)[e]							
Trading assets	$458,722	$501,148	$489,892	$475,515	$397,508	$458,722	$397,508
Securities	324,741	334,800	316,336	340,168	312,013	324,741	312,013
Loans	689,736	685,996	692,927	690,531	699,483	689,736	699,483
Total assets	2,246,764	2,198,161	2,117,605	2,141,595	2,014,019	2,246,764	2,014,019
Deposits	1,048,685	995,829	930,369	903,138	887,805	1,048,685	887,805
Long-term debt[e]	279,228	269,616	270,653	271,495	260,442	279,228	260,442
Common stockholders' equity	175,079	172,798	168,306	166,030	162,968	175,079	162,968
Total stockholders' equity	182,879	180,598	176,106	173,830	171,120	182,879	171,120
Headcount	250,095	242,929	239,831	236,810	232,939	250,095	232,939
Credit quality metrics							
Allowance for credit losses	$29,146	$30,438	$32,983	$35,034	$36,748	$29,146	$36,748
Allowance for loan losses to total retained loans	4.16 %	4.40 %	4.71 %	4.97 %	5.15 %	4.16 %	5.15 %
Allowance for loan losses to retained loans excluding purchased credit-impaired loans[f]	3.83	4.10	4.46	5.12	5.34	3.83	5.34
Nonperforming assets	$13,240	$14,986	$16,557	$17,656	$18,156	$13,240	$18,156
Net charge-offs[g]	3,103	3,720	5,104	4,945	5,714	6,823	13,624
Net charge-off rate[g]	1.83 %	2.22 %	2.95 %	2.84 %	3.28 %	2.02 %	3.88 %
Wholesale net charge-off rate	0.14	0.30	0.49	0.49	0.44	0.21	1.14
Consumer net charge-off rate[g]	2.74	3.18	4.12	3.90	4.49	2.96	5.03

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

(b) On March 18, 2011, the Board of Directors increased the Firm's quarterly common stock dividend from $0.05 to $0.25 per share.

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

(d) Tier 1 common capital ratio ("Tier 1 common ratio") is Tier 1 common divided by risk-weighted assets. The Firm uses Tier 1 common capital ("Tier 1 common") along with the other capital measures to assess and monitor its capital position. For further discussion, see Regulatory capital on pages 57–60 of this Form 10-Q.

(e) Effective January 1, 2011, the long-term portion of advances from Federal Home Loan Banks ("FHLBs") was reclassified from other borrowed funds to long-term debt. Prior periods have been revised to conform with the current presentation.

(f) Excludes the impact of home lending purchased credit-impaired ("PCI") loans. For further discussion, see Allowance for credit losses on pages 86–88 of this Form 10-Q.

(g) Net charge-offs and net charge-off rates for the fourth quarter of 2010 include the effect of $632 million of charge-offs related to the estimated net realizable value of the collateral underlying delinquent residential home loans. Because these losses were previously recognized in the provision and allowance for loan losses, this adjustment had no impact on the Firm's net income.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section of the Form 10-Q provides management's discussion and analysis ("MD&A") of the financial condition and results of operations of JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm"). See the Glossary of terms on pages 186–189 for definitions of terms used throughout this Form 10-Q. The MD&A included in this Form 10-Q contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based on the current beliefs and expectations of JPMorgan Chase's management and are subject to significant risks and uncertainties. These risks and uncertainties could cause the Firm's actual results to differ materially from those set forth in such forward-looking statements. For a discussion of such risks and uncertainties, see Forward-looking Statements on page 97 and Part II, Item 1A, Risk Factors on pages 192–193 of this Form 10-Q, and Part I, Item 1A, Risk Factors on pages 5–12 of JPMorgan Chase's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the U.S. Securities and Exchange Commission ("2010 Annual Report" or "2010 Form 10-K"), to which reference is hereby made.

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 $2.2 trillion in assets, $182.9 billion in stockholders' equity and operations in more than 60 countries as of June 30, 2011. The Firm is a leader in investment banking, financial services for consumers and small business, 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 branches in 23 states in the U.S.; 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.

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

Investment Bank

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

Retail Financial Services

Retail Financial Services ("RFS") serves consumers and businesses through personal service at bank branches and through ATMs, online banking and telephone banking, as well as through auto dealerships and school financial-aid offices. Customers can use more than 5,300 bank branches (third-largest nationally) and more than 16,400 ATMs (second-largest nationally), as well as online and mobile banking around the clock. More than 30,900 branch salespeople assist customers with checking and savings accounts, mortgages, home equity and business loans, and investments across the 23-state footprint from New York and Florida to California. Consumers also can obtain loans through more than 16,500 auto dealerships and can get student loans certified by more than 1,900 schools and universities nationwide.

Card Services

Card Services ("CS") is one of the nation's largest credit card issuers, with over $125 billion in loans and over 65 million open accounts. In the six months ended June 30, 2011, customers used Chase cards to meet $163 billion of their

spending needs. Through its merchant acquiring business, Chase Paymentech Solutions, CS is a global leader in payment processing and merchant acquiring.

Commercial Banking

Commercial Banking ("CB") delivers extensive industry knowledge, local expertise and dedicated service to nearly 25,000 clients nationally, including corporations, municipalities, financial institutions and not-for-profit entities with annual revenue generally ranging from $10 million to $2 billion, and nearly 35,000 real estate investors/owners. CB partners with the Firm's other businesses to provide comprehensive solutions, including lending, treasury services, investment banking and asset management, to meet its clients' domestic and international financial needs.

Treasury & Securities Services

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

Asset Management

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

EXECUTIVE OVERVIEW

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

Economic environment

The U.S. economic recovery continued in the second quarter of 2011, though the pace seemed to have slowed, due, in part, to the major disruptions in the global supply chain for the auto industry as a result of the earthquake and tsunami in Japan and the sharp rise in oil prices during the first half of the year. Labor market indicators were weaker than anticipated in the second quarter and the struggling housing and construction sectors remained depressed. However, household spending and business investment in equipment and software continued to expand.

To promote a faster pace of economic recovery, the Federal Reserve maintained its existing policy of reinvesting principal payments from its securities holdings and completed the purchase of $600 billion of longer-term Treasury securities in the second quarter. The Federal Reserve also held the target range for the federal funds rate at zero to one-quarter percent and continued to indicate that economic conditions were likely to warrant a low federal funds rate for an extended period.

Financial performance of JPMorgan Chase

	Three months ended June 30,			Six months ended June 30,		
(in millions, except per share data and ratios)	2011	2010	Change	2011	2010	Change
Selected income statement data						
Total net revenue	$26,779	$25,101	7 %	$52,000	$52,772	(1)%
Total noninterest expense	16,842	14,631	15	32,837	30,755	7
Pre-provision profit	9,937	10,470	(5)	19,163	22,017	(13)
Provision for credit losses	1,810	3,363	(46)	2,979	10,373	(71)
Net income	5,431	4,795	13	10,986	8,121	35
Diluted earnings per share	1.27	1.09	17	2.55	1.83	39
Return on common equity	12 %	12 %		13 %	10 %	
Capital ratios						
Tier 1 capital	12.4	12.1				
Tier 1 common	10.1	9.6				

Business overview

JPMorgan Chase reported second-quarter 2011 net income of $5.4 billion, or $1.27 per share, on net revenue of $26.8 billion. Net income was up 13% compared with net income of $4.8 billion, or $1.09 per share, in the second quarter of 2010. ROE for the quarter was 12%, unchanged from the prior year. Current-quarter results included a $1.0 billion pretax ($0.15 per share after-tax) benefit from a reduction in the allowance for loan losses in Card Services; an $837 million pretax ($0.12 per share after-tax) benefit from securities gains in Corporate; a $1.0 billion pretax ($0.15 per share after-tax) expense for estimated costs of foreclosure-related matters in Retail Financial Services; and $1.3 billion pretax ($0.19 per share after-tax) of additional litigation reserves, predominantly for mortgage-related matters, in Corporate.

The increase in net income for the second quarter of 2011 was driven by higher net revenue and a significantly lower provision for credit losses, largely offset by higher noninterest expense. Net revenue growth resulted from higher levels of principal transactions revenue, investment banking fees and asset management, administration and commissions revenue, partially offset by lower net interest income and lower securities gains. The decrease in the provision for credit losses reflected improvement in the credit environment. The increase in noninterest expense was driven by higher noncompensation expense due to additional litigation reserves, predominantly for mortgage-related matters, and expense for the estimated costs of foreclosure-related matters.

The Firm's second-quarter results reflected strong earnings and solid client flows in the Investment Bank, record revenue and continued loan growth in Commercial Banking, and solid performance across most other businesses. Retail Banking within Retail Financial Services continued to demonstrate good underlying performance, but RFS overall continued to be negatively affected by high expenses for mortgage-related issues, including a $1.0 billion expense for estimated litigation and other costs of foreclosure-related matters. Results for the second quarter also reflected continued improvement in credit trends across the consumer and wholesale portfolios. With respect to the credit card portfolio, delinquencies and net charge-offs improved, and the Firm reduced loan loss reserves by $1.0 billion as estimated losses declined. With respect to the mortgage portfolio, delinquency and net charge-off trends improved modestly compared with the prior quarter; however, net charge-offs remained high, and credit losses are expected to remain elevated.

JPMorgan Chase's balance sheet remained strong, ending the second quarter with a Basel I Tier 1 Common ratio of 10.1%. This strong and growing capital base enabled the Firm to repurchase $3.5 billion of common stock during the quarter. Total firmwide credit reserves at quarter-end were $29.1 billion, resulting in a firmwide loan loss coverage ratio of 3.83%, excluding purchased credit-impaired loans. Total stockholders' equity at June 30, 2011, was $182.9 billion.

Net income for the first six months of 2011 was $11.0 billion, or $2.55 per share, compared with $8.1 billion, or $1.83 per share, in the first half of 2010. The increase was driven by a significantly lower provision for credit losses, partially offset by higher noninterest expense and lower net revenue. The lower provision for credit losses reflected an improved credit environment. The modest decline in net revenue for the first six months of the year was driven by lower net interest income, mortgage fees and related income and securities gains, largely offset by higher levels of principal transactions revenue, investment banking fees and asset management, administration and commissions revenue. The increase in noninterest expense compared with the first six months of 2010 was driven by expenses taken for the estimated costs of foreclosure-related matters in RFS and higher compensation expense.

During the first six months of 2011, JPMorgan Chase provided credit to and raised capital of over $990 billion for its clients. The Firm originated mortgages to more than 360,000 people; provided credit cards to approximately 4.6 million people; lent or increased credit to more than 16,800 small businesses; lent to more than 800 not-for-profit and government entities, including states, municipalities, hospitals and universities; extended or increased loan limits to approximately 3,000 middle-market companies; and lent to or raised capital for more than 5,000 other corporations. JPMorgan Chase is the #1 Small Business Administration lender in the U.S. with more loans made than any other lender. In 2009 and 2010, the Firm lent more than $7 billion and $10 billion, respectively, to small businesses, and has committed to lend at least $12 billion in 2011. The Firm remains committed to helping homeowners and preventing foreclosures; since the beginning of 2009, JPMorgan Chase has offered 1,177,000 trial modifications to struggling homeowners.

The discussion that follows highlights the performance of each business segment compared with the prior-year quarter and presents results on a managed basis. For more information about managed basis, as well as other non-GAAP financial measures used by management to evaluate the performance of each line of business, see pages 14–16 of this Form 10-Q.

Investment Bank net income increased from the prior year, reflecting higher net revenue and lower noninterest expense, partially offset by a lower benefit from the provision for credit losses. The increase in net revenue was largely driven by higher investment banking fees and solid client revenue in Fixed Income and Equity Markets. Credit Portfolio revenue was a loss, primarily reflecting the negative net impact of credit-related valuation adjustments, largely offset by net interest income and fees on retained loans. The provision for credit losses was a smaller benefit in the second quarter of 2011 compared with the second quarter of 2010 and reflected a reduction in the allowance for loan losses, largely due to net repayments. Noninterest expense decreased, driven by lower compensation expense. The prior-year results included the impact of the U.K. Bank Payroll Tax.

Retail Financial Services net income decreased compared with the prior year as higher noninterest expense was largely offset by a lower provision for credit losses and higher net revenue. The increase in net revenue was driven by higher mortgage fees and related income, deposit balances, debit card income, deposit-related fees and investment sales revenue, partially offset by lower loan balances due to portfolio runoff. The provision for credit losses decreased, as delinquency trends and net charge-offs modestly improved compared with the prior year. However, the current-quarter provision continued to reflect elevated losses in the mortgage and home equity portfolios. Noninterest expense increased, driven by elevated foreclosure and default-related costs, including $1.0 billion for estimated litigation and other costs of foreclosure-related matters.

Card Services net income increased compared with the second quarter of 2010 driven by a lower provision for credit losses, partially offset by lower net revenue. The decrease in net revenue was driven by a decline in net interest income, reflecting lower average loan balances (including the impact of the Kohl's portfolio sale), the impact of legislative changes and a decreased level of fees. These decreases were largely offset by lower revenue reversals associated with lower net charge-offs. The provision for credit losses decreased from the prior year, reflecting lower net charge-offs and a $1.0 billion reduction in the allowance for loan losses due to lower estimated losses. Noninterest

expense increased, due to higher marketing expense and the inclusion of the Commercial Card business. Sales volume, excluding the Washington Mutual and Commercial Card portfolios, was $83.1 billion, an increase of 10% from the prior year.
Commercial Banking net income decreased, driven by an increase in the provision for credit losses, partially offset by record net revenue. Record net revenue was driven by growth in liability balances, wider loan spreads, higher investment banking revenue and growth in loan balances, partially offset by spread compression on liability products. The provision for credit losses was an expense compared with a benefit in the prior-year. Noninterest expense increased, primarily reflecting higher headcount-related expense. End-of-period loans of $102.7 billion, up 7% compared with the second quarter 2010, have increased for four consecutive quarters. Average liability balances of $162.8 billion have increased 19% from the second quarter 2010.
Treasury & Securities Services net income increased from the prior year, driven by higher net revenue and the credit allocation benefit related to the Global Corporate Bank (“GCB”), partially offset by higher noninterest expense. Worldwide Securities Services net revenue increased, driven by higher market levels, higher net interest income and net inflows of assets under custody. Assets

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under custody were a record $16.9 trillion, an increase of 14% from the prior year. Treasury Services net revenue was relatively flat as higher trade loan volumes and higher deposit balances were largely offset by the effect of the transfer of the Commercial Card business to CS and lower spreads on deposits. Higher noninterest expense was driven by continued investment in new product platforms, primarily related to international expansion, partially offset by the transfer of the Commercial Card business to CS.

Asset Management net income increased from the prior year, reflecting higher net revenue, predominantly offset by higher noninterest expense. The growth in net revenue was driven by the effect of higher market levels, net inflows to products with higher margins, higher valuations of seed capital investments, higher deposit and loan balances, and higher performance fees. The increase in revenue was partially offset by narrower deposit spreads. Assets under supervision of $1.9 trillion increased 17% from the prior year due to the effect of higher market levels and net inflows to long-term products, partially offset by net outflows from liquidity products. Noninterest expense increased, largely resulting from an increase in headcount and higher performance-based compensation.

Corporate/Private Equity net income decreased compared with the second quarter of 2010. Private equity revenue increased, primarily driven by gains on sales and net increases in investment valuations. Net interest income and securities gains decreased from the prior year. Noninterest expense was higher and included $1.3 billion of additional litigation reserves, predominantly for mortgage-related matters. Noninterest expense in the prior year included $694 million of additional litigation reserves.

2011 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 97 and Risk Factors on pages 192–193 of this Form 10-Q.

JPMorgan Chase's outlook for the second half of 2011 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 Mortgage Banking, Auto & Other Consumer Lending business within RFS, if mortgage interest rates remain at current levels or rise in the future, management anticipates that loan production and margins will be negatively affected, resulting in lower revenue for this business for full-year 2011 when compared with 2010. In addition, revenue in 2011 will continue to be negatively affected by continued elevated levels of repurchases of mortgages previously sold, predominantly to U.S. government-sponsored entities ("GSEs"). Management estimates that realized repurchase losses could be approximately $1.2 billion on an annualized basis for the remainder of 2011.

The Firm expects noninterest expense in Mortgage Banking, Auto & Other Consumer Lending to remain, for the remainder of the year, at elevated levels similar to those incurred in the first half of 2011 (excluding the $1.7 billion expense incurred during the first half of 2011 for various estimated costs related to foreclosure delays and potential settlements with federal and state officials). These higher levels of noninterest expense are expected in light of increased servicing costs to enhance the Firm's mortgage servicing processes, particularly loan modification and foreclosure procedures, and comply with the Consent Orders entered into with the banking regulators. (See Enhancements to Mortgage Servicing on pages 84–85 and Note 23 on pages 172–179 of this Form 10-Q for further information about the Consent Orders.) It is also possible that the Firm will incur additional fees and assessments related to foreclosure delays as well as other costs in connection with the potential settlement of the governmental investigations related to the Firm's mortgage servicing procedures.

In the Real Estate Portfolios business within RFS, management believes that, based on the current outlook for delinquencies and loss severity, total quarterly net charge-offs could be approximately $1.2 billion. Given current origination and production levels, combined with management's current estimate of portfolio runoff levels, the residential real estate portfolio is expected to decline by approximately 10% to 15% annually for the foreseeable future. The annual reduction in the residential real estate portfolio is expected to reduce net interest income in each period, including a reduction of approximately $700 million for full-year 2011 from the 2010 level, assuming no changes in interest rates during the year. However, over time, the reduction in net interest income is expected to be

more than offset by an improvement in credit costs and lower expenses. As the portfolio continues to run off, management anticipates that approximately $1.0 billion of capital may become available for redeployment each year, subject to the capital requirements associated with the remaining portfolio.

In CS, given current high repayment rates, management expects end-of-period outstandings for the Chase portfolio (excluding the Washington Mutual and Commercial Card portfolios) could be between $115 billion and $120 billion by the end of 2011. Management estimates that the Washington Mutual portfolio could decline to $10 billion by the end of 2011.

Net charge-off rates for both the Chase and Washington Mutual credit card portfolios are anticipated to continue to improve. If current delinquency trends continue, management anticipates the net charge-off rate for the Chase portfolio (excluding the Washington Mutual and Commercial Card portfolios) could be approximately 4.5% for the third quarter of 2011. Recent reserve

releases from the credit card allowance for loan losses reflect the continued improvement in the credit cycle. Management anticipates that as credit card net charge-offs begin to stabilize towards a normal through-the-cycle level, releases from the allowance will decline and eventually abate.

Economic data for the first half of 2011 seemed to imply that U.S. economic growth has slowed, and high unemployment rates and the difficult housing market have been persistent. Ongoing weak economic conditions, combined with elevated delinquencies and ongoing discussions regarding mortgage foreclosure-related matters with federal and state officials, continue to result in a high level of uncertainty in the residential real estate portfolio. Further declines in U.S. housing prices and increases in the unemployment rate remain possible; were this to occur, currently anticipated results for both RFS and CS could be adversely affected.

In IB, TSS and AM, revenue will be affected by market levels, volumes and volatility, which will influence client flows and assets under management, supervision and custody. In addition, the wholesale credit environment will influence levels of charge-offs, repayments and provision for credit losses for IB, CB and TSS.

In Private Equity, within the Corporate/Private Equity segment, earnings will likely continue to be volatile and be influenced by capital markets activity, market levels, the performance of the broader economy and investment-specific issues. Corporate's net interest income levels will generally trend with the size and duration of the investment securities portfolio. Corporate net income, excluding Private Equity, and excluding significant litigation expense and significant nonrecurring items, is anticipated to trend toward approximately $300 million per quarter. Furthermore, continued repositioning of the investment securities portfolio in Corporate, changes in the mix of loans within the consumer loan portfolio and other factors, including continued low interest rates, could result in further downward pressure on the Firm's net interest margin in the third quarter of 2011.

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

Management and the Firm's Board of Directors continually evaluate ways to deploy the Firm's strong capital base in order to enhance shareholder value. Such alternatives could include the repurchase of common stock and warrants, increasing the common stock dividend and pursuing alternative investment opportunities. The Firm expects to utilize the authorized $15.0 billion, multi-year common equity repurchase program, of which up to $8.0 billion is approved by the Federal Reserve for 2011, to, at a minimum, repurchase the same amount of shares that it issues for employee stock-based incentive awards. Beyond this, the Firm intends to repurchase its common equity only when the Firm is generating capital in excess of that which is needed to fund its organic growth and when, in management's judgment, such repurchases provide excellent value to the Firm's existing shareholders. Management and the Board will continue to assess and make decisions regarding alternatives for deploying capital, as appropriate, over the course of the year. Any planned future dividend increases over the current level, or planned use of the repurchase program over the repurchases approved for 2011, will be reviewed by the Firm with its banking regulators before taking action.

Regulatory developments

JPMorgan Chase is subject to regulation under state and federal laws in the U.S., as well as the applicable laws of each of the various other jurisdictions outside the U.S. in which the Firm does business. The Firm is currently experiencing a period of unprecedented change in regulation and such changes could have a significant impact on how the Firm conducts business. The Firm continues to work diligently in assessing and understanding the implications of the regulatory changes it is facing, and is devoting substantial resources to implementing all the new rules and regulations while meeting the needs and expectations of its clients. While the Firm has made a preliminary assessment of the likely impact of certain of the anticipated changes, as more fully described below, the Firm cannot, given the current status of the regulatory developments, quantify the possible effects on its business and operations of all of the significant changes that are underway. See Risk Factors on pages 192–193 of this Form 10-Q for additional information.

In February 2011, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the FDIC issued a final rule changing its methodology for calculating the deposit insurance assessment rate for large banks. The new rule 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, based on the Firm's understanding of the final rule, are expected to result in an aggregate annualized increase of approximately $500 million in the assessments that the Firm's bank subsidiaries pay to the FDIC.

In June 2011, the Board of Governors of the Federal Reserve System (the "Federal Reserve") adopted rules implementing the Durbin Amendment provisions of the Dodd-Frank Act, which limits the amount the Firm may charge for each debit card transaction it processes. Based on the Firm's current understanding of the final rules, which become effective on October 1, 2011, it is anticipated that such rules will result, absent mitigation, in a decline in aggregate annualized gross revenue for Retail Banking of approximately $1.0 billion, beginning in the fourth quarter of 2011. The Firm is considering various actions it may take to mitigate some of the anticipated decline in revenue over time, though any mitigating actions are not expected to wholly offset the loss of revenue. Accordingly, the final effect of this regulation cannot be determined at this time.

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"). However, the revenue and net earnings generated by the Firm's proprietary trading activities represent a de minimis portion of the revenue and net earnings of the IB line of business and of the Firm overall. The Firm ceased some proprietary trading activities during 2010, and is planning to cease its remaining proprietary trading activities within the timeframe mandated by the Volcker Rule. In addition, the application of the Volcker Rule to the Firm's private equity and hedge fund activities in its AM and IB lines of business, as well as in the Corporate/Private Equity sector, is not expected to have a significant effect on the revenue or net earnings of the Firm or those lines of business. The Firm expects that certain private equity and hedge fund activities or investments expected to be within the scope of the Volcker Rule will be redeemed or liquidated within the timeframe mandated by the Volcker Rule and the Firm is currently assessing alternative means by which either to exit any remaining activities and investments or conform them to the requirements of the Volcker Rule within the timeframe mandated.

While regulators have not yet proposed many of the rules to implement the Volcker Rule, in order to begin planning for its implementation, the Firm has attempted to identify the activities it expects to be affected by the Volcker Rule. In this regard, the Firm defines "proprietary trading" as the trading of securities, derivatives, or futures (or options on any of the foregoing) that is predominantly used to realize gains from short-term movements in prices for the Firm's own account. The Firm's proprietary trading activities are typically conducted separately from other business activities and segregated organizationally and physically from client market-making and other client-driven businesses as well as from risk management activities. The Firm's definition of proprietary trading does not include client market-making, long term investment activities or risk management activities. However, until the remainder of the implementing rules are adopted, the Firm will not know the extent to which the Volcker Rule will affect its ability to engage in these activities.

In June 2011, the Basel Committee and the Financial Stability Board ("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. 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. JPMorgan Chase estimates that its Basel III Tier 1 common ratio was approximately 7.6% at the end of the second quarter of 2011. This level is well in excess of that which is required today under existing rules and is greater than the level the Firm expects will be required under the proposed rules for up to five years, including the additional buffer for GSIBs. The Firm expects that its strong capital position and significant earnings power will allow it to actively grow its business and rapidly meet any proposed Basel III requirements as they are phased in. The Firm intends to keep its capital ratios approximately at current levels, subject to regulatory approval, as management does not see a need to manage to higher ratios ahead of time.

CONSOLIDATED RESULTS OF OPERATIONS

The following section provides a comparative discussion of JPMorgan Chase's Consolidated Results of Operations on a reported basis for the three and six months ended June 30, 2011 and 2010. 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 92–95 of this Form 10-Q and pages 149–154 of JPMorgan Chase's 2010 Annual Report.

Revenue	Three months ended June 30,			Six months ended June 30,		
(in millions)	2011	2010	Change	2011	2010	Change
Investment banking fees	$1,933	$1,421	36 %	$3,726	$2,882	29 %
Principal transactions	3,140	2,090	50	7,885	6,638	19
Lending- and deposit-related fees	1,649	1,586	4	3,195	3,232	(1)
Asset management, administration and commissions	3,703	3,349	11	7,309	6,614	11
Securities gains	837	1,000	(16)	939	1,610	(42)
Mortgage fees and related income	1,103	888	24	616	1,546	(60)
Credit card income	1,696	1,495	13	3,133	2,856	10
Other income	882	585	51	1,456	997	46
Noninterest revenue	14,943	12,414	20	28,259	26,375	7
Net interest income	11,836	12,687	(7)	23,741	26,397	(10)
Total net revenue	$26,779	$25,101	7 %	$52,000	$52,772	(1)%

Total net revenue for the second quarter of 2011 was $26.8 billion, an increase of $1.7 billion, or 7%, from the second quarter of 2010. Revenue growth was driven by higher levels of principal transactions revenue, investment banking fees, and asset management, administration and commissions revenue, largely offset by lower net interest income. For the first six months of 2011, total net revenue was $52.0 billion, a modest decline compared with the first six months of 2010, as lower net interest income, mortgage fees and related income, and securities gains more than offset revenue growth from higher levels of principal transactions revenue, investment banking fees, and asset management, administration and commissions revenue.

Investment banking fees increased compared with both the second quarter and first six months of 2010 and were a record for the first six months of 2011. Debt underwriting fees were also a record for the first six months of 2011. Advisory fees, debt underwriting fees and equity underwriting fees were higher in both periods of comparison, as industry-wide M&A and capital-raising volumes increased from their 2010 levels. For additional information on investment banking fees, which are primarily recorded in IB, see IB segment results on pages 19–22 of this Form 10-Q.

Principal transactions revenue increased compared with the second quarter and first six months of 2010, primarily driven by gains on sales and net increases in investment valuations in Corporate/Private Equity, as a result of continued improvement in market conditions related to certain portfolio investments. Trading revenue increased in the second quarter of 2011 compared with the second quarter of 2010 but decreased in the first half of 2011 compared with the first half of 2010. Client revenue in IB remained solid in both periods of comparison, reflecting the strength and depth of the client franchise. For additional information on principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 19–22 and 46–47, respectively, and Note 6 on pages 124–125 of this Form 10-Q.

Lending- and deposit-related fees increased in the second quarter of 2011 compared with the prior year. The increase was primarily driven by the introduction of a new checking account product offering in RFS, and the conversion of some existing checking accounts into the new product offering; partially offset by the impact of nonsufficient fund/overdraft ("NSF/OD") regulatory and policy changes. For the first six months of 2011, lending- and deposit-related fees declined slightly compared with the prior year, reflecting lower deposit-related fees in RFS associated, in part, with the impact of the aforementioned regulatory and policy changes. These declines were partially offset by higher

lending-related fees in IB. For additional information on lending- and deposit-related fees, which are mostly recorded in RFS, CB, TSS and IB, see RFS on pages 23–32, CB on pages 36–38, TSS on pages 39–41 and IB segment results on pages 19–22 of this Form 10-Q.

Asset management, administration and commissions revenue increased from the second quarter and first six months of 2010. The increases reflected higher asset management fees in AM, driven by the effect of higher market levels and net inflows to longer-term products with higher margins. To a lesser extent, higher administration fees in TSS, reflecting the effect of higher market levels and net inflows of assets under custody, also contributed to the increases in revenue. For additional information on these fees and commissions, see the segment discussions for AM on pages 42–45 and TSS on pages 39–41 of this Form 10-Q.

Securities gains decreased from the second quarter and first six months of 2010, resulting primarily from the repositioning of the portfolio in response to changes in the interest rate environment and rebalancing exposures. For additional information on securities gains, which are mostly recorded in the Firm's Corporate segment, see the Corporate/Private Equity segment discussion on pages 46–47 of this Form 10-Q.

Mortgage fees and related income increased compared with the second quarter of 2010, driven by an increase in production revenue, reflecting wider margins and lower levels of repurchase losses; this increase was largely offset by a decrease in net mortgage servicing revenue due to lower MSR risk management revenue. Mortgage fees and related income decreased compared with the first six months of 2010; the decrease was driven by a $1.1 billion decline in the fair value of the MSR asset that was recognized in the first quarter of 2011 related to a revised cost to service assumption incorporated into the valuation to reflect the estimated impact of higher servicing costs to enhance servicing processes – particularly loan modification and foreclosure procedures, and higher estimated costs to comply with Consent Orders entered into with banking regulators. The decline in the fair value of the MSR asset also resulted from a decrease in interest rates. Partially offsetting the decrease was an increase in production revenue, driven by the impact of higher mortgage origination volumes and wider margins, as well as lower levels of repurchase losses. For additional information on mortgage fees and related income, which is recorded primarily in RFS, see RFS's Mortgage Banking, Auto & Other Consumer Lending discussion on pages 27-29 of this Form 10-Q. For additional information on repurchase losses, see the Mortgage repurchase liability discussion on pages 53-56 and Note 21 on pages 167-171 of this Form 10-Q.

Credit card income increased in both the second quarter and first half of 2011. The increase in the quarter largely reflected higher net interchange income associated with higher customer charge volume on debit and credit cards, as well as lower partner revenue-sharing (a contra-revenue item) due to the impact of the Kohl's portfolio sale. The increase in the first six months of 2011 was driven by higher net interchange income, partially offset by lower revenue from fee-based products. For additional information on credit card income, see the CS and RFS segment results on pages 33–35, and pages 23–32, respectively, of this Form 10-Q.

Other income increased compared with the second quarter and first six months of 2010, driven by valuation adjustments on certain assets and incremental income from recent acquisitions in IB, as well as higher valuations of seed capital investments in AM. Higher auto operating lease income in RFS, resulting from growth in lease volume, also contributed to the increase.

Net interest income decreased in the second quarter and first six months of 2011 compared with the prior year. The declines in both periods were driven by lower yields on securities; lower average loan balances and yields, primarily in CS and RFS, reflecting the expected runoff of credit card balances and residential real estate loans; lower fees on credit card receivables, reflecting the impact of legislative changes; and lower yields on deposits. The decrease was offset partially by lower revenue reversals associated with lower credit card charge-offs, and higher average deposit balances. The Firm's average interest-earning assets were $1.8 trillion in the second quarter of 2011, and the net yield on those assets, on a fully taxable-equivalent ("FTE") basis, was 2.72%, a decrease of 34 basis points from the second quarter of 2010. For the first six months of 2011, average interest-earning assets were $1.7 trillion, and the net yield on those assets, on an FTE basis, was 2.80%, a decrease of 39 basis points from the first six months of 2010. For further information on the impact of the legislative changes on the Consolidated Statements of Income, see CS discussion on credit card legislation on page 79 of JPMorgan Chase's 2010 Annual Report.

Provision for credit losses	Three months ended June 30,			Six months ended June 30,		
(in millions)	2011	2010	Change	2011	2010	Change
Wholesale	$(117)	$(572)	80%	$(503)	$(808)	38%
Consumer, excluding credit card	1,117	1,714	(35)	2,446	5,448	(55)
Credit card	810	2,221	(64)	1,036	5,733	(82)
Total consumer	1,927	3,935	(51)	3,482	11,181	(69)
Total provision for credit losses	$1,810	$3,363	(46)%	$2,979	$10,373	(71)%

The provision for credit losses decreased significantly compared with the second quarter and first six months of 2010. The credit card provision was down from both prior-year periods, driven primarily by improved delinquency trends and a reduction in the allowance for loan losses as a result of lower estimated losses. The consumer, excluding credit card, provision was also down from both prior-year periods, reflecting improving delinquency and charge-off trends in 2011 across most portfolios and the absence of additions to the allowance for loan losses. The wholesale provision

reflected a lower benefit for both the second quarter and first six months of 2011 compared with the prior-year periods. For a more detailed discussion of the loan portfolio and the allowance for credit losses, see the segment discussions for RFS on pages 23–32, CS on pages 33–35, IB on pages 19–22 and CB on pages 36–38, and the Allowance for credit losses section on pages 86–88 of this Form 10-Q.

Noninterest expense	Three months ended June 30,			Six months ended June 30,		
(in millions)	2011	2010	Change	2011	2010	Change
Compensation expense[(a)]	$7,569	$7,616	(1)%	$15,832	$14,892	6%
Noncompensation expense:						
Occupancy	935	883	6	1,913	1,752	9
Technology, communications and equipment	1,217	1,165	4	2,417	2,302	5
Professional and outside services	1,866	1,685	11	3,601	3,260	10
Marketing	744	628	18	1,403	1,211	16
Other [(b)(c)]	4,299	2,419	78	7,242	6,860	6
Amortization of intangibles	212	235	(10)	429	478	(10)
Total noncompensation expense	9,273	7,015	32	17,005	15,863	7
Total noninterest expense	$16,842	$14,631	15%	$32,837	$30,755	7%

(a) The three and six months ended June 30, 2010, included a payroll tax expense related to the United Kingdom ("U.K.") Bank Payroll Tax on certain compensation awarded from December 9, 2009, to April 5, 2010, to relevant banking employees.

(b) Included litigation expense of $1.9 billion and $3.0 billion for the three and six months ended June 30, 2011, respectively, compared with $792 million and $3.7 billion for the three and six months ended June 30, 2010, respectively.

(c) Included foreclosed property expense of $174 million and $384 million for the three and six months ended June 30, 2011, respectively, compared with $244 million and $547 million for the three and six months ended June 30, 2010, respectively.

Total noninterest expense for the second quarter of 2011 was $16.8 billion, an increase of $2.2 billion, or 15%, compared with the second quarter of 2010. Total noninterest expense for the first six months of 2011 was $32.8 billion, up by $2.1 billion, or 7%, compared with the first six months of 2010. The increases in both periods of comparison were due to higher noncompensation expense, which included elevated levels of litigation expense related to mortgage-related matters and an increase in other expense for foreclosure-related matters. Higher compensation expense also contributed to the increase in noninterest expense for the first half of 2011.

Compensation expense decreased slightly from the second quarter of 2010, as the prior-year results included the impact of the U.K. Bank Payroll Tax in IB. Compensation expense increased from the first six months of 2010, due to higher salary and benefits expense in IB, as well as additions to the sales force and employees engaged in default-related matters associated with the serviced portfolio in RFS, and front office staff in AM; these increases were partially offset by the aforementioned payroll tax in IB in 2010.

The increase in noncompensation expense in the second quarter of 2011 was due to higher litigation expense, which included an addition of $1.3 billion to litigation reserves in Corporate predominantly for mortgage-related matters; and a $1.0 billion expense for estimated litigation and other costs of foreclosure-related matters in RFS. Noncompensation expense for the first six months of 2011 was also affected by these items, together with an additional $650 million expense for estimated litigation and other costs of foreclosure-related matters in RFS in the first quarter of 2011. Litigation expense in the first half of 2011 decreased from the prior year, as the aforementioned charges for mortgage-related matters were lower than those incurred in 2010. For a further discussion of litigation expense, see the Litigation reserve discussion in Note 23 on pages 172–179 of this Form 10-Q.

In addition to the items mentioned above, the following items in noncompensation expense were higher in the second quarter and first six months of 2011: professional services expense, due to Consent Orders and foreclosure-related matters in RFS and continued investments in new product platforms in the businesses; marketing expense in CS; and all other expense, reflecting higher FDIC assessments in 2011 and additional operating expense related to business activities in IB. For a discussion of amortization of intangibles, refer to the Balance Sheet Analysis on pages 49–51, and Note 16 on pages 159–163 of this Form 10-Q.

Income tax expense	Three months ended June 30,		Six months ended June 30,	
(in millions, except rate)	2011	2010	2011	2010
Income before income tax expense	$8,127	$7,107	$16,184	$11,644
Income tax expense	2,696	2,312	5,198	3,523
Effective tax rate	33.2 %	32.5 %	32.1 %	30.3 %

The increase in the effective tax rate during the three and six months ended June 30, 2011, compared with the prior-year periods was primarily the result of higher reported pretax income and changes in the mix of income subject to U.S. federal, state and local taxes, as well as lower tax benefits recognized upon the resolution of tax audits. These factors were partially offset by 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 92–95 of this Form 10-Q.

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

The Firm prepares its consolidated financial statements using accounting principles generally accepted in the U.S. (“U.S. GAAP”); these financial statements appear on pages 98–101 of this Form 10-Q. That presentation, which is referred to as “reported" basis, provides the reader with an understanding of the Firm’s results that can be tracked consistently from year to year and enables a comparison of the Firm’s performance with other companies’ U.S. GAAP financial statements.

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

Tangible common equity (“TCE”), a non-GAAP financial measure, represents common stockholders’ equity (i.e., total stockholders’ equity less preferred stock) less goodwill and identifiable intangible assets (other than MSRs), net of related deferred tax liabilities. ROTCE, a non-GAAP financial ratio, measures the Firm’s earnings as a percentage of TCE. In management’s view, these measures are meaningful to the Firm, as well as analysts and investors, in assessing the Firm's use of equity and in facilitating comparisons with competitors.

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

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

	Three months ended June 30, 2011		
(in millions, except per share and ratios)	Reported Results	Fully tax-equivalent adjustments	Managed basis
Revenue			
Investment banking fees	$1,933	$—	$1,933
Principal transactions	3,140	—	3,140
Lending- and deposit-related fees	1,649	—	1,649
Asset management, administration and commissions	3,703	—	3,703
Securities gains	837	—	837
Mortgage fees and related income	1,103	—	1,103
Credit card income	1,696	—	1,696
Other income	882	510	1,392
Noninterest revenue	14,943	510	15,453
Net interest income	11,836	121	11,957
Total net revenue	26,779	631	27,410
Noninterest expense	16,842	—	16,842
Pre-provision profit	9,937	631	10,568
Provision for credit losses	1,810	—	1,810
Income before income tax expense	8,127	631	8,758
Income tax expense	2,696	631	3,327
Net income	$5,431	$—	$5,431
Diluted earnings per share	$1.27	$—	$1.27
Return on assets	0.99 %	NM	0.99 %
Overhead ratio	63	NM	61

	Three months ended June 30, 2010		
(in millions, except per share and ratios)	Reported Results	Fully tax-equivalent adjustments	Managed basis
Revenue			
Investment banking fees	$1,421	$—	$1,421
Principal transactions	2,090	—	2,090
Lending- and deposit-related fees	1,586	—	1,586
Asset management, administration and commissions	3,349	—	3,349
Securities gains	1,000	—	1,000
Mortgage fees and related income	888	—	888
Credit card income	1,495	—	1,495
Other income	585	416	1,001
Noninterest revenue	12,414	416	12,830
Net interest income	12,687	96	12,783
Total net revenue	25,101	512	25,613
Noninterest expense	14,631	—	14,631
Pre-provision profit	10,470	512	10,982
Provision for credit losses	3,363	—	3,363
Income before income tax expense	7,107	512	7,619
Income tax expense	2,312	512	2,824
Net income	$4,795	$—	$4,795
Diluted earnings per share	$1.09	$—	$1.09

Return on assets	0.94 %	NM	0.94 %
Overhead ratio	58	NM	57

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(in millions, except per share and ratios)	Six months ended June 30, 2011 Reported Results		Fully tax-equivalent adjustments	Managed basis	
Revenue					
Investment banking fees	$3,726		$—	$3,726	
Principal transactions	7,885		—	7,885	
Lending- and deposit-related fees	3,195		—	3,195	
Asset management, administration and commissions	7,309		—	7,309	
Securities gains	939		—	939	
Mortgage fees and related income	616		—	616	
Credit card income	3,133		—	3,133	
Other income	1,456		961	2,417	
Noninterest revenue	28,259		961	29,220	
Net interest income	23,741		240	23,981	
Total net revenue	52,000		1,201	53,201	
Noninterest expense	32,837		—	32,837	
Pre-provision profit	19,163		1,201	20,364	
Provision for credit losses	2,979		—	2,979	
Income before income tax expense	16,184		1,201	17,385	
Income tax expense	5,198		1,201	6,399	
Net income	$10,986		$—	$10,986	
Diluted earnings per share	$2.55		$—	$2.55	
Return on assets	1.03	%	NM	1.03	%
Overhead ratio	63		NM	62	

(in millions, except per share and ratios)	Six months ended June 30, 2010 Reported Results		Fully tax-equivalent adjustments	Managed basis	
Revenue					
Investment banking fees	$2,882		$—	$2,882	
Principal transactions	6,638		—	6,638	
Lending- and deposit-related fees	3,232		—	3,232	
Asset management, administration and commissions	6,614		—	6,614	
Securities gains	1,610		—	1,610	
Mortgage fees and related income	1,546		—	1,546	
Credit card income	2,856		—	2,856	
Other income	997		827	1,824	
Noninterest revenue	26,375		827	27,202	
Net interest income	26,397		186	26,583	
Total net revenue	52,772		1,013	53,785	
Noninterest expense	30,755		—	30,755	
Pre-provision profit	22,017		1,013	23,030	
Provision for credit losses	10,373		—	10,373	
Income before income tax expense	11,644		1,013	12,657	
Income tax expense	3,523		1,013	4,536	
Net income	$8,121		$—	$8,121	
Diluted earnings per share	$1.83		$—	$1.83	
Return on assets	0.80	%	NM	0.80	%

Overhead ratio	58	NM	57

Average tangible common equity

(in millions)	Three months ended June 30, 2011	June 30, 2010	Six months ended June 30, 2011	June 30, 2010
Common stockholders' equity	$174,077	$159,069	$171,759	$157,590
Less: Goodwill	48,834	48,348	48,840	48,445
Less: Certain identifiable intangible assets	3,738	4,265	3,833	4,285
Add: Deferred tax liabilities[a]	2,618	2,564	2,607	2,553
Tangible common equity	$124,123	$109,020	$121,693	$107,413

(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.

Other financial measures

The Firm also discloses the allowance for loan losses to total retained loans, excluding home lending PCI loans. For a further discussion of this credit metric, see Allowance for credit losses on pages 86–88 of this Form 10-Q.

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BUSINESS SEGMENT RESULTS

The Firm is managed on a line of business basis. The business segment financial results presented reflect the current organization of JPMorgan Chase. There are six major reportable business segments: the Investment Bank, Retail Financial Services, Card Services, Commercial Banking, Treasury & Securities Services and Asset Management, as well as a Corporate/Private Equity segment. The business segments are determined based on the products and services provided, or the type of customer served, and reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on a managed basis.

Description of business segment reporting methodology

Results of the business segments are intended to reflect each segment as if it were essentially a stand-alone business. The management reporting process that derives business segment results allocates income and expense using market-based methodologies. For a further discussion of those methodologies, see Business Segment Results – Description of business segment reporting methodology on pages 67–68 of JPMorgan Chase's 2010 Annual Report. The Firm continues to assess the assumptions, methodologies and reporting classifications used for segment reporting, and further refinements may be implemented in future periods.

Business segment capital allocation changes

Each business segment is allocated capital by taking into consideration stand-alone peer comparisons, economic risk measures and regulatory capital requirements. The amount of capital assigned to each business is referred to as equity. Effective January 1, 2011, capital allocated to CS was reduced and that of TSS was increased. For further information about these capital changes, see Line of business equity on pages 60–61 of this Form 10-Q.

Segment Results – Managed Basis[a]

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

Three months ended June 30,	Total net revenue			Noninterest expense			Pre-provision profit		
(in millions, except ratios)	2011	2010	Change	2011	2010	Change	2011	2010	Change
Investment Bank[b]	$7,314	$6,332	16 %	$4,332	$4,522	(4)%	$2,982	$1,810	65 %
Retail Financial Services	7,976	7,809	2	5,637	4,281	32	2,339	3,528	(34)
Card Services	3,927	4,217	(7)	1,622	1,436	13	2,305	2,781	(17)
Commercial Banking	1,627	1,486	9	563	542	4	1,064	944	13
Treasury & Securities Services	1,932	1,881	3	1,453	1,399	4	479	482	(1)
Asset Management	2,537	2,068	23	1,794	1,405	28	743	663	12
Corporate/Private Equity[b]	2,097	1,820	15	1,441	1,046	38	656	774	(15)
Total	$27,410	$25,613	7 %	$16,842	$14,631	15 %	$10,568	$10,982	(4)%

Three months ended June 30,	Provision for credit losses			Net income			Return on equity	
(in millions, except ratios)	2011	2010	Change	2011	2010	Change	2011	2010
Investment Bank[b]	$(183)	$(325)	44 %	$2,057	$1,381	49 %	21 %	14 %
Retail Financial Services	1,128	1,715	(34)	582	1,042	(44)	8	15
Card Services	810	2,221	(64)	911	343	166	28	9
Commercial Banking	54	(235)	NM	607	693	(12)	30	35
Treasury & Securities Services	(2)	(16)	88	333	292	14	19	18
Asset Management	12	5	140	439	391	12	27	24
Corporate/Private Equity[b]	(9)	(2)	(350)	502	653	(23)	NM	NM

Total	$1,810	$3,363	(46)%	$5,431	$4,795	13%	12%	12%

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Six months ended June 30,	Total net revenue			Noninterest expense			Pre-provision profit		
(in millions, except ratios)	2011	2010	Change	2011	2010	Change	2011	2010	Change
Investment Bank[(b)]	$15,547	$14,651	6 %	$9,348	$9,360	— %	$6,199	$5,291	17 %
Retail Financial Services	14,251	15,585	(9)	10,899	8,523	28	3,352	7,062	(53)
Card Services	7,909	8,664	(9)	3,177	2,838	12	4,732	5,826	(19)
Commercial Banking	3,143	2,902	8	1,126	1,081	4	2,017	1,821	11
Treasury & Securities Services	3,772	3,637	4	2,830	2,724	4	942	913	3
Asset Management	4,943	4,199	18	3,454	2,847	21	1,489	1,352	10
Corporate/Private Equity[(b)]	3,636	4,147	(12)	2,003	3,382	(41)	1,633	765	113
Total	$53,201	$53,785	(1)%	$32,837	$30,755	7 %	$20,364	$23,030	(12)%

Six months ended June 30,	Provision for credit losses			Net income			Return on equity	
(in millions, except ratios)	2011	2010	Change	2011	2010	Change	2011	2010
Investment Bank[(b)]	$(612)	$(787)	22 %	$4,427	$3,852	15 %	22 %	19 %
Retail Financial Services	2,454	5,448	(55)	374	911	(59)	3	7
Card Services	1,036	5,733	(82)	2,254	40	NM	35	1
Commercial Banking	101	(21)	NM	1,153	1,083	6	29	27
Treasury & Securities Services	2	(55)	NM	649	571	14	19	18
Asset Management	17	40	(58)	905	783	16	28	24
Corporate/Private Equity[(b)]	(19)	15	NM	1,224	881	39	NM	NM
Total	$2,979	$10,373	(71)%	$10,986	$8,121	35 %	13 %	10 %

(a) Represents reported results on a tax-equivalent basis.

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

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INVESTMENT BANK

For a discussion of the business profile of IB, see pages 69–71 of JPMorgan Chase's 2010 Annual Report and Introduction on page 4 of this Form 10-Q.

Selected income statement data	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	2011	2010	Change	2011	2010	Change
Revenue						
Investment banking fees	$1,922	$1,405	37 %	$3,701	$2,851	30 %
Principal transactions	2,309	2,105	10	5,707	6,036	(5)
Lending- and deposit-related fees	218	203	7	432	405	7
Asset management, administration and commissions	548	633	(13)	1,167	1,196	(2)
All other income[(a)]	236	86	174	402	135	198
Noninterest revenue	5,233	4,432	18	11,409	10,623	7
Net interest income	2,081	1,900	10	4,138	4,028	3
Total net revenue[(b)]	7,314	6,332	16	15,547	14,651	6
Provision for credit losses	(183)	(325)	44	(612)	(787)	22
Noninterest expense						
Compensation expense	2,564	2,923	(12)	5,858	5,851	—
Noncompensation expense	1,768	1,599	11	3,490	3,509	(1)
Total noninterest expense	4,332	4,522	(4)	9,348	9,360	—
Income before income tax expense	3,165	2,135	48	6,811	6,078	12
Income tax expense	1,108	754	47	2,384	2,226	7
Net income	$2,057	$1,381	49	$4,427	$3,852	15
Financial ratios						
Return on common equity	21 %	14 %		22 %	19 %	
Return on assets	0.98	0.78		1.08	1.12	
Overhead ratio	59	71		60	64	
Compensation expense as a percentage of total net revenue[(c)]	35	46		38	40	
Revenue by business						
Investment banking fees:						
Advisory	$601	$355	69	$1,030	$660	56
Equity underwriting	455	354	29	834	767	9
Debt underwriting	866	696	24	1,837	1,424	29
Total investment banking fees	1,922	1,405	37	3,701	2,851	30
Fixed income markets[(d)]	4,280	3,563	20	9,518	9,027	5
Equity markets[(e)]	1,223	1,038	18	2,629	2,500	5
Credit portfolio[(a)(f)]	(111)	326	NM	(301)	273	NM
Total net revenue	$7,314	$6,332	16	$15,547	$14,651	6

(a) IB manages traditional credit exposures related to Global Corporate Bank ("GCB") on behalf of IB and TSS. Effective January 1, 2011, IB and TSS share the economics related to the Firm's GCB clients. IB recognizes this sharing agreement within all other income. The prior-year period reflected the reimbursement from TSS for a portion of the total costs of managing the credit portfolio on behalf of TSS.

(b) Total net revenue included tax-equivalent adjustments, predominantly due to income tax credits related to affordable housing and alternative energy investments as well as tax-exempt income from municipal bond investments of $493 million and $401 million for the three months ended June 30, 2011 and 2010, and $931 million and $804 million for the six months ended June 30, 2011 and 2010, respectively.

(c) The compensation expense as a percentage of total net revenue ratio for the second quarter of 2010 and year-to-date of 2010 excluding the payroll tax expense related to the U.K. Bank Payroll Tax on certain compensation awarded from December 9, 2009, to April 5, 2010, to relevant banking employees, which is a non-GAAP financial measure, was 37% and 36%, respectively. IB excludes this tax from the ratio because it enables comparability between periods.

(d) Fixed income markets primarily include revenue related to market-making across global fixed income markets, including foreign exchange, interest rate, credit and commodities markets.

(e) Equities markets primarily include revenue related to market-making across global equity products, including cash instruments, derivatives, convertibles and Prime Services.

(f) Credit portfolio revenue includes net interest income, fees and loan sale activity, as well as gains or losses on securities received as part of a loan restructuring, for IB’s credit portfolio. Credit portfolio revenue also includes the results of risk management related to the Firm's lending and derivative activities. See pages 67–88 of the Credit Risk Management section of this Form 10-Q for further discussion.

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Quarterly results

Net income was $2.1 billion, up 49% from the prior year, reflecting higher net revenue and lower noninterest expense, partially offset by a lower benefit from the provision for credit losses.

Net revenue was $7.3 billion, compared with $6.3 billion in the prior year. Investment banking fees were up 37% to $1.9 billion, consisting of debt underwriting fees of $866 million (up 24%), equity underwriting fees of $455 million (up 29%), and advisory fees of $601 million (up 69%). Fixed Income and Equity Markets revenue was $5.5 billion, compared with $4.6 billion in the prior year, reflecting solid client revenue. Credit Portfolio revenue was a loss of $111 million, primarily reflecting the negative net impact of credit-related valuation adjustments, largely offset by net interest income and fees on retained loans.

The provision for credit losses was a benefit of $183 million, compared with a benefit of $325 million in the prior year. The current-quarter benefit primarily reflected a reduction in the allowance for loan losses, largely due to net repayments. The ratio of the allowance for loan losses to end-of-period loans retained was 2.10%, compared with 3.98% in the prior year, driven by the improved quality of the loan portfolio. Net charge-offs were $7 million, compared with net charge-offs of $28 million in the prior year.

Noninterest expense was $4.3 billion, down 4% from the prior year. The decrease was driven by lower compensation expense. The prior-year results included the impact of the U.K. Bank Payroll Tax.

Return on equity was 21% on $40.0 billion of average allocated capital.

Year-to-date results

Net income was $4.4 billion, up 15% from the prior year, primarily reflecting higher net revenue, partially offset by a lower benefit from the provision for credit losses.

Net revenue was $15.5 billion, compared with $14.7 billion in the prior year. Investment banking fees were a record, up 30% to $3.7 billion, consisting of record debt underwriting fees of $1.8 billion (up 29%), advisory fees of $1.0 billion (up 56%), and equity underwriting fees of $834 million (up 9%). Fixed Income and Equity Markets revenue was $12.1 billion, compared with $11.5 billion in the prior year, reflecting solid client revenue. Credit Portfolio revenue was a loss of $301 million, primarily reflecting the negative net impact of credit-related valuation adjustments, largely offset by net interest income and fees on retained loans.

The provision for credit losses was a benefit of $612 million, compared with a benefit of $787 million in the prior year. The current-year benefit primarily reflected a reduction in the allowance for loan losses, largely as a result of net repayments and loan sales. Net charge-offs were $130 million, compared with net charge-offs of $725 million in the prior year.

Noninterest expense was $9.3 billion, approximately flat from the prior year. Compensation expense was flat to the prior year, as higher salaries & benefits and performance-based compensation expense was predominantly offset by the absence of the U.K. Bank Payroll Tax in the current period. Noncompensation expense was also approximately flat to the prior year.

Return on equity was 22% on $40.0 billion of average allocated capital.

Selected metrics	Three months ended June 30,			Six months ended June 30,		
(in millions, except headcount and ratios)	2011	2010	Change	2011	2010	Change
Selected balance sheet data (period-end)						
Loans:						
Loans retained[a]	$56,107	$54,049	4 %	$56,107	$54,049	4 %
Loans held-for-sale and loans at fair value	3,466	3,221	8	3,466	3,221	8
Total loans	59,573	57,270	4	59,573	57,270	4
Equity	40,000	40,000	—	40,000	40,000	—
Selected balance sheet data (average)						
Total assets	$841,355	$710,005	18	$828,662	$693,157	20
Trading assets-debt and equity instruments	374,694	296,031	27	371,841	290,091	28
Trading assets-derivative receivables	69,346	65,847	5	68,409	65,998	4
Loans:						
Loans retained[a]	54,590	53,351	2	53,983	55,912	(3)
Loans held-for-sale and loans at fair value	4,154	3,530	18	3,995	3,341	20
Total loans	58,744	56,881	3	57,978	59,253	(2)
Adjusted assets[b]	628,475	527,520	19	619,805	517,135	20
Equity	40,000	40,000	—	40,000	40,000	—
Headcount	27,716	26,279	5	27,716	26,279	5
Credit data and quality statistics						
Net charge-offs	$7	$28	(75)	$130	$725	(82)
Nonperforming assets:						
Nonaccrual loans:						
Nonaccrual loans retained[a][c]	1,494	1,926	(22)	1,494	1,926	(22)
Nonaccrual loans held-for-sale and loans at fair value	193	334	(42)	193	334	(42)
Total nonperforming loans	1,687	2,260	(25)	1,687	2,260	(25)
Derivative receivables	18	315	(94)	18	315	(94)
Assets acquired in loan satisfactions	83	151	(45)	83	151	(45)
Total nonperforming assets	1,788	2,726	(34)	1,788	2,726	(34)
Allowance for credit losses:						
Allowance for loan losses	1,178	2,149	(45)	1,178	2,149	(45)
Allowance for lending-related commitments	383	564	(32)	383	564	(32)
Total allowance for credit losses	1,561	2,713	(42)	1,561	2,713	(42)
Net charge-off rate[a][d]	0.05 %	0.21 %		0.49 %	2.61 %	
Allowance for loan losses to period-end loans retained[a][d]	2.10	3.98		2.10	3.98	
Allowance for loan losses to nonaccrual loans retained[a][c][d]	79	112		79	112	
Nonaccrual loans to period-end loans	2.83	3.95		2.83	3.95	
Market risk-average trading and credit portfolio VaR – 95% confidence level						
Trading activities:						
Fixed income	$45	$64	(30)	$47	$66	(29)
Foreign exchange	9	10	(10)	10	12	(17)

Equities	25	20	25	27	22	23
Commodities and other	16	20	(20)	15	18	(17)
Diversification [(e)]	(37)	(42)	12	(38)	(46)	17
Total trading VaR[(f)]	58	72	(19)	61	72	(15)
Credit portfolio VaR[(g)]	27	27	—	27	23	17
Diversification [(e)]	(8)	(9)	11	(8)	(9)	11
Total trading and credit portfolio VaR	$77	$90	(14)	$80	$86	(7)

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

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

(c) Allowance for loan losses of $377 million and $617 million were held against these nonaccrual loans at June 30, 2011 and 2010, respectively.

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

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

(f) Trading VaR includes substantially all trading activities in IB, including the credit spread sensitivities of certain mortgage products and syndicated lending facilities that the Firm intends to distribute; however, particular risk parameters of certain products are not fully captured, for example, correlation risk. Trading VaR does not include the debit valuation adjustments ("DVA") taken on derivative and structured liabilities to reflect the credit quality of the Firm. See VaR discussion on pages 88-91 and the DVA sensitivity table on page 91 of this Form 10-Q for further details.

(g) Credit portfolio VaR includes the derivative credit valuation adjustments ("CVA"), hedges of the CVA and mark-to-market ("MTM") hedges of the retained loan portfolio, which are all reported in principal transactions revenue. This VaR does not include the retained loan portfolio, which is not MTM.

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

	Six months ended June 30, 2011			Full-year 2010		
Market shares and rankings[a]	Market Share		Rankings	Market Share		Rankings
Global investment banking fees[b]	8.8	%	#1	7.6	%	#1
Debt, equity and equity-related						
Global	6.9		1	7.2		1
U.S.	11.5		1	11.1		1
Syndicated loans						
Global	12.4		1	8.5		2
U.S.	22.8		1	19.2		2
Long-term debt[c]						
Global	6.8		2	7.2		2
U.S.	11.5		1	10.9		2
Equity and equity-related						
Global[d]	7.2		3	7.3		3
U.S.	11.9		2	13.1		2
Announced M&A[e]						
Global	20.5		2	16.4		3
U.S.	33.9		1	23.1		3

(a) Source: Dealogic. Global Investment Banking fees reflects ranking of fees and market share. Remainder of rankings reflects transaction volume rank and market share.

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

(c) Long-term debt tables 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) Equity and equity-related rankings include rights offerings and Chinese A-Shares.

(e) Global announced M&A is based on transaction value at announcement; all other rankings are based on transaction proceeds, with full credit to each book manager/equal if joint. Because of joint assignments, market share of all participants will add up to more than 100%. M&A for year-to-date 2011 and full-year 2010 reflects the removal of any withdrawn transactions. U.S. announced M&A represents any U.S. involvement ranking.

International metrics	Three months ended June 30,	Six months ended June 30,

(in millions)	2011	2010	Change	2011	2010	Change
Total net revenue[a]						
Europe/Middle East/Africa	$2,478	$1,544	60 %	$5,070	$4,419	15 %
Asia/Pacific	762	901	(15)	1,884	1,889	—
Latin America/Caribbean	337	248	36	664	558	19
North America	3,737	3,639				