JPMORGAN CHASE & CO
Form 10-Q
November 04, 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 September 30, 2011 Commission file number 1-5805

JPMORGAN CHASE & CO.
(Exact name of registrant as specified in its charter)

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

(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 October 31, 2011: 3,799,765,675

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JPMORGAN CHASE & CO.
CONSOLIDATED FINANCIAL HIGHLIGHTS
(unaudited)

(in millions, except per share, headcount and ratio data)						Nine months ended September 30,	
As of or for the period ended,	3Q11	2Q11	1Q11	4Q10	3Q10	2011	2010
Selected income statement data							
Total net revenue	$23,763	$26,779	$25,221	$26,098	$23,824	$75,763	$76,596
Total noninterest expense	15,534	16,842	15,995	16,043	14,398	48,371	45,153
Pre-provision profit[(a)]	8,229	9,937	9,226	10,055	9,426	27,392	31,443
Provision for credit losses	2,411	1,810	1,169	3,043	3,223	5,390	13,596
Income before income tax expense	5,818	8,127	8,057	7,012	6,203	22,002	17,847
Income tax expense	1,556	2,696	2,502	2,181	1,785	6,754	5,308
Net income	$4,262	$5,431	$5,555	$4,831	$4,418	$15,248	$12,539
Per common share data							
Net income per share: Basic	$1.02	$1.28	$1.29	$1.13	$1.02	$3.60	$2.86
Diluted	1.02	1.27	1.28	1.12	1.01	3.57	2.84
Cash dividends declared per share[(b)]	0.25	0.25	0.25	0.05	0.05	0.75	0.15
Book value per share	45.93	44.77	43.34	43.04	42.29	45.93	42.29
Common shares outstanding							
Average: Basic	3,859.6	3,958.4	3,981.6	3,917.0	3,954.3	3,933.2	3,969.4
Diluted	3,872.2	3,983.2	4,014.1	3,935.2	3,971.9	3,956.5	3,990.7
Common shares at period-end	3,798.9	3,910.2	3,986.6	3,910.3	3,925.8	3,798.9	3,925.8
Share price[(c)]							
High	$42.55	$47.80	$48.36	$43.12	$41.70	$48.36	$48.20
Low	28.53	39.24	42.65	36.21	35.16	28.53	35.16
Close	30.12	40.94	46.10	42.42	38.06	30.12	38.06
Market capitalization	114,422	160,083	183,783	165,875	149,418	114,422	149,418
Selected ratios							
Return on common equity (“ROE”)	9 %	12 %	13 %	11 %	10 %	11 %	10 %
Return on tangible common equity (“ROTCE”)	13	17	18	16	15	16	15
Return on assets (“ROA”)	0.76	0.99	1.07	0.92	0.86	0.94	0.82
Overhead ratio	65	63	63	61	60	64	59
Deposits-to-loans ratio	157	152	145	134	131	157	131
Tier 1 capital ratio	12.1	12.4	12.3	12.1	11.9		
Total capital ratio	15.3	15.7	15.6	15.5	15.4		
Tier 1 leverage ratio	6.8	7.0	7.2	7.0	7.1		
	9.9	10.1	10.0	9.8	9.5		

Tier 1 common capital ratio[d]							
Selected balance sheet data (period-end)[e]							
Trading assets	$461,531	$458,722	$501,148	$489,892	$475,515	$461,531	$475,515
Securities	339,349	324,741	334,800	316,336	340,168	339,349	340,168
Loans	696,853	689,736	685,996	692,927	690,531	696,853	690,531
Total assets	2,289,240	2,246,764	2,198,161	2,117,605	2,141,595	2,289,240	2,141,595
Deposits	1,092,708	1,048,685	995,829	930,369	903,138	1,092,708	903,138
Long-term debt[e]	273,688	279,228	269,616	270,653	271,495	273,688	271,495
Common stockholders' equity	174,487	175,079	172,798	168,306	166,030	174,487	166,030
Total stockholders' equity	182,287	182,879	180,598	176,106	173,830	182,287	173,830
Headcount	256,663	250,095	242,929	239,831	236,810	256,663	236,810
Credit quality metrics							
Allowance for credit losses	$29,036	$29,146	$30,438	$32,983	$35,034	$29,036	$35,034
Allowance for loan losses to total retained loans	4.09 %	4.16 %	4.40 %	4.71 %	4.97 %	4.09 %	4.97 %
Allowance for loan losses to retained loans excluding purchased credit-impaired loans[f]	3.74	3.83	4.10	4.46	5.12	3.74	5.12
Nonperforming assets	$12,194	$13,240	$14,986	$16,557	$17,656	$12,194	$17,656
Net charge-offs[g]	2,507	3,103	3,720	5,104	4,945	9,330	18,569
Net charge-off rate[g]	1.44 %	1.83 %	2.22 %	2.95 %	2.84 %	1.83 %	3.53 %
Wholesale net charge-off/(recovery) rate	(0.24)	0.14	0.30	0.49	0.49	0.05	0.92
Consumer net charge-off rate[g]	2.40	2.74	3.18	4.12	3.90	2.78	4.66

(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 capital 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 of Tier 1 common capital ratio, 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 87–89 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 196–199 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 99 and Part II, Item 1A: Risk Factors, on pages 202–204 of this Form 10-Q, Part II, Item 1A, Risk Factors on pages 181 and 192-193 of JPMorgan Chase's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011, and June 30, 2011, respectively, 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 $2.3 trillion in assets, $182.3 billion in stockholders' equity and operations in more than 60 countries as of September 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 & Auto segments. A description of the Firm's business segments, and the products and services they provide to their respective client bases, follows.

Investment Bank

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

Retail Financial Services

Retail Financial Services ("RFS") serves consumers and businesses through personal service at bank branches and through ATMs, online banking and telephone banking. Customers can use nearly 5,400 bank branches (third-largest nationally) and more than 16,700 ATMs (second-largest nationally), as well as online and mobile banking around the clock. Nearly 32,100 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.

Card Services & Auto

Card Services & Auto ("Card") is one of the nation's largest credit card issuers, with over $127 billion in credit card loans and over 64 million open credit card accounts (excluding the commercial card portfolio). In the nine months ended September 30, 2011, customers used Chase credit cards (excluding the commercial card portfolio) to meet over

$250 billion of their spending needs. Through its merchant acquiring business, Chase Paymentech Solutions, Card is a global leader in payment processing and merchant acquiring. Consumers also can obtain loans through more than 16,900 auto dealerships and 1,900 schools and universities nationwide.

Commercial Banking

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

Treasury & Securities Services

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

Asset Management

Asset Management (“AM”), with assets under supervision of $1.8 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. economy strengthened in the third quarter, led by a pickup in consumer and business spending. Overall labor market indicators continued to be weak, and the unemployment rate remained elevated. The housing sector remained depressed; however, business investment in equipment and software continued to increase. Also, inflation moderated since earlier in the year as energy prices declined from their peaks.

Concerns about sovereign debt in Greece and other euro-zone countries, as well as the sovereign debt exposures of the European banking system, were a source of stress in the global financial markets during the quarter. The impact of these strains on U.S. economic activity is difficult to judge, but the resulting volatility in the debt and capital markets has likely affected household and business confidence.

The Board of Governors of the Federal Reserve System (the "Federal Reserve") took several actions during the third quarter and in earlier periods to support a stronger economic recovery and to help support conditions in mortgage markets. These actions included extending the average maturity of its holdings of securities, reinvesting principal payments from its holdings of agency debt and U.S. government agency mortgage-backed securities into other agency mortgage-backed securities and maintaining its existing policy of rolling over maturing U.S. Treasury securities at auction. The Federal Reserve maintained the target range for the federal funds rate at zero to one-quarter percent and provided specific guidance regarding its prediction about policy rates, saying that economic conditions were likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013.

Financial performance of JPMorgan Chase

	Three months ended September 30,			Nine months ended September 30,		
(in millions, except per share data and ratios)	2011	2010	Change	2011	2010	Change
Selected income statement data						
Total net revenue	$23,763	$23,824	— %	$75,763	$76,596	(1)%
Total noninterest expense	15,534	14,398	8	48,371	45,153	7
Pre-provision profit	8,229	9,426	(13)	27,392	31,443	(13)
Provision for credit losses	2,411	3,223	(25)	5,390	13,596	(60)
Net income	4,262	4,418	(4)	15,248	12,539	22
Diluted earnings per share	1.02	1.01	1	3.57	2.84	26
Return on common equity	9 %	10 %		11 %	10 %	
Capital ratios						
Tier 1 capital	12.1	11.9				
Tier 1 common	9.9	9.5				

Business overview

JPMorgan Chase reported third-quarter 2011 net income of $4.3 billion, or $1.02 per share, on net revenue of $23.8 billion. Net income was down 4% compared with net income of $4.4 billion, or $1.01 per share, in the third quarter of 2010. ROE for the third quarter of 2011 was 9%, compared with 10% in the prior year. Current-quarter results included several significant items, including a $542 million pretax ($0.09 per share after-tax) loss in Private Equity; $1.0 billion pretax ($0.15 per share after-tax) of additional litigation expense, predominantly for mortgage-related matters, in Corporate; and a $1.9 billion pretax ($0.29 per share after-tax) benefit from debit valuation adjustment ("DVA") gains in the Investment Bank, resulting from widening of the Firm's credit spreads. In the Investment Bank, Credit Portfolio also recognized a $691 million pretax ($0.11 per share after-tax) net loss, including hedges, from credit valuation adjustments ("CVA") on derivative assets, due to the widening of credit spreads for the Firm's counterparties.

The decrease in net income for the third quarter of 2011 was driven by higher noninterest expense, largely offset by a lower provision for credit losses. Net revenue was flat compared with the prior-year quarter, as lower principal transactions revenue, lower net interest income, and lower investment banking fees were largely offset by higher mortgage fees and related income, and higher securities gains. The increase in mortgage fees and related income was driven by lower repurchase losses compared with the prior year which included a $1.5 billion increase in the mortgage repurchase reserve. The decline in net interest income was driven predominantly by runoff of higher-yielding loans and spread compression. The decrease in the provision for credit losses reflected improved delinquency trends across most consumer portfolios compared with the prior year. The increase in noninterest expense was driven by higher noncompensation expense.

The Firm’s third-quarter results reflected a challenging investment banking and capital markets environment which contributed to lower revenue in the Investment Bank (excluding the DVA gain). However, the Investment Bank maintained its #1 ranking in Global Investment Banking Fees for the first nine months of 2011. Retail Financial Services demonstrated good underlying performance, with solid revenue and increased deposits in Consumer & Business Banking and strong retail mortgage origination volumes in the Mortgage Banking business. In the Card business, credit card sales volume, excluding Commercial Card, was up 10% compared with the prior year. Commercial Banking reported continued loan growth and record liability balances. In Treasury & Securities Services, trade finance loans increased 69% and liability balances increased 41%. Corporate/Private Equity results included private equity losses, compared with gains in the third quarter of 2010, reflecting economic conditions. Corporate/Private Equity results were also negatively affected by the Firm’s decision to take certain positions in its securities portfolio in anticipation of an eventual increase in interest rates, and by additional litigation expense.

Wholesale credit trends in the third quarter remained stable. Delinquency trends in Retail Financial Services improved modestly compared with the prior year and were flat compared with the prior quarter; while losses in the mortgage and home equity portfolios remained high and are expected to stay elevated. Net charge-offs improved in the Chase credit card portfolio, and lower estimated losses resulted in a reduction in the allowance for loan losses for the portfolio in the third quarter of 2011.

JPMorgan Chase ended the third quarter with a Basel I Tier 1 Common ratio of 9.9%. This strong capital position enabled the Firm to repurchase $4.4 billion of common stock and warrants during the third quarter. The Firm estimated that its Basel III Tier 1 Common ratio was approximately 7.7% at September 30, 2011. Total firmwide credit reserves of $29.0 billion were flat compared with the level at June 30, 2011, resulting in a firmwide loan loss coverage ratio of 3.74%, excluding purchased credit-impaired loans. Total deposits increased to $1.1 trillion, up 21% from the prior year. Total stockholders’ equity at September 30, 2011, was $182.3 billion.

Net income for the first nine months of 2011 was $15.2 billion, or $3.57 per share, compared with $12.5 billion, or $2.84 per share, in the first nine months 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 compared with the prior year. The modest decline in net revenue for the first nine months of 2011 was driven by lower net interest income, predominantly offset by higher asset management, administration and commissions revenue, higher credit card income and higher investment banking fees. The increase in noninterest expense compared with the first nine months of 2010 was driven by higher compensation expense.

During the first nine months of 2011, JPMorgan Chase provided credit to and raised capital of over $1.3 trillion for its clients, up 22% compared with the same period last year; this included $12.6 billion lent to small businesses, up 71%. The Firm originated more than 560,000 mortgages; provided credit cards to approximately 6.6 million people; and lent or increased credit to more than 1,100 not-for-profit and government entities, including states, municipalities, hospitals and universities. In addition, the Firm has been very successful in hiring more than 2,200 U.S. military veterans so far this year and has increased its net employee headcount in the U.S. by more than 13,200.

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 14–15 of this Form 10-Q.

Investment Bank net income increased from the prior year as higher net revenue was partially offset by an increased provision for credit losses and higher noninterest expense. Net revenue included a $1.9 billion gain from DVA on certain structured and derivative liabilities, resulting from the widening of the Firm's credit spreads. This was partially offset by a $691 million net loss, including hedges, from CVA on derivative assets within Credit Portfolio, due to the widening of credit spreads for the Firm’s counterparties. Fixed Income and Equity Markets revenue increased compared with the third quarter of 2010 due to the DVA gain. In addition, results in Fixed Income Markets reflected solid revenue from rates and currency-related products, partially offset by lower results in credit-related products. Equity Markets revenue reflected solid client revenue, partially offset by the impact of challenging market conditions. The provision for credit losses was an expense in the third quarter of 2011, compared with a benefit in the third quarter of 2010. The third quarter of 2011 included an increase in the allowance that reflected a more cautious credit outlook. The increase in noninterest expense was driven by higher noncompensation expense.

Retail Financial Services net income increased compared with the prior year driven by higher net revenue and a lower provision for credit losses, partially offset by higher noninterest expense. The increase in net revenue was driven by higher mortgage fees and related income, and higher debit card income and deposit-related fees, partially offset by lower net interest income resulting from lower loan balances due to the runoff of the mortgage loan portfolio. The provision for credit losses decreased, reflecting a reduction in net charge-offs, driven by a modest improvement in delinquency trends. The increase in noninterest expense from the prior year was driven by investments in branch and mortgage production sales and support staff, as well as elevated default-related costs.

Card Services & Auto net income decreased compared with the third quarter of 2010 driven by higher noninterest expense and lower net revenue, predominantly offset by a lower provision for credit losses. The decrease in net revenue was driven by a decline in net interest income, reflecting lower average loan balances, narrower loan spreads and a decreased level of fees. These decreases were predominantly offset by lower revenue reversals associated with lower net charge-offs, and higher net interchange income. Credit card sales volume, excluding the Washington Mutual and Commercial Card portfolios, was up 10% from the prior year. The lower provision for credit losses reflected lower net charge-offs and a reduction of $370 million to the allowance for loan losses due to lower estimated losses. The increase in noninterest expense was due to higher marketing expense and the inclusion of the Commercial Card business.

Commercial Banking net income increased, driven by a lower provision for credit losses and higher net revenue. The increase in net revenue was driven by growth in liability and loan balances, predominantly offset by spread compression on liability products and changes in the valuation of investments held at fair value. Average liability balances reached a record level in the third quarter of 2011, up 31% from the third quarter of 2010. End-of-period loan balances were up 9% from the prior year and have increased for five consecutive quarters. The decrease in the provision for credit losses compared with the prior year reflected lower net charge-offs, mainly related to commercial real estate. Noninterest expense increased from the third quarter of 2010, primarily reflecting higher headcount-related expense.

Treasury & Securities Services net income increased from the prior year, driven by higher net revenue and an increased benefit from the provision for credit losses, largely offset by higher noninterest expense. Worldwide Securities Services net revenue increased, driven by higher net interest income due to higher deposit balances. Assets under custody of $16.3 trillion were up 2% from the prior year. Treasury Services net revenue increased, driven by higher deposit balances, predominantly offset by the effect of the transfer of the Commercial Card business to Card in the first quarter of 2011. The increased benefit in the provision for credit losses reflected a reduction in the allowance for loan losses resulting primarily from repayments. Higher noninterest expense was mainly driven by continued expansion into new markets and higher other noncompensation expense, partially offset by the transfer of the Commercial Card business to Card.

Asset Management net income decreased from the prior year, reflecting higher noninterest expense, partially offset by higher net revenue. The growth in net revenue was due to higher deposit and loan balances, a gain on the sale of an investment, net inflows to products with higher margins, and the effect of higher market levels. This growth was partially offset by lower valuations of seed capital investments and narrower deposit spreads. Assets under supervision of $1.8 trillion increased 2% from the prior year due to deposit and custody inflows. Assets under management decreased slightly from the prior year due to net outflows from liquidity products and the effect of lower markets, offset by net inflows to long-term products. The increase in noninterest expense largely resulted from non-client-related litigation expense and an increase in compensation expense due to increased headcount.

Corporate/Private Equity reported a net loss for the third quarter of 2011, compared with net income in the third quarter of 2010. Both Private Equity and Corporate reported net losses. In Private Equity the net loss was driven by a significant decline in net revenue, driven primarily by net write-downs on privately-held investments and lower valuations of public securities held at fair value in the portfolio. In Corporate, net interest income was lower as a result of portfolio repositioning in anticipation of an eventual increase in market interest rates and a reduced benefit from financing the securities portfolio. Noninterest expense included $1.0 billion of additional litigation expense, predominantly for mortgage-related matters. Noninterest expense in the prior year included $1.3 billion of additional litigation expense, predominantly for mortgage-related matters.

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 99 and Risk Factors on pages 202–204 of this Form 10-Q.

JPMorgan Chase's outlook for the fourth quarter of 2011 and full-year 2012 should be viewed against the backdrop of the global and U.S. economies, financial markets activity, the geopolitical environment, the competitive environment, client activity levels, and regulatory and legislative developments in the U.S. and other countries where the Firm does business. Each of these linked factors will affect the performance of the Firm and its lines of business.

In the Consumer & Business Banking business within RFS, the Firm estimates that fourth-quarter 2011 revenue will be reduced by approximately $300 million as a result of the effect of the Durbin Amendment. Furthermore, as the full impact of the elimination of certain debit card rewards programs is reflected in the run rate, the Durbin Amendment is expected to reduce revenue by approximately $1.0 billion on an annualized basis. Also, given the current low interest rate environment, spread compression will likely reduce net income for this business in 2012 on an annualized basis by approximately $400 million.

In the Mortgage Production and Servicing business within RFS, revenue will continue to be negatively affected by continued elevated levels of repurchases of mortgages previously sold. Management estimates that realized mortgage repurchase losses could be approximately $350 million, or slightly higher, for the fourth quarter of 2011. Also for Mortgage Production and Servicing, management expects the business to continue to incur elevated default management and foreclosure-related costs including additional costs associated with the Firm's mortgage servicing processes, particularly its loan modification and foreclosure procedures, and costs to comply with the Consent Orders entered into with the banking regulators. (See Enhancements to Mortgage Servicing on pages 85–86 and Note 16 on pages 168–172 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.

For the Mortgage Banking Portfolios within RFS, management believes that total quarterly net charge-offs could be approximately $1.2 billion, and it is possible that they could be modestly better. 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. However, over time, the reduction in net interest income is expected to be more than offset by an improvement in credit costs and lower expenses. In addition, as the portfolio continues to run off, management anticipates that approximately $1.0 billion of capital may become available for redeployment each year, subject to the capital requirements associated with the remaining portfolio.

In Card, given current high repayment rates, management expects end-of-period outstandings for the Chase credit card portfolio (excluding the Washington Mutual and Commercial Card portfolios) could be between $115 billion and $120 billion by the end of 2011. The net charge-off rate for the Chase credit card portfolio, excluding Washington Mutual and Commercial Card, could improve over the next quarter or so from the 4.34% reported in the third quarter.

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 Card could be adversely affected.

In IB, TSS, CB and AM, revenue will be affected by market levels, volumes and volatility, which will influence client flows and assets under management, supervision and custody. For AM, management expects revenue to decline from the third-quarter 2011 run-rate as a result of the decline in asset values. CB and TSS will continue to experience lower net interest margins as long as market interest rates remain low. In addition, the wholesale credit environment will influence levels of charge-offs, repayments and provision for credit losses for IB, CB, TSS and AM.

In Private Equity, within the Corporate/Private Equity segment, earnings will likely continue to be volatile and be influenced by capital markets activity, market levels, the performance of the broader economy and investment-specific issues. Corporate's net interest income levels will generally trend with the size and duration of the investment securities portfolio. Corporate quarterly net income, excluding Private Equity, significant nonrecurring items and litigation expense, is anticipated to be approximately zero in the fourth quarter of 2011 due to spread compression and the Firm's continued repositioning of the investment securities portfolio. In 2012, Corporate quarterly net income, excluding Private Equity, and excluding significant nonrecurring items and litigation expense, could be approximately $200 million, though these results will depend on the decisions that the Firm makes over the course of the year with respect to repositioning of the investment securities portfolio.

The Firm faces 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 U.S. government- sponsored entities (commonly referred to as 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. In the first nine months of 2011, the Firm repurchased $8.0 billion in common stock and warrants that had been approved by the Federal Reserve for 2011.

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 currently underway.

In September 2011, the Federal Deposit Insurance Corporation ("FDIC") issued, and in October 2011, the Board of Governors of the Federal Reserve System (the "Federal Reserve") issued, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), a final rule that will require bank holding companies with assets of $50 billion or more and companies designated as systemically important by the Financial Stability Oversight Council ("FSOC") to report periodically to the Federal Reserve, the FDIC and the FSOC on a resolution plan under the Bankruptcy Code in the event of material financial distress or failure (a "resolution plan"). In September 2011, the FDIC also issued an interim final rule that will require insured depository institutions with greater than $50 billion in assets to submit periodic contingency plans to the FDIC 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 the rules is the same. The Firm's initial resolution plan submissions are due on July 1, 2012, with annual updates thereafter, and the Firm is in the process of developing its resolution plans.

On October 1, 2011, the final rules implementing the Durbin Amendment provisions of the Dodd-Frank Act became effective. These rules limit the amount the Firm may charge for each debit card transaction it processes. The Firm currently anticipates that the effect of these rules will reduce fourth quarter 2011 revenue by approximately $300 million. Furthermore, as the full impact of the elimination of certain debit card rewards programs is reflected in the run rate, the Durbin Amendment is expected to reduce revenue by approximately $1.0 billion on an annualized basis.

Under the Dodd-Frank Act, the Firm will be subject to comprehensive regulation of its derivatives business, including strict capital and margin requirements, central clearing of standardized over-the-counter derivatives, and heightened supervision. 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. The proposed margin rules for uncleared swaps may apply extraterritorially to U.S. firms doing business with foreign clients outside of the United States. European and Asian firms doing business outside the United States would not be subject to requiring clients to post margin in similar transactions. If the rules become final as currently drafted, JPMorgan Chase could be at a significant competitive disadvantage, which could have a material adverse effect on its derivatives businesses.

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 the remaining rules to implement the Volcker Rule. In order to begin planning for its implementation, the Firm is currently in the process of identifying the activities that it expects to be affected by the Volcker Rule. The Firm believes that proprietary trading activities are separable from client market making and other client driven businesses as well as risk management activities. Under the proposed rules, "proprietary trading" is defined as the trading of securities, derivatives, or futures (or options on any of the foregoing) that is predominantly for the purpose of short-term resale, benefiting from short-term movements in prices or for realizing arbitrage profits for the Firm's own account. The proposed rule's definition of proprietary trading does not include client market-making, or certain risk management activities. 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. However, interpretation of the proposed rules will occur over time and it is not clear under the proposed rules whether some portion of the Firm's market-making and risk mitigation activities, as currently conducted, will be required to be curtailed or otherwise adversely affected.

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 7.7% at the end of the third 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.

CONSOLIDATED RESULTS OF OPERATIONS

The following section provides a comparative discussion of JPMorgan Chase's Consolidated Results of Operations on a reported basis for the three and nine months ended September 30, 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 95–97 of this Form 10-Q and pages 149–154 of JPMorgan Chase's 2010 Annual Report.

Revenue	Three months ended September 30,			Nine months ended September 30,		
(in millions)	2011	2010	Change	2011	2010	Change
Investment banking fees	$1,052	$1,476	(29)%	$4,778	$4,358	10%
Principal transactions	1,370	2,341	(41)	9,255	8,979	3
Lending- and deposit-related fees	1,643	1,563	5	4,838	4,795	1
Asset management, administration and commissions	3,448	3,188	8	10,757	9,802	10
Securities gains	607	102	495	1,546	1,712	(10)
Mortgage fees and related income	1,380	707	95	1,996	2,253	(11)
Credit card income	1,666	1,477	13	4,799	4,333	11
Other income	780	468	67	2,236	1,465	53
Noninterest revenue	11,946	11,322	6	40,205	37,697	7
Net interest income	11,817	12,502	(5)	35,558	38,899	(9)
Total net revenue	$23,763	$23,824	—%	$75,763	$76,596	(1)%

Total net revenue for the third quarter of 2011 was $23.8 billion, relatively flat compared with the third quarter of 2010. Lower principal transactions revenue and net interest income were largely offset by higher mortgage fees and related income and securities gains. For the first nine months of 2011, total net revenue was $75.8 billion, down slightly from the first nine months of 2010. Lower net interest income was largely offset by higher asset management, administration and commissions revenue, credit card income and other income.

Investment banking fees for the third quarter of 2011 decreased compared with the prior year, in particular, for debt underwriting and equity underwriting, due to lower industry-wide volumes. For the first nine months of 2011, investment banking fees were higher, driven predominantly by an increase in advisory fees, reflecting higher industry-wide completed M&A volumes relative to the comparable 2010 level. For additional information on investment banking fees, which are primarily recorded in IB, see IB segment results on pages 18–21 of this Form 10-Q.

Principal transactions revenue decreased compared with the third quarter of 2010, driven by private equity losses, partially offset by higher trading revenue. The private equity losses were primarily due to net write-downs on private investments and lower valuations of public securities held at fair value in the Corporate/Private Equity portfolio. Trading revenue included a $1.9 billion gain from DVA on certain structured and derivative liabilities, resulting from the widening of the Firm's credit spreads, partially offset by a $691 million net loss, including hedges, from CVA on derivative assets within Credit Portfolio in IB, due to the widening of credit spreads for the Firm's counterparties. Excluding the DVA and CVA results, trading revenue declined as a result of the challenging market conditions. For the first nine months of 2011, principal transactions revenue increased compared with the prior year, driven largely by DVA gains of $2.0 billion compared with $494 million in the prior year, as well as higher private equity gains relative to the comparable period in 2010. These were offset by a $828 million net loss, including hedges, from CVA on derivative assets within Credit Portfolio in IB. For additional information on principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 18–21 and 46-47, respectively, and Note 6 on pages 126–127 of this Form 10-Q.

Lending- and deposit-related fees increased in the third quarter of 2011 compared with the prior year. The increase was primarily driven by the introduction in the first quarter of 2011 of a new checking account product offering in RFS, and the conversion of some existing checking accounts into the new product offering. For the nine months ended September 30, 2011, lending- and deposit-related fees increased slightly compared with the prior year, reflecting the net-positive impact of the items in RFS that drove the quarterly comparison, predominantly offset by the impact of regulatory and policy changes affecting nonsufficient fund/overdraft (“NSF/OD”) fees, and 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 22–31, CB on pages 36–38, TSS on pages 39–41 and IB segment results on pages 18–21 of this Form 10-Q.

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

Securities gains increased from the third quarter of 2010 but decreased compared with the first nine months of 2010. Results in both comparable periods were primarily due to the repositioning of the portfolio in response to changes in market 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 third quarter of 2010, driven by significantly lower repurchase losses, partially offset by lower mortgage servicing rights ("MSR") risk management income. Mortgage fees and related income decreased compared with the first nine months of 2010, reflecting a MSR risk management loss of $1.2 billion for the first nine months of 2011, compared with income of $850 million for the first nine months of 2010, predominantly offset by lower repurchase losses. The $1.2 billion loss was driven by a $1.1 billion decline in fair value of the MSR related to revised cost to service assumptions incorporated in the MSR valuation in the first quarter of 2011. For additional information on mortgage fees and related income, which is recorded primarily in RFS, see RFS's Mortgage Production and Servicing discussion on pages 26–29, and Note 16 on pages 168–172 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 176–180 of this Form 10-Q.

Credit card income increased in both the third quarter and first nine months of 2011. The increase for both periods largely reflected higher net interchange income associated with higher customer transaction 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. These increases were partially offset by lower revenue from fee-based products. For additional information on credit card income, see the Card and RFS segment results on pages 32–35, and pages 22–31, respectively, of this Form 10-Q.

Other income increased compared with the third quarter and first nine months of 2010, driven by valuation adjustments on certain assets and incremental income from recent acquisitions in IB, and a gain on the sale of an investment, which was partly offset by lower valuations of seed capital investments in AM. Higher auto operating lease income in Card, resulting from growth in lease volume, also contributed to the increase in the first nine months of 2010.

Net interest income decreased in the third quarter and first nine months of 2011 compared with the prior year. The declines in both periods were driven by lower average loan balances and yields, primarily in Card and RFS, reflecting the expected runoff of credit card balances and residential real estate loans; lower yields on securities, reflecting portfolio repositioning in anticipation of an increasing interest rate environment; lower fees on credit card receivables, reflecting the impact of legislative changes; and higher average deposit balances and yields. 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 in the third quarter of 2011, and the net yield on those assets, on a fully taxable-equivalent ("FTE") basis, was 2.66%, a decrease of 35 basis points from the third quarter of 2010. For the first nine months of 2011, average interest-earning assets were $1.7 trillion, and the net yield on those assets, on an FTE basis, was 2.75%, a decrease of 38 basis points from the first nine months of 2010. For further information on the impact of the legislative changes on the Consolidated Statements of Income, see Card discussion on credit card legislation on page 79 of JPMorgan Chase's 2010 Annual Report.

Provision for credit losses	Three months ended September 30,			Nine months ended September 30,		
(in millions)	2011	2010	Change	2011	2010	Change
Wholesale	$127	$44	189 %	$(376)	$(764)	51 %
Consumer, excluding credit card	1,285	1,546	(17)	3,731	6,994	(47)
Credit card	999	1,633	(39)	2,035	7,366	(72)
Total consumer	2,284	3,179	(28)	5,766	14,360	(60)
Total provision for credit losses	$2,411	$3,223	(25)%	$5,390	$13,596	(60)%

The provision for credit losses decreased compared with the third quarter and first nine months of 2010. The credit card provision was down from both prior-year periods, driven primarily by improved delinquency and net credit loss trends. The consumer, excluding credit card, provision was also down from both prior-year periods, reflecting improved delinquency and charge-off trends in 2011 across most portfolios, and the absence of additions to the allowance for loan losses. The wholesale provision increased compared with the third quarter and first nine months in 2010, primarily reflecting loan growth and other portfolio activity. For a more detailed discussion of the loan portfolio and the allowance for credit losses, see the segment discussions for RFS on pages 22–31, Card on pages 32–35, IB on pages 18–21 and CB on pages 36–38, and the Allowance for credit losses section on pages 87–89 of this Form 10-Q.

Noninterest expense	Three months ended September 30,			Nine months ended September 30,		
(in millions)	2011	2010	Change	2011	2010	Change
Compensation expense[a]	$6,908	$6,661	4 %	$22,740	$21,553	6 %
Noncompensation expense:						
Occupancy	935	884	6	2,848	2,636	8
Technology, communications and equipment	1,248	1,184	5	3,665	3,486	5
Professional and outside services	1,860	1,718	8	5,461	4,978	10
Marketing	926	651	42	2,329	1,862	25
Other[b][c]	3,445	3,082	12	10,687	9,942	7
Amortization of intangibles	212	218	(3)	641	696	(8)
Total noncompensation expense	8,626	7,737	11	25,631	23,600	9
Total noninterest expense	$15,534	$14,398	8 %	$48,371	$45,153	7 %

(a) Year-to-date 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 $1.3 billion and $4.3 billion for the three and nine months ended September 30, 2011, respectively, compared with $1.5 billion and $5.2 billion for the three and nine months ended September 30, 2010, respectively.

(c) Included foreclosed property expense of $151 million and $535 million for the three and nine months ended September 30, 2011, respectively, compared with $251 million and $798 million for the three and nine months ended September 30, 2010, respectively.

Total noninterest expense for the third quarter of 2011 was $15.5 billion, an increase of $1.1 billion, compared with the third quarter of 2010. Total noninterest expense for the first nine months of 2011 was $48.4 billion, up by $3.2 billion, compared with the first nine months of 2010. The increases in both periods compared with the prior year were largely due to higher noncompensation and compensation expense.

Compensation expense increased from the third quarter and first nine months of 2010. The increase in both comparable periods was driven by investments in branch and mortgage production sales and support staff in RFS and increased headcount in AM, partially offset by lower performance-based compensation expense in IB. In addition, the nine-month comparison reflects the absence of the U.K. Bank Payroll Tax that was recorded in IB in the second quarter of 2010.

The increase in noncompensation expense in the third quarter of 2011 was due to higher marketing expense in Card and higher FDIC assessments across businesses. 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. A non-client-related litigation expense in AM, higher professional services expense due to Consent Orders and foreclosure-related matters in RFS, and the impact of continued investments in the businesses, also contributed to the increase.

Noncompensation expense for the first nine months of 2011 was also affected by the aforementioned items, together with a $1.7 billion expense for estimated litigation and other costs of foreclosure-related matters in RFS and higher operating expense related to growth in business activities in IB. These were offset partially by lower litigation expense in the first nine months of 2011 in IB and Corporate, as charges for mortgage-related matters were lower than in 2010. For a further discussion of litigation expense, see Note 23 on pages 181–189 of this Form 10-Q. For a discussion of amortization of intangibles, refer to the Balance Sheet Analysis on pages 49–51, and Note 16 on pages 168–172 of this Form 10-Q.

Income tax expense	Three months ended September 30,		Nine months ended September 30,	
(in millions, except rate)	2011	2010	2011	2010
Income before income tax expense	$5,818	$6,203	$22,002	$17,847
Income tax expense	1,556	1,785	6,754	5,308

Effective tax rate	26.7 %	28.8 %	30.7 %	29.7 %

The decrease in the effective tax rate during the third quarter of 2011 was primarily the result of lower reported pretax income and changes in the proportion of income subject to U.S. federal and state and local taxes, as well as deferred tax benefits associated with state and local income taxes. In addition, the third quarter of 2011 included tax benefits associated with the disposition of certain investments; the prior year period included tax benefits associated with the resolution of tax audits. The increase in the effective tax rate during the nine months ended September 30, 2011, was primarily the result of higher reported pretax income and changes in the proportion of income subject to U.S. federal and state and local taxes. In addition, the prior year period included 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 95–97 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 100–103 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. Tier 1 common under Basel III rules, a non-GAAP financial measure, is used by management to assess the Firm's capital position in conjunction with its capital ratios under Basel I requirements. For additional information on Tier 1 common under Basel III, see Basel III on pages 59–60 of this Form 10-Q. 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.

(in millions, except per share and ratios)	Three months ended September 30, 2011 Reported Results	Fully tax-equivalent adjustments	Managed basis	Three months ended September 30, 2010 Reported Results	Fully tax-equivalent adjustments	Managed basis
Revenue						
Investment banking fees	$1,052	$ —	$1,052	$1,476	$ —	$1,476
Principal transactions	1,370	—	1,370	2,341	—	2,341
Lending- and deposit-related fees	1,643	—	1,643	1,563	—	1,563
Asset management, administration and commissions	3,448	—	3,448	3,188	—	3,188
Securities gains	607	—	607	102	—	102
Mortgage fees and related income	1,380	—	1,380	707	—	707
Credit card income	1,666	—	1,666	1,477	—	1,477
Other income	780	472	1,252	468	415	883
Noninterest revenue	11,946	472	12,418	11,322	415	11,737
Net interest income	11,817	133	11,950	12,502	96	12,598
Total net revenue	23,763	605	24,368	23,824	511	24,335
Noninterest expense	15,534	—	15,534	14,398	—	14,398
Pre-provision profit	8,229	605	8,834	9,426	511	9,937
Provision for credit losses	2,411	—	2,411	3,223	—	3,223
Income before income tax expense	5,818	605	6,423	6,203	511	6,714
Income tax expense	1,556	605	2,161	1,785	511	2,296
Net income	$4,262	$ —	$4,262	$4,418	$ —	$4,418
Diluted earnings per share	$1.02	$ —	$1.02	$1.01	$ —	$1.01
Return on assets	0.76 %	NM	0.76 %	0.86 %	NM	0.86 %
Overhead ratio	65	NM	64	60	NM	59

(in millions, except per share and ratios)	Nine months ended September 30, 2011 Reported Results	Fully tax-equivalent adjustments	Managed basis	Nine months ended September 30, 2010 Reported Results	Fully tax-equivalent adjustments	Managed basis
Revenue						
Investment banking fees	$4,778	$ —	$4,778	$4,358	$ —	$4,358
Principal transactions	9,255	—	9,255	8,979	—	8,979
Lending- and deposit-related fees	4,838	—	4,838	4,795	—	4,795
Asset management, administration and commissions	10,757	—	10,757	9,802	—	9,802
Securities gains	1,546	—	1,546	1,712	—	1,712
Mortgage fees and related income	1,996	—	1,996	2,253	—	2,253
Credit card income	4,799	—	4,799	4,333	—	4,333
Other income	2,236	1,433	3,669	1,465	1,242	2,707
Noninterest revenue	40,205	1,433	41,638	37,697	1,242	38,939
Net interest income	35,558	373	35,931	38,899	282	39,181
Total net revenue	75,763	1,806	77,569	76,596	1,524	78,120
Noninterest expense	48,371	—	48,371	45,153	—	45,153
Pre-provision profit	27,392	1,806	29,198	31,443	1,524	32,967
Provision for credit losses	5,390	—	5,390	13,596	—	13,596

Income before income tax expense	22,002	1,806	23,808	17,847	1,524	19,371
Income tax expense	6,754	1,806	8,560	5,308	1,524	6,832
Net income	$15,248	$ —	$15,248	$12,539	$ —	$12,539
Diluted earnings per share	$3.57	$ —	$3.57	$2.84	$ —	$2.84
Return on assets	0.94 %	NM	0.94 %	0.82 %	NM	0.82 %
Overhead ratio	64	NM	62	59	NM	58

Average tangible common equity

(in millions)	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Common stockholders' equity	$174,454	$163,962	$172,667	$159,737
Less: Goodwill	48,631	48,745	48,770	48,546
Less: Certain identifiable intangible assets	3,545	4,094	3,736	4,221
Add: Deferred tax liabilities[a]	2,639	2,620	2,617	2,575
Tangible common equity	$124,917	$113,743	$122,778	$109,545

(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 87–89 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 & Auto, Commercial Banking, Treasury & Securities Services and Asset Management, as well as a Corporate/Private Equity segment. The business segments are determined based on the products and services provided, or the type of customer served, and reflect the manner in which financial information is currently evaluated by management. Results of 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 changes

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

Auto and Student Lending transferred from the RFS segment and are reported with Card in a single segment. Retail Financial Services continues as a segment, organized in two components: Consumer & Business Banking (formerly Retail Banking) and Mortgage Banking (including Mortgage Production and Servicing, and Real Estate Portfolios). The business segment information associated with RFS and Card has been revised to reflect the business reorganization retroactive to January 1, 2010.

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 Card 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 September 30,	Total net revenue			Noninterest expense			Pre-provision profit[c]		
(in millions, except ratios)	2011	2010	Change	2011	2010	Change	2011	2010	Change
Investment Bank[b]	$6,369	$5,353	19 %	$3,799	$3,704	3 %	$2,570	$1,649	56 %
Retail Financial Services	7,535	6,814	11	4,565	4,170	9	2,970	2,644	12
Card Services & Auto	4,775	5,085	(6)	2,115	1,792	18	2,660	3,293	(19)
Commercial Banking	1,588	1,527	4	573	560	2	1,015	967	5
Treasury & Securities Services	1,908	1,831	4	1,470	1,410	4	438	421	4
Asset Management	2,316	2,172	7	1,796	1,488	21	520	684	(24)
Corporate/Private Equity[b]	(123)	1,553	NM	1,216	1,274	(5)	(1,339)	279	NM
Total	$24,368	$24,335	— %	$15,534	$14,398	8 %	$8,834	$9,937	(11)%

Three months ended September 30,	Provision for credit losses			Net income/(loss)			Return on equity	
(in millions, except ratios)	2011	2010	Change	2011	2010	Change	2011	2010
Investment Bank[b]	$54	$(142)	NM	$1,636	$1,286	27 %	16 %	13 %
Retail Financial Services	1,027	1,397	(26)%	1,161	716	62	18	12
Card Services & Auto	1,264	1,784	(29)	849	926	(8)	21	20
Commercial Banking	67	166	(60)	571	471	21	28	23
Treasury & Securities Services	(20)	(2)	NM	305	251	22	17	15
Asset Management	26	23	13	385	420	(8)	24	26
Corporate/Private Equity[b]	(7)	(3)	(133)	(645)	348	NM	NM	NM
Total	$2,411	$3,223	(25)%	$4,262	$4,418	(4)%	9 %	10 %

Nine months ended September 30,	Total net revenue			Noninterest expense			Pre-provision profit[c]		
(in millions, except ratios)	2011	2010	Change	2011	2010	Change	2011	2010	Change
Investment Bank[b]	$21,916	$20,004	10 %	$13,147	$13,064	1 %	$8,769	$6,940	26 %
Retail Financial Services	20,143	20,748	(3)	14,736	12,012	23	5,407	8,736	(38)
Card Services & Auto	14,327	15,400	(7)	6,020	5,311	13	8,307	10,089	(18)
Commercial Banking	4,731	4,429	7	1,699	1,641	4	3,032	2,788	9
Treasury & Securities Services	5,680	5,468	4	4,300	4,134	4	1,380	1,334	3
Asset Management	7,259	6,371	14	5,250	4,335	21	2,009	2,036	(1)
Corporate/Private Equity[b]	3,513	5,700	(38)	3,219	4,656	(31)	294	1,044	(72)
Total	$77,569	$78,120	(1)%	$48,371	$45,153	7 %	$29,198	$32,967	(11)%

Nine months ended September 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]	$(558)	$(929)	40 %	$6,063	$5,138	18 %	20 %	17 %
Retail Financial Services	3,220	6,501	(50)	1,145	1,269	(10)	6	7
Card Services & Auto	2,561	7,861	(67)	3,493	1,324	164	29	10

Commercial Banking	168	145	16	1,724	1,554	11	29	26
Treasury & Securities Services	(18)	(57)	68	954	822	16	18	17
Asset Management	43	63	(32)	1,290	1,203	7	27	25
Corporate/Private Equity[(b)]	(26)	12	NM	579	1,229	(53)	NM	NM
Total	$5,390	$13,596	(60)%	$15,248	$12,539	22%	11%	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).

(c) 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.

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 September 30,			Nine months ended September 30,		
(in millions, except ratios)	2011	2010	Change	2011	2010	Change
Revenue						
Investment banking fees	$1,039	$1,502	(31)%	$4,740	$4,353	9%
Principal transactions	2,253	1,129	100	7,960	7,165	11
Lending- and deposit-related fees	210	205	2	642	610	5
Asset management, administration and commissions	563	565	—	1,730	1,761	(2)
All other income[(a)]	228	61	274	630	196	221
Noninterest revenue	4,293	3,462	24	15,702	14,085	11
Net interest income	2,076	1,891	10	6,214	5,919	5
Total net revenue[(b)]	6,369	5,353	19	21,916	20,004	10
Provision for credit losses	54	(142)	NM	(558)	(929)	40
Noninterest expense						
Compensation expense	1,850	2,031	(9)	7,708	7,882	(2)
Noncompensation expense	1,949	1,673	16	5,439	5,182	5
Total noninterest expense	3,799	3,704	3	13,147	13,064	1
Income before income tax expense	2,516	1,791	40	9,327	7,869	19
Income tax expense	880	505	74	3,264	2,731	20
Net income	$1,636	$1,286	27	$6,063	$5,138	18
Financial ratios						
Return on common equity	16%	13%		20%	17%	
Return on assets	0.81	0.68		0.99	0.97	
Overhead ratio	60	69		60	65	
Compensation expense as a percentage of total net revenue[(c)]	29	38		35	39	
Revenue by business						
Investment banking fees:						
Advisory	$365	$385	(5)	$1,395	$1,045	33
Equity underwriting	178	333	(47)	1,012	1,100	(8)
Debt underwriting	496	784	(37)	2,333	2,208	6
Total investment banking fees	1,039	1,502	(31)	4,740	4,353	9
Fixed income markets[(d)]	3,328	3,123	7	12,846	12,150	6
Equity markets[(e)]	1,424	1,135	25	4,053	3,635	11
Credit portfolio[(a)(f)]	578	(407)	NM	277	(134)	NM
Total net revenue	$6,369	$5,353	19	$21,916	$20,004	10

(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 $440 million and $390 million for the three months ended September 30, 2011 and 2010, and $1.4 billion and $1.2 billion for the nine months ended September 30, 2011 and 2010, respectively.

(c) The compensation expense as a percentage of total net revenue ratio for the nine months ended September 30, 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%. 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) Equity 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 74–75 of the Credit Risk Management section of this Form 10-Q for further discussion.

Quarterly results

Net income was $1.6 billion, up 27% from the prior year. Higher net revenue was partially offset by an increased provision for credit losses and higher noninterest expense.

Net revenue included a $1.9 billion gain from DVA on certain structured and derivative liabilities, resulting from the widening of the Firm’s credit spreads. This was partially offset by a $691 million net loss, including hedges, from CVA on derivative assets within Credit Portfolio, due to the widening of credit spreads for the Firm’s counterparties. Net revenue was $6.4 billion, compared with $5.4 billion in the prior year. Investment banking fees were down 31% to $1.0 billion, consisting of debt underwriting fees of $496 million (down 37%), equity underwriting fees of $178 million (down 47%) and advisory fees of $365 million (down 5%). Fixed Income Markets revenue was $3.3 billion, up 7% (down 14% excluding DVA gains of $529 million). These results reflected solid revenue from rates and currency-related products, partially offset by lower results in credit-related products. Equity Markets revenue was $1.4 billion, up 25% (down 15% excluding DVA gains of $377 million). These results reflected solid client revenue, partially offset by the impact of challenging market conditions. Credit Portfolio revenue was $578 million, including DVA gains of $979 million and net interest income and fees on retained loans, largely offset by a $691 million net loss, including hedges, from CVA.

The provision for credit losses was $54 million, driven by an increase in the allowance that reflected a more cautious credit outlook, offset by recoveries on restructured loans; this compared with a benefit of $142 million in the prior year. The current-quarter provision reflected net recoveries of $168 million, compared with net charge-offs of $33 million in the prior year. The ratio of the allowance for loan losses to end-of-period loans retained was 2.30%, compared with 3.85% in the prior year.

Noninterest expense was $3.8 billion, up 3% from the prior year, driven by higher noncompensation expense.

Return on equity was 16% on $40.0 billion of average allocated capital.

Year-to-date results

Net income was $6.1 billion, compared with $5.1 billion for the prior year, driven by higher net revenue partially offset by a lower benefit from the provision for credit losses as well as slightly higher noninterest expense.

Net revenue included a $2.0 billion gain from DVA on certain structured and derivative liabilities, resulting from the widening of the Firm’s credit spreads. This was partially offset by a $828 million net loss, including hedges, from CVA on derivative assets within Credit Portfolio, due to the widening of credit spreads for the Firm's counterparties. Net revenue was $21.9 billion, up 10% compared with $20.0 billion in the prior year. Investment banking fees of $4.7 billion were up 9% compared with the prior year, consisting of debt underwriting fees of $2.3 billion (up 6%), advisory fees of $1.4 billion (up 33%), and equity underwriting fees of $1.0 billion (down 8%). Fixed Income Markets revenue was $12.8 billion, up 6% (up 3% excluding DVA gains of $688 million), reflecting stronger performance in rates-related products as well as commodities. Equity Markets revenue was $4.1 billion, up 11% (up 5% excluding DVA gains of $383 million), driven by solid client revenue. Credit Portfolio revenue was $277 million, driven by DVA gains of $933 million and net interest income and fees on retained loans, largely offset by a $828 million net loss, including hedges, from CVA.

The provision for credit losses was a benefit of $558 million, reflecting a reduction in the allowance for loan losses, largely as a result of net repayments. Net recoveries were $38 million compared with net charge-offs of $758 million in the prior year.

Noninterest expense was $13.1 billion, relatively flat from the prior year, driven by higher noncompensation expense offset by lower incentive-based compensation expense and the absence of the U.K. Bank Payroll Tax that was recorded in the second quarter of 2010.

Return on equity was 20% on $40.0 billion of average allocated capital.

Selected metrics	Three months ended September 30,			Nine months ended September 30,		
(in millions, except headcount and ratios)	2011	2010	Change	2011	2010	Change
Selected balance sheet data (period-end)						
Loans:						
Loans retained[(a)]	$58,163	$51,299	13 %	$58,163	$51,299	13 %
Loans held-for-sale and loans at fair value	2,311	2,252	3	2,311	2,252	3
Total loans	60,474	53,551	13	60,474	53,551	13
Equity	40,000	40,000	—	40,000	40,000	—
Selected balance sheet data (average)						
Total assets	$803,667	$746,926	8	$820,239	$711,277	15
Trading assets-debt and equity instruments	329,984	300,517	10	357,735	293,605	22
Trading assets-derivative receivables	79,044	76,530	3	71,993	69,547	4
Loans:						
Loans retained[(a)]	57,265	53,331	7	55,089	55,042	—
Loans held-for-sale and loans at fair value	2,431	2,678	(9)	3,468	3,118	11
Total loans	59,696	56,009	7	58,557	58,160	1
Adjusted assets[(b)]	597,513	539,459	11	612,292	524,658	17
Equity	40,000	40,000	—	40,000	40,000	—
Headcount	26,615	26,373	1	26,615	26,373	1
Credit data and quality statistics						
Net charge-offs/(recoveries)	$(168)	$33	NM	$(38)	$758	NM
Nonperforming assets:						
Nonaccrual loans:						
Nonaccrual loans retained[(a)(c)]	1,274	2,025	(37)	1,274	2,025	(37)
Nonaccrual loans held-for-sale and loans at fair value	150	361	(58)	150	361	(58)
Total nonperforming loans	1,424	2,386	(40)	1,424	2,386	(40)
Derivative receivables	7	255	(97)	7	255	(97)
Assets acquired in loan satisfactions	77	148	(48)	77	148	(48)
Total nonperforming assets	1,508	2,789	(46)	1,508	2,789	(46)
Allowance for credit losses:						
Allowance for loan losses	1,337	1,976	(32)	1,337	1,976	(32)
Allowance for lending-related commitments	444	570	(22)	444	570	(22)
Total allowance for credit losses	1,781	2,546	(30)	1,781	2,546	(30)
Net charge-off/(recovery) rate[(a)(d)]	(1.16)%	0.25 %		(0.09)%	1.84 %	
Allowance for loan losses to period-end loans retained[(a)(d)]	2.30	3.85		2.30	3.85	
Allowance for loan losses to nonaccrual loans retained[(a)(c)(d)]	105	98		105	98	
Nonaccrual loans to period-end loans	2.35	4.46		2.35	4.46	

Market risk-average trading and credit portfolio VaR – 95% confidence level						
Trading activities:						
Fixed income	$48	$72	(33)	$47	$68	(31)
Foreign exchange	10	9	11	10	11	(9)
Equities	19	21	(10)	24	22	9
Commodities and other	15	13	15	15	16	(6)
Diversification[(e)]	(39)	(38)	(3)	(38)	(43)	12
Total trading VaR[(f)]	53	77	(31)	58	74	(22)
Credit portfolio VaR[(g)]	38	30	27	30	25	20
Diversification[(e)]	(21)	(8)	(163)	(11)	(9)	(22)
Total trading and credit portfolio VaR	$70	$99	(29)	$77	$90	(14)

(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 $320 million and $603 million were held against these nonaccrual loans at September 30, 2011 and 2010, respectively.

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

(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 DVA taken on derivative and structured liabilities to reflect the credit quality of the Firm. See VaR discussion on pages 90–92 and the DVA sensitivity table on page 92 of this Form 10-Q for further details.

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

According to Dealogic, for the first nine 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; #1 in Global Long-Term Debt; and #4 in Global Equity and Equity-related, based on volume.

	Nine months ended September 30, 2011			Full-year 2010		
Market shares and rankings[a]	Market Share		Rankings	Market Share		Rankings
Global investment banking fees[b]	8.4	%	#1	7.6	%	#1
Debt, equity and equity-related						
Global	6.8		1	7.2		1
U.S.	11.2		1	11.1		1
Syndicated loans						
Global	11.3		1	8.5		2
U.S.	21.6		1	19.1		2
Long-term debt[c]						
Global	6.8		1	7.2		2
U.S.	11.2		1	10.9		2
Equity and equity-related						
Global[d]	7.0		4	7.3		3
U.S.	12.3		1	13.1		2
Announced M&A[e]						
Global	22.4		2	16.2		4
U.S.	34.0		1	22.2		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 the nine months ended September 30, 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 September 30,			Nine months ended September 30,		
(in millions)	2011	2010	Change	2011	2010	Change
Total net revenue[a]						
Europe/Middle East/Africa	$1,995	$1,538	30 %	$7,065	$5,957	19 %
Asia/Pacific	948	993	(5)	2,832	2,882	(2)
Latin America/Caribbean	175	167	5	839	725	16
North America	3,251	2,655	22	11,180	10,440	7
Total net revenue	$6,369	$5,353	19	$21,916	$20,004	10
Loans retained (period-end)[b]						
Europe/Middle East/Africa	$15,361	$12,781	20	$15,361	$12,781	20
Asia/Pacific	6,892	5,595	23	6,892	5,595	23
Latin America/Caribbean	3,222	1,545	109	3,222	1,545	109
North America	32,688	31,378	4	32,688	31,378	4
Total loans	$58,163	$51,299	13	$58,163	$51,299	13

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

RETAIL FINANCIAL SERVICES

For a discussion of the business profile of RFS, see Introduction on page 4 of this Form 10–Q.

Effective July 1, 2011, RFS is organized into two components: (1) Consumer & Business Banking (formerly Retail Banking) and (2) Mortgage Banking (including Mortgage Production and Servicing, and Real Estate Portfolios). Consumer & Business Banking includes branch banking and business banking activities. Mortgage Production and Servicing includes mortgage origination and servicing activities. Real Estate Portfolios comprises residential mortgages and home equity loans, including the purchased credit-impaired portfolio acquired in the Washington Mutual transaction. For a further discussion of the business segment reorganization, see Business segment changes on page 16, and Note 24 on pages 190–192 of this Form 10-Q.

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	2011	2010	Change	2011	2010	Change
Revenue						
Lending- and deposit-related fees	$833	$743	12 %	$2,382	$2,333	2 %
Asset management, administration and commissions	513	441	16	1,497	1,322	13
Mortgage fees and related income	1,380	705	96	1,991	2,246	(11)
Credit card income	611	502	22	1,720	1,431	20
Other income	136	143	(5)	378	452	(16)
Noninterest revenue	3,473	2,534	37	7,968	7,784	2
Net interest income	4,062	4,280	(5)	12,175	12,964	(6)
Total net revenue(a)	7,535	6,814	11	20,143	20,748	(3)
Provision for credit losses	1,027	1,397	(26)	3,220	6,501	(50)
Noninterest expense						
Compensation expense	2,101	1,825	15	5,914	5,256	13
Noncompensation expense	2,404	2,276	6	8,642	6,548	32
Amortization of intangibles	60	69	(13)	180	208	(13)
Total noninterest expense	4,565	4,170	9	14,736	12,012	23
Income before income tax expense	1,943	1,247	56	2,187	2,235	(2)
Income tax expense	782	531	47	1,042	966	8
Net income	$1,161	$716	62	$1,145	$1,269	(10)
Financial ratios						
Return on common equity	18 %	12 %		6 %	7 %	
Overhead ratio	61	61		73	58	
Overhead ratio excluding core deposit intangibles(b)	60	60		72	57	

(a) Total net revenue included tax-equivalent adjustments associated with tax-exempt loans to municipalities and other qualified entities of $2 million and $2 million for the three months ended September 30, 2011 and 2010, respectively, and $5 million and $8 million for the nine months ended September 30, 2011 and 2010, respectively.

(b) RFS uses the overhead ratio (excluding the amortization of core deposit intangibles ("CDI")), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation would result in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this method would therefore result in an improving overhead ratio over time, all things remaining equal. The non-GAAP ratio excluded Consumer & Business Banking's CDI amortization expense related to prior business combination transactions of $60 million and $69 million for the three months ended September 30, 2011 and 2010, respectively, and $180 million and $208 million for the nine months ended September 30, 2011 and 2010, respectively.

Quarterly results

Retail Financial Services reported net income of $1.2 billion, compared with $716 million in the prior year.

Net revenue was $7.5 billion, an increase of $721 million, or 11%, compared with the prior year. Net interest income was $4.1 billion, down by $218 million, or 5%, reflecting lower loan balances due to portfolio runoff. Noninterest revenue was $3.5 billion, up by $939 million, or 37%, driven by higher mortgage fees and related income, debit card income, and deposit-related fees.

The provision for credit losses was $1.0 billion, a decrease of $370 million from the prior year. While delinquency trends have modestly improved compared with the prior year, the current-quarter provision continued to reflect elevated losses in the mortgage and home equity portfolios. See Consumer Credit Portfolio on pages 78–87 of this Form 10-Q for the net charge-off amounts and rates. To date, no charge-offs have been recorded on PCI loans.

Noninterest expense was $4.6 billion, an increase of $395 million, or 9%, from the prior year, driven by investments in branch and mortgage production sales and support staff, as well as elevated default-related costs.

Year-to-date results

Retail Financial Services reported net income of $1.1 billion, compared with $1.3 billion in the prior year.

Net revenue was $20.1 billion, a decrease of $605 million, or 3%, compared with the prior year. Net interest income was $12.2 billion, down by $789 million, or 6%, reflecting the impact of lower loan balances, due to portfolio runoff, and narrower loan spreads. Noninterest revenue was $8.0 billion, up by $184 million, or 2%, driven by higher debit card income and investment sales revenue largely offset by lower mortgage fees and related income.

The provision for credit losses was $3.2 billion, a decrease of $3.3 billion from the prior year. While delinquency trends and net charge-offs improved compared with the prior year, the current-year provision continued to reflect elevated losses in the mortgage and home equity portfolios. Additionally, the prior year provision included an addition to the allowance for loan losses of $1.2 billion for the purchased credit-impaired portfolio. See Consumer Credit Portfolio on pages 78–87 of this Form 10-Q for the net charge-off amounts and rates. To date, no charge-offs have been recorded on PCI loans.

Noninterest expense was $14.7 billion, an increase of $2.7 billion, or 23%, from the prior year driven by elevated foreclosure and default-related costs including $1.7 billion for estimated litigation and other costs of foreclosure-related matters.

Selected metrics	Three months ended September 30,			Nine months ended September 30,		
(in millions, except headcount and ratios)	2011	2010	Change	2011	2010	Change
Selected balance sheet data (period-end)						
Assets	$276,799	$300,913	(8)%	$276,799	$300,913	(8)%
Loans:						
Loans retained	235,572	260,647	(10)	235,572	260,647	(10)
Loans held-for-sale and loans at fair value[(a)]	13,153	13,032	1	13,153	13,032	1
Total loans	248,725	273,679	(9)	248,725	273,679	(9)
Deposits	388,735	363,295	7	388,735	363,295	7
Equity	25,000	24,600	2	25,000	24,600	2
Selected balance sheet data (average)						
Assets	$283,443	$309,523	(8)	$289,486	$316,407	(9)
Loans:						
Loans retained	238,273	264,467	(10)	244,204	272,744	(10)
Loans held-for-sale and loans at fair value[(a)]	16,608	15,571	7	16,243	14,222	14
Total loans	254,881	280,038	(9)	260,447	286,966	(9)
Deposits	382,202	361,668	6	377,678	359,669	5
Equity	25,000	24,600	2	25,000	24,600	2
Headcount	128,992	114,440	13	128,992	114,440	13
Credit data and quality statistics						
Net charge-offs	$1,027	$1,397	(26)	$3,295	$5,251	(37)
Nonaccrual loans:						
Nonaccrual loans retained	7,579	9,601	(21)	7,579	9,601	(21)
Nonaccrual loans held-for-sale and loans at fair value	132	166	(20)	132	166	(20)
Total nonaccrual loans[(b)(c)(d)]	7,711	9,767	(21)	7,711	9,767	(21)
Nonperforming assets[(b)(c)(d)]	8,576	11,155	(23)	8,576	11,155	(23)
Allowance for loan losses	15,479	15,106	2	15,479	15,106	2
Net charge-off rate[(e)]	1.71 %	2.10 %		1.80 %	2.57 %	
Net charge-off rate excluding PCI loans[(e)(f)]	2.39	2.94		2.53	3.61	
Allowance for loan losses to ending loans retained[(e)]	6.57	5.80		6.57	5.80	
	6.26	6.61		6.26	6.61	

Allowance for loan losses to ending loans retained excluding PCI loans[e][f]				
Allowance for loan losses to nonaccrual loans retained[b][e][f]	139	128	139	128
Nonaccrual loans to total loans	3.10	3.57	3.10	3.57
Nonaccrual loans to total loans excluding PCI loans[b]	4.25	4.91	4.25	4.91

(a) Loans at fair value consist of prime mortgages originated with the intent to sell that are accounted for at fair value and classified as trading assets on the Consolidated Balance Sheets. These loans totaled $13.0 billion and $12.6 billion at September 30, 2011 and 2010, respectively. Average balances of these loans totaled $16.5 billion and $15.3 billion for the three months ended September 30, 2011 and 2010, respectively, and $16.1 billion and $14.0 billion for the nine months ended September 30, 2011 and 2010, respectively.

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

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

(d) At September 30, 2011 and 2010, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $9.5 billion and $9.2 billion, respectively, that are 90 or more days past due; and (2) real estate owned insured by U.S. government agencies of $2.4 billion and $1.7 billion, respectively. These amounts were excluded as reimbursement of insured amounts is proceeding normally. For further discussion, see Note 13 on pages 136–157 of this

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Form 10-Q which summarizes loan delinquency information.

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

(f) Excludes the impact of PCI loans that were acquired as part of the Washington Mutual transaction. These loans were accounted for at fair value on the acquisition date, which incorporated management's estimate, as of that date, of credit losses over the remaining life of the portfolio. An allowance for loan losses of $4.9 billion and $2.8 billion was recorded for these loans at September 30, 2011 and 2010, respectively, which was also excluded from the applicable ratios. To date, no charge-offs have been recorded for these loans.

CONSUMER & BUSINESS BANKING

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	2011	2010	Change	2011	2010	Change
Noninterest revenue	$1,952	$1,692	15 %	$5,598	$5,128	9 %
Net interest income	2,730	2,744	(1)	8,095	8,191	(1)
Total net revenue	4,682	4,436	6	13,693	13,319	3
Provision for credit losses	126	173	(27)	287	561	(49)
Noninterest expense	2,842	2,798	2	8,354	8,041	4
Income before income tax expense	1,714	1,465	17	5,052	4,717	7
Net income	$1,023	$839	22	$3,014	$2,700	12
Overhead ratio	61 %	63 %		61 %	60 %	
Overhead ratio excluding core deposit intangibles[(a)]	59	62		60	59	

(a) Consumer & Business Banking uses the overhead ratio (excluding the amortization of CDI), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation would result in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this method would therefore result in an improving overhead ratio over time, all things remaining equal. The non-GAAP ratio excluded Consumer & Business Banking's CDI amortization expense related to prior business combination transactions of $60 million and $69 million for the three months ended September 30, 2011 and 2010, respectively, and $180 million and $208 million for the nine months ended September 30, 2011 and 2010, respectively.

Quarterly results

Consumer & Business Banking reported net income of $1.0 billion, an increase of $184 million, or 22%, compared with the prior year. Net revenue was $4.7 billion, up 6% from the prior year. Net interest income was $2.7 billion, flat compared with the prior year, as the impact of lower deposit spreads was predominantly offset by the effect of higher deposit balances. Noninterest revenue was $2.0 billion, an increase of 15%, driven by higher debit card revenue, deposit-related fees and investment fee revenue. The provision for credit losses was $126 million, compared with $173 million in the prior year. Net charge-offs were $126 million, compared with $173 million in the prior year. Noninterest expense was $2.8 billion, up 2% from the prior year, due to sales force increases and new branch builds.

Year-to-date results

Consumer & Business Banking reported net income of $3.0 billion, an increase of $314 million, or 12%, compared with the prior year. Net revenue was $13.7 billion, up 3% from the prior year. Net interest income was $8.1 billion, flat to the prior year, as the impact from higher deposit balances was offset predominantly by the effect of lower deposit spreads. Noninterest revenue was $5.6 billion, an increase of 9%, driven by higher debit card and investment sales revenue. The provision for credit losses was $287 million, compared with $561 million in the prior year. Net charge-offs were $362 million, compared with $561 million in the prior year. Noninterest expense was $8.4 billion, up 4% from the prior year, resulting from sales force increases and new branch builds.

Selected metrics	Three months ended September 30,			Nine months ended September 30,		
(in billions, except ratios and where otherwise noted)	2011	2010	Change	2011	2010	Change
Business metrics						
Business banking origination volume (in millions)	$1,440	$1,126	28 %	$4,438	$3,253	36 %
End-of-period loans	17.3	16.6	4	17.3	16.6	4
End-of-period deposits:						
Checking	142.1	124.2	14	142.1	124.2	14
Savings	186.7	166.4	12	186.7	166.4	12
Time and other	39.0	48.9	(20)	39.0	48.9	(20)
Total end-of-period deposits	367.8	339.5	8	367.8	339.5	8
Average loans	$17.2	$16.6	4	$17.0	$17.0	—
Average deposits:						
Checking	137.0	123.5	11	135.2	122.4	10
Savings	184.6	166.2	11	180.2	165.3	9
Time and other	40.6	49.9	(19)	42.9	52.4	(18)
Total average deposits	362.2	339.6	7	358.3	340.1	5
Deposit margin	2.82 %	3.04 %		2.85 %	3.01 %	
Average assets	$30.1	$28.5	6	$29.5	$29.4	—
Credit data and quality statistics (in millions, except ratios)						
Net charge-offs	$126	$173	(27)	$362	$561	(35)
Net charge-off rate	2.91 %	4.13 %		2.85 %	4.41 %	
Nonperforming assets	$773	$913	(15)	$773	$913	(15)
Retail branch business metrics (in millions, except ratios)						
Investment sales volume	$5,102	$5,798	(12)	$18,020	$17,510	3
Client investment assets	132,255	127,743	4	132,255	127,743	4
% managed accounts	23 %	18 %		23 %	18 %	
Number of:						
Branches	5,396	5,192	4	5,396	5,192	4
Chase Private Client branch locations	139	16	NM	139	16	NM
ATMs	16,708	15,815	6	16,708	15,815	6
Personal bankers	24,205	21,438	13	24,205	21,438	13
Sales specialists	7,891	7,123	11	7,891	7,123	11
Active online customers (in thousands)	18,372	17,167	7	18,372	17,167	7
Active mobile customers (in thousands)	7,266	4,600	58	7,266	4,600	58
Chase Private Clients	11,711	3,890	201	11,711	3,890	201
Checking accounts (in thousands)	26,541	27,014	(2)	26,541	27,014	(2)

MORTGAGE PRODUCTION AND SERVICING

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	2011	2010	Change	2011	2010	Change
Mortgage fees and related income	$1,380	$705	96%	$1,991	$2,246	(11)%
Other noninterest revenue	118	116	2	328	305	8
Net interest income	204	232	(12)	599	660	(9)
Total net revenue	1,702	1,053	62	2,918	3,211	(9)
Provision for credit losses	2	27	(93)	4	46	(91)
Noninterest expense	1,360	982	38	5,293	2,757	92
Income/(loss) before income tax expense/(benefit)	340	44	NM	(2,379)	408	NM
Net income/(loss)	$205	$25	NM	$(1,574)	$239	NM
Overhead ratio	80%	93%		181%	86%	
Functional results						
Production						
Production revenue	$1,090	$1,233	(12)%	$2,536	$2,342	8%
Production-related net interest & other income	213	216	(1)	630	629	—
Production-related revenue, excluding repurchase losses	1,303	1,449	(10)	3,166	2,971	7
Production expense	496	435	14	1,377	1,177	17
Income, excluding repurchase losses	807	1,014	(20)	1,789	1,794	—
Repurchase losses	(314)	(1,464)	79	(957)	(2,563)	63
Income/(loss) before income tax expense/(benefit)	493	(450)	NM	832	(769)	NM
Servicing						
Loan servicing revenue	1,039	1,153	(10)	3,102	3,446	(10)
Servicing-related net interest & other income	115	129	(11)	300	325	(8)
Servicing-related revenue	1,154	1,282	(10)	3,402	3,771	(10)
MSR asset amortization	(457)	(604)	24	(1,498)	(1,829)	18
Servicing expense[a]	866	574	51	3,920	1,626	141
Income/(loss), excluding MSR risk management	(169)	104	NM	(2,016)	316	NM
MSR risk management, incl. related net interest income/(expense)[b]	16	390	(96)	(1,195)	861	NM
Income/(loss) before income tax expense/(benefit)	(153)	494	NM	(3,211)	1,177	NM
Net income/(loss)	$205	$25	NM	$(1,574)	$239	NM

(a) Servicing expense includes both core and default servicing expense for all periods presented as well as $1.7 billion estimated litigation and other costs of foreclosure-related matters for the nine months ended September 30, 2011.

(b) MSR risk management predominantly includes (a) changes in the MSR asset fair value due to changes in market interest rates and other modeled inputs and assumptions, and (b) changes in the value of the derivatives used to hedge the MSR asset. See Note 16 on pages 168–172 of this Form 10-Q for further information regarding changes in value of the MSR asset and related hedges.

Quarterly results

Mortgage Production and Servicing reported net income of $205 million, compared with $25 million in the prior year. Mortgage production pretax income was $493 million, compared with a pretax loss of $450 million in the prior year. Production-related revenue, excluding repurchase losses, was $1.3 billion, a decrease of 10% from the prior year. Current-quarter revenue reflected lower volumes and flat margins when compared with the prior year. Production expense was $496 million, an increase of $61 million, or 14%, reflecting a strategic shift to higher-cost retail originations both through the branch network and direct to the consumer. Repurchase losses were $314 million, compared with prior-year repurchase losses of $1.5 billion, which included a $1.0 billion increase in the repurchase reserve.

Mortgage servicing, including MSR risk management, resulted in a pretax loss of $153 million, compared with pretax income of $494 million in the prior year. Servicing-related revenue was $1.2 billion, a decline of 10% from the prior year, as a result of the decline in third-party loans serviced. MSR asset amortization was $457 million, compared with $604 million in the prior year; this reflected reduced amortization as a result of a lower MSR asset value, resulting from the adjustment recognized in the first quarter to reflect an increased cost to service. Offsetting the lower MSR asset amortization, servicing expense was $866 million, an increase of $292 million, reflecting higher core and default servicing costs. MSR risk management income was $16 million, a decline of $374 million from the prior year.

Year-to-date results

Mortgage Production and Servicing reported a net loss of $1.6 billion, compared with net income of $239 million in the prior year.

Mortgage production pretax income was $832 million, compared with a pretax loss of $769 million in the prior year. Production-related revenue, excluding repurchase losses, was $3.2 billion, an increase of 7% from the prior year reflecting higher volumes and wider margins when compared with the prior year. Production expense was $1.4 billion, an increase of $200 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 $957 million, compared with prior-year repurchase losses of $2.6 billion, which included a $1.6 billion increase in the repurchase reserve.

Mortgage servicing, including MSR risk management, resulted in a pretax loss of $3.2 billion, compared with pretax income of $1.2 billion in the prior year. Servicing-related revenue was $3.4 billion, a decline of 10% from the prior year, as a result of the decline in third-party loans serviced. MSR asset amortization was $1.5 billion, compared with $1.8 billion in the prior year; this reflected reduced amortization as a result of a lower MSR asset value, resulting from the adjustment recognized to reflect an increased cost to service as discussed below. Offsetting the lower MSR asset amortization, servicing expense was $3.9 billion, an increase of $2.3 billion, driven by $1.7 billion recorded for estimated litigation and other costs of foreclosures-related matters, as well as higher core and default servicing costs. MSR risk management was a loss of $1.2 billion, compared with income of $861 million in the prior year, driven by a decrease 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 modifications and foreclosure procedures.

Selected metrics	Three months ended September 30,			Nine months ended September 30,		
(in billions, except ratios and where otherwise noted)	2011	2010	Change	2011	2010	Change
Selected balance sheet data						
End-of-period loans:						
Prime mortgage, including option ARMs[(a)(b)]	$14.8	$13.8	7 %	$14.8	$13.8	7 %
Loans held-for-sale and loans at fair value[(c)]	13.2	13.0	2	13.2	13.0	2
Average loans:						
Prime mortgage, including option ARMs[(a)(d)]	14.4	13.6	6	14.2	13.3	7
Loans held-for-sale and loans at fair value[(c)]	16.6	15.6	6	16.2	14.2	14
Average assets	59.7	58.5	2	59.7	56.1	6
Repurchase reserve (ending)	3.2	3.0	7	3.2	3.0	7
Credit data and quality statistics (in millions, except ratios)						
Net charge-offs:						
Prime mortgage, including option ARMs	2	10	(80)	4	29	(86)
Net charge-off rate:						
Prime mortgage, including option ARMs[(d)]	0.06 %	0.30 %		0.04 %	0.30 %	
30+ day delinquency rate[(b)(e)]	3.35	3.40		3.35	3.40	
Nonperforming assets[(f)]	$691	$786	(12)	$691	$786	(12)
Business metrics						
Origination volume by channel						
Retail	$22.4	$19.2	17	$64.1	$45.9	40
Wholesale[(g)]	0.1	0.2	(50)	0.4	1.0	(60)
Correspondent[(g)]	13.4	19.1	(30)	37.2	49.8	(25)
CNT (negotiated transactions)	0.9	2.4	(63)	5.3	8.1	(35)
Total origination volume	$36.8	$40.9	(10)	$107.0	$104.8	2
Application volume by channel						
Retail	$37.7	$34.6	9	$102.6	$82.7	24
Wholesale[(g)]	0.2	0.6	(67)	0.8	2.0	(60)
Correspondent[(g)]	20.2	30.7	(34)	48.7	72.4	(33)
Total application volume	$58.1	$65.9	(12)	$152.1	$157.1	(3)
Third-party mortgage loans serviced (ending)	$924.5	$1,012.7	(9)	$924.5	$1,012.7	(9)
Third-party mortgage loans serviced (average)	931.4	1,028.6	(9)	945.7	1,056.3	(10)
MSR net carrying value (ending)[(h)]	7.8	10.3	(24)	7.8	10.3	(24)
Ratio of MSR net carrying value (ending) to third-party mortgage loans serviced (ending)	0.84 %	1.02 %		0.84 %	1.02 %	
Ratio of annualized loan servicing revenue to third-party mortgage loans serviced (average)	0.44	0.44		0.44	0.44	
MSR revenue multiple[(i)]	1.91x	2.32x		1.91x	2.32x	

(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 53–56 of this Form 10-Q.

(b) At September 30, 2011 and 2010, end-of-period loans owned included loans held-for-sale of $131 million and $428 million, respectively. No allowance for loan losses was recorded for these loans. These amounts were excluded when calculating the 30+ day delinquency rate.

(c) Loans at fair value consist of prime mortgages originated with the intent to sell that are accounted for at fair value and classified as trading assets on the Consolidated Balance Sheets. These loans totaled $13.0 billion and $12.6 billion at September 30, 2011 and 2010, respectively. Average balances of these loans totaled $16.5 billion and $15.3 billion for the three months ended September 30, 2011 and 2010, respectively, and $16.1 billion and $14.0 billion for the nine months ended September 30, 2011 and 2010, respectively.

(d) Average loans owned included loans held-for-sale of $108 million and $226 million for the three months ended September 30, 2011 and 2010, respectively, and $105 million and $210 million for the nine months ended September 30, 2011 and 2010, respectively. These amounts were excluded when calculating the net charge-off rate.

(e) At September 30, 2011 and 2010, excludes mortgage loans insured by U.S. government agencies of $10.5 billion and $10.2 billion, respectively, that are 30 or more days past due. These amounts were excluded as reimbursement of insured amounts is proceeding normally.

(f) At September 30, 2011 and 2010, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $9.5 billion and $9.2 billion, respectively, that are 90 or more days past due; and (2) real estate owned insured by U.S. government agencies of $2.4 billion and $1.7 billion, respectively. These amounts were excluded as reimbursement of insured amounts is proceeding normally.

(g) Includes rural housing loans sourced through brokers and correspondents, which are underwritten under Rural Housing Services.

(h) The fair value of the MSR asset decreased $5.8 billion during the nine months ended September 30, 2011. See Note 16 on pages 168–172 of this Form 10-Q for further information regarding changes in value of the MSR asset and related hedges.

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

REAL ESTATE PORTFOLIOS

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	2011	2010	Change	2011	2010	Change
Noninterest revenue	$23	$21	10 %	$51	$105	(51)%
Net interest income	1,128	1,304	(13)	3,481	4,113	(15)
Total net revenue	1,151	1,325	(13)	3,532	4,218	(16)
Provision for credit losses	899	1,197	(25)	2,929	5,894	(50)
Noninterest expense	363	390	(7)	1,089	1,214	(10)
Income/(loss) before income tax expense/(benefit)	(111)	(262)	58	(486)	(2,890)	83
Net income/(loss)	$(67)	$(148)	55	$(295)	$(1,670)	82
Overhead ratio	32 %	29 %		31 %	29 %	

Quarterly results

Real Estate Portfolios reported a net loss of $67 million, compared with a net loss of $148 million in the prior year. The improvement was driven by a lower provision for credit losses, largely offset by lower net revenue.

Net revenue was $1.2 billion, down by $174 million, or 13%, 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 was $899 million, compared with $1.2 billion in the prior year. The current-quarter provision reflected a reduction in net charge-offs, driven by a modest improvement in delinquency trends. See Consumer Credit Portfolio on pages 78–87 of this Form 10-Q for the net charge-off amounts and rates. To date, no charge-offs have been recorded on PCI loans.

Noninterest expense was $363 million, down by $27 million, or 7%, from the prior year, reflecting a decrease in foreclosed asset expense due to temporary delays in foreclosure activity.

Year-to-date results

Real Estate Portfolios reported a net loss of $295 million, compared with a net loss of $1.7 billion in the prior year. The improvement was driven by a lower provision for credit losses, partially offset by lower net revenue.

Net revenue was $3.5 billion, down by $686 million, or 16%, 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 $2.9 billion, compared with $5.9 billion in the prior year. The current-year provision reflected a reduction in net charge-offs driven by improved delinquency trends. Also, the prior-year provision included an addition to the allowance for loan losses of $1.2 billion for the Washington Mutual PCI portfolios. See Consumer Credit Portfolio on pages 78–87 of this Form 10-Q for the net charge-off amounts and rates. To date, no charge-offs have been recorded on PCI loans.

Noninterest expense was $1.1 billion, down by $125 million, or 10%, from the prior year, reflecting a decrease in foreclosed asset expense due to temporary delays in foreclosure activity.

Selected metrics	Three months ended September 30,			Nine months ended September 30,		
(in billions)	2011	2010	Change	2011	2010	Change
Loans excluding PCI[a]						
End-of-period loans owned:						
Home equity	$80.3	$91.7	(12)%	$80.3	$91.7	(12)%
Prime mortgage, including option ARMs	45.5	51.3	(11)	45.5	51.3	(11)
Subprime mortgage	10.0	12.0	(17)	10.0	12.0	(17)
Other	0.7	0.9	(22)	0.7	0.9	(22)
Total end-of-period loans owned	$136.5	$155.9	(12)	$136.5	$155.9	(12)
Average loans owned:						
Home equity	$81.6	$93.3	(13)	$84.1	$96.4	(13)
Prime mortgage, including option ARMs	46.2	52.2	(11)	47.7	54.3	(12)
Subprime mortgage	10.3	12.3	(16)	10.7	13.0	(18)
Other	0.7	1.0	(30)	0.8	1.0	(20)
Total average loans owned	$138.8	$158.8	(13)	$143.3	$164.7	(13)
PCI loans[a]						
End-of-period loans owned:						
Home equity	$23.1	$25.0	(8)	$23.1	$25.0	(8)
Prime mortgage	15.6	17.9	(13)	15.6	17.9	(13)
Subprime mortgage	5.1	5.5	(7)	5.1	5.5	(7)
Option ARMs	23.3	26.4	(12)	23.3	26.4	(12)
Total end-of-period loans owned	$67.1	$74.8	(10)	$67.1	$74.8	(10)
Average loans owned:						
Home equity	$23.3	$25.2	(8)	$23.7	$25.7	(8)
Prime mortgage	15.9	18.2	(13)	16.5	18.8	(12)
Subprime mortgage	5.1	5.6	(9)	5.2	5.8	(10)
Option ARMs	23.7	26.7	(11)	24.4	27.7	(12)
Total average loans owned	$68.0	$75.7	(10)	$69.8	$78.0	(11)
Total Real Estate Portfolios						
End-of-period loans owned:						
Home equity	$103.4	$116.7	(11)	$103.4	$116.7	(11)
Prime mortgage, including option ARMs	84.4	95.6	(12)	84.4	95.6	(12)
Subprime mortgage	15.1	17.5	(14)	15.1	17.5	(14)
Other	0.7	0.9	(22)	0.7	0.9	(22)
Total end-of-period loans owned	$203.6	$230.7	(12)	$203.6	$230.7	(12)
Average loans owned:						
Home equity	$104.9	$118.5	(11)	$107.8	$122.1	(12)
Prime mortgage, including option ARMs	85.8	97.1	(12)	88.6	100.8	(12)
Subprime mortgage	15.4	17.9	(14)	15.9	18.8	(15)
Other	0.7	1.0	(30)	0.8	1.0	(20)
Total average loans owned	$206.8	$234.5	(12)	$213.1	$242.7	(12)
Average assets	$193.7	$222.5	(13)	$200.3	$230.9	(13)
Home equity origination volume	0.3	0.3	—	0.8	0.9	(11)

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

Included within Real Estate Portfolios are PCI loans that the Firm acquired in the Washington Mutual transaction. For PCI loans, the excess of the undiscounted gross cash flows expected to be collected over the carrying value of the loans (the "accretable yield") is accreted into interest income at a level rate of return over the expected life of the loans. The net spread between the PCI loans and the related liabilities are expected to be relatively constant over time, except for any basis risk or other residual interest rate risk that remains and for certain changes in the accretable yield percentage (e.g., from extended loan liquidation periods and from prepayments). As of September 30, 2011, the remaining weighted-average life of the PCI loan portfolio is expected to be 7.1 years. For further information, see Note 13, PCI loans, on pages 153–154 of this Form 10-Q. The loan balances are expected to decline more rapidly in the earlier years as the most troubled loans are liquidated, and more slowly thereafter as the remaining troubled borrowers have limited refinancing opportunities. Similarly, default and servicing expense are expected to be higher in the earlier years and decline over time as liquidations slow down.

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

Credit data and quality statistics	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	2011	2010	Change	2011	2010	Change
Net charge-offs excluding PCI loans[a]:						
Home equity	$581	$730	(20)%	$1,893	$2,652	(29)%
Prime mortgage, including options ARMs	172	266	(35)	531	1,015	(48)
Subprime mortgage	141	206	(32)	483	945	(49)
Other	5	12	(58)	22	49	(55)
Total net charge-offs	$899	$1,214	(26)	$2,929	$4,661	(37)
Net charge-off rate excluding PCI loans[a]:						
Home equity	2.82 %	3.10 %		3.01 %	3.68 %	
Prime mortgage, including options ARMs	1.48	2.02		1.49	2.50	
Subprime mortgage	5.43	6.64		6.04	9.72	
Other	2.83	4.76		3.68	6.55	
Total net charge-off rate excluding PCI loans	2.57	3.03		2.73	3.78	
Net charge-off rate – reported:						
Home equity	2.20 %	2.44 %		2.35 %	2.90 %	
Prime mortgage, including options ARMs	0.80	1.09		0.80	1.35	
Subprime mortgage	3.63	4.57		4.06	6.72	
Other	2.83	4.76		3.68	6.55	
Total net charge-off rate – reported	1.72	2.05		1.84	2.57	
30+ day delinquency rate excluding PCI loans[b]	5.80 %	6.77 %		5.80 %	6.77 %	
Allowance for loan losses	$14,659	$14,111	4	$14,659	$14,111	4
Nonperforming assets[c]	7,112	9,456	(25)	7,112	9,456	(25)
Allowance for loan losses to ending loans retained	7.20 %	6.12 %		7.20 %	6.12 %	
Allowance for loan losses to ending loans retained excluding PCI loans[a]	7.12	7.25		7.12	7.25	

(a) Excludes the impact of PCI loans that were acquired as part of the Washington Mutual transaction. These loans were accounted for at fair value on the acquisition date, which incorporated management's estimate, as of that date, of credit losses over the remaining life of the portfolio. An allowance for loan losses of $4.9 billion and $2.8 billion was recorded for these loans at September 30, 2011 and 2010, respectively, which was also excluded from the applicable ratios. To date, no charge-offs have been recorded for these loans.

(b) At September 30, 2011 and 2010, the delinquency rate for PCI loans was 24.44% and 28.07%, respectively.

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

CARD SERVICES & AUTO

For a discussion of the business profile of Card, see Introduction on page 4 of this Form 10–Q.

Effective July 1, 2011, Card includes Auto and Student Lending. For a further discussion of the business segment reorganization, see Business segment changes on page 16, and Note 24 on pages 190-192 of this Form 10-Q.

Selected income statement data[(a)]	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	2011	2010	Change	2011	2010	Change
Revenue						
Credit card income	$1,053	$864	22 %	$3,074	$2,586	19 %
All other income	201	196	3	533	587	(9)
Noninterest revenue[(b)]	1,254	1,060	18	3,607	3,173	14
Net interest income	3,521	4,025	(13)	10,720	12,227	(12)
Total net revenue	4,775	5,085	(6)	14,327	15,400	(7)
Provision for credit losses	1,264	1,784	(29)	2,561	7,861	(67)
Noninterest expense						
Compensation expense	459	406	13	1,366	1,244	10
Noncompensation expense	1,560	1,280	22	4,348	3,714	17
Amortization of intangibles	96	106	(9)	306	353	(13)
Total noninterest expense[(c)]	2,115	1,792	18	6,020	5,311	13
Income before income tax expense	1,396	1,509	(7)	5,746	2,228	158
Income tax expense	547	583	(6)	2,253	904	149
Net income	$849	$926	(8)	$3,493	$1,324	164
Financial ratios[(a)]						
Return on common equity	21 %	20 %		29 %	10 %	
Overhead ratio	44	35		42	34	

(a) Effective January 1, 2011, the commercial card business that was previously in TSS was transferred to Card. There is no material impact on the financial data; prior-year periods were not revised.

(b) Included Commercial Card noninterest revenue of $76 million and $223 million for the three and nine months ended September 30, 2011, respectively.

(c) Included Commercial Card noninterest expense of $76 million and $220 million for the three and nine months ended September 30, 2011, respectively.

Quarterly results

Net income was $849 million, compared with $926 million in the prior year.

Net revenue was $4.8 billion, a decrease of $310 million, or 6%, from the prior year. Net interest income was $3.5 billion, down by $504 million, or 13%. The decrease was driven by lower average loan balances, narrower loan spreads, and a decreased level of fees. These decreases were partially offset by lower revenue reversals associated with lower charge-offs. Noninterest revenue was $1.3 billion, an increase of $194 million, or 18%, from the prior year. The increase was driven by higher net interchange income, lower partner revenue-sharing due to the impact of the Kohl's portfolio sale, and the transfer of the Commercial Card business to Card from TSS in the first quarter of 2011. These increases were partially offset by lower revenue from fee-based products. Excluding the impact of the Commercial Card business, noninterest revenue increased 11%.

The provision for credit losses was $1.3 billion, compared with $1.8 billion in the prior year. The current-quarter provision reflected lower net charge-offs and a reduction of $370 million to the allowance for loan losses due to lower estimated losses. The prior-year provision included a reduction of $1.5 billion to the allowance for loan losses. The net charge-off rate was 3.47%, down from 6.43% in the prior year; the 30+ day delinquency rate was 2.36%, down from 3.49% in the prior year. Excluding the Washington Mutual and Commercial Card portfolios, the Credit Card net charge-off rate[1] was 4.34%, down from 8.06% in the prior year; and the 30+ day delinquency rate[1] was 2.64%, down

from 4.13% in the prior year. The Auto net charge-off rate was 0.36%, down from 0.56% in the prior year. The Student net charge-off rate was 2.66%, up from 2.27% in the prior year.
Noninterest expense was $2.1 billion, an increase of $323 million, or 18%, 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 14%.

Year-to-date results

Net income was $3.5 billion, compared with $1.3 billion in the prior year.

Net revenue was $14.3 billion, a decrease of $1.1 billion, or 7%, from the prior year. Net interest income was $10.7 billion, down by $1.5 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 partially offset by lower revenue reversals associated with lower charge-offs. Noninterest revenue was $3.6 billion, an increase of $434 million, or 14%, from the prior year. The increase was driven by the transfer of the Commercial Card business to Card from TSS 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 7%.

The provision for credit losses was $2.6 billion, compared with $7.9 billion in the prior year. The current-year provision reflected lower net charge-offs and a reduction of $3.4 billion to the allowance for loan losses due to lower estimated losses. The prior-year provision included a reduction of $4.0 billion to the allowance for loan losses. The net charge-off rate was 4.23%, down from 7.57% in the prior year. Excluding the Washington Mutual and Commercial Card portfolios, the Credit Card net charge-off rate[1] was 5.28%, down from 9.24% in the prior year. The Auto net charge-off rate was 0.31%, down from 0.64% in the prior year. The Student net charge-off rate was 2.91%, up from 2.41% in the prior year.

Noninterest expense was $6.0 billion, an increase of $709 million, or 13%, 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 9%.

For further information on legislative changes affecting the Credit Card business, see Card discussion on page 79 of JPMorgan Chase’s 2010 Annual Report.

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

Selected metrics	Three months ended September 30,			Nine months ended September 30,		
(in millions, except headcount, ratios and where otherwise noted)	2011	2010	Change	2011	2010	Change
Selected balance sheet data (period-end)[(a)]						
Loans:						
Credit Card	$127,135	$136,436	(7)%	$127,135	$136,436	(7)%
Auto	46,659	48,186	(3)	46,659	48,186	(3)
Student	13,751	14,687	(6)	13,751	14,687	(6)
Total loans[(b)]	187,545	199,309	(6)	187,545	199,309	(6)
Equity	16,000	18,400	(13)	16,000	18,400	(13)
Selected balance sheet data (average)[(a)]						
Total assets	$199,974	$207,474	(4)	$200,803	$215,653	(7)
Loans:						
Credit Card	126,536	140,059	(10)	128,015	147,326	(13)
Auto	46,549	47,726	(2)	47,064	47,353	(1)
Student	13,865	14,824	(6)	14,135	16,410	(14)
Total loans[(c)]	186,950	202,609	(8)	189,214	211,089	(10)
Equity	16,000	18,400	(13)	16,000	18,400	(13)
Headcount[(d)]	27,554	26,382	4	27,554	26,382	4
Credit data and quality statistics[(a)]						
Net charge-offs:						
Credit Card	$1,499	$3,133	(52)	$5,535	$11,366	(51)
Auto	42	67	(37)	108	227	(52)
Student	93	84	11	308	269	14

Total net charge-offs	1,634		3,284		(50	)	5,951		11,862		(50	)
Net charge-off rate:												
Credit Card[(e)]	4.70	%	8.87	%			5.83	%	10.31	%		
Auto	0.36		0.56				0.31		0.64			
Student[(f)]	2.66		2.27				2.91		2.41			
Total net charge-off rate	3.47		6.43				4.23		7.57			

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Selected metrics	Three months ended September 30,			Nine months ended September 30,		
(in millions, except headcount, ratios and where otherwise noted)	2011	2010	Change	2011	2010	Change
Delinquency rates						
30+ day delinquency rate:						
Credit Card[g]	2.90 %	4.57 %		2.90 %	4.57 %	
Auto	1.01	0.97		1.01	0.97	
Student[h][i]	1.93	1.77		1.93	1.77	
Total 30+ day delinquency rate	2.36	3.49		2.36	3.49	
90+ day delinquency rate - Credit Card[g]	1.43	2.41		1.43	2.41	
Nonperforming assets[j]	$232	$268	(13)%	$232	$268	(13)%
Allowance for loan losses:						
Credit Card	7,528	13,029	(42)	7,528	13,029	(42)
Auto and Student	1,009	1,048	(4)	1,009	1,048	(4)
Total allowance for loan losses	8,537	14,077	(39)	8,537	14,077	(39)
Allowance for loan losses to period-end loans:						
Credit Card[g]	5.93 %	9.55 %		5.93 %	9.55 %	
Auto and Student[h]	1.67	1.67		1.67	1.67	
Total allowance for loan losses to period-end loans	4.55	7.06		4.55	7.06	
Business metrics						
Credit Card, excluding Commercial Card[a]						
Sales volume (in billions)	$87.3	$79.6	10	$250.3	$227.1	10
New accounts opened	2.0	2.7	(26)	6.6	7.9	(16)
Open accounts[k]	64.3	89.0	(28)	64.3	89.0	(28)
Merchant Services						
Bank card volume (in billions)	$138.1	$117.0	18	$401.1	$342.1	17
Total transactions (in billions)	6.1	5.2	17	17.6	14.9	18
Auto and Student						
Origination volume (in billions)						
Auto	$5.9	$6.1	(3)	$16.1	$18.2	(12)
Student	0.1	0.2	(50)	0.2	1.9	(89)
Supplemental information[a][l][m]						
Card Services, excluding Washington Mutual portfolio						
Loans (period-end)	$115,766	$121,932	(5)	$115,766	$121,932	(5)
Average loans	114,940	124,933	(8)	115,762	130,610	(11)
Net interest income[n]	8.61 %	8.98 %		8.77 %	8.77 %	
Net revenue[n]	11.73	11.33		11.77	11.04	
Risk adjusted margin[n][o]	8.93	6.76		9.32	4.41	
Net charge-offs	$1,242	$2,539	(51)	$4,519	$9,025	(50)
Net charge-off rate[p]	4.29 %	8.06 %		5.22 %	9.24 %	
30+ day delinquency rate[q]	2.62	4.13		2.62	4.13	
90+ day delinquency rate[q]	1.28	2.16		1.28	2.16	
Card Services, excluding Washington Mutual and Commercial Card portfolios						
Loans (period-end)	$114,207	$121,932	(6)	$114,207	$121,932	(6)

Average loans	113,541		124,933		(9	)	114,425		130,610		(12	)
Net interest income(n)	8.79	%	8.98	%			8.94	%	8.77	%		
Net revenue(n)	11.68		11.33				11.71		11.04			
Risk adjusted margin(n)(o)	8.84		6.76				9.23		4.41			
Net charge-offs	$1,242		$2,539		(51	)	$4,518		$9,025		(50	)
Net charge-off rate(p)	4.34	%	8.06	%			5.28	%	9.24	%		
30+ day delinquency rate(q)(r)	2.64		4.13				2.64		4.13			
90+ day delinquency rate(q)(s)	1.30		2.16				1.30		2.16			

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

(b) Total period-end loans included loans held-for-sale of $94 million and $39 million at September 30, 2011 and 2010, respectively.

(c) Total average loans included loans held-for-sale of $1 million and $112 million for the three months ended September 30, 2011 and 2010, respectively, and $1.1 billion and $1.5 billion for the nine months ended September 30, 2011 and 2010, respectively.

(d) Headcount included 1,274 employees related to the transfer of the commercial card business from TSS to Card in the first quarter of 2011.

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

(f) Average loans included loans held-for-sale of $112 million and $1.5 billion for the three and nine months ended September 30, 2010, respectively. These amounts are excluded when calculating the net charge-off rate.

(g) Period-end loans included loans held-for-sale of $94 million at September 30, 2011. No allowance for loan losses was recorded for these loans. Loans held-

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for-sale are excluded when calculating the allowance for loan losses to period-end loans and delinquency rates.

(h) Period-end loans included loans held-for-sale of $39 million at September 30, 2010. This amount is excluded when calculating the allowance for loan losses to period-end loans and the 30+ day delinquency rate.

(i) Excluded student loans insured by U.S. government agencies under the Federal Family Education Loan Program ("FFELP") of $995 million and $1.0 billion at September 30, 2011 and 2010, respectively, that are 30 or more days past due. These amounts are excluded as reimbursement of insured amounts is proceeding normally.

(j) Nonperforming assets excluded student loans insured by U.S. government agencies under the FFELP of $567 million and $572 million at September 30, 2011 and 2010, respectively, that are 90 or more days past due. These amounts are excluded as reimbursement of insured amounts is proceeding normally.

(k) Reflects the impact of portfolio sales in the second quarter of 2011.

(l) Supplemental information is provided for Card Services, excluding Washington Mutual and Commercial Card portfolios and including loans held-for-sale, which are non-GAAP financial measures, to provide more meaningful measures that enable comparability with prior periods.

(m) For additional information on loan balances, delinquency rates, and net charge-off rates for the Washington Mutual portfolio, see Consumer credit portfolio, Credit Card, on page 86, and Note 13 on pages 155–157 of this Form 10-Q.

(n) As a percentage of average loans.

(o) Represents total net revenue less provision for credit losses.

(p) Average loans included loans held-for-sale of $1 million and $1.1 billion for the three and nine months ended September 30, 2011, respectively. These amounts are included when calculating the net charge-off rate.

(q) Period-end loans included loans held-for-sale of $94 million at September 30, 2011. This amount is included when calculating the delinquency rates.

(r) At September 30, 2011 and 2010, the 30+ day delinquent loans for Card Services, excluding Washington Mutual and Commercial Card portfolios, were $3,016 million and $5,035 million, respectively.

(s) At September 30, 2011 and 2010, the 90+ day delinquent loans for Card Services, excluding Washington Mutual and Commercial Card portfolios, were $1,486 million and $2,630 million, respectively.

COMMERCIAL BANKING

For a discussion of the business profile of CB, see pages 82–83 of JPMorgan Chase's 2010 Annual Report and Introduction on page 4 of this Form 10-Q.

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	2011	2010	Change	2011	2010	Change
Revenue						
Lending- and deposit-related fees	$269	$269	— %	$814	$826	(1)%
Asset management, administration and commissions	35	36	(3)	104	109	(5)
All other income[(a)]	220	242	(9)	706	658	7
Noninterest revenue	524	547	(4)	1,624	1,593	2
Net interest income	1,064	980	9	3,107	2,836	10
Total net revenue[(b)]	1,588	1,527	4	4,731	4,429	7
Provision for credit losses	67	166	(60)	168	145	16
Noninterest expense						
Compensation expense	229	210	9	671	612	10
Noncompensation expense	337	341	(1)	1,005	1,002	—
Amortization of intangibles	7	9	(22)	23	27	(15)
Total noninterest expense	573	560	2	1,699	1,641	4
Income before income tax expense	948	801	18	2,864	2,643	8
Income tax expense	377	330	14	1,140	1,089	5
Net income	$571	$471	21	$1,724	$1,554	11
Revenue by product						
Lending[(c)]	$857	$693	24	$2,574	$2,000	29
Treasury services[(c)]	572	670	(15)	1,670	1,973	(15)
Investment banking	116	120	(3)	378	340	11
Other	43	44	(2)	109	116	(6)
Total Commercial Banking revenue	$1,588	$1,527	4	$4,731	$4,429	7
IB revenue, gross[(d)]	320	344	(7)	1,071	988	8
Revenue by client segment						
Middle Market Banking	$791	$766	3	$2,335	$2,279	2
Commercial Term Lending	297	256	16	869	722	20
Corporate Client Banking[(e)]	306	304	1	935	852	10
Real Estate Banking	104	118	(12)	301	343	(12)
Other	90	83	8	291	233	25
Total Commercial Banking revenue	$1,588	$1,527	4	$4,731	$4,429	7
Financial ratios						
Return on common equity	28 %	23 %		29 %	26 %	
Overhead ratio	36	37		36	37	

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

(b) Total net revenue included tax-equivalent adjustments from income tax credits related to equity investments in designated community development entities that provide loans to qualified businesses in low-income communities, as well as tax-exempt income from municipal bond activity, totaling $90 million and $59 million for the three months ended September 30, 2011 and 2010, respectively; and $222 million and $153 million for the nine months ended September 30, 2011 and 2010, respectively.

(c) Effective January 1, 2011, product revenue from commercial card and standby letters of credit transactions was included in lending. For the three and nine months ended September 30, 2011, the impact of the change was $109 million and $330 million, respectively. In prior-year periods, it was reported in treasury services.

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

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

Quarterly results

Net income was $571 million, an increase of $100 million, or 21%, from the prior year. The improvement was driven by a decrease in the provision for credit losses and higher net revenue.

Net revenue was $1.6 billion, up by $61 million, or 4%, from the prior year. Net interest income was $1.1 billion, up by $84 million, or 9%, driven by growth in liability and loan balances, largely offset by spread compression on liability products. Noninterest revenue was $524 million, down by $23 million, or 4%, compared with the prior year, driven by changes in the valuation of investments held at fair value.

Revenue from Middle Market Banking was $791 million, an increase of $25 million, or 3%, from the prior year. Revenue from Commercial Term Lending was $297 million, an increase of $41 million, or 16%. Revenue from Corporate Client Banking was $306 million, flat compared with the prior year. Revenue from Real Estate Banking was $104 million, a decrease of $14 million, or 12%.

The provision for credit losses was $67 million, compared with $166 million in the prior year. Net charge-offs were $17 million (0.06% net charge-off rate) and were largely related to commercial real estate; this compared with net charge-offs of $218 million (0.89% net charge-off rate) in the prior year. The allowance for loan losses to end-of-period loans retained was 2.50%, down from 2.72% in the prior year. Nonaccrual loans were $1.4 billion, down by $1.5 billion, or 51%, from the prior year, primarily as a result of commercial real estate repayments and loan sales.

Noninterest expense was $573 million, an increase of $13 million, or 2%, from the prior year, primarily reflecting higher headcount-related expense.

Year-to-date results

Net income was $1.7 billion, an increase of $170 million, or 11%, from the prior year. The increase was driven by higher net revenue, partially offset by an increase in noninterest expense.

Net revenue was $4.7 billion, up by $302 million, or 7%, compared with the prior year. Net interest income was $3.1 billion, up by $271 million, or 10%, driven by growth in liability and loan balances and wider loan spreads, partially offset by spread compression on liability products. Noninterest revenue was $1.6 billion, an increase of $31 million, or 2%, from the prior year; this was largely driven by increased community development investment-related revenue and higher investment banking revenue, partially offset by changes in the valuation of investments held at fair value.

Revenue from Middle Market Banking was $2.3 billion, an increase of $56 million, or 2%, from the prior year. Revenue from Commercial Term Lending was $869 million, an increase of $147 million, or 20%. Revenue from Corporate Client Banking was $935 million, an increase of $83 million, or 10%. Revenue from Real Estate Banking was $301 million, a decrease of $42 million, or 12%.

The provision for credit losses was $168 million, compared with $145 million in the prior year. Net charge-offs were $88 million (0.12% net charge-off rate) and were largely related to commercial real estate, compared with $623 million (0.87% net charge-off rate) in the prior year.

Noninterest expense was $1.7 billion, an increase of $58 million, or 4%, from the prior year reflecting higher headcount-related expense.

Selected metrics	Three months ended September 30,			Nine months ended September 30,		
(in millions, except headcount and ratios)	2011	2010	Change	2011	2010	Change
Selected balance sheet data (period-end):						
Loans:						
Loans retained	$106,834	$97,738	9 %	$106,834	$97,738	9 %
Loans held-for-sale and loans at fair value	584	399	46	584	399	46
Total loans	107,418	98,137	9	107,418	98,137	9
Equity	8,000	8,000	—	8,000	8,000	—
Selected balance sheet data (average):						
Total assets	$145,195	$130,237	11	$143,069	$132,176	8
Loans:						
Loans retained	104,705	96,657	8	101,485	96,166	6
Loans held-for-sale and loans at fair value	632	384	65	801	358	124
Total loans	105,337	97,041	9	102,286	96,524	6
Liability balances	180,275	137,853	31	166,503	135,939	22
Equity	8,000	8,000	—	8,000	8,000	—
Average loans by client segment:						
Middle Market Banking	$41,540	$35,299	18	$39,932	$34,552	16
Commercial Term Lending	38,198	37,509	2	37,914	36,513	4
Corporate Client Banking[(a)]	14,373	11,807	22	13,277	11,978	11
Real Estate Banking	7,465	8,983	(17)	7,512	9,740	(23)
Other	3,761	3,443	9	3,651	3,741	(2)
Total Commercial Banking loans	$105,337	$97,041	9	$102,286	$96,524	6
Headcount	5,417	4,805	13	5,417	4,805	13
Credit data and quality statistics:						
Net charge-offs	$17	$218	(92)	$88	$623	(86)
Nonperforming assets						
Nonaccrual loans:						
Nonaccrual loans retained[(b)]	1,417	2,898	(51)	1,417	2,898	(51)
Nonaccrual loans held-for-sale and loans held at fair value	26	48	(46)	26	48	(46)
Total nonaccrual loans	1,443	2,946	(51)	1,443	2,946	(51)
Assets acquired in loan satisfactions	168	281	(40)	168	281	(40)
Total nonperforming assets	1,611	3,227	(50)	1,611	3,227	(50)
Allowance for credit losses:						
Allowance for loan losses	2,671	2,661	—	2,671	2,661	—
Allowance for lending-related commitments	181	241	(25)	181	241	(25)
Total allowance for credit losses	2,852	2,902	(2)	2,852	2,902	(2)
Net charge-off rate[(c)]	0.06 %	0.89 %		0.12 %	0.87 %	
Allowance for loan losses to period-end loans retained[(c)]	2.50	2.72		2.50	2.72	
Allowance for loan losses to nonaccrual loans retained[(b)(c)]	188	92		188	92	
Nonaccrual loans to total period-end loans	1.34	3.00		1.34	3.00	

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

(b) Allowance for loan losses of $257 million and $535 million was held against nonaccrual loans retained at September 30, 2011 and 2010, respectively.

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

TREASURY & SECURITIES SERVICES

For a discussion of the business profile of TSS, see pages 84–85 of JPMorgan Chase's 2010 Annual Report and Introduction on page 5 of this Form 10-Q.

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except headcount and ratios)	2011	2010	Change	2011	2010	Change
Revenue						
Lending- and deposit-related fees	$310	$318	(3)%	$927	$942	(2)%
Asset management, administration and commissions	656	644	2	2,077	2,008	3
All other income	141	210	(33)	423	595	(29)
Noninterest revenue	1,107	1,172	(6)	3,427	3,545	(3)
Net interest income	801	659	22	2,253	1,923	17
Total net revenue	1,908	1,831	4	5,680	5,468	4
Provision for credit losses	(20)	(2)	NM	(18)	(57)	68
Credit allocation income/(expense)[(a)]	9	(31)	NM	68	(91)	NM
Noninterest expense						
Compensation expense	718	701	2	2,152	2,055	5
Noncompensation expense	728	693	5	2,094	2,027	3
Amortization of intangibles	24	16	50	54	52	4
Total noninterest expense	1,470	1,410	4	4,300	4,134	4
Income before income tax expense	467	392	19	1,466	1,300	13
Income tax expense	162	141	15	512	478	7
Net income	$305	$251	22	$954	$822	16
Revenue by business						
Treasury Services	$969	$937	3	$2,790	$2,745	2
Worldwide Securities Services	939	894	5	2,890	2,723	6
Total net revenue	$1,908	$1,831	4	$5,680	$5,468	4
Revenue by geographic region[(b)]						
Asia/Pacific	$321	$256	25	$896	$708	27
Latin America/Caribbean	61	50	22	217	166	31
Europe/Middle East/Africa	648	579	12	1,969	1,765	12
North America	878	946	(7)	2,598	2,829	(8)
Total net revenue	$1,908	$1,831	4	$5,680	$5,468	4
Financial ratios						
Return on common equity	17%	15%		18%	17%	
Overhead ratio	77	77		76	76	
Pretax margin ratio	24	21		26	24	
Selected balance sheet data (period-end)						
Loans[(c)]	$36,389	$26,899	35	$36,389	$26,899	35
Equity	7,000	6,500	8	7,000	6,500	8
Trade finance loans by geographic region (period-end)[(b)]						
Asia/Pacific	$16,918	$10,238	65	$16,918	$10,238	65
Latin America/Caribbean	5,228	3,357	56	5,228	3,357	56
Europe/Middle East/Africa	6,853	3,391	102	6,853	3,391	102
North America	1,105	820	35	1,105	820	35
Total finance loans	$30,104	$17,806	69	$30,104	$17,806	69

Selected balance sheet data (average)						
Total assets	$60,141	$42,445	42	$53,612	$41,211	30
Loans[c]	35,303	24,337	45	32,576	22,035	48
Liability balances	341,107	242,517	41	303,504	245,684	24
Equity	7,000	6,500	8	7,000	6,500	8
Headcount	28,157	28,544	(1)	28,157	28,544	(1)

(a) IB manages traditional credit exposures related to GCB on behalf of IB and TSS. Effective January 1, 2011, IB and TSS share the economics related to the Firm's GCB clients. Included within this allocation are net revenue, provision for credit losses, as well as expenses. The prior-year period reflected a reimbursement to IB for a portion of the total costs of managing the credit portfolio. IB recognizes this credit allocation as a component of all other income.

(b) Revenue and trade finance loans are based on TSS management's view of the domicile of clients.

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

Quarterly results

Net income was $305 million, an increase of $54 million, or 22%, from the prior year.

Net revenue was $1.9 billion, an increase of $77 million, or 4%, from the prior year. Excluding the Commercial Card business, net revenue was up 7%. Treasury Services net revenue was $969 million, an increase of $32 million, or 3%. The increase was driven by higher deposit balances, predominantly offset by the transfer of the Commercial Card business to Card in the first quarter of 2011. Excluding the impact of the Commercial Card business, Treasury Services net revenue increased 10%. Worldwide Securities Services net revenue was $939 million, an increase of $45 million, or 5%. The increase was driven by higher net interest income due to higher deposit balances.

TSS generated firmwide net revenue of $2.5 billion, including $1.6 billion by Treasury Services; of that amount, $969 million was recorded in Treasury Services, $572 million in Commercial Banking, and $68 million in other lines of business. The remaining $939 million of firmwide net revenue was recorded in Worldwide Securities Services.

The provision for credit losses was a benefit of $20 million, reflecting a reduction in allowance for loan losses resulting primarily from repayments.

Noninterest expense was $1.5 billion, an increase of $60 million, or 4%, from the prior year. The increase was mainly driven by continued expansion into new markets and higher other noncompensation expense, partially offset by the transfer of the Commercial Card business to Card. Excluding the Commercial Card business, TSS noninterest expense increased 9%.

Results for the quarter included a $9 million pretax benefit related to the traditional credit portfolio for GCB clients that are managed jointly by IB and TSS.

Year-to-date results

Net income was $954 million, an increase of $132 million, or 16%, from the prior year.

Net revenue was $5.7 billion, an increase of $212 million, or 4%, from the prior year. Excluding the impact of the Commercial Card business, net revenue was up 7%. Worldwide Securities Services net revenue was $2.9 billion, an increase of $167 million, or 6%. The increase was driven by higher net interest income due to higher deposit balances and net inflows of assets under custody. Treasury Services net revenue was $2.8 billion, an increase of $45 million, or 2%. The increase was driven by higher deposit balances as well as higher trade loan volumes, predominantly offset by the transfer of the Commercial Card business to Card in the first quarter of 2011. Excluding the impact of the Commercial Card business, TS net revenue increased 8%.

TSS generated firmwide net revenue of $7.5 billion, including $4.7 billion by Treasury Services; of that amount, $2.8 billion was recorded in Treasury Services, $1.7 billion in Commercial Banking and $196 million in other lines of business. The remaining $2.9 billion of firmwide net revenue was recorded in Worldwide Securities Services.

The provision for credit losses was a benefit of $18 million, reflecting a reduction in allowance for loan losses resulting primarily from repayments.

Noninterest expense was $4.3 billion, an increase of $166 million, or 4%, from the prior year. The increase was mainly driven by continued expansion into new markets, partially offset by the transfer of the Commercial Card business to Card. Excluding the impact of the Commercial Card business, TSS noninterest expense increased 9%.

Results for the first nine months of 2011 included a $68 million pretax benefit related to the traditional credit portfolio for GCB clients.

Selected metrics	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios and where otherwise noted)	2011	2010	Change	2011	2010	Change
TSS firmwide disclosures						
Treasury Services revenue – reported	$969	$937	3 %	$2,790	$2,745	2 %
Treasury Services revenue reported in CB[(a)]	572	670	(15)	1,670	1,973	(15)
Treasury Services revenue reported in other lines of business	68	64	6	196	182	8
Treasury Services firmwide revenue[(b)]	1,609	1,671	(4)	4,656	4,900	(5)
Worldwide Securities Services revenue	939	894	5	2,890	2,723	6
Treasury & Securities Services firmwide revenue[(b)]	$2,548	$2,565	(1)	$7,546	$7,623	(1)
Treasury Services firmwide liability balances (average)[(c)]	414,485	302,921	37	376,661	303,742	24
Treasury & Securities Services firmwide liability balances (average)[(c)]	521,383	380,370	37	470,008	381,623	23
TSS firmwide financial ratios						
Treasury Services firmwide overhead ratio[(a)(d)]	56 %	55 %		57 %	55 %	
Treasury & Securities Services firmwide overhead ratio[(a)(d)]	67	65		67	65	
Firmwide business metrics						
Assets under custody (in billions)	$16,250	$15,863	2	$16,250	$15,863	2
Number of:						
U.S.$ ACH transactions originated	972	978	(1)	2,923	2,897	1
Total U.S.$ clearing volume (in thousands)	33,117	30,779	8	96,362	89,979	7
International electronic funds transfer volume (in thousands)[(e)]	62,718	57,333	9	186,868	171,571	9
Wholesale check volume	601	531	13	1,741	1,535	13
Wholesale cards issued (in thousands)[(f)]	24,288	28,404	(14)	24,288	28,404	(14)
Credit data and quality statistics						
Net charge-offs	$—	$1	NM	$—	$1	NM
Nonaccrual loans	3	14	(79)	3	14	(79)
Allowance for credit losses:						
Allowance for loan losses	49	54	(9)	49	54	(9)
Allowance for lending-related commitments	46	52	(12)	46	52	(12)
Total allowance for credit losses	95	106	(10)	95	106	(10)
Net charge-off rate	— %	0.02 %		— %	0.01 %	
Allowance for loan losses to period-end loans	0.14	0.20		0.14	0.20	
Allowance for loan losses to nonaccrual loans	NM	386		NM	386	
Nonaccrual loans to period-end loans	0.01	0.05		0.01	0.05	

(a) Effective January 1, 2011, certain CB revenues were excluded in the TS firmwide metrics; they are instead directly captured within CB's lending revenue by product. The impact of this change was $109 million for the three months ended September 30, 2011, and $330 million for the nine months ended September 30, 2011. In previous periods, these revenues were included in CB's treasury services revenue by product.

(b) TSS firmwide revenue includes foreign exchange ("FX") revenue recorded in TSS and FX revenue associated with TSS customers who are FX customers of IB. However, some of the FX revenue associated with TSS customers who are FX customers of IB is not included in TS and TSS firmwide revenue. The total FX revenue generated was $179 million and $143 million for the three months ended September 30, 2011 and 2010, respectively, and $504 million and $455 million for the nine months ended September 30, 2011 and 2010, respectively.

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

(d) Overhead ratios have been calculated based on firmwide revenue and TSS and TS expense, respectively, including those allocated to certain other lines of business. FX revenue and expense recorded in IB for TSS-related FX activity are not included in this ratio.

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

(f) Wholesale cards issued and outstanding include U.S. domestic commercial, stored value, prepaid and government electronic benefit card products. Effective January 1, 2011, the commercial card portfolio was transferred from TSS to Card.

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ASSET MANAGEMENT

For a discussion of the business profile of AM, see pages 86–88 of JPMorgan Chase's 2010 Annual Report and Introduction on page 5 of this Form 10-Q.

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	2011	2010	Change	2011	2010	Change
Revenue						
Asset management, administration and commissions	$1,617	$1,498	8 %	$5,142	$4,528	14 %
All other income	281	282	—	915	725	26
Noninterest revenue	1,898	1,780	7	6,057	5,253	15
Net interest income	418	392	7	1,202	1,118	8
Total net revenue	2,316	2,172	7	7,259	6,371	14
Provision for credit losses	26	23	13	43	63	(32)
Noninterest expense						
Compensation expense	999	914	9	3,106	2,685	16
Noncompensation expense	775	557	39	2,078	1,598	30
Amortization of intangibles	22	17	29	66	52	27
Total noninterest expense	1,796	1,488	21	5,250	4,335	21
Income before income tax expense	494	661	(25)	1,966	1,973	—
Income tax expense	109	241	(55)	676	770	(12)
Net income	$385	$420	(8)	$1,290	$1,203	7
Revenue by client segment						
Private Banking	$1,298	$1,181	10	$3,904	$3,484	12
Institutional	455	506	(10)	1,708	1,505	13
Retail	563	485	16	1,647	1,382	19
Total net revenue	$2,316	$2,172	7	$7,259	$6,371	14
Financial ratios						
Return on common equity	24 %	26 %		27 %	25 %	
Overhead ratio	78	69		72	68	
Pretax margin ratio	21	30		27	31	

Quarterly results

Net income was $385 million, a decrease of $35 million, or 8%, from the prior year. These results reflected higher noninterest expense, partially offset by higher net revenue.

Net revenue was $2.3 billion, an increase of $144 million, or 7%, from the prior year. Noninterest revenue was $1.9 billion, up by $118 million, or 7%, due to a gain on the sale of an investment, net inflows to products with higher margins, and the effect of higher market levels. This was partially offset by lower valuations of seed capital investments. Net interest income was $418 million, up by $26 million, or 7%, due to higher deposit and loan balances, partially offset by narrower deposit spreads.

Revenue from Private Banking was $1.3 billion, up 10% from the prior year. Revenue from Retail was $563 million, up 16%. Revenue from Institutional was $455 million, down 10%.

The provision for credit losses was $26 million, compared with $23 million in the prior year.

Noninterest expense was $1.8 billion, an increase of $308 million, or 21%, from the prior year, largely resulting from non-client-related litigation expense and an increase in compensation expense due to increased headcount.

Year-to-date results

Net income was $1.3 billion, an increase of $87 million, or 7%, from the prior year. These results reflected higher net revenue and a lower provision for credit losses, offset by higher noninterest expense.

Net revenue was $7.3 billion, an increase of $888 million, or 14%, from the prior year. Noninterest revenue was $6.1 billion, up by $804 million, or 15%, due to the effect of higher market levels, net inflows to products with higher margins, higher performance fees, and a gain on the sale of an investment. Net interest income was $1.2 billion, up by $84 million, or 8%, due to higher deposit and loan balances, partially offset by narrower deposit spreads.
Revenue from Private Banking was $3.9 billion, up 12% from the prior year. Revenue from Institutional was $1.7 billion, up 13%. Revenue from Retail was $1.6 billion, up 19%.

The provision for credit losses was $43 million, compared with $63 million in the prior year.
Noninterest expense was $5.3 billion, an increase of $915 million, or 21%, from the prior year, largely resulting from an increase in compensation expense due to increased headcount and non-client-related litigation expense.

Business metrics	Three months ended September 30,			Nine months ended September 30,		
(in millions, except headcount, ranking data and where otherwise noted)	2011	2010	Change	2011	2010	Change
Number of:						
Client advisors[(a)]	2,418	2,244	8 %	2,418	2,244	8 %
Retirement planning services participants (in thousands)	1,755	1,665	5	1,755	1,665	5
JPMorgan Securities brokers	446	419	6	446	419	6
% of customer assets in 4 & 5 Star Funds[(b)]	47 %	42 %	12	47 %	42 %	12
% of AUM in 1st and 2nd quartiles:[(c)]						
1 year	49 %	67 %	(27)	49 %	67 %	(27)
3 years	73 %	65 %	12	73 %	65 %	12
5 years	77 %	74 %	4	77 %	74 %	4
Selected balance sheet data (period-end)						
Loans	$54,178	$41,408	31	$54,178	$41,408	31
Equity	6,500	6,500	—	6,500	6,500	—
Selected balance sheet data (average)						
Total assets	$78,669	$64,911	21	$73,967	$63,629	16
Loans	52,652	39,417	34	48,840	37,819	29
Deposits	111,090	87,841	26	101,341	85,012	19
Equity	6,500	6,500	—	6,500	6,500	—
Headcount	18,084	16,510	10	18,084	16,510	10
Credit data and quality statistics						
Net charge-offs	$—	$13	NM	$44	$68	(35)
Nonaccrual loans	311	294	6	311	294	6
Allowance for credit losses:						
Allowance for loan losses	240	257	(7)	240	257	(7)
Allowance for lending-related commitments	9	3	200	9	3	200
Total allowance for credit losses	249	260	(4)	249	260	(4)
Net charge-off rate	— %	0.13 %		0.12 %	0.24 %	
Allowance for loan losses to period-end loans	0.44	0.62		0.44	0.62	
Allowance for loan losses to nonaccrual loans	77	87		77	87	
Nonaccrual loans to period-end loans	0.57	0.71		0.57	0.71	

(a) Effective January 1, 2011, the methodology used to determine client advisors was revised. Prior periods have been revised.
(b) Derived from Morningstar for the U.S., the U.K., Luxembourg, France, Hong Kong and Taiwan; and Nomura for Japan.
(c) Quartile ranking sourced from: Lipper for the U.S. and Taiwan; Morningstar for the U.K., Luxembourg, France and Hong Kong; and Nomura for Japan.

Assets under supervision

Assets under supervision were $1.8 trillion, an increase of $36 billion, or 2%, from the prior year. Assets under management were $1.3 trillion, a decrease of $3 billion. This decrease was due to net outflows from liquidity products and the effect of lower market levels, offset by net inflows to long-term products. Custody, brokerage, administration and deposit balances were $552 billion, up by $39 billion, or 8%, due to deposit and custody inflows.

ASSETS UNDER SUPERVISION[a] (in billions)

As of the quarter ended September 30,	2011	2010	Change
Assets by asset class			
Liquidity	$464	$521	(11)%
Fixed income	321	277	16
Equity and multi-asset	356	362	(2)
Alternatives	113	97	16
Total assets under management	1,254	1,257	—
Custody/brokerage/administration/deposits	552	513	8
Total assets under supervision	$1,806	$1,770	2
Assets by client segment			
Private Banking	$276	$276	—
Institutional[b]	673	696	(3)
Retail[b]	305	285	7
Total assets under management	$1,254	$1,257	—
Private Banking	$738	$698	6
Institutional[b]	674	697	(3)
Retail[b]	394	375	5
Total assets under supervision	$1,806	$1,770	2
Mutual fund assets by asset class			
Liquidity	$409	$466	(12)
Fixed income	101	88	15
Equity and multi-asset	139	151	(8)
Alternatives	8	7	14
Total mutual fund assets	$657	$712	(8)

(a) Excludes assets under management of American Century Companies, Inc., in which the Firm sold its ownership interest on August 31, 2011. The Firm previously had an ownership interest of 41% at September 30, 2010.

(b) In the second quarter of 2011, the client hierarchy used to determine asset classification was revised, and the prior-year periods have been revised.

	Three months ended September 30,		Nine months ended September 30,	
(in billions)	2011	2010	2011	2010
Assets under management rollforward				
Beginning balance	$1,342	$1,161	$1,298	$1,249
Net asset flows:				
Liquidity	(10)	27	(35)	(64)
Fixed income	3	12	31	40
Equity, multi-asset and alternatives	(1)	(1)	17	6
Market/performance/other impacts	(80)	58	(57)	26
Ending balance, September 30	$1,254	$1,257	$1,254	$1,257
Assets under supervision rollforward				

Beginning balance	$1,924	$1,640	$1,840	$1,701
Net asset flows	11	41	54	27
Market/performance/other impacts	(129)	89	(88)	42
Ending balance, September 30	$1,806	$1,770	$1,806	$1,770

International metrics	Three months ended September 30,			Nine months ended September 30,		
(in billions, except where otherwise noted)	2011	2010	Change	2011	2010	Change
Total net revenue (in millions)[a]						
Europe/Middle East/Africa	$395	$395	— %	$1,312	$1,161	13 %
Asia/Pacific	248	226	10	751	662	13
Latin America/Caribbean	168	125	34	584	373	57
North America	1,505	1,426	6	4,612	4,175	10
Total net revenue	$2,316	$2,172	7	$7,259	$6,371	14
Assets under management						
Europe/Middle East/Africa	$255	$258	(1)	$255	$258	(1)
Asia/Pacific	104	107	(3)	104	107	(3)
Latin America/Caribbean	32	27	19	32	27	19
North America	863	865	—	863	865	—
Total assets under management	$1,254	$1,257	—	$1,254	$1,257	—
Assets under supervision						
Europe/Middle East/Africa	$306	$307	—	$306	$307	—
Asia/Pacific	140	139	1	140	139	1
Latin America/Caribbean	87	74	18	87	74	18
North America	1,273	1,250	2	1,273	1,250	2
Total assets under supervision	$1,806	$1,770	2	$1,806	$1,770	2

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

CORPORATE / PRIVATE EQUITY

For a discussion of the business profile of Corporate/Private Equity, see pages 89–90 of JPMorgan Chase's 2010 Annual Report.

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except headcount)	2011	2010	Change	2011	2010	Change
Revenue						
Principal transactions	$(933)	$1,143	NM%	$1,110	$1,621	(32)%
Securities gains	607	99	NM	1,546	1,699	(9)
All other income	186	(29)	NM	529	277	91
Noninterest revenue	(140)	1,213	NM	3,185	3,597	(11)
Net interest income	8	371	(98)	260	2,194	(88)
Total net revenue[(a)]	(132)	1,584	NM	3,445	5,791	(41)
Provision for credit losses	(7)	(3)	(133)	(26)	12	NM
Noninterest expense						
Compensation expense	552	574	(4)	1,823	1,819	—
Noncompensation expense[(b)]	1,995	1,927	4	5,235	6,436	(19)
Subtotal	2,547	2,501	2	7,058	8,255	(15)
Net expense allocated to other businesses	(1,331)	(1,227)	(8)	(3,839)	(3,599)	(7)
Total noninterest expense	1,216	1,274	(5)	3,219	4,656	(31)
Income/(loss) before income tax expense/(benefit)	(1,341)	313	NM	252	1,123	(78)
Income tax expense/(benefit)[(c)]	(696)	(35)	NM	(327)	(106)	(208)
Net income/(loss)	$(645)	$348	NM	$579	$1,229	(53)
Total net revenue						
Private equity	$(546)	$721	NM	$949	$884	7
Corporate	414	863	(52)	2,496	4,907	(49)
Total net revenue	$(132)	$1,584	NM	$3,445	$5,791	(41)
Net income/(loss)						
Private equity	$(347)	$344	NM	$480	$410	17
Corporate	(298)	4	NM	99	819	(88)
Total net income/(loss)	$(645)	$348	NM	$579	$1,229	(53)
Headcount	21,844	19,756	11	21,844	19,756	11

(a) Total net revenue included tax-equivalent adjustments, predominantly due to tax-exempt income from municipal bond investments of $73 million and $58 million for the three months ended September 30, 2011 and 2010, respectively; and $206 million and $163 million for the nine months ended September 30, 2011 and 2010, respectively.

(b) Included litigation expense of $1.0 billion and $2.6 billion for the three and nine months ended September 30, 2011, respectively, compared with $1.3 billion and $4.3 billion for the three and nine months ended September 30, 2010, respectively.

(c) Income tax expense/(benefit) in the three and nine months ended September 30, 2010, includes tax benefits recognized upon the resolution of tax audits.

Quarterly results

Net loss was $645 million, compared with net income of $348 million in the prior year.

Private Equity reported a net loss of $347 million, compared with net income of $344 million in the prior year. Net revenue was negative $546 million, a decrease of $1.3 billion, driven primarily by net write-downs on private investments and lower valuations of public securities held at fair value in the portfolio. Noninterest expense was

negative $5 million, a decrease of $189 million from the prior year.
Corporate reported a net loss of $298 million, compared with net income of $4 million in the prior year. Net revenue was $414 million, including $607 million of securities gains. Net interest income in 2011 was lower compared with 2010, primarily driven by repositioning of the securities portfolio and lower funding benefits from financing the portfolio. Noninterest expense included $1.0 billion of additional litigation expense, predominantly for mortgage-related matters. Noninterest expense in the prior year included $1.3 billion of additional litigation expense.
Year-to-date results
Net income was $579 million, compared with net income of $1.2 billion in the prior year.
Private Equity net income was $480 million, compared with $410 million in the prior year. Net revenue was $949 million, an increase of $65 million, driven primarily by gains on sales and net increases in investment valuations. Noninterest expense was $210 million, a decrease of $36 million from the prior year.

Corporate reported net income of $99 million, compared with $819 million in the prior year. Net revenue was $2.5 billion, including $1.5 billion of securities gains. Net interest income in 2011 was lower compared with 2010, primarily driven by repositioning of the securities portfolio and lower funding benefits from financing the portfolio. Noninterest expense was $3.0 billion, which included $2.6 billion of additional litigation reserves, predominantly for mortgage related matters. Noninterest expense in the prior year was $4.4 billion which included $4.3 billion of additional litigation reserves.

Treasury and Chief Investment Office ("CIO")

Selected income statement and balance sheet data	Three months ended September 30,			Nine months ended September 30,		
(in millions)	2011	2010	Change	2011	2010	Change
Securities gains[(a)]	$459	$99	364 %	$1,398	$1,698	(18)%
Investment securities portfolio (average)	324,596	321,428	1	324,527	324,163	—
Investment securities portfolio (ending)	330,800	334,140	(1)	330,800	334,140	(1)
Mortgage loans (average)	13,748	9,174	50	12,641	8,629	46
Mortgage loans (ending)	14,226	9,550	49	14,226	9,550	49

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

For further information on the investment securities portfolio, see Note 3 and Note 11 on pages 104–116 and 130–134, respectively, of this Form 10-Q. For further information on CIO VaR and the Firm's nontrading interest rate-sensitive revenue at risk, see the Market Risk Management section on pages 90–93 of this Form 10-Q.

Private Equity Portfolio

Selected income statement and balance sheet data	Three months ended September 30,			Nine months ended September 30,		
(in millions)	2011	2010	Change	2011	2010	Change
Private equity gains/(losses)						
Realized gains	$394	$179	120 %	$1,784	$370	382 %
Unrealized gains/(losses)[(a)]	(827)	561	NM	(1,183)	479	NM
Total direct investments	(433)	740	NM	601	849	(29)
Third-party fund investments	(7)	10	NM	502	112	348
Total private equity gains/(losses)[(b)]	$(440)	$750	NM	$1,103	$961	15

Private equity portfolio information[(c)]

Direct investments (in millions)	September 30, 2011	December 31, 2010	Change
Publicly held securities			
Carrying value	$709	$875	(19)%
Cost	779	732	6
Quoted public value	778	935	(17)
Privately held direct securities			
Carrying value	4,322	5,882	(27)
Cost	6,556	6,887	(5)
Third-party fund investments[(d)]			
Carrying value	2,399	1,980	21
Cost	2,454	2,404	2
Total private equity portfolio			
Carrying value	$7,430	$8,737	(15)
Cost	$9,789	$10,023	(2)

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

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

(c) For more information on the Firm's policies regarding the valuation of the private equity portfolio, see Note 3 on pages 170–187 of JPMorgan Chase's 2010 Annual Report.

(d) Unfunded commitments to third-party private equity funds were $853 million and $1.0 billion at September 30, 2011, and December 31, 2010, respectively.

The carrying value of the private equity portfolio at September 30, 2011, and December 31, 2010, was $7.4 billion and $8.7 billion, respectively. The decrease in the portfolio during the nine months ended September 30, 2011, is predominantly driven by sales of investments, partially offset by follow-on investments and net increases in investment valuations. The portfolio represented 5.5% and 6.9% of the Firm’s stockholders’ equity less goodwill at September 30, 2011, and December 31, 2010, respectively.

INTERNATIONAL OPERATIONS

During the three and nine months ended September 30, 2011, the Firm recorded approximately $5.6 billion and $19.2 billion, respectively, of revenue derived from clients, customers and counterparties domiciled outside of North America. Of those amounts, approximately 64% and 67%, respectively, were derived from Europe/Middle East/Africa (“EMEA”); approximately 28% and 24%, respectively, from Asia/Pacific; and approximately 8% and 9%, respectively, from Latin America/Caribbean. During the three and nine months ended September 30, 2010, the Firm recorded approximately $5.0 billion and $16.7 billion, respectively, of revenue derived from clients, customers and counterparties domiciled outside of North America. Of those amounts, approximately 61% and 65%, respectively, was derived from EMEA; approximately 32% and 27%, respectively, from Asia/Pacific; and approximately 7% and 8%, respectively, from Latin America/Caribbean.

The Firm is committed to further expanding its wholesale business activities outside of the United States, and it intends 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 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 it operates, front-office headcount, number of clients, revenue and selected balance-sheet data. For additional information regarding international operations, see International Operations on page 91, and Note 33 on page 290 of JPMorgan Chase’s 2010 Annual Report.

(in millions, except where otherwise noted)	EMEA				Asia/Pacific				Latin America/Caribbean			
	Three months ended September 30,		Nine months ended September 30,		Three months ended September 30,		Nine months ended September 30,		Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
• Revenue	$3,611	$3,095	$12,729	$10,938	$1,586	$1,617	$4,737	$4,524	$409	$343	$1,647	$1,266
• Countries of operation	34	33	34	33	16	16	16	16	9	8	9	8
• Total headcount[(a)]	16,463	16,045	16,463	16,045	20,408	18,725	20,408	18,725	1,351	1,047	1,351	1,047
• Front-office headcount	6,105	5,945	6,105	5,945	4,269	4,074	4,269	4,074	560	423	560	423
• Significant clients[(b)]	923	886	923	886	475	420	475	420	158	128	158	128
• Deposits (average)[(c)]	$166,518	$132,947	$158,849	$135,515	$53,220	$47,646	$50,760	$50,429	$2,033	$1,964	$2,163	$1,558
• Loans (period-end)[(d)]	34,239	27,276	34,239	27,276	27,723	18,502	27,723	18,502	23,289	15,298	23,289	15,298
• Assets under management (in billions)	255	258	255	258	104	107	104	107	32	27	32	27
• Assets under supervision (in billions)	306	307	306	307	140	139	140	139	87	74	87	74

Note: Wholesale international operations comprises IB, AM, TSS, CB and CIO/Treasury.

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

(b)

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).

(c) Deposits are based on booking location.

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

BALANCE SHEET ANALYSIS

Selected Consolidated Balance Sheets data

(in millions)	September 30, 2011	December 31, 2010
Assets		
Cash and due from banks	$56,766	$27,567
Deposits with banks	128,877	21,673
Federal funds sold and securities purchased under resale agreements	248,042	222,554
Securities borrowed	131,561	123,587
Trading assets:		
Debt and equity instruments	352,678	409,411
Derivative receivables	108,853	80,481
Securities	339,349	316,336
Loans	696,853	692,927
Allowance for loan losses	(28,350)	(32,266)
Loans, net of allowance for loan losses	668,503	660,661
Accrued interest and accounts receivable	72,080	70,147
Premises and equipment	13,812	13,355
Goodwill	48,180	48,854
Mortgage servicing rights	7,833	13,649
Other intangible assets	3,396	4,039
Other assets	109,310	105,291
Total assets	$2,289,240	$2,117,605
Liabilities		
Deposits	$1,092,708	$930,369
Federal funds purchased and securities loaned or sold under repurchase agreements	238,585	276,644
Commercial paper	51,073	35,363
Other borrowed funds[(a)]	29,318	34,325
Trading liabilities:		
Debt and equity instruments	76,592	76,947
Derivative payables	79,249	69,219
Accounts payable and other liabilities	199,769	170,330
Beneficial interests issued by consolidated VIEs	65,971	77,649
Long-term debt[(a)]	273,688	270,653
Total liabilities	2,106,953	1,941,499
Stockholders' equity	182,287	176,106
Total liabilities and stockholders' equity	$2,289,240	$2,117,605

(a) Effective January 1, 2011, $23.0 billion of long-term advances from FHLBs were reclassified from other borrowed funds to long-term debt. The prior-year period has been revised to conform with the current presentation. For additional information, see Note 3 and Note 18 on pages 104–116 and 173, respectively, of this Form 10-Q.

Consolidated Balance Sheets overview

JPMorgan Chase's assets and liabilities increased from December 31, 2010, predominantly due to a significant level of deposit inflows from wholesale clients and, to a lesser extent, consumer clients. The higher level of inflows since the beginning of the year, which accelerated after the first quarter, contributed to increases in both cash and due from banks, and deposits with banks, particularly balances due from Federal Reserve Banks and other banks. In addition, the increase in total assets was driven by higher securities purchased under resale agreements, and an increase in securities. These increases were offset partially by lower trading assets. The increase in total liabilities was driven by the increase in deposits and, to a lesser extent, higher accounts payable, partially offset by lower securities sold under repurchase agreements. The increase in stockholders' equity primarily reflected net income for the nine months ended September 30, 2011, net of repurchases of common equity. The following is a discussion of the significant changes in the specific line captions on the Consolidated Balance Sheets from December 31, 2010. For a description of the specific line captions discussed below, see pages 92–94 of JPMorgan Chase's 2010 Annual Report.

Cash and due from banks and deposits with banks

Cash and due from banks and deposits with banks increased significantly, reflecting the placement of funds with various central banks, including Federal Reserve Banks during the third quarter of 2011; the increase in these funds predominantly resulted from the overall growth in wholesale client deposits. For additional information, see the deposits discussion below.

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

Securities purchased under resale agreements and securities borrowed increased, predominantly in IB, reflecting higher client financing activity.

Trading assets and liabilities – debt and equity instruments

Trading assets – debt and equity instruments decreased, based on lower client market-making activity in IB; this resulted in declines in equity securities and U.S. government agency mortgage-backed securities, partially offset by an increase in U.S. treasury securities. For additional information, refer to Note 3 on pages 104–116 of this Form 10-Q.

Trading assets and liabilities – derivative receivables and payables

Derivative receivables and payables increased, predominantly due to increases in interest rate derivatives driven by declining interest rates, and commodity derivative balances driven by price movements in base metals and energy. For additional information, refer to Derivative contracts on pages 73–74, and Note 3 and Note 5 on pages 104–116 and 119–126, respectively, of this Form 10-Q.

Securities

Securities increased, largely due to repositioning of the portfolio in Corporate in response to changes in the market environment. This repositioning increased the levels of non-U.S. government debt and residential mortgage-backed securities, as well as collateralized loan obligations and reduced the levels of U.S. government agency securities. For additional information related to securities, refer to the discussion in the Corporate/Private Equity segment on pages 46–47, and Note 3 and Note 11 on pages 104–116 and 130–134, respectively, of this Form 10-Q .

Loans and allowance for loan losses

Loans increased, reflecting continued growth in client activity across all of the Firm's wholesale businesses. This increase was offset by continued portfolio runoff in RFS as well as lower seasonal balances, higher repayment rates, continued runoff of the Washington Mutual portfolio and the sale of the Kohl's portfolio. The allowance for loan losses decreased due to lower estimated losses in the credit card loan portfolio, reflecting improved delinquency trends and net credit losses, as well as loan sales and net repayments in the wholesale portfolio. For a more detailed discussion of the loan portfolio and the allowance for loan losses, refer to Credit Risk Management on pages 67–89, and Notes 3, 4, 13 and 14 on pages 104–116, 116–118, 136–157 and 158–159, respectively, of this Form 10-Q.

Accrued interest and accounts receivable and other assets

Accrued interest and accounts receivable and other assets remained relatively flat, with no significant changes.

Goodwill

The decrease in goodwill was predominantly due to AM's sale of its investment in an asset manager. For additional information on goodwill, see Note 16 on pages 168–172 of this Form 10-Q.

Mortgage servicing rights

MSRs decreased, predominantly as a result of a decline in market interest rates. For additional information on MSRs, see Note 3 and Note 16 on pages 104–116 and 168–172, respectively, of this Form 10-Q.

Other intangible assets

The decrease in other intangible assets was due to amortization. For additional information on other intangible assets, see Note 16 on pages 168–172 of this Form 10-Q.

Deposits

Deposits increased significantly, predominantly due to an overall growth in wholesale client balances and, to a lesser extent, consumer deposit balances. For more information on deposits, refer to the RFS and AM segment discussions on pages 22–31 and 42–45, respectively; the Liquidity Risk Management discussion on pages 62–66; and Notes 3 and 17 on pages 104–116 and 173, respectively, of this Form 10-Q. For more information on wholesale liability balances, which includes deposits, refer to the CB and TSS segment discussions on pages 36–38 and 39–41, respectively, of this Form 10-Q.

Federal funds purchased and securities loaned or sold under repurchase agreements

Securities sold under repurchase agreements decreased, predominantly in IB, due to lower financing of the Firm's trading assets. For additional information on the Firm's Liquidity Risk Management, see pages 62–66 of this Form 10-Q.

Commercial paper and other borrowed funds

Commercial paper increased, due to growth in the volume of liability balances in sweep accounts related to TSS's cash management product. Other borrowed funds decreased, predominantly driven by maturities of short-term unsecured bank notes and short-term FHLB advances.

For additional information on the Firm's Liquidity Risk Management and other borrowed funds, see pages 62–66, and Note 18 on page 173 of this Form 10-Q.

Accounts payable and other liabilities

Accounts payable and other liabilities increased largely due to higher IB customer balances and additional litigation reserves, predominantly for mortgage-related matters.

Beneficial interests issued by consolidated VIEs

Beneficial interests decreased, predominantly due to maturities of Firm-sponsored credit card securitization transactions. For additional information on Firm-sponsored VIEs and loan securitization trusts, see Off–Balance Sheet Arrangements below, and Note 15 on pages 160–168 of this Form 10-Q.

Long-term debt

Long-term debt increased, partially due to net issuances of long-term borrowings. For additional information on the Firm's long-term debt activities, see the Liquidity Risk Management discussion on pages 62–66 of this Form 10-Q.

Stockholders' equity

Total stockholders' equity increased, predominantly due to net income in the first nine months of 2011; net issuances and commitments to issue under the Firm's employee stock-based compensation plans; and a net increase in accumulated other comprehensive income, due primarily to increased market value on agency MBS and municipal securities, partially offset by the widening of spreads on non-U.S. corporate debt and the realization of gains due to portfolio repositioning. The increase in stockholders' equity was partially offset by repurchases of common equity, and the declaration of cash dividends on common and preferred stock.

OFF–BALANCE SHEET ARRANGEMENTS

JPMorgan Chase is involved with several types of off–balance sheet arrangements, including through special-purpose entities (“SPEs”), which are a type of VIE, and through lending-related financial instruments (e.g., commitments and guarantees). For further discussion, see Off–Balance Sheet Arrangements and Contractual Cash Obligations on pages 95–101 of JPMorgan Chase’s 2010 Annual Report.

Special-purpose entities

SPEs are the most common type of VIE, used in securitization transactions in order to isolate certain assets and distribute related cash flows to investors. SPEs continue to be an important part of the financial markets, including the mortgage- and asset-backed securities and commercial paper markets, as they provide market liquidity by facilitating investors’ access to specific portfolios of assets and risks. The Firm holds capital, as deemed appropriate, against all SPE-related transactions and related exposures, such as derivative transactions and lending-related commitments and guarantees. For further information on the Firm’s involvement with SPEs, see Note 15 on pages 160–168 of this Form 10-Q; and Note 1 on pages 164–165 and Note 15 on pages 244–259 of JPMorgan Chase’s 2010 Annual Report.

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

For certain liquidity commitments to SPEs, the Firm could be required to provide funding if the short-term credit rating of JPMorgan Chase Bank, N.A., were downgraded below specific levels, primarily “P-1,” “A-1” and “F1” for Moody’s, Standard & Poor’s and Fitch, respectively. The aggregate amounts of these liquidity commitments, to both consolidated and nonconsolidated SPEs, were $35.3 billion and $34.2 billion at September 30, 2011, and December 31, 2010, respectively. Alternatively, if JPMorgan Chase Bank, N.A., were downgraded, the Firm could be replaced by another liquidity provider in lieu of providing funding under the liquidity commitment, or in certain circumstances, the Firm could facilitate the sale or refinancing of the assets in the SPE in order to provide liquidity.

Special-purpose entities revenue

The following table summarizes certain revenue information related to consolidated and nonconsolidated VIEs with which the Firm has significant involvement. The revenue reported in the table below primarily represents contractual servicing and credit fee income (i.e., income from acting as administrator, structurer or liquidity provider). It does not include gains and losses from changes in the fair value of trading positions (such as derivative transactions) entered into with VIEs. Those gains and losses are recorded in principal transactions revenue.

Revenue from VIEs and securitization entities	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2011	2010	2011	2010
Multi-seller conduits	$45	$44	$137	$171
Investor intermediation	10	12	35	37
Other securitization entities[(a)]	322	478	1,095	1,566
Total	$377	$534	$1,267	$1,774

(a) Excludes servicing revenue from loans sold to and securitized by third parties.

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 75 and Note 21 on pages 176–180 of this Form 10-Q; and Lending-related commitments on page 128 and Note 30 on pages 275–280 of JPMorgan Chase’s 2010 Annual Report.

The following table presents, as of September 30, 2011, the amounts by contractual maturity of off–balance sheet lending-related financial instruments, guarantees and other commitments. The amounts in the table for credit card and home equity lending-related commitments represent the total available credit to borrowers for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit for these products would be used by borrowers at the same time. The Firm can reduce or cancel credit card lines of credit by providing the borrower notice or, in some cases, without notice as permitted by law. The Firm may reduce or close home equity lines of credit when there are significant decreases in the value of the underlying property or when there has been a demonstrable decline in the creditworthiness of the borrower. The accompanying table excludes certain guarantees that do not have a contractual maturity date (e.g., loan sale and securitization-related indemnification obligations). For further information, see discussion of Mortgage repurchase liability and Loan sale and securitization-related indemnifications on pages 53–56 and in Note 21 on pages 176–180, respectively, of this Form 10-Q, and Repurchase liability and Loan sale and securitization-related indemnifications on pages 98–101 and in Note 30 on pages 275–280, respectively, of JPMorgan Chase's 2010 Annual Report.

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

	September 30, 2011					Dec 31, 2010
By remaining maturity (in millions)	Expires in 1 year or less	Expires after 1 year through 3 years	Expires after 3 years through 5 years	Expires after 5 years	Total	Total
Lending-related						
Consumer, excluding credit card:						
Home equity – senior lien	$839	$4,562	$5,123	$6,378	$16,902	$17,662
Home equity – junior lien	1,822	8,922	8,734	8,098	27,576	30,948
Prime mortgage	1,512	—	—	—	1,512	1,266
Subprime mortgage	—	—	—	—	—	—
Auto	7,188	140	83	5	7,416	5,246
Business banking	9,485	417	66	316	10,284	9,702
Student and other	89	152	158	492	891	579
Total consumer, excluding credit card	20,935	14,193	14,164	15,289	64,581	65,403
Credit card	528,830	—	—	—	528,830	547,227
Total consumer	549,765	14,193	14,164	15,289	593,411	612,630
Wholesale:						
Other unfunded commitments to extend credit[a][b]	66,518	71,491	72,809	6,933	217,751	199,859
Standby letters of credit and other financial guarantees[a][b][c][d]	29,023	36,784	30,669	3,039	99,515	94,837
Unused advised lines of credit	43,157	10,820	378	1,890	56,245	44,720
Other letters of credit[a][d]	4,579	1,468	124	—	6,171	6,663
Total wholesale	143,277	120,563	103,980	11,862	379,682	346,079
Total lending-related	$693,042	$134,756	$118,144	$27,151	$973,093	$958,709
Other guarantees and commitments						
Securities lending guarantees[e]	$199,020	$—	$—	$—	$199,020	$181,717
Derivatives qualifying as guarantees[f]	3,318	5,059	36,944	35,922	81,243	87,768
Unsettled reverse repurchase and securities borrowing agreements	69,752	—	—	—	69,752	39,927
Other guarantees and commitments[g]	963	232	303	4,615	6,113	6,492

(a) At September 30, 2011, and December 31, 2010, represented the contractual amount net of risk participations totaling $617 million and $542 million, respectively, for Other unfunded commitments to extend credit; $21.2 billion and $22.4 billion, respectively, for Standby letters of credit and other financial guarantees; and $1.4 billion and $1.1 billion, respectively, for Other letters of credit. In regulatory filings with the Federal Reserve these commitments are shown gross of risk participations.

(b) At September 30, 2011, and December 31, 2010, included credit enhancements and bond and commercial paper liquidity commitments to U.S. states and municipalities, hospitals and other not-for-profit entities of $48.5 billion and $43.4 billion, respectively. These commitments also include liquidity facilities to nonconsolidated municipal bond VIEs; for further information, see Note 15 on pages 160–168 of this Form 10-Q.

(c) At September 30, 2011, and December 31, 2010, included unissued Standby letters of credit commitments of $43.0 billion and $41.6 billion, respectively.

(d) At September 30, 2011, and December 31, 2010, JPMorgan Chase held collateral relating to $40.7 billion and $37.8 billion, respectively, of Standby letters of credit; and $1.5 billion and $2.1 billion, respectively, of collateral related to Other letters of credit.

(e) At September 30, 2011, and December 31, 2010, collateral held by the Firm in support of securities lending indemnification agreements totaled $200.8 billion and $185.0 billion, respectively. Securities lending collateral comprises primarily cash, and securities issued by governments that are members of the Organisation for Economic Co-operation and Development ("OECD") and U.S. government agencies.

(f) Represents the notional amounts of derivative contracts qualifying as guarantees. For further discussion of guarantees, see Note 5 on pages 119–126 and Note 21 on pages 176–180 of this Form 10-Q.

(g) At September 30, 2011, and December 31, 2010, included unfunded commitments of $853 million and $1.0 billion, respectively, to third-party private equity funds; and $1.4 billion and $1.4 billion, respectively, to other equity investments. These commitments included $790 million and $1.0 billion, respectively, related to investments that are generally fair valued at net asset value as discussed in Note 3 on pages 104–116 of this Form 10-Q. In addition, at September 30, 2011, and December 31, 2010, included letters of credit hedged by derivative transactions and managed on a market risk basis of $3.9 billion and $3.8 billion, respectively .

Mortgage repurchase liability

In connection with the Firm's mortgage loan sale and securitization activities with Fannie Mae and Freddie Mac (the "GSEs") and other mortgage loan sale and private-label securitization transactions, the Firm has made representations and warranties that the loans sold meet certain requirements. The Firm may be, and has been, required to repurchase loans and/or indemnify the GSEs and other investors for losses due to material breaches of these representations and warranties. Although there have been generalized allegations that the Firm should repurchase loans sold or deposited into private-label securitizations, predominantly all of the repurchase demands received by the Firm and the Firm's losses realized to date are related to transactions with the GSEs. 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. In substantially all instances where mortgage insurance has been rescinded, this resulted in a violation of representations and warranties made to the GSEs and, therefore, has also been a cause of repurchase demands from the GSEs.

From 2005 to 2008, excluding Washington Mutual, loans sold to the GSEs subject to certain representations and warranties for which the Firm may be liable were approximately $380 billion; this amount represents the principal amount sold and has not been adjusted for subsequent activity, such as borrower repayments of principal or repurchases completed to date. In addition, from 2005 to 2008, Washington Mutual sold approximately $150 billion 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. For additional information regarding loans sold to the GSEs, see Repurchase liability on pages 98–101 of JPMorgan Chase's 2010 Annual Report.

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

From 2005 to 2008, the Firm and certain acquired entities made certain loan level representations and warranties in connection with approximately $450 billion of residential mortgage loans that were sold or deposited into private-label securitizations. Of the $450 billion originally sold or deposited (including $165 billion by Washington Mutual, as to which the Firm maintains that certain of the repurchase obligations remain with the FDIC receivership), approximately $187 billion of principal has been repaid (including $69 billion related to Washington Mutual). In addition, approximately $94 billion of the principal amount of loans has been liquidated (including $34 billion related to Washington Mutual), with an average loss severity of 58%. The remaining outstanding principal balance of these loans (including Washington Mutual) was, as of September 30, 2011, approximately $169 billion of which $59 billion was 60 days or more past due. The remaining outstanding principal balance of loans related to Washington Mutual was approximately $62 billion, of which $22 billion were 60 days or more past due. For additional information regarding loans sold to private investors, see Repurchase liability on pages 98–101 of JPMorgan Chase's 2010 Annual Report.

To date, although there have been generalized allegations that the Firm should repurchase loans sold or deposited into private-label securitizations, loan-level repurchase demands in private-label securitizations have been limited. As a result, the Firm's repurchase reserve primarily relates to loan sales to the GSEs and is predominantly calculated based on the Firm's repurchase activity experience with the GSEs. While it is possible that the volume of repurchase demands from trustees or trustees directed by investors in private-label securitizations will increase in the future and that trustees or investors will pursue generalized allegations relating to a substantial portion of the Firm's private-label securitizations, the Firm cannot offer a reasonable estimate of those future demands based on historical experience to date. To the extent that repurchase demands are received related 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. Claims related to private-label securitizations (including claims from insurers that have guaranteed certain obligations of the securitization trusts) have, thus far, generally manifested themselves through securities-related litigation. The Firm does not consider these claims in estimating its repurchase liability; rather, the Firm separately evaluates such exposures in establishing its litigation reserves. For additional information regarding litigation, see Note 23 on pages 181–189 of this Form 10-Q.

Estimated Mortgage Repurchase Liability

To estimate the Firm's repurchase liability arising from breaches of representations and warranties, the Firm considers:

(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 repurchase liability of $3.6 billion and $3.3 billion as of September 30, 2011, and December 31, 2010, respectively. For further discussion of the repurchase demand process and the approach used by the Firm to estimate the repurchase liability, see Repurchase liability on pages 98–101 of JPMorgan Chase's 2010 Annual Report.

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

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

(in millions)	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
GSEs and other	$2,133	$1,826	$1,321	$1,251	$1,333
Mortgage insurers	1,112	1,093	1,240	1,121	1,007
Overlapping population[(b)]	(155)	(145)	(127)	(104)	(109)
Total	$3,090	$2,774	$2,434	$2,268	$2,231

(a) Periods prior to June 30, 2011, have been revised to include repurchase demands and mortgage insurance rescission notices related to certain loans sold or deposited into private-label securitizations. The Firm's outstanding repurchase demands are predominantly from the GSEs.

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

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

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

(in millions)	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
Pre-2005	$34	$32	$15	$39	$31
2005	200	57	45	73	67
2006	232	363	158	198	213
2007	602	510	381	539	537
2008	323	301	249	254	191
Post-2008	153	89	94	65	46
Total repurchase demands received	$1,544	$1,352	$942	$1,168	$1,085

(a) Periods prior to June 30, 2011, have been revised to include repurchase demands related to certain loans sold or deposited into private-label securitizations.

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

(in millions)	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
Pre-2005	$ 3	$3	$5	$3	$5
2005	15	24	32	9	7
2006	31	39	65	53	69
2007	63	72	144	142	134
2008	30	31	49	50	43
Post-2008	1	1	1	1	—
Total mortgage insurance rescissions received[(b)]	$ 143	$170	$296	$258	$258

(a) Periods prior to June 30, 2011, have been revised to include mortgage insurance rescission notices related to certain loans sold or deposited into private-label securitizations.

(b) Mortgage insurance rescissions may ultimately result in a repurchase demand from the GSEs on a lagged basis. This table includes mortgage insurance rescission notices for which the GSEs may also have issued a repurchase demand.

Because the Firm has demonstrated an ability to cure certain types of defects more frequently than others (e.g., missing documents), trends in the types of defects identified as well as the Firm's historical data are considered in estimating the future cure rate. Since the beginning of 2010, the Firm's overall cure rate, excluding Washington Mutual, has been approximately 50%. Repurchases that have resulted from mortgage insurance rescissions are reflected in the Firm's overall cure rate. While the actual cure rate may vary from quarter to quarter, the Firm expects that the overall cure rate will remain in the 40-50% range for the foreseeable future.

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

When a loan was originated by a third-party correspondent, the Firm typically has the right to seek a recovery of related repurchase losses from the correspondent originator. Correspondent-originated loans comprise approximately 60% of loans underlying outstanding repurchase demands, excluding those related to Washington Mutual. The actual third-party recovery rate may vary from quarter to quarter based upon the underlying mix of correspondents (e.g., active, inactive, out-of-business originators) from

which recoveries are being sought.
The Firm has entered into agreements with two mortgage insurers to resolve their claims on certain portfolios for which the Firm is a servicer. These two agreements cover and have resolved approximately one-third of the Firm's total mortgage insurance rescission risk exposure, both in terms of the unpaid principal balance of serviced loans covered by mortgage insurance and the amount of mortgage insurance coverage. The impact of these agreements is reflected in the repurchase liability and the disclosed outstanding mortgage insurance rescission notices as of September 30, 2011. The Firm has considered its remaining unresolved mortgage insurance rescission risk exposure in estimating the repurchase liability as of September 30, 2011.
Substantially all of the estimates and assumptions underlying the Firm's established methodology for computing its recorded repurchase liability – including the amount of probable future demands from purchasers, trustees or investors (which is in part based on historical experience), the ability of the Firm to cure identified defects, the severity of loss upon repurchase or foreclosure and recoveries from third parties – require application of a significant level of management judgment. Estimating the repurchase liability is further complicated by historical data that is not necessarily indicative of future expectations and uncertainty surrounding numerous external factors, including: (i) economic factors (for example, further declines in home prices and changes in borrower behavior may lead to increases in the number of defaults, the severity of losses, or both), and (ii) the level of future demands, which is dependent, in part, on actions taken by third parties, such as the GSEs, mortgage insurers, trustees and investors. While the Firm uses the best information available to it in estimating its repurchase liability, the estimation process is inherently uncertain, imprecise and potentially volatile as additional information is obtained and external factors continue to evolve.
The following table summarizes the change in the repurchase liability for each of the periods presented.
Summary of changes in mortgage repurchase liability

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2011	2010	2011	2010
Repurchase liability at beginning of period	$3,631	$2,332	$3,285	$1,705
Realized losses[a]	(329)	(489)	(801)	(1,052)
Provision for repurchase losses	314	1,464	1,132	2,654
Repurchase liability at end of period	$3,616	$3,307	$3,616	$3,307

(a) Includes principal losses and accrued interest on repurchased loans, "make-whole" settlements, settlements with claimants, and certain related expenses. Make-whole settlements were $162 million and $225 million for the three months ended September 30, 2011 and 2010, respectively, and $403 million and $480 million for the nine months ended September 30, 2011 and 2010, respectively.

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

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2011	2010	2011	2010
Ginnie Mae[b]	$1,558	$2,064	$4,271	$7,304
GSEs and other[c][d]	385	452	848	1,267
Total	$1,943	$2,516	$5,119	$8,571

(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 or packages as described in (b) below. This table excludes transactions with mortgage insurers. While the rescission of mortgage insurance may ultimately trigger a repurchase demand, the mortgage insurers themselves do not present repurchase demands to the Firm.
(b) In substantially all cases, these repurchases represent the Firm's voluntary repurchase of certain delinquent loans from loan pools or packages as permitted by Ginnie Mae guidelines (i.e., they do not result from repurchase demands due to breaches of representations and warranties). The Firm typically elects to repurchase these delinquent loans as it continues to service them and/or manage the foreclosure process in accordance with

applicable requirements of Ginnie Mae, the Federal Housing Administration ("FHA"), Rural Housing Services ("RHS") and/or the U.S. Department of Veterans Affairs ("VA").

(c) Predominantly all of the repurchases related to demands by GSEs.

(d) Nonaccrual loans held-for-investment included $415 million and $354 million at September 30, 2011, and December 31, 2010, respectively, of loans repurchased as a result of breaches of representations and warranties.

CAPITAL MANAGEMENT

The following discussion of JPMorgan Chase's capital management highlights developments since December 31, 2010, and should be read in conjunction with Capital Management on pages 102–106 of JPMorgan Chase's 2010 Annual Report.

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

- Cover all material risks underlying the Firm's business activities;
- Maintain "well-capitalized" status under regulatory requirements;
- Achieve debt rating targets;
- Retain flexibility to take advantage of future investment opportunities; and
- Build and invest in businesses, even in a highly stressed environment.

Regulatory capital

The Federal Reserve establishes capital requirements, including well-capitalized standards, for the consolidated financial holding company. The Office of the Comptroller of the Currency ("OCC") establishes similar capital requirements and standards for the Firm's national banks, including JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A. As of September 30, 2011, and December 31, 2010, JPMorgan Chase and all of its banking subsidiaries were well-capitalized and met all capital requirements to which each was subject.

The following table presents the regulatory capital, assets and risk-based capital ratios for JPMorgan Chase and its significant banking subsidiaries at September 30, 2011, and December 31, 2010. These amounts are determined in accordance with regulations issued by the Federal Reserve and/or OCC.

	JPMorgan Chase & Co.[i]		JPMorgan Chase Bank, N.A.[j]		Chase Bank USA, N.A.[j]		Well-capitalized ratios[j]	Minimum capital ratios[j]
(in millions, except ratios)	Sep. 30, 2011	Dec. 31, 2010	Sep. 30, 2011	Dec. 31, 2010	Sep. 30, 2011	Dec. 31, 2010		
Regulatory capital								
Tier 1[a]	$147,823	$142,450	$95,890	$91,764	$12,096	$12,966		
Total	186,510	182,216	133,405	130,444	15,596	16,659		
Tier 1 common[b]	120,234	114,763	95,113	90,981	12,096	12,966		
Assets								
Risk-weighted[c][d]	1,217,548	1,174,978	1,028,088	965,897	103,410	116,992		
Adjusted average[e]	2,168,678	2,024,515	1,750,868	1,611,486	103,789	117,368		
Capital ratios								
Tier 1[a][f]	12.1 %	12.1 %	9.3 %	9.5 %	11.7 %	11.1 %	6.0 %	4.0 %
Total[g]	15.3	15.5	13.0	13.5	15.1	14.2	10.0	8.0
Tier 1 leverage[h]	6.8	7.0	5.5	5.7	11.7	11.0	5.0 [k]	3.0 [l]
Tier 1 common[b]	9.9	9.8	9.3	9.4	11.7	11.1	NA	NA

(a) At September 30, 2011, for JPMorgan Chase and JPMorgan Chase Bank, N.A., trust preferred capital debt securities were $19.7 billion and $600 million, respectively. If these securities were excluded from the calculation at September 30, 2011, Tier 1 capital would be $128.2 billion and $95.3 billion, respectively, and corresponding Tier 1 capital ratios would be 10.5% and 9.3%, respectively. At September 30, 2011, Chase Bank USA, N.A. had no trust preferred capital debt securities.

(b) The Tier 1 common ratio is Tier 1 common divided by RWA. Tier 1 common capital is defined as Tier 1 capital less elements of 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 capital, 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.

(c) Risk-weighted assets (“RWA”) consist of on– and off–balance sheet assets that are assigned to one of several broad risk categories and weighted by factors representing their risk and potential for default. On–balance sheet assets are risk-weighted based on the perceived credit risk associated with the obligor or counterparty, the nature of any collateral, and the guarantor, if any. Off–balance sheet assets such as lending-related commitments, guarantees, derivatives and other off–balance sheet positions are risk-weighted by multiplying the contractual amount by the appropriate credit conversion factor to determine the on–balance sheet credit-equivalent amount, which is then risk-weighted based on the same factors used for on–balance sheet assets. RWA also incorporates a measure for the market risk related to applicable trading assets. The resulting risk-weighted values for each of the risk categories are then aggregated to determine total RWA.

(d) Included off–balance sheet RWA at September 30, 2011, of $311.0 billion, $299.7 billion and $35 million, and at December 31, 2010, of $282.9 billion, $274.2 billion and $31 million, for JPMorgan Chase, JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A., respectively.

(e) Adjusted average assets, for purposes of calculating the leverage ratio, include total quarterly average assets adjusted for unrealized gains/(losses) on securities, less deductions for disallowed goodwill and other intangible assets, investments in certain subsidiaries, and the total adjusted carrying value of nonfinancial equity investments that are subject to deductions from Tier 1 capital.

(f) Tier 1 capital ratio is Tier 1 capital divided by RWA. Tier 1 capital consists of common stockholders’ equity, perpetual preferred stock, noncontrolling interests in subsidiaries and trust preferred capital debt securities, less goodwill, other intangible assets, the fair value of DVA on derivative and structured note liabilities related to the Firm's credit quality and certain other adjustments.

(g) Total capital ratio is Total capital divided by RWA. Total capital is Tier 1 capital plus Tier 2 capital. Tier 2 capital consists of preferred stock not qualifying as Tier 1, subordinated long-term debt and other instruments qualifying as Tier 2, and the aggregate allowance for credit losses up to a certain percentage of RWA.

(h) Tier 1 leverage ratio is Tier 1 capital divided by adjusted quarterly average assets.

(i) Asset and capital amounts for JPMorgan Chase’s banking subsidiaries reflect intercompany transactions; whereas the respective amounts for JPMorgan

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Chase reflect the elimination of intercompany transactions.

(j) As defined by the regulations issued by the Federal Reserve, OCC and FDIC.

(k) Represents requirements for banking subsidiaries pursuant to regulations issued under the FDIC Improvement Act. There is no Tier 1 leverage component in the definition of a well-capitalized bank holding company.

(l) The minimum Tier 1 leverage ratio for bank holding companies and banks is 3% or 4%, depending on factors specified in regulations issued by the Federal Reserve and OCC.

Note: Rating agencies allow their own measures of capital to be adjusted upward for deferred tax liabilities, which have resulted from both nontaxable business combinations and from tax-deductible goodwill. At September 30, 2011, and December 31, 2010, the Firm had deferred tax liabilities resulting from nontaxable business combinations totaling $537 million and $647 million, respectively; and deferred tax liabilities resulting from tax-deductible goodwill of $2.1 billion and $1.9 billion, respectively.

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

Risk-based capital components and assets

(in millions)	September 30, 2011	December 31, 2010
Total stockholders' equity	$182,287	$176,106
Less: Preferred stock	7,800	7,800
Common stockholders' equity	174,487	168,306
Effect of certain items in accumulated other comprehensive income/(loss) excluded from Tier 1 common equity	(1,920)	(748)
Less: Goodwill[(a)]	46,071	46,915
Fair value DVA on derivative and structured note liabilities related to the Firm's credit quality	2,504	1,261
Investments in certain subsidiaries and other	846	1,032
Other intangible assets[(a)]	2,912	3,587
Tier 1 common	120,234	114,763
Preferred stock	7,800	7,800
Qualifying hybrid securities and noncontrolling interests[(b)]	19,789	19,887
Total Tier 1 capital	147,823	142,450
Long-term debt and other instruments qualifying as Tier 2	23,268	25,018
Qualifying allowance for credit losses	15,465	14,959
Adjustment for investments in certain subsidiaries and other	(46)	(211)
Total Tier 2 capital	38,687	39,766
Total qualifying capital	$186,510	$182,216
Risk-weighted assets	1,217,548	1,174,978
Total adjusted average assets	$2,168,678	$2,024,515

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

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

The Firm's Tier 1 common capital was $120.2 billion at September 30, 2011, an increase of $5.5 billion from December 31, 2010. The increase was predominantly due to net income (adjusted for DVA) of $14.0 billion, lower deductions related to goodwill and other intangibles of $1.5 billion, and net issuances and commitments to issue common stock under the Firm's employee stock-based compensation plans of $1.5 billion. The increase was partially offset by $8.0 billion of repurchases of common stock and warrants and $3.5 billion of dividends on common and preferred stock. The Firm's Tier 1 capital was $147.8 billion at September 30, 2011, an increase of $5.4 billion from December 31, 2010. The increase in Tier 1 capital reflected the increase in Tier 1 common. Additional information regarding the Firm's capital ratios and the federal regulatory capital standards to which it is subject is presented in Regulatory developments on pages 9–10 and Part II, Item 1A, Risk Factors on pages 202–204 of this Form 10-Q, and Note 29 on pages 273–274 of JPMorgan Chase's 2010 Annual Report.

Basel II

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

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

"Basel 2.5"

On January 11, 2011, the U.S. federal banking agencies issued a proposal for industry comment to revise the market risk capital rules of Basel II that would result in additional capital requirements for trading positions and securitizations. The Firm anticipates that these rules will be finalized by year-end 2011 and become effective in the first half of 2012. It is currently estimated that implementation of these rules could result in approximately a 100 basis point decrease in the Firm's Basel I Tier 1 common ratio, but the actual impact upon implementation on the Firm's capital ratios could differ depending upon the outcome of the final U.S. rules and regulatory approval of the Firm's internal models.

Basel III

In addition to the Basel II Framework, on December 16, 2010, the Basel Committee issued the final version of the Capital Accord, commonly referred to as "Basel III", which revised Basel II by, among other things, narrowing the definition of capital, increasing capital requirements for specific exposures, introducing short-term liquidity coverage and term funding standards, and establishing an international leverage ratio. The Basel Committee also announced higher capital ratio requirements under Basel III, which provide that the common equity requirement will be increased to 7%, comprised of a minimum of 4.5% plus a 2.5% capital conservation buffer.

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

In addition, the U.S. federal banking agencies have published, for public comment, proposed risk-based capital floors pursuant to the requirements of the Dodd-Frank Act to establish a permanent Basel I floor under Basel II and Basel III capital calculations.

Estimated Tier 1 common under Basel III rules

The Firm fully expects to be in compliance with the higher Basel III capital standards when they become effective on January 1, 2019, as well as any additional Dodd-Frank Act capital requirements when they are implemented. The Firm estimates that its Tier 1 common ratio under Basel III rules would be 7.7% as of September 30, 2011. Management considers this estimate, which is a non-GAAP financial measure, as a key measure to assess the Firm's capital position in conjunction with its capital ratios under Basel I requirements, in order to enable management, investors and analysts to compare the Firm's capital under the Basel III capital standards with similar estimates provided by other financial services companies.

The following table presents a comparison of Tier 1 common under Basel I rules to an estimated Tier 1 common (a non-GAAP financial measure) under Basel III rules. Tier 1 common under Basel III includes additional adjustments and deductions not included in Basel I Tier 1 common, such as the inclusion of accumulated other comprehensive income ("AOCI") related to available-for-sale ("AFS") securities and defined benefit pension and other postretirement employee benefit plans, and the deduction of the Firm's defined benefit pension fund assets.

JPMorgan Chase & Co. (in millions, except ratios)	September 30, 2011
Tier 1 common under Basel I rules	$120,234
Adjustments related to AFS securities and defined benefit pension and other postretirement employee benefit plans-related components of AOCI	1,867
Deduction for net defined benefit pension asset	(2,631)
All other adjustments	(344)
Estimated Tier 1 common under Basel III rules	$119,126
Estimated risk-weighted assets under Basel III rules[(a)]	$1,549,246

Estimated Tier 1 common ratio under Basel III rules[(b)]	7.7	%

(a) Key differences in the calculation of risk-weighted assets between Basel I and Basel III include: (a) 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; (b) Basel III market risk RWA reflects the new capital requirements related to trading assets and securitizations (released by the Basel Committee in July 2009), which include incremental capital requirements for stress VaR, correlation trading, and re-securitization positions; and (c) Basel III includes RWA for operational risk, whereas Basel I does not.

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

The Firm's estimate of its Tier 1 common ratio under Basel III reflects its current understanding of the Basel III rules and the application of such rules to its businesses as currently conducted, and therefore excludes the impact of any changes the Firm may make in the future to its businesses as a result of implementing the Basel III rules. The Firm's understanding of the Basel III rules are based on information currently published by the Basel Committee and U.S. federal banking agencies. The Firm intends to maintain its strong liquidity position in the future as the short-term liquidity coverage and term funding standards of the Basel III rules are implemented, in 2015 and 2018, respectively. In order to do so the Firm believes it may need to modify the liquidity profile of certain of its assets and liabilities. Implementation of the Basel III rules may also cause the Firm to increase prices on, or alter the types of, products it offers to its customers and clients.

The Basel III revisions governing liquidity and capital requirements are subject to prolonged observation and transition periods. The observation periods for both the liquidity coverage ratio and term funding standards begin in 2011, with implementation in 2015 and 2018, respectively. The transition period for banks to meet the revised Tier 1 common equity requirement will 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.

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 registered as futures commission merchants and subject to Rule 1.17 of the Commodity Futures Trading Commission ("CFTC"). Effective June 1, 2011, J.P. Morgan Futures Inc., a registered Futures Commission Merchant and a wholly owned subsidiary of JPMorgan Chase, merged with and into JPMorgan Securities. The merger created a combined Broker-Dealer / Futures Commission Merchant entity that provides capital and operational efficiencies.

JPMorgan Securities and JPMorgan Clearing have elected to compute their minimum net capital requirements in accordance with the "Alternative Net Capital Requirements" of the Net Capital Rule. At September 30, 2011, JPMorgan Securities' net capital, as defined by the Net Capital Rule, was $10.9 billion, exceeding the minimum requirement by $9.3 billion, and JPMorgan Clearing's net capital was $6.6 billion, exceeding the minimum requirement by $4.7 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 U.S. Securities and Exchange Commission ("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 September 30, 2011, JPMorgan Securities had tentative net capital in excess of the minimum and notification requirements.

Economic risk capital

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

Economic risk capital	Quarterly Averages		
(in billions)	3Q11	4Q10	3Q10
Credit risk	$48.2	$50.9	$50.6
Market risk	14.0	14.9	16.0
Operational risk	8.6	7.3	7.4
Private equity risk	6.8	6.9	6.6
Economic risk capital	77.6	80.0	80.6
Goodwill	48.6	48.8	48.7
Other[(a)]	48.3	38.0	34.7
Total common stockholders' equity	$174.5	$166.8	$164.0

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

Line of business equity

Equity for a line of business represents the amount the Firm believes the business would require if it were operating independently, incorporating sufficient capital to address regulatory capital requirements (including Basel III Tier 1 common capital requirements), economic risk measures and capital levels for similarly rated peers. Capital is also allocated to each line of business for, among other things, goodwill and other intangibles associated with acquisitions effected by the line of business. ROE is measured and internal targets for expected returns are established as key measures of a business segment's performance. Effective January 1, 2011, capital allocated to Card was reduced by $2.4 billion to $16.0 billion, largely reflecting portfolio runoff and the improving risk profile of the business; capital allocated to TSS was increased by $500 million, to $7.0 billion, reflecting growth in the underlying business. The Firm continues to assess the level of capital required for each line of business, as well as the assumptions and methodologies used to allocate capital to the business segments, and further refinements may be implemented in future periods.

Line of business equity (in billions)	September 30, 2011	December 31, 2010
Investment Bank	$40.0	$40.0
Retail Financial Services	25.0	24.6
Card Services & Auto	16.0	18.4
Commercial Banking	8.0	8.0
Treasury & Securities Services	7.0	6.5
Asset Management	6.5	6.5
Corporate/Private Equity	72.0	64.3
Total common stockholders' equity	$174.5	$168.3

Line of business equity	Quarterly Averages		
(in billions)	3Q11	4Q10	3Q10
Investment Bank	$40.0	$40.0	$40.0
Retail Financial Services	25.0	24.6	24.6
Card Services & Auto	16.0	18.4	18.4
Commercial Banking	8.0	8.0	8.0
Treasury & Securities Services	7.0	6.5	6.5
Asset Management	6.5	6.5	6.5
Corporate/Private Equity	72.0	62.8	60.0
Total common stockholders' equity	$174.5	$166.8	$164.0

Capital actions

Dividends

On March 18, 2011, the Board of Directors increased the Firm's quarterly common stock dividend from $0.05 to $0.25 per share, effective with the dividend paid on April 30, 2011, to shareholders of record on April 6, 2011. The Firm's common stock dividend policy reflects JPMorgan Chase's earnings outlook; desired dividend payout ratio; capital objectives; and alternative investment opportunities. The Firm's current expectation is to return to a payout ratio of approximately 30% of normalized earnings over time. When management and the Board determine that it is appropriate to consider further increasing the common stock dividend, the Firm expects to review those plans with its regulators before taking action. For a further discussion of the Firm's dividend payments, see Dividends on page 106 of JPMorgan Chase's 2010 Annual Report.

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 $8.0 billion is authorized for repurchase in 2011. The $15.0 billion repurchase program supersedes a $10.0 billion repurchase program approved in 2007. During the three and nine months ended September 30, 2011, the Firm repurchased an aggregate of 127 million and 210 million shares of common stock and warrants, for $4.4 billion and $8.0 billion, at an aggregate average price per unit of $34.72 and $38.12, respectively. 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 use of the repurchase program beyond the repurchases approved for 2011 will be reviewed by the Firm with banking regulators before taking action. For a further discussion of the Firm's common equity repurchase program, see Stock repurchases on page 106 of JPMorgan Chase's 2010 Annual Report.

The Firm may, from time to time, enter into written trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate repurchases in accordance with the repurchase program. A Rule 10b5-1 repurchase plan allows the Firm to repurchase its equity during periods when it would not otherwise be repurchasing common equity – for example, during internal trading "black-out periods." All purchases under a Rule 10b5-1 plan must be made according to a predefined plan established when the Firm is not aware of material nonpublic information. For additional information regarding repurchases of the Firm's equity securities, see Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds, on pages 204–205 of this Form 10-Q.

RISK MANAGEMENT

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

The Firm's overall risk appetite is established in the context of the Firm's capital, earnings power, and diversified business model. The Firm employs a formalized risk appetite framework to clearly link risk appetite and return targets, controls and capital management. There are eight major types of risk identified in the business activities of the Firm: liquidity, credit, market, interest rate, operational, legal and reputation, fiduciary, and private equity risk.

For further discussion of these risks, as well as how they are managed by the Firm, see Risk Management on pages 107–109 of JPMorgan Chase's 2010 Annual Report and the information below.

LIQUIDITY RISK MANAGEMENT

The following discussion of JPMorgan Chase's liquidity risk management framework highlights developments since December 31, 2010, and should be read in conjunction with pages 110–115 of JPMorgan Chase's 2010 Annual Report.

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

JPMorgan Chase's primary sources of liquidity include a diversified deposit base, which was $1,092.7 billion at September 30, 2011, and access to the equity capital markets and long-term unsecured and secured funding sources, including through asset securitizations and borrowings from Federal Home Loan Banks ("FHLBs"). Additionally, JPMorgan Chase maintains significant amounts of highly-liquid unencumbered assets. The Firm actively monitors the availability of funding in the wholesale markets across various geographic regions and in various currencies. The Firm's ability to generate funding from a broad range of sources in a variety of geographic locations and in a range of tenors is intended to enhance financial flexibility and limit funding concentration risk.

Management considers the Firm's liquidity position to be strong, based on its liquidity metrics as of September 30, 2011, and believes that the Firm's unsecured and secured funding capacity is sufficient to meet its on- and off-balance sheet obligations. The Firm was able to access the funding markets as needed during the nine months ended September 30, 2011, despite increased market volatility.

Governance

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

Liquidity monitoring

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

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

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

Parent holding company

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

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

Global Liquidity Reserve

In addition to the parent holding company, the Firm maintains a significant amount of liquidity – primarily at its bank subsidiaries, but also at its nonbank subsidiaries. The Global Liquidity Reserve represents consolidated sources of available liquidity to the Firm, including cash on deposit at central banks, and cash proceeds reasonably expected to be received in secured financings of highly liquid, unencumbered securities, such as government-issued debt, government- and FDIC-guaranteed corporate debt, U.S. government agency debt, and agency MBS. The liquidity amount estimated to be realized from secured financings is based on management's current judgment and assessment of the Firm's ability to quickly raise 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 from collateral pledged by the Firm to such banks. Although considered as a source of available liquidity, the Firm does not view borrowing capacity at the Federal Reserve Bank discount window and various other central banks as a primary source of funding. As of September 30, 2011, the Global Liquidity Reserve was estimated to be approximately $404 billion, compared with approximately $262 billion at December 31, 2010. The increase in the Global Liquidity Reserve reflected the placement of funds with various central banks, including Federal Reserve Banks, during the third quarter of 2011, which was driven by an increase in deposits. For further discussion see Sources of funds below.

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

Funding

Sources of funds

A key strength of the Firm is its diversified deposit franchise, through the RFS, CB, TSS and AM lines of business, which provides a stable source of funding and decreases reliance on the wholesale markets. As of September 30, 2011, total deposits for the Firm were $1,092.7 billion, compared with $930.4 billion at December 31, 2010. The significant increase in deposits was predominantly due to an overall growth in wholesale client balances and, to a lesser extent, consumer deposit balances. The increase in wholesale client balances, particularly in TSS and CB, was primarily driven by lower returns on other available alternative investments and low interest rates during the first nine months of 2011. Also contributing to the increase in deposits was growth in the number of clients and level of deposits in AM and RFS (the RFS deposits were net of attrition related to Washington Mutual formerly free checking accounts). Average total deposits for the Firm were $1,038.5 billion and $872.7 billion for the three months ended September 30, 2011 and 2010, respectively, and $983.3 billion and $876.2 billion for the nine months ended September 30, 2011 and 2010, respectively.

The Firm typically experiences higher customer deposit inflows at period-ends. A significant portion of the Firm's deposits are retail deposits (36% and 40% at September 30, 2011, and December 31, 2010, respectively), which are considered particularly stable as they are less sensitive to interest rate changes or market volatility. A significant portion of the Firm's wholesale deposits are also considered to be stable sources of funding due to the nature of the relationships from which they are generated, particularly customers' operating service relationships with the Firm. As of September 30, 2011, the Firm's deposits-to-loans ratio was 157%, compared with 134% at December 31, 2010. For other discussions of deposit and liability balance trends, see the discussion of the results for the Firm's business segments and the Balance Sheet Analysis on pages 16–48 and 49–51, respectively, of this Form 10-Q.

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

The Firm’s short-term secured sources of funding consist of securities loaned or sold under agreements to repurchase and borrowings from the Chicago, Pittsburgh and San Francisco FHLBs. Secured long-term funding sources include asset-backed securitizations, and borrowings from the Chicago, Pittsburgh and San Francisco FHLBs.

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

Short-term funding

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

Total commercial paper liabilities were $51.1 billion as of September 30, 2011, compared with $35.4 billion as of December 31, 2010. However, of those totals, $46.0 billion and $29.2 billion as of September 30, 2011, and December 31, 2010, respectively, originated from deposits that customers chose to sweep into commercial paper liabilities as a cash management product offered by the Firm. Therefore, commercial paper liabilities sourced from wholesale funding markets were $5.1 billion as of September 30, 2011, compared with $6.2 billion as of December 31, 2010; the average balance of commercial paper liabilities sourced from wholesale funding markets were $5.5 billion and $7.1 billion for the three and nine months ended September 30, 2011, respectively.

Securities loaned or sold under agreements to repurchase, which generally mature between one day and three months, are secured predominantly by high-quality securities collateral, including government-issued debt, agency debt and agency MBS. The balances of securities loaned or sold under agreements to repurchase, which constitute a significant portion of the federal funds purchased and securities loaned or sold under repurchase agreements, was $237.4 billion as of September 30, 2011, compared with $273.3 billion as of December 31, 2010; the average balance was $233.5 billion and $260.6 billion for the three and nine months ended September 30, 2011, respectively. At September 30, 2011, the decline in the balance, compared with the balance at December 31, 2010, and the average balance for the nine months ended September 30, 2011, was driven largely by lower financing of the Firm's trading assets and agency MBS AFS Securities. The balances associated with securities loaned or sold under agreements to repurchase fluctuate over time due to customers' investment and financing activities; the Firm's demand for financing; the Firm's matched book activity; the ongoing management of the mix of the Firm's liabilities, including its secured and unsecured financing (for both the investment and trading portfolios); and other market and portfolio factors. For additional information, see the Balance Sheet Analysis on pages 49–51, Note 12 on page 135 and Note 18 on page 173 of this Form 10-Q.

Total other borrowed funds was $29.3 billion as of September 30, 2011, compared with $34.3 billion as of December 31, 2010; the average balance of other borrowed funds was $30.1 billion and $33.5 billion for the three and nine months ended September 30, 2011, respectively. At September 30, 2011, the decline in the balance, compared with the balance at December 31, 2010, and the average balances for the three and nine months ended September 30, 2011, was predominantly driven by maturities of short-term unsecured bank notes and short-term FHLB advances.

Long-term funding and issuance

During the three months ended September 30, 2011, the Firm issued $8.4 billion of long-term debt, including $4.4 billion of senior notes issued in the U.S. market, $385 million of senior notes issued in non-U.S. markets, and $3.6 billion of IB structured notes. In addition, in October 2011, the Firm issued $1.8 billion of senior notes in the U.S. market and $652 million of senior notes in non-U.S. markets. During the three months ended September 30, 2010, the Firm issued $9.0 billion of long-term debt, including $4.4 billion of senior notes issued in U.S. markets, $2.0 billion of senior notes issued in non-U.S. markets and $2.6 billion of IB structured notes. During the three months ended September 30, 2011, $11.0 billion of long-term debt matured or was redeemed, including $4.3 billion of IB structured notes. During the three months ended September 30, 2010, $9.3 billion of long-term debt matured or was redeemed, including $4.7 billion of IB structured notes.

During the nine months ended September 30, 2011, the Firm issued $40.2 billion of long-term debt, including $24.3 billion of senior notes issued in the U.S. market, $4.5 billion of senior notes issued in non-U.S. markets, and $11.4 billion of IB structured notes. During the nine months ended September 30, 2010, the Firm issued $27.0 billion of long-term debt, including $11.3 billion of senior notes issued in U.S. markets, $2.9 billion of senior notes issued in non-U.S. markets, $1.5 billion of trust preferred capital debt securities and $11.3 billion of IB structured notes. During the nine months ended September 30, 2011, $40.5 billion of long-term debt matured or was redeemed, including $14.4 billion of IB structured notes. During the nine months ended September 30, 2010, $39.6 billion of long-term debt matured or was redeemed, including $17.5 billion of IB structured notes.

In addition to the unsecured long-term funding and issuances discussed above, the Firm securitizes consumer credit card loans, residential mortgages, auto loans and student loans for funding purposes. During the three months ended September 30, 2011, the Firm did not securitize any consumer loans for funding purposes, and $3.6 billion of loan securitizations matured or were redeemed, including $3.5 billion of credit card loan securitizations, $38 million of residential mortgage loan securitizations and $91 million of student loan securitizations. During the three months ended September 30, 2010, the Firm did not securitize any loans for funding purposes, and $8.8 billion of loan securitizations matured or were redeemed, including $8.6 billion of credit card loan securitizations, $50 million of residential mortgage loan securitizations, $89 million of student loan securitizations, and $32 million of auto loan securitizations.

During the nine months ended September 30, 2011, the Firm securitized $1.0 billion of credit card loans, and $13.4 billion of loan securitizations matured or were redeemed, including $13.1 billion of credit card loan securitizations, $121 million of residential mortgage loan securitizations and $244 million of student loan securitizations. During the nine months ended September 30, 2010, the Firm did not securitize any loans for funding purposes, and $22.2 billion of loan securitizations matured or were redeemed, including $21.7 billion of credit card loan securitizations, $140 million of residential mortgage loan securitizations, $245 million of student loan securitizations, and $107 million of auto loan securitizations.

In addition, the Firm’s wholesale businesses securitize loans for client-driven transactions and those client-driven loan securitizations are not considered to be a source of funding for the Firm. For the three months ended September 30, 2011 and 2010, $107 million and $179 million, respectively, of client-driven loan securitizations matured or were redeemed. For the nine months ended September 30, 2011 and 2010, $384 million and $1.3 billion, respectively, of client-driven loan securitizations matured or were redeemed. For further discussion of loan securitizations, see Note 15 on pages 160–168 in this Form 10-Q.

During the three months ended September 30, 2011, the Firm did not borrow from FHLBs and there were $7 million of maturities. For the three months ended September 30, 2010, the Firm borrowed $9.1 billion from FHLBs, which was partially offset by $5.0 billion of maturities. During the nine months ended September 30, 2011, the Firm borrowed $4.0 billion from FHLBs, which was partially offset by $2.5 billion of maturities. For the nine months ended September 30, 2010, the Firm borrowed $11.6 billion from FHLBs, which were more than offset by $18.5 billion of maturities.

Cash flows

Cash and due from banks was $56.8 billion and $24.0 billion at September 30, 2011 and 2010, respectively. These balances increased by $29.2 billion from December 31, 2010, and decreased by $2.2 billion from December 31, 2009, respectively. The following discussion highlights the major activities and transactions that affected JPMorgan Chase's cash flows for the nine months ended September 30, 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 nine months ended September 30, 2011, net cash provided by operating activities was $66.5 billion. This resulted from a decrease in trading assets - debt and equity instruments, driven by lower client market-making activity in IB, resulting in declines in equity securities and U.S. government agency mortgage-backed securities, partially offset by an increase in U.S. treasury securities; an increase in accounts payable and other liabilities largely due to higher IB customer balances; an increase in trading liabilities – derivative payables predominantly due to increases in interest rate derivative balances driven by declining interest rates and increases in commodity derivative balances driven by price movements in base metals and energy. Partially offsetting these cash proceeds was an increase in trading assets – derivative receivables predominantly due to the aforementioned declining interest rates and increases in commodity derivative balances. Net cash generated from operating activities was higher than net income largely as a result of adjustments for noncash items such as the provision for credit losses, depreciation and amortization, and stock-based compensation. Additionally, cash provided by proceeds from sales and paydowns of loans originated or purchased with an initial intent to sell was higher than cash used to acquire such loans, and also reflected a higher level of activity over the prior-year period.

For the nine months ended September 30, 2010, net cash used by operating activities was $4.9 billion, mainly driven by an increase primarily in trading assets – debt and equity instruments; this was largely due to improved market activity, reduced levels of volatility and rising global indices, partially offset by an increase in trading liabilities driven by short positions taken to facilitate customer trading. Net cash was generated from 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 nine months ended September 30, 2011, net cash of $169.7 billion was used in investing activities. This resulted from a significant increase in deposits with banks reflecting the placement of funds with various central banks, including Federal Reserve Banks during the third quarter of 2011, predominantly resulting from the overall growth in wholesale client deposits; an increase in securities purchased under resale agreements, predominantly in IB, reflecting higher client financing activity; an increase in loans reflecting continued growth in client activity across all of the Firm's wholesale businesses; and net purchases of AFS securities, largely due to repositioning of the portfolio in Corporate in response to changes in the market

environment. Partially offsetting these cash outflows were a decline in loans from the continued portfolio runoff in RFS, as well as lower seasonal balances, higher repayment rates, continued runoff of the Washington Mutual portfolio and the sale of the Kohl's portfolio.
For the nine months ended September 30, 2010, net cash of $20.7 billion was provided by investing activities. This resulted from a decrease in deposits with banks largely due to a decline in deposits placed with Federal Reserve Banks and lower interbank lending as market stress had gradually eased since the end of 2009; a net decrease in the loan portfolio, driven by a decline in credit card loans due to the runoff of the Washington Mutual portfolio and a decrease in lower-yielding promotional loans, continued runoff of the residential real estate portfolios, repayments and loan sales in IB; continued low client demand; and proceeds from sales and maturities of AFS securities used in the Firm’s interest rate risk management activities being higher than cash used to acquire such securities. Partially offsetting these cash proceeds was an increase in securities purchased under resale agreements, predominantly due to higher financing volume in IB.

Cash flows from financing activities

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

In the first nine months of 2010, net cash used in financing activities was $18.6 billion. This resulted from a decline in deposits associated with wholesale funding activities reflecting the Firm's lower funding needs; a decline in TSS deposits reflecting the normalization of deposit levels, offset partially by net inflows from existing customers and new business in AM, CB and RFS; net repayment of long-term borrowings, including a decline in long-term beneficial interests issued by consolidated VIEs due to maturities related to Firm-sponsored credit card securitization transactions and a decline in long-term advances from FHLBs due to maturities; 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 securities purchased under resale agreement activity levels in IB.

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 52, and Note 5 on pages 119–126, respectively, of this Form 10-Q.

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

The credit ratings of the parent holding company and each of the Firm's significant banking subsidiaries as of September 30, 2011, were as follows.

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

The senior unsecured ratings from Moody's, S&P and Fitch on JPMorgan Chase and its principal bank subsidiaries remained unchanged at September 30, 2011, from December 31, 2010. At September 30, 2011, Moody's outlook was negative, while S&P's and Fitch's outlook was stable.

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

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

Several rating agencies have announced that they are evaluating the effects of the financial regulatory reform legislation in order to determine the extent, if any, to which financial institutions, including the Firm, may be negatively impacted. There is no assurance the Firm's credit ratings will not be downgraded in the future as a result of any such reviews.

CREDIT PORTFOLIO

For a further discussion of the Firm's credit risk management framework, see pages 116–118 of JP Morgan Chase's 2010 Annual Report.

The following table presents JPMorgan Chase's credit portfolio as of September 30, 2011, and December 31, 2010. Total credit exposure was $1.8 trillion at September 30, 2011, an increase of $39.5 billion from December 31, 2010, reflecting increases in derivative receivables of $28.4 billion, lending related commitments of $14.4 billion, and loans of $3.9 billion. These increases were partially offset by a decrease in receivables from customers and interests in purchased receivables of $7.2 billion. The $39.5 billion net increase during the first nine months of 2011 in total credit exposure reflected an increase in the wholesale portfolio of $86.5 billion partially offset by a decrease in the consumer portfolio of $47.0 billion.

The Firm provided credit to and raised capital of more than $1.3 trillion for its clients during the first nine months of 2011, up 22% compared with the same period last year; this included $12.6 billion lent to small businesses, up 71%. The Firm also originated more than 560,000 mortgages; provided credit cards to approximately 6.6 million people; lent or increased credit to more than 25,800 small businesses; lent to more than 1,100 not-for-profit and government entities, including states, municipalities, hospitals and universities; extended or increased loan limits to approximately 4,300 middle market companies; and lent to or raised capital for more than 6,500 other corporations. The Firm remains committed to helping homeowners and preventing foreclosures. Since the beginning of 2009, the Firm has offered 1,224,000 trial modifications to struggling homeowners.

In the table below, reported loans include loans retained (i.e., held-for-investment); loans held-for-sale (which are carried at the lower of cost or fair value, with changes in value recorded in noninterest revenue); and loans accounted for at fair value. For additional information on the Firm's loans and derivative receivables, including the Firm's accounting policies, see Note 13 and Note 5 on pages 136–157 and 119–126, respectively, of this Form 10-Q, and Note 14 and Note 6 on pages 220–238 and 191–199, respectively, of JPMorgan Chase's 2010 Annual Report. Average retained loan balances are used for net charge-off rate calculations.

Total credit portfolio					Three months ended September 30,				Nine months ended September 30,			
	Credit exposure		Nonperforming[d][e][f]		Net charge-offs		Average annual net charge-off rate[g]		Net charge-offs		Average annual net charge-off rate[h]	
(in millions, except ratios)	Sep 30, 2011	Dec 31, 2010	Sep 30, 2011	Dec 31, 2010	2011	2010	2011	2010	2011	2010	2011	2010
Loans retained	$692,944	$685,498	$10,829	$14,345	$2,507	$4,945	1.44%	2.84%	$9,330	$18,569	1.83%	3.53%
Loans held-for-sale	1,912	5,453	94	341	—	—	—	—	—	—	—	—
Loans at fair value	1,997	1,976	82	155	—	—	—	—	—	—	—	—
Total loans – reported	696,853	692,927	11,005	14,841	2,507	4,945	1.44	2.84	9,330	18,569	1.83	3.53
Derivative receivables	108,853	80,481	11	34	NA	NA	NA	NA	NA	NA	NA	NA
Receivables from customers and interests in purchased receivables[a]	25,719	32,932	—	—	—	—	—	—	—	—	—	—
Total credit-related	831,425	806,340	11,016	14,875	2,507	4,945	1.44	2.84	9,330	18,569	1.83	3.53

assets												
Lending-related commitments[b]	973,093	958,709	705	1,005	NA	NA	NA	NA	NA	NA	NA	NA
Assets acquired in loan satisfactions												
Real estate owned	NA	NA	1,122	1,610	NA	NA	NA	NA	NA	NA	NA	NA
Other	NA	NA	56	72	NA	NA	NA	NA	NA	NA	NA	NA
Total assets acquired in loan satisfactions	—	NA	1,178	1,682	NA	NA	NA	NA	NA	NA	NA	NA
Total credit portfolio	$1,804,518	$1,765,049	$12,899	$17,562	$2,507	$4,945	1.44%	2.84%	$9,330	$18,569	1.83%	3.53%
Net credit derivative hedges notional[c]	$(27,853)	$(23,108)	$(39)	$(55)	NA	NA	NA	NA	NA	NA	NA	NA
Liquid securities and other cash collateral held against derivatives	(25,888)	(16,486)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

(a) Receivables from customers represents primarily margin loans to prime and retail brokerage customers, which are included in accrued interest and accounts receivable on the Consolidated Balance Sheets. Interests in purchased receivables represents an ownership interest in cash flows of a pool of receivables transferred by a third-party seller into a bankruptcy-remote entity, generally a trust, which are included in other assets on the Consolidated Balance Sheets.

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

(c) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage both performing and non-performing credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. For additional information, see Credit derivatives on pages 74–75 and Note 5 on pages 119–126 of this Form 10-Q.

(d) At September 30, 2011, and December 31, 2010, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $9.5 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 $2.4 billion and $1.9 billion, respectively; and (3) student loans insured by U.S. government agencies under the FFELP of $567 million and $625 million, respectively, that are 90 or more days past due. These amounts were excluded as reimbursement of insured amounts is proceeding normally. In addition, the Firm’s policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance issued by the Federal Financial Institutions Examination Council (“FFIEC”). Credit card loans are charged-off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.

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

(f) At September 30, 2011, and December 31, 2010, total nonaccrual loans represented 1.58% and 2.14% of total loans.

(g) For the three months ended September 30, 2011 and 2010, net charge-off rates were calculated using average retained loans of $689.0 billion and $690.1 billion, respectively. These average retained loans include average PCI loans of $68.0 billion and $75.8 billion, respectively. Excluding these PCI loans, the Firm's total charge-off rates would have been 1.60% and 3.19%, respectively.

(h) For the nine months ended September 30, 2011 and 2010, net charge-off rates were calculated using average retained loans of $683.1 billion and $702.5 billion, respectively. These average retained loans include average PCI loans of $69.8 billion and $78.1 billion, respectively. Excluding these PCI loans, the Firm's total charge-off rates would have been 2.03% and 3.98%, respectively.

WHOLESALE CREDIT PORTFOLIO

As of September 30, 2011, wholesale exposure (IB, CB, TSS and AM) increased by $86.5 billion from December 31, 2010. The overall increase was primarily driven by increases of $33.6 billion in lending-related commitments, $31.9 billion in loans and $28.4 billion in derivative receivables. These increases were partially offset by a decrease in receivables from customers and interests in purchased receivables of $7.3 billion. The growth in wholesale loans and lending related commitments represented increased client activity across all businesses and all regions. The increase in derivative receivables was predominantly due to increases in interest rate derivatives driven by declining interest rates, and commodity derivatives driven by price movements in base metals and energy. Effective January 1, 2011, the commercial card credit portfolio (composed of approximately $5.3 billion of lending-related commitments and $1.2 billion of loans) that was previously in TSS was transferred to Card.

Wholesale credit portfolio

(in millions)	Credit exposure September 30, 2011	Credit exposure December 31, 2010	Nonperforming[d] September 30, 2011	Nonperforming[d] December 31, 2010
Loans retained	$255,799	$222,510	$3,011	$5,510
Loans held-for-sale	1,687	3,147	94	341
Loans at fair value	1,997	1,976	82	155
Loans – reported	259,483	227,633	3,187	6,006
Derivative receivables	108,853	80,481	11	34
Receivables from customers and interests in purchased receivables[a]	25,615	32,932	—	—
Total wholesale credit-related assets	393,951	341,046	3,198	6,040
Lending-related commitments[b]	379,682	346,079	705	1,005
Total wholesale credit exposure	$773,633	$687,125	$3,903	$7,045
Net credit derivative hedges notional[c]	$(27,853)	$(23,108)	$(39)	$(55)
Liquid securities and other cash collateral held against derivatives	(25,888)	(16,486)	NA	NA

(a) Receivables from customers represents primarily margin loans to prime and retail brokerage customers, which are included in accrued interests and accounts receivable on the Consolidated Balance Sheets. Interests in purchased receivables represents ownership interests in cash flows of a pool of receivables transferred by third-party sellers into bankruptcy-remote entities, generally trusts, which are included in other assets on the Consolidated Balance Sheets.

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

(c) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage both performing and nonperforming credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. For additional information, see Credit derivatives on pages 74–75, and Note 5 on

pages 119–126 of this Form 10-Q.
(d) Excludes assets acquired in loan satisfactions.

The following table presents summaries of the maturity and ratings profiles of the wholesale portfolio as of September 30, 2011, and December 31, 2010. The increase in loans retained was predominately in loans to investment grade ("IG") counterparties and was largely loans having a shorter maturity profile. The ratings scale is based on the Firm's internal risk ratings, which generally correspond to the ratings as defined by S&P and Moody's. Also included in this table is the notional value of net credit derivative hedges; the counterparties to these hedges are predominantly investment grade banks and finance companies.

Wholesale credit exposure – maturity and ratings profile

September 30, 2011	Maturity profile[e]				Ratings profile			
					Investment-grade	Noninvestment-grade		
(in millions, except ratios)	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total	AAA/Aaa to BBB-/Baa3	BB+/Ba1 & below	Total	Total % of IG
Loans retained	$100,383	$93,798	$61,618	$255,799	$175,855	$ 79,944	$255,799	69 %
Derivative receivables[a]				108,853			108,853	
Less: Liquid securities and other cash collateral held against derivatives				(25,888)			(25,888)	
Total derivative receivables, net of all collateral	16,710	32,614	33,641	82,965	66,447	16,518	82,965	80
Lending-related commitments	143,278	224,543	11,861	379,682	307,985	71,697	379,682	81
Subtotal	260,371	350,955	107,120	718,446	550,287	168,159	718,446	77
Loans held-for-sale and loans at fair value[b][c]				3,684			3,684	
Receivables from customers and interests in purchased receivables[c]				25,615			25,615	
Total exposure – net of liquid securities and other cash collateral held against derivatives				$747,745			$747,745	
Net credit derivative hedges notional[d]	$(2,309)	$(14,016)	$(11,528)	$(27,853)	$(27,886)	$ 33	$(27,853)	100 %

December 31, 2010	Maturity profile[e]				Ratings profile			
					Investment-grade	Noninvestment-grade		
(in millions, except ratios)	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total	AAA/Aaa to BBB-/Baa3	BB+/Ba1 & below	Total	Total % of IG
Loans retained	$78,017	$85,987	$58,506	$222,510	$146,047	$ 76,463	$222,510	66 %
Derivative receivables[a]				80,481			80,481	
Less: Liquid securities and other cash collateral held against derivatives				(16,486)			(16,486)	
Total derivative receivables, net of all collateral	11,499	24,415	28,081	63,995	47,557	16,438	63,995	74

Lending-related commitments	126,389	209,299	10,391	346,079	276,298	69,781	346,079	80
Subtotal	215,905	319,701	96,978	632,584	469,902	162,682	632,584	74
Loans held-for-sale and loans at fair value(b)(c)				5,123			5,123	
Receivables from customers and interests in purchased receivables(c)				32,932			32,932	
Total exposure – net of liquid securities and other cash collateral held against derivatives				$670,639			$670,639	
Net credit derivative hedges notional(d)	$(1,228)	$(16,415)	$(5,465)	$(23,108)	$(23,159)	$51	$(23,108)	100 %

(a) Represents the fair value of derivative receivables as reported on the Consolidated Balance Sheets.

(b) Loans held-for-sale and loans at fair value relate primarily to syndicated loans and loans transferred from the retained portfolio.

(c) From a credit risk perspective, maturity and ratings profiles are not meaningful.

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

(e) The maturity profiles of retained loans and lending-related commitments are based on the remaining contractual maturity. The maturity profiles of derivative receivables are based on the maturity profile of average exposure. For further discussion of average exposure, see Derivative receivables MTM on pages 73–74 of this Form 10-Q.

Receivables from customers of $25.5 billion and $32.5 billion at September 30, 2011, and December 31, 2010, respectively, primarily represent margin loans to prime and retail brokerage clients and are included in the previous tables. These margin loans are collateralized through a pledge of assets maintained in clients' brokerage accounts and are subject to daily minimum collateral requirements. In the event that the collateral value decreases, a maintenance margin call is made to the client to provide additional collateral into the account. If additional collateral is not provided by the client, the client's position may be liquidated by the Firm to meet the minimum collateral requirements.

Wholesale credit exposure – selected industry exposures

The Firm focuses on the management and diversification of its industry exposures, with particular attention paid to industries with actual or potential credit concerns. Exposures deemed criticized generally represent a ratings profile similar to a rating of “CCC+”/“Caa1” and lower, as defined by S&P and Moody’s, respectively. The total criticized component of the portfolio, excluding loans held-for-sale and loans at fair value, decreased to $17.2 billion at September 30, 2011, from $22.4 billion at December 31, 2010. The decrease was primarily related to net repayments and loan sales.

Below are summaries of the top 25 industry exposures as of September 30, 2011, and December 31, 2010.

As of or for the nine months ended September 30, 2011			Noninvestment-grade						
(in millions)	Credit exposure[d]	Investment-grade	Noncriticized	Criticized performing	Criticized nonperforming	30 days or more past due and accruing loans	Year-to-date net charge-offs/ (recoveries)	Credit derivative hedges[e]	Liquid securities and other cash collateral held against derivative receivables
Top 25 industries[a]									
Banks and finance companies	$72,367	$60,801	$11,016	$511	$39	$5	$(215)	$(2,833)	$(10,860)
Real estate	64,651	37,437	21,261	4,774	1,179	195	219	(56)	(358)
Asset managers	41,081	35,903	4,948	229	1	5	—	—	(6,529)
State and municipal governments[b]	40,753	39,716	820	200	17	2	—	(187)	(756)
Healthcare	40,624	33,641	6,730	223	30	6	4	(357)	(303)
Oil and gas	31,826	22,242	9,467	116	1	2	—	(106)	(63)
Consumer products	29,945	19,764	9,655	507	19	2	3	(667)	(29)
Utilities	28,375	23,103	4,630	496	146	1	47	(136)	(373)
Retail and consumer services	23,422	15,180	7,723	459	60	7	(1)	(361)	(1)
Central government	17,941	17,377	450	114	—	—	—	(9,272)	(1,046)
Machinery and equipment manufacturing	15,714	8,783	6,798	132	1	4	(1)	(46)	—
Technology	15,092	9,999	4,813	280	—	—	5	(161)	—
Metals/mining	15,051	8,453	6,194	397	7	1	(15)	(554)	—
Securities firms and exchanges	14,294	11,589	2,688	17	—	—	—	(289)	(3,739)
Telecom services	12,766	9,899	2,053	812	2	1	5	(492)	—
Business services	12,480	7,204	5,150	98	28	6	15	(20)	—
Insurance	12,304	8,879	2,740	668	17	—	—	(693)	(535)
Transportation	12,229	7,408	4,594	194	33	4	1	(188)	—
Holding companies	11,713	9,234	2,437	29	13	61	(2)	—	(450)
Chemicals/plastics	11,677	7,526	4,021	129	1	—	—	(87)	(28)
Media	11,213	6,126	3,950	707	430	45	6	(198)	—
Building materials/construction	10,742	4,701	5,177	856	8	23	(4)	(296)	—
Automotive	9,863	4,933	4,857	71	2	2	(11)	(874)	—
	8,002	5,052	2,848	95	7	—	—	(33)	—

Agriculture/paper manufacturing									
Aerospace	6,147	5,090	1,002	55	—	—	—	(207)	—
All other[c]	174,062	154,255	16,790	2,036	981	681	38	(9,740)	(818)
Subtotal	$744,334	$574,295	$152,812	$14,205	$3,022	$1,053	$94	$(27,853)	$(25,888)
Loans held-for-sale and loans at fair value	3,684								
Receivables from customers and interests in purchased receivables	25,615								
Total	$773,633								

As of or for the year ended December 31, 2010 (in millions)	Credit exposure[d]	Investment-grade	Noninvestment-grade Noncriticized	Criticized performing	Criticized nonperforming	30 days or more past due and accruing loans	Year-to-date net charge-offs/(recoveries)	Credit derivative hedges[e]	Liquid securities and other cash collateral held against derivative receivables
Top 25 industries[a]									
Banks and finance companies	$65,867	$54,839	$10,428	$467	$133	$26	$69	$(3,456)	$(9,216)
Real estate	64,351	34,440	20,569	6,404	2,938	399	862	(76)	(57)
Asset managers	29,364	25,533	3,401	427	3	7	—	—	(2,948)
State and municipal governments[b]	35,808	34,641	912	231	24	34	3	(186)	(233)
Healthcare	41,093	33,752	7,019	291	31	85	4	(768)	(161)
Oil and gas	26,459	18,465	7,850	143	1	24	—	(87)	(50)
Consumer products	27,508	16,747	10,379	371	11	217	1	(752)	(2)
Utilities	25,911	20,951	4,101	498	361	3	49	(355)	(230)
Retail and consumer services	20,882	12,021	8,316	338	207	8	23	(623)	(3)
Central government	11,173	10,677	496	—	—	—	—	(6,897)	(42)
Machinery and equipment manufacturing	13,311	7,690	5,372	244	5	8	2	(74)	(2)
Technology	14,348	9,355	4,534	399	60	47	50	(158)	—
Metals/mining	11,426	5,260	5,748	362	56	7	35	(296)	—
Securities firms and exchanges	9,415	7,678	1,700	37	—	—	5	(38)	(2,358)
Telecom services	10,709	7,582	2,295	821	11	3	(8)	(820)	—
Business services	11,247	6,351	4,735	115	46	11	15	(5)	—
Insurance	10,918	7,908	2,690	320	—	—	(1)	(805)	(567)
Transportation	9,652	6,630	2,739	245	38	—	(16)	(132)	—
Holding companies	10,504	8,375	2,091	38	—	33	5	—	(362)
Chemicals/plastics	12,312	8,375	3,656	274	7	—	2	(70)	—
Media	10,967	5,808	3,945	672	542	2	92	(212)	(3)
Building materials/construction	12,808	6,557	5,065	1,129	57	9	6	(308)	—
Automotive	9,011	3,915	4,822	269	5	—	52	(758)	—
Agriculture/paper manufacturing	7,368	4,510	2,614	242	2	8	7	(44)	(2)

Aerospace	5,732	4,903	732	97	—	—	—	(321)	—
All other[(c)]	140,926	122,594	14,924	2,402	1,006	921	470	(5,867)	(250)
Subtotal	$649,070	$485,557	$141,133	$16,836	$5,544	$1,852	$1,727	$(23,108)	$(16,486)
Loans held-for-sale and loans at fair value	5,123								
Receivables from customers and interests in purchased receivables	32,932								
Total	$687,125								

(a) All industry rankings are based on exposure at September 30, 2011. The industry rankings presented in the table as of December 31, 2010, are based on the industry rankings of the corresponding exposures at September 30, 2011, not actual rankings of such exposures at December 31, 2010.

(b) In addition to the credit risk exposure to states and municipal governments at September 30, 2011, and December 31, 2010, noted above, the Firm held $15.2 billion and $14.0 billion, respectively, of trading securities and $15.3 billion and $11.6 billion, respectively, of available-for-sale securities issued by state and municipal governments. For further information, see Note 3 and Note 11 on pages 104–116 and 130–134, respectively, of this Form 10-Q.

(c) For more information on exposures to SPEs within all other, including liquidity facilities to nonconsolidated municipal bond VIEs, see Note 15 on pages 160–168 of this Form 10-Q. All other for credit derivative hedges includes credit default swap ("CDS") index hedges of CVA.

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

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

The following table presents the geographic distribution of wholesale credit exposure including nonperforming assets and past due loans as of September 30, 2011, and December 31, 2010. The geographic distribution of the wholesale portfolio is determined based predominantly on the domicile of the borrower.

	Credit exposure				Nonperforming					
September 30, 2011 (in millions)	Loans	Lending-related commitments	Derivative receivables	Total credit exposure	Nonaccrual loans	Derivatives	Lending-related commitments	Total non-performing credit exposure	Assets acquired in loan satisfactions	30 days or more past due and accruing loans
Europe/Middle East/Africa	$34,239	$ 61,527	$49,712	$145,478	$35	$—	$ 23	$ 58	$—	$61
Asia/Pacific	27,723	16,859	13,322	57,904	2	6	—	8	—	1
Latin America/Caribbean	23,289	18,395	6,875	48,559	461	—	16	477	3	196
Other	1,948	6,433	1,878	10,259	6	—	—	6	—	4
Total non-U.S.	87,199	103,214	71,787	262,200	504	6	39	549	3	262
Total U.S.	168,600	276,468	37,066	482,134	2,507	5	666	3,178	249	791
Loans held-for-sale and loans at fair value	3,684	—	—	3,684	176	—	—	176	—	—
Receivables from customers and interests in purchased receivables	—	—	—	25,615	NA	NA	NA	NA	NA	—
Total	$259,483	$ 379,682	$108,853	$773,633	$3,187	$ 11	$ 705	$ 3,903	$ 252	$1,053

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

receivables										
Total	$227,633	$ 346,079	$ 80,481	$687,125	$6,006	$ 34	$ 1,005	$ 7,045	$ 321	$1,852

(a) At September 30, 2011, and December 31, 2010, the Firm held an allowance for loan losses of $644 million and $1.6 billion, respectively, related to nonaccrual retained loans resulting in allowance coverage ratios of 21% and 29%, respectively. Wholesale nonaccrual loans represented 1.23% and 2.64% of total wholesale loans at September 30, 2011, and December 31, 2010, respectively.

Loans

In the normal course of business, the Firm provides loans to a variety of wholesale customers, from large corporate and institutional clients to high-net-worth individuals. For further discussion on loans, including information on credit quality indicators, see Note 13 on pages 136–157 of this Form 10-Q.

Retained wholesale loans were $255.8 billion at September 30, 2011, compared with $222.5 billion at December 31, 2010. The $33.3 billion increase was primarily related to increased client activity across all businesses and all regions.

The Firm actively manages wholesale credit exposure. One way of managing credit risk is through sales of loans and lending-related commitments. During the first nine months of 2011, the Firm sold $3.9 billion of loans and commitments, recognizing net gains of $16 million. During the first nine months of 2010, the Firm sold $6.3 billion of loans and commitments, recognizing net gains of $41 million. These results included gains or losses on sales of nonaccrual loans, if any, as discussed below. These sale activities are not related to the Firm's securitization activities. For further discussion of securitization activity, see Liquidity Risk Management and Note 15 on pages 62–66 and 160–168 respectively, of this Form 10-Q.

The following table presents the change in the nonaccrual loan portfolio for the nine months ended September 30, 2011 and 2010. Nonaccrual wholesale loans decreased by $2.8 billion from December 31, 2010, primarily reflecting net repayments and loan sales.

Wholesale nonaccrual loan activity	Nine months ended September 30,	
(in millions)	2011	2010
Beginning balance	$6,006	$6,904
Additions	1,706	5,494
Reductions:		
Paydowns and other	2,412	3,294
Gross charge-offs	477	1,459
Returned to performing status	641	237
Sales	995	1,768
Total reductions	4,525	6,758
Net additions/(reductions)	(2,819)	(1,264)
Ending balance	$3,187	$5,640

The following table presents net charge-offs, which are defined as gross charge-offs less recoveries, for the three and nine months ended September 30, 2011 and 2010. The amounts in the table below do not include gains or losses from sales of nonaccrual loans.

Wholesale net charge-offs	Three months ended September 30,		Nine months ended September 30,	
(in millions, except ratios)	2011	2010	2011	2010
Loans – reported				
Average loans retained	$250,145	$213,979	$238,153	$211,540
Net charge-offs/(recoveries)	(151)	266	94	1,456
Net charge-off/(recovery) rate	(0.24)%	0.49%	0.05%	0.92%

Derivative contracts

In the normal course of business, the Firm uses derivative instruments predominantly for market-making activity. Derivatives enable customers and the Firm to manage exposures to fluctuations in interest rates, currencies and other markets. The Firm also uses derivative instruments to manage its credit exposure. For further discussion of derivative contracts, see Note 5 on page 119–126 of this Form 10-Q.

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

Derivative receivables MTM

(in millions)	September 30, 2011	December 31, 2010
Interest rate	$50,648	$32,555
Credit derivatives	7,033	7,725
Foreign exchange	25,887	25,858
Equity	8,504	4,204
Commodity	16,781	10,139
Total, net of cash collateral	108,853	80,481
Liquid securities and other cash collateral held against derivative receivables	(25,888)	(16,486)
Total, net of all collateral	$82,965	$63,995

Derivative receivables reported on the Consolidated Balance Sheets were $108.9 billion and $80.5 billion at September 30, 2011, and December 31, 2010, respectively. These represent the fair value (i.e., MTM) of the derivative contracts after giving effect to legally enforceable master netting agreements, cash collateral held by the Firm and the CVA. However, in management's view, the appropriate measure of current credit risk should take into consideration additional liquid securities and other cash collateral held by the Firm of $25.9 billion and $16.5 billion at September 30, 2011, and December 31, 2010, respectively, as shown in the table above.

Derivative receivables increased from December 31, 2010, predominantly due to increases in interest rate derivatives driven by declining interest rates, and commodity derivatives driven by price movements in base metals and energy.

The Firm also holds additional collateral delivered by clients at the initiation of transactions, as well as collateral related to contracts that have a non-daily call frequency and collateral that the Firm has agreed to return but has not yet settled as of the reporting date. Though this collateral does not reduce the balances noted in the table above, it is available as security against potential exposure that could arise should the MTM of the client's derivative transactions move in the Firm's favor. As of September 30, 2011, and December 31, 2010, the Firm held $17.5 billion and $18.0 billion, respectively, of this additional collateral. The derivative receivables MTM, net of all collateral, also do not include other credit enhancements, such as letters of credit. For additional information on the Firm's use of collateral agreements, see Note 5 on pages 119–126 of this Form 10-Q.

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

Ratings profile of derivative receivables MTM

Rating equivalent	September 30, 2011			December 31, 2010		
(in millions, except ratios)	Exposure net of all collateral	% of exposure net of all collateral		Exposure net of all collateral	% of exposure net of all collateral	
AAA/Aaa to AA-/Aa3	$36,852	45	%	$23,342	36	%
A+/A1 to A-/A3	18,510	22		15,812	25	
BBB+/Baa1 to BBB-/Baa3	11,085	13		8,403	13	
BB+/Ba1 to B-/B3	13,716	17		13,716	22	
CCC+/Caa1 and below	2,802	3		2,722	4	
Total	$82,965	100	%	$63,995	100	%

As noted above, the Firm uses collateral agreements to mitigate counterparty credit risk. The percentage of the Firm's derivatives transactions subject to collateral agreements – excluding foreign exchange spot trades, which are not typically covered by collateral agreements due to their short maturity – was 87% as of September 30, 2011, largely unchanged compared with 88% as of December 31, 2010. The Firm posted $80.9 billion and $58.3 billion of collateral at September 30, 2011, and December 31, 2010, respectively.

Credit derivatives

Credit derivatives are financial instruments whose value is derived from the credit risk associated with the debt of a third party issuer (the reference entity) which allow one party (the protection purchaser) to transfer that risk to another party (the protection seller). Upon the occurrence of a credit event, which may include, among other events, the bankruptcy or failure to pay by, or certain restructurings of the debt of, the reference entity, neither party has recourse to the reference entity. The protection purchaser has recourse to the protection seller for the difference between the face value of the CDS contract and the fair value of the reference obligation at the time of settling the credit derivative contract. The determination as to whether a credit event has occurred is made by the relevant ISDA Determination Committee, comprised of 10 sell-side and five buy-side ISDA member firms. For a more detailed description of credit derivatives, including types of derivatives, see Credit derivatives in Note 5, on pages 125–126 of this Form 10-Q, and Credit derivatives on pages 126–127 and Credit derivatives in Note 6, on pages 197–199 of JPMorgan Chase's 2010 Annual Report.

The following table presents the Firm's notional amounts of credit derivatives protection purchased and sold as of September 30, 2011, and December 31, 2010, distinguishing between dealer/client activity and credit portfolio activity.

Credit derivative notional amounts

	September 30, 2011					December 31, 2010				
	Dealer/client		Credit portfolio			Dealer/client		Credit portfolio		
(in millions)	Protection purchased[(b)]	Protection sold	Protection purchased	Protection sold	Total	Protection purchased[(b)]	Protection sold	Protection purchased	Protection sold	Total
Credit default swaps	$2,999,475	$3,033,569	$27,987	$134	$6,061,165	$2,661,657	$2,658,825	$23,523	$415	$5,344,420

Other credit derivatives[a]	42,234	94,442	—	—	136,676	34,250	93,776	—	—	128,026
Total	$3,041,709	$3,128,011	$27,987	$134	$6,197,841	$2,695,907	$2,752,601	$23,523	$415	$5,472,446

(a) Primarily consists of total return swaps and credit default swap options.

(b) At September 30, 2011, and December 31, 2010, included $3,015 billion and $2,662 billion, respectively, of notional exposure where the Firm has sold protection on the identical underlying reference instruments.

Dealer/client business

Within the dealer/client business, the Firm actively manages credit derivatives by buying and selling credit protection, predominantly on corporate debt obligations, according to client demand. For further information, see Note 5 on pages 119–126 of this Form 10-Q. At September 30, 2011, the total notional amount of protection purchased and sold increased by $721 billion from December 31, 2010, primarily due to increased activity, particularly in the EMEA region.

Credit portfolio activities

Use of single-name and portfolio credit derivatives	Notional amount of protection purchased and sold	
(in millions)	September 30, 2011	December 31, 2010
Credit derivatives used to manage:		
Loans and lending-related commitments	$4,541	$6,698
Derivative receivables	23,446	16,825
Total protection purchased	27,987	23,523
Total protection sold	134	415
Credit derivatives hedges notional, net	$27,853	$23,108

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

Net gains and losses on credit portfolio hedges	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2011	2010	2011	2010
Hedges of loans and lending-related commitments	$104	$(130)	$29	$(190)
CVA and hedges of CVA	(691)	(259)	(828)	(549)
Net gains/(losses)	$(587)	$(389)	$(799)	$(739)

Lending-related commitments

JPMorgan Chase uses lending-related financial instruments, such as commitments and guarantees, to meet the financing needs of its customers. The contractual amounts of these financial instruments represent the maximum possible credit risk should the counterparties draw down on these commitments or the Firm fulfills its obligations under these guarantees, and the counterparties subsequently fails to perform according to the terms of these contracts. Wholesale lending-related commitments were $379.7 billion at September 30, 2011, compared with $346.1 billion at December 31, 2010, reflecting increased client activity.

In the Firm's view, the total contractual amount of these wholesale lending-related commitments is not representative of the Firm's actual credit risk exposure or funding requirements. In determining the amount of credit risk exposure the Firm has to wholesale lending-related commitments, which is used as the basis for allocating credit risk capital to these commitments, the Firm has established a "loan-equivalent" amount for each commitment; this amount represents the portion of the unused commitment or other contingent exposure that is expected, based on average portfolio historical experience, to become drawn upon in an event of a default by an obligor. The loan-equivalent amounts of the Firm's lending-related commitments were $202.4 billion and $178.9 billion as of September 30, 2011, and December 31, 2010, respectively.

Country exposure

The Firm's wholesale portfolio includes country risk exposures to both developed and emerging markets. The Firm seeks to diversify its country exposures, including its credit-related lending, derivative, trading and investment activities, whether cross-border or locally funded.

Country exposure under the Firm's internal risk management approach is reported based on the country where the assets of the obligor, counterparty or guarantor are located or where the majority of the revenue is derived, and includes activity with both government and private-sector entities in a country. Exposure amounts include the fair value of derivative receivables and consider credit derivative protection sold and bought, based on the country of the referenced obligation. Exposure amounts, including resale agreements, are adjusted for collateral received by the Firm, for credit enhancements (e.g., guarantees and letters of credit) provided by third parties and for credit derivative protection purchased (which can be either name-specific or sovereign-referenced). Exposures supported by a guarantor located outside the country are generally assigned to the country of the enhancement provider. For trading and investment activities, other short credit or equity trading positions are taken into consideration.

The Firm's internal risk management approach differs from the reporting provided under bank regulatory requirements. There are significant reporting differences in methodology, including the treatment of collateral received and the benefit of credit derivative protection.

As part of its ongoing country risk management process, the Firm monitors exposure to emerging market countries, and utilizes country stress tests to measure and manage the risk of extreme loss associated with a sovereign crisis in one or more countries. There is no common definition of emerging markets, but the Firm generally includes in its definition those countries whose sovereign debt ratings are equivalent to "A+" or lower. The table below presents the Firm's exposure to its top 10 emerging markets countries based on its internal measurement approach. The selection of countries is based solely on the Firm's largest total exposures by country and does not represent its view of any actual or potentially adverse credit conditions.

Top 10 emerging markets country exposure

September 30, 2011	Cross-border					Total
(in billions)	Lending[a]	Trading[b]	Other[c]	Total	Local[d]	exposure
Brazil	$4.3	$(0.1)	$1.3	$5.5	$10.2	$15.7
India	5.9	4.1	1.5	11.5	1.8	13.3
South Korea	3.1	2.1	1.6	6.8	4.7	11.5
China	6.1	2.0	1.1	9.2	1.9	11.1
Hong Kong	3.5	2.0	2.7	8.2	1.8	10.0
Malaysia	0.9	1.5	0.4	2.8	2.6	5.4
Mexico	1.9	2.6	0.4	4.9	—	4.9
Taiwan	0.5	0.9	0.4	1.8	2.7	4.5
Chile	1.9	1.7	0.5	4.1	—	4.1
Russia	2.6	0.2	0.3	3.1	0.4	3.5
December 31, 2010	Cross-border					Total
(in billions)	Lending[a]	Trading[b]	Other[c]	Total	Local[d]	exposure
Brazil	$3.0	$1.8	$1.1	$5.9	$3.9	$9.8
South Korea	3.0	1.4	1.5	5.9	3.1	9.0
India	4.2	2.1	1.4	7.7	1.1	8.8
China	3.6	1.1	1.0	5.7	1.2	6.9
Hong Kong	2.5	1.5	1.2	5.2	—	5.2
Mexico	2.1	2.3	0.5	4.9	—	4.9
Malaysia	0.6	2.0	0.3	2.9	0.4	3.3
Taiwan	0.3	0.6	0.4	1.3	1.9	3.2
Thailand	0.3	1.1	0.4	1.8	0.9	2.7
Russia	1.2	1.0	0.3	2.5	—	2.5

(a) Lending exposure includes both funded loans and undrawn commitments, and is presented net of the allowance for credit losses and cash and marketable securities collateral received under the credit agreements.

(b) Trading includes: (1) issuer exposure on cross-border debt and equity instruments, held both in trading and investment accounts and adjusted for the impact of issuer hedges, including credit derivatives; and (2) counterparty exposure on derivative and foreign exchange contracts as well as securities financing trades (resale agreements and securities borrowed).

(c) Other represents mainly local exposure funded cross-border, including capital investments in local entities.

(d) Local exposure is defined as exposure to a country denominated in local currency and booked locally. Any exposure not meeting these criteria is defined as cross-border exposure.

Selected European exposure

Several European countries, including Spain, Italy, Ireland, Portugal and Greece, have been subject to credit deterioration due to weaknesses in their economic and fiscal situations. The Firm is closely monitoring its exposures in these countries. The table below presents the Firm's exposure to these five countries at September 30, 2011, as measured under the Firm's internal risk management approach.

September 30, 2011 (in billions)	AFS securities[(a)]	Trading[(b)(c)(d)]	Derivative collateral[(e)]	Portfolio hedging[(f)]	Lending[(g)]	Net exposure
Spain						
Sovereign	$2.3	$ 0.1	$—	$(0.3)	$—	$2.1
Non-sovereign	0.3	4.1	(2.1)	(0.4)	3.3	5.2
Total Spain exposure	2.6	4.2	(2.1)	(0.7)	3.3	7.3
Italy						
Sovereign	—	6.1	(0.9)	(2.8)	—	2.4
Non-sovereign	0.2	2.1	(1.6)	(0.5)	2.9	3.1
Total Italy exposure	0.2	8.2	(2.5)	(3.3)	2.9	5.5
Other (Ireland, Portugal and Greece)						
Sovereign	1.0	—	—	(1.0)	—	—
Non-sovereign	—	3.5	(2.3)	(0.2)	1.4	2.4
Total other exposure	1.0	3.5	(2.3)	(1.2)	1.4	2.4
Total						
Sovereign	3.3	6.2	(0.9)	(4.1)	—	4.5
Non-sovereign	0.5	9.7	(6.0)	(1.1)	7.6	10.7
Total exposure	$3.8	$ 15.9	$(6.9)	$(5.2)	$7.6	$15.2

(a) Represents the par value of available-for-sale securities.

(b) Includes: (1) $1.5 billion of issuer exposure on debt and equity securities held in trading, as well as market-making CDS exposure and (2) $14.4 billion of derivative and securities financing counterparty exposure.

(c) CDS exposure is presented on a net basis as such activities often result in selling and purchasing protection on the identical reference entity. As of September 30, 2011, the gross notional amount of CDS sold by the Firm across these five countries was more than 98% offset by the notional of CDS purchased on the identical reference entity. The Firm purchases CDS protection from counterparties that are domiciled outside of these countries and that are either investment-grade or well-supported by collateral arrangements. For further information about credit derivatives, see Credit derivatives on page 74 of this Form 10-Q.

(d) Securities financing exposures are presented net of collateral received. As of September 30, 2011, there were approximately $18.3 billion of securities financings, which were collateralized with approximately $20.6 billion of marketable securities.

(e) Includes cash and marketable securities pledged to the Firm. As of September 30, 2011, approximately 98% was cash.

(f) Reflects net CDS protection purchased through the Firm's credit portfolio management activities, which are managed separately from its market-making activities. Predominately all of the CDS protection is purchased from investment-grade counterparties domiciled outside of these countries. The effectiveness of the Firm's CDS protection as a hedge of the Firm's exposures may vary depending upon a number of factors, including the contractual terms of the CDS. For further information about credit derivatives see Credit derivatives on page 74 of this Form 10-Q.

(g) Lending exposure includes both funded loans and undrawn commitments, and is presented net of the allowance for credit losses and cash and marketable securities collateral received under the credit agreements. Corporate clients represent 75% of lending exposure.

Corporate clients represent 77% of the Firm’s non-sovereign net exposure in these countries, and the remaining 23% represent exposure to the banking sector.

The Firm believes its exposure to these five countries is modest relative to the Firm’s overall risk exposures and is manageable given the size and types of exposures to each of the countries and the diversification of the aggregate exposure.

The Firm continues to conduct business and support client activity in these countries and, therefore, the Firm’s aggregate net exposures and sector distribution may vary over time. In addition, the net exposures may be affected by changes in market conditions, including the effects of interest rates and credit spreads on market valuations.

CONSUMER CREDIT PORTFOLIO

JPMorgan Chase’s consumer portfolio consists primarily of residential mortgages, home equity loans and lines of credit, credit cards, auto loans, business banking loans, and student loans. The Firm’s primary focus is on serving the prime consumer credit market. For further information on the consumer loans, see Note 13 on pages 136–157 of this Form 10-Q.

A substantial portion of the consumer loans acquired in the September 2008 Washington Mutual transaction were identified as purchased credit-impaired based on an analysis of high-risk characteristics, including product type, loan-to-value (“LTV”) ratios, FICO scores and delinquency status. These PCI loans are accounted for on a pool basis, and the pools are considered to be performing. For further information on PCI loans see Note 13 on pages 136–157 of this Form 10-Q and Note 14 on pages 220–238 of JPMorgan Chase’s 2010 Annual Report.

The credit performance of the consumer portfolio across the entire product spectrum has improved, particularly in credit card, but high unemployment and weak overall economic conditions continued to result in an elevated number of residential real estate loans that were charged-off, while weak housing prices continued to negatively affect the severity of loss recognized on residential real estate loans that default. Early-stage residential real estate delinquencies (30–89 days delinquent) declined during the first half of the year, but flattened during the third quarter, while late-stage delinquencies (150+ days delinquent) have steadily declined in 2011. In spite of the declines, real estate delinquencies remained elevated. The elevated level of the late-stage delinquent loans is due, in part, to loss-mitigation activities currently being undertaken and to elongated foreclosure processing timelines. Losses related to these loans continued to be recognized in accordance with the Firm’s standard charge-off practices, but some delinquent loans that would otherwise have been foreclosed upon remain in the mortgage and home equity loan portfolios. In addition to these elevated delinquencies, ongoing weak economic conditions and housing prices, continuing discussions regarding mortgage foreclosure-related matters with federal and state officials, uncertainties regarding the ultimate success of loan modifications, and the risk attributes of certain loans within the portfolio (e.g. loans with high LTV ratios, junior lien loans behind a delinquent or modified senior lien) continue to result in a high level of uncertainty regarding credit risk in the residential real estate portfolio.

The Firm has taken actions since the onset of the economic downturn in 2007 to tighten underwriting and loan qualification standards and to eliminate certain products and loan origination channels, which have resulted in the reduction of credit risk and improved credit performance for recent loan vintages.

The following table presents managed consumer credit-related information (including RFS, Card Services & Auto, and residential real estate loans reported in the Corporate/Private Equity segment) for the dates indicated. For further information about the Firm's nonaccrual and charge-off accounting policies, see Note 14 on pages 220–238 of JPMorgan Chase's 2010 Annual Report.

Consumer credit portfolio					Three months ended September 30,				Nine months ended September 30,			
	Credit exposure		Nonaccrual loans[g][h]		Net charge-offs		Average annual net charge-off rate[i]		Net charge-offs		Average annual net charge-off rate[i]	
(in millions, except ratios)	Sep 30, 2011	Dec 31, 2010	Sep 30, 2011	Dec 31, 2010	2011	2010	2011	2010	2011	2010	2011	2010
Consumer, excluding credit card												
Loans, excluding PCI loans and loans held-for-sale												
Home equity – senior lien	$22,364	$24,376	$479	$479	$67	$58	1.17%	0.90%	$206	$197	1.17%	0.99 %
Home equity – junior lien	57,914	64,009	811	784	514	672	3.46	3.94	1,687	2,455	3.72	4.70
Prime mortgage, including option ARMs	74,230	74,539	3,656	4,320	182	276	0.97	1.46	552	1,051	0.99	1.85
Subprime mortgage	10,045	11,287	1,932	2,210	141	206	5.43	6.64	483	945	6.04	9.72
Auto[a]	46,659	48,367	114	141	42	67	0.36	0.56	108	227	0.31	0.64
Business banking	17,272	16,812	756	832	126	175	2.91	4.18	362	534	2.85	4.28
Student and other	14,492	15,311	68	67	87	92	2.36	2.32	303	338	2.72	2.79
Total loans, excluding PCI loans and loans held-for-sale	242,976	254,701	7,816	8,833	1,159	1,546	1.88	2.36	3,701	5,747	1.99	2.89
Loans – PCI[b]												
Home equity	23,105	24,459	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Prime mortgage	15,626	17,322	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Subprime mortgage	5,072	5,398	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Option ARMs	23,325	25,584	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Total loans – PCI	67,128	72,763	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Total loans – retained	310,104	327,464	7,816	8,833	1,159	1,546	1.47	1.83	3,701	5,747	1.56	2.24
Loans held-for-sale[c]	131	154	—	—	—	—	—	—	—	—	—	—

Total consumer, excluding credit card loans	310,235	327,618	7,816	8,833	1,159	1,546	1.47	1.83	3,701	5,747	1.56	2.24
Lending-related commitments												
Home equity – senior lien[d]	16,902	17,662										
Home equity – junior lien[d]	27,576	30,948										
Prime mortgage	1,512	1,266										
Subprime mortgage	—	—										
Auto	7,416	5,246										
Business banking	10,284	9,702										
Student and other	891	579										
Total lending-related commitments	64,581	65,403										
Receivables from customers[e]	104	—										
Total consumer exposure, excluding credit card	374,920	393,021										
Credit Card												
Loans retained[f]	127,041	135,524	2	2	1,499	3,133	4.70	8.87	5,535	11,366	5.83	10.31
Loans held-for-sale	94	2,152	—	—	—	—	—	—	—	—	—	—
Total credit card loans	127,135	137,676	2	2	1,499	3,133	4.70	8.87	5,535	11,366	5.83	10.31
Lending-related commitments[d]	528,830	547,227										
Total credit card exposure	655,965	684,903										
Total consumer credit portfolio	$1,030,885	$1,077,924	$7,818	$8,835	$2,658	$4,679	2.40%	3.90%	$9,236	$17,113	2.78%	4.66 %
Memo: Total consumer credit portfolio, excluding PCI	$963,757	$1,005,161	$7,818	$8,835	$2,658	$4,679	2.84%	4.64%	$9,236	$17,113	3.29%	5.54 %

(a) At September 30, 2011, and December 31, 2010, excluded operating lease–related assets of $4.3 billion and $3.7 billion, respectively.

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

(c) Represents prime mortgage loans held-for-sale.

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

(e) Receivables from customers represents primarily margin loans and retail brokerage customers, which are included in accrued interests and accounts receivable on the Consolidated Balance Sheets.

(f) Includes billed finance charges and fees net of an allowance for uncollectible amounts.

(g) At September 30, 2011, and December 31, 2010, nonaccrual loans excluded: (1) mortgage loans insured by U.S. government agencies of $9.5 billion and $9.4

billion, respectively, that are 90 or more days past due; and (2) student loans insured by U.S. government agencies under the FFELP of $567 million and $625 million, respectively, that are 90 or more days past due. These amounts were excluded as reimbursement of insured amounts is proceeding normally. In addition, the Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance. Under guidance issued by the FFIEC, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.

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

(i) Average consumer loans held-for-sale were $109 million and $338 million, respectively, for the three months ended September 30, 2011 and 2010, and $1.2 billion and $1.7 billion, respectively, for the nine months ended September 30, 2011 and 2010. These amounts were excluded when calculating net charge-off rates.

Consumer, excluding credit card

Consumer loan balances declined during the nine months ended September 30, 2011, due to paydowns, portfolio run-off and charge-offs. Credit performance has improved across most portfolios but remains under stress. The following discussion relates to the specific loan and lending-related categories. PCI loans are generally excluded from individual loan product discussions and are addressed separately below.

Home equity: Home equity loans at September 30, 2011, were $80.3 billion, compared with $88.4 billion at December 31, 2010. The decrease in this portfolio primarily reflected loan paydowns and charge-offs. Senior lien nonaccrual loans remained flat compared with December 31, 2010, while junior lien nonaccrual loans increased slightly. Early-stage delinquencies modestly improved from December 31, 2010; net charge-offs improved from the same period of the prior year.

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

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

At September 30, 2011, the Firm estimates that its home equity portfolio contained approximately $4 billion of junior lien loans where the borrower has a first mortgage loan that is either delinquent or has been modified ("high-risk seconds"). Such loans are considered to pose a higher risk of default than that of junior lien loans for which the senior lien is neither delinquent nor modified. Of this estimated $4 billion balance, the Firm owns approximately 5% and services approximately 30% of the related senior lien loans to these same borrowers. The Firm estimates the balance of its total exposure to high-risk seconds on a quarterly basis using summary-level output from a database of information about senior and junior lien mortgage and home equity loans maintained by one of the bank regulatory agencies. This database comprises loan-level data provided by a number of servicers across the industry (including JPMorgan Chase). The performance of the Firm's junior lien loans is generally consistent regardless of whether the Firm owns, services or does not service the senior lien. The increased probability of default associated with these

higher-risk junior lien loans was considered in estimating the allowance for loan losses.
Mortgage: Mortgage loans at September 30, 2011, including prime, subprime and loans held-for-sale, were $84.4 billion, compared with $86.0 billion at December 31, 2010. The decrease was primarily due to paydowns, portfolio run-off and charge-offs or liquidation of delinquent loans, partially offset by prime mortgage originations. Net charge-offs decreased from the third quarter of 2010, but remained elevated.
Prime mortgages, including option adjustable-rate mortgages ("ARMs") and loans held-for-sale at September 30, 2011, were $74.4 billion, compared with $74.7 billion at December 31, 2010. The decrease was due to charge-offs or liquidation of delinquent loans, paydowns, and portfolio run-off of option ARM loans, mostly offset by prime mortgage originations. Excluding loans insured by U.S. government agencies, both early-stage and late-stage delinquencies showed modest improvement during the year but remained elevated. Nonaccrual loans showed improvement, but also remained elevated as a result of ongoing foreclosure processing delays. Net charge-offs declined year-over-year but remained high.
Option ARM loans, which are included in the prime mortgage portfolio, were $7.7 billion and $8.1 billion and represented 10% and 11% of the prime mortgage portfolio at September 30, 2011, and December 31, 2010, respectively. The decrease in option ARM loans resulted from portfolio run-off, partially offset by the repurchase of loans previously securitized as the securitization entities were terminated. The Firm's option ARM loans, other than those held in the PCI portfolio, are primarily loans with lower LTV ratios and higher borrower FICOs. Accordingly, the Firm expects substantially lower losses on this portfolio when compared

with the PCI option ARM pool. As of September 30, 2011, approximately 6% of option ARM borrowers were delinquent, 4% were making interest-only or negatively amortizing payments, and 90% were making amortizing payments. Approximately 83% of borrowers within the portfolio are subject to risk of payment shock due to future payment recast, as only a limited number of these loans have been modified. The cumulative amount of unpaid interest added to the unpaid principal balance due to negative amortization of option ARMs was not material at either September 30, 2011, or December 31, 2010. The Firm estimates the following balances of option ARM loans will experience a recast that results in a payment increase: $24 million in 2011, $107 million in 2012 and $350 million in 2013. The Firm did not originate option ARMs and new originations of option ARMs were discontinued by Washington Mutual prior to the date of JPMorgan Chase's acquisition of its banking operations.

Subprime mortgages at September 30, 2011, were $10.0 billion, compared with $11.3 billion at December 31, 2010. The decrease was due to portfolio run-off and charge-offs or liquidation of delinquent loans. Both early-stage and late-stage delinquencies improved from December 31, 2010. However, delinquencies and nonaccrual loans remained at elevated levels. Net charge-offs improved from the same period in the prior year.

Auto: Auto loans at September 30, 2011, were $46.7 billion, compared with $48.4 billion at December 31, 2010. Loan balances declined due to paydowns and payoffs, which were only partially offset by new originations reflecting the impact of increased competition. Delinquent and nonaccrual loans have decreased from December 31, 2010. Net charge-offs declined from the prior year as a result of a decline in loss severity due to a strong used-car market nationwide. The auto loan portfolio reflected a high concentration of prime-quality credits.

Business banking: Business banking loans at September 30, 2011, were $17.3 billion, compared with $16.8 billion at December 31, 2010. The increase was due to growth in new loan origination volumes. These loans primarily include loans that are collateralized, often with personal loan guarantees, and may also include Small Business Administration guarantees. Delinquent loans and nonaccrual loans showed some improvement from December 31, 2010, but remain elevated. Net charge-offs declined from the prior year.

Student and other: Student and other loans at September 30, 2011, were $14.5 billion, compared with $15.3 billion at December 31, 2010. The decrease was due to paydowns and charge-offs on delinquent loans in student loans. Other loans primarily include other secured and unsecured consumer loans. Delinquencies and nonaccrual loans remained elevated, while charge-offs decreased from the prior-year quarter.

Purchased credit-impaired loans: PCI loans at September 30, 2011, were $67.1 billion, compared with $72.8 billion at December 31, 2010. This portfolio represents loans acquired in the Washington Mutual transaction that were recorded at fair value at the time of acquisition.

The Firm regularly updates the amount of principal and interest cash flows expected to be collected for these loans. Probable decreases in expected loan principal cash flows would trigger the recognition of impairment through the provision for loan losses. Probable and significant increases in expected cash flows (e.g., decreased principal credit losses, the net benefit of modifications) would first reverse any previously recorded allowance for loan losses, with any remaining increase in the expected cash flows recognized prospectively in interest income over the remaining estimated lives of the underlying loans. At both September 30, 2011, and December 31, 2010, the Firm's allowance for loan losses for the home equity, prime mortgage, subprime mortgage and option ARM PCI pools was $1.6 billion, $1.8 billion, $98 million and $1.5 billion, respectively.

Approximately 33% of the option ARM PCI loans were delinquent, 3% were making interest-only or negatively amortizing payments, and 64% were making amortizing payments. Approximately 65% of current borrowers have been modified into fixed-rate, fully amortizing loans; substantially all of the remaining loans are subject to risk of payment shock due to future payment recast. The cumulative amount of unpaid interest added to the unpaid principal balance of the option ARM PCI pool was $1.2 billion and $1.4 billion at September 30, 2011, and December 31, 2010, respectively. The Firm estimates the following balances of option ARM PCI loans will experience a recast that results in a payment increase: $281 million in 2011, $2.0 billion in 2012 and $300 million in 2013.

The following table provides a summary of lifetime principal loss estimates included in both the nonaccretable difference and the allowance for loan losses. During the third quarter of 2011, the Firm's estimate of principal losses was reduced as a result of loan modifications; however, estimated cash flows of the PCI loan pools did not increase due to foregone interest resulting from these modifications. Principal charge-offs will not be recorded on these pools until the nonaccretable difference has been fully depleted.

(in billions)	Lifetime loss estimates[a] September 30, 2011	Lifetime loss estimates[a] December 31, 2010	LTD liquidation losses[b] September 30, 2011	LTD liquidation losses[b] December 31, 2010
Home equity	$14.6	$14.7	$10.1	$8.8
Prime mortgage	4.7	4.9	2.1	1.5
Subprime mortgage	3.5	3.7	1.6	1.2
Option ARMs	11.6	11.6	6.2	4.9
Total	$34.4	$34.9	$20.0	$16.4

(a) Includes the original nonaccretable difference established in purchase accounting of $30.5 billion for principal losses only plus additional principal losses recognized subsequent to acquisition through the provision and allowance for loan losses. The remaining nonaccretable difference for principal losses only was $10.5 billion and $14.1 billion at September 30, 2011, and December 31, 2010, respectively.

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

Geographic composition and current LTVs of residential real estate loans

The consumer credit portfolio is geographically diverse. At both September 30, 2011, and December 31, 2010, California had the greatest concentration of residential real estate loans with 24% of the total retained residential real estate loan portfolio, excluding mortgage loans insured by U.S. government agencies and PCI loans. Of the total retained residential real estate loan portfolio, excluding mortgage loans insured by U.S. government agencies and PCI loans, $80.8 billion, or 54%, were concentrated in California, New York, Arizona, Florida and Michigan at September 30, 2011, compared with $86.4 billion, or 54%, at December 31, 2010.

The current estimated average LTV ratio for residential real estate loans retained, excluding mortgage loans insured by U.S. government agencies and PCI loans, was 82% at September 30, 2011, compared with 83% at December 31, 2010. Excluding mortgage loans insured by U.S. government agencies and PCI loans, 23% of the retained portfolio had a current estimated LTV ratio greater than 100%, and 10% of the retained portfolio had a current estimated LTV ratio greater than 125% at September 30, 2011, compared with 24% and 10%, respectively, at December 31, 2010.

The decline in home prices since 2007 has had a significant impact on the collateral values underlying the Firm's residential real estate loan portfolio. In general, the delinquency rate for loans with high LTV ratios is greater than the delinquency rate for loans in which the borrower has equity in the collateral. While a large portion of the loans with current estimated LTV ratios greater than 100% continue to pay and are current, the continued willingness and ability of these borrowers to pay remains uncertain.

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

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

(in millions, except ratios)	September 30, 2011				December 31, 2010			
	Unpaid principal balance [a]	Current estimated LTV ratio[b]	Net carrying value[d]	Ratio of net carrying value to current estimated	Unpaid principal balance[a]	Current estimated LTV ratio[b]	Net carrying value[d]	Ratio of net carrying value to current estimated collateral value[d]

					collateral value(d)							
Home equity	$25,800	115	%(c)	$21,522	96	%	$28,312	117	%(c)	$22,876	95	%
Prime mortgage	16,682	108		13,860	90		18,928	109		15,556	90	
Subprime mortgage	7,437	114		4,974	76		8,042	113		5,300	74	
Option ARMs	27,163	108		21,831	86		30,791	111		24,090	87	

(a) Represents the contractual amount of principal owed at September 30, 2011, and December 31, 2010.

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

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

(d) Net carrying value includes the effect of fair value adjustments that were applied to the consumer PCI portfolio at the date of acquisition and is also net of the allowance for loan losses, which was $1.6 billion for home equity, $1.8 billion for prime mortgage, $98 million for subprime mortgage and $1.5 billion for option ARMs at both September 30, 2011, and December 31, 2010. Prior-period amounts have been revised to conform to the current-period presentation.

PCI loans in the states of California and Florida represented 53% and 10%, respectively, of total PCI loans at both September 30, 2011, and December 31, 2010. The current estimated average LTV ratios were 114% and 137% for California and Florida loans, respectively, at September 30, 2011, compared with 118% and 135%, respectively, at December 31, 2010. Continued pressure on housing prices in California and Florida have contributed negatively to both the current estimated average LTV ratio and the ratio of net carrying value to current estimated collateral value for loans in the PCI portfolio. Of the PCI portfolio, 61% had a current estimated LTV ratio greater than 100%, and 29% had a current estimated LTV ratio greater than 125% at September 30, 2011, compared with 63% and 31%, respectively, at December 31, 2010.

While the current estimated collateral value is greater than the net carrying value of PCI loans, the ultimate performance of this portfolio is highly dependent on borrowers' behavior and ongoing ability and willingness to continue to make payments on homes with negative equity, as well as on the cost of alternative housing. For further information on the geographic composition and current estimated LTVs of residential real estate – non-PCI and PCI loans, see Note 13 on pages 142–154 of this Form 10-Q.

Loan modification activities

For additional information about consumer loan modification activities, including consumer loan modifications accounted for as troubled debt restructurings ("TDRs"), see Note 13 on pages 142–154 of this Form 10-Q and Note 14 on pages 220–238 of JPMorgan Chase's 2010 Annual Report.

Residential real estate loans: For both the Firm's on–balance sheet loans and loans serviced for others, more than 1,224,000 mortgage modifications have been offered to borrowers and approximately 428,000 have been approved since the beginning of 2009. Of these, approximately 405,000 have achieved permanent modification as of September 30, 2011. Of the remaining 796,000 offered modifications, 26% are in a trial period or still being reviewed for a modification, while 74% have dropped out of the modification program or otherwise were not eligible for final modification.

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

MHA, as well as the Firm's other loss-mitigation programs, generally provide various concessions to financially troubled borrowers, including, but not limited to, interest rate reductions, term or payment extensions, and deferral or forgiveness of principal payments that would have otherwise been required under the terms of the original agreement. For further information about how loans are modified, see Note 13, Nature and extent of modifications, on pages 148–149 of this Form 10-Q.

Generally, modifications for borrowers who are in actual or imminent default require at least three payments to be made under the new terms during a trial modification period and must be successfully re-underwritten with income verification before the loan can be permanently modified. In the case of specific targeted modification programs, re-underwriting the loan or a trial modification period is generally not required. When the Firm modifies home equity lines of credit, future lending commitments related to the modified loans are canceled as part of the terms of the modification.

The ultimate success of these modification programs and their impact on reducing credit losses remains uncertain given the relatively short period of time since the introduction of these modification programs. The primary indicator used by management to monitor the success of these programs is the rate at which the modified loans redefault. Modification redefault rates are affected by a number of factors, including the type of loan modified, the borrower's overall ability and willingness to repay the modified loan and other macroeconomic factors. Reduction in payment size for a borrower has shown to be the most significant driver in improving redefault rates. Modifications completed after July 1, 2009, whether under HAMP or under the Firm's similar modification programs, differ from modifications completed under prior programs in that they are generally fully underwritten after a successful trial payment period of at least three months. Performance metrics to date for modifications seasoned more than six months show weighted average redefault rates of 22% and 29% for HAMP and the Firm's similar modification programs, respectively. These redefault rates exclude certain recent modifications that were offered to borrowers who were current on their loans prior to modification, but who were subject to future payment recast risk, as well as other recent targeted modification programs. The weighted average default rate for such modifications that have seasoned more than six months was 5%. While the redefault rates for HAMP and the Firm's other modification programs compare favorably to equivalent metrics for modifications completed under programs in effect prior to July 1, 2009, ultimate redefault rates remain uncertain until modified loans have seasoned.

The following table presents information as of September 30, 2011, and December 31, 2010, relating to restructured on–balance sheet residential real estate loans for which concessions have been granted to borrowers experiencing financial difficulty. Modifications of PCI loans continue to be accounted for and reported as PCI loans, and the impact of the modification is incorporated into the Firm's quarterly assessment of estimated future cash flows. Modifications of consumer loans other than PCI loans are generally accounted for and reported as TDRs. For further information on TDRs for the three months and nine months ended September 30, 2011, see Note 13 on pages 146-152 on this Form 10-Q.

Restructured residential real estate loans

	September 30, 2011		December 31, 2010	
(in millions)	On–balance sheet loans	Nonaccrual on–balance sheet loans[d]	On–balance sheet loans	Nonaccrual on–balance sheet loans[d]
Restructured residential real estate loans – excluding PCI loans[a][b]				
Home equity – senior lien	$275	$48	$226	$38
Home equity – junior lien	606	201	283	63
Prime mortgage, including option ARMs	4,376	738	2,084	534
Subprime mortgage	3,007	752	2,751	632
Total restructured residential real estate loans – excluding PCI loans	$8,264	$1,739	$5,344	$1,267
Restructured PCI loans[c]				
Home equity	$883	NA	$492	NA
Prime mortgage	4,762	NA	3,018	NA
Subprime mortgage	3,757	NA	3,329	NA
Option ARMs	12,907	NA	9,396	NA
Total restructured PCI loans	$22,309	NA	$16,235	NA

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

(b) At September 30, 2011, and December 31, 2010, $3.8 billion and $3.0 billion, respectively, of loans modified subsequent to repurchase from Ginnie Mae in accordance with the standards of the appropriate government agency (i.e., FHA, VA, RHS) were excluded from loans accounted for as TDRs. When such loans perform subsequent to modification in accordance with Ginnie Mae guidelines, they are generally sold back into Ginnie Mae loan pools. Modified loans that do not re-perform become subject to foreclosure. For additional information about sales of loans in securitization transactions with Ginnie Mae, see Note 15 on pages 160–168 of this Form 10-Q.

(c) Amounts represent the unpaid principal balance of restructured PCI loans.

(d) Nonaccrual loans modified in a TDR may be returned to accrual status when repayment is reasonably assured and the borrower has made a minimum of six payments under the new terms or three payments subsequent to permanent modification if trial modification payments were made. As of September 30, 2011, and December 31, 2010, nonaccrual loans included $997 million and $580 million, respectively, of TDRs for which the borrowers had not yet made six payments under the modified terms.

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

The Firm has a well-defined foreclosure prevention process when a borrower fails to pay on his or her loan. Customer contacts are attempted multiple times in various ways to pursue options other than foreclosure. In addition, if the Firm is unable to contact a customer, various reviews are completed of a borrower's facts and circumstances before a foreclosure sale is completed. By the time of a foreclosure sale, borrowers have not made a payment on average for more than 14 months.

The foreclosure process is governed by laws and regulations established on a state-by-state basis. In some states, the foreclosure process involves a judicial process requiring filing documents with a court. In other states, the process is mostly non-judicial, involving various processes, some of which require filing documents with governmental agencies. During the third quarter of 2010, the Firm became aware that certain documents executed by Firm personnel in connection with the foreclosure process may not have complied with all applicable procedural requirements. As a result, the Firm instructed its outside foreclosure counsel to temporarily suspend foreclosures, foreclosure sales and evictions in 43 states so that it could review its processes. These matters are the subject of investigation by federal and state officials. For further discussion, see "Mortgage Foreclosure Investigations and Litigation" in Note 23 on page 186 of this Form 10-Q.

As of January 2011, the Firm had resumed initiation of new foreclosure proceedings in nearly all states in which it had previously suspended such proceedings.

Nonperforming assets

The following table presents information as of September 30, 2011, and December 31, 2010, about consumer, excluding credit card, nonperforming assets.

Nonperforming assets[(a)]

(in millions)	September 30, 2011	December 31, 2010
Nonaccrual loans[(b)(c)]		
Home equity – senior lien	$479	$479
Home equity – junior lien	811	784
Prime mortgage, including option ARMs	3,656	4,320
Subprime mortgage	1,932	2,210
Auto	114	141
Business banking	756	832
Student and other	68	67
Total nonaccrual loans	7,816	8,833
Assets acquired in loan satisfactions		
Real estate owned	874	1,294
Other	52	67
Total assets acquired in loan satisfactions	926	1,361
Total nonperforming assets	$8,742	$10,194

(a) At September 30, 2011, and December 31, 2010, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $9.5 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 $2.4 billion and $1.9 billion, respectively; and (3) student loans insured by U.S. government agencies under the FFELP of $567 million and $625 million, respectively, that are 90 or more days past due. These amounts were excluded as reimbursement of insured amounts is proceeding normally.

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

(c) At September 30, 2011, and December 31, 2010, consumer, excluding credit card nonaccrual loans represented 2.52% and 2.70%, respectively, of total consumer, excluding credit card loans.

Nonaccrual loans: Total consumer, excluding credit card, nonaccrual loans were $7.8 billion at September 30, 2011, compared with $8.8 billion at December 31, 2010. Nonaccrual loans have declined, but remain at elevated levels. The elongated foreclosure processing timelines is expected to continue to result in elevated levels of nonaccrual loans in the residential real estate portfolios. In addition, the Firm's policy that modified loans remain in nonaccrual status until repayment is reasonably assured and the borrower has made a minimum of six payments under the new terms or three payments subsequent to permanent modification if trial modification payments were made has also contributed to the elevated levels of nonaccrual loans. Nonaccrual loans in the residential real estate portfolio totaled $6.9 billion at September 30, 2011, of which 69% were greater than 150 days past due; this compared with nonaccrual residential real estate loans of $7.8 billion at December 31, 2010, of which 71% were greater than 150 days past due. Modified residential real estate loans of $1.7 billion and $1.3 billion at September 30, 2011, and December 31, 2010, respectively, were classified as nonaccrual loans. Of these modified residential real estate loans, $997 million and $580 million had yet to make six payments under their modified terms at September 30, 2011, and December 31, 2010, respectively, with the remaining nonaccrual modified loans having redefaulted. In the aggregate, the unpaid principal balance of residential real estate loans greater than 150 days past due was charged down by approximately 49% and 46% to estimated collateral value at September 30, 2011, and December 31, 2010, respectively.

Real estate owned ("REO"): REO assets, excluding those insured by U.S. government agencies, decreased by $420 million from $1.3 billion at December 31, 2010, to $874 million at September 30, 2011.

Enhancements to mortgage servicing

During the second quarter of 2011, the Firm entered into Consent Orders with banking regulators relating to its residential mortgage servicing, foreclosure and loss-mitigation activities. In their Orders, the regulators have mandated significant changes to the Firm's servicing and default business and outlined requirements to implement these changes. In accordance with the requirements of the Consent Orders, the Firm submitted a comprehensive action plan in September 2011 and has commenced implementation. The plan sets forth the steps necessary to ensure the Firm's residential mortgage servicing, foreclosure and loss-mitigation activities are conducted in accordance with the requirements of the Orders. In addition, the Firm has undertaken remedial actions to ensure that it satisfies all requirements relating to mortgage servicing, foreclosures and loss-mitigation activities outlined in the Consent Orders. To date, the Firm has implemented a number of corrective actions including the following:

- Established an independent Compliance Committee which meets regularly and monitors progress against the Consent Orders.
- Launched a single point of contact for borrowers to ensure effective coordination and communication related to foreclosure,

loss-mitigation and loan modification.

- Enhanced its approach to oversight over third-party vendors for foreclosure or other related functions.
- Standardized the processes for maintaining appropriate controls and oversight of the Firm's activities with respect to the Mortgage Electronic Registration system ("MERS") and compliance with MERSCORP's membership rules, terms and conditions.
- Strengthened its compliance program so as to ensure mortgage-servicing and foreclosure operations, including loss-mitigation and loan modification, comply with all applicable legal requirements.
- Enhanced management information systems for loan modification, loss-mitigation and foreclosure activities.
- Developed a comprehensive assessment of risks in servicing operations including, but not limited to, operational, transaction, legal and reputational risks.

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

Additionally, pursuant to the Consent Orders, the Firm has retained an independent consultant to conduct a review of its residential foreclosure actions during the period from January 1, 2009, through December 31, 2010 (including foreclosure actions brought in respect of loans being serviced), and to remediate any errors or deficiencies identified by the independent consultant, including, if required, by reimbursing borrowers for any identified financial injury they may have incurred. The identification of residential mortgage loans serviced by the Firm in which a foreclosure action was initiated has been provided to the Independent Consultant. The borrower outreach process is being finalized and is expected to begin in the fourth quarter of 2011. For additional information, see Note 23 on pages 181–189 of this Form 10-Q.

Credit Card

Total credit card loans were $127.1 billion at September 30, 2011, a decrease of $10.5 billion from December 31, 2010, due to lower seasonal balances, higher repayment rates, runoff of the Washington Mutual portfolio and the Firm's sale of the $3.7 billion Kohl's portfolio on April 1, 2011.

For the retained credit card portfolio, the 30+ day delinquency rate decreased to 2.90% at September 30, 2011, from 4.14% at December 31, 2010; and the net charge-off rate decreased to 4.70% for the three months ended September 30, 2011, from 8.87% for the three months ended September 30, 2010. For the nine months ended September 30, 2011 and 2010, the respective net charge-off rates were 5.83% and 10.31%. The delinquency trend is showing improvement, but the improvement slowed toward the end of the third quarter. Charge-offs have improved as a result of lower delinquent loans. The credit card portfolio continues to reflect a well-seasoned, largely rewards-based portfolio that has good U.S. geographic diversification. The greatest geographic concentration of credit card retained loans is in California, which represented 13% of total retained loans at both September 30, 2011, and December 31, 2010. Loan concentration for the top five states of California, New York, Texas, Florida and Illinois consisted of $51.4 billion in receivables, or 40% of the retained loan portfolio, at September 30, 2011, compared with $54.4 billion, or 40%, at December 31, 2010.

Total retained credit card loans, excluding the Washington Mutual portfolio, were $115.7 billion at September 30, 2011, compared with $121.8 billion at December 31, 2010. The 30+ day delinquency rate was 2.62% at September 30, 2011, down from 3.73% at December 31, 2010, and the net charge-off rate decreased to 4.29% for the three months ended September 30, 2011, from 8.06% for the three months ended September 30, 2010. For the nine months ended September 30, 2011 and 2010, the respective net charge-off rates were 5.27% and 9.24%.

Retained credit card loans in the Washington Mutual portfolio were $11.4 billion at September 30, 2011, compared with $13.7 billion at December 31, 2010. The Washington Mutual portfolio's 30+ day delinquency rate was 5.68% at September 30, 2011, down from 7.74% at December 31, 2010. The respective net charge-off rates for the three months ended September 30, 2011 and 2010, were 8.79% and 15.58%, and for the nine months ended September 30, 2011 and 2010, the respective net charge-off rates were 11.09% and 18.72%.

Modifications of credit card loans

For additional information about loan modification programs to borrowers, see Modifications of credit card loans on pages 137–138 of JPMorgan Chase's 2010 Annual Report.

At September 30, 2011, and December 31, 2010, the Firm had $7.8 billion and $10.0 billion, respectively, of on–balance sheet credit card loans outstanding that have been modified in TDRs. These balances included both credit card loans with modified payment terms and credit card loans that reverted back to their pre-modification payment terms. The decrease in modified credit card loans outstanding from December 31, 2010, was primarily attributable to a reduction in new modifications, with ongoing payments or charge-offs on previously modified credit card loans also contributing to the decrease. The Firm expects that a significant portion of the borrowers whose loans have been modified will not ultimately comply with the modified payment terms. Based on historical experience, the estimated weighted-average ultimate default rates for modified credit card loans were 36.22% at September 30, 2011, and 36.45% at December 31, 2010.

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

COMMUNITY REINVESTMENT ACT EXPOSURE

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

At September 30, 2011, and December 31, 2010, the Firm's CRA loan portfolio was approximately $15 billion and $16 billion, respectively. At September 30, 2011, and December 31, 2010, 64% and 65%, respectively, of the CRA portfolio were residential mortgage loans; 16% and 15%, respectively, were business banking loans; 14%, for both periods, were commercial real estate loans; and 6%, respectively, were other loans for both periods. CRA nonaccrual loans were 6% of the Firm's nonaccrual loans at both September 30, 2011, and December 31, 2010, respectively. Net charge-offs in the CRA portfolio were 3%, of the Firm's net charge-offs for each of the three months ended September 30, 2011 and 2010. For the nine months ended September 30, 2011 and 2010, the net charge-offs in the CRA portfolio were 3% and 2%, respectively, of the Firm's net charge-offs.

ALLOWANCE FOR CREDIT LOSSES

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

For a further discussion of the components of the allowance for credit losses, see Critical Accounting Estimates Used by the Firm on pages 95–97 and Note 14 on pages 158–159 of this Form 10-Q.

At least quarterly, the allowance for credit losses is reviewed by the Chief Risk Officer, the Chief Financial Officer and the Controller of the Firm, and discussed with the Risk Policy and Audit Committees of the Board of Directors of the Firm. As of September 30, 2011, JPMorgan Chase deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb losses inherent in the portfolio).

The allowance for credit losses was $29.0 billion at September 30, 2011, a decrease of $3.9 billion from $33.0 billion at December 31, 2010. The credit card allowance for loan losses decreased by $3.5 billion from December 31, 2010, primarily as a result of lower estimated losses. The wholesale allowance for loan losses decreased by $459 million from December 31, 2010, primarily related to the impact of loan sales and net repayments.

The allowance for lending-related commitments for both the wholesale and consumer, excluding credit card portfolios, which is reported in other liabilities, totaled $686 million and $717 million at September 30, 2011, and December 31, 2010, respectively.

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

Summary of changes in the allowance for credit losses

	2011				2010			
Nine months ended September 30, (in millions, except ratios)	Wholesale	Consumer, excluding credit card	Credit card	Total	Wholesale	Consumer, excluding credit card	Credit card	Total
Allowance for loan losses								
Beginning balance at January 1,	$4,761	$16,471	$11,034	$32,266				