# JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

(a wholly-owned subsidiary of JPMorgan Chase & Co.)

## CONSOLIDATED FINANCIAL STATEMENTS

For the quarterly period ended June 30, 2011

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**For the quarterly period ended June 30, 2011**


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**JPMORGAN CHASE BANK, NATIONAL ASSOCIATION**
**(a wholly-owned subsidiary of JPMorgan Chase & Co.)**
**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

| (in millions) | Three months ended June 30, 2011 | Three months ended June 30, 2010 | Six months ended June 30, 2011 | Six months ended June 30, 2010 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Investment banking fees | **$ 900** | $ 717 | **$ 1,857** | $ 1,379 |
| Principal transactions | **1,724** | 2,341 | **4,512** | 5,586 |
| Lending- and deposit-related fees | **1,646** | 1,583 | **3,185** | 3,224 |
| Asset management, administration and commissions | **2,546** | 2,383 | **4,990** | 4,638 |
| Securities gains[(a)] | **835** | 951 | **924** | 1,650 |
| Mortgage fees and related income | **1,102** | 833 | **562** | 1,434 |
| Credit card income | **1,034** | 827 | **1,973** | 1,584 |
| Other income | **851** | 696 | **1,542** | 1,041 |
| **Noninterest revenue** | **10,638** | 10,331 | **19,545** | 20,536 |
| Interest income | **11,261** | 10,602 | **21,844** | 21,863 |
| Interest expense | **2,294** | 1,715 | **4,260** | 3,552 |
| **Net interest income** | **8,967** | 8,887 | **17,584** | 18,311 |
| **Total net revenue** | **19,605** | 19,218 | **37,129** | 38,847 |
| Provision for credit losses | **1,167** | 1,292 | **2,206** | 4,723 |
| **Noninterest expense** | | | | |
| Compensation expense | **5,722** | 5,863 | **12,071** | 11,241 |
| Occupancy expense | **825** | 755 | **1,681** | 1,522 |
| Technology, communications and equipment expense | **1,090** | 1,027 | **2,159** | 2,029 |
| Professional and outside services | **1,363** | 1,172 | **2,618** | 2,263 |
| Marketing | **222** | 194 | **398** | 368 |
| Other expense | **4,813** | 3,007 | **7,769** | 7,142 |
| Amortization of intangibles | **120** | 132 | **240** | 264 |
| **Total noninterest expense** | **14,155** | 12,150 | **26,936** | 24,829 |
| Income before income tax expense | **4,283** | 5,776 | **7,987** | 9,295 |
| Income tax expense | **1,400** | 1,825 | **2,403** | 2,610 |
| **Net income** | **$ 2,883** | $ 3,951 | **$ 5,584** | $ 6,685 |

*(a) The following other-than-temporary impairment losses are included in securities gains for the periods presented.*

| | Three months ended June 30, 2011 | Three months ended June 30, 2010 | Six months ended June 30, 2011 | Six months ended June 30, 2010 |
|---|---|---|---|---|
| Total other-than-temporary impairment losses | **$ —** | $ — | **$ (27)** | $ — |
| Losses recorded in/(reclassified from) other comprehensive income | **(13)** | — | **(16)** | (6) |
| **Total credit losses recognized in income** | **$ (13)** | $ — | **$ (43)** | $ (6) |

*The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.*

## JPMORGAN CHASE BANK, NATIONAL ASSOCIATION
## (a wholly-owned subsidiary of JPMorgan Chase & Co.)
## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| (in millions, except share data) | | **June 30, 2011** | | December 31, 2010 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and due from banks | **$** | **29,250** | $ | 26,604 |
| Deposits with banks | | **169,666** | | 20,451 |
| Federal funds sold and securities purchased under resale agreements (included **$20,079** and $19,876 at fair value) | | **164,552** | | 175,166 |
| Securities borrowed (included **$14,833** and $13,961 at fair value) | | **57,137** | | 57,370 |
| Trading assets (included assets pledged of **$39,274** and $25,690) | | **342,228** | | 358,150 |
| Securities (included **$317,249** and $310,745 at fair value and assets pledged of **$99,796** and $87,107) | | **317,264** | | 310,762 |
| Loans (included **$813** and $973 at fair value) | | **568,745** | | 553,004 |
| Allowance for loan losses | | **(21,446)** | | (22,435) |
| **Loans, net of allowance for loan losses** | | **547,299** | | 530,569 |
| Accrued interest and accounts receivable | | **49,577** | | 35,985 |
| Premises and equipment | | **11,556** | | 10,987 |
| Goodwill | | **27,401** | | 27,348 |
| Mortgage servicing rights | | **12,243** | | 13,440 |
| Other intangible assets | | **1,746** | | 1,967 |
| Other assets (included **$5,676** and $8,139 at fair value and assets pledged of **$1,255** and $1,305) | | **61,141** | | 62,822 |
| **Total assets**[(a)] | **$** | **1,791,060** | $ | 1,631,621 |
| **Liabilities** | | | | |
| Deposits (included **$4,753** and $4,327 at fair value) | **$** | **1,144,158** | $ | 1,019,993 |
| Federal funds purchased and securities loaned or sold under repurchase agreements (included **$4,762** and $2,555 at fair value) | | **180,125** | | 178,552 |
| Other borrowed funds (included **$8,355** and $7,125 at fair value) | | **21,492** | | 23,119 |
| Trading liabilities | | **127,822** | | 124,438 |
| Accounts payable and other liabilities (included the allowance for lending-related commitments of **$599** and $691; and $**73** and $127 at fair value) | | **78,220** | | 68,619 |
| Beneficial interests issued by consolidated variable interest entities (included **$177** and $354 at fair value) | | **26,659** | | 26,099 |
| Long-term debt (included **$20,662** and $20,819 at fair value) | | **87,210** | | 67,584 |
| **Total liabilities**[(a)] | | **1,665,686** | | 1,508,404 |
| Commitments and contingencies (see Note 23 and 25 of these Consolidated Financial Statements) | | | | |
| **Stockholder's equity** | | | | |
| Preferred stock ($1 par value; authorized 15,000,000 shares; issued **zero** shares) | | **—** | | — |
| Common stock ($12 par value; authorized 150,000,000 shares; issued **148,761,243** shares) | | **1,785** | | 1,785 |
| Capital surplus | | **76,777** | | 76,771 |
| Retained earnings | | **43,369** | | 41,785 |
| Accumulated other comprehensive income/(loss) | | **3,443** | | 2,876 |
| **Total stockholder's equity** | | **125,374** | | 123,217 |
| **Total liabilities and stockholder's equity** | **$** | **1,791,060** | $ | 1,631,621 |

(a) *The following table presents information on assets and liabilities related to VIEs that are consolidated by JPMorgan Chase Bank, N.A. at June 30, 2011, and December 31, 2010. The difference between total VIE assets and liabilities represents JPMorgan Chase Bank, N.A.'s interests in those entities, which were eliminated in consolidation.*

| | | **June 30, 2011** | | December 31, 2010 |
|---|---|---|---|---|
| **Assets** | | | | |
| Trading assets | **$** | **2,728** | $ | 2,947 |
| Loans | | **27,980** | | 27,467 |
| All other assets | | **1,295** | | 1,520 |
| **Total assets** | **$** | **32,003** | $ | 31,934 |
| **Liabilities** | | | | |
| Beneficial interests issued by consolidated variable interest entities | **$** | **26,659** | $ | 26,099 |
| All other liabilities | | **1,507** | | 1,661 |
| **Total liabilities** | **$** | **28,166** | $ | 27,760 |

*The assets of the consolidated VIEs are used to settle the liabilities of those entities. The holders of the beneficial interests do not have recourse to the general credit of JPMorgan Chase Bank, N.A. At both June 30, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. provided limited program-wide credit enhancement of $2.0 billion related to its JPMorgan Chase Bank, N.A.-administered multi-seller conduits. For further discussion, see Note 16 on pages 61–69 of these Consolidated Financial Statements.*

*The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.*

**JPMORGAN CHASE BANK, NATIONAL ASSOCIATION**
**(a wholly-owned subsidiary of JPMorgan Chase & Co.)**
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY**
**AND COMPREHENSIVE INCOME (UNAUDITED)**

| | Six months ended June 30, | |
|---|---|---|
| (in millions) | **2011** | 2010 |
| **Common stock** | | |
| Balance at January 1 and June 30 | **$ 1,785** | $ 1,785 |
| **Capital surplus** | | |
| Balance at January 1 | **76,771** | 78,377 |
| Cash capital contribution from JPMorgan Chase & Co. | **15** | 520 |
| Adjustments to capital due to transactions with JPMorgan Chase & Co. | **(13)** | (985) |
| Other | **4** | (1,273) |
| **Balance at June 30** | **76,777** | 76,639 |
| **Retained earnings** | | |
| Balance at January 1 | **41,785** | 45,494 |
| Cumulative effect of change in accounting principle | **—** | 4 |
| Net income | **5,584** | 6,685 |
| Cash dividends paid to JPMorgan Chase & Co. | **(4,000)** | (4,000) |
| Net internal legal entity mergers | **—** | (53) |
| **Balance at June 30** | **43,369** | 48,130 |
| **Accumulated other comprehensive income/(loss)** | | |
| Balance at January 1 | **2,876** | 1,638 |
| Cumulative effect of change in accounting principle | **—** | (23) |
| Other comprehensive income | **567** | 2,736 |
| **Balance at June 30** | **3,443** | 4,351 |
| **Total stockholder's equity** | **$ 125,374** | $ 130,905 |
| **Comprehensive income** | | |
| Net income | **$ 5,584** | $ 6,685 |
| Other comprehensive income | **567** | 2,736 |
| **Comprehensive income** | **$ 6,151** | $ 9,421 |

*The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.*

**JPMORGAN CHASE BANK, NATIONAL ASSOCIATION**
**(a wholly-owned subsidiary of JPMorgan Chase & Co.)**
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

| (in millions) | Six months ended June 30, 2011 | 2010 |
|---|---|---|
| **Operating activities** | | |
| Net income | **$ 5,584** | $ 6,685 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | **2,206** | 4,723 |
| Depreciation and amortization | **1,644** | 1,523 |
| Amortization of intangibles | **240** | 264 |
| Deferred tax benefit | **(486)** | (1,015) |
| Investment securities gains | **(924)** | (1,650) |
| Originations and purchases of loans held-for-sale | **(40,196)** | (14,259) |
| Proceeds from sales, securitizations and paydowns of loans held-for-sale | **41,599** | 18,277 |
| Net change in: | | |
| Trading assets | **19,656** | 9,872 |
| Securities borrowed | **234** | (10,805) |
| Accrued interest and accounts receivable | **(13,592)** | 4,901 |
| Other assets | **1,275** | (16,266) |
| Trading liabilities | **(6,555)** | 10,253 |
| Accounts payable and other liabilities | **10,928** | 11,119 |
| Other operating adjustments | **2,950** | 2,505 |
| **Net cash provided by operating activities** | **24,563** | 26,127 |
| **Investing activities** | | |
| Net change in: | | |
| Deposits with banks | **(149,404)** | 23,491 |
| Federal funds sold and securities purchased under resale agreements | **10,608** | 3,354 |
| Held-to-maturity securities: | | |
| Proceeds | **2** | 4 |
| Available-for-sale securities: | | |
| Proceeds from maturities | **39,966** | 64,164 |
| Proceeds from sales | **41,871** | 76,365 |
| Purchases | **(80,383)** | (100,237) |
| Proceeds from sales and securitizations of loans held-for-investment | **3,762** | 5,210 |
| Other changes in loans, net | **(21,392)** | 3,496 |
| Net cash used in business acquisitions or dispositions | **—** | (26) |
| All other investing activities, net | **(715)** | (22) |
| **Net cash (used in)/provided by investing activities** | **(155,685)** | 75,799 |
| **Financing activities** | | |
| Net change in: | | |
| Deposits | **117,106** | (50,910) |
| Federal funds purchased and securities loaned or sold under repurchase agreements | **1,590** | (22,408) |
| Other borrowed funds | **(480)** | 286 |
| Beneficial interests issued by consolidated variable interest entities | **807** | (2,274) |
| Proceeds from long-term borrowings and trust preferred capital debt securities | **27,891** | 8,602 |
| Payments of long-term borrowings and trust preferred capital debt securities | **(9,680)** | (24,744) |
| Cash capital contribution from JPMorgan Chase & Co. | **15** | 520 |
| Dividends paid | **(4,000)** | (4,000) |
| All other financing activities, net | **(127)** | 176 |
| **Net cash provided by/(used in) financing activities** | **133,122** | (94,752) |
| Effect of exchange rate changes on cash and due from banks | **646** | (474) |
| Net increase in cash and due from banks | **2,646** | 6,700 |
| Cash and due from banks at the beginning of the period | **26,604** | 25,179 |
| **Cash and due from banks at the end of the period** | **$ 29,250** | $ 31,879 |
| Cash interest paid | **$ 4,548** | $ 4,062 |
| Cash income taxes paid/(refunded), net | **847** | (869) |

Note: *Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated noncash assets and liabilities of $22.6 billion and 22.7 billion, respectively.*

*The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### NOTE 1 – BASIS OF PRESENTATION

JPMorgan Chase Bank, National Association ("JPMorgan Chase Bank, N.A.") is a wholly-owned bank subsidiary of JPMorgan Chase & Co. ("JPMorgan Chase"), which is a leading global financial services firm and one of the largest banking institutions in the United States of America ("U.S."), with operations in more than 60 countries. JPMorgan Chase Bank, N.A. is a national banking association that is chartered by the Office of the Comptroller of the Currency ("OCC"), a bureau of the United States Department of the Treasury. JPMorgan Chase Bank, N.A.'s main office is located in Columbus, Ohio, and it has branches in 23 states. JPMorgan Chase Bank, N.A. offers a wide range of banking services to its customers both in the U.S. and internationally, including investment banking, financial services for consumers and small business, commercial banking, financial transactions processing and asset management. Under the J.P. Morgan and Chase brands, JPMorgan Chase Bank, N.A. serves millions of customers in the U.S. and many of the world's most prominent corporate, institutional and government clients.

The accounting and financial reporting policies of JPMorgan Chase Bank, N.A. and its subsidiaries conform to accounting principles generally accepted in the U.S. ("U.S. GAAP"). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities.

The unaudited consolidated financial statements prepared in conformity with U.S. GAAP require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expense, and the disclosures of contingent assets and liabilities. Actual results could be different from these estimates. In the opinion of management, all normal recurring adjustments have been included for a fair statement of this interim financial information.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements, and related notes thereto, included in JPMorgan Chase Bank, N.A.'s Consolidated Financial Statements for the year ended December 31, 2010 (the "2010 Annual Financial Statements").

Certain amounts reported in prior periods have been reclassified to conform to the current presentation.

### NOTE 2 – ACCOUNTING AND REPORTING DEVELOPMENTS

**Fair value measurements and disclosures**

In January 2010, the FASB issued guidance that requires new disclosures, and clarifies existing disclosure requirements, about fair value measurements. The clarifications and the requirement to separately disclose transfers of instruments between level 1 and level 2 of the fair value hierarchy are effective for interim reporting periods beginning after December 15, 2009; JPMorgan Chase Bank, N.A. adopted this guidance in the first quarter of 2010. For additional information about the impact of the adoption of the new fair value measurements guidance, see Note 4 on pages 9–21 of these Consolidated Financial Statements. In addition, a new requirement to provide purchases, sales, issuances and settlements in the level 3 rollforward on a gross basis is effective for fiscal years beginning after December 15, 2010. JPMorgan Chase Bank, N.A. adopted the new guidance, effective January 1, 2011.

In May 2011, the FASB issued guidance that amends the requirements for fair value measurement and disclosure. The guidance changes and clarifies certain existing requirements related to portfolios of financial instruments and valuation adjustments and requires additional disclosures for fair value measurements categorized in level 3 of the fair value hierarchy (including disclosure of the range of inputs used in certain valuations) and for financial instruments that are not carried at fair value but for which fair value is required to be disclosed. The guidance is effective in the first quarter of 2012. JPMorgan Chase Bank, N.A. is currently assessing the impact of this guidance.

**Disclosures about the credit quality of financing receivables and the allowance for credit losses**
In July 2010, the FASB issued guidance that requires enhanced disclosures surrounding the credit characteristics of JPMorgan Chase Bank, N.A.'s loan portfolio. Under the new guidance, JPMorgan Chase Bank, N.A.is required to disclose its accounting policies; the methods it uses to determine the components of the allowance for credit losses; and qualitative and quantitative information about the credit risk inherent in the loan portfolio, including additional information on certain types of loan modifications. For JPMorgan Chase Bank, N.A., the new disclosures, other than those related to loan modifications, became effective for the 2010 Annual Financial Statements. For additional information, see Notes 14 and 15 on pages 44–60 of these Consolidated Financial Statements. The adoption of this guidance only affected JPMorgan Chase Bank, N.A.'s disclosures of financing receivables and not its Consolidated Balance Sheets or results of operations. New disclosures regarding troubled debt restructurings ("TDRs") will become effective for the 2011 third quarter.

**Determining whether a restructuring is a troubled debt restructuring**
In April 2011, the FASB issued guidance to clarify existing standards for determining whether a restructuring represents a TDR from the perspective of the creditor. The guidance is effective in the third quarter of 2011 and must be applied retrospectively to January 1, 2011. JPMorgan Chase Bank, N.A. does not expect that the implementation of this new guidance will have a significant impact on its Consolidated Balance Sheets or results of operations.

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

**Presentation of other comprehensive income**
In June 2011, the FASB issued guidance that modifies the presentation of other comprehensive income in the Consolidated Financial Statements. The guidance requires that items of net income, items of other comprehensive income, and total comprehensive income be presented in one continuous statement or in two separate but consecutive statements. For nonpublic companies the guidance is effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The application of this guidance will only affect the presentation of the Consolidated Financial Statements and will have no impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or results of operations.

## NOTE 3 – BUSINESS CHANGES AND DEVELOPMENTS

**Subsequent events**
JPMorgan Chase Bank, N.A. has performed an evaluation of events that have occurred subsequent to June 30, 2011, and through August 19, 2011 (the date these Consolidated Financial Statements were available to be issued). There have been no material subsequent events that occurred during such period that would require disclosure or recognition in these Consolidated Financial Statements, as of or for the six months ended June 30, 2011.

## NOTE 4 – FAIR VALUE MEASUREMENT

For a further discussion of JPMorgan Chase Bank, N.A.'s valuation methodologies for assets, liabilities and lending-related commitments measured at fair value and the fair value hierarchy, see Note 4 on pages 12–29 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

During the first six months of 2011, no changes were made to JPMorgan Chase Bank, N.A.'s valuation models that had, or were expected to have, a material impact on its Consolidated Balance Sheets or results of operations.

The following table presents the assets and liabilities measured at fair value as of June 30, 2011, and December 31, 2010, by major product category and fair value hierarchy.

**Assets and liabilities measured at fair value on a recurring basis**

| June 30, 2011 (in millions) | Fair value hierarchy Level 1[f] | Level 2[f] | Level 3[f] | Netting adjustments | Total fair value |
|---|---|---|---|---|---|
| Federal funds sold and securities purchased under resale agreements | $ — | $ 20,079 | $ — | $ — | $ 20,079 |
| Securities borrowed | — | 14,833 | — | — | 14,833 |
| Trading assets: | | | | | |
| Debt instruments: | | | | | |
| Mortgage-backed securities: | | | | | |
| U.S. government agencies[a] | — | 378 | — | — | 378 |
| Residential - nonagency | — | 958 | 225 | — | 1,183 |
| Commercial - nonagency | — | 438 | 171 | — | 609 |
| **Total mortgage-backed securities** | — | 1,774 | 396 | — | 2,170 |
| U.S. Treasury and government agencies[a] | 5,569 | 178 | — | — | 5,747 |
| Obligations of U.S. states and municipalities | — | 754 | 231 | — | 985 |
| Certificates of deposit, bankers' acceptances and commercial paper | 161 | 1,171 | — | — | 1,332 |
| Non-U.S. government debt securities | 25,973 | 51,643 | 82 | — | 77,698 |
| Corporate debt securities | — | 32,282 | 5,263 | — | 37,545 |
| Loans | — | 24,550 | 9,934 | — | 34,484 |
| Asset-backed securities | — | 1,075 | 6,146 | — | 7,221 |
| **Total debt instruments** | 31,703 | 113,427 | 22,052 | — | 167,182 |
| Equity securities | 82,882 | 988 | 269 | — | 84,139 |
| Physical commodities[b] | 18,443 | — | — | — | 18,443 |
| Other | — | 1,840 | 717 | — | 2,557 |
| **Total debt and equity instruments[c]** | 133,028 | 116,255 | 23,038 | — | 272,321 |
| Derivative receivables: | | | | | |
| Interest rate | 379 | 990,786 | 5,850 | (966,986) | 30,029 |
| Credit | — | 113,920 | 15,154 | (122,823) | 6,251 |
| Foreign exchange | 1,581 | 150,509 | 4,611 | (138,462) | 18,239 |
| Equity | 2 | 41,697 | 5,134 | (39,680) | 7,153 |
| Commodity | 2,403 | 37,383 | 2,161 | (33,712) | 8,235 |
| **Total derivative receivables[d]** | 4,365 | 1,334,295 | 32,910 | (1,301,663) | 69,907 |
| **Total trading assets** | 137,393 | 1,450,550 | 55,948 | (1,301,663) | 342,228 |
| Available-for-sale securities: | | | | | |
| Mortgage-backed securities: | | | | | |
| U.S. government agencies[a] | 101,787 | 17,114 | — | — | 118,901 |
| Residential – nonagency | 1 | 58,928 | 4 | — | 58,933 |
| Commercial – nonagency | — | 4,345 | 240 | — | 4,585 |
| **Total mortgage-backed securities** | 101,788 | 80,387 | 244 | — | 182,419 |
| U.S. Treasury and government agencies[a] | 480 | 4,717 | — | — | 5,197 |
| Obligations of U.S. states and municipalities | 27 | 8,282 | 69 | — | 8,378 |
| Certificates of deposit | — | 4,861 | — | — | 4,861 |
| Non-U.S. government debt securities | 18,585 | 11,624 | — | — | 30,209 |
| Corporate debt securities | — | 54,905 | — | — | 54,905 |
| Asset-backed securities: | | | | | |
| Credit card receivables | — | 6,310 | — | — | 6,310 |
| Collateralized loan obligations | — | 118 | 15,133 | — | 15,251 |
| Other | — | 9,170 | — | — | 9,170 |
| Equity securities | 520 | 29 | — | — | 549 |
| **Total available-for-sale securities** | 121,400 | 180,403 | 15,446 | — | 317,249 |
| Loans | — | 489 | 324 | — | 813 |
| Mortgage servicing rights | — | — | 12,243 | — | 12,243 |
| Other assets | 6 | 7 | 5,663 | | 5,676 |
| **Total assets measured at fair value on a recurring basis[e]** | $ 258,799 | $ 1,666,361 | $ 89,624 | $ (1,301,663) | $ 713,121 |
| Deposits | $ — | $ 3,890 | $ 863 | $ — | $ 4,753 |
| Federal funds purchased and securities loaned or sold under repurchase agreements | — | 4,762 | — | — | 4,762 |
| Other borrowed funds | — | 6,573 | 1,782 | — | 8,355 |
| Trading liabilities: | | | | | |
| Debt and equity instruments[c] | 48,397 | 11,547 | 122 | — | 60,066 |
| Derivative payables: | | | | | |
| Interest rate | 402 | 963,919 | 3,619 | (946,264) | 21,676 |
| Credit | — | 116,044 | 10,426 | (120,596) | 5,874 |
| Foreign exchange | 1,537 | 146,768 | 5,396 | (134,260) | 19,441 |
| Equity | — | 37,776 | 8,757 | (34,925) | 11,608 |
| Commodity | 2,318 | 37,511 | 2,930 | (33,602) | 9,157 |
| **Total derivative payables[d]** | 4,257 | 1,302,018 | 31,128 | (1,269,647) | 67,756 |
| **Total trading liabilities** | 52,654 | 1,313,565 | 31,250 | (1,269,647) | 127,822 |
| Accounts payable and other liabilities | — | — | 73 | — | 73 |
| Beneficial interests issued by consolidated VIEs | — | 177 | — | — | 177 |
| Long-term debt | — | 11,253 | 9,409 | — | 20,662 |
| **Total liabilities measured at fair value on a recurring basis** | $ 52,654 | $ 1,340,220 | $ 43,377 | $ (1,269,647) | $ 166,604 |

| December 31, 2010 (in millions) | Fair value hierarchy Level 1 | Level 2 | Level 3 | Netting adjustments | Total fair value |
|---|---|---|---|---|---|
| Federal funds sold and securities purchased under resale agreements | $ — | $ 19,876 | $ — | $ — | $ 19,876 |
| Securities borrowed | — | 13,961 | — | — | 13,961 |
| Trading assets: | | | | | |
| Debt instruments: | | | | | |
| Mortgage-backed securities: | | | | | |
| U.S. government agencies[(a)] | 384 | 215 | — | — | 599 |
| Residential – nonagency | — | 852 | 187 | — | 1,039 |
| Commercial – nonagency | — | 263 | 200 | — | 463 |
| **Total mortgage-backed securities** | 384 | 1,330 | 387 | — | 2,101 |
| U.S. Treasury and government agencies[(a)] | 8,178 | 282 | — | — | 8,460 |
| Obligations of U.S. states and municipalities | — | 781 | 244 | — | 1,025 |
| Certificates of deposit, bankers' acceptances and commercial paper | 137 | 1,090 | — | — | 1,227 |
| Non-U.S. government debt securities | 31,591 | 38,464 | 202 | — | 70,257 |
| Corporate debt securities | — | 32,182 | 4,844 | — | 37,026 |
| Loans | — | 21,642 | 10,423 | — | 32,065 |
| Asset-backed securities | — | 903 | 6,368 | — | 7,271 |
| **Total debt instruments** | 40,290 | 96,674 | 22,468 | — | 159,432 |
| Equity securities | 106,318 | 880 | 344 | — | 107,542 |
| Physical commodities[(b)] | 18,105 | 24 | — | — | 18,129 |
| Other | — | 855 | 750 | — | 1,605 |
| **Total debt and equity instruments**[(c)] | 164,713 | 98,433 | 23,562 | — | 286,708 |
| Derivative receivables: | | | | | |
| Interest rate | 872 | 1,117,915 | 5,327 | (1,095,421) | 28,693 |
| Credit | — | 111,937 | 17,902 | (122,004) | 7,835 |
| Foreign exchange | 1,121 | 161,396 | 4,234 | (142,613) | 24,138 |
| Equity | — | 38,666 | 4,868 | (39,172) | 4,362 |
| Commodity | 1,323 | 37,622 | 1,877 | (34,408) | 6,414 |
| **Total derivative receivables**[(d)] | 3,316 | 1,467,536 | 34,208 | (1,433,618) | 71,442 |
| **Total trading assets** | 168,029 | 1,565,969 | 57,770 | (1,433,618) | 358,150 |
| Available-for-sale securities: | | | | | |
| Mortgage-backed securities: | | | | | |
| U.S. government agencies[(a)] | 104,736 | 15,490 | — | — | 120,226 |
| Residential – nonagency | 1 | 48,969 | 5 | — | 48,975 |
| Commercial – nonagency | — | 4,893 | 251 | — | 5,144 |
| **Total mortgage-backed securities** | 104,737 | 69,352 | 256 | — | 174,345 |
| U.S. Treasury and government agencies[(a)] | 432 | 10,826 | — | — | 11,258 |
| Obligations of U.S. states and municipalities | 31 | 8,098 | 67 | — | 8,196 |
| Certificates of deposit | — | 3,641 | — | — | 3,641 |
| Non-U.S. government debt securities | 13,107 | 7,670 | — | — | 20,777 |
| Corporate debt securities | — | 60,660 | — | — | 60,660 |
| Asset-backed securities: | | | | | |
| Credit card receivables | — | 8,856 | — | — | 8,856 |
| Collateralized loan obligations | — | 128 | 13,470 | — | 13,598 |
| Other | — | 8,777 | — | — | 8,777 |
| Equity securities | 593 | 44 | — | — | 637 |
| **Total available-for-sale securities** | 118,900 | 178,052 | 13,793 | — | 310,745 |
| Loans | — | 422 | 551 | — | 973 |
| Mortgage servicing rights | — | — | 13,440 | — | 13,440 |
| Other assets | 6 | 7 | 8,126 | — | 8,139 |
| **Total assets measured at fair value on a recurring basis**[(e)] | $ 286,935 | $ 1,778,287 | $ 93,680 | $ (1,433,618) | $ 725,284 |
| Deposits | $ — | $ 3,554 | $ 773 | $ — | $ 4,327 |
| Federal funds purchased and securities loaned or sold under repurchase agreements | — | 2,555 | — | — | 2,555 |
| Other borrowed funds | — | 5,992 | 1,133 | — | 7,125 |
| Trading liabilities: | | | | | |
| Debt and equity instruments[(c)] | 40,266 | 13,015 | 2 | — | 53,283 |
| Derivative payables: | | | | | |
| Interest rate | 1,139 | 1,089,777 | 3,138 | (1,070,058) | 23,996 |
| Credit | — | 113,405 | 12,562 | (119,922) | 6,045 |
| Foreign exchange | 972 | 159,248 | 4,870 | (139,715) | 25,375 |
| Equity | — | 38,633 | 7,569 | (35,692) | 10,510 |
| Commodity | 866 | 36,992 | 2,634 | (35,263) | 5,229 |
| **Total derivative payables**[(d)] | 2,977 | 1,438,055 | 30,773 | (1,400,650) | 71,155 |
| **Total trading liabilities** | 43,243 | 1,451,070 | 30,775 | (1,400,650) | 124,438 |
| Accounts payable and other liabilities | — | — | 127 | — | 127 |
| Beneficial interests issued by consolidated VIEs | — | 179 | 175 | — | 354 |
| Long-term debt | — | 11,261 | 9,558 | — | 20,819 |
| **Total liabilities measured at fair value on a recurring basis** | $ 43,243 | $ 1,474,611 | $ 42,541 | $ (1,400,650) | $ 159,745 |

*(a) At June 30, 2011, and December 31, 2010, included total U.S. government-sponsored enterprise obligations of $95.4 billion and $94.7 billion , respectively, which were predominantly mortgage-related.*

*(b) Physical commodities inventories are generally accounted for at the lower of cost or fair value.*

*(c) Balances reflect the reduction of securities owned (long positions) by the amount of securities sold but not yet purchased (short positions) when the long and short positions have identical Committee on Uniform Security Identification Procedures numbers ("CUSIPs").*

*(d) As permitted under U.S. GAAP, JPMorgan Chase Bank, N.A. has elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists. For purposes of the tables above, JPMorgan Chase Bank, N.A. does not reduce derivative receivables and derivative payables balances for this netting adjustment, either within or across the levels of the fair value hierarchy, as such netting is not relevant to a presentation based on the transparency of inputs to the valuation of an asset or liability. Therefore, the balances reported in the fair value hierarchy table are gross of any counterparty netting adjustments. However, if JPMorgan Chase Bank, N.A. were to net such balances within level 3, the reduction in the level 3 derivative receivable and payable balances would be $13.4 billion and $12.5 billion at June 30, 2011, and December 31, 2010, respectively; this is exclusive of the netting benefit associated with cash collateral, which would further reduce the level 3 balances.*

*(e) At June 30, 2011, and December 31, 2010, balances included investments valued at net asset values of $1.9 billion and $1.9 billion, respectively, of which $929 million and $874 million, respectively, were classified in level 1, $740 million and $741 million, respectively, in level 2 and $225 million and $243 million, respectively, in level 3.*

*(f) For the six months ended June 30, 2011 and 2010, the transfers between levels 1, 2 and 3, were not significant.*

**Changes in level 3 recurring fair value measurements**

The following tables include a rollforward of the balance sheet amounts (including changes in fair value) for financial instruments classified by JPMorgan Chase Bank, N.A. within level 3 of the fair value hierarchy for the three and six months ended June 30, 2011 and 2010. When a determination is made to classify a financial instrument within level 3, the determination is based on the significance of the unobservable parameters to the overall fair value measurement. However, level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. Also, JPMorgan Chase Bank, N.A. risk-manages the observable components of level 3 financial instruments using securities and derivative positions that are classified within level 1 or 2 of the fair value hierarchy; as these level 1 and level 2 risk management instruments are not included below, the gains or losses in the following tables do not reflect the effect of JPMorgan Chase Bank, N.A.'s risk management activities related to such level 3 instruments.

| Three months ended June 30, 2011 (in millions) | Fair value at April 1, 2011 | Total realized/ unrealized gains/(losses) | Purchases[f] | Sales | Issuances | Settlements | Transfers into and/or out of level 3[g] | Fair value at June 30, 2011 | Change in unrealized gains/(losses) related to financial instruments held at June 30, 2011 |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value measurements using significant unobservable inputs | | | | | | | | |
| **Assets:** | | | | | | | | | |
| Trading assets: | | | | | | | | | |
| Debt instruments: | | | | | | | | | |
| Mortgage-backed securities: | | | | | | | | | |
| U.S. government agencies | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Residential – nonagency | 240 | 44 | 46 | (39) | — | (14) | (52) | 225 | 18 |
| Commercial – nonagency | 195 | 1 | 77 | (97) | — | (5) | — | 171 | (2) |
| **Total mortgage-backed securities** | 435 | 45 | 123 | (136) | — | (19) | (52) | 396 | 16 |
| Obligations of U.S. states and municipalities | 231 | 1 | — | (1) | — | — | — | 231 | 12 |
| Non-U.S. government debt securities | 113 | 1 | 113 | (111) | — | (34) | — | 82 | 1 |
| Corporate debt securities | 5,373 | (186) | 1,776 | (1,813) | — | 48 | 65 | 5,263 | (160) |
| Loans | 10,654 | 7 | 1,343 | (1,446) | — | (137) | (487) | 9,934 | 46 |
| Asset-backed securities | 6,560 | 205 | 222 | (639) | — | (202) | — | 6,146 | 72 |
| **Total debt instruments** | 23,366 | 73 | 3,577 | (4,146) | — | (344) | (474) | 22,052 | (13) |
| Equity securities | 329 | 14 | 38 | (46) | — | (25) | (41) | 269 | 14 |
| Other | 770 | (15) | 11 | (11) | — | (38) | — | 717 | (15) |
| **Total debt and equity instruments** | 24,465 | 72 [b] | 3,626 | (4,203) | — | (407) | (515) | 23,038 | (14) [b] |
| Net derivative receivables: | | | | | | | | | |
| Interest rate | 1,472 | 1,303 | 226 | (37) | — | (780) | 47 | 2,231 | 598 |
| Credit | 4,334 | 322 | 1 | (3) | — | 78 | (4) | 4,728 | 657 |
| Foreign exchange | (34) | (573) | 96 | (3) | — | (208) | (63) | (785) | (581) |
| Equity | (3,233) | (146) | 140 | (285) | — | (108) | 9 | (3,623) | 8 |
| Commodity | (699) | (65) | 29 | 2 | — | (31) | (5) | (769) | (113) |
| **Total net derivative receivables** | 1,840 | 841 [b] | 492 | (326) | — | (1,049) | (16) | 1,782 | 569 [b] |
| Available-for-sale securities: | | | | | | | | | |
| Asset-backed securities | 14,741 | 98 | 851 | (12) | — | (545) | — | 15,133 | 98 |
| Other | 321 | (8) | — | — | — | — | — | 313 | 2 |
| **Total available-for-sale securities** | 15,062 | 90 [c] | 851 | (12) | — | (545) | — | 15,446 | 100 [c] |
| Loans | 304 | 1 [b] | 22 | — | — | (3) | — | 324 | 1 [b] |
| Mortgage servicing rights | 12,881 | (962) [d] | 804 | — | — | (480) | — | 12,243 | (962) [d] |
| Other assets | 6,795 | 6 [e] | 68 | (400) | — | (806) | — | 5,663 | 5 [e] |

| Three months ended June 30, 2011 (in millions) | Fair value at April 1, 2011 | Total realized/ unrealized (gains)/losses | Purchases[f] | Sales | Issuances | Settlements | Transfers into and/or out of level 3[g] | Fair value at June 30, 2011 | Change in unrealized (gains)/losses related to financial instruments held at June 30, 2011 |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value measurements using significant unobservable inputs | | | | | | | | |
| **Liabilities[a]:** | | | | | | | | | |
| Deposits | $ 749 | $ 3 [b] | $ — | $ — | $ 157 | $ (46) | $ — | $ 863 | $ 4 [b] |
| Other borrowed funds | 1,569 | 5 [b] | — | — | 296 | (88) | — | 1,782 | 4 [b] |
| Trading liabilities – Debt and equity instruments | 50 | (3) [b] | (60) | 131 | — | — | 4 | 122 | (3) [b] |
| Accounts payable and other liabilities | 82 | 1 [e] | — | — | — | (10) | — | 73 | 1 [e] |
| Beneficial interests issued by consolidated VIEs | 210 | 22 [b] | — | — | — | (232) | — | — | — [b] |
| Long-term debt | 9,207 | 247 [b] | — | — | 332 | (377) | — | 9,409 | 170 [b] |

| Three months ended June 30, 2010 (in millions) | Fair value measurements using significant unobservable inputs | | | | | |
|---|---|---|---|---|---|---|
| | Fair value at April 1, 2010 | Total realized/ unrealized gains/(losses) | Purchases, issuances, settlements, net | Transfers into and/or out of level 3[g] | Fair value at June 30, 2010 | Change in unrealized gains/(losses) related to financial instruments held at June 30, 2010 |
| **Assets:** | | | | | | |
| Trading assets: | | | | | | |
| Debt instruments: | | | | | | |
| Mortgage-backed securities: | | | | | | |
| U.S. government agencies | $ — | $ — | $ — | $ — | $ — | $ — |
| Residential – nonagency | 275 | 32 | (33) | (31) | 243 | 30 |
| Commercial – nonagency | 143 | 2 | (2) | 1 | 144 | 2 |
| **Total mortgage-backed securities** | 418 | 34 | (35) | (30) | 387 | 32 |
| Obligations of U.S. states and municipalities | 252 | (4) | (4) | — | 244 | (8) |
| Non-U.S. government debt securities | 118 | (17) | 13 | — | 114 | (18) |
| Corporate debt securities | 4,619 | — | (185) | (169) | 4,265 | 14 |
| Loans | 11,534 | (87) | (435) | 15 | 11,027 | (87) |
| Asset-backed securities | 6,737 | (225) | (170) | (60) | 6,282 | (205) |
| **Total debt instruments** | 23,678 | (299) | (816) | (244) | 22,319 | (272) |
| Equity securities | 167 | 110 | 57 | (1) | 333 | 110 |
| Other | 699 | (32) | (27) | — | 640 | (32) |
| **Total debt and equity instruments** | 24,544 | (221) [b] | (786) | (245) | 23,292 | (194) [b] |
| Net of derivative receivables: | | | | | | |
| Interest rate | 1,985 | 1,053 | (517) | 124 | 2,645 | 725 |
| Credit | 9,130 | 2,001 | (1,410) | 7 | 9,728 | 2,335 |
| Foreign exchange | 184 | (457) | 233 | (1) | (41) | (461) |
| Equity | (2,015) | (209) | 64 | (75) | (2,235) | (45) |
| Commodity | (593) | (49) | 37 | 33 | (572) | (320) |
| **Total net derivative receivables** | 8,691 | 2,339 [b] | (1,593) | 88 | 9,525 | 2,234 [b] |
| Available-for-sale securities: | | | | | | |
| Asset-backed securities | 12,084 | (75) | (37) | — | 11,972 | (76) |
| Other | 165 | 8 | (66) | 104 | 211 | (1) |
| **Total available-for-sale securities** | 12,249 | (67) [c] | (103) | 104 | 12,183 | (77) [c] |
| Loans | 454 | (15) [b] | (47) | — | 392 | (16) [b] |
| Mortgage servicing rights | 15,343 | (3,587) [d] | (83) | — | 11,673 | (3,587) [d] |
| Other assets | 6,617 | (11) [e] | (186) | — | 6,420 | (12) [e] |

| Three months ended June 30, 2010 (in millions) | Fair value measurements using significant unobservable inputs | | | | | |
|---|---|---|---|---|---|---|
| | Fair value at April 1, 2010 | Total realized/ unrealized (gains)/losses | Purchases, issuances, settlements, net | Transfers into and/or out of level 3[f] | Fair value at June 30, 2010 | Change in unrealized (gains)/losses related to financial instruments held at June 30, 2010 |
| **Liabilities**[a]: | | | | | | |
| Deposits | $ 440 | $ 15 [b] | $ 94 | $ 335 | $ 884 | $ 10 [b] |
| Other borrowed funds | 412 | (8) [b] | (139) | (10) | 255 | (8) [b] |
| Trading liabilities – Debt and equity instruments | 32 | 2 [b] | (31) | — | 3 | — [b] |
| Accounts payable and other liabilities | 3 | (14) | 162 | — | 151 | (14) |
| Beneficial interests issued by consolidated VIEs | 596 | (47) [b] | (221) | — | 328 | (41) [b] |
| Long-term debt | 13,299 | (293) [b] | (1,264) | 151 | 11,893 | (376) [b] |

| Six months ended June 30, 2011 (in millions) | Fair value at January 1, 2011 | Total realized/ unrealized gains/(losses) | Purchases[f] | Sales | Issuances | Settlements | Transfers into and/or out of level 3[g] | Fair value at June 30, 2011 | Change in unrealized gains/(losses) related to financial instruments held at June 30, 2011 |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value measurements using significant unobservable inputs | | | | | | | | |
| **Assets:** | | | | | | | | | |
| Trading assets: | | | | | | | | | |
| Debt instruments: | | | | | | | | | |
| Mortgage-backed securities: | | | | | | | | | |
| U.S. government agencies | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Residential – nonagency | 187 | 79 | 109 | (72) | — | (26) | (52) | 225 | 39 |
| Commercial – nonagency | 200 | 20 | 187 | (230) | — | (6) | — | 171 | 7 |
| **Total mortgage-backed securities** | 387 | 99 | 296 | (302) | — | (32) | (52) | 396 | 46 |
| Obligations of U.S. states and municipalities | 244 | (11) | 4 | (1) | — | (5) | — | 231 | — |
| Non-U.S. government debt securities | 202 | 5 | 242 | (254) | — | (39) | (74) | 82 | 6 |
| Corporate debt securities | 4,844 | (75) | 3,272 | (2,880) | — | (57) | 159 | 5,263 | (153) |
| Loans | 10,423 | 37 | 2,186 | (1,702) | — | (603) | (407) | 9,934 | (16) |
| Asset-backed securities | 6,368 | 501 | 602 | (1,109) | — | (235) | 19 | 6,146 | 283 |
| **Total debt instruments** | 22,468 | 556 | 6,602 | (6,248) | — | (971) | (355) | 22,052 | 166 |
| Equity securities | 344 | 41 | 50 | (53) | — | (25) | (88) | 269 | 49 |
| Other | 750 | 15 | 13 | (12) | — | (49) | — | 717 | 20 |
| **Total debt and equity instruments** | 23,562 | 612 (b) | 6,665 | (6,313) | — | (1,045) | (443) | 23,038 | 235 (b) |
| Net derivative receivables: | | | | | | | | | |
| Interest rate | 2,189 | 1,768 | 358 | (120) | — | (1,662) | (302) | 2,231 | 431 |
| Credit | 5,340 | (524) | 2 | (3) | — | (68) | (19) | 4,728 | (346) |
| Foreign exchange | (636) | (513) | 121 | (3) | — | 261 | (15) | (785) | (522) |
| Equity | (2,701) | (68) | 243 | (631) | — | (510) | 44 | (3,623) | 28 |
| Commodity | (757) | 295 | 97 | (43) | — | (380) | 19 | (769) | 4 |
| **Total net derivative receivables** | 3,435 | 958 (b) | 821 | (800) | — | (2,359) | (273) | 1,782 | (405) (b) |
| Available-for-sale securities: | | | | | | | | | |
| Asset-backed securities | 13,470 | 570 | 1,961 | (12) | — | (856) | — | 15,133 | 577 |
| Other | 323 | (1) | — | — | — | (9) | — | 313 | (2) |
| **Total available-for-sale securities** | 13,793 | 569 (c) | 1,961 | (12) | — | (865) | — | 15,446 | 575 (c) |
| Loans | 551 | 28 (b) | 26 | — | — | (281) | — | 324 | 15 (b) |
| Mortgage servicing rights | 13,440 | (1,725) (d) | 1,562 | — | — | (1,034) | — | 12,243 | (1,725) (d) |
| Other assets | 8,126 | 3 (e) | 73 | (400) | — | (2,139) | — | 5,663 | — (e) |

| Six months ended June 30, 2011 (in millions) | Fair value at January 1, 2011 | Total realized/ unrealized (gains)/losses | Purchases[f] | Sales | Issuances | Settlements | Transfers into and/or out of level 3[g] | Fair value at June 30, 2011 | Change in unrealized (gains)/losses related to financial instruments held at June 30, 2011 |
|---|---|---|---|---|---|---|---|---|---|
| | Fair value measurements using significant unobservable inputs | | | | | | | | |
| **Liabilities[a]:** | | | | | | | | | |
| Deposits | $ 773 | $ (8) (b) | $ — | $ — | $ 211 | $ (112) | $ (1) | $ 863 | $ — (b) |
| Other borrowed funds | 1,133 | (41) (b) | — | — | 864 | (176) | 2 | 1,782 | (3) (b) |
| Trading liabilities – Debt and equity instruments | 2 | (1) (b) | (60) | 179 | — | (2) | 4 | 122 | (1) (b) |
| Accounts payable and other liabilities | 127 | 3 (e) | — | — | — | (57) | — | 73 | 3 (e) |
| Beneficial interests issued by consolidated VIEs | 175 | 57 (b) | — | — | — | (232) | — | — | — (b) |
| Long-term debt | 9,558 | 323 (b) | — | — | 798 | (1,354) | 84 | 9,409 | 31 (b) |

| Six months ended June 30, 2010 (in millions) | Fair value measurements using significant unobservable inputs Fair value at January 1, 2010 | Total realized/ unrealized gains/(losses) | Purchases, issuances, settlements, net | Transfers into and/or out of level 3[(g)] | Fair value at June 30, 2010 | Change in unrealized gains/(losses) related to financial instruments held at June 30, 2010 |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Trading assets: | | | | | | |
| Debt instruments: | | | | | | |
| Mortgage-backed securities: | | | | | | |
| U.S. government agencies | $ — | $ — | $ — | $ — | $ — | $ — |
| Residential – nonagency | 242 | 60 | (31) | (28) | 243 | 46 |
| Commercial – nonagency | 180 | 66 | (103) | 1 | 144 | (5) |
| **Total mortgage-backed securities** | 422 | 126 | (134) | (27) | 387 | 41 |
| Obligations of U.S. states and municipalities | 257 | (7) | (6) | — | 244 | (4) |
| Non-U.S. government debt securities | 88 | (20) | 46 | — | 114 | (17) |
| Corporate debt securities | 4,558 | (427) | 25 | 109 | 4,265 | 45 |
| Loans | 11,070 | (256) | 219 | (6) | 11,027 | (295) |
| Asset-backed securities | 6,520 | (224) | (28) | 14 | 6,282 | (218) |
| **Total debt instruments** | 22,915 | (808) | 122 | 90 | 22,319 | (448) |
| Equity securities | 284 | 111 | (61) | (1) | 333 | 112 |
| Other | 675 | 52 | (87) | — | 640 | 51 |
| **Total debt and equity instruments** | 23,874 | (645) [(b)] | (26) | 89 | 23,292 | (285) [(b)] |
| Net of derivative receivables: | | | | | | |
| Interest rate | 2,038 | 1,469 | (607) | (255) | 2,645 | 633 |
| Credit | 10,182 | 1,393 | (1,845) | (2) | 9,728 | 1,669 |
| Foreign exchange | 1,083 | (821) | 80 | (383) | (41) | (875) |
| Equity | (1,915) | (71) | (435) | 186 | (2,235) | 65 |
| Commodity | (504) | (436) | 308 | 60 | (572) | (22) |
| **Total net derivative receivables** | 10,884 | 1,534 [(b)] | (2,499) | (394) | 9,525 | 1,470 [(b)] |
| Available-for-sale securities: | | | | | | |
| Asset-backed securities | 12,255 | (157) | (126) | — | 11,972 | (32) |
| Other | 151 | 21 | (66) | 105 | 211 | (2) |
| **Total available-for-sale securities** | 12,406 | (136) [(c)] | (192) | 105 | 12,183 | (34) [(c)] |
| Loans | 310 | (1) [(b)] | 91 | (8) | 392 | (20) [(b)] |
| Mortgage servicing rights | 15,342 | (3,689) [(d)] | 20 | — | 11,673 | (3,689) [(d)] |
| Other assets | 3,610 | (110) [(e)] | 2,920 | — | 6,420 | (110) [(e)] |

| Six months ended June 30, 2010 (in millions) | Fair value measurements using significant unobservable inputs Fair value at January 1, 2010 | Total realized/ unrealized (gains)/losses | Purchases, issuances, settlements, net | Transfers into and/or out of level 3[(g)] | Fair value at June 30, 2010 | Change in unrealized (gains)/losses related to financial instruments held at June 30, 2010 |
|---|---|---|---|---|---|---|
| **Liabilities**[(a)]: | | | | | | |
| Deposits | $ 476 | $ 5 [(b)] | $ 93 | $ 310 | $ 884 | $ (32) [(b)] |
| Other borrowed funds | 492 | (61) [(b)] | 67 | (243) | 255 | (77) [(b)] |
| Trading liabilities – Debt and equity instruments | 10 | 4 [(b)] | (30) | 19 | 3 | 1 [(b)] |
| Accounts payable and other liabilities | 3 | (14) | 162 | — | 151 | (14) |
| Beneficial interests issued by consolidated VIEs | 568 | (12) [(b)] | (228) | — | 328 | (35) [(b)] |
| Long-term debt | 13,965 | (493) [(b)] | (1,699) | 120 | 11,893 | (497) [(b)] |

*(a) Level 3 liabilities as a percentage of total JPMorgan Chase Bank, N.A. liabilities accounted for at fair value (including liabilities measured at fair value on a nonrecurring basis) were 26% and 27% at June 30, 2011, and December 31, 2010, respectively.*

*(b) Predominantly reported in principal transactions revenue, except for changes in fair value for mortgage loans originated with the intent to sell within the*

*retail financial services business, which are reported in mortgage fees and related income.*

*(c) Realized gains/(losses) on available-for-sale ("AFS") securities, as well as other-than-temporary impairment losses that are recorded in earnings, are reported in securities gains. Unrealized gains/(losses) are reported in other comprehensive income ("OCI"). Realized gains/(losses) and foreign exchange remeasurement adjustments recorded in income on AFS securities were $103 million and $13 million for the three months ended June 30, 2011 and 2010, and were $431 million and $26 million for the six months ended June 30, 2011 and 2010, respectively. Unrealized gains/(losses) reported on AFS securities in OCI were $(13) million and $(80) million for the three months ended June 30, 2011 and 2010, and were $138 million and $(162) million for the six months ended June 30, 2011 and 2010, respectively.*

*(d) Changes in fair value for mortgage servicing rights within the retail financial services business are reported in mortgage fees and related income.*

*(e) Predominantly reported in other income and principal transactions revenue.*

*(f) Loan originations are included in purchases.*

*(g) All transfers into and/or out of level 3 are assumed to occur at the beginning of the reporting period.*

**Assets and liabilities measured at fair value on a nonrecurring basis**

Certain assets, liabilities and unfunded lending-related commitments are measured at fair value on a nonrecurring basis; that is, they are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The following tables present the assets and liabilities carried on the Consolidated Balance Sheets by caption and level within the valuation hierarchy as of June 30, 2011, and December 31, 2010, for which a nonrecurring change in fair value has been recorded during the reporting period.

| | Fair value hierarchy | | | |
|---|---|---|---|---|
| **June 30, 2011 (in millions)** | Level 1[d] | Level 2[d] | Level 3[d] | Total fair value |
| Loans retained[a] | $ — | $ 2,381 | $ 227 | $ 2,608 |
| Loans held-for-sale | — | 480 | 196 | 676 |
| **Total loans** | — | **2,861** | **423** | **3,284** |
| Other real estate owned | — | 16 | 238 | 254 |
| Other assets | — | — | 7 | 7 |
| **Total other assets** | — | **16** | **245** | **261** |
| **Total assets at fair value on a nonrecurring basis** | **$ —** | **$ 2,877** | **$ 668** | **$ 3,545** |
| Accounts payable and other liabilities[b] | $ — | $ 11 | $ 14 | $ 25 |
| **Total liabilities at fair value on a nonrecurring basis** | **$ —** | **$ 11** | **$ 14** | **$ 25** |

| | Fair value hierarchy | | | |
|---|---|---|---|---|
| December 31, 2010 (in millions) | Level 1 | Level 2 | Level 3 | Total fair value |
| Loans retained[a] | $ — | $ 5,032 | $ 510 [e] | $ 5,542 |
| Loans held-for-sale[c] | — | 312 | 1,039 | 1,351 |
| **Total loans** | — | 5,344 | 1,549 | 6,893 |
| Other real estate owned | — | 23 | 235 | 258 |
| Other assets | — | — | 1 | 1 |
| **Total other assets** | — | 23 | 236 | 259 |
| **Total assets at fair value on a nonrecurring basis** | $ — | $ 5,367 | $ 1,785 | $ 7,152 |
| Accounts payable and other liabilities[b] | $ — | $ 53 | $ 18 | $ 71 |
| **Total liabilities at fair value on a nonrecurring basis** | $ — | $ 53 | $ 18 | $ 71 |

*(a) Reflects mortgage, home equity and other loans where the carrying value is based on the fair value of the underlying collateral.*

*(b) Represents, at June 30, 2011, and December 31, 2010, fair value adjustments associated with $529 million and $517 million, respectively, of unfunded held-for-sale lending-related commitments within the leveraged lending portfolio.*

*(c) Predominantly includes leveraged lending loans at December 31, 2010. Loans held-for-sale are carried on the Consolidated Balance Sheets at the lower of cost or fair value.*

*(d) For the six months ended June 30, 2011 and 2010, the transfers between levels 1, 2 and 3 were not significant.*

*(e) The prior period has been revised to conform with the current presentation.*

The method used to estimate the fair value of impaired collateral-dependent loans, and other loans where the carrying value is based on the fair value of the underlying collateral (e.g., residential mortgage loans charged off in accordance with regulatory guidance), depends on the type of collateral (e.g., securities, real estate, nonfinancial assets) underlying the loan. Fair value of the collateral is typically estimated based on quoted market prices, broker quotes or independent appraisals. For further information, see Note 15 on pages 59–60 of these Consolidated Financial Statements.

**Nonrecurring fair value changes**

The following table presents the total change in value of assets and liabilities for which a fair value adjustment has been included in the Consolidated Statements of Income for the three- and six-month periods ended June 30, 2011 and 2010, related to financial instruments held at those dates.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (in millions) | **2011** | 2010 | **2011** | 2010 |
| Loans retained | **$ (669)** | $ (1,068) [a] | **$ (1,180)** | $ (2,037) [a] |
| Loans held-for-sale | **14** | (3) | **39** | 35 |
| **Total loans** | **(655)** | (1,071) | **(1,141)** | (2,002) |
| Other assets | **(29)** | 23 | **(28)** | 43 |
| Accounts payable and other liabilities | **(4)** | 7 | **1** | 5 |
| **Total nonrecurring fair value gains/(losses)** | **$ (688)** | $ (1,041) | **$ (1,168)** | $ (1,954) |

*(a) Prior periods have been revised to conform with the current presentation.*

**Level 3 analysis**

Level 3 assets at June 30, 2011, predominantly include derivative receivables, collateralized loan obligations ("CLOs") held within the AFS securities portfolio, mortgage servicing rights ("MSRs"), and loans and asset-backed securities in the trading portfolio.

- Derivative receivables included $32.9 billion of interest rate, credit, foreign exchange, equity and commodity contracts classified within level 3 at June 30, 2011. Credit derivative receivables of $15.2 billion include $9.9 billion of structured credit derivatives with corporate debt underlying and $3.2 billion of credit default swaps on commercial mortgages where the risks are partially mitigated by similar and offsetting derivative payables. Interest rate derivative receivables of $5.9 billion include long-dated structured interest rate derivatives which are dependent on correlation. Equity derivative receivables of $5.1 billion principally include long-dated contracts where the volatility levels are unobservable. Foreign exchange derivative receivables of $4.6 billion include long-dated foreign exchange derivatives which are dependent on the correlation between foreign exchange and interest rates.
- CLOs totaling $15.1 billion are securities backed by corporate loans held in JPMorgan Chase Bank, N.A.'s AFS securities portfolio. Substantially all of these securities are rated "AAA," "AA" and "A" and had an average credit enhancement of 30%. Credit enhancement in CLOs is primarily in the form of subordination, which is a form of structural credit enhancement where realized losses associated with assets held by the issuing vehicle are allocated to the various tranches of securities issued by the vehicle considering their relative seniority. For further discussion, see Note 12 on pages 36–42 of these Consolidated Financial Statements.
- Mortgage servicing rights represent the fair value of future cash flows for performing specified mortgage servicing activities for others (predominantly with respect to residential mortgage loans). For a further description of the MSR asset, the interest rate risk management and valuation methodology used for MSRs, including valuation assumptions and sensitivities, see Note 18 on pages 98–100 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements and Note 17 on pages 70–72 of these Consolidated Financial Statements.
- Trading loans totaling $9.9 billion included $4.4 billion of residential mortgage whole loans and commercial mortgage loans for which there is limited price transparency; and $3.9 billion of reverse mortgages for which the principal risk sensitivities are mortality risk and home prices. The fair value of the commercial and residential mortgage loans is estimated by projecting expected cash flows, considering relevant borrower-specific and market factors, and discounting those cash flows at a rate reflecting current market liquidity. Loans are partially hedged by level 2 instruments, including credit default swaps and interest rate derivatives, for which valuation inputs are observable and liquid.

*Consolidated Balance Sheets changes*

Level 3 assets (including assets measured at fair value on a nonrecurring basis) were 5% of total JPMorgan Chase Bank, N.A.'s assets and 13% of total assets measured at fair value at June 30, 2011, compared with 6% and 13%, respectively, at December 31, 2010. The following describes significant changes to level 3 assets since December 31, 2010.

*For the three months ended June 30, 2011*

Level 3 assets were $90.3 billion at June 30, 2011, reflecting a decrease of $2.5 billion during the three months ended June 30, 2011, largely from:

- $1.1 billion decrease in JPMorgan Chase Bank, N.A's undivided interests in nonconsolidated credit card trusts sponsored by an affiliate, classified in other assets, predominantly due to the reduction of credit card loan receivables in the trusts; and
- $720 million decrease in trading loans predominantly due to asset sales.

*For the six months ended June 30, 2011*

Level 3 assets decreased by $5.2 billion during the six months ended June 30, 2011, due to the following:

- $2.5 billion decrease in JPMorgan Chase Bank, N.A's undivided interests in nonconsolidated credit card trusts sponsored by an affiliate, classified in other assets, predominantly due to the reduction of credit card loan receivables in the trusts;
- $1.3 billion decrease in derivative receivables, largely due to tightening of credit spreads and unwinds;
- $1.2 billion decrease in MSRs. For further discussion of the change, refer to Note 17 on pages 70–72 of these Consolidated Financial Statements; and
- $1.7 billion increase in asset-backed AFS securities, predominantly driven by purchases of new issuance CLOs.

*Gains and Losses*

*Included in the tables for the three months ended June 30, 2011*

- $962 million of losses on MSRs. For further discussion of the change, refer to Note 17 on pages 70–72 of these Consolidated Financial Statements; and
- $841 million of net gains on derivatives, largely driven by declines in interest rates.

*Included in the tables for the three months ended June 30, 2010*

- $2.3 billion of net gains on derivatives, primarily related to the widening of credit spreads;
- $293 million in gains related to long-term structured note liabilities, primarily due to volatility in the equity markets; and
- $3.6 billion of losses on MSRs, predominantly due to declines in interest rates.

*Included in the tables for the six months ended June 30, 2011*

- $1.7 million of losses on MSRs. For further discussion of the change, refer to Note 17 on pages 70–72 of these Consolidated Financial Statements; and
- $958 million of net gains on derivatives, largely driven by declines in interest rates.

*Included in the tables for the six months ended June 30, 2010*

- $3.7 billion of losses on MSRs, predominantly due to declines in interest rates;
- $1.5 billion of gains in net derivatives receivables; and
- $493 million of gains related to long-term structured note liabilities primarily due to volatility in the equity markets.

**Additional disclosures about the fair value of financial instruments (including financial instruments not carried at fair value)**

For additional information regarding the financial instruments within the scope of this disclosure, and the methods and significant assumptions used to estimate their fair value, see Note 4 on pages 12–29 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The following table presents the carrying values and estimated fair values of financial assets and liabilities.

| | **June 30, 2011** | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| (in billions) | Carrying value | Estimated fair value | Appreciation/ (depreciation) | Carrying value | Estimated fair value | Appreciation/ (depreciation) |
| **Financial assets** | | | | | | |
| Assets for which fair value approximates carrying value | **$ 198.9** | **$ 198.9** | **$ —** | $ 47.1 | $ 47.1 | $ — |
| Accrued interest and accounts receivable | **49.6** | **49.6** | **—** | 36.0 | 36.0 | — |
| Federal funds sold and securities purchased under resale agreements (included **$20.1** and $19.9 at fair value) | **164.6** | **164.6** | **—** | 175.2 | 175.2 | — |
| Securities borrowed (included **$14.8** and $14.0 at fair value) | **57.1** | **57.1** | **—** | 57.4 | 57.4 | — |
| Trading assets | **342.2** | **342.2** | **—** | 358.2 | 358.2 | — |
| Securities (included **$317.2** and $310.7 at fair value) | **317.3** | **317.3** | **—** | 310.8 | 310.8 | — |
| Loans (included **$0.8** and $1.0 at fair value)[(a)] | **547.3** | **545.5** | **(1.8)** | 530.6 | 531.6 | 1.0 |
| Mortgage servicing rights at fair value | **12.2** | **12.2** | **—** | 13.4 | 13.4 | — |
| Other (included **$5.7** and $8.1 at fair value) | **38.6** | **38.9** | **0.3** | 41.1 | 41.3 | 0.2 |
| **Total financial assets** | **$ 1,727.8** | **$ 1,726.3** | **$ (1.5)** | $ 1,569.8 | $ 1,571.0 | $ 1.2 |
| **Financial liabilities** | | | | | | |
| Deposits (included **$4.8** and $4.3 at fair value) | **$ 1,144.2** | **$ 1,145.0** | **$ (0.8)** | $ 1,020.0 | $ 1,021.1 | $ (1.1) |
| Federal funds purchased and securities loaned or sold under repurchase agreements (included **$4.8** and $2.6 at fair value) | **180.1** | **180.1** | **—** | 178.6 | 178.6 | — |
| Other borrowed funds (included **$8.4** and $7.1 at fair value)[(b)] | **21.5** | **21.5** | **—** | 23.1 | 23.1 | — |
| Trading liabilities | **127.8** | **127.8** | **—** | 124.4 | 124.4 | — |
| Accounts payable and other liabilities (included **$0.1** and $0.1 at fair value) | **55.4** | **55.4** | **—** | 47.7 | 47.7 | — |
| Beneficial interests issued by consolidated VIEs (included **$0.2** and $0.4 at fair value) | **26.7** | **26.7** | **—** | 26.1 | 26.1 | — |
| Long-term debt and junior subordinated deferrable interest debentures (included **$20.7** and $20.8 at fair value)[(b)] | **87.2** | **86.5** | **0.7** | 67.6 | 67.1 | 0.5 |
| **Total financial liabilities** | **$ 1,642.9** | **$ 1,643.0** | **$ (0.1)** | $ 1,487.5 | $ 1,488.1 | $ (0.6) |
| **Net (depreciation)/appreciation** | | | **$ (1.6)** | | | $ 0.6 |

(a) *Fair value is typically estimated using a discounted cash flow model that incorporates the characteristics of the underlying loans (including principal, contractual interest rates and contractual fees) and other key inputs, including expected lifetime credit losses, interest rates, prepayment rates, and primary origination or secondary market spreads. For certain loans, the fair value is measured based upon the value of the underlying collateral. The difference between the estimated fair value and carrying value of a financial asset or liability is the result of the different methodologies used to determine fair value as compared to carrying value. For example, credit losses are estimated for a financial asset's remaining life in a fair value calculation but are estimated for a loss emergence period in a loan loss reserve calculation; future loan income (interest and fees) is incorporated in a fair value calculation but is generally not considered in a loan loss reserve calculation. For a further discussion of the JPMorgan Chase Bank, N.A.'s methodologies for estimating the fair value of loans and lending-related commitments, see Note 4 pages 14–15 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.*

(b) *Effective January 1, 2011, $4.3 billion of long-term advances from Federal Home Loan Banks ("FHLBs") were reclassified from other borrowed funds to long-term debt. The prior-year period has been revised to conform with the current presentation.*

The majority of JPMorgan Chase Bank, N.A.'s lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets, nor are they actively traded. The carrying value and estimated fair value of JPMorgan Chase Bank, N.A.'s wholesale lending-related commitments were as follows for the periods indicated.

| (in billions) | **June 30, 2011** | | December 31, 2010 | |
|---|---|---|---|---|
| | Carrying value[(a)] | Estimated fair value | Carrying value[(a)] | Estimated fair value |
| Wholesale lending-related commitments | **$ 0.6** | **$ 1.4** | $ 0.7 | $ 0.9 |

*(a) Represents the allowance for wholesale lending-related commitments. Excludes the current carrying values of the guarantee liability and the offsetting asset each recognized at fair value at the inception of guarantees.*

JPMorgan Chase Bank, N.A. does not estimate the fair value of consumer lending-related commitments. In many cases, JPMorgan Chase Bank, N.A. can reduce or cancel these commitments by providing the borrower notice or, in some cases, without notice as permitted by law. For a further discussion of the valuation of lending-related commitments, see Note 4 on pages 14–15 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

**Trading assets and liabilities - average balances**

Average trading assets and liabilities were as follows for the periods indicated.

| (in millions) | Three months ended June 30 | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| Trading assets – debt and equity instruments[(a)] | **$ 302,477** | $ 243,372 | **$ 300,468** | $ 239,860 |
| Trading assets – derivative receivables | **74,177** | 70,129 | **75,392** | 70,174 |
| Trading liabilities – debt and equity instruments[(a)(b)] | **59,001** | 53,387 | **57,973** | 51,954 |
| Trading liabilities – derivative payables | **69,739** | 65,049 | **71,754** | 64,024 |

*(a) Balances reflect the reduction of securities owned (long positions) by the amount of securities sold, but not yet purchased (short positions) when the long and short positions have identical CUSIP numbers.*

*(b) Primarily represent securities sold, not yet purchased.*

## NOTE 5 – FAIR VALUE OPTION

For a discussion of the primary financial instruments for which the fair value option was previously elected, including the basis for those elections and the determination of instrument-specific credit risk, where relevant, see Note 5 on pages 29–31 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

### Changes in fair value under the fair value option election

The following table presents the changes in fair value included in the Consolidated Statements of Income for the three and six months ended June 30, 2011 and 2010, for items for which the fair value election was made. The profit and loss information presented below only includes the financial instruments that were elected to be measured at fair value; related risk management instruments, which are required to be measured at fair value, are not included in the table.

| | Three months ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | **2011** | | | 2010 | | |
| (in millions) | Principal transactions | Other income | Total changes in fair value recorded | Principal transactions | Other income | Total changes in fair value recorded |
| Federal funds sold and securities purchased under resale agreements | **$ 110** | **$ —** | **$ 110** | $ 260 | $ — | $ 260 |
| Securities borrowed | **(8)** | **—** | **(8)** | 27 | — | 27 |
| Trading assets: | | | | | | |
| Debt and equity instruments, excluding loans | **17** | **(4)** [c] | **13** | (32) | (11) [c] | (43) |
| Loans reported as trading assets: | | | | | | |
| Changes in instrument-specific credit risk | **222** | **4** [c] | **226** | 245 | 28 [c] | 273 |
| Other changes in fair value | **52** | **1,371** [c] | **1,423** | (263) | 1,217 [c] | 954 |
| Loans: | | | | | | |
| Changes in instrument-specific credit risk | **—** | **—** | **—** | — | — | — |
| Other changes in fair value | **17** | **—** | **17** | (23) | — | (23) |
| Other assets | **—** | **(30)** [d] | **(30)** | — | (31) [d] | (31) |
| Deposits[a] | **(93)** | **—** | **(93)** | (104) | — | (104) |
| Federal funds purchased and securities loaned or sold under repurchase agreements | **(16)** | **—** | **(16)** | (55) | — | (55) |
| Other borrowed funds[a] | **673** | **—** | **673** | 802 | — | 802 |
| Trading liabilities | **(2)** | **—** | **(2)** | (1) | — | (1) |
| Beneficial interests issued by consolidated VIEs | **(24)** | **—** | **(24)** | 48 | — | 48 |
| Other liabilities | **—** | **(1)** [d] | **(1)** | — | 14 [d] | 14 |
| Long-term debt: | | | | | | |
| Changes in instrument-specific credit risk[a] | **146** | **—** | **146** | 534 | — | 534 |
| Other changes in fair value[b] | **(187)** | **—** | **(187)** | 1,185 | — | 1,185 |

| (in millions) | 2011 Principal transactions | 2011 Other income | 2011 Total changes in fair value recorded | 2010 Principal transactions | 2010 Other income | 2010 Total changes in fair value recorded |
|---|---|---|---|---|---|---|
| | Six months ended June 30, | | | | | |
| Federal funds sold and securities purchased under resale agreements | **$ (6)** | **$ —** | **$ (6)** | $ 278 | $ — | $ 278 |
| Securities borrowed | **1** | **—** | **1** | 39 | — | 39 |
| Trading assets: | | | | | | |
| Debt and equity instruments, excluding loans | **150** | **(1)** [(c)] | **149** | 68 | (10) [(c)] | 58 |
| Loans reported as trading assets: | | | | | | |
| Changes in instrument-specific credit risk | **587** | **4** [(c)] | **591** | 684 | 22 [(c)] | 706 |
| Other changes in fair value | **131** | **2,094** [(c)] | **2,225** | (605) | 1,972 [(c)] | 1,367 |
| Loans: | | | | | | |
| Changes in instrument-specific credit risk | **(2)** | **—** | **(2)** | 38 | — | 38 |
| Other changes in fair value | **60** | **—** | **60** | (33) | — | (33) |
| Other assets | **—** | **(45)** [(d)] | **(45)** | — | (61) [(d)] | (61) |
| Deposits[(a)] | **(110)** | **—** | **(110)** | (293) | — | (293) |
| Federal funds purchased and securities loaned or sold under repurchase agreements | **17** | **—** | **17** | (64) | — | (64) |
| Other borrowed funds[(a)] | **1,097** | **—** | **1,097** | 909 | — | 909 |
| Trading liabilities | **(5)** | **—** | **(5)** | (2) | — | (2) |
| Beneficial interests issued by consolidated VIEs | **(64)** | **—** | **(64)** | 17 | — | 17 |
| Other liabilities | **—** | **(3)** [(d)] | **(3)** | 1 | 14 [(d)] | 15 |
| Long-term debt: | | | | | | |
| Changes in instrument-specific credit risk[(a)] | **199** | **—** | **199** | 584 | — | 584 |
| Other changes in fair value[(b)] | **(37)** | **—** | **(37)** | 886 | — | 886 |

*(a) Total changes in instrument-specific credit risk related to structured notes were $142 million and $586 million for the three months ended June 30, 2011 and 2010, respectively, and $165 million and $693 million for the six months ended June 30, 2011 and 2010, respectively. Those totals include adjustments for structured notes classified within deposits and other borrowed funds, as well as long-term debt.*

*(b) Structured notes are debt instruments with embedded derivatives that are tailored to meet a client's need. The embedded derivative is the primary driver of risk. Although the risk associated with the structured notes is actively managed, the gains reported in this table do not include the income statement impact of such risk management instruments.*

*(c) Reported in mortgage fees and related income.*

*(d) Reported in other income.*

**Difference between aggregate fair value and aggregate remaining contractual principal balance outstanding**

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of June 30, 2011, and December 31, 2010, for loans, long-term debt and long-term beneficial interests for which the fair value option has been elected.

| | **June 30, 2011** | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| (in millions) | Contractual principal outstanding | Fair value | Fair value over/ (under) contractual principal outstanding | Contractual principal outstanding | Fair value | Fair value over/ (under) contractual principal outstanding |
| **Loans** | | | | | | |
| **Performing loans 90 days or more past due** | | | | | | |
| Loans reported as trading assets | **$ —** | **$ —** | **$ —** | $ — | $ — | $ — |
| Loans | **—** | **—** | **—** | — | — | — |
| **Nonaccrual loans** | | | | | | |
| Loans reported as trading assets | **3,536** | **1,070** | **(2,466)** | 3,389 | 877 | (2,512) |
| Loans | **134** | **45** | **(89)** | 132 | 111 | (21) |
| **Subtotal** | **3,670** | **1,115** | **(2,555)** | 3,521 | 988 | (2,533) |
| **All other performing loans** | | | | | | |
| Loans reported as trading assets | **34,932** | **33,414** | **(1,518)** | 32,584 | 31,188 | (1,396) |
| Loans | **748** | **768** | **20** | 952 | 862 | (90) |
| **Total loans** | **$ 39,350** | **$ 35,297** | **$ (4,053)** | $ 37,057 | $ 33,038 | $ (4,019) |
| **Long-term debt** | | | | | | |
| Principal-protected debt | **$ 7,868** [(c)] | **$ 7,700** | **$ (168)** | $ 7,942 [(c)] | $ 7,913 | $ (29) |
| Nonprincipal-protected debt[(a)] | **NA** | **12,962** | **NA** | NA | 12,906 | NA |
| **Total long-term debt** | **NA** | **$ 20,662** | **NA** | NA | $ 20,819 | NA |
| **Total long-term beneficial interests**[(b)] | **NA** | **$ 177** | **NA** | NA | $ 354 | NA |

*(a) Remaining contractual principal is not applicable to nonprincipal-protected notes. Unlike principal-protected notes, for which JPMorgan Chase Bank, N.A. is obligated to return a stated amount of principal at the maturity of the note, nonprincipal-protected notes do not obligate JPMorgan Chase Bank, N.A. to return a stated amount of principal at maturity, but to return an amount based on the performance of an underlying variable or derivative feature embedded in the note.*

*(b) At both June 30, 2011, and December 31, 2010, included only nonprincipal protected debt.*

*(c) Where JPMorgan Chase Bank, N.A. issues principal-protected zero-coupon or discount notes, the balance reflected as the remaining contractual principal is the final principal payment at maturity.*

At both June 30, 2011, and December 31, 2010, the contractual amount of letters of credit for which the fair value option was elected was $3.8 billion, with a corresponding fair value of $(6) million. For further information regarding off-balance sheet lending-related financial instruments, see Note 28 on pages 109–115 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

## NOTE 6 – DERIVATIVE INSTRUMENTS

For a further discussion of JPMorgan Chase Bank, N.A.'s use and accounting policies regarding derivative instruments, see Note 7 on pages 33–41 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

*Notional amount of derivative contracts*

The following table summarizes the notional amount of derivative contracts outstanding as of June 30, 2011, and December 31, 2010.

| | Notional amounts[(b)] | |
|---|---|---|
| (in billions) | **June 30, 2011** | December 31, 2010 |
| **Interest rate contracts** | | |
| Swaps | **$ 44,297** | $ 46,371 |
| Futures and forwards | **8,097** | 8,607 |
| Written options | **4,346** | 4,069 |
| Purchased options | **4,610** | 3,958 |
| **Total interest rate contracts** | **61,350** | 63,005 |
| **Credit derivatives**[(a)] | **6,108** | 5,475 |
| **Foreign exchange contracts** | | |
| Cross-currency swaps | **2,878** | 2,566 |
| Spot, futures and forwards | **4,630** | 3,907 |
| Written options | **719** | 674 |
| Purchased options | **712** | 649 |
| **Total foreign exchange contracts** | **8,939** | 7,796 |
| **Equity contracts** | | |
| Swaps | **136** | 117 |
| Futures and forwards | **45** | 45 |
| Written options | **516** | 434 |
| Purchased options | **455** | 360 |
| **Total equity contracts** | **1,152** | 956 |
| **Commodity contracts** | | |
| Swaps | **353** | 338 |
| Spot, futures and forwards | **125** | 125 |
| Written options | **282** | 230 |
| Purchased options | **269** | 222 |
| **Total commodity contracts** | **1,029** | 915 |
| **Total derivative notional amounts** | **$ 78,578** | $ 78,147 |

*(a) Primarily consists of credit default swaps. For more information on volumes and types of credit derivative contracts, see the Credit derivatives discussion on pages 31–32 of this Note.*

*(b) Represents the sum of gross long and gross short notional derivative contracts with third parties and JPMorgan Chase affiliates. For additional information on related party derivatives, see Note 20 on page 74 of these Consolidated Financial Statements.*

While the notional amounts disclosed above give an indication of the volume of JPMorgan Chase Bank, N.A.'s derivatives activity, the notional amounts significantly exceed, in JPMorgan Chase Bank, N.A.'s view, the possible losses that could arise from such transactions. For most derivative transactions, the notional amount is not exchanged; it is used simply as a reference to calculate payments.

*Impact of derivatives on the Consolidated Balance Sheets*

The following tables summarize information on derivative fair values that are reflected on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets as of June 30, 2011, and December 31, 2010, by accounting designation (e.g., whether the derivatives were designated as hedges or not) and contract type.

**Free-standing derivatives**[(a)]

| | Derivative receivables | | | Derivative payables | | |
|---|---|---|---|---|---|---|
| **June 30, 2011** (in millions) | Not designated as hedges | Designated as hedges | Total derivative receivables | Not designated as hedges | Designated as hedges | Total derivative payables |
| **Trading assets and liabilities** | | | | | | |
| Interest rate | **$ 995,226** | **$ 1,789** | **$ 997,015** | **$ 967,283** | **$ 657** | **$ 967,940** |
| Credit | **129,074** | **—** | **129,074** | **126,470** | **—** | **126,470** |
| Foreign exchange[(b)] | **156,151** | **550** | **156,701** | **151,928** | **1,773** | **153,701** |
| Equity | **46,833** | **—** | **46,833** | **46,533** | **—** | **46,533** |
| Commodity | **41,632** | **315** | **41,947** | **41,192** | **1,567** | **42,759** |
| **Gross fair value of trading assets and liabilities** | **$ 1,368,916** | **$ 2,654** | **$ 1,371,570** | **$ 1,333,406** | **$ 3,997** | **$ 1,337,403** |
| Netting adjustment[(c)] | | | **(1,301,663)** | | | **(1,269,647)** |
| **Carrying value of derivative trading assets and trading liabilities on the Consolidated Balance Sheets** | | | **$ 69,907** | | | **$ 67,756** |

| | Derivative receivables | | | Derivative payables | | |
|---|---|---|---|---|---|---|
| December 31, 2010 (in millions) | Not designated as hedges | Designated as hedges | Total derivative receivables | Not designated as hedges | Designated as hedges | Total derivative payables |
| **Trading assets and liabilities** | | | | | | |
| Interest rate | $ 1,122,294 | $ 1,820 | $ 1,124,114 | $ 1,093,673 | $ 381 | $ 1,094,054 |
| Credit | 129,839 | — | 129,839 | 125,967 | — | 125,967 |
| Foreign exchange[(b)] | 166,517 | 234 | 166,751 | 164,034 | 1,056 | 165,090 |
| Equity | 43,534 | — | 43,534 | 46,202 | — | 46,202 |
| Commodity | 40,798 | 24 | 40,822 | 38,414 | 2,078 [(d)] | 40,492 |
| **Gross fair value of trading assets and liabilities** | $ 1,502,982 | $ 2,078 | $ 1,505,060 | $ 1,468,290 | $ 3,515 | $ 1,471,805 |
| Netting adjustment[(c)] | | | (1,433,618) | | | (1,400,650) |
| **Carrying value of derivative trading assets and trading liabilities on the Consolidated Balance Sheets** | | | $ 71,442 | | | $ 71,155 |

(a) *Excludes structured notes for which the fair value option has been elected. See Note 5 on pages 22–24 of these Consolidated Financial Statements and Note 5 on pages 29–31 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements for further information.*

(b) *Excludes $15 million and $21 million of foreign currency-denominated debt designated as a net investment hedge at June 30, 2011, and December 31, 2010, respectively.*

(c) *U.S. GAAP permits the netting of derivative receivables and payables, and the related cash collateral received and paid when a legally enforceable master netting agreement exists between JPMorgan Chase Bank, N.A. and a derivative counterparty.*

(d) *Excludes $1.0 billion related to commodity derivatives that are embedded in a debt instrument and used as fair value hedging instruments that are recorded in the line item of the host contract (other borrowed funds) for December 31, 2010.*

*Derivative receivables and payables fair value*

The following table summarizes the fair values of derivative receivables and payables, including those designated as hedges, by contract type and after netting adjustments as of June 30, 2011, and December 31, 2010.

| | Trading assets – Derivative receivables | | Trading liabilities – Derivative payables | |
|---|---|---|---|---|
| (in millions) | **June 30, 2011** | December 31, 2010 | **June 30, 2011** | December 31, 2010 |
| **Contract type** | | | | |
| Interest rate | **$ 30,029** | $ 28,693 | **$ 21,676** | $ 23,996 |
| Credit | **6,251** | 7,835 | **5,874** | 6,045 |
| Foreign exchange | **18,239** | 24,138 | **19,441** | 25,375 |
| Equity | **7,153** | 4,362 | **11,608** | 10,510 |
| Commodity | **8,235** | 6,414 | **9,157** | 5,229 |
| **Total** | **$ 69,907** | $ 71,442 | **$ 67,756** | $ 71,155 |

## Impact of derivatives on the Consolidated Statements of Income

*Fair value hedge gains and losses*

The following tables present derivative instruments, by contract type, used in fair value hedge accounting relationships, as well as pretax gains/(losses) recorded on such derivatives and the related hedged items for the three and six months ended June 30, 2011 and 2010, respectively. JPMorgan Chase Bank, N.A. includes gains/(losses) on the hedging derivative and the related hedged item in the same line item in the Consolidated Statements of Income.

| | Gains/(losses) recorded in income | | | Income statement impact due to: | |
|---|---|---|---|---|---|
| **Three months ended June 30, 2011 (in millions)** | Derivatives | Hedged items | Total income statement impact | Hedge ineffectiveness[e] | Excluded components[f] |
| **Contract type** | | | | | |
| Interest rate[a] | **$ (207)** | **$ 157** | **$ (50)** | **$ (2)** | **$ (48)** |
| Foreign exchange[b][c] | **(1,798)** | **1,906** | **108** | **—** | **108** |
| Commodity[d] | **(449)** | **(41)** | **(490)** | **—** | **(490)** |
| **Total** | **$ (2,454)** | **$ 2,022** | **$ (432)** | **$ (2)** | **$ (430)** |

| | Gains/(losses) recorded in income | | | Income statement impact due to: | |
|---|---|---|---|---|---|
| Three months ended June 30, 2010 (in millions) | Derivatives | Hedged items | Total income statement impact | Hedge ineffectiveness[e] | Excluded components[f] |
| **Contract type** | | | | | |
| Interest rate[a] | $ (80) | $ 34 | $ (46) | $ 17 | $ (63) |
| Foreign exchange[b][c] | 3,835 | (3,882) | (47) | — | (47) |
| Commodity[d] | 139 | (332) | (193) | — | (193) |
| **Total** | $ 3,894 | $ (4,180) | $ (286) | $ 17 | $ (303) |

| **Six months ended June 30, 2011 (in millions)** | Gains/(losses) recorded in income: Derivatives | Hedged items | Total income statement impact | Income statement impact due to: Hedge ineffectiveness[e] | Excluded components[f] |
|---|---|---|---|---|---|
| **Contract type** | | | | | |
| Interest rate[a] | **$ (232)** | **$ 166** | **$ (66)** | **$ (4)** | **$ (62)** |
| Foreign exchange[b][c] | **(5,034)** | **5,048** | **14** | **—** | **14** |
| Commodity[d] | **(386)** | **234** | **(152)** | **—** | **(152)** |
| **Total** | **$ (5,652)** | **$ 5,448** | **$ (204)** | **$ (4)** | **$ (200)** |

| Six months ended June 30, 2010 (in millions) | Gains/(losses) recorded in income: Derivatives | Hedged items | Total income statement impact | Income statement impact due to: Hedge ineffectiveness[e] | Excluded components[f] |
|---|---|---|---|---|---|
| **Contract type** | | | | | |
| Interest rate[a] | $ (73) | $ (72) | $ (145) | $ 27 | $ (172) |
| Foreign exchange[b][c] | 5,567 | (5,542) | 25 | — | 25 |
| Commodity[d] | (316) | 64 | (252) | — | (252) |
| **Total** | $ 5,178 | $ (5,550) | $ (372) | $ 27 | $ (399) |

*(a) Primarily consists of hedges of the benchmark (e.g., London Interbank Offered Rate ("LIBOR")) interest rate risk of fixed-rate long-term debt and AFS securities. Gains and losses were recorded in net interest income.*
*(b) Primarily consists of hedges of the foreign currency risk of long-term debt and AFS securities for changes in spot foreign currency rates. Gains and losses related to the derivatives and the hedged items, due to changes in spot foreign currency rates, were recorded in principal transactions revenue.*
*(c) Consists of foreign exchange trading derivatives designated as fair value hedging instruments.*
*(d) Consists of overall fair value hedges of certain commodities inventories. Gains and losses were recorded in principal transactions revenue.*
*(e) Hedge ineffectiveness is the amount by which the gain or loss on the designated derivative instrument does not exactly offset the gain or loss on the hedged item attributable to the hedged risk.*
*(f) Certain components of hedging derivatives are permitted to be excluded from the assessment of hedge effectiveness, such as forward points on foreign exchange forward contracts. Amounts related to excluded components are recorded in current-period income.*

*Cash flow hedge gains and losses*

The following tables present derivative instruments, by contract type, used in cash flow hedge accounting relationships, and the pretax gains/(losses) recorded on such derivatives, for the three and six months ended June 30, 2011 and 2010, respectively. JPMorgan Chase Bank, N.A. includes the gain/(loss) on the hedging derivative in the same line item as the offsetting change in cash flows on the hedged item in the Consolidated Statements of Income.

| | Gains/(losses) recorded in income and other comprehensive income ("OCI")/(loss)[c] | | | | |
|---|---|---|---|---|---|
| **Three months ended June 30, 2011 (in millions)** | Derivatives – effective portion reclassified from AOCI to income | Hedge ineffectiveness recorded directly in income[d] | Total income statement impact | Derivatives – effective portion recorded in OCI | Total change in OCI for period |
| **Contract type** | | | | | |
| Interest rate[a] | **$ 138** | **$ 6** | **$ 144** | **$ 149** | **$ 11** |
| Foreign exchange[b] | **(7)** | **—** | **(7)** | **(41)** | **(34)** |
| **Total** | **$ 131** | **$ 6** | **$ 137** | **$ 108** | **$ (23)** |

| | Gains/(losses) recorded in income and other comprehensive income/(loss)[c] | | | | |
|---|---|---|---|---|---|
| Three months ended June 30, 2010 (in millions) | Derivatives – effective portion reclassified from AOCI to income | Hedge ineffectiveness recorded directly in income[d] | Total income statement impact | Derivatives – effective portion recorded in OCI | Total change in OCI for period |
| **Contract type** | | | | | |
| Interest rate[a] | $ 32 | $ 8 | $ 40 | $ 319 | $ 287 |
| Foreign exchange[b] | (23) | (3) | (26) | 47 | 70 |
| **Total** | $ 9 | $ 5 | $ 14 | $ 366 | $ 357 |

| **Six months ended June 30, 2011 (in millions)** | Gains/(losses) recorded in income and other comprehensive income/(loss)[c] Derivatives – effective portion reclassified from AOCI to income | Hedge ineffectiveness recorded directly in income[d] | Total income statement impact | Derivatives – effective portion recorded in OCI | Total change in OCI for period |
|---|---|---|---|---|---|
| **Contract type** | | | | | |
| Interest rate[a] | **$ 273** | **$ 9** | **$ 282** | **$ 135** | **$ (138)** |
| Foreign exchange[b] | **15** | **—** | **15** | **(23)** | **(38)** |
| **Total** | **$ 288** | **$ 9** | **$ 297** | **$ 112** | **$ (176)** |

| Six months ended June 30, 2010 (in millions) | Gains/(losses) recorded in income and other comprehensive income/(loss)[c] Derivatives – effective portion reclassified from AOCI to income | Hedge ineffectiveness recorded directly in income[d] | Total income statement impact | Derivatives – effective portion recorded in OCI | Total change in OCI for period |
|---|---|---|---|---|---|
| **Contract type** | | | | | |
| Interest rate[a] | $ 79 | $ 11 | $ 90 | $ 651 | $ 572 |
| Foreign exchange[b] | (75) | (3) | (78) | (65) | 10 |
| **Total** | $ 4 | $ 8 | $ 12 | $ 586 | $ 582 |

(a) *Primarily consists of benchmark interest rate hedges of LIBOR-indexed floating-rate assets and floating-rate liabilities. Gains and losses were recorded in net interest income.*
(b) *Primarily consists of hedges of the foreign currency risk of non-U.S. dollar-denominated revenue and expense. The income statement classification of gains and losses follows the hedged item – primarily net interest income, compensation expense and other expense.*
(c) *JPMorgan Chase Bank, N.A. did not experience any forecasted transactions that failed to occur for the three and six months ended June 30, 2011, respectively. During the three and six months ended June 30, 2010, JPMorgan Chase Bank, N.A. reclassified a $25 million loss from accumulated other comprehensive income ("AOCI") to earnings because JPMorgan Chase Bank, N.A. determined that it was probable that forecasted interest payment cash flows related to certain wholesale deposits would not occur.*
(d) *Hedge ineffectiveness is the amount by which the cumulative gain or loss on the designated derivative instrument exceeds the present value of the cumulative expected change in cash flows on the hedged item attributable to the hedged risk.*

Over the next 12 months, JPMorgan Chase Bank, N.A. expects that $277 million (after-tax) of net gains recorded in accumulated other comprehensive income/(loss) ("AOCI") at June 30, 2011, related to cash flow hedges will be recognized in income. The maximum length of time over which forecasted transactions are hedged is 10 years, and such transactions primarily relate to core lending and borrowing activities.

*Net investment hedge gains and losses*

The following tables present hedging instruments, by contract type, that were used in net investment hedge accounting relationships, and the pretax gains/(losses) recorded on such instruments for the three and six months ended June 30, 2011 and 2010.

| | Gains/(losses) recorded in income and other comprehensive income/(loss) | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| Three months ended June 30, (in millions) | Excluded components recorded directly in income[a] | Effective portion recorded in OCI | Excluded components recorded directly in income[a] | Effective portion recorded in OCI |
| **Contract type** | | | | |
| Foreign exchange derivatives | **$ (63)** | **$ (337)** | $ (30) | $ 293 |
| Foreign currency denominated debt | — | — | — | 2 |
| **Total** | **$ (63)** | **$ (337)** | $ (30) | $ 295 |

| Six months ended June 30, (in millions) | Gains/(losses) recorded in income and other comprehensive income/(loss) | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| | Excluded components recorded directly in income[(a)] | Effective portion recorded in OCI | Excluded components recorded directly in income[(a)] | Effective portion recorded in OCI |
| **Contract type** | | | | |
| Foreign exchange derivatives | **$ (127)** | **$ (580)** | $ (66) | $ 448 |
| Foreign currency denominated debt | **—** | **(1)** | — | 43 |
| **Total** | **$ (127)** | **$ (581)** | $ (66) | $ 491 |

*(a) Certain components of hedging derivatives are permitted to be excluded from the assessment of hedge effectiveness, such as forward points on foreign exchange forward contracts. Amounts related to excluded components are recorded in current-period income. There was no ineffectiveness for net investment hedge accounting relationships during the three and six months ended June 30, 2011 and 2010.*

*Risk management derivatives gains and losses (not designated as hedging instruments)*

The following table presents nontrading derivatives, by contract type, that were not designated in hedge relationships, and the pretax gains/(losses) recorded on such derivatives for the three and six months ended June 30, 2011 and 2010. These derivatives are risk management instruments used to mitigate or transform market risk exposures arising from banking activities other than trading activities, which are discussed separately below.

| | Derivatives gains/(losses) recorded in income | | | |
|---|---|---|---|---|
| | Three months ended June 30, | | Six months ended June 30, | |
| (in millions) | **2011** | 2010 | **2011** | 2010 |
| **Contract type** | | | | |
| Interest rate[(a)] | **$ 1,453** | $ 3,672 | **$ 1,528** | $ 3,817 |
| Credit[(b)] | **(7)** | 60 | **(65)** | (59) |
| Foreign exchange[(c)] | **(67)** | (20) | **(89)** | (45) |
| **Total** | **$ 1,379** | $ 3,712 | **$ 1,374** | $ 3,713 |

*(a) Gains and losses were recorded in principal transactions revenue, mortgage fees and related income, and net interest income.*
*(b) Gains and losses were recorded in principal transactions revenue.*
*(c) Gains and losses were recorded in principal transactions revenue and net interest income.*

*Trading derivative gains and losses*

The following table presents trading derivatives gains and losses, by contract type, that are recorded in principal transactions revenue in the Consolidated Statements of Income for the three and six months ended June 30, 2011 and 2010. JPMorgan Chase Bank, N.A. has elected to present derivative gains and losses related to its trading activities together with the cash instruments with which they are risk managed.

| | Gains/(losses) recorded in principal transactions revenue | | | |
|---|---|---|---|---|
| | Three months ended June 30, | | Six months ended June 30, | |
| (in millions) | **2011** | 2010 | **2011** | 2010 |
| **Type of instrument** | | | | |
| Interest rate | **$ 68** | $ 392 | **$ 596** | $ 780 |
| Credit | **415** | 869 | **1,086** | 2,414 |
| Foreign exchange[(a)] | **184** | 409 | **793** | 1,015 |
| Equity | **595** | 328 | **1,171** | 838 |
| Commodity | **727** | 102 | **584** | 316 |
| **Total** | **$ 1,989** | $ 2,100 | **$ 4,230** | $ 5,363 |

*(a) In 2010, the reporting of trading gains and losses was enhanced to include trading gains and losses related to certain trading derivatives designated as fair value hedging instruments. Prior period amounts have been revised to conform to the current presentation.*

*Credit risk, liquidity risk and credit-related contingent features*

The aggregate fair value of net derivative payables that contain contingent collateral or termination features triggered upon a downgrade was $12.6 billion at June 30, 2011, for which JPMorgan Chase Bank, N.A. has posted collateral of $9.0 billion in the normal course of business. At June 30, 2011, the impact of a single-notch and two-notch ratings downgrade to JPMorgan Chase Bank, N.A. and its subsidiaries would have required $1.3 billion and $2.7 billion, respectively, of additional collateral to be posted by JPMorgan Chase Bank, N.A. In addition, at June 30, 2011, the impact of single-notch and two-notch ratings downgrades to

JPMorgan Chase Bank, N.A. and its subsidiaries related to contracts with termination triggers would have required JPMorgan Chase Bank, N.A. to settle trades with a fair value of $430 million and $910 million, respectively.

The following tables show the carrying value of derivative receivables and payables after netting adjustments and adjustments for collateral held and transferred as of June 30, 2011, and December 31, 2010.

| | Derivative receivables | | Derivative payables | |
|---|---|---|---|---|
| (in millions) | **June 30, 2011** | December 31, 2010 | **June 30, 2011** | December 31, 2010 |
| Gross derivative fair value | **$ 1,371,570** | $ 1,505,060 | **$ 1,337,403** | $ 1,471,805 |
| Netting adjustment – offsetting receivables/payables[(a)] | **(1,235,692)** | (1,362,503) | **(1,235,691)** | (1,362,502) |
| Netting adjustment – cash collateral received/paid[(a)] | **(65,971)** | (71,115) | **(33,956)** | (38,148) |
| **Carrying value on Consolidated Balance Sheets** | **$ 69,907** | $ 71,442 | **$ 67,756** | $ 71,155 |

| | Collateral held | | Collateral transferred | |
|---|---|---|---|---|
| (in billions) | **June 30, 2011** | December 31, 2010 | **June 30, 2011** | December 31, 2010 |
| Netting adjustment for cash collateral[(a)] | **$ 66.0** | $ 71.1 | **$ 34.0** | $ 38.1 |
| Liquid securities and other cash collateral[(b)] | **17.1** | 17.1 | **11.7** | 10.0 |
| Additional liquid securities and cash collateral[(c)] | **14.8** | 12.0 | **6.3** | 2.8 |
| **Total collateral for derivative transactions** | **$ 97.9** | $ 100.2 | **$ 52.0** | $ 50.9 |

*(a) As permitted under U.S. GAAP, JPMorgan Chase Bank, N.A. has elected to net cash collateral received and paid together with the related derivative receivables and derivative payables when a legally enforceable master netting agreement exists.*

*(b) Represents cash collateral received and paid that is not subject to a legally enforceable master netting agreement, and liquid securities collateral held and transferred.*

*(c) Represents liquid securities and cash collateral held and transferred at the initiation of derivative transactions, which is available as security against potential exposure that could arise should the fair value of the transactions move, as well as collateral held and transferred related to contracts that have non-daily call frequency for collateral to be posted, and collateral that JPMorgan Chase Bank, N.A. or a counterparty has agreed to return but has not yet settled as of the reporting date. These amounts were not netted against the derivative receivables and payables in the tables above, because, at an individual counterparty level, the collateral exceeded the fair value exposure at both June 30, 2011, and December 31, 2010.*

*Credit derivatives*

For a more detailed discussion of credit derivatives, including a description of the different types used by JPMorgan Chase Bank, N.A., see Note 7 on pages 33–41 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The following tables present a summary of the notional amounts of credit derivatives and credit-related notes JPMorgan Chase Bank, N.A. sold and purchased as of June 30, 2011, and December 31, 2010. Upon a credit event, JPMorgan Chase Bank, N.A. as a seller of protection would typically pay out only a percentage of the full notional amount of net protection sold, as the amount actually required to be paid on the contracts takes into account the recovery value of the reference obligation at the time of settlement. JPMorgan Chase Bank, N.A. manages the credit risk on contracts to sell protection by purchasing protection with identical or similar underlying reference entities. Other purchased protection referenced in the following tables includes credit derivatives bought on related, but not identical, reference positions (including indices, portfolio coverage and other reference points) as well as protection purchased through credit-related notes.

JPMorgan Chase Bank, N.A. does not use notional amounts of credit derivatives as the primary measure of risk management for such derivatives, because the notional amount does not take into account the probability of the occurrence of a credit event, the recovery value of the reference obligation, or related cash instruments and economic hedges, each of which reduces, in JPMorgan Chase Bank, N.A.'s view, the risks associated with such derivatives.

**Total credit derivatives and credit-related notes**

| | Maximum payout/Notional amount | | | |
|---|---|---|---|---|
| **June 30, 2011 (in millions)** | Protection sold | Protection purchased with identical underlyings[(b)] | Net protection (sold)/ purchased[(c)] | Other protection purchased[(d)] |
| **Credit derivatives** | | | | |
| Credit default swaps | **$ (2,974,012)** | **$ 2,912,446** | **$ (61,566)** | **$ 39,049** |
| Other credit derivatives[(a)] | **(120,717)** | **36,278** | **(84,439)** | **25,002** |
| **Total credit derivatives** | **(3,094,729)** | **2,948,724** | **(146,005)** | **64,051** |
| Credit-related notes | **(1,525)** | **—** | **(1,525)** | **3,762** |
| **Total** | **$ (3,096,254)** | **$ 2,948,724** | **$ (147,530)** | **$ 67,813** |

| December 31, 2010 (in millions) | Maximum payout/Notional amount Protection sold | Protection purchased with identical underlyings[(b)] | Net protection (sold)/ purchased[(c)] | Other protection purchased[(d)] |
|---|---|---|---|---|
| **Credit derivatives** | | | | |
| Credit default swaps | $ (2,661,549) | $ 2,652,945 | $ (8,604) | $ 32,477 |
| Other credit derivatives[(a)] | (93,757) | 10,016 | (83,741) | 24,234 |
| **Total credit derivatives** | (2,755,306) | 2,662,961 | (92,345) | 56,711 |
| Credit-related notes | (1,977) | — | (1,977) | 2,990 |
| **Total** | $ (2,757,283) | $ 2,662,961 | $ (94,322) | $ 59,701 |

*(a) Primarily consists of total return swaps and credit default swap options.*
*(b) Represents the total notional amount of protection purchased where the underlying reference instrument is identical to the reference instrument on protection sold; the notional amount of protection purchased for each individual identical underlying reference instrument may be greater or lower than the notional amount of protection sold.*
*(c) Does not take into account the fair value of the reference obligation at the time of settlement, which would generally reduce the amount the seller of protection pays to the buyer of protection in determining settlement value.*
*(d) Represents protection purchased by JPMorgan Chase Bank, N.A. through single-name and index credit default swap or credit-related notes.*

The following tables summarize the notional and fair value amounts of credit derivatives and credit-related notes as of June 30, 2011, and December 31, 2010, where JPMorgan Chase Bank, N.A. is the seller of protection. The maturity profile is based on the remaining contractual maturity of the credit derivative contracts. The ratings profile is based on the rating of the reference entity on which the credit derivative contract is based. The ratings and maturity profile of credit derivatives and credit-related notes where JPMorgan Chase Bank, N.A. is the purchaser of protection are comparable to the profile reflected below.

**Protection sold – credit derivatives and credit-related notes ratings[(a)]/maturity profile**

| **June 30, 2011 (in millions)** | <1 year | 1-5 years | >5 years | Total notional amount | Fair value[(b)] |
|---|---|---|---|---|---|
| **Risk rating of reference entity** | | | | | |
| Investment-grade | **$ (218,698)** | **$ (1,450,372)** | **$ (419,609)** | **$ (2,088,679)** | **$ (25,325)** |
| Noninvestment-grade | **(191,100)** | **(658,536)** | **(157,939)** | **(1,007,575)** | **(52,500)** |
| **Total** | **$ (409,798)** | **$ (2,108,908)** | **$ (577,548)** | **$ (3,096,254)** | **$ (77,825)** |

| December 31, 2010 (in millions) | <1 year | 1-5 years | >5 years | Total notional amount | Fair value[(b)] |
|---|---|---|---|---|---|
| **Risk rating of reference entity** | | | | | |
| Investment-grade | $ (175,659) | $ (1,194,726) | $ (337,108) | $ (1,707,493) | $ (17,293) |
| Noninvestment-grade | (148,923) | (703,136) | (197,731) | (1,049,790) | (60,183) |
| **Total** | $ (324,582) | $ (1,897,862) | $ (534,839) | $ (2,757,283) | $ (77,476) |

*(a) The ratings scale is based on JPMorgan Chase Bank, N.A.'s internal ratings, which generally correspond to ratings as defined by S&P and Moody's.*
*(b) Amounts are shown on a gross basis, before the benefit of legally enforceable master netting agreements and cash collateral held by JPMorgan Chase Bank, N.A.*

## NOTE 7 – NONINTEREST REVENUE

For a discussion of the components of and accounting policies for JPMorgan Chase Bank, N.A.'s other noninterest revenue, see Note 8 on pages 41–42 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The following table presents the components of investment banking fees.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (in millions) | **2011** | 2010 | **2011** | 2010 |
| **Underwriting:** | | | | |
| Equity | **$ 147** | $ 151 | **$ 282** | $ 330 |
| Debt | **511** | 421 | **1,127** | 759 |
| **Total underwriting** | **658** | 572 | **1,409** | 1,089 |
| Advisory | **242** | 145 | **448** | 290 |
| **Total investment banking fees** | **$ 900** | $ 717 | **$ 1,857** | $ 1,379 |

The following table presents components of asset management, administration and commissions.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (in millions) | **2011** | 2010 | **2011** | 2010 |
| **Total asset management fees** | **$ 371** | $ 331 | **$ 724** | $ 648 |
| Total administration fees[(a)] | **543** | 496 | **1,060** | 950 |
| **Commission and other fees:** | | | | |
| Brokerage commissions | **327** | 347 | **702** | 660 |
| All other commissions and fees | **1,305** | 1,209 | **2,504** | 2,380 |
| **Total commissions and fees** | **1,632** | 1,556 | **3,206** | 3,040 |
| **Total asset management, administration and commissions** | **$ 2,546** | $ 2,383 | **$ 4,990** | $ 4,638 |

*(a) Includes fees for custody, securities lending, funds services and securities clearance.*

## NOTE 8 – INTEREST INCOME AND INTEREST EXPENSE

For a description of JPMorgan Chase Bank, N.A.'s accounting policies regarding interest income and interest expense, see Note 9 on page 42 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

Details of interest income and interest expense were as follows.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (in millions) | **2011** | 2010 | **2011** | 2010 |
| **Interest income** | | | | |
| Loans | **$ 5,926** | $ 6,008 | **$ 11,825** | $ 12,188 |
| Securities | **2,546** | 2,489 | **4,722** | 5,400 |
| Trading assets | **1,997** | 1,599 | **3,833** | 3,250 |
| Federal funds sold and securities purchased under resale agreements | **565** | 350 | **1,070** | 718 |
| Securities borrowed | **90** | 81 | **197** | 168 |
| Deposits with banks | **138** | 86 | **231** | 173 |
| Other assets[(a)] | **(1)** | (11) | **(34)** | (34) |
| **Total interest income** | **11,261** | 10,602 | **21,844** | 21,863 |
| **Interest expense** | | | | |
| Interest-bearing deposits | **1,242** | 952 | **2,261** | 1,862 |
| Short-term and other liabilities[(b)(c)] | **756** | 405 | **1,417** | 905 |
| Long-term debt[(c)] | **259** | 324 | **516** | 721 |
| Beneficial interests issued by consolidated VIEs | **37** | 34 | **66** | 64 |
| **Total interest expense** | **2,294** | 1,715 | **4,260** | 3,552 |
| **Net interest income** | **$ 8,967** | $ 8,887 | **$ 17,584** | $ 18,311 |
| Provision for credit losses | **1,167** | 1,292 | **2,206** | 4,723 |
| **Net interest income after provision for credit losses** | **$ 7,800** | $ 7,595 | **$ 15,378** | $ 13,588 |

*(a) Primarily consists of excluded components of hedge accounting relationships, such as forward points on foreign currency forward contracts.*
*(b) Includes brokerage customer payables.*
*(c) Effective January 1, 2011, the long-term portion of advances from FHLBs was reclassified from other borrowed funds to long-term debt. The related interest expense for the prior-year period has also been reclassified to conform with the current presentation.*

## NOTE 9 – PENSION AND OTHER POSTRETIREMENT EMPLOYEE BENEFIT PLANS

For a discussion of JPMorgan Chase Bank, N.A.'s pension plans and United Kingdom ("U.K.") other postretirement employee benefit ("OPEB") plan, see Note 10 on pages 42–48 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The following table presents the components of net periodic benefit cost reported in the Consolidated Statements of Income for JPMorgan Chase Bank, N.A.'s U.S. and non-U.S. defined benefit pension plans, defined contribution plans and U.K. OPEB plan.

| | Pension plans | | | | | |
|---|---|---|---|---|---|---|
| | U.S. | | Non-U.S. | | U.K. OPEB plan | |
| Three months ended June 30, (in millions) | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| **Components of net periodic benefit cost** | | | | | | |
| Benefits earned during the period | **$ 1** | $ 1 | **$ 8** | $ 5 | **$ —** | $ — |
| Interest cost on benefit obligations | **5** | 5 | **32** | 74 | **1** | 1 |
| Expected return on plan assets | **—** | — | **(36)** | (75) | **—** | — |
| Amortization: | | | | | | |
| Net loss | **1** | — | **12** | 13 | **—** | — |
| Prior service cost/(credit) | **—** | — | **(1)** | — | **—** | — |
| **Net periodic defined benefit cost** | **7** | 6 | **15** | 17 | **1** | 1 |
| Other defined benefit pension plans[(a)] | **4** | 4 | **3** | 1 | **NA** | NA |
| **Total defined benefit plans** | **11** | 10 | **18** | 18 | **1** | 1 |
| Total defined contribution plans | **81** | 77 | **56** | 59 | **NA** | NA |
| **Total pension and OPEB cost included in compensation expense** | **$ 92** | $ 87 | **$ 74** | $ 77 | **$ 1** | $ 1 |

| | Pension plans | | | | | |
|---|---|---|---|---|---|---|
| | U.S. | | Non-U.S. | | U.K. OPEB plan | |
| Six months ended June 30, (in millions) | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| **Components of net periodic benefit cost** | | | | | | |
| Benefits earned during the period | **$ 2** | $ 1 | **$ 16** | $ 12 | **$ —** | $ — |
| Interest cost on benefit obligations | **10** | 10 | **64** | 60 | **1** | 1 |
| Expected return on plan assets | **—** | — | **(72)** | (62) | **—** | — |
| Amortization: | | | | | | |
| Net loss | **2** | 1 | **24** | 27 | **—** | — |
| Prior service cost/(credit) | **—** | — | **(1)** | — | **—** | — |
| **Net periodic defined benefit cost** | **14** | 12 | **31** | 37 | **1** | 1 |
| Other defined benefit pension plans[(a)] | **11** | 7 | **5** | 2 | **NA** | NA |
| **Total defined benefit plans** | **25** | 19 | **36** | 39 | **1** | 1 |
| Total defined contribution plans | **163** | 134 | **125** | 117 | **NA** | NA |
| **Total pension and OPEB cost included in compensation expense** | **$ 188** | $ 153 | **$ 161** | $ 156 | **$ 1** | $ 1 |

*(a) Includes various defined benefit pension plans which are individually immaterial.*

The fair values of plan assets for the material non-U.S. defined benefit pension plans were $2.9 billion as of June 30, 2011, and $2.6 billion as of December 31, 2010. See Note 21 on page 75 of these Consolidated Financial Statements for further information on unrecognized amounts (i.e., net loss and prior service costs/(credit)) reflected in AOCI for the six-month periods ended June 30, 2011 and 2010.

For the full year 2011, the cost of funding benefits under JPMorgan Chase Bank, N.A.'s U.S. non-qualified defined benefit pension plans is expected to total $42 million. The 2011 contributions to JPMorgan Chase Bank, N.A.'s non-U.S. defined benefit pension and OPEB plans are expected to be $166 million and $2 million, respectively.

JPMorgan Chase charged JPMorgan Chase Bank, N.A. $50 million and $45 million, for the three-month periods ended June 30, 2011 and 2010, respectively, and $99 million and $90 million for the six-month periods ended June 30, 2011 and 2010, respectively, for its share of the U.S. qualified defined benefit pension plan expense. For its share of the U.S. OPEB plan expense, JPMorgan Chase charged JPMorgan Chase Bank, N.A. $0.3 million and $1 million, for the three-month periods ended June 30, 2011 and 2010, respectively, and $0.6 million and $2 million for the six-month periods ended June 30, 2011 and 2010, respectively.

Consolidated disclosures of information about the pension and OPEB plans of JPMorgan Chase are included in Note 9 on pages 201–210 of JPMorgan Chase's 2010 Annual Report on Form 10-K and in Note 8 on page 126 of JPMorgan Chase's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011.

## NOTE 10 – EMPLOYEE STOCK-BASED INCENTIVES

Certain employees of JPMorgan Chase Bank, N.A. participate in JPMorgan Chase's long-term stock-based incentive plans, which provide grants of common stock-based awards, including stock options, stock appreciation rights ("SARs") and restricted stock units ("RSUs"). For a discussion of the accounting policies and other information relating to employee stock-based incentives, see Note 11 on pages 48–50 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements and Note 10 on pages 210–212 of JPMorgan Chase's 2010 Annual Report on Form 10-K.

JPMorgan Chase Bank, N.A. recognized the following compensation expense related to JPMorgan Chase's various employee stock-based incentive plans in its Consolidated Statements of Income.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (in millions) | **2011** | 2010 | **2011** | 2010 |
| Cost of prior grants of RSUs and SARs that are amortized over their applicable vesting periods | **$ 335** | $ 400 | **$ 699** | $ 800 |
| Accrual of estimated costs of RSUs and SARs to be granted in future periods including those to full-career eligible employees | **122** | 117 | **276** | 278 |
| **Total compensation expense related to employee stock-based incentive plans** | **$ 457** | $ 517 | **$ 975** | $ 1,078 |

In the first quarter of 2011, in connection with its annual incentive grant, JPMorgan Chase granted employees of JPMorgan Chase Bank, N.A. 35 million RSUs and 11 million SARs with weighted-average grant date fair values of $44.32 per RSU and $13.13 per SAR.

## NOTE 11 – NONINTEREST EXPENSE

The following table presents the components of noninterest expense.

| (in millions) | Three months ended June 30, 2011 | Three months ended June 30, 2010 | Six months ended June 30, 2011 | Six months ended June 30, 2010 |
|---|---|---|---|---|
| Compensation expense[(a)] | **$ 5,722** | $ 5,863 | **$ 12,071** | $ 11,241 |
| Noncompensation expense: | | | | |
| Occupancy expense | **825** | 755 | **1,681** | 1,522 |
| Technology, communications and equipment expense | **1,090** | 1,027 | **2,159** | 2,029 |
| Professional and outside services | **1,363** | 1,172 | **2,618** | 2,263 |
| Marketing | **222** | 194 | **398** | 368 |
| Other expense[(b)(c)] | **4,813** | 3,007 | **7,769** | 7,142 |
| Amortization of intangibles | **120** | 132 | **240** | 264 |
| **Total noncompensation expense** | **8,433** | 6,287 | **14,865** | 13,588 |
| **Total noninterest expense** | **$ 14,155** | $ 12,150 | **$ 26,936** | $ 24,829 |

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

*(b) Included litigation expense of $1.9 billion and $2.5 billion for the three and six months ended June 30, 2011, respectively, compared with $794 million and $3.1 billion for the three and six months ended June 30, 2010, respectively.*

*(c) Included foreclosed property expense of $157 million and $322 million for the three and six months ended June 30, 2011, respectively, compared with $209 million and $476 million for the three and six months ended June 30, 2010, respectively.*

## NOTE 12 – SECURITIES

Securities are classified as AFS, held-to-maturity ("HTM") or trading. For additional information regarding AFS and HTM securities, see Note 13 on pages 52–56 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements. Trading securities are discussed in Note 4 on pages 9–21 of these Consolidated Financial Statements.

### Securities gains and losses

The following table presents realized gains and losses and credit losses that were recognized in income from AFS securities.

| (in millions) | Three months ended June 30, 2011 | Three months ended June 30, 2010 | Six months ended June 30, 2011 | Six months ended June 30, 2010 |
|---|---|---|---|---|
| Realized gains | **$ 875** | $ 1,081 | **$ 1,013** | $ 1,828 |
| Realized losses | **(27)** | (130) | **(46)** | (172) |
| **Net realized gains**[(a)] | **848** | 951 | **967** | 1,656 |
| Credit losses included in securities gains[(b)] | **(13)** | — | **(43)** | (6) |
| **Net securities gains** | **$ 835** | $ 951 | **$ 924** | $ 1,650 |

*(a) Proceeds from securities sold were within approximately 4% of amortized cost.*

*(b) Includes other-than-temporary impairment losses recognized in income on certain prime mortgage-backed securities for the three and six months ended June 30, 2011, and for the six months ended June 30, 2010.*

The amortized costs and estimated fair values of AFS and HTM securities were as follows for the dates indicated.

| (in millions) | June 30, 2011 Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | December 31, 2010 Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---|---|---|---|---|---|---|---|---|
| **Available-for-sale debt securities** | | | | | | | | |
| Mortgage-backed securities: | | | | | | | | |
| U.S. government agencies[(a)] | **$ 115,271** | **$ 3,838** | **$ 208** | **$ 118,901** | $ 117,364 | $ 3,159 | $ 297 | $ 120,226 |
| Residential: | | | | | | | | |
| Prime and Alt-A | **2,201** | **72** | **180** [(d)] | **2,093** | 2,173 | 81 | 250 [(d)] | 2,004 |
| Subprime | **1** | **—** | **—** | **1** | 1 | — | — | 1 |
| Non-U.S. | **56,824** | **332** | **317** | **56,839** | 47,089 | 290 | 409 | 46,970 |
| Commercial | **4,162** | **425** | **2** | **4,585** | 4,650 | 498 | 4 | 5,144 |
| **Total mortgage-backed securities** | **178,459** | **4,667** | **707** | **182,419** | 171,277 | 4,028 | 960 | 174,345 |
| U.S. Treasury and government agencies[(a)] | **5,107** | **112** | **22** | **5,197** | 11,168 | 118 | 28 | 11,258 |
| Obligations of U.S. states and municipalities | **8,315** | **166** | **103** | **8,378** | 8,436 | 45 | 285 | 8,196 |
| Certificates of deposit | **4,859** | **2** | **—** | **4,861** | 3,642 | 1 | 2 | 3,641 |
| Non-U.S. government debt securities | **30,054** | **217** | **62** | **30,209** | 20,614 | 191 | 28 | 20,777 |
| Corporate debt securities[(b)] | **55,035** | **384** | **514** | **54,905** | 60,586 | 491 | 417 | 60,660 |
| Asset-backed securities: | | | | | | | | |
| Credit card receivables | **5,985** | **325** | **—** | **6,310** | 8,469 | 392 | 5 | 8,856 |
| Collateralized loan obligations | **14,859** | **509** | **117** | **15,251** | 13,336 | 472 | 210 | 13,598 |
| Other | **9,037** | **141** | **8** | **9,170** | 8,694 | 91 | 8 | 8,777 |
| **Total available-for-sale debt securities** | **311,710** | **6,523** | **1,533** [(d)] | **316,700** | 306,222 | 5,829 | 1,943 [(d)] | 310,108 |
| Available-for-sale equity securities | **442** | **107** | **—** | **549** | 560 | 83 | 6 | 637 |
| **Total available-for-sale securities** | **$ 312,152** | **$ 6,630** | **$ 1,533** [(d)] | **$ 317,249** | $ 306,782 | $ 5,912 | $ 1,949 [(d)] | $ 310,745 |
| Total held-to-maturity securities[(c)] | **$ 15** | **$ 1** | **$ —** | **$ 16** | $ 17 | $ 2 | $ — | $ 19 |

*(a) Includes total U.S. government-sponsored enterprise obligations with fair values of $95.2 billion and $94.2 billion at June 30, 2011, and December 31, 2010, respectively, which were predominantly mortgage-related.*

*(b) Consists primarily of bank debt including sovereign government guaranteed bank debt.*

*(c) Consists primarily of mortgage-backed securities issued by U.S. government-sponsored enterprises.*

*(d) Includes a total of $102 million and $133 million (pretax) of unrealized losses related to prime mortgage-backed securities for which credit losses have been recognized in income at June 30, 2011, and December 31, 2010, respectively. These unrealized losses are not credit-related and remain reported in AOCI.*

## Securities impairment

The following tables present the fair value and gross unrealized losses for AFS securities by aging category at June 30, 2011, and December 31, 2010.

| | Securities with gross unrealized losses | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | | |
| **June 30, 2011 (in millions)** | Fair value | Gross unrealized losses | Fair value | Gross unrealized losses | Total fair value | Total gross unrealized losses |
| **Available-for-sale debt securities** | | | | | | |
| Mortgage-backed securities: | | | | | | |
| U.S. government agencies | $ **13,774** | $ **207** | $ **11** | $ **1** | $ **13,785** | $ **208** |
| Residential: | | | | | | |
| Prime and Alt-A | **325** | **1** | **1,119** | **179** | **1,444** | **180** |
| Subprime | — | — | — | — | — | — |
| Non-U.S. | **18,163** | **87** | **19,385** | **230** | **37,548** | **317** |
| Commercial | **286** | **2** | — | — | **286** | **2** |
| **Total mortgage-backed securities** | **32,548** | **297** | **20,515** | **410** | **53,063** | **707** |
| U.S. Treasury and government agencies | **479** | **22** | — | — | **479** | **22** |
| Obligations of U.S. states and municipalities | **3,299** | **95** | **27** | **8** | **3,326** | **103** |
| Certificates of deposit | — | — | — | — | — | — |
| Non-U.S. government debt securities | **10,422** | **62** | — | — | **10,422** | **62** |
| Corporate debt securities | **18,864** | **514** | — | — | **18,864** | **514** |
| Asset-backed securities: | | | | | | |
| Credit card receivables | — | — | — | — | — | — |
| Collateralized loan obligations | **988** | **4** | **5,750** | **113** | **6,738** | **117** |
| Other | **2,577** | **8** | — | — | **2,577** | **8** |
| **Total available-for-sale debt securities** | **69,177** | **1,002** | **26,292** | **531** | **95,469** | **1,533** |
| Available-for-sale equity securities | — | — | — | — | — | — |
| **Total securities with gross unrealized losses** | $ **69,177** | $ **1,002** | $ **26,292** | $ **531** | $ **95,469** | $ **1,533** |

| December 31, 2010 (in millions) | Securities with gross unrealized losses | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | | |
| | Fair value | Gross unrealized losses | Fair value | Gross unrealized losses | Total fair value | Total gross unrealized losses |
| **Available-for-sale debt securities** | | | | | | |
| Mortgage-backed securities: | | | | | | |
| U.S. government agencies | $ 14,039 | $ 297 | $ — | $ — | $ 14,039 | $ 297 |
| Residential: | | | | | | |
| Prime and Alt-A | — | — | 1,193 | 250 | 1,193 | 250 |
| Subprime | — | — | — | — | — | — |
| Non-U.S. | 35,166 | 379 | 1,080 | 30 | 36,246 | 409 |
| Commercial | 131 | 1 | 11 | 3 | 142 | 4 |
| **Total mortgage-backed securities** | 49,336 | 677 | 2,284 | 283 | 51,620 | 960 |
| U.S. Treasury and government agencies | 921 | 28 | — | — | 921 | 28 |
| Obligations of U.S. states and municipalities | 5,635 | 277 | 20 | 8 | 5,655 | 285 |
| Certificates of deposit | 1,771 | 2 | — | — | 1,771 | 2 |
| Non-U.S. government debt securities | 6,960 | 28 | — | — | 6,960 | 28 |
| Corporate debt securities | 18,287 | 416 | 64 | 1 | 18,351 | 417 |
| Asset-backed securities: | | | | | | |
| Credit card receivables | — | — | 345 | 5 | 345 | 5 |
| Collateralized loan obligations | 460 | 10 | 6,321 | 200 | 6,781 | 210 |
| Other | 2,609 | 8 | — | — | 2,609 | 8 |
| **Total available-for-sale debt securities** | 85,979 | 1,446 | 9,034 | 497 | 95,013 | 1,943 |
| Available-for-sale equity securities | — | — | 2 | 6 | 2 | 6 |
| **Total securities with gross unrealized losses** | $ 85,979 | $ 1,446 | $ 9,036 | $ 503 | $ 95,015 | $ 1,949 |

## Other-than-temporary impairment ("OTTI")

The following table presents credit losses that are included in the securities gains and losses table above.

| (in millions) | Three months ended June 30, 2011 | Three months ended June 30, 2010 | Six months ended June 30, 2011 | Six months ended June 30, 2010 |
|---|---|---|---|---|
| **Debt securities JPMorgan Chase Bank, N.A. does not intend to sell that have credit losses** | | | | |
| Total other-than-temporary impairment losses[(a)] | **$ —** | $ — | **$ (27)** | $ — |
| Losses recorded in/(reclassified from) other comprehensive income | **(13)** | — | **(16)** | (6) |
| **Credit losses recognized in income[(b)]** | **$ (13)** | $ — | **$ (43)** | $ (6) |

*(a) For initial OTTI, represents the excess of the amortized cost over the fair value of AFS debt securities. For subsequent impairments of the same security, represents additional declines in fair value subsequent to previously recorded OTTI, if applicable.*

*(b) Represents the credit loss component of certain prime mortgage-backed securities that JPMorgan Chase Bank, N.A. does not intend to sell. Subsequent credit losses may be recorded on securities without a corresponding further decline in fair value if there has been a decline in expected cash flows.*

## Changes in the credit loss component of credit-impaired debt securities

The following table presents a rollforward for the three and six months ended June 30, 2011 and 2010, of the credit loss component of OTTI losses that have been recognized in income, related to debt securities that JPMorgan Chase Bank, N.A. does not intend to sell.

| (in millions) | Three months ended June 30, 2011 | Three months ended June 30, 2010 | Six months ended June 30, 2011 | Six months ended June 30, 2010 |
|---|---|---|---|---|
| Balance, beginning of period | **$ 143** | $ 141 | **$ 113** | $ 138 |
| Additions: | | | | |
| Newly credit-impaired securities | **—** | — | **4** | — |
| Losses reclassified from other comprehensive income on previously credit-impaired securities | **13** | — | **39** | 6 |
| Reductions: | | | | |
| Sales of credit-impaired securities | **—** | (20) | **—** | (23) |
| **Balance, end of period** | **$ 156** | $ 121 | **$ 156** | $ 121 |

## Gross unrealized losses

Gross unrealized losses have generally decreased since December 31, 2010, but those that have been in unrealized loss position for 12 months or more have increased slightly. As of June 30, 2011, JPMorgan Chase Bank, N.A. does not intend to sell the securities with a loss position in AOCI, and it is not likely that it will be required to sell these securities before recovery of their amortized cost basis. Except for the securities reported in the table above for which credit losses have been recognized in income, JPMorgan Chase Bank, N.A. believes that the securities with an unrealized loss in AOCI are not other-than-temporarily impaired as of June 30, 2011.

Following is a description of JPMorgan Chase Bank, N.A.'s principal investment securities with the most significant unrealized losses that have existed for 12 months or more as of June 30, 2011, and the key assumptions used in JPMorgan Chase Bank, N.A.'s estimate of the present value of the cash flows most likely to be collected from these investments.

*Mortgage-backed securities - Prime and Alt-A nonagency*
As of June 30, 2011, gross unrealized losses related to prime and Alt-A residential mortgage-backed securities issued by private issuers were $180 million, of which $179 million related to securities that have been in an unrealized loss position for 12 months or more. Approximately 58% of the total portfolio (by amortized cost) are currently rated below investment-grade; JPMorgan Chase Bank, N.A. has recorded OTTI losses on 66% of the below investment-grade positions. The majority of OTTI has been attributed to securities that are primarily backed by mortgages with higher credit risk characteristics based on collateral type, vintage and geographic concentration. The remaining securities that are below investment-grade that have not experienced OTTI generally either do not possess all of these characteristics or have sufficient credit enhancements to protect the investment. The average credit enhancements associated with the below investment-grade and investment-grade positions are 8% and 44%, respectively. In analyzing prime and Alt-A residential mortgage-backed securities for potential credit losses, JPMorgan Chase Bank, N.A. uses a methodology that focuses on loan-level detail to estimate future cash flows, which are then allocated to the various tranches of the securities. The loan-level analysis primarily considers current home value, loan-to-value ("LTV") ratio, loan type and geographical location of the underlying property to forecast prepayment, home price, default rate and loss severity. The forecasted weighted average underlying default rate on the positions was 24%, and the related weighted average loss severity was 47%. Based on this analysis, an OTTI loss of $13 million and $43 million was recognized for the three months and six months ended June 30, 2011, respectively, on certain securities related to higher loss assumptions. Overall unrealized losses have decreased since December 31, 2010, with the recovery in security prices resulting from increased demand for higher-yielding asset classes and a deceleration in the pace of home price declines due in part to the U.S. government programs to facilitate financing and to spur home purchases. The unrealized loss of $180 million is considered temporary, based on management's assessment that the estimated future cash flows together with the credit enhancement levels for those securities remain sufficient to support JPMorgan Chase Bank, N.A.'s investment.

*Mortgage-backed securities – Non-U.S.*
As of June 30, 2011, gross unrealized losses related to non-U.S. residential mortgage-backed securities were $317 million, of which $230 million related to securities that have been in an unrealized loss position for 12 months or more. Substantially all of these securities are rated "AAA," "AA" or "A" and represent mortgage exposures to the United Kingdom and the Netherlands. The key assumptions used in analyzing non-U.S. residential mortgage-backed securities for potential credit losses include credit enhancements, recovery rates, default rates, and constant prepayment rates. Credit enhancement is primarily in the form of subordination, which is a form of structural credit enhancement where realized losses associated with assets held in an issuing vehicle are allocated to the various tranches of securities issued by the vehicle considering their relative seniority. Credit enhancement in the form of subordination was approximately 10% of the outstanding principal balance of securitized mortgage loans, compared with expected lifetime losses of 1.5% of the outstanding principal. In determining potential credit losses, assumptions included recovery rates of 60%, default rates of 0.25% to 0.5% and constant prepayment rates of 15% to 20%. The unrealized loss is considered temporary, based on management's assessment that the estimated future cash flows together with the credit enhancement levels for those securities remain sufficient to support JPMorgan Chase Bank, N.A.'s investment.

*Asset-backed securities – Collateralized loan obligations*
As of June 30, 2011, gross unrealized losses related to CLOs were $117 million, of which $113 million related to securities that were in an unrealized loss position for 12 months or more. Overall losses have decreased since December 31, 2010, mainly as a result of lower default forecasts and spread tightening across various asset classes. Substantially all of these securities are rated "AAA," "AA" or "A" and have an average credit enhancement of 30%. The key assumptions considered in analyzing potential credit losses were underlying loan and debt security defaults and loss severity. Based on current default trends for the collateral underlying the securities, JPMorgan Chase Bank, N.A. assumed collateral default rates of 2% for the second quarter of 2011, and 4% thereafter. Further, loss severities were assumed to be 48% for loans and 82% for debt securities. Losses on collateral were estimated to occur approximately 18 months after default. The unrealized loss is considered temporary, based on management's assessment that the estimated future cash flows together with the credit enhancement levels for those securities remain sufficient to support JPMorgan Chase Bank, N.A.'s investment.

**Contractual maturities and yields**
The following table presents the amortized cost and estimated fair value at June 30, 2011, of JPMorgan Chase Bank, N.A.'s AFS and HTM securities by contractual maturity.

| By remaining maturity (in millions) | June 30, 2011 Due in one year or less | Due after one year through five years | Due after five years through 10 years | Due after 10 years[c] | Total |
|---|---|---|---|---|---|
| **Available-for-sale debt securities** | | | | | |
| Mortgage-backed securities[a] | | | | | |
| Amortized cost | $ 9 | $ 692 | $ 3,165 | $ 174,593 | $ 178,459 |
| Fair value | 9 | 726 | 3,194 | 178,490 | 182,419 |
| Average yield[b] | 5.02% | 4.22% | 2.20% | 3.72% | 3.69% |
| U.S. Treasury and government agencies[a] | | | | | |
| Amortized cost | $ 1,565 | $ 3,289 | $ 1 | $ 252 | $ 5,107 |
| Fair value | 1,577 | 3,390 | 1 | 229 | 5,197 |
| Average yield[b] | 1.72% | 2.20% | 4.87% | 3.85% | 2.13% |
| Obligations of U.S. states and municipalities | | | | | |
| Amortized cost | $ 14 | $ 133 | $ 157 | $ 8,011 | $ 8,315 |
| Fair value | 14 | 143 | 169 | 8,052 | 8,378 |
| Average yield[b] | 0.06% | 4.72% | 4.16% | 4.86% | 4.84% |
| Certificates of deposit | | | | | |
| Amortized cost | $ 4,795 | $ 64 | $ — | $ — | $ 4,859 |
| Fair value | 4,797 | 64 | — | — | 4,861 |
| Average yield[b] | 4.54% | 0.96% | —% | —% | 4.50% |
| Non-U.S. government debt securities | | | | | |
| Amortized cost | $ 10,410 | $ 16,993 | $ 2,647 | $ 4 | $ 30,054 |
| Fair value | 10,435 | 17,118 | 2,652 | 4 | 30,209 |
| Average yield[b] | 1.85% | 2.02% | 3.27% | 4.73% | 2.07% |
| Corporate debt securities | | | | | |
| Amortized cost | $ 23,193 | $ 25,540 | $ 6,302 | $ — | $ 55,035 |
| Fair value | 23,419 | 25,261 | 6,225 | — | 54,905 |
| Average yield[b] | 2.10% | 2.75% | 4.80% | —% | 2.71% |
| Asset-backed securities | | | | | |
| Amortized cost | $ 19 | $ 6,172 | $ 10,897 | $ 12,793 | $ 29,881 |
| Fair value | 21 | 6,445 | 11,270 | 12,995 | 30,731 |
| Average yield[b] | 0.03% | 2.82% | 2.33% | 2.20% | 2.38% |
| **Total available-for-sale debt securities** | | | | | |
| Amortized cost | $ 40,005 | $ 52,883 | $ 23,169 | $ 195,653 | $ 311,710 |
| Fair value | 40,272 | 53,147 | 23,511 | 199,770 | 316,700 |
| Average yield[b] | 2.31% | 2.52% | 3.11% | 3.67% | 3.26% |
| **Available-for-sale equity securities** | | | | | |
| Amortized cost | $ — | $ — | $ — | $ 442 | $ 442 |
| Fair value | — | — | — | 549 | 549 |
| Average yield[b] | —% | —% | —% | 0.67% | 0.67% |
| **Total available-for-sale securities** | | | | | |
| Amortized cost | $ 40,005 | $ 52,883 | $ 23,169 | $ 196,095 | $ 312,152 |
| Fair value | 40,272 | 53,147 | 23,511 | 200,319 | 317,249 |
| Average yield[b] | 2.31% | 2.52% | 3.11% | 3.66% | 3.25% |
| **Total held-to-maturity securities** | | | | | |
| Amortized cost | $ — | $ 7 | $ 7 | $ 1 | $ 15 |
| Fair value | — | 7 | 8 | 1 | 16 |
| Average yield[b] | —% | 6.96% | 6.82% | 6.48% | 6.86% |

*(a) U.S. government agencies and U.S. government-sponsored enterprises were the only issuers whose securities exceeded 10% of JPMorgan Chase Bank, N.A.'s total stockholder's equity at June 30, 2011.*

*(b) Average yield is computed using the effective yield of each security owned at the end of the period, weighted based on the amortized cost of each security. The effective yield considers the contractual coupon, amortization of premiums and accretion of discounts, and the effect of related hedging derivatives. Taxable equivalent amounts are used where applicable.*

*(c) Includes securities with no stated maturity. Substantially all of JPMorgan Chase Bank, N.A.'s residential mortgage-backed securities and collateralized mortgage obligations are due in 10 years or more, based on contractual maturity. The estimated duration, which reflects anticipated future prepayments based on a consensus of dealers in the market, is approximately five years for agency residential mortgage-backed securities, three years for agency residential collateralized mortgage obligations and five years for nonagency residential collateralized mortgage obligations.*

## NOTE 13 – SECURITIES FINANCING ACTIVITIES

For a discussion of accounting policies relating to securities financing activities, see Note 14 on page 57 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements. For further information regarding securities borrowed and securities lending agreements for which the fair value option has been elected, see Note 5 on pages 22–24 of these Consolidated Financial Statements.

The following table details JPMorgan Chase Bank, N.A.'s securities financing agreements, all of which are accounted for as collateralized financings during the periods presented.

| (in millions) | **June 30, 2011** | December 31, 2010 |
|---|---|---|
| Securities purchased under resale agreements[(a)] | **$ 164,265** | $ 174,592 |
| Securities borrowed[(b)] | **57,137** | 57,370 |
| Securities sold under repurchase agreements[(c)] | **$ 153,553** | $ 158,688 |
| Securities loaned | **17,682** | 13,898 |

*(a) At June 30, 2011, and December 31, 2010, included resale agreements of $20.1 billion and $19.9 billion, respectively, accounted for at fair value.*

*(b) At June 30, 2011, and December 31, 2010, included securities borrowed of $14.8 billion and $14.0 billion, respectively, accounted for at fair value.*

*(c) At June 30, 2011, and December 31, 2010, included repurchase agreements of $4.8 billion and $2.6 billion, respectively, accounted for at fair value.*

The amounts reported in the table above were reduced by $70.1 billion and $54.8 billion at June 30, 2011, and December 31, 2010, respectively, as a result of agreements in effect that meet the specified conditions for net presentation under applicable accounting guidance.

For further information regarding assets pledged and collateral received in securities financing agreements, see Note 24 on page 81 of these Consolidated Financial Statements.

## NOTE 14 – LOANS

**Loan accounting framework**

The accounting for a loan depends on management's strategy for the loan, and on whether the loan was credit-impaired at the date of acquisition. JPMorgan Chase Bank, N.A. accounts for loans based on the following categories:

- Originated or purchased loans held-for-investment (i.e., "retained"), other than purchased credit-impaired ("PCI") loans
- Loans held-for-sale
- Loans at fair value
- PCI loans held-for-investment

For a detailed discussion of loans, including accounting policies, see Note 15 on pages 58–76 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements. See Note 5 on pages 22–24 of these Consolidated Financial Statements for further information on JPMorgan Chase Bank, N.A.'s elections of fair value accounting under the fair value option. See Note 4 on pages 9–21 of these Consolidated Financial Statements for further information on loans carried at fair value and classified as trading assets.

### Loan portfolio

JPMorgan Chase Bank, N.A.'s loan portfolio is divided into three portfolio segments, which are the same segments used to determine the allowance for loan losses: Wholesale; Consumer, excluding credit card; and Credit card. Within each portfolio segment, JPMorgan Chase Bank, N.A. monitors and assesses the credit risk in the following classes of loans, based on the risk characteristics of each loan class:

| **Wholesale**[(a)] | **Consumer, excluding credit card**[(b)] | **Credit card** |
|---|---|---|
| • Commercial and industrial<br>• Real estate<br>• Financial institutions<br>• Government agencies<br>• Other | Residential real estate – excluding PCI<br>• Home equity – senior lien<br>• Home equity – junior lien<br>• Prime mortgage, including option adjustable-rate mortgages ("ARMs")<br>• Subprime mortgage<br>Other consumer loans<br>• Auto[(c)]<br>• Business banking[(c)]<br>• Student and other<br>Residential real estate – PCI<br>• Home equity<br>• Prime mortgage<br>• Subprime mortgage<br>• Option ARMs | • Credit card |

*(a) Includes loans reported in investment banking, commercial banking, treasury and securities services, asset management and corporate businesses.*
*(b) Includes the retail financial services business and residential real estate loans reported in the corporate business.*
*(c) Includes risk-rated loans that apply the wholesale methodology for determining the allowance for loan losses; these loans are managed by the retail financial services business and therefore, for consistency in presentation, are included with the other consumer loan classes.*

The following table summarizes JPMorgan Chase Bank, N.A.'s loan balances by portfolio segment:

| June 30, 2011 (in millions) | Wholesale | Consumer, excluding credit card | Credit card | Total |
|---|---|---|---|---|
| Retained | **$ 243,482** | **$ 296,480** | **$ 25,759** | **$ 565,721** (a) |
| Held-for-sale | **1,990** | **221** | **—** | **2,211** |
| At fair value | **813** | **—** | **—** | **813** |
| **Total** | **$ 246,285** | **$ 296,701** | **$ 25,759** | **$ 568,745** |
| | | | | |
| December 31, 2010 (in millions) | | | | |
| Retained | $ 219,829 | $ 307,185 | $ 21,665 | $ 548,679 (a) |
| Held-for-sale | 3,139 | 154 | 59 | 3,352 |
| At fair value | 973 | — | — | 973 |
| Total | $ 223,941 | $ 307,339 | $ 21,724 | $ 553,004 |

*(a) Loans (other than PCI loans and those for which the fair value option has been selected) are presented net of unamortized discounts and premiums, unearned income and net deferred loan costs of $1.9 billion and $1.8 billion at June 30, 2011, and December 31, 2010, respectively.*

The following tables provide information about the carrying value of retained loans purchased, retained loans sold and retained loans reclassified to held-for-sale during the periods indicated. These tables exclude loans recorded at fair value. On an on-going basis, JPMorgan Chase Bank, N.A. manages its exposure to credit risk. Selling loans is one way that JPMorgan Chase Bank, N.A. reduces its credit exposures.

| Three months ended in June 30, 2011, (in millions) | Wholesale | Consumer, excluding credit card | Credit card | Total |
|---|---|---|---|---|
| Purchases | $ 218 | $ 1,668 | $ — | $ 1,886 |
| Sales | 805 | 401 | — | 1,206 |
| Retained loans reclassified to held-for-sale | 123 | — | — | 123 |

| Six months ended in June 30, 2011, (in millions) | Wholesale | Consumer, excluding credit card | Credit card | Total |
|---|---|---|---|---|
| Purchases | $ 341 | $ 3,660 | $ — | $ 4,001 |
| Sales | 1,682 | 658 | — | 2,340 |
| Retained loans reclassified to held-for-sale | 297 | — | — | 297 |

The following table provides information about gains/(losses) on loan sales by portfolio segment.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (in millions) | **2011** | 2010 | **2011** | 2010 |
| **Net gains/(losses) on sales of loans (including lower of cost or fair value adjustments)**(a) | | | | |
| Wholesale | **$ 73** | $ 51 | **$ 133** | $ 119 |
| Consumer, excluding credit card | **28** | 98 | **53** | 128 |
| Credit card | **(1)** | — | **(2)** | — |
| **Total net gains/(losses) on sales of loans (including lower of cost or fair value adjustments)**(a) | **$ 100** | $ 149 | **$ 184** | $ 247 |

*(a) Excludes sales related to loans accounted for at fair value.*

## Wholesale loan portfolio

Wholesale loans include loans made to a variety of customers from large corporate and institutional clients to certain high-net worth individuals. The primary credit quality indicator for wholesale loans is the risk rating assigned each loan. For further information on the risk ratings, see Notes 15 and 16 on pages 58–81 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The table below provides information by class of receivable for the retained loans in the Wholesale portfolio segment.

| | Commercial and industrial | | Real estate | |
|---|---|---|---|---|
| (in millions, except ratios) | **June 30, 2011** | December 31, 2010 | **June 30, 2011** | December 31, 2010 |
| **Loans by risk ratings** | | | | |
| Investment grade | **$ 35,894** | $ 30,729 | **$ 29,276** | $ 28,378 |
| Noninvestment grade: | | | | |
| Noncriticized | **32,821** | 29,612 | **16,519** | 16,289 |
| Criticized performing | **2,352** | 2,290 | **4,773** | 5,720 |
| Criticized nonaccrual | **1,206** | 1,598 | **1,430** | 2,934 |
| **Total noninvestment grade** | **36,379** | 33,500 | **22,722** | 24,943 |
| **Total retained loans** | **$ 72,273** | $ 64,229 | **$ 51,998** | $ 53,321 |
| % of total criticized to total retained loans | **4.92%** | 6.05% | **11.93%** | 16.23% |
| % of nonaccrual loans to total retained loans | **1.67** | 2.49 | **2.75** | 5.50 |
| **Loans by geographic distribution**[(a)] | | | | |
| Total non-U.S. | **$ 22,003** | $ 17,720 | **$ 1,624** | $ 1,963 |
| Total U.S. | **50,270** | 46,509 | **50,374** | 51,358 |
| **Total retained loans** | **$ 72,273** | $ 64,229 | **$ 51,998** | $ 53,321 |
| **Loan delinquency**[(b)] | | | | |
| Current and less than 30 days past due and still accruing | **$ 70,924** | $ 62,190 | **$ 50,369** | $ 49,988 |
| 30-89 days past due and still accruing | **140** | 434 | **155** | 290 |
| 90 or more days past due and still accruing[(c)] | **3** | 7 | **44** | 109 |
| Criticized nonaccrual | **1,206** | 1,598 | **1,430** | 2,934 |
| **Total retained loans** | **$ 72,273** | $ 64,229 | **$ 51,998** | $ 53,321 |

*(a) U.S. and non-U.S. distribution is determined based predominantly on the domicile of the borrower.*

*(b) For wholesale loans, the past due status of a loan is generally not a significant indicator of credit quality due to the ongoing review and monitoring of an obligor's ability to meet contractual obligations. For a discussion of more significant factors, see Note 15 on page 61 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.*

*(c) Represents loans that are 90 days or more past due as to principal and/or interest, but that are still accruing interest; these loans are considered well-collateralized.*

*(d) Other primarily includes loans to special purpose entities and loans to private banking clients. See Note 1 on pages 6–8 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements for additional information on SPEs.*

The following table presents additional information on the real estate class of loans within the wholesale portfolio segment for the periods indicated. For further information on real estate loans, see Note 15 on pages 58–76 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

| | Multi-family | | Commercial lessors | |
|---|---|---|---|---|
| (in millions, except ratios) | **June 30, 2011** | December 31, 2010 | **June 30, 2011** | December 31, 2010 |
| Real estate retained loans | **$ 31,076** | $ 30,595 | **$ 13,953** | $ 15,620 |
| Criticized exposure | **3,236** | 3,798 | **1,871** | 3,546 |
| % of criticized exposure to total real estate retained loans | **10.41%** | 12.41% | **13.41%** | 22.70% |
| Criticized nonaccrual | **$ 764** | $ 1,016 | **$ 345** | $ 1,546 |
| % of criticized nonaccrual to total real estate retained loans | **2.46%** | 3.32% | **2.47%** | 9.90% |

(table continued from previous page)

| Financial institutions | | Government agencies | | Other(d) | | Total retained loans | |
|---|---|---|---|---|---|---|---|
| **June 30, 2011** | December 31, 2010 | **June 30, 2011** | December 31, 2010 | **June 30, 2011** | December 31, 2010 | **June 30, 2011** | December 31, 2010 |
| **$ 26,920** | $ 22,692 | **$ 5,833** | $ 5,980 | **$ 68,731** | $ 55,484 | **$ 166,654** | $ 143,263 |
| **9,196** | 8,358 | **355** | 377 | **6,604** | 7,809 | **65,495** | 62,445 |
| **198** | 317 | **4** | 3 | **652** | 320 | **7,979** | 8,650 |
| **65** | 136 | **23** | 22 | **630** | 781 | **3,354** | 5,471 |
| **9,459** | 8,811 | **382** | 402 | **7,886** | 8,910 | **76,828** | 76,566 |
| **$ 36,379** | $ 31,503 | **$ 6,215** | $ 6,382 | **$ 76,617** | $ 64,394 | **$ 243,482** | $ 219,829 |
| **0.72%** | 1.44% | **0.43%** | 0.39% | **1.67%** | 1.71% | **4.65%** | 6.42% |
| **0.18** | 0.43 | **0.37** | 0.34 | **0.82** | 1.21 | **1.38** | 2.49 |
| **$ 26,021** | $ 20,043 | **$ 1,175** | $ 874 | **$ 31,268** | $ 25,753 | **$ 82,091** | $ 66,353 |
| **10,358** | 11,460 | **5,040** | 5,508 | **45,349** | 38,641 | **161,391** | 153,476 |
| **$ 36,379** | $ 31,503 | **$ 6,215** | $ 6,382 | **$ 76,617** | $ 64,394 | **$ 243,482** | $ 219,829 |
| **$ 36,212** | $ 31,334 | **$ 6,189** | $ 6,345 | **$ 75,369** | $ 62,832 | **$ 239,063** | $ 212,689 |
| **100** | 31 | **3** | 15 | **599** | 541 | **997** | 1,311 |
| **2** | 2 | **—** | — | **19** | 240 | **68** | 358 |
| **65** | 136 | **23** | 22 | **630** | 781 | **3,354** | 5,471 |
| **$ 36,379** | $ 31,503 | **$ 6,215** | $ 6,382 | **$ 76,617** | $ 64,394 | **$ 243,482** | $ 219,829 |

(table continued from previous page)

| Commercial construction and development | | Other | | Total real estate loans | |
|---|---|---|---|---|---|
| **June 30, 2011** | December 31, 2010 | **June 30, 2011** | December 31, 2010 | **June 30, 2011** | December 31, 2010 |
| **$ 3,064** | $ 3,395 | **$ 3,905** | $ 3,711 | **$ 51,998** | $ 53,321 |
| **445** | 618 | **651** | 692 | **6,203** | 8,654 |
| **14.52%** | 18.20% | **16.67%** | 18.65% | **11.93%** | 16.23% |
| **$ 127** | $ 173 | **$ 194** | $ 199 | **$ 1,430** | $ 2,934 |
| **4.14%** | 5.10% | **4.97%** | 5.36% | **2.75%** | 5.50% |

**Wholesale impaired loans and loan modifications**

Wholesale impaired loans include loans that have been placed on nonaccrual status and/or that have been modified in a TDR. All impaired loans are evaluated for an asset-specific allowance as described in Note 15 on pages 59–60 of these Consolidated Financial Statements.

The table below set forth information about JPMorgan Chase Bank, N.A.'s wholesale impaired loans.

| | Commercial and industrial | | Real estate | | Financial institutions | | Government agencies | | Other | | Total retained loans | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in millions) | **June 30, 2011** | Dec 31, 2010 | **June 30, 2011** | Dec 31, 2010 | **June 30, 2011** | Dec 31, 2010 | **June 30, 2011** | Dec 31, 2010 | **June 30, 2011** | Dec 31, 2010 | **June 30, 2011** | Dec 31, 2010 |
| **Impaired loans** | | | | | | | | | | | | |
| With an allowance | **$ 1,143** | $ 1,482 | **$ 1,077** | $ 2,508 | **$ 44** | $ 127 | **$ 23** | $ 22 | **$ 565** | $ 697 | **$ 2,852** | $ 4,836 |
| Without an allowance[(a)] | **118** | 151 | **315** | 445 | **21** | 8 | **—** | — | **65** | 8 | **519** | 612 |
| **Total impaired loans** | **$ 1,261** | $ 1,633 | **$ 1,392** | $ 2,953 | **$ 65** | $ 135 | **$ 23** | $ 22 | **$ 630** | $ 705 | **$ 3,371** | $ 5,448 |
| Allowance for loan losses related to impaired loans[(b)] | **$ 331** | $ 431 | **$ 251** | $ 825 | **$ 14** | $ 61 | **$ 14** | $ 14 | **$ 139** | $ 238 | **$ 749** | $ 1,569 |
| Unpaid principal balance of impaired loans[(c)] | **1,976** | 2,406 | **1,371** | 3,483 | **132** | 244 | **23** | 30 | **1,396** | 1,046 | **4,898** | 7,209 |

*(a) When the discounted cash flows, collateral value or market price equals or exceeds the recorded investment in the loan, then the loan does not require an allowance. This typically occurs when the impaired loans have been partially charged-off and/or there have been interest payments received and applied to the loan balance.*

*(b) The allowance for impaired loans is included in JPMorgan Chase Bank, N.A.'s asset-specific allowance for loan losses.*

*(c) Represents the contractual amount of principal owed at June 30, 2011, and December 31, 2010. The unpaid principal balance differs from the impaired loan balances due to various factors, including charge-offs; interest payments received and applied to the carrying value; net deferred loan fees or costs; and unamortized discount or premiums on purchased loans.*

The following table presents JPMorgan Chase Bank, N.A.'s average impaired loans for the periods indicated.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (in millions) | **2011** | 2010 | **2011** | 2010 |
| Commercial and industrial | **$ 1,397** | $ 1,535 | **$ 1,454** | $ 1,699 |
| Real estate | **2,090** | 3,392 | **2,412** | 3,213 |
| Financial institutions | **67** | 270 | **81** | 391 |
| Government agencies | **23** | 4 | **22** | 4 |
| Other | **635** | 833 | **635** | 878 |
| **Total**[(a)] | **$ 4,212** | $ 6,034 | **$ 4,604** | $ 6,185 |

*(a) The related interest income on accruing impaired loans and interest income recognized on a cash basis were not material for the three and six months ended June 30, 2011 and 2010.*

The following table provides information about JPMorgan Chase Bank, N.A.'s wholesale loans modified in troubled debt restructurings ("TDRs"). These TDR loans are included as impaired loans in the above tables.

| | Commercial and industrial | | Real estate | | Financial institutions | | Government agencies | | Other | | Total retained loans | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in millions) | **June 30, 2011** | Dec 31, 2010 | **June 30, 2011** | Dec 31, 2010 | **June 30, 2011** | Dec 31, 2010 | **June 30, 2011** | Dec 31, 2010 | **June 30, 2011** | Dec 31, 2010 | **June 30, 2011** | Dec 31, 2010 |
| Loans modified in troubled debt restructurings[(a)] | **$ 683** | $ 211 | **$ 289** | $ 907 | **$ —** | $ 1 | **$ 22** | $ 22 | **$ 6** | $ 1 | **$ 1,000** | $ 1,142 |
| TDRs on nonaccrual status | **628** | 162 | **273** | 830 | **—** | 1 | **22** | 22 | **6** | 1 | **929** | 1,016 |
| Additional commitments to lend to borrowers whose loans have been modified in TDRs | **186** | 1 | **—** | — | **—** | — | **—** | — | **—** | — | **186** | 1 |

*(a) These modifications generally provided interest rate concessions to the borrower or deferral of principal repayments.*

## Consumer, excluding credit card loan portfolio

Consumer loans, excluding credit card loans, consist primarily of residential mortgages, home equity loans and lines of credit, auto loans, business banking loans, and student and other loans, with a primary focus on serving the prime consumer credit market. The portfolio also includes home equity loans secured by junior liens and mortgage loans with interest-only payment options to predominantly prime borrowers, as well as certain payment-option loans originated by Washington Mutual that may result in negative amortization.

Consumer loans, other than PCI loans and the risk-rated loans within the business banking and auto portfolios, are generally charged off to the allowance for loan losses upon reaching specified stages of delinquency, in accordance with the Federal Financial Institutions Examination Council ("FFIEC") policy.

The table below provides information about consumer retained loans by class, excluding the credit card loan portfolio segment.

| (in millions) | June 30, 2011 | December 31, 2010 |
|---|---|---|
| **Residential real estate – excluding PCI** | | |
| Home equity: | | |
| Senior lien[(a)] | **$ 19,822** | $ 21,076 |
| Junior lien[(b)] | **53,270** | 56,991 |
| Mortgages: | | |
| Prime, including option ARMs | **66,670** | 66,123 |
| Subprime | **9,119** | 9,849 |
| **Other consumer loans** | | |
| Auto | **46,796** | 48,367 |
| Business banking | **17,129** | 16,799 |
| Student and other | **14,680** | 15,217 |
| **Residential real estate – PCI** | | |
| Home equity | **23,535** | 24,459 |
| Prime mortgage | **16,200** | 17,322 |
| Subprime mortgage | **5,187** | 5,398 |
| Option ARMs | **24,072** | 25,584 |
| **Total retained loans** | **$ 296,480** | $ 307,185 |

*(a) Represents loans where JPMorgan Chase Bank, N.A. holds the first security interest on the property.*
*(b) Represents loans where JPMorgan Chase Bank, N.A. holds a security interest that is subordinate in rank to other liens.*

Delinquency rates are a primary credit quality indicator for consumer loans, excluding credit card. Other indicators that are taken into consideration for consumer loans, excluding credit card, include:

- For residential real estate loans, including both non-PCI and PCI portfolios: The current estimated loan-to-value ("LTV") ratio, or the combined LTV ratio in the case of loans with a junior lien, the geographic distribution of the loan collateral, and the borrowers' current or "refreshed" FICO score.
- For scored auto and business banking loans and student loans: Geographic distribution of the loans.
- For risk-rated business banking and auto loans: Risk rating of the loan, geographic considerations relevant to the loan and whether the loan is considered to be criticized and/or nonaccrual.

For further information on consumer credit quality indicators, see Note 15 on pages 58–76 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

### Residential real estate – excluding PCI loans

The following tables provide information by class for residential real estate – excluding PCI retained loans in the consumer, excluding credit card, portfolio segment. The following factors should be considered in analyzing certain credit statistics applicable to JPMorgan Chase Bank, N.A.'s residential real estate – excluding PCI loans portfolio: (i) junior lien home equity loans may be fully charged off when the loan becomes 180 days past due, the borrower is either unable or unwilling to repay the loan, and the value of the collateral does not support the repayment of the loan, resulting in relatively high charge-off rates for this product class; and (ii) the lengthening of loss-mitigation timelines may result in higher delinquency rates for loans carried at estimated collateral value that remain on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets.

**Residential real estate – excluding PCI loans**

| (in millions, except ratios) | Home equity | | | |
|---|---|---|---|---|
| | Senior lien | | Junior lien | |
| | **June 30, 2011** | December 31, 2010 | **June 30, 2011** | December 31, 2010 |
| **Loan delinquency**[(a)] | | | | |
| Current and less than 30 days past due | **$ 19,109** | $ 20,316 | **$ 51,845** | $ 55,301 |
| 30-149 days past due | **357** | 414 | **1,203** | 1,504 |
| 150 or more days past due | **356** | 346 | **222** | 186 |
| **Total retained loans** | **$ 19,822** | $ 21,076 | **$ 53,270** | $ 56,991 |
| % of 30+ days past due to total retained loans | **3.60%** | 3.61% | **2.68%** | 2.97% |
| 90 or more days past due and still accruing | **$ —** | $ — | **$ —** | $ — |
| 90 or more days past due and and government guaranteed[(b)] | **—** | — | **—** | — |
| Nonaccrual loans | **479** | 479 | **822** | 784 |
| **Current estimated LTV ratios**[(c)(d)(e)(f)] | | | | |
| Greater than 125% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **$ 350** | $ 314 | **$ 6,697** | $ 6,927 |
| Less than 660 | **176** | 169 | **2,251** | 2,494 |
| 101% to 125% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **689** | 535 | **9,372** | 9,377 |
| Less than 660 | **268** | 216 | **2,745** | 2,873 |
| 80% to 100% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **1,721** | 1,643 | **10,298** | 11,259 |
| Less than 660 | **645** | 568 | **2,791** | 3,147 |
| Less than 80% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **13,329** | 15,108 | **16,201** | 17,634 |
| Less than 660 | **2,644** | 2,523 | **2,915** | 3,280 |
| U.S. government-guaranteed | **—** | — | **—** | — |
| **Total retained loans** | **$ 19,822** | $ 21,076 | **$ 53,270** | $ 56,991 |
| **Geographic region** | | | | |
| California | **$ 3,129** | $ 3,257 | **$ 13,047** | $ 13,967 |
| New York | **2,479** | 2,575 | **10,172** | 10,710 |
| Texas | **3,111** | 3,392 | **1,637** | 1,791 |
| Florida | **966** | 1,013 | **3,092** | 3,341 |
| Illinois | **1,146** | 1,221 | **3,304** | 3,516 |
| Ohio | **1,530** | 1,655 | **1,149** | 1,247 |
| New Jersey | **517** | 538 | **2,890** | 3,072 |
| Michigan | **934** | 1,001 | **1,368** | 1,474 |
| Arizona | **1,137** | 1,215 | **2,512** | 2,735 |
| Washington | **724** | 759 | **1,925** | 2,046 |
| All other[(g)] | **4,149** | 4,450 | **12,174** | 13,092 |
| **Total retained loans** | **$ 19,822** | $ 21,076 | **$ 53,270** | $ 56,991 |

*(a) Individual delinquency classifications included mortgage loans insured by U.S. government agencies as follows: current and less than 30 days past due includes $3.0 billion and $2.5 billion; 30–149 days past due includes $1.9 billion and $2.5 billion; and 150 or more days past due includes $8.2 billion and $7.9 billion at June 30, 2011, and December 31, 2010, respectively.*

*(b) These balances, which are 90 days or more past due but insured by U.S. government agencies, are excluded from nonaccrual loans. In predominately all cases, 100% of the principal balance of the loans is insured and interest is guaranteed at a specified reimbursement rate subject to meeting agreed servicing guidelines. These amounts are excluded from nonaccrual loans because reimbursement of insured and guaranteed amounts is proceeding normally and is expected to occur. At June 30, 2011, and December 31, 2010, these balances included $5.7 billion and $2.8 billion, respectively, of loans that are no longer accruing interest because interest has been curtailed by the U.S. government agencies although, in predominantly all cases, 100% of the principal is still insured. For the remaining balance, interest is being accrued at the guaranteed reimbursement rate.*

*(c) Represents the aggregate unpaid principal balance of loans divided by the estimated current property value. Current property values are estimated, at a minimum, quarterly, based on home valuation models utilizing nationally recognized home price index valuation estimates incorporating actual data to the extent available and forecasted data where actual data is not available. These property values do not represent actual appraised loan level collateral values; as such, the resulting ratios are necessarily imprecise and should be viewed as estimates.*

*(d) Junior lien represents combined LTV, which considers all available lien positions related to the property. All other products are presented without consideration of subordinate liens on the property.*

*(e) Refreshed FICO scores represent each borrower's most recent credit score, which is obtained by JPMorgan Chase Bank, N.A. at least on a quarterly basis.*

*(f) For senior lien home equity loans, prior-period amounts have been revised to conform with the current-period presentation.*

*(g) At June 30, 2011, and December 31, 2010, included mortgage loans insured by U.S. government agencies of $13.1 billion and $12.9 billion, respectively.*

*(h) At June 30, 2011, and December 31, 2010, excluded mortgage loans insured by U.S. government agencies of $10.0 billion and $10.3 billion, respectively. These amounts were excluded as reimbursement of insured amounts is proceeding normally.*

(table continued from previous page)

| Mortgages | | | | | |
|---|---|---|---|---|---|
| Prime, including option ARMs | | Subprime | | Total residential real estate – excluding PCI | |
| **June 30, 2011** | December 31, 2010 | **June 30, 2011** | December 31, 2010 | **June 30, 2011** | December 31, 2010 |
| **$ 52,780** | $ 51,583 | **$ 6,871** | $ 7,262 | **$ 130,605** | $ 134,462 |
| **2,931** | 3,707 | **821** | 1,088 | **5,312** | 6,713 |
| **10,959** | 10,833 | **1,427** | 1,499 | **12,964** | 12,864 |
| **$ 66,670** | $ 66,123 | **$ 9,119** | $ 9,849 | **$ 148,881** | $ 154,039 |
| **5.76%** [h] | 6.52% [h] | **24.65%** | 26.27% | **5.53%** [h] | 6.07% [h] |
| **$ —** | $ — | **$ —** | $ — | **$ —** | $ — |
| **9,123** | 9,413 | **—** | — | **9,123** | 9,413 |
| **3,540** | 3,773 | **1,920** | 2,047 | **6,761** | 7,083 |
| | | | | | |
| **$ 2,949** | $ 3,000 | **$ 354** | $ 332 | **$ 10,350** | $ 10,573 |
| **1,452** | 1,583 | **1,103** | 1,137 | **4,982** | 5,383 |
| **4,285** | 4,324 | **508** | 489 | **14,854** | 14,725 |
| **1,634** | 1,641 | **1,416** | 1,459 | **6,063** | 6,189 |
| **8,702** | 8,924 | **799** | 845 | **21,520** | 22,671 |
| **2,191** | 2,265 | **1,644** | 1,830 | **7,271** | 7,810 |
| **28,689** | 27,840 | **1,444** | 1,640 | **59,663** | 62,222 |
| **3,700** | 3,627 | **1,851** | 2,117 | **11,110** | 11,547 |
| **13,068** | 12,919 | **—** | — | **13,068** | 12,919 |
| **$ 66,670** | $ 66,123 | **$ 9,119** | $ 9,849 | **$ 148,881** | $ 154,039 |
| **$ 15,248** | $ 15,584 | **$ 1,301** | $ 1,509 | **$ 32,725** | $ 34,317 |
| **8,851** | 8,513 | **1,144** | 1,205 | **22,646** | 23,003 |
| **2,571** | 2,392 | **316** | 301 | **7,635** | 7,876 |
| **4,179** | 4,281 | **1,144** | 1,240 | **9,381** | 9,875 |
| **3,622** | 3,477 | **386** | 408 | **8,458** | 8,622 |
| **429** | 437 | **215** | 240 | **3,323** | 3,579 |
| **1,751** | 1,738 | **426** | 466 | **5,584** | 5,814 |
| **909** | 925 | **216** | 257 | **3,427** | 3,657 |
| **1,145** | 1,203 | **207** | 213 | **5,001** | 5,366 |
| **1,555** | 1,580 | **205** | 216 | **4,409** | 4,601 |
| **26,410** | 25,993 | **3,559** | 3,794 | **46,292** | 47,329 |
| **$ 66,670** | $ 66,123 | **$ 9,119** | $ 9,849 | **$ 148,881** | $ 154,039 |

**Residential real estate impaired loans and loan modifications – excluding PCI loans**

JPMorgan Chase Bank, N.A. 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 MHA programs. For further information, see Note 15 on pages 58–76 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The tables below set forth information about JPMorgan Chase Bank, N.A.'s residential real estate impaired loans, excluding PCI. These loans are considered to be impaired as they have been modified in a TDR. All impaired loans are evaluated for an asset-specific allowance as described in Note 15 on pages 59–60 of these Consolidated Financial Statements.

| | Home equity | | | | Mortgages | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Senior lien | | Junior lien | | Prime, including option ARMs | | Subprime | | Total residential real estate – excluding PCI | |
| (in millions) | **Jun 30, 2011** | Dec 31, 2010 | **Jun 30, 2011** | Dec 31, 2010 | **Jun 30, 2011** | Dec 31, 2010 | **Jun 30, 2011** | Dec 31, 2010 | **Jun 30, 2011** | Dec 31, 2010 |
| **Impaired loans**[(a)(b)] | | | | | | | | | | |
| With an allowance | **$ 244** | $ 211 | **$ 488** | $ 258 | **$ 2,273** | $ 1,436 | **$ 2,573** | $ 2,490 | **$ 5,578** | $ 4,395 |
| Without an allowance[(c)] | **16** | 15 | **28** | 25 | **519** | 508 | **169** | 178 | **732** | 726 |
| **Total impaired loans**[(d)] | **$ 260** | $ 226 | **$ 516** | $ 283 | **$ 2,792** | $ 1,944 | **$ 2,742** | $ 2,668 | **$ 6,310** | $ 5,121 |
| Allowance for loan losses related to impaired loans | **$ 82** | $ 77 | **$ 148** | $ 82 | **$ 69** | $ 88 | **$ 488** | $ 532 | **$ 787** | $ 779 |
| Unpaid principal balance of impaired loans[(e)] | **319** | 265 | **714** | 402 | **3,644** | 2,582 | **3,948** | 3,674 | **8,625** | 6,923 |
| Impaired loans on nonaccrual status | **53** | 38 | **231** | 63 | **608** | 487 | **669** | 611 | **1,561** | 1,199 |

*(a) Represents loans modified in a TDR. These modifications generally provided interest rate concessions to the borrower or deferral of principal repayments.*
*(b) There were no additional commitments to lend to borrowers whose loans have been modified in TDRs as of June 30, 2011, and December 31, 2010.*
*(c) When discounted cash flows or collateral value equals or exceeds the recorded investment in the loan, the loan does not require an allowance. This result typically occurs when an impaired loan has been partially charged off.*
*(d) At June 30, 2011, and December 31, 2010, $3.5 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., Federal Housing Administration ("FHA"), U.S. Department of Veterans Affairs ("VA"), Rural Housing Administration ("RHA")) 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.*
*(e) Represents the contractual amount of principal owed at June 30, 2011, and December 31, 2010. The unpaid principal balance differs from the impaired loan balances due to various factors, including charge-offs; net deferred loan fees or costs; and unamortized discounts or premiums on purchased loans.*

The following table presents average impaired loans and the related interest income reported by JPMorgan Chase Bank, N.A.

| Three months ended June 30, | Average impaired loans | | Interest income on impaired loans[(a)] | | Interest income on impaired loans on a cash basis[(a)] | |
|---|---|---|---|---|---|---|
| (in millions) | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| **Home equity** | | | | | | |
| Senior lien | **$ 245** | $ 221 | **$ 2** | $ 3 | **$ 1** | $ 1 |
| Junior lien | **470** | 256 | **4** | 5 | **1** | 1 |
| **Mortgages** | | | | | | |
| Prime, including option ARMs | **2,660** | 1,290 | **28** | 13 | **2** | 4 |
| Subprime | **2,691** | 2,403 | **35** | 28 | **3** | 6 |
| **Total residential real estate – excluding PCI** | **$ 6,066** | $ 4,170 | **$ 69** | $ 49 | **$ 7** | $ 12 |

| Six months ended June 30, | Average impaired loans | | Interest income on impaired loans[(a)] | | Interest income on impaired loans on a cash basis[(a)] | |
|---|---|---|---|---|---|---|
| (in millions) | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| **Home equity** | | | | | | |
| Senior lien | **$ 238** | $ 193 | **$ 5** | $ 5 | **$ 1** | $ 1 |
| Junior lien | **411** | 262 | **8** | 8 | **1** | 1 |
| **Mortgages** | | | | | | |
| Prime, including option ARMs | **2,428** | 1,113 | **52** | 30 | **5** | 5 |
| Subprime | **2,678** | 2,279 | **69** | 55 | **6** | 10 |
| **Total residential real estate – excluding PCI** | **$ 5,755** | $ 3,847 | **$ 134** | $ 98 | **$ 13** | $ 17 |

*(a) Generally, interest income on loans modified in a TDR is recognized on a cash basis until such time as the borrower has made a minimum of six payments under the new terms. As of June 30, 2011 and 2010, loans of $844 million and $992 million, respectively, were TDRs for which the borrowers had not yet made six payments under their modified terms.*

## Other consumer loans

The tables below provide information for other consumer retained loan classes, including auto, business banking and student loans.

| (in millions, except ratios) | Auto | | Business banking | | Student and other | | Total other consumer | |
|---|---|---|---|---|---|---|---|---|
| | **Jun 30, 2011** | Dec 31, 2010 | **Jun 30, 2011** | Dec 31, 2010 | **Jun 30, 2011** | Dec 31, 2010 | **Jun 30, 2011** | Dec 31, 2010 |
| **Loan delinquency**[(a)] | | | | | | | | |
| Current and less than 30 days past due | **$ 46,339** | $ 47,778 | **$ 16,646** | $ 16,227 | **$ 13,464** | $ 13,904 | **$ 76,449** | $ 77,909 |
| 30–119 days past due | **450** | 579 | **299** | 351 | **742** | 795 | **1,491** | 1,725 |
| 120 or more days past due | **7** | 10 | **184** | 221 | **474** | 518 | **665** | 749 |
| **Total retained loans** | **$ 46,796** | $ 48,367 | **$ 17,129** | $ 16,799 | **$ 14,680** | $ 15,217 | **$ 78,605** | $ 80,383 |
| % of 30+ days past due to total retained loans | **0.98%** | 1.22% | **2.82%** | 3.40% | **1.69%** [(d)] | 1.62% [(d)] | **1.51%** [(d)] | 1.75% [(d)] |
| 90 or more days past due and still accruing[(b)] | **$ —** | $ — | **$ —** | $ — | **$ 558** | $ 625 | **$ 558** | $ 625 |
| Nonaccrual loans | **111** | 141 | **770** | 819 | **79** | 67 | **960** | 1,027 |
| **Geographic region** | | | | | | | | |
| California | **$ 4,260** | $ 4,307 | **$ 1,114** | $ 851 | **$ 1,283** | $ 1,327 | **$ 6,657** | $ 6,485 |
| New York | **3,616** | 3,875 | **2,865** | 2,876 | **1,262** | 1,299 | **7,743** | 8,050 |
| Texas | **4,423** | 4,505 | **2,612** | 2,547 | **1,194** | 1,247 | **8,229** | 8,299 |
| Florida | **1,833** | 1,923 | **248** | 220 | **695** | 720 | **2,776** | 2,863 |
| Illinois | **2,413** | 2,608 | **1,331** | 1,319 | **910** | 935 | **4,654** | 4,862 |
| Ohio | **2,738** | 2,961 | **1,602** | 1,645 | **963** | 1,003 | **5,303** | 5,609 |
| New Jersey | **1,804** | 1,842 | **233** | 422 | **487** | 501 | **2,524** | 2,765 |
| Michigan | **2,308** | 2,434 | **1,387** | 1,399 | **693** | 722 | **4,388** | 4,555 |
| Arizona | **1,526** | 1,499 | **1,190** | 1,218 | **358** | 379 | **3,074** | 3,096 |
| Washington | **731** | 716 | **142** | 115 | **267** | 276 | **1,140** | 1,107 |
| All other | **21,144** | 21,697 | **4,405** | 4,187 | **6,568** | 6,808 | **32,117** | 32,692 |
| **Total retained loans** | **$ 46,796** | $ 48,367 | **$ 17,129** | $ 16,799 | **$ 14,680** | $ 15,217 | **$ 78,605** | $ 80,383 |
| **Loans by risk ratings**[(c)] | | | | | | | | |
| Noncriticized | **$ 5,702** | $ 5,803 | **$ 11,103** | $ 10,338 | **NA** | NA | **$ 16,805** | $ 16,141 |
| Criticized performing | **191** | 265 | **827** | 982 | **NA** | NA | **1,018** | 1,247 |
| Criticized nonaccrual | **1** | 12 | **557** | 574 | **NA** | NA | **558** | 586 |

*(a) Loans insured by U.S. government agencies under the Federal Family Education Loan Program ("FFELP") are included in the delinquency classifications presented based on their payment status. Prior period amounts have been revised to conform with the current period presentation.*

*(b) These amounts represent student loans, which are insured by U.S. government agencies under the FFELP. These amounts were accruing as reimbursement of insured amounts is proceeding normally.*

*(c) For risk-rated business banking and auto loans, the primary credit quality indicator is the risk rating of the loan, including whether the loans are considered to be criticized and/or nonaccrual.*

*(d) At June 30, 2011, and December 31, 2010, excluded loans 30 days or more past due and still accruing, which are insured by U.S. government agencies under the FFELP, of $968 million and $1.1 billion, respectively. These amounts were excluded as reimbursement of insured amounts is proceeding normally.*

## Other consumer impaired loans

The tables below set forth information about JPMorgan Chase Bank, N.A.'s other consumer impaired loans, including risk-rated business banking and auto loans that have been placed on nonaccrual status, and any loan that has been modified in a TDR.

| | Auto | | Business banking | | Total other consumer[c] | |
|---|---|---|---|---|---|---|
| (in millions) | **Jun 30, 2011** | Dec 31, 2010 | **Jun 30, 2011** | Dec 31, 2010 | **Jun 30, 2011** | Dec 31, 2010 |
| **Impaired loans** | | | | | | |
| With an allowance | **$ 88** | $ 102 | **$ 758** | $ 774 | **$ 846** | $ 876 |
| Without an allowance[a] | **1** | — | **—** | — | **1** | — |
| **Total impaired loans** | **$ 89** | $ 102 | **$ 758** | $ 774 | **$ 847** | $ 876 |
| Allowance for loan losses related to impaired loans | **$ 12** | $ 16 | **$ 217** | $ 248 | **$ 229** | $ 264 |
| Unpaid principal balance of impaired loans[b] | **122** | 132 | **872** | 899 | **994** | 1,031 |
| Impaired loans on nonaccrual status | **39** | 50 | **598** | 647 | **637** | 697 |

*(a) When discounted cash flows, collateral value or market price equals or exceeds the recorded investment in the loan, then the loan does not require an allowance. This typically occurs when the impaired loans have been partially charged off and/or there have been interest payments received and applied to the loan balance.*

*(b) Represents the contractual amount of principal owed at June 30, 2011, and December 31, 2010. The unpaid principal balance differs from the impaired loan balances due to various factors, including charge-offs; interest payments received and applied to the principal balance; net deferred loan fees or costs; and unamortized discounts or premiums on purchased loans.*

*(c) There were no impaired student and other loans at June 30, 2011, and December 31, 2010.*

The following table presents average impaired loans.

| | Average impaired loans[b] | | | |
|---|---|---|---|---|
| | Three months ended June 30, | | Six months ended June 30, | |
| (in millions) | **2011** | 2010 | **2011** | 2010 |
| Auto | **$ 92** | $ 130 | **$ 95** | $ 128 |
| Business banking | **764** | 646 | **768** | 578 |
| **Total other consumer[a]** | **$ 856** | $ 776 | **$ 863** | $ 706 |

*(a) There were no student and other loans modified in TDRs at June 30, 2011 and 2010*

*(b) The related interest income on impaired loans, including those on cash basis, was not material for the three and six months ended June 30, 2011 and 2010.*

The following table provides information about JPMorgan Chase Bank, N.A.'s other consumer loans modified in TDRs. These TDR loans are included as impaired loans in the tables above.

| | Auto | | Business banking | | Total other consumer[c] | |
|---|---|---|---|---|---|---|
| (in millions) | **June 30, 2011** | December 31, 2010 | **June 30, 2011** | December 31, 2010 | **June 30, 2011** | December 31, 2010 |
| Loans modified in troubled debt restructurings[a][b] | **$ 88** | $ 91 | **$ 429** | $ 395 | **$ 517** | $ 486 |
| TDRs on nonaccrual status | **38** | 39 | **269** | 268 | **307** | 307 |

*(a) These modifications generally provided interest rate concessions to the borrower or deferral of principal repayments.*

*(b) Additional commitments to lend to borrowers whose loans have been modified in TDRs as of June 30, 2011, and December 31, 2010 were immaterial.*

*(c) There were no student and other loans modified in TDRs at June 30, 2011, and December 31, 2010.*

### Purchased credit-impaired ("PCI") loans

For a detailed discussion of PCI loans, including the related accounting policies, see Note 15 on pages 58–76 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

### Residential real estate – PCI loans

The table below sets forth information about JPMorgan Chase Bank, N.A.'s consumer, excluding credit card PCI loans.

| | Home equity | | Prime mortgage | | Subprime mortgage | | Option ARMs | | Total PCI | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in millions, except ratios) | **Jun 30, 2011** | Dec 31, 2010 | **Jun 30, 2011** | Dec 31, 2010 | **Jun 30, 2011** | Dec 31, 2010 | **Jun 30, 2011** | Dec 31, 2010 | **Jun 30, 2011** | Dec 31, 2010 |
| Carrying value[(a)] | **$ 23,535** | $ 24,459 | **$16,200** | $ 17,322 | **$ 5,187** | $ 5,398 | **$ 24,072** | $ 25,584 | **$ 68,994** | $ 72,763 |
| Related allowance for loan losses[(b)] | **1,583** | 1,583 | **1,766** | 1,766 | **98** | 98 | **1,494** | 1,494 | **4,941** | 4,941 |
| **Loan delinquency (based on unpaid principal balance)** | | | | | | | | | | |
| Current and less than 30 days past due | **$ 24,223** | $ 25,783 | **$12,396** | $ 13,035 | **$ 4,364** | $ 4,312 | **$ 18,208** | $ 18,672 | **$ 59,191** | $ 61,802 |
| 30–149 days past due | **1,114** | 1,348 | **1,129** | 1,468 | **793** | 1,020 | **1,636** | 2,215 | **4,672** | 6,051 |
| 150 or more days past due | **1,274** | 1,181 | **3,948** | 4,425 | **2,520** | 2,710 | **8,601** | 9,904 | **16,343** | 18,220 |
| **Total loans** | **$ 26,611** | $ 28,312 | **$17,473** | $ 18,928 | **$ 7,677** | $ 8,042 | **$ 28,445** | $ 30,791 | **$ 80,206** | $ 86,073 |
| % of 30+ days past due to total loans | **8.97%** | 8.93% | **29.06%** | 31.13% | **43.15%** | 46.38% | **35.99%** | 39.36% | **26.20%** | 28.20% |
| **Current estimated LTV ratios (based on unpaid principal balance)[(c)(d)(e)]** | | | | | | | | | | |
| Greater than 125% and refreshed FICO scores: | | | | | | | | | | |
| Equal to or greater than 660 | **$ 6,066** | $ 6,289 | **$ 2,168** | $ 2,400 | **$ 450** | $ 432 | **$ 2,377** | $ 2,681 | **$ 11,061** | $ 11,802 |
| Less than 660 | **3,635** | 4,043 | **2,604** | 2,744 | **2,072** | 2,129 | **5,595** | 6,330 | **13,906** | 15,246 |
| 101% to 125% and refreshed FICO scores: | | | | | | | | | | |
| Equal to or greater than 660 | **5,733** | 6,053 | **3,466** | 3,815 | **424** | 424 | **4,016** | 4,292 | **13,639** | 14,584 |
| Less than 660 | **2,546** | 2,696 | **2,814** | 3,011 | **1,661** | 1,663 | **4,695** | 5,005 | **11,716** | 12,375 |
| 80% to 100% and refreshed FICO scores: | | | | | | | | | | |
| Equal to or greater than 660 | **3,704** | 3,995 | **1,870** | 1,970 | **341** | 374 | **3,849** | 4,152 | **9,764** | 10,491 |
| Less than 660 | **1,383** | 1,482 | **1,690** | 1,857 | **1,365** | 1,477 | **3,418** | 3,551 | **7,856** | 8,367 |
| Lower than 80% and refreshed FICO scores: | | | | | | | | | | |
| Equal to or greater than 660 | **2,503** | 2,641 | **1,306** | 1,443 | **178** | 186 | **2,163** | 2,281 | **6,150** | 6,551 |
| Less than 660 | **1,041** | 1,113 | **1,555** | 1,688 | **1,186** | 1,357 | **2,332** | 2,499 | **6,114** | 6,657 |
| **Total unpaid principal balance** | **$ 26,611** | $ 28,312 | **$17,473** | $ 18,928 | **$ 7,677** | $ 8,042 | **$ 28,445** | $ 30,791 | **$ 80,206** | $ 86,073 |
| **Geographic region (based on unpaid principal balance)** | | | | | | | | | | |
| California | **$ 16,002** | $ 17,012 | **$ 9,981** | $ 10,891 | **$ 1,824** | $ 1,971 | **$ 14,811** | $ 16,130 | **$ 42,618** | $ 46,004 |
| New York | **1,245** | 1,316 | **1,064** | 1,111 | **721** | 736 | **1,623** | 1,703 | **4,653** | 4,866 |
| Texas | **487** | 525 | **176** | 194 | **420** | 435 | **147** | 155 | **1,230** | 1,309 |
| Florida | **2,449** | 2,595 | **1,407** | 1,519 | **880** | 906 | **3,581** | 3,916 | **8,317** | 8,936 |
| Illinois | **591** | 627 | **535** | 562 | **427** | 438 | **741** | 760 | **2,294** | 2,387 |
| Ohio | **34** | 38 | **86** | 91 | **119** | 122 | **119** | 131 | **358** | 382 |
| New Jersey | **506** | 540 | **467** | 486 | **308** | 316 | **1,020** | 1,064 | **2,301** | 2,406 |
| Michigan | **88** | 95 | **255** | 279 | **199** | 214 | **297** | 345 | **839** | 933 |
| Arizona | **504** | 539 | **299** | 359 | **145** | 165 | **441** | 528 | **1,389** | 1,591 |
| Washington | **1,445** | 1,535 | **422** | 451 | **174** | 178 | **704** | 745 | **2,745** | 2,909 |
| All other | **3,260** | 3,490 | **2,781** | 2,985 | **2,460** | 2,561 | **4,961** | 5,314 | **13,462** | 14,350 |
| **Total unpaid principal balance** | **$ 26,611** | $ 28,312 | **$17,473** | $ 18,928 | **$ 7,677** | $ 8,042 | **$ 28,445** | $ 30,791 | **$ 80,206** | $ 86,073 |

*(a) Carrying value includes the effect of fair value adjustments that were applied to the consumer PCI portfolio at the date of acquisition.*

*(b) Management concluded as part of JPMorgan Chase Bank, N.A.'s regular assessment of the PCI loan pools that it was probable that higher expected principal credit losses would result in a decrease in expected cash flows. As a result, an allowance for loan losses for impairment of these pools has been recognized.*

*(c) Represents the aggregate unpaid principal balance of loans divided by the estimated current property value. Current property values are estimated, at a minimum, quarterly, based on home valuation models utilizing nationally recognized home price index valuation estimates incorporating actual data to the extent available and forecasted data where actual data is not available. These property values do not represent actual appraised loan level collateral values; as such, the resulting ratios are necessarily imprecise and should be viewed as estimates. Current estimated combined LTV for junior lien home equity loans considers all available lien positions related to the property.*

*(d) Refreshed FICO scores represent each borrower's most recent credit score obtained by JPMorgan Chase Bank, N.A. JPMorgan Chase Bank, N.A. obtains refreshed FICO scores at least quarterly.*

*(e) For home equity loans, prior-period amounts have been revised to conform with the current-period presentation.*

The table below sets forth the accretable yield activity for JPMorgan Chase Bank, N.A.'s PCI consumer loans for the three and six months ended June 30, 2011 and 2010, and represents JPMorgan Chase Bank, N.A.'s estimate of gross interest income expected to be earned over the remaining life of the PCI loan portfolios. This table excludes the cost to fund the PCI portfolios, and therefore does not represent net interest income expected to be earned on these portfolios.

| | Total PCI | | | |
|---|---|---|---|---|
| | Three months ended June 30, | | Six months ended June 30, | |
| (in millions, except ratios) | **2011** | 2010 | **2011** | 2010 |
| **Beginning balance** | **$ 18,816** | $ 20,571 | **$ 19,097** | $ 25,544 |
| Accretion into interest income | **(706)** | (787) | **(1,410)** | (1,673) |
| Changes in interest rates on variable-rate loans | **(181)** | (333) | **(213)** | (727) |
| Other changes in expected cash flows[(a)] | **154** | 170 | **609** | (3,523) |
| **Balance at June 30** | **$ 18,083** | $ 19,621 | **$ 18,083** | $ 19,621 |
| Accretable yield percentage | **4.36%** | 4.20% | **4.32%** | 4.39% |

(a) *Other changes in expected cash flows may vary from period to period as JPMorgan Chase Bank, N.A. continues to refine its cash flow model and periodically updates model assumptions. For the three and six months ended June 30, 2011, other changes in expected cash flows were principally driven by changes in prepayment assumptions. For the three and six months ended June 30, 2010, other changes in expected cash flows were principally driven by changes in prepayment assumptions, as well as reclassification to the nonaccretable difference. Changes to prepayment assumptions change the expected remaining life of the portfolio, which drives changes in expected future interest cash collections. Such changes do not have a significant impact on the accretable yield percentage.*

The factors that most significantly affect estimates of gross cash flows expected to be collected, and accordingly the accretable yield balance, include: (i) changes in the benchmark interest rate indices for variable rate products such as option ARM and home equity loans; and (ii) changes in prepayment assumptions.

Since the date of acquisition, the decrease in the accretable yield percentage has been primarily related to a decrease in interest rates on variable-rate loans and, to a lesser extent, extended loan liquidation periods. Certain events, such as extended loan liquidation periods, affect the timing of expected cash flows but not the amount of cash expected to be received (i.e., the accretable yield balance). Extended loan liquidation periods reduce the accretable yield percentage because the same accretable yield balance is recognized against a higher-than-expected loan balance over a longer-than-expected period of time.

### Credit card loan portfolio

The credit card portfolio segment includes credit card loans originated and purchased by JPMorgan Chase Bank, N.A. In addition, an affiliate of JPMorgan Chase Bank, N.A. has a participation agreement with a subsidiary of JPMorgan Chase Bank, N.A. under which the affiliate sells credit card receivables to the subsidiary on an ongoing basis. The credit card receivables purchased by the subsidiary may subsequently be sold to credit card securitization trusts sponsored by the affiliate; those trusts, which are not consolidated by JPMorgan Chase Bank, N.A., are discussed further in Note 17 on pages 82–97 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements. Delinquency rates are the primary credit quality indicator for credit card loans. In addition to delinquency rates, the geographic distribution of the loans provides insight as to the credit quality of the portfolio based on the regional economy.

The borrower's credit score is another general indicator of credit quality. Because the credit score tends to be a lagging indicator of credit quality, JPMorgan Chase Bank, N.A. does not use credit scores as a primary indicator of credit quality. For more information on credit quality indicators, see Note 15 on pages 58–76 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements. JPMorgan Chase Bank, N.A. generally originates new card accounts to prime consumer borrowers. However, certain cardholders' refreshed FICO scores may change over time, depending on the performance of the cardholder and changes in credit score technology.

The table below sets forth information about JPMorgan Chase Bank, N.A.'s credit card loans.

| | Credit card[(c)] | |
|---|---|---|
| (in millions, except ratios) | **June 30, 2011** | December 31, 2010 |
| **Loan delinquency**[(a)] | | |
| Current and less than 30 days past due and still accruing | **$ 25,029** | $ 20,825 |
| 30–89 days past due and still accruing | **364** | 397 |
| 90 or more days past due and still accruing | **366** | 443 |
| Nonaccrual loans | **—** | — |
| **Total retained loans** | **$ 25,759** | $ 21,665 |
| **Loan delinquency ratios** | | |
| % of 30 plus days past due to total retained loans | **2.83%** | 3.88% |
| % of 90 plus days past due to total retained loans | **1.42** | 2.04 |
| **Credit card loans by geographic region** | | |
| California | **$ 2,992** | $ 2,455 |
| New York | **1,851** | 1,530 |
| Texas | **1,879** | 1,481 |
| Florida | **1,291** | 1,116 |
| Illinois | **1,394** | 1,110 |
| Ohio | **967** | 807 |
| New Jersey | **970** | 792 |
| Pennsylvania | **851** | 722 |
| Michigan | **754** | 623 |
| Virginia | **558** | 464 |
| Georgia | **538** | 464 |
| Canada | **2,638** | 2,708 |
| All other | **9,076** | 7,393 |
| **Total retained loans** | **$ 25,759** | $ 21,665 |
| **Percentage of portfolio based on carrying value with estimated refreshed FICO scores**[(b)] | | |
| Equal to or greater than 660 | **82.7%** | 80.6% |
| Less than 660 | **17.3** | 19.4 |

*(a) JPMorgan Chase Bank, N.A.'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 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.*

*(b) Refreshed FICO scores are estimated based on a statistically significant random sample of credit card accounts in the credit card portfolio for the period shown. JPMorgan Chase Bank, N.A. obtains refreshed FICO scores at least quarterly.*

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

**Credit card impaired loans**

For a detailed discussion of impaired credit card loans, including credit card loan modifications, see Note 15 on pages 58–76 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The tables below set forth information about JPMorgan Chase Bank, N.A.'s impaired credit card loans. All of these loans are considered to be impaired as they have been modified in TDRs. Based on historical experience, the estimated weighted-average ultimate default rate for modified credit card loans was 37.55% at June 30, 2011, and 36.43% at December 31, 2010.

| | Credit card | |
|---|---|---|
| (in millions) | **June 30, 2011** | December 31, 2010 |
| **Impaired loans with an allowance**[(a)(b)] | | |
| Credit card loans with modified payment terms[(c)] | **$ 1,217** | $ 1,195 |
| Modified credit card loans that have reverted to pre-modification payment terms[(d)] | **237** | 267 |
| **Total impaired loans** | **$ 1,454** | $ 1,462 |
| Allowance for loan losses related to impaired loans | **$ 585** | $ 571 |

*(a) The carrying value and the unpaid principal balance are the same for credit card impaired loans.*
*(b) There were no impaired loans without an allowance.*
*(c) Represents credit card loans outstanding to borrowers enrolled in a credit card modification program as of the date presented.*
*(d) Represents credit card loans that were modified in TDRs but that have subsequently reverted back to the loans' pre-modification payment terms. At June 30, 2011, and December 31, 2010, approximately $149 million and $167 million, respectively, of loans have reverted back to the pre-modification payment terms of the loans due to noncompliance with the terms of the modified loans. A substantial portion of these loans is expected to be charged-off in accordance with JPMorgan Chase Bank, N.A.'s standard charge-off policy. The remaining $88 million and $100 million at June 30, 2011, and December 31, 2010, respectively, of these loans are to borrowers who have successfully completed a short-term modification program. JPMorgan Chase Bank, N.A. continues to report these loans as TDRs since the borrowers' credit lines remain closed.*

The following table presents average balances of impaired credit card loans and interest income recognized on those loans.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (in millions) | **2011** | 2010 | **2011** | 2010 |
| Impaired loans – average balances | **$ 1,504** | $ 1,058 | **$ 1,504** | $ 1,236 |
| Interest income on impaired loans[(a)] | **24** | 14 | **48** | 33 |

*(a) As permitted by regulatory guidance, credit card loans are generally exempt from being placed on nonaccrual status; accordingly, interest and fees related to credit card loans continue to accrue until the loan is charged off or paid in full. However, JPMorgan Chase Bank, N.A. separately establishes an allowance for the estimated uncollectible portion of billed and accrued interest and fee income on credit card loans.*

## NOTE 15 – ALLOWANCE FOR CREDIT LOSSES

For detailed discussion of the allowance for credit losses and the related accounting policies, see Note 16 on pages 77–81 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

### Allowance for credit losses and loans and lending-related commitments by impairment methodology

The table below summarizes information about the allowance for loan losses and the loans by impairment methodology.

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| Six months ended in June 30, (in millions) | 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, | **$ 4,670** | **$ 16,199** | **$ 1,566** | **$ 22,435** | $ 7,137 | $ 14,663 | $ 1,966 | $ 23,766 |
| Cumulative effect of change in accounting principles[(a)] | — | — | — | — | 14 | 76 | 65 | 155 |
| Gross charge-offs | **353** | **2,667** | **784** | **3,804** | 1,278 | 4,332 | 963 | 6,573 |
| Gross recoveries | **(129)** | **(259)** | **(122)** | **(510)** | (87) | (223) | (82) | (392) |
| **Net charge-offs** | **224** | **2,408** | **662** | **3,294** | 1,191 | 4,109 | 881 | 6,181 |
| Provision for loan losses | **(437)** | **2,161** | **572** | **2,296** | (885) | 5,252 | 412 | 4,779 |
| Other | **(10)** | **12** | **7** | **9** | (8) | 4 | (2) | (6) |
| **Ending balance at June 30,** | **$ 3,999** | **$ 15,964** | **$ 1,483** | **$ 21,446** | $ 5,067 | $ 15,886 | $ 1,560 | $ 22,513 |
| **Allowance for loan losses by impairment methodology** | | | | | | | | |
| Asset-specific[(b)(c)(d)] | **$ 749** | **$ 1,016** | **$ 585** | **$ 2,350** | $ 1,316 | $ 1,062 | $ 595 | $ 2,973 |
| Formula-based[(d)] | **3,250** | **10,007** | **898** | **14,155** | 3,751 | 12,013 | 965 | 16,729 |
| PCI | — | **4,941** | — | **4,941** | — | 2,811 | — | 2,811 |
| **Total allowance for loan losses** | **$ 3,999** | **$ 15,964** | **$ 1,483** | **$ 21,446** | $ 5,067 | $ 15,886 | $ 1,560 | $ 22,513 |
| **Loans by impairment methodology** | | | | | | | | |
| Asset-specific | **$ 3,371** | **$ 7,157** | **$ 1,454** | **$ 11,982** | $ 5,618 | $ 5,275 | $ 1,394 | $ 12,287 |
| Formula-based | **240,057** | **220,329** | **24,305** | **484,691** | 204,387 | 246,123 | 15,915 | 466,425 |
| PCI | **54** | **68,994** | — | **69,048** | 94 | 76,901 | — | 76,995 |
| **Total retained loans** | **$ 243,482** | **$ 296,480** | **$ 25,759** | **$ 565,721** | $ 210,099 | $ 328,299 | $ 17,309 | $ 555,707 |
| **Impaired collateral-dependent loans** | | | | | | | | |
| Net charge-offs[(e)] | **$ 57** | **$ 45** | **$ —** | **$ 102** | $ 297 | $ 213 | $ — | $ 510 |
| Loans measured at fair value of collateral less cost to sell[(e)] | **1,140** | **795** [(f)] | — | **1,935** | 2,059 | 755 [(f)] | — | 2,814 |

*(a) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated its sponsored credit card securitization trust, its administered multi-seller conduits, and certain other consumer loan securitization entities, primarily mortgage-related. As a result, $14 million, $76 million and $65 million, respectively, of allowance for loan losses were recorded on-balance sheet with the consolidation of these entities. For further discussion, see Note 17 on pages 82–97 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.*

*(b) Relates to risk-rated loans that have been placed on nonaccrual status and loans that have been modified in a troubled debt restructuring.*

*(c) At June 30, 2011 and 2010, the asset-specific consumer excluding credit card allowance for loan losses included troubled debt restructuring reserves of $929 million and $917 million, respectively. The asset-specific credit card allowance for loan losses is related to loans modified in TDRs.*

*(d) At June 30, 2011 and 2010, JPMorgan Chase Bank, N.A.'s allowance for loan losses on all impaired credit card loans was reclassified to the asset-specific allowance. This reclassification has no incremental impact on JPMorgan Chase Bank, N.A.'s allowance for loan losses. Prior periods have been revised to reflect the current presentation.*

*(e) Prior periods have been revised to conform with the current presentation.*

*(f) Includes collateral-dependent residential mortgage loans that are charged off to the fair value of the underlying collateral less cost to sell. These loans are considered collateral-dependent under regulatory guidance because they involve modifications where an interest-only period is provided or a significant portion of principal is deferred.*

The table below summarizes information about the allowance for lending-related commitments and lending-related commitments by impairment methodology.

| Six months ended June 30, (in millions) | 2011 Wholesale | 2011 Consumer, excluding credit card | 2011 Credit Card | 2011 Total | 2010 Wholesale | 2010 Consumer, excluding credit card | 2010 Credit Card | 2010 Total |
|---|---|---|---|---|---|---|---|---|
| **Allowance for lending-related commitments** | | | | | | | | |
| Beginning balance at January 1, | **$ 685** | **$ 6** | **$ —** | **$ 691** | $ 923 | $ 12 | $ — | $ 935 |
| Cumulative effect of change in accounting principles[(a)] | **—** | **—** | **—** | **—** | (18) | — | — | (18) |
| Provision for lending-related commitments | **(90)** | **—** | **—** | **(90)** | (54) | (2) | | (56) |
| Other | **(2)** | **—** | **—** | **(2)** | (11) | — | — | (11) |
| **Ending balance at June 30,** | **$ 593** | **$ 6** | **$ —** | **$ 599** | $ 840 | $ 10 | $ — | $ 850 |
| **Allowance for lending-related commitments by impairment methodology** | | | | | | | | |
| Asset-specific | **$ 144** | **$ —** | **$ —** | **$ 144** | $ 248 | $ — | $ — | $ 248 |
| Formula-based | **449** | **6** | **—** | **455** | 592 | 10 | — | 602 |
| **Total allowance for lending-related commitments** | **$ 593** | **$ 6** | **$ —** | **$ 599** | $ 840 | $ 10 | $ — | $ 850 |
| **Lending-related commitments by impairment methodology** | | | | | | | | |
| Asset-specific | **$ 827** | **$ —** | **$ —** | **$ 827** | $ 1,191 | $ — | $ — | $ 1,191 |
| Formula-based | **362,490** | **59,287** | **27,062** | **448,839** | 321,475 | 69,499 | 17,786 | 408,760 |
| **Total lending-related commitments** | **$ 363,317** | **$ 59,287** | **$ 27,062** | **$ 449,666** | $ 322,666 | $ 69,499 | $ 17,786 | $ 409,951 |

*(a) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated its administered multi-seller conduits. As a result, related assets are now primarily recorded in loans and other assets on the Consolidated Balance Sheets.*

## NOTE 16 - VARIABLE INTEREST ENTITIES

For a further description of JPMorgan Chase Bank, N.A.'s accounting policies regarding consolidation of VIEs and a detailed discussion of JPMorgan Chase Bank, N.A.'s principal involvement with VIEs, see Note 1 on pages 6–7, and Note 17 on pages 82–97, respectively, of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The following table summarizes the most significant types of JPMorgan Chase Bank, N.A.-sponsored VIEs by JPMorgan Chase Bank, N.A. businesses.

| JPMorgan Chase Bank, N.A. | *Transaction Type* | *Activity* | *Consolidated Financial Statements page reference* |
|---|---|---|---|
| Retail financial services | Mortgage and other securitization trusts | Securitization of originated and purchased residential mortgages, automobile and student loans | 61–62 |
| Investment banking | Mortgage and other securitization trusts | Securitization of both originated and purchased residential and commercial mortgages, automobile and student loans | 61–62 |
| | Multi-seller conduits | Assist clients in accessing the financial markets in a cost-efficient manner and structures transactions to meet investor needs | 63 |
| | Investor intermediation activities: | | |
| | Municipal bond vehicles | | 63 |
| | Credit-related note vehicles and asset swap vehicles | | 64 |
| Card services | Credit card securitization trust | Securitization of both originated and purchased credit card receivables | 62–63 |

JPMorgan Chase Bank, N.A. also invests in and provides financing and other services to VIEs sponsored by third parties, as described on pages 64–65 of this Note and on page 91 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

### Significant JPMorgan Chase Bank, N.A.-sponsored variable interest entities

***Mortgage and other securitization trusts***

For a detailed description of JPMorgan Chase Bank, N.A.'s involvement with JPMorgan Chase Bank, N.A.-sponsored mortgage and other securitization trusts, as well as the accounting treatment related to such trusts, see Note 17 on page 83 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The following table presents the total unpaid principal amount of assets held in JPMorgan Chase Bank, N.A.-sponsored securitization entities in which JPMorgan Chase Bank, N.A. has continuing involvement, including those that are consolidated or not consolidated by JPMorgan Chase Bank, N.A. Continuing involvement includes servicing the loans; holding senior interests or subordinated interests; recourse or guarantee arrangements; and derivative transactions. In certain instances, JPMorgan Chase Bank, N.A.'s only continuing involvement is servicing the loans. In the table below, the amount of beneficial interests held by JPMorgan Chase Bank, N.A. does not equal the assets held in nonconsolidated VIEs because of the existence of beneficial interests held by third parties, which are reflected at their current outstanding par amounts; and because a portion of JPMorgan Chase Bank, N.A.'s retained interests (trading assets and AFS securities) are reflected at their fair values. See Securitization activity on pages 65–68 of this Note for further information regarding JPMorgan Chase Bank, N.A.'s cash flows with and interests retained in nonconsolidated VIEs.

| June 30, 2011[a] (in billions) | Principal amount outstanding: Total assets held by securitization VIEs | Principal amount outstanding: Assets held in consolidated securitization VIEs | Principal amount outstanding: Assets held in nonconsolidated securitization VIEs with continuing involvement | JPMorgan Chase Bank, N.A. interest in securitized assets in nonconsolidated VIEs[f][g][h][i]: Trading assets | JPMorgan Chase Bank, N.A. interest in securitized assets in nonconsolidated VIEs[f][g][h][i]: AFS securities | JPMorgan Chase Bank, N.A. interest in securitized assets in nonconsolidated VIEs[f][g][h][i]: Total interests held by JPMorgan Chase Bank, N.A. |
|---|---|---|---|---|---|---|
| **Securitization-related** | | | | | | |
| Residential mortgage: | | | | | | |
| Prime[b] | **$ 76.0** | **$ 1.1** | **$ 74.8** | **$ 0.2** | **$ —** | **$ 0.2** |
| Subprime | **27.9** | **—** | **26.5** | **—** | **—** | **—** |
| Option ARMs | **33.7** | **0.3** | **33.4** | **—** | **—** | **—** |
| Commercial and other[c][d] | **101.4** | **—** | **84.1** | **—** | **0.5** | **0.5** |
| Student | **4.3** | **4.3** | **—** | **—** | **—** | **—** |
| **Total** | **$ 243.3** | **$ 5.7** | **$ 218.8** [e] | **$ 0.2** | **$ 0.5** | **$ 0.7** |

| December 31, 2010[a] (in billions) | Principal amount outstanding: Total assets held by securitization VIEs | Principal amount outstanding: Assets held in consolidated securitization VIEs | Principal amount outstanding: Assets held in nonconsolidated securitization VIEs with continuing involvement | JPMorgan Chase Bank, N.A. interest in securitized assets in nonconsolidated VIEs[f][g][h][i]: Trading assets | JPMorgan Chase Bank, N.A. interest in securitized assets in nonconsolidated VIEs[f][g][h][i]: AFS securities | JPMorgan Chase Bank, N.A. interest in securitized assets in nonconsolidated VIEs[f][g][h][i]: Total interests held by JPMorgan Chase Bank, N.A. |
|---|---|---|---|---|---|---|
| **Securitization-related** | | | | | | |
| Residential mortgage: | | | | | | |
| Prime[b] | $ 85.0 | $ 1.3 | $ 83.5 | $ 0.2 | $ — | $ 0.2 |
| Subprime | 29.6 | — | 28.2 | — | — | — |
| Option ARMs | 36.1 | 0.3 | 35.8 | — | — | — |
| Commercial and other[c][d] | 104.6 | — | 84.4 | — | 0.7 | 0.7 |
| Student | 4.5 | 4.5 | — | — | — | — |
| **Total** | $ 259.8 | $ 6.1 | $ 231.9 [e] | $ 0.2 | $ 0.7 | $ 0.9 |

*(a) Excludes loan sales to U.S. government agencies. See page 67 of this Note for information on JPMorgan Chase Bank, N.A.'s loan sales to U.S. government agencies.*

*(b) Includes Alt-A loans.*

*(c) Consists of securities backed by commercial loans (predominantly real estate) and non-mortgage-related consumer receivables purchased from third parties. JPMorgan Chase Bank, N.A. generally does not retain a residual interest in its sponsored commercial mortgage securitization transactions. Includes co-sponsored commercial securitizations and, therefore, includes non-JPMorgan Chase Bank, N.A.-originated commercial mortgage loans.*

*(d) Includes commercial mortgage securitizations held in nonconsolidated securitization VIEs sponsored by an affiliate.*

*(e) JPMorgan Chase Bank, N.A. does not consolidate a mortgage securitization when it is not the servicer (and therefore does not have the power to direct the most significant activities of the trust) or does not hold a beneficial interest in the trust that could potentially be significant to the trust. At June 30, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. did not consolidate any of the assets of JPMorgan Chase Bank, N.A.-sponsored nonconsolidated residential mortgage securitization VIEs, in which JPMorgan Chase Bank, N.A. has continuing involvement, primarily due to the fact that JPMorgan Chase Bank, N.A. did not hold an interest in these trusts that could potentially be significant to the trusts. Additionally, for the commercial mortgage securitization-related VIEs, JPMorgan Chase Bank, N.A. does not service the loans, and thus does not consolidate the VIEs.*

*(f) Excludes retained servicing (for a discussion of MSRs, see Note 17 on pages 70–72 of these Consolidated Financial Statements) and securities retained from loan sales to U.S. government agencies.*

*(g) There were no senior and subordinated securities purchased in connection with the investment banking business' secondary market-making activities at June 30, 2011, and December 31, 2010, respectively.*

*(h) Excludes interest rate and foreign exchange derivatives primarily used to manage the interest rate and foreign exchange risks of the securitization entities. See Note 6 on pages 25–32 of these Consolidated Financial Statements for further information on derivatives.*

*(i) As of June 30, 2011, and December 31, 2010, 86% and 91% respectively, of JPMorgan Chase Bank, N.A.'s retained securitization interests, which are carried at fair value, were risk-rated "A" or better, on an S&P-equivalent basis. This includes $127 million and $107 million of investment-grade and $58 million and $59 million of noninvestment-grade retained interests in prime residential mortgages at June 30, 2011, and December 31, 2010, respectively, and $470 million and $674 million of investment-grade and $20 million and $15 million of noninvestment-grade retained interests in commercial and other securitization trusts.*

### *Credit card securitizations*

For a more detailed discussion of JPMorgan Chase Bank, N.A.'s involvement with credit card securitizations, see pages 86–87 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

As a result of JPMorgan Chase Bank, N.A.'s continuing involvement, JPMorgan Chase Bank, N.A. is considered to be the primary beneficiary of its sponsored credit card securitization trust, SCORE. JPMorgan Chase Bank, N.A. consolidated $542 million and $537 million of assets held by its administered credit card securitization trust and $389 million and $377 million of beneficial interests issued to third parties at June 30, 2011, and December 31, 2010, respectively.

The underlying securitized credit card receivables and other assets are available only for payment of the beneficial interests issued by the SCORE trust; they are not available to pay JPMorgan Chase Bank, N.A..'s other obligations or the claims of JPMorgan Chase Bank, N.A.'s other creditors.

Retained interests in nonconsolidated credit card securitizations sponsored by an affiliate

In addition to the JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust, on an ongoing basis, JPMorgan Chase Bank, N.A. sells credit card receivables to various nonconsolidated credit card securitization trusts ("Trusts") sponsored by an affiliate. The consideration received for the sales is an undivided interest in the respective Trusts.

At June 30, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. had $4.4 billion and $6.9 billion, respectively, related to its undivided interests in the Trusts. These undivided interests are measured at fair value and classified in other assets. JPMorgan Chase Bank, N.A. also retains senior and subordinated securities issued from the Trusts. The retained securities totaled $909 million at June 30, 2011, of which $909 million was classified as AFS securities and zero classified as trading assets, and $1.4 billion at December 31, 2010, of which $1.3 billion was classified as AFS securities and $105 million as trading assets.

***Multi-seller conduits***

For a more detailed description of JPMorgan Chase Bank, N.A.'s principal involvement with its administered, multi-seller conduits, see Note 17 on pages 87–88 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

As a result of JPMorgan Chase Bank, N.A.'s continuing involvement, JPMorgan Chase Bank, N.A. consolidates its administered multi-seller conduits, as JPMorgan Chase Bank, N.A. has both the power to direct the significant activities of the conduits and a potentially significant economic interest. JPMorgan Chase Bank, N.A. consolidated $22.2 billion and $21.7 billion of assets held by its administered multi-seller conduits and $22.2 billion and $21.6 billion of beneficial interests in commercial paper issued to third parties at June 30, 2011, and December 31, 2010, respectively.

JPMorgan Chase Bank, N.A. provides deal-specific liquidity as well as program-wide liquidity and credit enhancement to its administered multi-seller conduits, which have been eliminated in consolidation. The administered multi-seller conduits then provide certain of their clients with lending-related commitments. The unfunded portion of these commitments was $11.3 billion and $10.0 billion at June 30, 2011, and December 31, 2010, respectively, and are included as off-balance sheet lending-related commitments. For more information on off-balance sheet lending-related commitments, see Note 23 on pages 77–81 of these Consolidated Financial Statements.

**VIEs associated with investor intermediation activities**

***Municipal bond vehicles***

For a more detailed description of JPMorgan Chase Bank, N.A.'s principal involvement with municipal bond vehicles, see Note 17 on pages 88–89 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

JPMorgan Chase Bank, N.A.'s exposure to nonconsolidated municipal bond VIEs at June 30, 2011, and December 31, 2010, including the ratings profile of the VIEs' assets, was as follows.

| (in billions) | Fair value of assets held by VIEs | Liquidity facilities[(a)] | Excess/ (deficit)[(b)] | Maximum exposure |
|---|---|---|---|---|
| Nonconsolidated municipal bond vehicles | | | | |
| **June 30, 2011** | **$ 12.9** | **$ 7.9** | **$ 5.0** | **$ 7.9** |
| December 31, 2010 | 13.7 | 8.8 | 4.9 | 8.8 |

| | Ratings profile of VIE assets[(c)] | | | | | | |
|---|---|---|---|---|---|---|---|
| | Investment-grade | | | | Noninvestment -grade | | |
| (in billions, except where otherwise noted) | AAA to AAA- | AA+ to AA- | A+ to A- | BBB to BBB- | BB+ and below | Fair value of assets held by VIEs | Wt. avg. expected life of assets (years) |
| Nonconsolidated municipal bond vehicles | | | | | | | |
| **June 30, 2011** | **$ 1.7** | **$ 10.5** | **$ 0.7** | **$ —** | **$ —** | **$ 12.9** | **9.8** |
| December 31, 2010 | 1.9 | 11.2 | 0.6 | — | — | 13.7 | 15.5 |

*(a) JPMorgan Chase Bank, N.A. may serve as credit enhancement provider to municipal bond vehicles in which it serves as liquidity provider. JPMorgan Chase Bank, N.A. provided insurance on underlying municipal bonds, in the form of letters of credit, of $10 million at both June 30, 2011, and December 31, 2010.*

*(b) Represents the excess/(deficit) of the fair values of municipal bond assets available to repay the liquidity facilities, if drawn.*

*(c) The ratings scale is based on JPMorgan Chase Bank, N.A.'s internal risk ratings and is presented on an S&P-equivalent basis.*

JPMorgan Chase Bank, N.A. consolidated $629 million and $427 million of municipal bond vehicles as of June 30, 2011, and December 31, 2010, respectively, due to JPMorgan Chase Bank, N.A. owning the residual interests.

***Credit-related note and asset swap vehicles***

For a more detailed description of JPMorgan Chase Bank, N.A.'s principal involvement with credit-related note and asset swap vehicles, see Note 17 on pages 82–97 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

Exposure to nonconsolidated credit-related note and asset swap VIEs at June 30, 2011, and December 31, 2010, was as follows.

| **June 30, 2011** (in billions) | Net derivative receivables | Trading assets[(a)] | Total exposure[(b)] | Par value of collateral held by VIEs[(c)] |
|---|---|---|---|---|
| **Credit-related notes** | | | | |
| Static structure | **$ 0.7** | **$ —** | **$ 0.7** | **$ 10.9** |
| Managed structure | **2.1** | **0.1** | **2.2** | **9.5** |
| **Total credit-related notes** | **2.8** | **0.1** | **2.9** | **20.4** |
| Asset swaps | **0.4** | **—** | **0.4** | **7.5** |
| **Total** | **$ 3.2** | **$ 0.1** | **$ 3.3** | **$ 27.9** |

| December 31, 2010 (in billions) | Net derivative receivables | Trading assets[(a)] | Total exposure[(b)] | Par value of collateral held by VIEs[(c)] |
|---|---|---|---|---|
| **Credit-related notes** | | | | |
| Static structure | $ 1.0 | $ — | $ 1.0 | $ 9.5 |
| Managed structure | 2.8 | — | 2.8 | 10.7 |
| **Total credit-related notes** | 3.8 | — | 3.8 | 20.2 |
| Asset swaps | 0.3 | — | 0.3 | 7.6 |
| **Total** | $ 4.1 | $ — | $ 4.1 | $ 27.8 |

*(a) Trading assets principally comprise notes issued by VIEs, which from time to time are held as part of the termination of a deal or to support limited market-making.*

*(b) On-balance sheet exposure that includes net derivative receivables and trading assets – debt and equity instruments.*

*(c) JPMorgan Chase Bank, N.A.'s maximum exposure arises through the derivatives executed with the VIEs; the exposure varies over time with changes in the fair value of the derivatives. JPMorgan Chase Bank, N.A. relies on the collateral held by the VIEs to pay any amounts due under the derivatives; the vehicles are structured at inception so that the par value of the collateral is expected to be sufficient to pay amounts due under the derivative contracts.*

JPMorgan Chase Bank, N.A. consolidated credit-related note vehicles with collateral fair values of $122 million and $142 million, at June 30, 2011, and December 31, 2010, respectively. JPMorgan Chase Bank, N.A. did not consolidate any asset swap vehicles at June 30, 2011, and December 31, 2010. JPMorgan Chase Bank, N.A. consolidated these vehicles because in its role as secondary market-maker, it held positions in these entities that provided JPMorgan Chase Bank, N.A. with control of certain vehicles.

**VIEs sponsored by third parties**

JPMorgan Chase Bank, N.A. also invests in and provides financing and other services to VIEs sponsored by third parties, as described on page 91 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

***Investment in a third-party credit card securitization trust***

JPMorgan Chase Bank, N.A. holds two interests in a third-party-sponsored VIE, which is a credit card securitization trust that owns credit card receivables issued by a national retailer. JPMorgan Chase Bank, N.A. is not the primary beneficiary of the trust as JPMorgan Chase Bank, N.A. does not have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. JPMorgan Chase Bank, N.A.'s interests in the VIE includes investments classified as AFS securities that had a fair value of $2.9 billion and $3.1 billion, at June 30, 2011, and December 31, 2010, respectively, and other interests which are classified as loans and have a fair value of approximately $1.0 billion at both June 30, 2011, and December 31, 2010. For more information on AFS securities and loans, see Notes 12 and 14 on pages 36–42 and 44–58, respectively, of these Consolidated Financial Statements.

**Consolidated VIE assets and liabilities**

The following table presents information on assets and liabilities related to VIEs consolidated by JPMorgan Chase Bank, N.A. as of June 30, 2011, and December 31, 2010.

| | Assets | | | | Liabilities | | |
|---|---|---|---|---|---|---|---|
| **June 30, 2011 (in billions)** | Trading assets – debt and equity instruments | Loans | Other[(c)] | Total assets[(d)] | Beneficial interests in VIE assets[(e)] | Other[(f)] | Total liabilities |
| **VIE program type** | | | | | | | |
| JPMorgan Chase Bank, N.A.-administered multi-seller conduits | **$ —** | **$ 21.9** | **$ 0.3** | **$ 22.2** | **$ 22.2** | **$ —** | **$ 22.2** |
| Mortgage securitization entities[(a)] | **—** | **1.3** | **—** | **1.3** | **—** | **1.5** | **1.5** |
| Other[(b)] | **2.7** | **4.3** | **1.0** | **8.0** | **4.1** | **—** | **4.1** |
| JPMorgan Chase Bank, N.A.-sponsored credit card trust | **—** | **0.5** | **—** | **0.5** | **0.4** | **—** | **0.4** |
| **Total** | **$ 2.7** | **$ 28.0** | **$ 1.3** | **$ 32.0** | **$ 26.7** | **$ 1.5** | **$ 28.2** |

| | Assets | | | | Liabilities | | |
|---|---|---|---|---|---|---|---|
| December 31, 2010 (in billions) | Trading assets – debt and equity instruments | Loans | Other[(c)] | Total assets[(d)] | Beneficial interests in VIE assets[(e)] | Other[(f)] | Total liabilities |
| **VIE program type** | | | | | | | |
| JPMorgan Chase Bank, N.A.-administered multi-seller conduits | $ — | $ 21.1 | $ 0.6 | $ 21.7 | $ 21.6 | $ 0.1 | $ 21.7 |
| Mortgage securitization entities[(a)] | — | 1.5 | — | 1.5 | — | 1.6 | 1.6 |
| Other[(b)] | 2.9 | 4.4 | 0.9 | 8.2 | 4.1 | — | 4.1 |
| JPMorgan Chase Bank, N.A.-sponsored credit card trust | — | 0.5 | — | 0.5 | 0.4 | — | 0.4 |
| **Total** | $ 2.9 | $ 27.5 | $ 1.5 | $ 31.9 | $ 26.1 | $ 1.7 | $ 27.8 |

*(a) Includes residential and commercial mortgage securitizations.*

*(b) Primarily comprised of student loans and other asset-backed securities.*

*(c) Includes assets classified as cash, derivative receivables, AFS securities, and other assets within the Consolidated Balance Sheets.*

*(d) The assets of the consolidated VIEs included in the program types above are used to settle the liabilities of those entities. The difference between total assets and total liabilities recognized for consolidated VIEs represents JPMorgan Chase Bank, N.A.'s interest in the consolidated VIEs for each program type.*

*(e) The interest-bearing beneficial interest liabilities issued by consolidated VIEs are classified in the line item on the Consolidated Balance Sheets titled, "Beneficial interests issued by consolidated variable interest entities." The holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase Bank, N.A. Included in beneficial interests in VIE assets are long-term beneficial interests of $4.2 billion and $4.5 billion at June 30, 2011, and December 31, 2010, respectively. The maturities of the long-term beneficial interests as of June 30, 2011, and December 31, 2010, were as follows: $5 million and zero under one year, $849 million and $969 million between one and five years, and $3.4 billion and $3.5 billion over five years.*

*(f) Includes liabilities classified as accounts payable and other liabilities in the Consolidated Balance Sheets.*

**Supplemental information on loan securitizations**

JPMorgan Chase Bank, N.A. securitizes and sells a variety of loans, including residential mortgage, credit card, automobile, student and commercial (primarily related to real estate) loans, as well as debt securities. The primary purposes of these securitization transactions are to satisfy investor demand and to generate liquidity for JPMorgan Chase Bank, N.A.

**Securitization activity**

The following tables provide information related to JPMorgan Chase Bank, N.A.'s securitization activities for the three and six months ended June 30, 2011 and 2010, related to assets held in JPMorgan Chase Bank, N.A.-sponsored securitization entities that were not consolidated by JPMorgan Chase Bank, N.A., as sale accounting was achieved based on the accounting rules in effect at the time of the securitization. For the three- and six- month periods ended June 30, 2011 and 2010, except for credit card and commercial and other loans securitized, there were no other loans securitized and there were no cash flows from JPMorgan Chase Bank, N.A. to the SPEs related to recourse or guarantee arrangements.

| | Three months ended June 30, 2011 | | | | |
|---|---|---|---|---|---|
| | | Residential mortgage | | | |
| (in millions) | Credit card[e] | Prime[f] | Subprime | Option ARMs | Commercial and other[e] |
| Principal securitized | **$ 400** | **$ —** | **$ —** | **$ —** | **$ 1,447** |
| Pretax gains | **2** | **—** | **—** | **—** | **—** [h] |
| **All cash flows during the period[a]:** | | | | | |
| Proceeds from new securitizations[b] | **$ 400** | **$ —** | **$ —** | **$ —** | **$ 1,489** |
| Servicing fees collected | **—** | **50** | **38** | **100** | **1** |
| Proceeds from collections received in revolving securitizations | **10,848** | **—** | **—** | **—** | **—** |
| Purchases of previously transferred financial assets (or the underlying collateral)[c] | **—** | **293** | **4** | **4** | **—** |
| Cash flows received on the interests that continue to be held by JPMorgan Chase Bank, N.A.[d] | **3,069** | **6** | **—** | **1** | **6** |

| | Three months ended June 30, 2010 | | | | |
|---|---|---|---|---|---|
| | | Residential mortgage | | | |
| (in millions) | Credit card[e] | Prime[f] | Subprime | Option ARMs | Commercial and other[e] |
| Principal securitized | $ 1,150 | $ — | $ — | $ — | $ 562 |
| Pretax gains | 16 | — | — | — | — [h] |
| **All cash flows during the period[a]:** | | | | | |
| Proceeds from new securitizations[b] | $ 1,150 | $ — | $ — | $ — | $ 592 |
| Servicing fees collected | — | 70 | 29 | 108 | 1 |
| Proceeds from collections received in revolving securitizations | 14,468 | — | — | — | — |
| Purchases of previously transferred financial assets (or the underlying collateral)[c] | — | 26 | 6 | — | — |
| Cash flows received on the interests that continue to be held by JPMorgan Chase Bank, N.A.[d] | 3,276 | 8 | 1 | 6 | 12 |
| **Key assumptions used to measure retained interests originated during the year (rates per annum):** | | | | | |
| Prepayment rate[g] | 19.6% PPR | | | | |
| Weighted-average life (in years) | 0.4 | | | | |
| Expected credit losses | 9.8% | | | | |
| Discount rate | 12.0 | | | | |

| | Six months ended June 30, 2011 | | | | |
|---|---|---|---|---|---|
| | | Residential mortgage | | | |
| (in millions) | Credit card[e] | Prime[f] | Subprime | Option ARMs | Commercial and other[e] |
| Principal securitized | **$ 400** | **$ —** | **$ —** | **$ —** | **$ 2,940** |
| Pretax gains | **2** | **—** | **—** | **—** | **—** [h] |
| **All cash flows during the period[a]:** | | | | | |
| Proceeds from new securitizations[b] | **$ 400** | **$ —** | **$ —** | **$ —** | **$ 3,001** |
| Servicing fees collected | **—** | **103** | **70** | **196** | **1** |
| Proceeds from collections received in revolving securitizations | **20,307** | **—** | **—** | **—** | **—** |
| Purchases of previously transferred financial assets (or the underlying collateral)[c] | **—** | **658** | **10** | **10** | **—** |
| Cash flows received on the interests that continue to be held by JPMorgan Chase Bank, N.A.[d] | **7,625** | **12** | **—** | **2** | **16** |

| | Six months ended June 30, 2010 | | | | |
|---|---|---|---|---|---|
| | | Residential mortgage | | | |
| (in millions) | Credit card[e] | Prime[f] | Subprime | Option ARMs | Commercial and other[e] |
| Principal securitized | $ 1,150 | $ — | $ — | $ — | $ 562 |
| Pretax gains | 16 | — | — | — | — [h] |
| **All cash flows during the period[a]:** | | | | | |
| Proceeds from new securitizations[b] | $ 1,150 | $ — | $ — | $ — | $ 592 |
| Servicing fees collected | — | 133 | 62 | 217 | 2 |
| Proceeds from collections received in revolving securitizations | 22,975 | — | — | — | — |
| Purchases of previously transferred financial assets (or the underlying collateral)[c] | — | 71 | 6 | — | — |
| Cash flows received on the interests that continue to be held by JPMorgan Chase Bank, N.A.[d] | 15,397 | 16 | 2 | 12 | 23 |
| **Key assumptions used to measure retained interests originated during the year (rates per annum):** | | | | | |
| Prepayment rate[g] | 19.6% PPR | | | | |
| Weighted-average life (in years) | 0.4 | | | | |
| Expected credit losses | 9.8% | | | | |
| Discount rate | 12.0 | | | | |

*(a) Excludes sales for which JPMorgan Chase Bank, N.A. did not securitize the loan (including loans sold to Ginnie Mae, Fannie Mae and Freddie Mac).*
*(b) Includes proceeds from new securitizations received as cash for the three and six months ended June 30, 2011 and 2010.*
*(c) Includes cash paid by JPMorgan Chase Bank, N.A., to reacquire assets from the off-balance sheet, nonconsolidated entities - for example, servicer clean-up calls.*
*(d) Includes cash flows received on retained interests - including, for example, principal repayments and interest payments.*
*(e) Includes securitization activity related to JPMorgan Chase Bank, N.A.'s undivided interests in nonconsolidated credit card securitization trusts and retained interests in commercial mortgage securitization trusts that are sponsored by a JPMorgan Chase affiliate.*
*(f) Includes Alt-A loans.*
*(g) PPR: principal payment rate*
*(h) JPMorgan Chase Bank, N.A. elected the fair value option for loans pending securitization. The carrying value of these loans accounted for at fair value approximated the proceeds received from securitization.*

## Loans sold to agencies and other third-party sponsored securitization entities

In addition to the amounts reported in the securitization activity tables above, JPMorgan Chase Bank, N.A., in the normal course of business, sells originated and purchased mortgage loans, predominantly to Ginnie Mae, Fannie Mae and Freddie Mac (the "Agencies"). These loans are sold primarily for the purpose of securitization by the Agencies, which also provide credit enhancement of the loans through certain guarantee provisions. JPMorgan Chase Bank, N.A. does not consolidate these securitization vehicles as it is not the primary beneficiary. In connection with these loan sales, JPMorgan Chase Bank, N.A. makes certain representations and warranties. For additional information about JPMorgan Chase Bank, N.A.'s loan sale- and securitization-related indemnifications, see Note 23 on pages 77–81 of these Consolidated Financial Statements.

For a more detailed description of JPMorgan Chase Bank, N.A.'s principal involvement with loans sold to government-sponsored agencies and other third-party sponsored securitization entities, see Note 17 on page 95 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The following table summarizes the activities related to loans sold to U.S. government sponsored agencies and third-party sponsored securitization entities.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (in millions) | **2011** | 2010 | **2011** | 2010 |
| Carrying value of loans sold[a][b] | **$ 32,609** | $ 30,173 | **$ 71,856** | $ 65,547 |
| Proceeds received from loan sales as cash | **$ 565** | $ 262 | **$ 905** | $ 598 |
| Proceeds received from loan sales as securities[c] | **31,511** | 29,448 | **69,683** | 63,818 |
| **Total proceeds received from loan sales** | **$ 32,076** | $ 29,710 | **$ 70,588** | $ 64,416 |
| Gains on loan sales | **$ 30** | $ 70 | **$ 52** | $ 91 |

*(a) Predominantly to U.S. government agencies.*
*(b) MSRs were excluded from the above table. See Note 17 on pages 70–72 of these Consolidated Financial Statements for further information on originated MSRs.*
*(c) Predominantly includes securities from U.S. government agencies that are generally sold shortly after receipt.*

### *Repurchased loans and loans subject to an option to repurchase*

When JPMorgan Chase Bank, N.A. services loans for Ginnie Mae, it typically has the option to repurchase certain delinquent loans. JPMorgan Chase Bank, N.A. also has similar rights in certain arrangements with other U.S. government agencies. JPMorgan

Chase Bank, N.A. typically elects to repurchase delinquent loans from Ginnie Mae as it continues to service them and/or manage the foreclosure process in accordance with the applicable requirements, and such loans continue to be insured or guaranteed. When JPMorgan Chase Bank, N.A.'s repurchase option becomes exercisable, such loans must be reported on the Consolidated Balance Sheets as a loan with an offsetting liability. As of June 30, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. had recorded on its Consolidated Balance Sheets $13.2 billion and $13.0 billion, respectively, of loans that either have been repurchased or for which JPMorgan Chase Bank, N.A. has an option to repurchase from the Agencies. Predominately all of the amounts presented above relate to loans that have been repurchased from Ginnie Mae. Additionally, real estate owned resulting from voluntary repurchases of loans sold to the Agencies was $2.4 billion and $1.9 billion as of June 30, 2011, and December 31, 2010, respectively. Substantially all of these loans and real estate owned are insured or guaranteed by U.S. government agencies, and where applicable, reimbursement is proceeding normally. For additional information, refer to Note 14 on pages 44–58 of these Consolidated Financial Statements and Note 15 on pages 58–76 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

**JPMorgan Chase Bank, N.A.'s interest in securitized assets held at fair value**

The following table outlines the key economic assumptions used to determine the fair value as of June 30, 2011, and December 31, 2010, of certain of JPMorgan Chase Bank, N.A.'s retained interests in nonconsolidated VIEs (other than MSRs), that are valued using modeling techniques. The table also outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in assumptions used to determine fair value. For a discussion of MSRs, see Note 17 on pages 70–72 of these Consolidated Financial Statements.

| **June 30, 2011** (in millions, except rates and where otherwise noted) | Credit card[(d)(e)] | Residential mortgage Prime[(f)] | Commercial and other[(e)] |
|---|---|---|---|
| JPMorgan Chase Bank, N.A. interests in securitized assets[(a)(b)] | **$ 4,431** | **$ 185** | **$ 490** |
| Weighted-average life (in years) | **0.4** | **7.8** | **3.7** |
| Weighted-average constant prepayment rate[(c)] | **23.2%** | **6.8%** | **—%** |
| | **PPR** | **CPR** | **CPR** |
| Impact of 10% adverse change | **$ (10)** | **$ (4)** | **$ —** |
| Impact of 20% adverse change | **(20)** | **(7)** | **—** |
| Weighted-average loss assumption | **5.5%** | **1.2%** | **—%** |
| Impact of 10% adverse change | **$ (36)** | **$ —** | **$ —** |
| Impact of 20% adverse change | **(72)** | **(1)** | **—** |
| Weighted-average discount rate | **12.0%** | **6.1%** | **9.7%** |
| Impact of 10% adverse change | **$ —** | **$ (8)** | **$ (6)** |
| Impact of 20% adverse change | **(1)** | **(15)** | **(12)** |

| December 31, 2010 (in millions, except rates and where otherwise noted) | Credit card[(d)(e)] | Residential mortgage Prime[(f)] | Commercial and other[(e)] |
|---|---|---|---|
| JPMorgan Chase Bank, N.A. interests in securitized assets[(a)(b)] | $ 6,886 | $ 166 | $ 689 |
| Weighted-average life (in years) | 0.4 | 7.3 | 4.2 |
| Weighted-average constant prepayment rate[(c)] | 21.8% | 7.3% | —% |
| | PPR | CPR | CPR |
| Impact of 10% adverse change | $ (5) | $ (4) | $ — |
| Impact of 20% adverse change | (10) | (8) | — |
| Weighted-average loss assumption | 7.0% | 0.6% | —% |
| Impact of 10% adverse change | $ (67) | $ (1) | $ — |
| Impact of 20% adverse change | (91) | (1) | — |
| Weighted-average discount rate | 12.0% | 6.4% | 9.0% |
| Impact of 10% adverse change | $ — | $ (6) | $ (10) |
| Impact of 20% adverse change | — | (11) | (21) |

*(a) JPMorgan Chase Bank, N.A. had no interests in subprime securitizations as of June 30, 2011, and December 31, 2010, respectively. Additionally, JPMorgan Chase Bank, N.A. had interests in option ARM securitizations of $27 million and $29 million at June 30, 2011, and December 31, 2010.*

*(b) Includes certain investments acquired in the secondary market but predominantly held for investment purposes.*

*(c) PPR: principal payment rate; CPR: constant prepayment rate.*

*(d) Excludes JPMorgan Chase Bank, N.A..'s retained senior and subordinated AFS securities in nonconsolidated credit card securitization trusts. For further discussion see Note 17 on pages 86-87 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.*

*(e) Includes securitization activity related to JPMorgan Chase Bank, N.A.'s undivided interests in nonconsolidated credit card securitization trusts and retained interest in commercial mortgage securitization trusts that are sponsored by a JPMorgan Chase affiliate.*

*(f) Includes retained interests in Alt-A loans.*

The sensitivity analysis in the preceding table is hypothetical. Changes in fair value based on a 10% or 20% variation in assumptions generally cannot be extrapolated easily, because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in the table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might counteract or magnify the sensitivities. The above sensitivities also do not reflect risk management practices JPMorgan Chase Bank, N.A. may undertake to mitigate such risks.

**Loan delinquencies and liquidation losses**

The table below includes information about delinquencies, liquidation losses and components of off-balance sheet securitized financial assets as of June 30, 2011, and December 31, 2010.

| | Credit exposure | | 90 days past due | | Liquidation losses | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Three months ended June 30, | | Six months ended June 30, | |
| (in millions) | **June 30, 2011** | Dec 31, 2010 | **June 30, 2011** | Dec 31, 2010 | **2011** | 2010 | **2011** | 2010 |
| Securitized loans[(a)] | | | | | | | | |
| Residential mortgage: | | | | | | | | |
| Prime mortgage[(b)] | **$ 74,775** | $ 83,530 | **$ 13,104** | $ 14,132 | **$ 391** | $ 503 | **$ 932** | $ 958 |
| Subprime mortgage | **26,514** | 28,158 | **9,992** | 10,222 | **493** | 713 | **1,082** | 1,605 |
| Option ARMs | **33,412** | 35,786 | **10,358** | 10,788 | **465** | 637 | **908** | 1,226 |
| Commercial and other [(c)] | **84,068** | 84,389 | **4,693** | 4,472 | **232** | 102 | **437** | 125 |
| **Total loans securitized[(d)]** | **$ 218,769** | $ 231,863 | **$ 38,147** | $ 39,614 | **$ 1,581** | $ 1,955 | **$ 3,359** | $ 3,914 |

*(a) The total principal amount of assets held in securitization-related SPEs were $243.3 billion and $259.8 billion at June 30, 2011, and December 31, 2010, respectively. The $218.8 billion and $231.9 billion of loans securitized at June 30, 2011, and December 31, 2010, respectively, excludes:$18.8 billion and $21.8 billion of securitized loans in which JPMorgan Chase Bank, N.A. has no continuing involvement and $5.7 billion and $6.1 billion of loan securitizations consolidated on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets at June 30, 2011, and December 31, 2010, respectively.*

*(b) Includes Alt-A loans.*

*(c) Includes securitization activity related to JPMorgan Chase Bank, N.A.'s retained interests in commercial mortgage securitization trusts that are sponsored by a JPMorgan Chase affiliate.*

*(d) Includes securitized loans that were previously recorded at fair value and classified as trading assets.*

## NOTE 17 - GOODWILL AND OTHER INTANGIBLE ASSETS

For a discussion of accounting policies related to goodwill and other intangible assets, see Note 18 on pages 98–100 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

Goodwill and other intangible assets consist of the following.

| (in millions) | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Goodwill | $ 27,401 | $ 27,348 |
| Mortgage servicing rights | 12,243 | 13,440 |
| Other intangible assets: | | |
| Purchased credit card relationships | $ 94 | $ 103 |
| Other credit card-related intangibles | 545 | 576 |
| Core deposit intangibles | 734 | 879 |
| Other intangibles | 373 | 409 |
| **Total other intangible assets** | **$ 1,746** | $ 1,967 |

### Goodwill

The following table presents changes in the carrying amount of goodwill.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (in millions) | 2011 | 2010 | 2011 | 2010 |
| Balance at beginning of period[(a)] | $ 27,384 | $ 27,214 | $ 27,348 | $ 27,510 |
| Changes during the period from: | | | | |
| Business combinations | 9 | 10 | 31 | 19 |
| Dispositions | — | — | — | (318) |
| Other[(b)] | 8 | (48) | 22 | (35) |
| **Balance at June 30,[(a)]** | **$ 27,401** | $ 27,176 | **$ 27,401** | $ 27,176 |

*(a) Reflects gross goodwill balances as JPMorgan Chase Bank, N.A. has not recognized any impairment losses to date.*
*(b) Includes foreign currency translation adjustments and other tax-related adjustments.*

Goodwill was not impaired at June 30, 2011, or December 31, 2010, nor was any goodwill written off due to impairment during the six month periods ended June 30, 2011 or 2010.

### Mortgage servicing rights

Mortgage servicing rights represent the fair value of expected future cash flows for performing servicing activities for others. The fair value considers estimated future fees and ancillary revenues, offset by estimated costs to service the loans. The fair value of mortgage servicing rights naturally declines over time as net servicing cash flows are received, effectively amortizing the MSR asset against contractual and ancillary fee income. For a further description of the MSR asset, interest rate risk management, and the valuation of MSRs, see Notes 18 on pages 98–100, respectively of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements and Note 4 on pages 9–21 of these Consolidated Financial Statements.

In the first half of 2011, the fair value of the MSR declined, primarily due to changes to inputs and assumptions in the MSR valuation model. During the first quarter of 2011, JPMorgan Chase Bank, N.A. revised its cost to service assumption to reflect the estimated impact of higher servicing costs to enhance servicing processes, particularly loan modification and foreclosure procedures, including costs to comply with Consent Orders entered into with banking regulators, which resulted in a $1.1 billion decrease in the fair value of the MSR asset. The increase in the cost to service assumption contemplates significant and prolonged increases in staffing levels in the core and default servicing functions, and specifically considers the higher cost to service certain high-risk vintages. In addition, the MSR decreased in value due to a decline in interest rates (which tend to increase prepayments and therefore reduce the expected life of the net servicing cash flows that comprise the MSR asset). Other than the increased cost to service assumption and the decrease in interest rates, predominantly all of the changes in the fair value of the MSR asset resulted from the largely offsetting impacts of new capitalization and amortization.

The decrease in the fair value of the MSR results in a lower asset value that will amortize in future periods against contractual and ancillary fee income received in future periods. While there is expected to be higher levels of noninterest expense associated with higher servicing costs in those future periods, there will also be less MSR amortization, which will have the effect of increasing mortgage fees and related income. The amortization of the MSR is reflected in the tables below in the row "Other changes in fair value."

The following table summarizes MSR activity for the three and six months ended June 30, 2011 and 2010.

| (in millions, except where otherwise noted) | Three months ended June 30, 2011 | Three months ended June 30, 2010 | Six months ended June 30, 2011 | Six months ended June 30, 2010 |
|---|---|---|---|---|
| Fair value at beginning of period | **$ 12,881** | $ 15,343 | **$ 13,440** | $ 15,342 |
| MSR activity | | | | |
| Originations of MSRs | **562** | 533 | **1,319** | 1,222 |
| Purchase of MSRs | **242** | — | **243** | 14 |
| **Total net additions** | **804** | 533 | **1,562** | 1,236 |
| Change in valuation due to inputs and assumptions[(a)] | **(962)** | (3,587) | **(1,725)** | (3,689) |
| Other changes in fair value[(b)] | **(480)** | (616) | **(1,034)** | (1,216) |
| **Total change in fair value of MSRs[(c)]** | **(1,442)** | (4,203) | **(2,759)** | (4,905) |
| **Fair value at June 30[(d)]** | **$ 12,243** | $ 11,673 | **$ 12,243** | $ 11,673 |
| Change in unrealized gains/(losses) included in income related to MSRs held at June 30 | **$ (962)** | $ (3,587) | **$ (1,725)** | $ (3,689) |
| Contractual service fees, late fees and other ancillary fees included in income | **$ 983** | $ 1,087 | **$ 1,958** | $ 2,161 |
| Third-party mortgage loans serviced at June 30 (in billions) | **$ 949** | $ 1,007 | **$ 949** | $ 1,007 |
| Servicer advances, net at June 30 (in billions)[(e)] | **$ 10.9** | $ 7.2 | **$ 10.9** | $ 7.2 |

*(a) Represents MSR asset fair value adjustments due to changes in inputs, such as interest rates and volatility, as well as updates to assumptions used in the valuation model.*
*(b) Includes changes in MSR value due to modeled servicing portfolio runoff (i.e., amortization or time decay).*
*(c) Includes changes related to commercial real estate of $(2) million and $(2) million for the three months ended June 30, 2011 and 2010, respectively, and $(4) million and $(4) million for the six months ended June 30, 2011 and 2010, respectively.*
*(d) Includes $36 million and $37 million related to commercial real estate at June 30, 2011 and 2010, respectively.*
*(e) Represents amounts JPMorgan Chase Bank, N.A. pays as the servicer (e.g., scheduled principal and interest to a trust, taxes and insurance), which will generally be reimbursed within a short period of time after the advance from future cash flows from the trust or the underlying loans. JPMorgan Chase Bank, N.A.'s credit risk associated with these advances is minimal because reimbursement of the advances is senior to all cash payments to investors. In addition, JPMorgan Chase Bank, N.A. maintains the right to stop payment if the collateral is insufficient to cover the advance.*

The table below outlines the key economic assumptions used to determine the fair value of JPMorgan Chase Bank, N.A.'s MSRs at June 30, 2011, and December 31, 2010; and it outlines the sensitivities of those fair values to immediate adverse changes in those assumptions, as defined below.

| (in millions, except rates) | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Weighted-average prepayment speed assumption ("CPR") | **10.63%** | 10.67% |
| Impact on fair value of 10% adverse change | **$ (775)** | $ (795) |
| Impact on fair value of 20% adverse change | **(1,500)** | (1,541) |
| Weighted-average option adjusted spread | **3.85%** | 3.92% |
| Impact on fair value of 100 basis points adverse change | **$ (587)** | $ (571) |
| Impact on fair value of 200 basis points adverse change | **(1,125)** | (1,097) |

*CPR: Constant prepayment rate.*

The sensitivity analysis in the preceding table is hypothetical and should be used with caution. Changes in fair value based on variation in assumptions generally cannot be easily extrapolated, because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in this table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

**Other intangible assets**
The $221 million decrease in other intangible assets during the six months ended June 30, 2011, was predominantly due to $240 million in amortization.

The components of credit card relationships, core deposits and other intangible assets were as follows.

| | **June 30, 2011** | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| (in millions) | Gross amount | Accumulated amortization | Net carrying value | Gross amount | Accumulated amortization | Net carrying value |
| Purchased credit card relationships | **$ 252** | **$ 158** | **$ 94** | $ 249 | $ 146 | $ 103 |
| Other credit card-related intangibles[(a)] | **797** | **252** | **545** | 828 | 252 | 576 |
| Core deposit intangibles[(a)] | **4,132** | **3,398** | **734** | 4,280 | 3,401 | 879 |
| Other intangibles[(a)] | **882** | **509** | **373** | 911 | 502 | 409 |

*(a) The decrease in the gross amount and accumulated amortization from December 31, 2010, was due to the removal of fully amortized assets.*

Intangible assets of approximately $60 million consisting primarily of asset management advisory contracts, were determined to have an indefinite life and are not amortized.

**Amortization expense**
The following table presents amortization expense related to credit card relationships, core deposits and other intangible assets.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (in millions) | **2011** | 2010 | **2011** | 2010 |
| Purchased credit card relationships | **$ 6** | $ 6 | **$ 12** | $ 12 |
| All other intangibles: | | | | |
| Other credit card-related intangibles | **25** | 23 | **50** | 46 |
| Core deposit intangibles | **72** | 83 | **144** | 166 |
| Other intangibles | **17** | 20 | **34** | 40 |
| **Total amortization expense** | **$ 120** | $ 132 | **$ 240** | $ 264 |

**Future amortization expense**
The following table presents estimated future amortization expense related to credit card relationships, core deposits and other intangible assets.

| For the year: (in millions) | Purchased credit card relationships | Other credit card-related intangibles | Core deposit intangibles | Other intangibles | **Total** |
|---|---|---|---|---|---|
| 2011[(a)] | $ 24 | $ 100 | $ 284 | $ 65 | $ 473 |
| 2012 | 24 | 104 | 240 | 62 | 430 |
| 2013 | 21 | 105 | 195 | 59 | 380 |
| 2014 | 19 | 104 | 100 | 45 | 268 |
| 2015 | 17 | 98 | 25 | 28 | 168 |

*(a) Includes $12 million, $50 million, $144 million, and $34 million of amortization expense related to purchased credit card relationships, other credit-card related intangibles, core deposit intangibles and other intangibles, respectively, recognized during the first six months ended June 30, 2011.*

## NOTE 18 - DEPOSITS

For further discussion of deposits, see Note 20 on page 101 in JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

At June 30, 2011, and December 31, 2010, noninterest-bearing and interest-bearing deposits were as follows.

| (in millions) | June 30, 2011 | December 31, 2010 |
|---|---|---|
| **U.S. offices:** | | |
| Noninterest-bearing | **$ 290,444** | $ 230,412 |
| Interest-bearing | | |
| Demand[(a)] | **43,498** | 41,640 |
| Savings[(b)] | **350,202** | 334,620 |
| Time (included **$3,520** and $2,691 at fair value)[(c)] | **59,124** | 66,776 |
| **Total interest-bearing deposits** | **452,824** | 443,036 |
| **Total deposits in U.S. offices** | **743,268** | 673,448 |
| **Non-U.S. offices:** | | |
| Noninterest-bearing | **13,562** | 11,002 |
| Interest-bearing | | |
| Demand | **284,620** | 246,119 |
| Savings | **721** | 607 |
| Time (included **$1,233** and $1,636 at fair value)[(c)] | **101,987** | 88,817 |
| **Total interest-bearing deposits** | **387,328** | 335,543 |
| **Total deposits in non-U.S. offices** | **400,890** | 346,545 |
| **Total deposits** | **$ 1,144,158** | $ 1,019,993 |

*(a) Includes Negotiable Order of Withdrawal ("NOW") accounts, and certain trust accounts.*

*(b) Includes Money Market Deposit Accounts ("MMDAs").*

*(c) Includes structured notes classified as deposits for which the fair value option has been elected. For further discussion, see Note 5 on pages 29–31 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.*

## NOTE 19 - OTHER BORROWED FUNDS

The following table details the components of other borrowed funds.

| (in millions) | June 30, 2011 | December 31, 2010 |
|---|---|---|
| **Total other borrowed funds**[(a)(b)(c)] | **$ 21,492** | $ 23,119 |

*(a) Effective January 1, 2011, $4.3 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.*

*(b) Includes other borrowed funds of $8.4 billion and $7.1 billion accounted for at fair value at June 30, 2011, and December 31, 2010, respectively.*

*(c) Includes other borrowed funds of $8.9 billion and $12.0 billion secured by assets totaling $9.1 billion and $12.6 billion at June 30, 2011, and December 31, 2010, respectively.*

As of June 30, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. had no significant lines of credit for general corporate purposes.

## NOTE 20 – RELATED PARTY TRANSACTIONS

JPMorgan Chase Bank, N.A. regularly enters into transactions with JPMorgan Chase and its various subsidiaries.

Significant revenue and expense transactions with related parties are listed below.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (in millions) | **2011** | 2010 | **2011** | 2010 |
| **Interest income from affiliates** | | | | |
| Deposits with affiliated banks | **$ (1)** | $ 2 | **$ 2** | $ 4 |
| Available-for-sale securities with affiliates | **7** | 17 | **17** | 63 |
| Federal funds sold and securities purchased under resale agreements, and securities borrowed with affiliates | **(2)** | 3 | **14** | 8 |
| Loans to affiliates | **16** | 6 | **22** | 12 |
| **Interest expense to affiliates** | | | | |
| Interest-bearing deposits of affiliates | **$ 126** | $ 68 | **$ 229** | $ 132 |
| Federal funds purchased and securities loaned or sold under repurchase agreements, and other borrowed funds due to affiliates | **20** | 36 | **48** | 69 |
| Long-term debt payable to JPMorgan Chase & Co. and affiliates | **97** | 96 | **193** | 196 |
| Guaranteed capital debt securities issued to nonbank affiliates | **12** | 11 | **23** | 23 |
| **Servicing agreements and fee arrangements with affiliates** | | | | |
| Noninterest revenue | **$ 1,419** | $ 1,071 | **$ 2,618** | $ 1,826 |
| Noninterest expense | **1,149** | 1,005 | **2,315** | 1,769 |

Significant balances with related parties are listed below.

| (in millions) | **June 30, 2011** | December 31, 2010 |
|---|---|---|
| **Assets** | | |
| Deposits with affiliated banks | **$ 790** | $ 1,059 |
| Available-for-sale securities with affiliates | **909** | 1,248 |
| Federal funds sold and securities purchased under resale agreements, and securities borrowed with affiliates | **59,336** | 57,932 |
| Loans to affiliates | **3,484** | 2,213 |
| Accrued interest and accounts receivable, and other assets due from affiliates | **14,246** | 17,040 |
| **Liabilities** | | |
| Noninterest-bearing deposits of affiliates | **$ 3,162** | $ 2,158 |
| Interest-bearing deposits of affiliates | **121,040** | 111,158 |
| Federal funds purchased and securities loaned or sold with affiliates under repurchase agreements, and other borrowed funds due to affiliates | **43,639** | 48,204 |
| Accounts payable and other liabilities payable to affiliates | **5,699** | 5,216 |
| Long-term debt payable to JPMorgan Chase & Co. and affiliates | **35,509** | 18,509 |
| Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities to nonbank affiliates | **600** | 600 |

At June 30, 2011, and December 31, 2010, net derivative payables to affiliates were $7.5 billion and $7.3 billion, respectively.

## NOTE 21 – ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

AOCI includes the after-tax change in unrealized gains and losses on AFS securities, foreign currency translation adjustments (including the impact of related derivatives), cash flow hedging activities and net loss and prior service costs/(credit) related to JPMorgan Chase Bank, N.A.'s defined benefit pension and OPEB plans.

| **As of or for the six months ended June 30, 2011 (in millions)** | Unrealized gains/(losses) on AFS securities[b] | Translation adjustments, net of hedges | Cash flow hedges | Net loss and prior service costs/(credit) of defined benefit pension and OPEB plans | Accumulated other comprehensive income/(loss) |
|---|---|---|---|---|---|
| Balance at January 1, 2011 | **$ 2,451** [c] | **$ 390** | **$ 418** | **$ (383)** | **$ 2,876** |
| Net change | **682** [d] | **2** [e] | **(108)** [f] | **(9)** [g] | **567** |
| **Balance at June 30, 2011** | **$ 3,133** [c] | **$ 392** | **$ 310** | **$ (392)** | **$ 3,443** |

| As of or for the six months ended June 30, 2010 (in millions) | Unrealized gains/(losses) on AFS securities[b] | Translation adjustments, net of hedges | Cash flow hedges | Net loss and prior service costs/(credit) of defined benefit pension and OPEB plans | Accumulated other comprehensive income/(loss) |
|---|---|---|---|---|---|
| Balance at January 1, 2010 | $ 1,819 [c] | $ 127 | $ 125 | $ (433) | $ 1,638 |
| Cumulative effect of change in accounting principle[a] | (23) | — | — | — | (23) |
| Net change | 2,340 [d] | (9) [c] | 355 [f] | 50 [g] | 2,736 |
| **Balance at June 30, 2010** | $ 4,136 [c] | $ 118 | $ 480 | $ (383) | $ 4,351 |

(a) *Reflects the effect of adoption of accounting guidance related to the consolidation of VIEs. AOCI decreased by $23 million due to the adoption of the accounting guidance related to VIEs, as a result of the reversal of the fair value adjustments taken on retained AFS securities that were eliminated in consolidation; for further discussion see Note 17 on pages 82–97 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.*

(b) *Represents the after-tax difference between the fair value and amortized cost of securities accounted for as AFS.*

(c) *At June 30, 2011, January 1, 2011, June 30, 2010 and January 1, 2010, included after-tax unrealized losses not related to credit on debt securities for which credit losses have been recognized in income of $(62) million, $(81) million, $(126) million and $(226) million, respectively.*

(d) *The net change for the six months ended June 30, 2011, was 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 realization of gains due to portfolio repositioning. The net change for the six months ended June 30, 2010, was due primarily to the narrowing of spreads on mortgage-backed securities and CLOs, partially offset by declines in non-U.S. government debt and realization of gains due to portfolio repositioning.*

(e) *The net change for the six months ended June 30, 2011, and 2010, included after-tax gains/(losses) on foreign currency translation from operations for which the functional currency is other than the U.S. dollar of $357 million and $(311) million, respectively, partially offset by after-tax gains/(losses) on hedges of $(355) million and $302 million, respectively. JPMorgan Chase Bank, N.A. may not hedge its entire exposure to foreign currency translation on net investments in foreign operations.*

(f) *The net change for the six months ended June 30, 2011, included $176 million of after-tax gains recognized in income, and $68 million of after-tax gains, representing the net change in derivative fair value that was reported in comprehensive income. The net change for the six months ended June 30, 2010, included $2 million of after-tax gains recognized in income and $357 million of after-tax gains, representing the net change in derivative fair value that was reported in comprehensive income.*

(g) *The net changes for the six months ended June 30, 2011 and 2010, were due to after-tax adjustments based on the final year-end actuarial valuations for the U.S. and non-U.S. defined benefit pension and OPEB plans (for 2010 and 2009, respectively); and the amortization of net loss and prior service credit into net periodic benefit cost.*

## NOTE 22 – CAPITAL

JPMorgan Chase Bank, N.A.'s banking regulator, the OCC, establishes capital requirements, including well-capitalized standards, for national banks. The "well-capitalized" and minimum capital and leverage ratios applicable to JPMorgan Chase Bank, N.A. under U.S. banking regulatory agency definitions are listed in the table below.

For additional information regarding JPMorgan Chase Bank, N.A.'s capital ratios and the federal regulatory capital standards to which it is subject, see Note 27 on pages 108–109 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements. As of June 30, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. was well-capitalized and met all capital requirements to which it was subject.

The following table presents the regulatory capital, assets and risk-based capital ratios for JPMorgan Chase Bank, N.A. at June 30, 2011, and December 31, 2010. These amounts are determined in accordance with regulations issued by the OCC and/or the Board of Governors of the Federal Reserve System (the "Federal Reserve").

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| (in millions, except ratios) | **June 30, 2011** | Dec. 31, 2010 | Well-capitalized ratios[g] | Minimum capital ratios[g] |
|---|---|---|---|---|
| **Regulatory capital** | | | | |
| Tier 1 | **$ 93,498** | $ 91,764 | | |
| Total | **131,537** | 130,444 | | |
| **Assets** | | | | |
| Risk-weighted[a][b] | **1,003,568** | 965,897 | | |
| Adjusted average[c] | **1,701,794** | 1,611,486 | | |
| **Capital ratios** | | | | |
| Tier 1[d] | **9.3%** | 9.5% | 6.0% | 4.0% |
| Total[e] | **13.1** | 13.5 | 10.0 | 8.0 |
| Tier 1 leverage[f] | **5.5** | 5.7 | 5.0 [h] | 3.0 [i] |

*(a) 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 incorporate a measure for the market risk related to applicable trading assets–debt and equity instruments, and foreign exchange and commodity derivatives. The resulting risk-weighted values for each of the risk categories are then aggregated to determine total RWA.*

*(b) At June 30, 2011, and December 31, 2010, includes off–balance sheet RWA of $287.5 billion and $274.2 billion, respectively.*

*(c) 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.*

*(d) Tier 1 capital ratio is Tier 1 capital divided by RWA. Tier 1 capital consists of common stockholder's equity, perpetual preferred stock, noncontrolling interests in subsidiaries and trust preferred capital debt securities, less goodwill and certain other adjustments.*

*(e) 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.*

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

*(g) As defined by the regulations issued by the OCC, the Federal Deposit Insurance Corporation ("FDIC") and Federal Reserve.*

*(h) Represents requirements for banking subsidiaries pursuant to regulations issued under the FDIC Improvement Act.*

*(i) 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 OCC and the Federal Reserve.*

*Note: Rating agencies allow 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 June 30, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. had deferred tax liabilities resulting from nontaxable business combinations totaling $397 million and $458 million, respectively; and deferred tax liabilities resulting from tax-deductible goodwill of $1.0 billion and $958 million, respectively.*

A reconciliation of Total stockholder's equity to Tier 1 capital and Total qualifying capital is presented in the table below.

| (in millions) | June 30, 2011 | December 31, 2010 |
|---|---|---|
| **Total stockholder's equity** | **$ 125,374** | $ 123,217 |
| Effect of certain items in accumulated other comprehensive (income)/loss excluded from Tier 1 equity | **(3,051)** | (2,486) |
| Qualifying hybrid securities and noncontrolling interests[(a)] | **784** | 783 |
| Less: Goodwill[(b)] | **26,392** | 26,389 |
| Fair value DVA on derivative and structured note liabilities related to JPMorgan Chase Bank, N.A.'s credit quality | **964** | 881 |
| Investments in certain subsidiaries and other | **7** | 1 |
| Other intangible assets[(b)] | **2,246** | 2,479 |
| **Total Tier 1 capital** | **93,498** | 91,764 |
| Long-term debt and other instruments qualifying as Tier 2 | **25,310** | 26,415 |
| Qualifying allowance for credit losses | **12,681** | 12,230 |
| Adjustment for investments in certain subsidiaries and other | **48** | 35 |
| **Total Tier 2 capital** | **38,039** | 38,680 |
| **Total qualifying capital** | **$ 131,537** | $ 130,444 |

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

## NOTE 23 – OFF-BALANCE SHEET LENDING-RELATED FINANCIAL INSTRUMENTS, GUARANTEES AND OTHER COMMITMENTS

JPMorgan Chase Bank, N.A. 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 JPMorgan Chase Bank, N.A. should the counterparty draw upon the commitment or JPMorgan Chase Bank, N.A. 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 JPMorgan Chase Bank, N.A.'s view, representative of its actual future credit exposure or funding requirements. For a discussion of off-balance sheet lending-related financial instruments and guarantees, and JPMorgan Chase Bank, N.A.'s related accounting policies, see Note 28 on pages 109–115 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

To provide for the risk of loss inherent in wholesale and consumer (excluding credit card) contracts, an allowance for credit losses on lending-related commitments is maintained. See Note 15 on pages 59–60 of these Consolidated Financial Statements for further discussion regarding the allowance for credit losses on lending-related commitments.

The following table summarizes the contractual amounts and carrying values of off-balance sheet lending-related financial instruments, guarantees and other commitments at June 30, 2011, and December 31, 2010. The amounts in the table below for credit card and home equity lending-related commitments represent the total available credit for these products. JPMorgan Chase Bank, N.A. has not experienced, and does not anticipate, that all available lines of credit for these products will be utilized at the same time. JPMorgan Chase Bank, N.A. can reduce or cancel credit card lines of credit by providing the borrower notice or, in some cases, without notice as permitted by law. JPMorgan Chase Bank, N.A. 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.

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

| (in millions) | Contractual amount June 30, 2011 | Contractual amount December 31, 2010 | Carrying value[k] June 30, 2011 | Carrying value[k] December 31, 2010 |
|---|---|---|---|---|
| **Lending-related** | | | | |
| Consumer, excluding credit card: | | | | |
| Home equity – senior lien | **$ 14,685** | $ 15,135 | **$ —** | $ — |
| Home equity – junior lien | **25,887** | 27,910 | **—** | — |
| Prime mortgage | **1,117** | 1,266 | **—** | — |
| Subprime mortgage | **—** | — | **—** | — |
| Auto | **6,795** | 5,246 | **1** | 2 |
| Business banking | **10,046** | 9,702 | **5** | 4 |
| Student and other | **757** | 579 | **—** | — |
| **Total consumer, excluding credit card** | **59,287** | 59,838 | **6** | 6 |
| Credit card | **27,062** | 19,506 | **—** | — |
| **Total consumer** | **86,349** | 79,344 | **6** | 6 |
| Wholesale: | | | | |
| Other unfunded commitments to extend credit[(a)(b)(c)] | **209,061** | 199,604 | **288** | 348 |
| Standby letters of credit and other financial guarantees[(a)(c)(d)(e)] | **96,400** | 94,282 | **675** | 695 |
| Unused advised lines of credit | **52,088** | 44,232 | **—** | — |
| Other letters of credit[(a)(e)] | **5,768** | 6,663 | **2** | 2 |
| **Total wholesale** | **363,317** | 344,781 | **965** | 1,045 |
| **Total lending-related** | **$ 449,666** | $ 424,125 | **$ 971** | $ 1,051 |
| **Other guarantees and commitments** | | | | |
| Securities lending indemnifications[(f)] | **$ 214,039** | $ 193,701 | **NA** | NA |
| Derivatives qualifying as guarantees[(g)] | **84,074** | 87,749 | **$ 321** | $ 295 |
| Unsettled reverse repurchase and securities borrowing agreements[(h)] | **47,833** | 32,332 | **—** | — |
| Other guarantees and commitments[(i)] | **4,847** | 4,993 | **(6)** | (6) |
| Loan sale and securitization-related indemnifications: | | | | |
| Repurchase liability[(j)] | **NA** | NA | **3,251** | 3,000 |
| Loans sold with recourse | **9,846** | 10,162 | **139** | 147 |

*(a) At June 30, 2011, and December 31, 2010, represented the contractual amount net of risk participations totaling $503 million and $437 million, respectively, for other unfunded commitments to extend credit; $22.3 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 June 30, 2011, and December 31, 2010, included commitments to affiliates of $24 million and $70 million, respectively.*

*(c) At June 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 $46.4 billion and $43.4 billion, respectively. These commitments also include liquidity facilities to nonconsolidated municipal bond VIEs; for further information, see Note 16 on pages 61–69 of these Consolidated Financial Statements.*

*(d) At June 30, 2011, and December 31, 2010, included unissued standby letters of credit commitments of $41.7 billion and $41.4 billion, respectively.*

*(e) At June 30, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. held collateral relating to $39.2 billion and $37.7 billion, respectively, of standby letters of credit; and $1.7 billion and $2.1 billion, respectively, of other letters of credit.*

*(f) At June 30, 2011, and December 31, 2010, collateral held by JPMorgan Chase Bank, N.A. in support of securities lending indemnification agreements was $215.9 billion and $196.2 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.*

*(g) Represents notional amounts of derivatives qualifying as guarantees. The carrying value at June 30, 2011, and December 31, 2010, reflected derivative payables of $420 million and $390 million, respectively, less derivative receivables of $99 million and $95 million, respectively.*

*(h) At June 30, 2011, and December 31, 2010, the amount of commitments related to forward starting reverse repurchase agreements and securities borrowing agreements were $2.6 billion and $6.8 billion, respectively. Commitments related to unsettled reverse repurchase agreements and securities borrowing agreements with regular way settlement periods were $45.3 billion and $25.5 billion, at June 30, 2011, and December 31, 2010, respectively.*

*(i) At June 30, 2011, and December 31, 2010 included unfunded equity investment commitments of $999 million and $969 million, respectively. These commitments included $33 million and $36 million, respectively, related to investments that are generally fair valued at net asset value as discussed in Note 4 on pages 9–21 of these Consolidated Financial Statements. In addition, at June 30, 2011, and December 31, 2010, included letters of credit hedged by derivative transactions and managed on a market risk basis of $3.8 billion and $3.8 billion, respectively.*

*(j) Represents estimated repurchase liability related to indemnifications for breaches of representations and warranties in loan sale and securitization agreements. For additional information, see Loan sale and securitization-related indemnifications on pages 80–81 of this Note.*

*(k) For lending-related products, the carrying value represents the allowance for lending-related commitments and the guarantee liability, for derivative-related products, the carrying value represents the fair value. For all other products the carrying value represents the valuation reserve.*

**Other unfunded commitments to extend credit**

Other unfunded commitments to extend credit generally comprise commitments for working capital and general corporate purposes, as well as extensions of credit to support commercial paper facilities and bond financings in the event that those obligations cannot be remarketed to new investors.

Also included in other unfunded commitments to extend credit are commitments to noninvestment-grade counterparties in connection with leveraged and acquisition finance activities, which were $7.0 billion and $5.8 billion at June 30, 2011, and December 31, 2010, respectively. For further information, see Note 4 and Note 5 on pages 9–21 and 22–24 respectively, of these Consolidated Financial Statements.

**Guarantees**

JPMorgan Chase Bank, N.A. considers the following off-balance sheet lending-related arrangements to be guarantees under U.S. GAAP: standby letters of credit and financial guarantees, securities lending indemnifications, certain indemnification agreements included within third-party contractual arrangements and certain derivative contracts. For a further discussion of the off-balance sheet lending-related arrangements JPMorgan Chase Bank, N.A. considers to be guarantees, and the related accounting policies, see Note 28 on pages 109–115 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements. The recorded amounts of the liabilities related to guarantees and indemnifications at June 30, 2011, and December 31, 2010, excluding the allowance for credit losses on lending-related commitments are discussed on pages 79–81 of this Note.

*Standby letters of credit*

Standby letters of credit ("SBLC") and other financial guarantees are conditional lending commitments issued by JPMorgan Chase Bank, N.A. to guarantee the performance of a customer to a third party under certain arrangements, such as commercial paper facilities, bond financings, acquisition financings, trade and similar transactions. The carrying values of standby and other letters of credit were $677 million and $697 million at June 30, 2011, and December 31, 2010, respectively, which were classified in accounts payable and other liabilities on the Consolidated Balance Sheets; these carrying values included $305 million and $337 million, respectively, for the allowance for lending-related commitments, and $372 million and $360 million, respectively, for the guarantee liability and corresponding asset.

The following table summarizes the types of facilities under which standby letters of credit and other letters of credit arrangements are outstanding by the ratings profiles of JPMorgan Chase Bank, N.A.'s customers, as of June 30, 2011, and December 31, 2010.

**Standby letters of credit and other financial guarantees and other letters of credit**

| | **June 30, 2011** | | December 31, 2010 | |
|---|---|---|---|---|
| (in millions) | Standby letters of credit and other financial guarantees | Other letters of credit | Standby letters of credit and other financial guarantees | Other letters of credit |
| Investment-grade[(a)] | **$ 73,623** | **$ 4,399** | $ 69,759 | $ 5,289 |
| Noninvestment-grade[(a)] | **22,777** | **1,369** | 24,523 | 1,374 |
| **Total contractual amount[(b)]** | **$ 96,400** [(c)] | **$ 5,768** | $ 94,282 [(c)] | $ 6,663 |
| Allowance for lending-related commitments | **$ 303** | **$ 2** | $ 335 | $ 2 |
| Commitments with collateral | **39,244** | **1,748** | 37,749 | 2,127 |

*(a) The ratings scale is based on JPMorgan Chase Bank, N.A.'s internal ratings which generally correspond to ratings as defined by S&P and Moody's.*

*(b) At June 30, 2011, and December 31, 2010, represented the contractual amount net of risk participations totaling $22.3 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.*

*(c) At June 30, 2011, and December 31, 2010, included unissued standby letters of credit commitments of $41.7 billion and $41.4 billion, respectively.*

*Derivatives qualifying as guarantees*

In addition to the contracts described above, JPMorgan Chase Bank, N.A. transacts certain derivative contracts that meet the characteristics of a guarantee under U.S. GAAP. For further information on these derivatives, see Note 28 on pages 109–115 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements. The total notional value of the derivatives that JPMorgan Chase Bank, N.A. deems to be guarantees was $84.1 billion and $87.7 billion at June 30, 2011, and December 31, 2010, respectively. The notional amount generally represents JPMorgan Chase Bank, N.A.'s maximum exposure to derivatives qualifying as guarantees. However, exposure to certain stable value contracts is contractually limited to a substantially lower percentage of the notional amount; the notional amount on these stable value contracts was $26.2 billion and $25.9 billion and the maximum exposure to loss was $2.8 billion and $2.7 billion at June 30, 2011, and December 31, 2010, respectively. The fair values of the contracts reflects the probability of whether JPMorgan Chase Bank, N.A. will be required to perform under the contract. The fair value related to derivatives that JPMorgan Chase Bank, N.A. deems to be guarantees were derivative payables of $420 million and $390 million and derivative receivables of $99 million and $95 million at June 30, 2011, and December 31, 2010, respectively. JPMorgan Chase Bank, N.A. reduces exposures to these contracts by entering into offsetting transactions, or by entering into contracts that hedge the market risk related to the derivative guarantees.

In addition to derivative contracts that meet the characteristics of a guarantee, JPMorgan Chase Bank, N.A. is both a purchaser and seller of credit protection in the credit derivatives market. For a further discussion of credit derivatives, see Note 6 on pages 25–32 of these Consolidated Financial Statements, and Note 7 on pages 34-41 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

**Loan sale- and securitization-related indemnifications**

*Indemnifications for breaches of representations and warranties*

In connection with JPMorgan Chase Bank, N.A.'s loan sale and securitization activities with the U.S. government-sponsored entities ("GSEs") and other loan sale and private–label securitization transactions, as described in Notes 14 and 16 on pages 44–58 and 61–69, respectively, of these Consolidated Financial Statements, and Notes 15 and 17 on pages 58–76 and 82–97, respectively of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements, JPMorgan Chase Bank, N.A. has made representations and warranties that the loans sold meet certain requirements. JPMorgan Chase Bank, N.A. 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; however, predominantly all of the repurchase demands received by JPMorgan Chase Bank, N.A. and JPMorgan Chase Bank, N.A.'s losses realized to date are related to loans sold to the GSEs.

JPMorgan Chase Bank, N.A. has recognized a repurchase liability of $3.3 billion and $3.0 billion, as of June 30, 2011, and December 31, 2010, respectively, which is reported in accounts payable and other liabilities net of probable recoveries from third parties.

Substantially all of the estimates and assumptions underlying JPMorgan Chase Bank, N.A.'s established methodology for computing its recorded repurchase liability – including factors such as the amount of probable future demands from purchasers, the ability of JPMorgan Chase Bank, N.A. 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 limited and rapidly changing historical data and uncertainty surrounding numerous external factors, including: (i) macro-economic factors and (ii) the level of future demands, which is dependent, in part, on actions taken by third parties such as the GSEs and mortgage insurers.

While JPMorgan Chase Bank, N.A. uses the best information available to it in estimating its repurchase liability, the estimation process is inherently uncertain and imprecise and, accordingly, losses in excess of the amounts accrued as of June 30, 2011, are reasonably possible. JPMorgan Chase Bank, N.A. believes the estimate of the range of reasonably possible losses, in excess of its established repurchase liability, is from $0 to approximately $2.1 billion at June 30, 2011. This estimated range of reasonably possible loss considers JPMorgan Chase Bank, N.A.'s GSE-related exposure based on an assumed peak to trough decline in home prices of 45%, which is an additional 11 percentage point decline in home prices beyond JPMorgan Chase Bank, N.A.'s current assumptions, which were derived from a nationally recognized home price index. Although JPMorgan Chase Bank, N.A. does not consider such further decline in home prices to be likely to occur, such a decline could increase the level of loan delinquencies, thereby potentially increasing the repurchase demand rate from the GSEs and increasing loss severity on repurchased loans, each of which could affect JPMorgan Chase Bank, N.A.'s repurchase liability. Claims related to private-label securitizations have, thus far, generally manifested themselves through securities-related litigation, which JPMorgan Chase Bank, N.A. has considered with other litigation matters as discussed in Note 25 on pages 81–89 of these Consolidated Financial Statements. Actual repurchase losses could vary significantly from JPMorgan Chase Bank, N.A.'s recorded repurchase liability or this estimate of reasonably possible additional losses, depending on the outcome of various factors, including those considered above.

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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (in millions) | **2011** | 2010 | **2011** | 2010 |
| Repurchase liability at beginning of period | **$ 3,227** | $ 1,642 | **$ 3,000** | $ 1,449 |
| Realized losses[(a)] | **(219)** | (312) | **(435)** | (551) |
| Provision for repurchase losses | **243** | 667 | **686** | 1,099 |
| **Repurchase liability at end of period** | **$ 3,251** | $ 1,997 | **$ 3,251** | $ 1,997 |

*(a) Includes principal losses and accrued interest on repurchased loans, "make-whole" settlements, settlements with claimants, and certain related expenses. Make-whole settlements were $118 million and $145 million for the three months ended June 30, 2011 and 2010, respectively, and $230 million and $243 million for the six months ended June 30, 2011 and 2010, respectively.*

*Loans sold with recourse*
JPMorgan Chase Bank, N.A. provides servicing for mortgages and certain commercial lending products on both a recourse and nonrecourse basis. In nonrecourse servicing, the principal credit risk to JPMorgan Chase Bank, N.A. is the cost of temporary servicing advances of funds (i.e., normal servicing advances). In recourse servicing, the servicer agrees to share credit risk with the owner of the mortgage loans, such as Fannie Mae or Freddie Mac or a private investor, insurer or guarantor. Losses on recourse servicing predominantly occur when foreclosure sales proceeds of the property underlying a defaulted loan are less than the sum of the outstanding principal balance, plus accrued interest on the loan and the cost of holding and disposing of the underlying property. JPMorgan Chase Bank, N.A.'s securitizations are predominantly nonrecourse, thereby effectively transferring the risk of future credit losses to the purchaser of the mortgage-backed securities issued by the trust. At June 30, 2011, and December 31, 2010, the unpaid principal balance of loans sold with recourse totaled $9.8 billion and $10.2 billion, respectively. The carrying value of the related liability that JPMorgan Chase Bank, N.A. has recorded, which is representative of JPMorgan Chase Bank, N.A.'s view of the likelihood it will have to perform under its recourse obligations was $139 million and $147 million at June 30, 2011, and December 31, 2010, respectively.

## NOTE 24 – PLEDGED ASSETS AND COLLATERAL

For a discussion of JPMorgan Chase Bank, N.A.'s pledged assets and collateral, see Note 29 on page 115 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

**Pledged assets**
At June 30, 2011, assets were pledged to collateralize repurchase agreements, other securities financing agreements, derivative transactions and for other purposes, including to secure borrowings and public deposits. Certain of these pledged assets may be sold or repledged by the secured parties and are identified as financial instruments owned (pledged to various parties) on the Consolidated Balance Sheets. In addition, at June 30, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. had pledged $205.0 billion and $193.2 billion, respectively, of financial instruments it owns that may not be sold or repledged by the secured parties. Total assets pledged do not include assets of consolidated VIEs; these assets are used to settle the liabilities of those entities. See Note 16 on pages 61–69 of these Consolidated Financial Statements, and Note 17 on pages 82–97 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements, for additional information on assets and liabilities of consolidated VIEs. For further information regarding pledged assets, see Note 29 on page 115 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

**Collateral**
At June 30, 2011, and December 31, 2010, JPMorgan Chase Bank N.A. had accepted assets as collateral that it could sell or repledge, deliver or otherwise use with a fair value of approximately $401.4 billion and $360.8 billion, respectively. This collateral was generally obtained under resale agreements, securities borrowing agreements, customer margin loans and derivative agreements. Of the collateral received, approximately $305.4 billion and $296.1 billion, respectively, were sold or repledged, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales and to collateralize deposits and derivative agreements. For further information regarding collateral, see Note 29 on page 115 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

## NOTE 25 - LITIGATION

**Contingencies**
As of June 30, 2011, JPMorgan Chase Bank, N.A. and its subsidiaries are defendants or putative defendants in thousands of legal proceedings, in the form of regulatory/government investigations as well as private, civil litigations. The litigations range from individual actions involving a single plaintiff to class action lawsuits with potentially millions of class members. Investigations involve both formal and informal proceedings, by both governmental agencies and self-regulatory organizations. These legal proceedings are at varying stages of adjudication, arbitration or investigation, and involve each of JPMorgan Chase Bank, N.A.'s various businesses and geographies and a wide variety of claims (including common law tort and contract claims and statutory antitrust, securities and consumer protection claims), some of which present novel legal theories.

Estimates of reasonably possible losses for legal proceedings are analyzed and managed at the JPMorgan Chase level and not at the subsidiary level (i.e., JPMorgan Chase Bank, N.A.). JPMorgan Chase believes the estimate of the aggregate range of reasonably possible losses, in excess of reserves established, for JPMorgan Chase's aggregate legal proceedings is from $0 to approximately $5.1 billion at June 30, 2011. This estimated aggregate range of reasonably possible losses is based upon currently available information for those proceedings in which JPMorgan Chase is involved, taking into account JPMorgan Chase's best estimate of such losses for those cases for which such estimate can be made. For certain cases, JPMorgan Chase does not believe that an estimate can currently be made. JPMorgan Chase's estimate involves significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants (including JPMorgan Chase or one or more of its subsidiaries, including JPMorgan Chase Bank, N.A.) in many of such proceedings whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the proceedings (including issues regarding class certification and the scope of many of the claims), and the attendant uncertainty of the various potential outcomes of such proceedings. Accordingly, JPMorgan Chase's estimate will change from time to time, and actual losses may be more than

the current estimate.

Set forth below are descriptions of material legal proceedings in which JPMorgan Chase and its subsidiaries (including JPMorgan Chase Bank, N.A.) is involved or has been named as a party.

*Auction-Rate Securities Investigations and Litigation.* Beginning in March 2008, several regulatory authorities initiated investigations of a number of industry participants, including JPMorgan Chase, concerning possible state and federal securities law violations in connection with the sale of auction-rate securities. The market for many such securities had frozen and a significant number of auctions for those securities began to fail in February 2008.

JPMorgan Chase, on behalf of itself and affiliates, agreed to a settlement in principle with the New York Attorney General's Office which provided, among other things, that JPMorgan Chase would offer to purchase at par certain auction-rate securities purchased from J.P. Morgan Securities LLC ("JPMorgan Securities"; formerly J.P. Morgan Securities Inc.), Chase Investment Services Corp. and Bear, Stearns & Co. Inc. by individual investors, charities and small- to medium-sized businesses. JPMorgan Chase also agreed to a substantively similar settlement in principle with the Office of Financial Regulation for the State of Florida and the North American Securities Administrators Association ("NASAA") Task Force, which agreed to recommend approval of the settlement to all remaining states, Puerto Rico and the U.S. Virgin Islands. JPMorgan Chase has finalized the settlement agreements with the New York Attorney General's Office and the Office of Financial Regulation for the State of Florida. The settlement agreements provide for the payment of penalties totaling $25 million to all states. JPMorgan Chase is currently in the process of finalizing consent agreements with NASAA's member states; more than 45 of these consent agreements have been finalized to date.

JPMorgan Chase also faces a number of civil actions relating to JPMorgan Chase's sales of auction-rate securities, including a putative securities class action in the United States District Court for the Southern District of New York that seeks unspecified damages, and individual arbitrations and lawsuits in various forums brought by institutional and individual investors that, together, seek damages totaling more than $200 million relating to JPMorgan Chase's sales of auction-rate securities. One action is brought by an issuer of auction-rate securities. The actions generally allege that JPMorgan Chase and other firms manipulated the market for auction-rate securities by placing bids at auctions that affected these securities' clearing rates or otherwise supported the auctions without properly disclosing these activities. Some actions also allege that JPMorgan Chase misrepresented that auction-rate securities were short-term instruments. JPMorgan Chase has filed motions to dismiss each of the actions pending in federal court, which are being coordinated before the federal District Court in New York. These motions are currently pending.

Additionally, JPMorgan Chase was named in two putative antitrust class actions also pending in the federal District Court in New York. The actions allege that JPMorgan Chase, along with numerous other financial institution defendants, colluded to maintain and stabilize the auction-rate securities market and then to withdraw their support for the auction-rate securities market. In January 2010, the District Court dismissed both actions. An appeal is pending in the United States Court of Appeals for the Second Circuit.

*Bear Stearns Hedge Fund Matters.* Bear Stearns, certain current or former subsidiaries of Bear Stearns, including Bear Stearns Asset Management, Inc. ("BSAM") and Bear, Stearns & Co. Inc., and certain individuals formerly employed by Bear Stearns are named defendants (collectively the "Bear Stearns defendants") in multiple civil actions and arbitrations relating to alleged losses resulting from the failure of the Bear Stearns High Grade Structured Credit Strategies Master Fund, Ltd. (the "High Grade Fund") and the Bear Stearns High Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd. (the "Enhanced Leverage Fund") (collectively, the "Funds"). BSAM served as investment manager for both of the Funds, which were organized such that there were U.S. and Cayman Islands "feeder funds" that invested substantially all their assets, directly or indirectly, in the Funds. The Funds are in liquidation.

There are currently four civil actions pending in the United States District Court for the Southern District of New York relating to the Funds. Two of these actions involve derivative lawsuits brought on behalf of purchasers of partnership interests in the two U.S. feeder funds, alleging that the Bear Stearns defendants mismanaged the Funds and made material misrepresentations to and/or withheld information from investors in the feeder funds. These actions seek, among other things, unspecified compensatory damages based on alleged investor losses. The third action, brought by the Joint Voluntary Liquidators of the Cayman Islands feeder funds, makes allegations similar to those asserted in the derivative lawsuits related to the U.S. feeder funds, and seeks compensatory and punitive damages. Motions to dismiss in these three cases have been granted in part and denied in part. An agreement in principle has been reached, pursuant to which BSAM would pay a maximum of approximately $19 million to settle the one derivative action relating to the feeder fund to the High Grade Fund. BSAM has reserved the right not to proceed with this settlement if plaintiff is unable to secure the participation of investors whose net contributions meet a prescribed percentage of the aggregate net contributions to the High Grade Fund. The agreement in principle remains subject to documentation and approval by the Court. In the other two actions, the parties are engaging in Court-ordered settlement discussions. Discovery has been limited for the duration of that process. Total alleged losses in these three actions exceed $1 billion.

The fourth action was brought by Bank of America and Banc of America Securities LLC (together "BofA") alleging breach of contract and fraud in connection with a May 2007 $4 billion securitization, known as a "CDO-squared," for which BSAM served as collateral manager. This securitization was composed of certain collateralized debt obligation holdings that were purchased by BofA from the Funds. Bank of America seeks in excess of $3 billion in damages. Defendants' motion to dismiss in this action was largely denied, an amended complaint was filed and discovery is ongoing.

*Bear Stearns Shareholder Litigation and Related Matters.* Various shareholders of Bear Stearns have commenced purported class actions against Bear Stearns and certain of its former officers and/or directors on behalf of all persons who purchased or otherwise acquired common stock of Bear Stearns between December 14, 2006, and March 14, 2008 (the "Class Period"). During the Class Period, Bear Stearns had between 115 million and 120 million common shares outstanding, and the price per share of those securities declined from a high of $172.61 to a low of $30 at the end of the period. The actions, originally commenced in several federal courts, allege that the defendants issued materially false and misleading statements regarding Bear Stearns' business and financial results and that, as a result of those false statements, Bear Stearns' common stock traded at artificially inflated prices during the Class Period. Separately, several individual shareholders of Bear Stearns have commenced or threatened to commence arbitration proceedings and lawsuits asserting claims similar to those in the putative class actions. Certain of these matters have been dismissed or settled. In addition, Bear Stearns and certain of its former officers and/or directors have also been named as defendants in a number of purported class actions commenced in the United States District Court for the Southern District of New York seeking to represent the interests of participants in the Bear Stearns Employee Stock Ownership Plan ("ESOP") during the time period of December 2006 to March 2008. These actions, brought under the Employee Retirement Income Security Act ("ERISA"), allege that defendants breached their fiduciary duties to plaintiffs and to the other participants and beneficiaries of the ESOP by (a) failing to manage prudently the ESOP's investment in Bear Stearns securities; (b) failing to communicate fully and accurately about the risks of the ESOP's investment in Bear Stearns stock; (c) failing to avoid or address alleged conflicts of interest; and (d) failing to monitor those who managed and administered the ESOP.

Bear Stearns, former members of Bear Stearns' Board of Directors and certain of Bear Stearns' former executive officers have also been named as defendants in a shareholder derivative and class action suit which is pending in the United States District Court for the Southern District of New York. Plaintiffs assert claims for breach of fiduciary duty, violations of federal securities laws, waste of corporate assets and gross mismanagement, unjust enrichment, abuse of control and indemnification and contribution in connection with the losses sustained by Bear Stearns as a result of its purchases of subprime loans and certain repurchases of its own common stock. Certain individual defendants are also alleged to have sold their holdings of Bear Stearns common stock while in possession of material nonpublic information. Plaintiffs seek compensatory damages in an unspecified amount.

All of the above-described actions filed in federal courts were ordered transferred and joined for pre-trial purposes before the United States District Court for the Southern District of New York. Defendants moved to dismiss the purported securities class action, the shareholders' derivative action and the ERISA action. In January 2011, the District Court granted the motions to dismiss the derivative and ERISA actions, and denied the motion as to the securities action. Plaintiffs in the derivative action have filed a motion for reconsideration of the dismissal as well as an appeal. Plaintiffs in the ESOP action have filed a motion to alter the judgment and for leave to amend their amended consolidated complaint. Discovery is ongoing in the securities action.

*City of Milan Litigation and Criminal Investigation.* In January 2009, the City of Milan, Italy (the "City") issued civil proceedings against (among others) JPMorgan Chase Bank, N.A. and J.P. Morgan Securities Ltd. (together, "JPMorgan Chase") in the District Court of Milan. The proceedings relate to (a) a bond issue by the City in June 2005 (the "Bond"), and (b) an associated swap transaction, which was subsequently restructured on a number of occasions between 2005 and 2007 (the "Swap"). The City seeks damages and/or other remedies against JPMorgan Chase (among others) on the grounds of alleged "fraudulent and deceitful acts" and alleged breach of advisory obligations in connection with the Swap and the Bond, together with related swap transactions with other counterparties. The judge has directed four current and former JPMorgan Chase personnel and JPMorgan Chase Bank, N.A. (as well as other individuals and three other banks) to go forward to a full trial that started in May 2010. Although JPMorgan Chase is not charged with any crime and does not face criminal liability, if one or more of its employees were found guilty, JPMorgan Chase could be subject to administrative sanctions, including restrictions on its ability to conduct business in Italy and monetary penalties. Hearings have continued on a weekly basis since May 2010.

*Enron Litigation.* JPMorgan Chase and certain of its officers and directors are involved in several lawsuits seeking damages arising out of JPMorgan Chase's banking relationships with Enron Corp. and its subsidiaries ("Enron"). A number of actions and other proceedings against JPMorgan Chase previously were resolved, including a class action lawsuit captioned Newby v. Enron Corp. and adversary proceedings brought by Enron's bankruptcy estate. The remaining Enron-related actions include individual actions by Enron investors, an action by an Enron counterparty, and a purported class action filed on behalf of JPMorgan Chase employees who participated in JPMorgan Chase's 401(k) plan asserting claims under the ERISA for alleged breaches of fiduciary duties by JPMorgan Chase, its directors and named officers. That action has been dismissed, and is on appeal to the United States Court of Appeals for the Second Circuit.

*Interchange Litigation.* A group of merchants has filed a series of putative class action complaints in several federal courts. The complaints allege that Visa and MasterCard, as well as certain other banks and their respective bank holding companies, conspired to set the price of credit and debit card interchange fees, enacted respective association rules in violation of antitrust laws, and engaged in tying/bundling and exclusive dealing. The complaint seeks unspecified damages and injunctive relief based on the theory that interchange would be lower or eliminated but for the challenged conduct. Based on publicly available estimates, Visa and MasterCard branded payment cards generated approximately $40 billion of interchange fees industry-wide in 2009. All cases have been consolidated in the United States District Court for the Eastern District of New York for pretrial proceedings. The Court has dismissed all claims relating to periods prior to January 2004. The Court has not yet ruled on motions relating to the remainder

of the case or plaintiffs' class certification motion. Fact and expert discovery have closed.

In addition to the consolidated class action complaint, plaintiffs filed supplemental complaints challenging the initial public offerings ("IPOs") of MasterCard and Visa (the "IPO Complaints"). With respect to the MasterCard IPO, plaintiffs allege that the offering violated Section 7 of the Clayton Act and Section 1 of the Sherman Act and that the offering was a fraudulent conveyance. With respect to the Visa IPO, plaintiffs are challenging the Visa IPO on antitrust theories parallel to those articulated in the MasterCard IPO pleading. Defendants have filed motions to dismiss the IPO Complaints. The Court has not yet ruled on those motions.

The parties also have filed motions seeking summary judgment as to various claims in the complaints.

*Investment Management Litigation.* Four cases have been filed claiming that investment portfolios managed by JPMorgan Investment Management Inc. ("JPMorgan Investment Management") were inappropriately invested in securities backed by subprime residential real estate collateral. Plaintiffs claim that JPMorgan Investment Management and related defendants are liable for losses of more than $1 billion in market value of these securities. The first case was filed by NM Homes One, Inc. in federal District Court in New York. Following rulings on motions addressed to the pleadings, plaintiff's claims for breach of contract, breach of fiduciary duty, negligence and gross negligence survive, and discovery is proceeding. In the second case, which was filed by Assured Guaranty (U.K.) in New York state court, the New York State Appellate Division allowed plaintiff to proceed with its claims for breach of fiduciary duty and gross negligence, and for breach of contract based on alleged violations of the Delaware Insurance Code. JPMorgan Investment Management's appeal is pending in the New York State Court of Appeals. Discovery is also proceeding. In the third case, filed by Ambac Assurance UK Limited in New York state court, the lower court granted JPMorgan Investment Management's motion to dismiss. The New York State Appellate Division reversed the lower court's decision and is allowing plaintiff to proceed with its claims. The fourth case was filed by CMMF LLP in New York state court. The amended complaint asserts claims under New York law for breach of fiduciary duty, gross negligence, breach of contract and negligent misrepresentation. The lower court denied in part defendants' motion to dismiss and discovery is proceeding.

*Lehman Brothers Bankruptcy Proceedings.* In May 2010, Lehman Brothers Holdings Inc. ("LBHI") and its Official Committee of Unsecured Creditors filed a complaint (and later an amended complaint) against JPMorgan Chase Bank, N.A. in the United States Bankruptcy Court for the Southern District of New York that asserts both federal bankruptcy law and state common law claims, and seeks, among other relief, to recover $8.6 billion in collateral that was transferred to JPMorgan Chase Bank, N.A. in the weeks preceding LBHI's bankruptcy. The amended complaint also seeks unspecified damages on the grounds that JPMorgan Chase Bank, N.A.'s collateral requests hastened LBHI's demise. JPMorgan Chase Bank, N.A. has moved to dismiss plaintiffs' amended complaint in its entirety. That motion has not yet been decided. JPMorgan Chase Bank, N.A. also filed counterclaims against LBHI alleging that LBHI fraudulently induced JPMorgan Chase Bank, N.A. to make large clearing advances to Lehman against inappropriate collateral, which left JPMorgan Chase Bank, N.A. with more than $25 billion in claims against the estate of Lehman's broker-dealer, which could be unpaid if JPMorgan Chase Bank, N.A. is required to return any collateral to Lehman. Discovery is underway with a trial scheduled for 2012. In addition, in April 2011 JPMorgan Chase Bank, N.A. and the SIPA Trustee for LBHI's U.S. broker-dealer subsidiary, Lehman Brothers Inc. ("LBI") announced that they had reached an agreement to return more than $800 million in alleged LBI customer assets to the LBI Estate for distribution to its customer claimants. In late June 2011, the Bankruptcy Court approved the agreement. JPMorgan Chase Bank, N.A. has also responded to various regulatory inquiries regarding the Lehman matter.

*Madoff Litigation.* JPMorgan Chase & Co., JPMorgan Chase Bank, N.A., JPMorgan Securities LLC, and JPMorgan Securities Ltd. have been named as defendants in a lawsuit brought by the trustee for the liquidation of Bernard L. Madoff Investment Securities LLC (the "Trustee"). The Trustee recently served an amended complaint in which he has asserted 28 causes of action against JPMorgan Chase, 20 of which seek to avoid certain transfers (direct or indirect) made to JPMorgan Chase that are alleged to have been preferential or fraudulent under the federal Bankruptcy Code and the New York Debtor and Creditor Law. The remaining causes of action are for, among other things, aiding and abetting fraud, aiding and abetting breach of fiduciary duty, conversion and unjust enrichment. The complaint generally alleges that JPMorgan Chase, as Madoff's long-time bank, facilitated the maintenance of Madoff's Ponzi scheme and overlooked signs of wrongdoing in order to obtain profits and fees. The complaint purports to seek approximately $19 billion in damages from JPMorgan Chase, and to recover approximately $425 million in transfers that JPMorgan Chase allegedly received directly or indirectly from Bernard Madoff's brokerage firm. JPMorgan Chase's motion to return the case from the Bankruptcy Court to the District Court was granted in May 2011 and JPMorgan Chase has moved to dismiss most of the Trustee's claims.

Separately, J.P. Morgan Trust Company (Cayman) Limited, JPMorgan (Suisse) SA, J.P. Morgan Securities Ltd., and Bear Stearns Alternative Assets International Ltd. have been named as defendants in several suits in Bankruptcy Court and state and federal courts in New York arising out of the liquidation proceedings of Fairfield Sentry Limited and Fairfield Sigma Limited (together, "Fairfield"), so-called Madoff feeder funds. These actions advanced theories of mistake and restitution and sought to recover payments previously made to defendants by the funds totaling approximately $140 million. Fairfield and the Madoff Trustee reached an agreement pursuant to which the complaints against Cayman, Suisse, and JP Morgan Securities Ltd. will be dismissed and that agreement has been approved by the court.

In addition, a purported class action is pending against JPMorgan Chase in the United States District Court for the Southern District

of New York, as is a motion by separate potential class plaintiffs to add claims against JPMorgan Chase, JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC and J.P. Morgan Securities Ltd. to an already-pending purported class action in the same court. The allegations in these complaints largely track those raised by the Trustee. The JPMorgan Chase entities have moved to dismiss these actions.

Finally, JPMorgan Chase is a defendant in five actions pending in the New York state court and one individual action in federal court in New York. The allegations in all of these actions are essentially identical, and involve claims against JPMorgan Chase Bank, N.A. for aiding and abetting fraud, aiding and abetting breach of fiduciary duty, conversion and unjust enrichment. In the federal action, JPMorgan Chase Bank, N.A. prevailed on its motion to dismiss before the District Court, and that decision was recently affirmed on appeal. In the state court actions, JPMorgan Chase Bank, N.A.'s motion to dismiss has been fully briefed and the parties are awaiting the court's decision. JPMorgan Chase Bank, N.A. is also responding to various governmental inquiries concerning the Madoff matter.

*Mortgage-Backed Securities Litigation and Regulatory Investigations.* JPMorgan Chase and affiliates, Bear Stearns and affiliates and Washington Mutual affiliates have been named as defendants in a number of cases in their various roles as issuer or underwriter in mortgage-backed securities ("MBS") offerings. These cases include purported class action suits, actions by individual purchasers of securities, actions by insurance companies that guaranteed payments of principal and interest for particular tranches and an action by a trustee. Although the allegations vary by lawsuit, these cases generally allege that the offering documents for more than $160 billion of securities issued by dozens of securitization trusts contained material misrepresentations and omissions, including statements regarding the underwriting standards pursuant to which the underlying mortgage loans were issued, or assert that various representations or warranties relating to the loans were breached at the time of origination.

In the actions against JPMorgan Chase as an MBS issuer (and, in some cases, also as an underwriter of its own MBS offerings), three purported class actions are pending against JPMorgan Chase and Bear Stearns, and/or certain of their affiliates and current and former employees, in the United States District Courts for the Eastern and Southern Districts of New York. Defendants moved to dismiss these actions. One of those motions has been granted in part to dismiss claims relating to all but one of the offerings. The other two motions remain pending. In addition, Washington Mutual affiliates, WaMu Asset Acceptance Corp. and WaMu Capital Corp., along with certain former officers or directors of WaMu Asset Acceptance Corp., have been named as defendants in three now-consolidated purported class action cases pending in the Western District of Washington. Defendants' motion to dismiss was granted in part to dismiss all claims relating to MBS offerings in which a named plaintiff was not a purchaser. Defendants have since moved for judgment on the pleadings as to all claims relating to all MBS Certificates of which a named plaintiff was not a purchaser. Plaintiffs have sought leave to amend their complaint to add JPMorgan Chase Bank, N.A., as a defendant on the theory that it is a successor to Washington Mutual Bank. JPMorgan Chase has opposed this request. Plaintiffs have filed a motion for class certification, which defendants have opposed. Discovery is ongoing.

In other actions brought against JPMorgan Chase as an MBS issuer (and, in some cases, also as an underwriter) certain JPMorgan Chase entities, several Bear Stearns entities, and certain Washington Mutual affiliates are defendants in ten separate individual actions commenced by the Federal Home Loan Banks of Pittsburgh, Seattle, San Francisco, Chicago, Indianapolis, Atlanta and Boston in various state courts around the country; and certain JPMorgan Chase, Bear Stearns and Washington Mutual entities are also among the defendants named in separate individual actions commenced by various institutional investors in federal and state courts.

EMC Mortgage Corporation ("EMC"), a subsidiary of JPMorgan Chase & Co., and certain other JPMorgan Chase entities are defendants in six pending actions commenced by bond insurers that guaranteed payments of principal and interest on approximately $3.6 billion of certain classes of seven different MBS offerings sponsored by EMC. Two of those actions, commenced by Assured Guaranty Corp. and Syncora Guarantee, Inc., respectively, are pending in the United States District Court for the Southern District of New York. Syncora has also filed an action in New York state court alleging tort claims against arising out of the same transaction as its original federal complaint. The fourth action, filed by Ambac Assurance Corporation, was dismissed on jurisdictional grounds by the United States District for the Southern District of New York. The dismissal is on appeal to the United States Court of Appeals for the Second Circuit. Ambac has also filed a nearly identical complaint in New York state court. The sixth action, commenced by CIFG Assurance North America, Inc., is pending in state court in Texas, but Defendants have filed a motion arguing that New York is the superior forum. In most of the actions, the plaintiff claims that the underlying mortgage loans had origination defects that purportedly violate certain representations and warranties given by EMC to plaintiffs, and that EMC has breached the relevant agreements between the parties by failing to repurchase allegedly defective mortgage loans. In addition, the Ambac, CIFG and Syncora complaints allege fraudulent inducement and tortious interference, though tortious interference was dismissed from the Ambac federal action immediately before the jurisdictional dismissal. Each action seeks unspecified damages and, except in the Syncora state complaint, an order compelling EMC to repurchase those loans. The CIFG complaint also seeks punitive damages.

In the actions against JPMorgan Chase solely as an underwriter of other issuers' MBS offerings, JPMorgan Chase has contractual rights to indemnification from the issuers, but those indemnity rights may prove effectively unenforceable where the issuers are now defunct, such as affiliates of IndyMac Bancorp ("IndyMac Trusts") and Thornburg Mortgage ("Thornburg"). With respect to the IndyMac Trusts, JPMorgan Securities, along with numerous other underwriters and individuals, is named as a defendant, both in its own capacity and as successor to Bear Stearns in a purported class action pending in the United States District Court

for the Southern District of New York brought on behalf of purchasers of securities in various IndyMac Trust MBS offerings. The court in that action has dismissed claims as to certain such securitizations, including all offerings in which no named plaintiff purchased securities, and allowed claims as to other offerings to proceed. Plaintiffs' motion to certify a class of investors in certain offerings is pending, and discovery is ongoing. In addition, JPMorgan Securities and JPMorgan Chase are named as defendants in an individual action filed by the Federal Home Loan Bank of Pittsburgh in connection with a single offering by an affiliate of IndyMac Bancorp. Discovery in that action is ongoing. Separately, JPMorgan Securities, as successor to Bear, Stearns & Co. Inc., along with other underwriters and certain individuals, are defendants in an action pending in state court in California brought by MBIA Insurance Corp. ("MBIA"). The action relates to certain securities issued by IndyMac trusts in offerings in which Bear Stearns was an underwriter, and as to which MBIA provided guaranty insurance policies. MBIA purports to be subrogated to the rights of the MBS holders, and seeks recovery of sums it has paid and will pay pursuant to those policies. Discovery is ongoing. With respect to Thornburg, a Bear Stearns subsidiary is also a named defendant in a purported class action pending in the United States District Court for the District of New Mexico along with a number of other financial institutions that served as depositors and/or underwriters for three Thornburg MBS offerings. Defendants have moved to dismiss this action.

A shareholder complaint has been filed in New York state court against JPMorgan Chase and two affiliates, members of the boards of directors thereof and certain employees asserting claims based on alleged wrongful actions and inactions relating to residential mortgage originations and securitizations. The action seeks an accounting and damages.

In addition to the above-described litigation, JPMorgan Chase has also received, and responded to, a number of subpoenas and informal requests for information from federal and state authorities concerning mortgage-related matters, including inquiries concerning a number of transactions involving JPMorgan Chase's origination and purchase of whole loans, underwriting and issuance of MBS, treatment of early payment defaults and potential breaches of securitization representations and warranties, due diligence in connection with securitizations and JPMorgan Chase's participation in offerings of certain collateralized debt obligations.

JPMorgan Securities has resolved the investigation by the SEC's Division of Enforcement regarding certain collateralized debt obligations.

In addition to the above mortgage-related matters, JPMorgan Chase is a defendant in an action commenced by Deutsche Bank, described in more detail below with respect to the Washington Mutual Litigations.

*Mortgage Foreclosure Investigations and Litigation.* Multiple state and federal officials have announced investigations into the procedures followed by mortgage servicing companies and banks, including JPMorgan Chase & Co. and its affiliates, relating to servicing, foreclosure and loss mitigation processes. JPMorgan Chase is cooperating with these investigations, and these investigations could result in material fines, penalties, equitable remedies (including requiring default servicing or other process changes), or other enforcement actions, as well as significant legal costs in responding to governmental investigations and additional litigation. The Office of the Comptroller of the Currency and the Federal Reserve have issued Consent Orders as to JPMorgan Chase Bank, N.A., and JPMorgan Chase & Co., respectively. In their Orders, the regulators have mandated significant changes to JPMorgan Chase's servicing and default business and outlined requirements to implement these changes. Included in these requirements is the retention of an independent consultant to conduct an independent review of (and reimbursement of borrowers who sustained economic harm from) residential foreclosure actions or proceedings for loans serviced by JPMorgan Chase that have been pending at any time from January 1, 2009, to December 31, 2010, as well as residential foreclosure sales that occurred during this time period. These regulators have reserved the right to impose civil monetary penalties at a later date. Investigations by other state and federal authorities remain pending. Though JPMorgan Chase has been in discussions with state and federal authorities about a potential global settlement of claims, there can be no assurance that any resolution will be reached.

Four purported class action lawsuits have also been filed against JPMorgan Chase relating to its mortgage foreclosure procedures. Additionally, JPMorgan Chase is defending a purported class action brought against Bank of America involving an EMC loan. One of the cases has been voluntarily dismissed with prejudice by the plaintiff. JPMorgan Chase has moved to dismiss two of the remaining cases. In the fourth case, plaintiffs filed an amended complaint, which JPMorgan Chase will move to dismiss.

A shareholder derivative action has been filed in New York state court against JPMorgan Chase's board of directors alleging that the board failed to exercise adequate oversight as to wrongful conduct by JPMorgan Chase regarding mortgage servicing. The action seeks a declaratory judgment and damages.

As of January 2011, JPMorgan Chase had resumed initiation of new foreclosure proceedings in nearly all states in which it had previously suspended such proceedings, utilizing revised procedures in connection with the execution of affidavits and other documents used by Firm employees in the foreclosure process. JPMorgan Chase is also in the process of reviewing pending foreclosure matters to determine whether remediation of specific documentation is necessary, and is resuming pending foreclosures as the review, and if necessary, remediation, of each pending matter is completed.

*Municipal Derivatives Investigations and Litigation.* The Department of Justice ("DOJ") (in conjunction with the Internal Revenue Service), the Securities and Exchange Commission, a group of state attorneys general, the Office of the Comptroller of the Currency and the Federal Reserve Bank of New York investigated JPMorgan Chase for possible antitrust, securities and tax-related violations in connection with the bidding or sale of guaranteed investment contracts and derivatives to municipal issuers. In July 2011,

JPMorgan Chase reached settlements with all of the government agencies to resolve these investigations. The settlements cover conduct in or prior to 2006. Under the terms of the settlements, JPMorgan Chase entered into a non-prosecution agreement with the DOJ, and will pay a net amount of $211 million to the other government agencies. JPMorgan Chase also agreed to implement measures to strengthen board oversight and compliance risk management programs relating to certain types of transactions.

Purported class action lawsuits and individual actions (the "Municipal Derivatives Actions") have been filed against JPMorgan Chase and Bear Stearns, as well as numerous other providers and brokers, alleging antitrust violations in the reportedly $100 billion to $300 billion annual market for financial instruments related to municipal bond offerings referred to collectively as "municipal derivatives." The Municipal Derivatives Actions have been consolidated in the United States District Court for the Southern District of New York. The court denied in part and granted in part defendants' motions to dismiss the purported class and individual actions, permitting certain claims to proceed against JPMorgan Chase and others under federal and California state antitrust laws and under the California false claims act. Subsequently, a number of additional individual actions asserting substantially similar claims, including claims under New York and West Virginia state antitrust statutes, were filed against JPMorgan Chase, Bear Stearns and numerous other defendants. All of these cases have been coordinated for pretrial purposes in the United States District Court for the Southern District of New York. Discovery is ongoing.

Following J.P. Morgan Securities' November 4, 2009, settlement with the SEC in connection with certain Jefferson County, Alabama (the "County") warrant underwritings and swap transactions, various parties have brought civil litigation against JPMorgan Chase. The County and a putative class of sewer rate payers have filed complaints against JPMorgan Chase and several other defendants in Alabama state court. The suits allege that JPMorgan Chase made payments to certain third parties in exchange for being chosen to underwrite more than $3 billion in warrants issued by the County and chosen as the counterparty for certain swaps executed by the County. The complaints also allege that JPMorgan Chase concealed these third-party payments and that, but for this concealment, the County would not have entered into the transactions. The Court denied JPMorgan Chase's motions to dismiss the complaints in both proceedings. JPMorgan Chase filed a mandamus petition with the Alabama Supreme Court, seeking immediate appellate review of this decision. The mandamus petition in the County's lawsuit was denied in April 2011. The mandamus petition in the lawsuit brought by sewer ratepayers remains pending.

Separately, two insurance companies that guaranteed the payment of principal and interest on warrants issued by Jefferson County have filed separate actions against JPMorgan Chase in New York state court. Their complaints assert that JPMorgan Chase fraudulently misled them into issuing insurance based upon substantially the same alleged conduct described above and other alleged non-disclosures. One insurer claims that it insured an aggregate principal amount of nearly $1.2 billion and seeks unspecified damages in excess of $400 million, as well as unspecified punitive damages. The other insurer claims that it insured an aggregate principal amount of more than $378 million and seeks recovery of $4 million allegedly paid under the policies to date as well as any future payments and unspecified punitive damages. In December 2010, the court denied JPMorgan Chase's motions to dismiss each of the complaints. Discovery is proceeding.

*Overdraft Fee/Debit Posting Order Litigation.* JPMorgan Chase Bank, N.A. has been named as a defendant in several purported class actions relating to its practices in posting debit card transactions to customers' deposit accounts. Plaintiffs allege that JPMorgan Chase improperly re-ordered debit card transactions from the highest amount to lowest amount before processing these transactions in order to generate unwarranted overdraft fees. Plaintiffs contend that JPMorgan Chase should have processed such transactions in the chronological order they were authorized. Plaintiffs seek the disgorgement of all overdraft fees paid to JPMorgan Chase by plaintiffs since approximately 2003 as a result of the re-ordering of debit card transactions. The claims against JPMorgan Chase have been consolidated with numerous complaints against other national banks in Multi-District Litigation pending in the United States District Court for the Southern District of Florida. JPMorgan Chase's motion to compel arbitration of certain plaintiffs' claims was denied by the District Court. That ruling is currently on appeal. Discovery is proceeding in the District Court.

*Petters Bankruptcy and Related Matters.* JPMorgan Chase and certain of its affiliates, including One Equity Partners ("OEP"), have been named as defendants in several actions filed in connection with the receivership and bankruptcy proceedings pertaining to Thomas J. Petters and certain entities affiliated with Petters (collectively, "Petters") and the Polaroid Corporation. The principal actions against JPMorgan Chase and its affiliates have been brought by the court appointed receiver in the civil action filed by the federal government against Petters and the trustees in the bankruptcy proceedings for three Petters entities, and generally seek to avoid, on fraudulent transfer and preference grounds, certain purported transfers in connection with (i) the 2005 acquisition of Polaroid by Petters, which at the time was majority-owned by OEP; (ii) two credit facilities that JPMorgan Chase and other financial institutions entered into with Polaroid; and (iii) a credit line and investment accounts held by Petters. The actions collectively seek recovery of approximately $450 million. Defendants have moved to dismiss the complaints in the actions filed by the Petters bankruptcy trustees and have also sought to transfer those actions to the United States District Court for the District of Minnesota, where the receiver's action is pending.

*Securities Lending Litigation.* JPMorgan Chase Bank, N.A. has been named as a defendant in four putative class actions asserting ERISA and other claims pending in the United States District Court for the Southern District of New York brought by participants in JPMorgan Chase's securities lending business. A fifth lawsuit was filed in New York state court by an individual participant in the program. Three of the purported class actions, which have been consolidated, relate to investments of approximately $500 million in medium-term notes of Sigma Finance Inc. ("Sigma"). In August 2010, the Court certified a plaintiff class consisting of

all securities lending participants that held Sigma medium-term notes on September 30, 2008, including those that held the notes by virtue of participation in the investment of cash collateral through a collective fund, as well as those that held the notes by virtue of the investment of cash collateral through individual accounts. All discovery has been completed. JPMorgan Chase has moved for partial summary judgment as to plaintiffs' duty of loyalty claim, in which it is alleged that JPMorgan Chase created an impermissible conflict of interest by providing repurchase financing to Sigma while also holding Sigma medium-term notes in securities lending accounts.

The fourth putative class action concerns investments of approximately $500 million in Lehman Brothers medium-term notes. JPMorgan Chase has moved to dismiss the amended complaint and is awaiting a decision. Discovery is proceeding while the motion is pending. The New York state court action, which is not a class action, concerns the plaintiff's alleged loss of money in both Sigma and Lehman Brothers medium-term notes. JPMorgan Chase has answered the complaint. Discovery is proceeding.

*Service Members Civil Relief Act and Housing and Economic Recovery Act Investigations and Litigation.* Multiple government officials have announced inquiries into JPMorgan Chase's procedures related to the Service Members Civil Relief Act ("SCRA") and the Housing and Economic Recovery Act of 2008 ("HERA"). These inquiries have been prompted by JPMorgan Chase's public statements about its SCRA and HERA compliance and actions to remedy certain instances in which JPMorgan Chase mistakenly charged active or recently-active military personnel mortgage interest and fees in excess of that permitted by SCRA and HERA, and in a number of instances, foreclosed on borrowers protected by SCRA and HERA. JPMorgan Chase has implemented a number of procedural enhancements and controls to strengthen its SCRA and HERA compliance. In addition, an individual borrower filed a nationwide class action in United States District Court for South Carolina against JPMorgan Chase alleging violations of the SCRA related to home loans. JPMorgan Chase agreed to pay $27 million plus attorneys' fees, in addition to reimbursements previously paid by JPMorgan Chase, to settle the class action. The settlement has received preliminary approval by the court and is subject to final court approval.

*Washington Mutual Litigations.* Subsequent to JPMorgan Chase Bank, N.A.'s acquisition from the Federal Deposit Insurance Corporation ("FDIC") of substantially all of the assets and certain specified liabilities of Washington Mutual Bank ("Washington Mutual Bank") in September 2008, Washington Mutual Bank's parent holding company, Washington Mutual, Inc. ("WMI") and its wholly-owned subsidiary, WMI Investment Corp. (together, the "Debtors"), both commenced voluntary cases under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Case"). In the Bankruptcy Case, the Debtors have asserted rights and interests in certain assets. The assets in dispute include principally the following: (a) approximately $4 billion in trust securities contributed by WMI to Washington Mutual Bank (the "Trust Securities"); (b) the right to tax refunds arising from overpayments attributable to operations of Washington Mutual Bank and its subsidiaries; (c) ownership of and other rights in approximately $4 billion that WMI contends are deposit accounts at Washington Mutual Bank and one of its subsidiaries; and (d) ownership of and rights in various other contracts and other assets (collectively, the "Disputed Assets").

WMI, JPMorgan Chase and the FDIC have since been involved in litigations over these and other claims pending in the Bankruptcy Court and the United States District Court for the District of Columbia.

In May 2010, WMI, JPMorgan Chase and the FDIC announced a global settlement agreement among themselves and significant creditor groups (the "Global Settlement Agreement"). The Global Settlement Agreement is incorporated into WMI's proposed Chapter 11 plan ("the Plan") that has been submitted to the Bankruptcy Court. If approved by the Bankruptcy Court, the Global Settlement would resolve numerous disputes among WMI, JPMorgan Chase, the FDIC in its capacity as receiver for Washington Mutual Bank and the FDIC in its corporate capacity, as well as those of significant creditor groups, including disputes relating to the Disputed Assets.

The Bankruptcy Court considered confirmation of the Plan, including the Global Settlement Agreement, in hearings in early December 2010. In early January 2011, the Bankruptcy Court issued an opinion in which it concluded that the Global Settlement Agreement is fair and reasonable, but that the Plan cannot be confirmed until the parties correct certain deficiencies, which include the scope of releases. None of these deficiencies relates to the Disputed Assets. The Equity Committee, which represents shareholders of WMI, has filed a petition seeking a direct appeal to the United States Court of Appeals for the Third Circuit from so much of the Bankruptcy Court's ruling that found the settlement to be fair and reasonable. A revised Plan was filed with the Bankruptcy Court in February 2011. The Bankruptcy Court concluded the evidentiary portion of the confirmation hearings for the revised Plan in July 2011. Oral argument is scheduled for August 24, 2011. If the Court ultimately confirms the Plan and the Global Settlement becomes effective, then JPMorgan Chase and JPMorgan Chase Bank, N.A. currently estimate that they will not incur net additional liabilities beyond those already reflected in its balance sheet for the numerous disputes covered by the Global Settlement.

Other proceedings related to Washington Mutual's failure are also pending before the Bankruptcy Court. Among other actions, in July 2010, certain holders of the Trust Securities commenced an adversary proceeding in the Bankruptcy Court against JPMorgan Chase, WMI, and other entities seeking, among other relief, a declaratory judgment that WMI and JPMorgan Chase do not have any right, title or interest in the Trust Securities. In early January 2011, the Bankruptcy Court granted summary judgment to JPMorgan Chase and denied summary judgment to the plaintiffs in the Trust Securities adversary proceeding.

Other proceedings related to Washington Mutual's failure are pending before the United States District Court for the District of Columbia and include a lawsuit brought by Deutsche Bank National Trust Company, initially against the FDIC, asserting an estimated $6 billion to $10 billion in damages based upon alleged breach of various mortgage securitization agreements and alleged violation of certain representations and warranties given by certain WMI subsidiaries in connection with those securitization agreements. The case includes assertions that JPMorgan Chase may have assumed liabilities relating to the mortgage securitization agreements. In April 2011, the District Court denied as premature motions by JPMorgan Chase and the FDIC that sought a ruling on whether the FDIC retained liability for Deutsche Bank's claims. Discovery is underway.

In addition, JPMorgan Chase was sued in an action originally filed in State Court in Texas (the "Texas Action") by certain holders of WMI common stock and debt of WMI and Washington Mutual Bank who seek unspecified damages alleging that JPMorgan Chase acquired substantially all of the assets of Washington Mutual Bank from the FDIC at an allegedly too-low price. The Texas Action was transferred to the United States District Court for the District of Columbia, which ultimately granted JPMorgan Chase's and the FDIC's motions to dismiss the complaint. Plaintiffs appealed this dismissal and on June 24, 2011, the United States Court of Appeals for the D.C. Circuit reversed the trial court's dismissal and remanded the case for further proceedings.

* * *

In addition to the various legal proceedings discussed above, JPMorgan Chase and its subsidiaries are named as defendants or otherwise involved in a substantial number of other legal proceedings. JPMorgan Chase and JPMorgan Chase Bank, N.A. each believes it has meritorious defenses to the claims asserted respectively against it in its currently outstanding legal proceedings and it intends to defend itself vigorously in all such matters. Additional legal proceedings may be initiated from time to time in the future.

JPMorgan Chase Bank, N.A. has established reserves for certain of its currently outstanding legal proceedings. JPMorgan Chase Bank, N.A. accrues for potential liability arising from such proceedings when it is probable that such liability has been incurred and the amount of the loss can be reasonably estimated. JPMorgan Chase Bank, N.A. evaluates its outstanding legal proceedings each quarter to assess its litigation reserves, and makes adjustments in such reserves, upwards or downwards, as appropriate, based on management's best judgment after consultation with counsel. JPMorgan Chase Bank, N.A. incurred litigation expense of $1.9 billion and $794 million, respectively, during the three months ended June 30, 2011, and 2010, and $2.5 billion and $3.1 billion, respectively, during the six months ended June 30, 2011 and 2010. There is no assurance that JPMorgan Chase Bank, N.A.'s litigation reserves will not need to be adjusted in the future.

In view of the inherent difficulty of predicting the outcome of legal proceedings, particularly where the claimants seek very large or indeterminate damages, or where the matters present novel legal theories, involve a large number of parties or are in early stages of discovery, JPMorgan Chase Bank, N.A. cannot state with confidence what will be the eventual outcomes of the currently pending matters, the timing of their ultimate resolution or the eventual losses, fines, penalties or impact related to those matters. JPMorgan Chase Bank, N.A. believes, based upon its current knowledge, after consultation with counsel and after taking into account its current litigation reserves, that the legal proceedings currently pending against it should not have a material adverse effect on JPMorgan Chase Bank, N.A.'s consolidated financial condition. JPMorgan Chase Bank, N.A. notes, however, that in light of the uncertainties involved in such proceedings, there is no assurance the ultimate resolution of these matters will not significantly exceed the reserves it has currently accrued; as a result, the outcome of a particular matter may be material to JPMorgan Chase Bank, N.A.'s operating results for a particular period, depending on, among other factors, the size of the loss or liability imposed and the level of JPMorgan Chase Bank, N.A.'s income for that period.

**NOTE 26 – BUSINESS SEGMENTS**

U.S. GAAP for business segments of an enterprise and related information defines the criteria by which management determines the number and nature of its "operating segments" (i.e., business segments) and sets forth the financial information that is required to be disclosed about these business segments. This information is accumulated, managed and discussed at the JPMorgan Chase level and not at the subsidiary level (i.e., JPMorgan Chase Bank, N.A.). For financial reporting purposes, JPMorgan Chase Bank, N.A. is viewed by JPMorgan Chase as a legal entity only; business segment financial information is not prepared for JPMorgan Chase Bank, N.A.

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of JPMorgan Chase Bank, National Association:

We have reviewed the consolidated balance sheet of JPMorgan Chase Bank, National Association and its subsidiaries as of June 30, 2011, the related consolidated statements of income for each of the three-month and six-month periods ended June 30, 2011 and June 30, 2010, and the consolidated statements of cash flows and consolidated statements of changes in stockholder's equity and comprehensive income for the six-month periods ended June 30, 2011 and June 30, 2010. These consolidated interim financial statements are the responsibility of JPMorgan Chase Bank, National Association's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2010, and the related consolidated statements of income, changes in stockholder's equity and comprehensive income, and cash flows for the year then ended (not presented herein), and in our report dated March 24, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2010, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP

August 19, 2011

*PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017*

**Selected quarterly financial data (unaudited)**

| (in millions, except ratio data) | **2011** | | 2010 | | | Six months ended June 30, | |
|---|---|---|---|---|---|---|---|
| As of or for the period ended | 2nd | 1st | 4th | 3rd | 2nd | **2011** | 2010 |
| **Selected income statement data** | | | | | | | |
| Noninterest revenue | **$ 10,638** | $ 8,907 | $ 10,207 | $ 7,920 | $ 10,331 | **$ 19,545** | $ 20,536 |
| Net interest income | **8,967** | 8,617 | 8,638 | 8,982 | 8,887 | **17,584** | 18,311 |
| **Total net revenue** | **19,605** | 17,524 | 18,845 | 16,902 | 19,218 | **37,129** | 38,847 |
| Provision for credit losses | **1,167** | 1,039 | 2,742 | 1,941 | 1,292 | **2,206** | 4,723 |
| Total noninterest expense | **14,155** | 12,781 | 12,947 | 11,655 | 12,150 | **26,936** | 24,829 |
| **Income before income tax expense** | **4,283** | 3,704 | 3,156 | 3,306 | 5,776 | **7,987** | 9,295 |
| Income tax expense | **1,400** | 1,003 | 570 | 751 | 1,825 | **2,403** | 2,610 |
| **Net income** | **$ 2,883** | $ 2,701 | $ 2,586 | $ 2,555 | $ 3,951 | **$ 5,584** | $ 6,685 |
| **Selected ratios** | | | | | | | |
| Tier 1 capital | **9.3%** | 9.4% | 9.5% | 10.2% | 10.5% | | |
| Total capital | **13.1** | 13.4 | 13.5 | 14.3 | 14.6 | | |
| Tier 1 leverage | **5.5** | 5.7 | 5.7 | 6.3 | 6.1 | | |
| Tier 1 common capital[(a)] | **9.2** | 9.4 | 9.4 | 10.2 | 10.4 | | |
| **Selected balance sheet data (period-end)** | | | | | | | |
| Trading assets | **$ 342,228** | $ 371,498 | $ 358,150 | $ 355,575 | $ 293,927 | **$ 342,228** | $ 293,927 |
| Securities | **317,264** | 327,764 | 310,762 | 334,447 | 307,380 | **317,264** | 307,380 |
| Loans | **568,745** | 558,481 | 553,004 | 559,220 | 559,219 | **568,745** | 559,219 |
| Allowance for credit losses | **(22,045)** | (22,438) | (23,126) | (23,147) | (23,363) | **(22,045)** | (23,363) |
| Total assets | **1,791,060** | 1,723,460 | 1,631,621 | 1,642,691 | 1,568,093 | **1,791,060** | 1,568,093 |
| Deposits | **1,144,158** | 1,093,004 | 1,019,993 | 984,210 | 969,042 | **1,144,158** | 969,042 |
| Long-term debt[(b)] | **87,210** | 64,511 | 67,584 | 69,565 | 74,967 | **87,210** | 74,967 |
| Total stockholder's equity | **125,374** | 123,579 | 123,217 | 132,170 | 130,905 | **125,374** | 130,905 |

*(a) 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 JPMorgan Chase Bank, N.A.'s capital with the capital of other financial services companies. JPMorgan Chase Bank, N.A. uses Tier 1 common along with the other capital measures to assess and monitor its capital position.*

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

# Supplementary information

JPMorgan Chase Bank, National Association
(a wholly owned subsidiary of JPMorgan Chase & Co.)

## Selected annual financial data (unaudited)

| (in millions, except ratio data)<br>As of or for the year ended December 31, | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| **Selected income statement data** | | | | | |
| Noninterest revenue | $ 38,663 | $ 38,397 | $ 33,229 | $ 31,630 | $ 29,191 |
| Net interest income | 35,931 | 39,591 | 31,517 | 23,137 | 18,135 |
| **Total net revenue** | 74,594 | 77,988 | 64,746 | 54,767 | 47,326 |
| Provision for credit losses | 9,406 | 22,712 | 14,704 | 4,672 | 1,809 |
| Provision for credit losses - accounting conformity[(a)] | — | — | 1,534 | — | — |
| Total noninterest expense | 49,431 | 43,391 | 37,284 | 33,998 | 31,909 |
| **Income from continuing operations before income tax expense** | 15,757 | 11,885 | 11,224 | 16,097 | 13,608 |
| Income tax expense | 3,931 | 3,539 | 2,711 | 5,365 | 4,487 |
| **Income from continuing operations** | 11,826 | 8,346 | 8,513 | 10,732 | 9,121 |
| Income from discontinued operations[(b)] | — | — | — | — | 798 |
| **Income before extraordinary gain** | 11,826 | 8,346 | 8,513 | 10,732 | 9,919 |
| Extraordinary gain[(c)] | — | 76 | 1,906 | — | — |
| **Net income** | $ 11,826 | $ 8,422 | $ 10,419 | $ 10,732 | $ 9,919 |
| **Selected ratios** | | | | | |
| Tier 1 capital | 9.5% | 9.5% | 8.7% | 8.3% | 8.2% |
| Total capital | 13.5 | 13.5 | 12.5 | 11.8 | 11.4 |
| Tier 1 leverage | 5.7 | 6.0 | 5.9 | 6.2 | 5.9 |
| Tier 1 common capital[(d)] | 9.4 | 9.4 | 8.6 | 8.1 | 8.1 |
| **Selected balance sheet data (period-end)** | | | | | |
| Trading assets | $ 358,150 | $ 302,589 | $ 365,365 | $ 390,459 | $ 284,282 |
| Securities | 310,762 | 347,873 | 199,744 | 82,511 | 88,487 |
| Loans | 553,004 | 558,424 | 662,312 | 461,662 | 421,833 |
| Allowance for credit losses | (23,126) | (24,701) | (17,809) | (7,864) | (5,693) |
| Total assets | 1,631,621 | 1,627,684 | 1,746,242 | 1,318,888 | 1,179,390 |
| Deposits | 1,019,993 | 1,024,036 | 1,055,765 | 772,087 | 640,466 |
| Long-term debt[(e)] | 67,584 | 91,526 | 104,738 | 88,175 | 71,869 |
| Total stockholder's equity | 123,217 | 127,294 | 128,767 | 106,346 | 96,010 |

*(a) Results for 2008 included an accounting conformity credit loss reserve provision related to the acquisition of Washington Mutual's banking operations.*

*(b) On October 1, 2006, JPMorgan Chase & Co. completed the exchange of selected corporate trust businesses for the consumer, business banking and middle-market banking businesses of The Bank of New York Company Inc. The financial performance of these corporate trust businesses were reported as discontinued operations.*

*(c) On September 25, 2008, JPMorgan Chase Bank, N.A. acquired the banking operations of Washington Mutual Bank. The Washington Mutual acquisition resulted in negative goodwill, and accordingly, JPMorgan Chase Bank, N.A. recorded an extraordinary gain. For additional information on this transaction, see Note 3 on pages 9–12 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.*

*(d) 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 JPMorgan Chase Bank, N.A.'s capital with the capital of other financial services companies. JPMorgan Chase Bank, N.A. uses Tier 1 common along with the other capital measures to assess and monitor its capital position.*

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

**Advised lines of credit:** An authorization which specifies the maximum amount of a credit facility JPMorgan Chase Bank, N.A. has made available to an obligor on a revolving but non-binding basis. The borrower receives written or oral advice of this facility. JPMorgan Chase Bank, N.A. may cancel this facility at any time.

**Beneficial interests issued by consolidated VIEs:** Represents the interest of third-party holders of debt/equity securities, or other obligations, issued by VIEs that JPMorgan Chase Bank, N.A. consolidates. The underlying obligations of the VIEs consist of short-term borrowings, commercial paper and long-term debt. The related assets consist of trading assets, available-for-sale securities, loans and other assets.

**Credit derivatives:** Contractual agreements that provide protection against a credit event on one or more referenced credits. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency or failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of a credit event.

**CUSIP number:** A CUSIP (i.e. Committee on Uniform Securities Identification Procedures) number identifies most securities, including: stocks of all registered U.S. and Canadian companies, and U.S. government and municipal bonds. The CUSIP system – owned by the American Bankers Association and operated by Standard & Poor's – facilitates the clearing and settlement process of securities. The number consists of nine characters (including letters and numbers) that uniquely identify a company or issuer and the type of security. A similar system is used to identify foreign securities (CUSIP International Numbering System).

**FASB:** Financial Accounting Standards Board.

**FDIC:** Federal Deposit Insurance Corporation.

**FICO score:** A measure of consumer credit risk provided by credit bureaus, typically produced from statistical models by Fair Isaac Corporation utilizing data collected by the credit bureaus.

**IASB:** International Accounting Standards Board.

**Investment-grade:** An indication of credit quality based on JPMorgan Chase Bank, N.A.'s internal risk assessment system. "Investment grade" generally represents a risk profile similar to a rating of a "BBB-"/ "Baa3" or better, as defined by independent rating agencies.

**LLC:** Limited Liability Company.

**Loan-to-value ("LTV") ratio:** For residential real estate loans, the relationship expressed as a percent, between the principal amount of a loan and the appraised value of the collateral (i.e., residential real estate) securing the loan.

*Origination date LTV ratio*
The LTV ratio at the origination date of the loan. Origination date LTV ratios are calculated based on the actual appraised values of collateral (i.e., loan-level data) at the origination date.

*Current estimated LTV ratio*
An estimate of the LTV as of a certain date. The current estimated LTV ratios are calculated using estimated collateral values derived from a nationally recognized home price index measured at the MSA level. These MSA-level home price indices comprise actual data to the extent available and forecasted data where actual data is not available. As a result, the estimated collateral values used to calculate these ratios do not represent actual appraised loan-level collateral values; as such, the resulting LTV ratios are necessarily imprecise and should therefore be viewed as estimates.

*Combined LTV ratio*
The LTV ratio considering all lien positions related to the property. Combined LTV ratios are used for junior lien home equity products.

**Master netting agreement:** An agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract.

**Mortgage product types:**

*Alt-A*
Alt-A loans are generally higher in credit quality than subprime loans but have characteristics that would disqualify the borrower from a traditional prime loan. Alt-A lending characteristics may include one or more of the following: (i) limited documentation; (ii) high combined-loan-to-value ("CLTV") ratio; (iii) loans secured by non-owner occupied properties; or (iv) debt-to-income ratio above normal limits. Perhaps the most important characteristic is limited documentation. A substantial proportion of traditional Alt-A loans are those where a borrower does not provide complete documentation of his or her assets or the amount or source of his or her income.

*Option ARMs*
The option ARM real estate loan product is an adjustable-rate mortgage loan that provides the borrower with the option each month to make a fully amortizing, interest-only or minimum payment. The minimum payment on an option ARM loan is based on the interest rate charged during the introductory period. This introductory rate is usually significantly below the fully indexed rate. The fully indexed rate is calculated using an index rate plus a margin. Once the introductory period ends, the contractual interest rate charged on the loan increases to the fully indexed rate and adjusts monthly to reflect movements in the index. The minimum payment is typically insufficient to cover interest accrued in the prior month, and any unpaid interest is deferred and added to the principal balance of the loan. Option ARM loans are subject to payment recast, which converts the loan to a variable-rate fully amortizing loan upon meeting specified loan balance and anniversary date triggers.

*Prime*
Prime mortgage loans generally have low default risk and are made to borrowers with good credit records and a monthly income that is at least three to four times greater than their monthly housing expense (mortgage payments plus taxes and other debt payments). These borrowers provide full documentation and generally have reliable payment histories.

*Subprime*
Subprime loans are designed for customers with one or more high risk characteristics, including but not limited to: (i) unreliable or poor payment histories; (ii) a high LTV ratio of greater than 80% (without borrower-paid mortgage insurance); (iii) a high debt-to-income ratio; (iv) an occupancy type for the loan is other than the borrower's primary residence; or (v) a history of delinquencies or late payments on the loan.

**NA:** Data is not applicable or available for the period presented.

**OPEB:** Other postretirement employee benefits.

**Principal transactions:** Reflects realized and unrealized gains and losses from trading activities (including physical commodities inventories that are generally accounted for at the lower of cost or fair value) and changes in fair value associated with financial instruments held predominantly by the investment banking business for which the fair value option was elected.

**Purchased credit-impaired ("PCI") loans:** Acquired loans deemed to be credit-impaired under the FASB guidance for PCI loans. The guidance allows purchasers to aggregate credit-impaired loans acquired in the same fiscal quarter into one or more pools, provided that the loans have common risk characteristics (e.g., FICO score, geographic location). A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Wholesale loans are determined to be credit-impaired if they meet the definition of an impaired loan under U.S. GAAP at the acquisition date. Consumer loans are determined to be credit-impaired based on specific risk characteristics of the loan, including product type, LTV ratios, FICO scores, and past due status.

**Retained loans:** Loans that are held-for-investment excluding loans held-for-sale and loans at fair value.

**Risk-weighted assets ("RWA")**: Risk-weighted assets 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 applicable 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 incorporate a measure for the market risk related to applicable trading assets-debt and equity instruments, and foreign exchange and commodity derivatives. The resulting risk-weighted values for each of the risk categories are then aggregated to determine total RWA.

**Troubled debt restructuring ("TDR"):** Occurs when JPMorgan Chase Bank, N.A. modifies the original terms of a loan agreement by granting a concession to a borrower that is experiencing financial difficulty.

**Unaudited:** Financial statements and information that have not been subjected to auditing procedures sufficient to permit an independent certified public accountant to express an opinion.

**U.S. GAAP:** Accounting principles generally accepted in the United States of America.

**U.S. government-sponsored enterprise obligations:** Obligations of agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

**U.S. Treasury:** U.S. Department of the Treasury.

**Washington Mutual transaction:** On September 25, 2008, JPMorgan Chase Bank, N.A. acquired the banking operations of Washington Mutual Bank ("Washington Mutual") from the FDIC. For additional information, see Note 3 on pages 9–12 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

# JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

(a wholly-owned subsidiary of JPMorgan Chase & Co.)

# CONSOLIDATED FINANCIAL STATEMENTS

For the quarterly period ended March 31, 2011

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**JPMORGAN CHASE BANK, NATIONAL ASSOCIATION**
**(a wholly-owned subsidiary of JPMorgan Chase & Co.)**
**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

| | Three months ended March 31, | |
|---|---|---|
| (in millions) | **2011** | 2010 |
| **Revenue** | | |
| Investment banking fees | **$ 957** | $ 662 |
| Principal transactions | **2,788** | 3,245 |
| Lending– and deposit–related fees | **1,539** | 1,641 |
| Asset management, administration and commissions | **2,444** | 2,255 |
| Securities gains[(a)] | **89** | 699 |
| Mortgage fees and related income | **(540)** | 601 |
| Credit card income | **939** | 757 |
| Other income | **691** | 345 |
| **Noninterest revenue** | **8,907** | 10,205 |
| Interest income | **10,583** | 11,261 |
| Interest expense | **1,966** | 1,837 |
| **Net interest income** | **8,617** | 9,424 |
| **Total net revenue** | **17,524** | 19,629 |
| **Provision for credit losses** | **1,039** | 3,431 |
| **Noninterest expense** | | |
| Compensation expense | **6,349** | 5,378 |
| Occupancy expense | **856** | 767 |
| Technology, communications and equipment expense | **1,069** | 1,002 |
| Professional and outside services | **1,255** | 1,091 |
| Marketing | **176** | 174 |
| Other expense | **2,956** | 4,135 |
| Amortization of intangibles | **120** | 132 |
| **Total noninterest expense** | **12,781** | 12,679 |
| **Income before income tax expense** | **3,704** | 3,519 |
| Income tax expense | **1,003** | 785 |
| **Net income** | **$ 2,701** | $ 2,734 |

*(a) The following other-than-temporary impairment losses are included in securities gains for the periods presented.*

| | Three months ended March 31, | |
|---|---|---|
| | **2011** | 2010 |
| Total other-than-temporary impairment losses | **$ (27)** | $ — |
| Losses recorded in/(reclassified from) other comprehensive income | **(3)** | (6) |
| **Total credit losses recognized in income** | **$ (30)** | $ (6) |

*The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.*

## JPMORGAN CHASE BANK, NATIONAL ASSOCIATION
### (a wholly-owned subsidiary of JPMorgan Chase & Co.)
### CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| (in millions, except share data) | **March 31, 2011** | December 31, 2010 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | **$ 22,730** | $ 26,604 |
| Deposits with banks | **81,097** | 20,451 |
| Federal funds sold and securities purchased under resale agreements (included **$19,441** and $19,876 at fair value) | **174,585** | 175,166 |
| Securities borrowed (included **$15,334** and $13,961 at fair value) | **56,868** | 57,370 |
| Trading assets (included assets pledged of **$42,229** and $25,690) | **371,498** | 358,150 |
| Securities (included **$327,748** and $310,745 at fair value and assets pledged of **$97,204** and $87,107) | **327,764** | 310,762 |
| Loans (included **$690** and $973 at fair value) | **558,481** | 553,004 |
| Allowance for loan losses | **(21,780)** | (22,435) |
| **Loans, net of allowance for loan losses** | **536,701** | 530,569 |
| Accrued interest and accounts receivable | **39,599** | 35,985 |
| Premises and equipment | **11,086** | 10,987 |
| Goodwill | **27,384** | 27,348 |
| Mortgage servicing rights | **12,881** | 13,440 |
| Other intangible assets | **1,862** | 1,967 |
| Other assets (included **$6,805** and $8,139 at fair value and assets pledged of **$1,243** and $1,305) | **59,405** | 62,822 |
| **Total assets**[(a)] | **$ 1,723,460** | $ 1,631,621 |
| **Liabilities** | | |
| Deposits (included **$4,237** and $4,327 at fair value) | **$ 1,093,004** | $ 1,019,993 |
| Federal funds purchased and securities loaned or sold under repurchase agreements (included **$3,960** and $2,555 at fair value) | **196,817** | 178,552 |
| Other borrowed funds (included **$7,359** and $7,125 at fair value) | **26,189** | 23,119 |
| Trading liabilities | **118,799** | 124,438 |
| Accounts payable and other liabilities (included the allowance for lending-related commitments of **$658** and $691 and **$82** and $127 at fair value) | **75,591** | 68,619 |
| Beneficial interests issued by consolidated variable interest entities (included **$388** and $354 at fair value) | **24,970** | 26,099 |
| Long-term debt (included **$20,253** and $20,819 at fair value) | **64,511** | 67,584 |
| **Total liabilities**[(a)] | **1,599,881** | 1,508,404 |
| Commitments and contingencies (see Notes 23 and 25 of these Consolidated Financial Statements) | | |
| **Stockholder's equity** | | |
| Preferred stock ($1 par value; authorized 15,000,000 shares; issued **zero** shares) | **—** | — |
| Common stock ($12 par value; authorized 150,000,000 shares; issued **148,761,243** shares) | **1,785** | 1,785 |
| Capital surplus | **76,776** | 76,771 |
| Retained earnings | **42,486** | 41,785 |
| Accumulated other comprehensive income/(loss) | **2,532** | 2,876 |
| **Total stockholder's equity** | **123,579** | 123,217 |
| **Total liabilities and stockholder's equity** | **$ 1,723,460** | $ 1,631,621 |

*(a) The following table presents information on assets and liabilities related to VIEs that are consolidated by JPMorgan Chase Bank, N.A. at March 31, 2011, and December 31, 2010. The difference between total VIE assets and liabilities represents JPMorgan Chase Bank, N.A.'s interests in those entities, which were eliminated in consolidation.*

| **Assets** | **March 31, 2011** | December 31, 2010 |
|---|---|---|
| Trading assets | **$ 2,862** | $ 2,947 |
| Loans | **26,385** | 27,467 |
| All other assets | **1,281** | 1,520 |
| **Total assets** | **$ 30,528** | $ 31,934 |
| **Liabilities** | | |
| Beneficial interests issued by consolidated variable interest entities | **$ 24,970** | $ 26,099 |
| All other liabilities | **1,576** | 1,661 |
| **Total liabilities** | **$ 26,546** | $ 27,760 |

*The assets of the consolidated VIEs are used to settle the liabilities of those entities. The holders of the beneficial interests do not have recourse to the general credit of JPMorgan Chase Bank, N.A. At both March 31, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. provided limited program-wide credit enhancement of $2.0 billion related to its JPMorgan Chase Bank, N.A.-administered multi-seller conduits. For further discussion, see Note 16 on pages 55–63 of these Consolidated Financial Statements.*

*The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.*

**JPMORGAN CHASE BANK, NATIONAL ASSOCIATION**
**(a wholly-owned subsidiary of JPMorgan Chase & Co.)**
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY**
**AND COMPREHENSIVE INCOME (UNAUDITED)**

| | Three months ended March 31, | |
|---|---|---|
| (in millions) | **2011** | 2010 |
| **Common stock** | | |
| Balance at January 1 and March 31 | **$ 1,785** | $ 1,785 |
| **Capital surplus** | | |
| Balance at January 1 | **76,771** | 78,377 |
| Cash capital contribution from JPMorgan Chase & Co. | **13** | 428 |
| Adjustments to capital due to transactions with JPMorgan Chase & Co. | **(12)** | (980) |
| Other | **4** | (1,061) |
| **Balance at March 31** | **76,776** | 76,764 |
| **Retained earnings** | | |
| Balance at January 1 | **41,785** | 45,494 |
| Cumulative effect of change in accounting principle | **—** | 4 |
| Net income | **2,701** | 2,734 |
| Cash dividends paid to JPMorgan Chase & Co. | **(2,000)** | (2,000) |
| Net internal legal entity mergers | **—** | (54) |
| **Balance at March 31** | **42,486** | 46,178 |
| **Accumulated other comprehensive income/(loss)** | | |
| Balance at January 1 | **2,876** | 1,638 |
| Cumulative effect of change in accounting principle | **—** | (23) |
| Other comprehensive income/(loss) | **(344)** | 1,028 |
| **Balance at March 31** | **2,532** | 2,643 |
| **Total stockholder's equity** | **$ 123,579** | $ 127,370 |
| **Comprehensive income** | | |
| Net income | **$ 2,701** | $ 2,734 |
| Other comprehensive income/(loss) | **(344)** | 1,028 |
| **Comprehensive income** | **$ 2,357** | $ 3,762 |

*The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.*

**JPMORGAN CHASE BANK, NATIONAL ASSOCIATION**
**(a wholly-owned subsidiary of JPMorgan Chase & Co.)**
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

| (in millions) | Three months ended March 31, 2011 | 2010 |
|---|---|---|
| **Operating activities** | | |
| Net income | **$ 2,701** | $ 2,734 |
| Adjustments to reconcile net income to net cash (used in)/provided by operating activities: | | |
| Provision for credit losses | **1,039** | 3,431 |
| Depreciation and amortization | **823** | 753 |
| Amortization of intangibles | **120** | 132 |
| Deferred tax expense/(benefit) | **734** | (679) |
| Investment securities gains | **(89)** | (699) |
| Originations and purchases of loans held-for-sale | **(22,700)** | (6,503) |
| Proceeds from sales, securitizations and paydowns of loans held-for-sale | **21,772** | 7,719 |
| Net change in: | | |
| Trading assets | **(6,897)** | (16,301) |
| Securities borrowed | **511** | (5,266) |
| Accrued interest and accounts receivable | **(3,611)** | 4,513 |
| Other assets | **5,243** | (6,200) |
| Trading liabilities | **(14,417)** | 11,917 |
| Accounts payable and other liabilities | **8,031** | 10,203 |
| Other operating adjustments | **1,660** | 1,092 |
| **Net cash (used in)/provided by operating activities** | **(5,080)** | 6,846 |
| **Investing activities** | | |
| Net change in: | | |
| Deposits with banks | **(60,646)** | 4,260 |
| Federal funds sold and securities purchased under resale agreements | **465** | (15,535) |
| Held-to-maturity securities: | | |
| Proceeds | **1** | 2 |
| Available-for-sale securities: | | |
| Proceeds from maturities | **20,736** | 44,404 |
| Proceeds from sales | **4,257** | 20,555 |
| Purchases | **(38,207)** | (56,774) |
| Proceeds from sales and securitizations of loans held-for-investment | **1,359** | 888 |
| Other changes in loans, net | **(6,543)** | 7,034 |
| Net cash used in business acquisitions or dispositions | **—** | (24) |
| All other investing activities, net | **238** | 42 |
| **Net cash (used in)/provided by investing activities** | **(78,340)** | 4,852 |
| **Financing activities** | | |
| Net change in: | | |
| Deposits | **63,929** | (10,678) |
| Federal funds purchased and securities loaned or sold under repurchase agreements | **18,298** | 19,792 |
| Other borrowed funds | **3,550** | (637) |
| Beneficial interests issued by consolidated variable interest entities | **(1,102)** | (2,787) |
| Proceeds from long-term borrowings and trust preferred capital debt securities | **2,581** | 5,037 |
| Payments of long-term borrowings and trust preferred capital debt securities | **(6,182)** | (15,199) |
| Cash capital contribution from JPMorgan Chase & Co. | **13** | 428 |
| Dividends paid | **(2,000)** | (2,000) |
| All other financing activities, net | **108** | 180 |
| **Net cash provided by/(used in) financing activities** | **79,195** | (5,864) |
| Effect of exchange rate changes on cash and due from banks | **351** | (334) |
| Net (decrease)/increase in cash and due from banks | **(3,874)** | 5,500 |
| Cash and due from banks at the beginning of the period | **26,604** | 25,179 |
| **Cash and due from banks at the end of the period** | **$ 22,730** | $ 30,679 |
| Cash interest paid | **$ 1,700** | $ 1,852 |
| Cash income taxes refunded, net | **(1,851)** | (2,545) |

*Note: Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated noncash assets and liabilities of $22.6 billion and $22.7 billion, respectively.*

*The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.*

*See Glossary of Terms on pages 87–89 of these Consolidated Financial Statements for definitions of terms used throughout the Notes to Consolidated Financial Statements.*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## NOTE 1 – BASIS OF PRESENTATION

JPMorgan Chase Bank, National Association ("JPMorgan Chase Bank, N.A.") is a wholly-owned bank subsidiary of JPMorgan Chase & Co. ("JPMorgan Chase"), which is a leading global financial services firm and one of the largest banking institutions in the United States of America ("U.S."), with operations in more than 60 countries. JPMorgan Chase Bank, N.A. is a national banking association that is chartered by the Office of the Comptroller of the Currency ("OCC"), a bureau of the United States Department of the Treasury. JPMorgan Chase Bank, N.A.'s main office is located in Columbus, Ohio, and it has branches in 23 states. JPMorgan Chase Bank, N.A. offers a wide range of banking services to its customers both in the U.S. and internationally, including investment banking, financial services for consumers and small business, commercial banking, financial transactions processing and asset management. Under the J.P. Morgan and Chase brands, JPMorgan Chase Bank, N.A. serves millions of customers in the U.S. and many of the world's most prominent corporate, institutional and governmental clients.

The accounting and financial reporting policies of JPMorgan Chase, N.A. and its subsidiaries conform to accounting principles generally accepted in the U.S. ("U.S. GAAP"). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities.

The unaudited consolidated financial statements prepared in conformity with U.S. GAAP require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expense, and the disclosures of contingent assets and liabilities. Actual results could be different from these estimates. In the opinion of management, all normal recurring adjustments have been included for a fair statement of this interim financial information.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements, and related notes thereto, included in JPMorgan Chase Bank, N.A.'s Consolidated Financial Statements for the year ended December 31, 2010 (the "2010 Annual Financial Statements").

Certain amounts in prior periods have been reclassified to conform to the current presentation.

## NOTE 2 – ACCOUNTING AND REPORTING DEVELOPMENTS

### Fair value measurements and disclosures

In January 2010, the FASB issued guidance that requires new disclosures, and clarifies existing disclosure requirements, about fair value measurements. The clarifications and the requirement to separately disclose transfers of instruments between level 1 and level 2 of the fair value hierarchy are effective for interim reporting periods beginning after December 15, 2009; JPMorgan Chase Bank, N.A. adopted this guidance in the first quarter of 2010. For additional information about the impact of the adoption of the new fair value measurements guidance, see Note 4 on pages 7–17 of these Consolidated Financial Statements. In addition, a new requirement to provide purchases, sales, issuances and settlements in the level 3 rollforward on a gross basis is effective for fiscal years beginning after December 15, 2010. JPMorgan Chase Bank, N.A. adopted the new guidance, effective January 1, 2011.

In May 2011, the FASB issued guidance that amends the requirements for fair value measurement with the objective of achieving common fair value measurement and disclosure requirements with International Financial Reporting Standards ("IFRS") issued by the IASB. Certain amendments in the guidance clarify the FASB's intent about the application of existing measurement requirements, and other amendments change certain requirements for measuring fair value or for disclosure. The guidance requires additional disclosures for fair value measurements categorized in level 3 of the fair value hierarchy and for financial instruments that are not carried at fair value but for which fair value is required to be disclosed. The amendments are effective for interim and annual periods beginning after December 15, 2011. The implementation of this guidance is not expected to affect JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or results of operations.

### Disclosures about the credit quality of financing receivables and the allowance for credit losses

In July 2010, the FASB issued guidance that requires enhanced disclosures surrounding the credit characteristics of JPMorgan Chase Bank, N.A.'s loan portfolio. Under the new guidance, JPMorgan Chase Bank, N.A. is required to disclose its accounting policies; the methods it uses to determine the components of the allowance for credit losses; and qualitative and quantitative information about the credit risk inherent in the loan portfolio, including additional information on certain types of loan modifications. For JPMorgan Chase Bank, N.A., the new disclosures, other than

those related to loan modifications, became effective for the 2010 Annual Financial Statements. For additional information, see Notes 14 and 15 on pages 36–54 of these Consolidated Financial Statements. The adoption of this guidance only affected JPMorgan Chase Bank, N.A.'s disclosures of financing receivables and not its Consolidated Balance Sheets or results of operation. New disclosures regarding troubled debt restructurings ("TDRs") will become effective for the third quarter 2011 Consolidated Financial Statements.

**Determining whether a restructuring is a troubled debt restructuring**

In April 2011, the FASB issued guidance to clarify existing standards for determining whether a restructuring represents a TDR from the perspective of the creditor. The guidance is effective in the third quarter of 2011, and must be applied retrospective to January 1, 2011. JPMorgan Chase Bank, N.A. does not expect that the implementation of this new guidance will have a significant impact on its Consolidated Balance Sheets or results of operations.

**Accounting for repurchase and similar agreements**

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

## NOTE 3 – BUSINESS CHANGES AND DEVELOPMENTS

**Subsequent events**

JPMorgan Chase Bank, N.A. has performed an evaluation of events that have occurred subsequent to March 31, 2011, and through May 31, 2011 (the date these Consolidated Financial Statements were available to be issued). There have been no material subsequent events that occurred during such period that would require disclosure or recognition in these Consolidated Financial Statements, as of or for the three months ended March 31, 2011.

## NOTE 4 – FAIR VALUE MEASUREMENT

For a further discussion of JPMorgan Chase Bank, N.A.'s valuation methodologies for assets, liabilities and lending-related commitments measured at fair value and the fair value hierarchy, see Note 4 on pages 12–29 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

During the first three months of 2011, no changes were made to JPMorgan Chase Bank, N.A.'s valuation models that had, or were expected to have, a material impact on its Consolidated Balance Sheets or results of operations.

The following table presents the assets and liabilities measured at fair value as of March 31, 2011, and December 31, 2010, by major product category and fair value hierarchy.

**Assets and liabilities measured at fair value on a recurring basis**

| | Fair value hierarchy | | | | |
|---|---|---|---|---|---|
| **March 31, 2011** (in millions) | Level 1[g] | Level 2[g] | Level 3[g] | Netting adjustments | Total fair value |
| Federal funds sold and securities purchased under resale agreements | $ — | $ **19,441** | $ — | $ — | $ **19,441** |
| Securities borrowed | — | **15,334** | — | — | **15,334** |
| Trading assets: | | | | | |
| Debt instruments: | | | | | |
| Mortgage-backed securities: | | | | | |
| U.S. government agencies[a] | **54** | **250** | — | — | **304** |
| Residential – nonagency | — | **1,066** | **240** | — | **1,306** |
| Commercial – nonagency | — | **348** | **195** | — | **543** |
| **Total mortgage-backed securities** | **54** | **1,664** | **435** | — | **2,153** |
| U.S. Treasury and government agencies[a] | **10,211** | **169** | — | — | **10,380** |
| Obligations of U.S. states and municipalities | — | **565** | **231** | — | **796** |
| Certificates of deposit, bankers' acceptances and commercial paper | **137** | **1,737** | — | — | **1,874** |
| Non–U.S. government debt securities | **31,014** | **47,777** | **113** | — | **78,904** |
| Corporate debt securities | — | **36,681** | **5,373** | — | **42,054** |
| Loans | — | **21,433** | **10,654** | — | **32,087** |
| Asset-backed securities | — | **1,396** | **6,560** | — | **7,956** |
| **Total debt instruments** | **41,416** | **111,422** | **23,366** | — | **176,204** |
| Equity securities | **103,631** | **970** | **329** | — | **104,930** |
| Physical commodities[b] | **16,594** | **23** | — | — | **16,617** |
| Other | — | **1,901** | **73** | — | **1,974** |
| **Total debt and equity instruments**[c] | **161,641** | **114,316** | **23,768** | — | **299,725** |
| Derivative receivables: | | | | | |
| Interest rate | **384** | **929,983** | **4,929** | **(906,682)** | **28,614** |
| Credit[d] | — | **106,477** | **15,605** | **(113,948)** | **8,134** |
| Foreign exchange | **1,331** | **154,413** | **4,116** | **(142,968)** | **16,892** |
| Equity | **2** | **42,639** | **5,800** | **(39,777)** | **8,664** |
| Commodity | **759** | **50,607** | **2,321** | **(44,218)** | **9,469** |
| **Total derivative receivables**[e] | **2,476** | **1,284,119** | **32,771** | **(1,247,593)** | **71,773** |
| **Total trading assets** | **164,117** | **1,398,435** | **56,539** | **(1,247,593)** | **371,498** |
| Available-for-sale securities: | | | | | |
| Mortgage-backed securities: | | | | | |
| U.S. government agencies[a] | **103,692** | **18,162** | — | — | **121,854** |
| Residential – nonagency | — | **55,234** | **5** | — | **55,239** |
| Commercial – nonagency | — | **4,268** | **248** | — | **4,516** |
| **Total mortgage-backed securities** | **103,692** | **77,664** | **253** | — | **181,609** |
| U.S. Treasury and government agencies[a] | **475** | **6,490** | — | — | **6,965** |
| Obligations of U.S. states and municipalities | **27** | **8,003** | **68** | — | **8,098** |
| Certificates of deposit | — | **3,489** | — | — | **3,489** |
| Non–U.S. government debt securities | **18,200** | **14,864** | — | — | **33,064** |
| Corporate debt securities | **1** | **62,513** | — | — | **62,514** |
| Asset-backed securities: | | | | | |
| Credit card receivables | — | **7,429** | — | — | **7,429** |
| Collateralized loan obligations | — | **127** | **14,741** | — | **14,868** |
| Other | — | **9,131** | — | — | **9,131** |
| Equity securities | **537** | **44** | — | — | **581** |
| **Total available-for-sale securities** | **122,932** | **189,754** | **15,062** | — | **327,748** |
| Loans | — | **386** | **304** | — | **690** |
| Mortgage servicing rights | — | — | **12,881** | — | **12,881** |
| Other assets | **3** | **7** | **6,795** | — | **6,805** |
| **Total assets measured at fair value on a recurring basis**[f] | **$ 287,052** | **$ 1,623,357** | **$ 91,581** | **$ (1,247,593)** | **$ 754,397** |

| March 31, 2011 (in millions) | Fair value hierarchy Level 1[g] | Level 2[g] | Level 3[g] | Netting adjustments | Total fair value |
|---|---|---|---|---|---|
| Deposits | $ — | $ 3,621 | $ 616 | $ — | $ 4,237 |
| Federal funds purchased and securities loaned or sold under repurchase agreements | — | 3,960 | — | — | 3,960 |
| Other borrowed funds | — | 6,082 | 1,277 | — | 7,359 |
| Trading liabilities: | | | | | |
| Debt and equity instruments[c] | 39,897 | 13,279 | 50 | — | 53,226 |
| Derivative payables: | | | | | |
| Interest rate | 318 | 899,178 | 3,457 | (884,014) | 18,939 |
| Credit[d] | — | 108,001 | 11,271 | (112,774) | 6,498 |
| Foreign exchange | 1,412 | 154,929 | 4,150 | (141,394) | 19,097 |
| Equity | 1 | 38,899 | 8,336 | (35,649) | 11,587 |
| Commodity | 760 | 49,466 | 3,020 | (43,794) | 9,452 |
| **Total derivative payables[e]** | 2,491 | 1,250,473 | 30,234 | (1,217,625) | 65,573 |
| **Total trading liabilities** | 42,388 | 1,263,752 | 30,284 | (1,217,625) | 118,799 |
| Accounts payable and other liabilities | — | — | 82 | — | 82 |
| Beneficial interests issued by consolidated VIEs | — | 178 | 210 | — | 388 |
| Long-term debt | — | 11,046 | 9,207 | — | 20,253 |
| **Total liabilities measured at fair value on a recurring basis** | $ 42,388 | $ 1,288,639 | $ 41,676 | $(1,217,625) | $ 155,078 |

| December 31, 2010 (in millions) | Fair value hierarchy Level 1 | Level 2 | Level 3 | Netting adjustments | Total fair value |
|---|---|---|---|---|---|
| Federal funds sold and securities purchased under resale agreements | $ — | $ 19,876 | $ — | $ — | $ 19,876 |
| Securities borrowed | — | 13,961 | — | — | 13,961 |
| Trading assets: | | | | | |
| Debt instruments: | | | | | |
| Mortgage-backed securities: | | | | | |
| U.S. government agencies[(a)] | 384 | 215 | — | — | 599 |
| Residential – nonagency | — | 852 | 187 | — | 1,039 |
| Commercial – nonagency | — | 263 | 200 | — | 463 |
| **Total mortgage-backed securities** | 384 | 1,330 | 387 | — | 2,101 |
| U.S. Treasury and government agencies[(a)] | 8,178 | 282 | — | — | 8,460 |
| Obligations of U.S. states and municipalities | — | 781 | 244 | — | 1,025 |
| Certificates of deposit, bankers' acceptances and commercial paper | 137 | 1,090 | — | — | 1,227 |
| Non-U.S. government debt securities | 31,591 | 38,464 | 202 | — | 70,257 |
| Corporate debt securities | — | 32,182 | 4,844 | — | 37,026 |
| Loans | — | 21,642 | 10,423 | — | 32,065 |
| Asset-backed securities | — | 903 | 6,368 | — | 7,271 |
| **Total debt instruments** | 40,290 | 96,674 | 22,468 | — | 159,432 |
| Equity securities | 106,318 | 880 | 344 | — | 107,542 |
| Physical commodities[(b)] | 18,105 | 24 | — | — | 18,129 |
| Other | — | 1,532 | 73 | — | 1,605 |
| **Total debt and equity instruments**[(c)] | 164,713 | 99,110 | 22,885 | — | 286,708 |
| Derivative receivables: | | | | | |
| Interest rate | 872 | 1,117,915 | 5,327 | (1,095,421) | 28,693 |
| Credit[(d)] | — | 111,937 | 17,902 | (122,004) | 7,835 |
| Foreign exchange | 1,121 | 161,396 | 4,234 | (142,613) | 24,138 |
| Equity | — | 37,989 | 5,545 | (39,172) | 4,362 |
| Commodity | 1,323 | 37,622 | 1,877 | (34,408) | 6,414 |
| **Total derivative receivables**[(e)] | 3,316 | 1,466,859 | 34,885 | (1,433,618) | 71,442 |
| **Total trading assets** | 168,029 | 1,565,969 | 57,770 | (1,433,618) | 358,150 |
| Available-for-sale securities: | | | | | |
| Mortgage-backed securities: | | | | | |
| U.S. government agencies[(a)] | 104,736 | 15,490 | — | — | 120,226 |
| Residential – nonagency | — | 48,969 | 5 | — | 48,974 |
| Commercial – nonagency | — | 4,893 | 251 | — | 5,144 |
| **Total mortgage-backed securities** | 104,736 | 69,352 | 256 | — | 174,344 |
| U.S. Treasury and government agencies[(a)] | 432 | 10,826 | — | — | 11,258 |
| Obligations of U.S. states and municipalities | 31 | 8,098 | 67 | — | 8,196 |
| Certificates of deposit | — | 3,641 | — | — | 3,641 |
| Non-U.S. government debt securities | 13,107 | 7,670 | — | — | 20,777 |
| Corporate debt securities | 1 | 60,660 | — | — | 60,661 |
| Asset-backed securities: | | | | | |
| Credit card receivables | — | 8,856 | — | — | 8,856 |
| Collateralized loan obligations | — | 128 | 13,470 | — | 13,598 |
| Other | — | 8,777 | — | — | 8,777 |
| Equity securities | 593 | 44 | — | — | 637 |
| **Total available-for-sale securities** | 118,900 | 178,052 | 13,793 | — | 310,745 |
| Loans | — | 422 | 551 | — | 973 |
| Mortgage servicing rights | — | — | 13,440 | — | 13,440 |
| Other assets | 6 | 7 | 8,126 | — | 8,139 |
| **Total assets measured at fair value on a recurring basis**[(f)] | $ 286,935 | $ 1,778,287 | $ 93,680 | $ (1,433,618) | $ 725,284 |

| December 31, 2010 (in millions) | Fair value hierarchy Level 1 | Level 2 | Level 3 | Netting adjustments | Total fair value |
|---|---|---|---|---|---|
| Deposits | $ — | $ 3,693 | $ 634 | $ — | $ 4,327 |
| Federal funds purchased and securities loaned or sold under repurchase agreements | — | 2,555 | — | — | 2,555 |
| Other borrowed funds | — | 6,342 | 783 | — | 7,125 |
| Trading liabilities: | | | | | |
| Debt and equity instruments[c] | 40,266 | 13,015 | 2 | — | 53,283 |
| Derivative payables: | | | | | |
| Interest rate | 1,139 | 1,089,777 | 3,138 | (1,070,058) | 23,996 |
| Credit[d] | — | 113,405 | 12,562 | (119,922) | 6,045 |
| Foreign exchange | 972 | 159,248 | 4,870 | (139,715) | 25,375 |
| Equity | — | 38,633 | 7,569 | (35,692) | 10,510 |
| Commodity | 866 | 36,992 | 2,634 | (35,263) | 5,229 |
| **Total derivative payables[e]** | 2,977 | 1,438,055 | 30,773 | (1,400,650) | 71,155 |
| **Total trading liabilities** | 43,243 | 1,451,070 | 30,775 | (1,400,650) | 124,438 |
| Accounts payable and other liabilities | — | — | 127 | — | 127 |
| Beneficial interests issued by consolidated VIEs | — | 179 | 175 | — | 354 |
| Long-term debt | — | 11,261 | 9,558 | — | 20,819 |
| **Total liabilities measured at fair value on a recurring basis** | $ 43,243 | $ 1,475,100 | $ 42,052 | $ (1,400,650) | $ 159,745 |

*(a) At March 31, 2011, and December 31, 2010, included total U.S. government-sponsored enterprise obligations of $92.0 billion and $94.7 billion respectively, which were predominantly mortgage-related.*

*(b) Physical commodities inventories are generally accounted for at the lower of cost or fair value.*

*(c) Balances reflect the reduction of securities owned (long positions) by the amount of securities sold but not yet purchased (short positions) when the long and short positions have identical Committee on Uniform Security Identification Procedures numbers ("CUSIPs").*

*(d) The level 3 amounts for credit derivative receivables and credit derivative payables primarily include structured credit derivative instruments. For further information on the classification of instruments within the valuation hierarchy, see Note 4 on pages 12–29 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.*

*(e) As permitted under U.S. GAAP, JPMorgan Chase Bank, N.A. has elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists. For purposes of the tables above, JPMorgan Chase Bank, N.A. does not reduce derivative receivables and derivative payables balances for this netting adjustment, either within or across the levels of the fair value hierarchy, as such netting is not relevant to a presentation based on the transparency of inputs to the valuation of an asset or liability. Therefore, the balances reported in the fair value hierarchy table are gross of any counterparty netting adjustments. However, if JPMorgan Chase Bank, N.A. were to net such balances within level 3, the reduction in the level 3 derivative receivable and payable balances would be $12.0 billion and $12.5 billion at March 31, 2011, and December 31, 2010, respectively; this is exclusive of the netting benefit associated with cash collateral, which would further reduce the level 3 balances.*

*(f) At March 31, 2011, and December 31, 2010, balances included investments valued at net asset values of $1.8 billion and $1.9 billion, respectively, of which $834 million and $874 million, respectively, were classified in level 1, $765 million and $741 million, respectively, in level 2 and $235 million and $243 million, respectively, in level 3.*

*(g) For the three months ended March 31, 2011 and 2010, the transfers between levels 1, 2 and 3 were not significant.*

## Changes in level 3 recurring fair value measurements

The following tables include a rollforward of the balance sheet amounts (including changes in fair value) for financial instruments classified by JPMorgan Chase Bank, N.A. within level 3 of the fair value hierarchy for the three months ended March 31, 2011 and 2010. When a determination is made to classify a financial instrument within level 3, the determination is based on the significance of the unobservable parameters to the overall fair value measurement. However, level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. Also, JPMorgan Chase Bank, N.A. risk-manages the observable components of level 3 financial instruments using securities and derivative positions that are classified within level 1 or 2 of the fair value hierarchy; as these level 1 and level 2 risk management instruments are not included below, the gains or losses in the following tables do not reflect the effect of JPMorgan Chase Bank, N.A.'s risk management activities related to such level 3 instruments.

| Three months ended March 31, 2011 (in millions) | Fair value measurements using significant unobservable inputs: Fair value at January 1, 2011 | Total realized/ unrealized gains/(losses) | Purchases[e] | Sales | Issuances | Settlements | Transfers into and/or out of level 3[f] | Fair value at March 31, 2011 | Change in unrealized gains/(losses) related to financial instruments held at March 31, 2011 |
|---|---|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | | | |
| Trading assets: | | | | | | | | | |
| Debt instruments: | | | | | | | | | |
| Mortgage-backed securities: | | | | | | | | | |
| U.S. government agencies | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Residential – nonagency | 187 | 35 | 63 | (33) | — | (12) | — | 240 | 28 |
| Commercial – nonagency | 200 | 19 | 110 | (133) | — | (1) | — | 195 | 9 |
| **Total mortgage-backed securities** | 387 | 54 | 173 | (166) | — | (13) | — | 435 | 37 |
| Obligations of U.S. states and municipalities | 244 | (12) | 4 | — | — | (5) | — | 231 | (12) |
| Non-U.S. government debt securities | 202 | 4 | 129 | (143) | — | (5) | (74) | 113 | 4 |
| Corporate debt securities | 4,844 | 111 | 1,496 | (1,067) | — | (105) | 94 | 5,373 | 18 |
| Loans | 10,423 | 30 | 843 | (256) | — | (466) | 80 | 10,654 | 6 |
| Asset-backed securities | 6,368 | 296 | 380 | (470) | — | (33) | 19 | 6,560 | 217 |
| **Total debt instruments** | 22,468 | 483 | 3,025 | (2,102) | — | (627) | 119 | 23,366 | 270 |
| Equity securities | 344 | 27 | 12 | (7) | — | — | (47) | 329 | 27 |
| Other | 73 | 15 | 2 | (1) | — | (16) | — | 73 | 15 |
| **Total debt and equity instruments** | 22,885 | 525[a] | 3,039 | (2,110) | — | (643) | 72 | 23,768 | 312[a] |
| Net derivative receivables: | | | | | | | | | |
| Interest rate | 2,189 | 465 | 132 | (83) | — | (882) | (349) | 1,472 | 128 |
| Credit | 5,340 | (846) | 1 | — | — | (146) | (15) | 4,334 | (1,067) |
| Foreign exchange | (636) | 60 | 25 | — | — | 469 | 48 | (34) | 68 |
| Equity | (2,024) | 93 | 103 | (346) | — | (397) | 35 | (2,536) | 3 |
| Commodity | (757) | 360 | 68 | (45) | — | (349) | 24 | (699) | 156 |
| **Total net derivative receivables** | 4,112 | 132[a] | 329 | (474) | — | (1,305) | (257) | 2,537 | (712)[a] |
| Available-for-sale securities: | | | | | | | | | |
| Asset-backed securities | 13,470 | 472 | 1,110 | — | — | (311) | — | 14,741 | 472 |
| Other | 323 | 7 | — | — | — | (9) | — | 321 | 7 |
| **Total available-for-sale securities** | 13,793 | 479[b] | 1,110 | — | — | (320) | — | 15,062 | 479[b] |
| Loans | 551 | 27[a] | 4 | — | — | (278) | — | 304 | 15[a] |
| Mortgage servicing rights | 13,440 | (763)[c] | 758 | — | — | (554) | — | 12,881 | (763)[c] |
| Other assets | 8,126 | (3)[d] | 5 | — | — | (1,333) | — | 6,795 | (3)[d] |

| Three months ended March 31, 2011 (in millions) | Fair value measurements using significant unobservable input: Fair value at January 1, 2011 | Total realized/ unrealized (gains)/losses | Purchases | Sales | Issuances | Settlements | Transfers into and/or out of level 3[f] | Fair value at March 31, 2011 | Change in unrealized (gains)/losses related to financial instruments held at March 31, 2011 |
|---|---|---|---|---|---|---|---|---|---|
| **Liabilities[g]:** | | | | | | | | | |
| Deposits | $ 634 | $ (4)[a] | $ — | $ — | $ 54 | $ (67) | $ (1) | $ 616 | $ (4)[a] |
| Other borrowed funds | 783 | 50[a] | — | — | 530 | (88) | 2 | 1,277 | 50[a] |
| Trading liabilities: | | | | | | | | | |
| Debt and equity instruments | 2 | 2[a] | — | 48 | — | (2) | — | 50 | 2[a] |
| Accounts payable and other liabilities | 127 | 2[d] | — | — | — | (47) | — | 82 | 2[d] |
| Beneficial interests issued by consolidated VIEs | 175 | 35[a] | — | — | — | — | — | 210 | 35[a] |
| Long-term debt | 9,558 | 76[a] | — | — | 466 | (977) | 84 | 9,207 | 112[a] |

| Three months ended March 31, 2010 (in millions) | Fair value measurements using significant unobservable inputs: Fair value at January 1, 2010 | Total realized/ unrealized gains/(losses) | Purchases, issuances, settlements, net | Transfers into and/or out of level 3[(f)] | Fair value at March 31, 2010 | Change in unrealized gains/(losses) related to financial instruments held at March 31, 2010 |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Trading assets: | | | | | | |
| Debt instruments: | | | | | | |
| Mortgage-backed securities: | | | | | | |
| U.S. government agencies | $ — | $ — | $ — | $ — | $ — | $ — |
| Residential – nonagency | 242 | 28 | 2 | 3 | 275 | 18 |
| Commercial – nonagency | 180 | 64 | (101) | — | 143 | (7) |
| **Total mortgage-backed securities** | 422 | 92 | (99) | 3 | 418 | 11 |
| Obligations of U.S. states and municipalities | 257 | (3) | (2) | — | 252 | (3) |
| Non-U.S. government debt securities | 88 | (3) | 33 | — | 118 | (2) |
| Corporate debt securities | 4,558 | (427) | 210 | 278 | 4,619 | 16 |
| Loans | 11,070 | (169) | 654 | (21) | 11,534 | (193) |
| Asset-backed securities | 6,520 | 1 | 142 | 74 | 6,737 | (19) |
| **Total debt instruments** | 22,915 | (509) | 938 | 334 | 23,678 | (190) |
| Equity securities | 284 | 1 | (118) | — | 167 | 2 |
| Other | 160 | 19 | (56) | — | 123 | 17 |
| **Total debt and equity instruments** | 23,359 | (489)[(a)] | 764 | 334 | 23,968 | (171)[(a)] |
| Net of derivative receivables: | | | | | | |
| Interest rate | 2,038 | 416 | (90) | (379) | 1,985 | 204 |
| Credit | 10,182 | (608) | (435) | (9) | 9,130 | (722) |
| Foreign exchange | 1,083 | (364) | (153) | (382) | 184 | (354) |
| Equity | (1,400) | 203 | (503) | 261 | (1,439) | 176 |
| Commodity | (504) | (387) | 271 | 27 | (593) | (545) |
| **Total net derivative receivables** | 11,399 | (740)[(a)] | (910) | (482) | 9,267 | (1,241)[(a)] |
| Available-for-sale securities: | | | | | | |
| Asset-backed securities | 12,255 | (82) | (89) | — | 12,084 | (82) |
| Other | 151 | 13 | — | 1 | 165 | 15 |
| **Total available-for-sale securities** | 12,406 | (69)[(b)] | (89) | 1 | 12,249 | (67)[(b)] |
| Loans | 310 | 14[(a)] | 138 | (8) | 454 | (4)[(a)] |
| Mortgage servicing rights | 15,342 | (102)[(c)] | 103 | — | 15,343 | (102)[(c)] |
| Other assets | 3,610 | (99)[(d)] | 3,106 | — | 6,617 | (99)[(d)] |

| Three months ended March 31, 2010 (in millions) | Fair value measurements using significant unobservable inputs: Fair value at January 1, 2010 | Total realized/ unrealized (gains)/losses | Purchases, issuances, settlements, net | Transfers into and/or out of level 3[(f)] | Fair value at March 31, 2010 | Change in unrealized (gains)/losses related to financial instruments held at March 31, 2010 |
|---|---|---|---|---|---|---|
| **Liabilities**[(g)]: | | | | | | |
| Deposits | $ 476 | $ (10)[(a)] | $ (1) | $ (25) | $ 440 | $ (14)[(a)] |
| Other borrowed funds | 492 | (53)[(a)] | 206 | (233) | 412 | (74)[(a)] |
| Trading liabilities: | | | | | | |
| Debt and equity instruments | 10 | 2[(a)] | 1 | 19 | 32 | 2[(a)] |
| Accounts payable and other liabilities | 3 | —[(d)] | — | — | 3 | 2[(d)] |
| Beneficial interests issued by consolidated VIEs | 568 | 35[(a)] | (7) | — | 596 | 35[(a)] |
| Long-term debt | 13,965 | (200)[(a)] | (435) | (31) | 13,299 | (170)[(a)] |

*(a) Predominantly reported in principal transactions revenue, except for changes in fair value for mortgage loans originated with the intent to sell within the retail financial services business, which are reported in mortgage fees and related income.*

*(b) Realized gains/(losses) on available-for-sale ("AFS") securities, as well as other-than-temporary impairment losses that are recorded in earnings, are reported in securities gains. Unrealized gains/(losses) are reported in other comprehensive income ("OCI"). Realized gains/(losses) and foreign exchange remeasurement adjustments recorded in income on AFS securities were $328 million and $13 million for the three months ended March 31, 2011 and 2010, respectively. Unrealized gains/(losses) reported on AFS securities in OCI were $151 million and $(82) million for the three months ended March 31, 2011 and 2010, respectively.*

*(c) Changes in fair value for mortgage servicing rights within the retail financial services business are reported in mortgage fees and related income.*
*(d) Largely reported in other income.*
*(e) Loan originations are included in purchases.*
*(f) All transfers into and/or out of level 3 are assumed to occur at the beginning of the reporting period.*
*(g) Level 3 liabilities as a percentage of total JPMorgan Chase Bank, N.A. liabilities accounted for at fair value (including liabilities measured at fair value on a nonrecurring basis) were 27% and 26% at March 31, 2011, and December 31, 2010, respectively.*

**Assets and liabilities measured at fair value on a nonrecurring basis**

Certain assets, liabilities and unfunded lending-related commitments are measured at fair value on a nonrecurring basis; that is, they are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The following tables present the assets and liabilities carried on the Consolidated Balance Sheets by caption and level within the valuation hierarchy as of March 31, 2011, and December 31, 2010, for which a nonrecurring change in fair value has been recorded during the reporting period.

| | Fair value hierarchy | | | |
|---|---|---|---|---|
| **March 31, 2011** (in millions) | Level 1[(d)] | Level 2[(d)] | Level 3[(d)] | Total fair value |
| Loans retained[(a)] | **$ —** | **$ 1,255** | **$ 625** | **$ 1,880** |
| Loans held-for-sale[(b)] | **—** | **457** | **370** | **827** |
| **Total loans** | **—** | **1,712** | **995** | **2,707** |
| Other real estate owned | **—** | **16** | **210** | **226** |
| Other assets | **—** | **—** | **1** | **1** |
| **Total other assets** | **—** | **16** | **211** | **227** |
| **Total assets at fair value on a nonrecurring basis** | **$ —** | **$ 1,728** | **$ 1,206** | **$ 2,934** |
| Accounts payable and other liabilities[(c)] | **$ —** | **$ 36** | **$ 17** | **$ 53** |
| **Total liabilities at fair value on a nonrecurring basis** | **$ —** | **$ 36** | **$ 17** | **$ 53** |

| | Fair value hierarchy | | | |
|---|---|---|---|---|
| December 31, 2010 (in millions) | Level 1 | Level 2 | Level 3 | Total fair value |
| Loans retained[(a)] | $ — | $ 5,032 | $ 690 | $ 5,722 |
| Loans held-for-sale[(b)] | — | 312 | 1,039 | 1,351 |
| **Total loans** | — | 5,344 | 1,729 | 7,073 |
| Other real estate owned | — | 23 | 235 | 258 |
| Other assets | — | — | 1 | 1 |
| **Total other assets** | — | 23 | 236 | 259 |
| **Total assets at fair value on a nonrecurring basis** | $ — | $ 5,367 | $ 1,965 | $ 7,332 |
| Accounts payable and other liabilities[(c)] | $ — | $ 53 | $ 18 | $ 71 |
| **Total liabilities at fair value on a nonrecurring basis** | $ — | $ 53 | $ 18 | $ 71 |

*(a) Reflects mortgage, home equity and other loans where the carrying value is based on the fair value of the underlying collateral.*
*(b) Predominantly includes leveraged lending loans at March 31, 2011, and December 31, 2010. Loans held-for-sale are carried on the Consolidated Balance Sheets at the lower of cost or fair value.*
*(c) Represents, at March 31, 2011, and December 31, 2010, fair value adjustments associated with $828 million and $517 million, respectively, of unfunded held-for-sale lending-related commitments within the leveraged lending portfolio.*
*(d) For the three months ended March 31, 2011 and 2010, the transfers between levels 1, 2 and 3 were not significant.*

The method used to estimate the fair value of impaired collateral-dependent loans, and other loans where the carrying value is based on the fair value of the underlying collateral (e.g., residential mortgage loans charged off in accordance with regulatory guidance), depends on the type of collateral (e.g., securities, real estate, nonfinancial assets) underlying the loan. Fair value of the collateral is estimated based on quoted market prices, broker quotes or independent appraisals, or by using a discounted cash flow model. For further information, see Note 14 on pages 36–52 of these Consolidated Financial Statements.

## Nonrecurring fair value changes

The following table presents the total change in value of assets and liabilities for which a fair value adjustment has been included in the Consolidated Statements of Income for the three-month periods ended March 31, 2011 and 2010, related to financial instruments held at those dates.

| | Three months ended March 31, | |
|---|---|---|
| (in millions) | **2011** | 2010 |
| Loans retained | **$ (631)** | $ (1,268) |
| Loans held-for-sale | **23** | 13 |
| **Total loans** | **(608)** | (1,255) |
| Other assets | **—** | 15 |
| Accounts payable and other liabilities | **6** | 7 |
| **Total nonrecurring fair value gains/(losses)** | **$ (602)** | $ (1,233) |

## Level 3 analysis

Level 3 assets at March 31, 2011, predominantly include derivative receivables, collateralized loan obligations ("CLOs") held within the AFS securities portfolio, mortgage servicing rights ("MSRs"), trading loans and asset-backed trading securities.

- Derivative receivables included $32.8 billion of interest rate, credit, foreign exchange, equity and commodity contracts classified within level 3 at March 31, 2011. Included within this balance was $9.8 billion of structured credit derivatives with corporate debt underlying. In assessing JPMorgan Chase Bank, N.A.'s risk exposure to structured credit derivatives, JPMorgan Chase Bank, N.A. believes consideration should also be given to derivative liabilities with similar, and therefore offsetting, risk profiles. At March 31, 2011, $5.1 billion of level 3 derivative liabilities had risk characteristics similar to those of the derivative receivable assets classified in level 3.

- CLOs totaling $14.7 billion were securities backed by corporate loans held in JPMorgan Chase Bank, N.A.'s AFS securities portfolio. Substantially all of these securities are rated "AAA," "AA" and "A" and had an average credit enhancement of 30%. Credit enhancement in CLOs is primarily in the form of subordination, which is a form of structural credit enhancement where realized losses associated with assets held by the issuing vehicle are allocated to the various tranches of securities issued by the vehicle considering their relative seniority. For further discussion, see Note 12 on pages 29–34 of these Consolidated Financial Statements.

- Mortgage servicing rights represent the fair value of future cash flows for performing specified mortgage servicing activities for others (predominantly with respect to residential mortgage loans). For a further description of the MSR asset, the interest rate risk management and valuation methodology used for MSRs, including valuation assumptions and sensitivities, see Note 18 on pages 98–100 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements and Note 17 on pages 63–65 of these Consolidated Financial Statements.

- Trading loans totaling $10.7 billion included $5.1 billion of residential mortgage whole loans and commercial mortgage loans for which there is limited price transparency; and $3.9 billion of reverse mortgages for which the principal risk sensitivities are mortality risk and home prices. The fair value of the commercial and residential mortgage loans is estimated by projecting expected cash flows, considering relevant borrower-specific and market factors, and discounting those cash flows at a rate reflecting current market liquidity. Loans are partially hedged by level 2 instruments, including credit default swaps and interest rate derivatives, which are observable and liquid.

*Consolidated Balance Sheets changes*

Level 3 assets (including assets measured at fair value on a nonrecurring basis) were 5% of total JPMorgan Chase Bank, N.A.'s assets and 12% of total assets measured at fair value at March 31, 2011, compared with 6% and 13%, respectively, at December 31, 2010. The following describes significant changes to level 3 assets during the quarter.

*For the three months ended March 31, 2011*

Level 3 assets were $92.8 billion at March 31, 2011, reflecting a decrease of $2.9 billion largely by:

- $2.1 billion decrease in derivative receivables, largely due to tightening of credit spreads;
- $1.3 billion decrease in JPMorgan Chase Bank, N.A's undivided interests in nonconsolidated credit card trusts sponsored by an affiliate, classified in other assets; and
- $1.3 billion increase in asset-backed AFS securities, predominantly driven by purchases of new issuance CLOs.

*Gains and Losses*

*Included in the tables for the three months ended March 31, 2011*

- $397 million of net gains and $161 million of net losses on assets and liabilities, respectively, measured at fair value on a recurring basis, none of which were individually significant.

*Included in the tables for the three months ended March 31, 2010*

- $1.5 billion of net losses and $226 million of net gains on assets and liabilities, respectively, measured at fair value on a recurring basis, none of which were individually significant.

**Additional disclosures about the fair value of financial instruments (including financial instruments not carried at fair value)**

The following table presents the carrying values and estimated fair values of financial assets and liabilities. For additional information regarding the financial instruments within the scope of this disclosure, and the methods and significant assumptions used to estimate their fair value, see Note 4 on pages 12–29 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The following table presents the carrying values and estimated fair values of financial assets and liabilities.

| | **March 31, 2011** | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| (in billions) | Carrying value | Estimated fair value | Appreciation/ (depreciation) | Carrying value | Estimated fair value | Appreciation/ (depreciation) |
| **Financial assets** | | | | | | |
| Assets for which fair value approximates carrying value | **$ 103.8** | **$ 103.8** | **$ —** | $ 47.1 | $ 47.1 | $ — |
| Accrued interest and accounts receivable | **39.6** | **39.6** | **—** | 36.0 | 36.0 | — |
| Federal funds sold and securities purchased under resale agreements (included **$19.4** and $19.9 at fair value) | **174.6** | **174.6** | **—** | 175.2 | 175.2 | — |
| Securities borrowed (included **$15.3** and $14.0 at fair value) | **56.9** | **56.9** | **—** | 57.4 | 57.4 | — |
| Trading assets | **371.5** | **371.5** | **—** | 358.2 | 358.2 | — |
| Securities (included **$327.7** and $310.7 at fair value) | **327.8** | **327.8** | **—** | 310.8 | 310.8 | — |
| Loans (included **$0.7** and $1.0 at fair value)[(a)] | **536.7** | **537.1** | **0.4** | 530.6 | 531.6 | 1.0 |
| Mortgage servicing rights at fair value | **12.9** | **12.9** | **—** | 13.4 | 13.4 | — |
| Other (included **$6.8** and $8.1 at fair value) | **36.7** | **37.0** | **0.3** | 41.1 | 41.3 | 0.2 |
| **Total financial assets** | **$ 1,660.5** | **$ 1,661.2** | **$ 0.7** | $ 1,569.8 | $ 1,571.0 | $ 1.2 |
| **Financial liabilities** | | | | | | |
| Deposits (included **$4.2** and $4.3 at fair value) | **$ 1,093.0** | **$ 1,093.9** | **$ (0.9)** | $ 1,020.0 | $ 1,021.1 | $ (1.1) |
| Federal funds purchased and securities loaned or sold under repurchase agreements (included **$4.0** and $2.6 at fair value) | **196.8** | **196.8** | **—** | 178.6 | 178.6 | — |
| Other borrowed funds (included **$7.4** and $7.1 at fair value)[(b)] | **26.2** | **26.2** | **—** | 23.1 | 23.1 | — |
| Trading liabilities | **118.8** | **118.8** | **—** | 124.4 | 124.4 | — |
| Accounts payable and other liabilities (included **$0.1** and $0.1 at fair value) | **56.1** | **56.1** | **—** | 47.7 | 47.7 | — |
| Beneficial interests issued by consolidated VIEs (included **$0.4** and $0.4 at fair value) | **25.0** | **25.0** | **—** | 26.1 | 26.1 | — |
| Long-term debt and junior subordinated deferrable interest debentures (included **$20.3** and $20.8 at fair value)[(b)] | **64.5** | **63.9** | **0.6** | 67.6 | 67.1 | 0.5 |
| **Total financial liabilities** | **$ 1,580.4** | **$ 1,580.7** | **$ (0.3)** | $ 1,487.5 | $ 1,488.1 | $ (0.6) |
| **Net appreciation** | | | **$ 0.4** | | | $ 0.6 |

*(a) Fair value is typically estimated using a discounted cash flow model that incorporates the characteristics of the underlying loans (including principal, contractual interest rates and contractual fees) and other key inputs, including expected lifetime credit losses, interest rates, prepayment rates, and primary origination or secondary market spreads. For certain loans, the fair value is measured based upon the value of the underlying collateral. The difference between the estimated fair value and carrying value of a financial asset or liability is the result of the different methodologies used to determine fair value as compared to carrying value. For example, credit losses are estimated for a financial asset's remaining life in a fair value calculation but are estimated for a loss emergence period in a loan loss reserve calculation; future loan income (interest and fees) is incorporated in a fair value calculation but is generally not considered in a loan loss reserve calculation. For a further*

*discussion of JPMorgan Chase Bank, N.A.'s methodologies for estimating the fair value of loans and lending-related commitments, see Note 4 pages 14–15 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.*

*(b) Effective January 1, 2011, $4.3 billion of long-term advances from Federal Home Loan Banks ("FHLBs") were reclassified from other borrowed funds to long-term debt. The prior-year period has been revised to conform with the current presentation.*

The majority of JPMorgan Chase Bank, N.A.'s unfunded lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets, nor are they actively traded. The carrying value and estimated fair value of JPMorgan Chase Bank, N.A.'s wholesale lending–related commitments were as follows for the periods indicated.

| | **March 31, 2011** | | December 31, 2010 | |
|---|---|---|---|---|
| (in billions) | Carrying value[a] | Estimated fair value | Carrying value[a] | Estimated fair value |
| Wholesale lending–related commitments | **$ 0.7** | **$ 0.9** | $ 0.7 | $ 0.9 |

*(a) Represents the allowance for wholesale unfunded lending-related commitments. Excludes the current carrying values of the guarantee liability and the offsetting asset each recognized at fair value at the inception of guarantees.*

JPMorgan Chase Bank, N.A. does not estimate the fair value of consumer lending–related commitments. In many cases, JPMorgan Chase Bank, N.A. can reduce or cancel these commitments by providing the borrower prior notice or, in some cases, without notice as permitted by law. For a further discussion of the valuation of lending-related commitments, see Note 4 on pages 14–15 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

**Trading assets and liabilities – average balances**

Average trading assets and liabilities were as follows for the periods indicated.

| | Three months ended March 31, | |
|---|---|---|
| (in millions) | **2011** | 2010 |
| Trading assets – debt and equity instruments[a] | **$ 298,438** | $ 236,308 |
| Trading assets – derivative receivables | **76,620** | 70,219 |
| Trading liabilities – debt and equity instruments[a][b] | **56,933** | 50,505 |
| Trading liabilities – derivative payables | **73,792** | 62,989 |

*(a) Balances reflect the reduction of securities owned (long positions) by the amount of securities sold, but not yet purchased (short positions) when the long and short positions have identical CUSIPs.*

*(b) Primarily represent securities sold, not yet purchased.*

## NOTE 5 – FAIR VALUE OPTION

For a discussion of the primary financial instruments for which the fair value option was previously elected, including the basis for those elections and the determination of instrument-specific credit risk, where relevant, see Note 5 on pages 29–31 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

### Changes in fair value under the fair value option election

The following table presents the changes in fair value included in the Consolidated Statements of Income for the three months ended March 31, 2011 and 2010, for items for which the fair value election was made. The profit and loss information presented below only includes the financial instruments that were elected to be measured at fair value; related risk management instruments, which are required to be measured at fair value, are not included in the table.

| | Three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | **2011** | | | 2010 | | |
| (in millions) | Principal transactions | Other income | Total changes in fair value recorded | Principal transactions | Other income | Total changes in fair value recorded |
| Federal funds sold and securities purchased under resale agreements | **$ (116)** | **$ —** | **$ (116)** | $ 18 | $ — | $ 18 |
| Securities borrowed | **9** | **—** | **9** | 12 | — | 12 |
| Trading assets: | | | | | | |
| Debt and equity instruments, excluding loans | **133** | **3**[c] | **136** | 100 | 1[c] | 101 |
| Loans reported as trading assets: | | | | | | |
| Changes in instrument-specific credit risk | **365** | **—** | **365** | 439 | (6)[c] | 433 |
| Other changes in fair value | **79** | **723**[c] | **802** | (342) | 755[c] | 413 |
| Loans: | | | | | | |
| Changes in instrument-specific credit risk | **(2)** | **—** | **(2)** | 38 | — | 38 |
| Other changes in fair value | **43** | **—** | **43** | (10) | — | (10) |
| Other assets | **(15)** | **—** | **(15)** | — | (30)[d] | (30) |
| Deposits[a] | **(17)** | **—** | **(17)** | (189) | — | (189) |
| Federal funds purchased and securities loaned or sold under repurchase agreements | **33** | **—** | **33** | (9) | — | (9) |
| Other borrowed funds[a] | **424** | **—** | **424** | 107 | — | 107 |
| Trading liabilities | **(3)** | **—** | **(3)** | (1) | — | (1) |
| Beneficial interests issued by consolidated VIEs | **(40)** | **—** | **(40)** | (31) | — | (31) |
| Other liabilities | **—** | **(2)**[d] | **(2)** | 1 | — | 1 |
| Long-term debt: | | | | | | |
| Changes in instrument-specific credit risk[a] | **53** | **—** | **53** | 50 | — | 50 |
| Other changes in fair value[b] | **150** | **—** | **150** | (299) | — | (299) |

(a) *Total changes in instrument-specific credit risk related to structured notes were $23 million and $107 million for the three months ended March 31, 2011 and 2010, respectively. Those totals include adjustments for structured notes classified within deposits and other borrowed funds, as well as long-term debt.*

(b) *Structured notes are debt instruments with embedded derivatives that are tailored to meet a client's need. The embedded derivative is the primary driver of risk. Although the risk associated with the structured notes is actively managed, the gains reported in this table do not include the income statement impact of such risk management instruments.*

(c) *Reported in mortgage fees and related income.*

(d) *Reported in other income.*

**Difference between aggregate fair value and aggregate remaining contractual principal balance outstanding**

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of March 31, 2011, and December 31, 2010, for loans, long-term debt and long-term beneficial interests for which the fair value option has been elected.

| | **March 31, 2011** | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| (in millions) | Contractual principal outstanding | Fair value | Fair value over/(under) contractual principal outstanding | Contractual principal outstanding | Fair value | Fair value over/(under) contractual principal outstanding |
| **Loans** | | | | | | |
| **Performing loans 90 days or more past due** | | | | | | |
| Loans reported as trading assets | **$ —** | **$ —** | **$ —** | $ — | $ — | $ — |
| Loans | **—** | **—** | **—** | — | — | — |
| **Nonaccrual loans** | | | | | | |
| Loans reported as trading assets | **3,749** | **1,124** | **(2,625)** | 3,389 | 877 | (2,512) |
| Loans | **96** | **35** | **(61)** | 132 | 111 | (21) |
| **Subtotal** | **3,845** | **1,159** | **(2,686)** | 3,521 | 988 | (2,533) |
| **All other performing loans** | | | | | | |
| Loans reported as trading assets | **32,708** | **30,963** | **(1,745)** | 32,584 | 31,188 | (1,396) |
| Loans | **669** | **655** | **(14)** | 952 | 862 | (90) |
| **Total loans** | **$ 37,222** | **$ 32,777** | **$ (4,445)** | $ 37,057 | $ 33,038 | $ (4,019) |
| **Long-term debt** | | | | | | |
| Principal–protected debt | **$ 7,850**[(c)] | **$ 7,542** | **$ (308)** | $ 7,942[(c)] | $ 7,913 | $ (29) |
| Nonprincipal–protected debt[(a)] | **NA** | **12,711** | **NA** | NA | 12,906 | NA |
| **Total long-term debt** | **NA** | **$ 20,253** | **NA** | NA | $ 20,819 | NA |
| **Total long-term beneficial interests**[(b)] | **NA** | **$ 388** | **NA** | NA | $ 354 | NA |

*(a) Remaining contractual principal is not applicable to nonprincipal-protected notes. Unlike principal-protected notes, for which JPMorgan Chase Bank, N.A. is obligated to return a stated amount of principal at the maturity of the note, nonprincipal-protected notes do not obligate JPMorgan Chase Bank, N.A. to return a stated amount of principal at maturity, but to return an amount based on the performance of an underlying variable or derivative feature embedded in the note.*

*(b) At both March 31, 2011, and December 31, 2010, included only nonprincipal protected debt.*

*(c) Where JPMorgan Chase Bank, N.A. issues principal-protected zero-coupon or discount notes, the balance reflected as the remaining contractual principal is the final principal payment at maturity.*

At both March 31, 2011, and December 31, 2010, the contractual amount of letters of credit for which the fair value option was elected was $3.8 billion, with a corresponding fair value of $6 million. For further information regarding off-balance sheet lending-related financial instruments, see Note 28 on pages 109–115 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

**NOTE 6 – DERIVATIVE INSTRUMENTS**

For a further discussion of JPMorgan Chase Bank, N.A.'s use and accounting policies regarding derivative instruments, see Note 7 on pages 33–41 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

*Notional amount of derivative contracts*

The following table summarizes the notional amount of derivative contracts outstanding as of March 31, 2011, and December 31, 2010.

| | Notional amounts[b] | |
|---|---|---|
| (in billions) | **March 31, 2011** | December 31, 2010 |
| **Interest rate contracts** | | |
| Swaps | **$ 45,717** | $ 46,371 |
| Futures and forwards | **8,668** | 8,607 |
| Written options | **4,251** | 4,069 |
| Purchased options | **4,484** | 3,958 |
| **Total interest rate contracts** | **63,120** | 63,005 |
| **Credit derivatives**[a] | **5,848** | 5,475 |
| **Foreign exchange contracts** | | |
| Cross-currency swaps | **2,764** | 2,566 |
| Spot, futures and forwards | **4,708** | 3,907 |
| Written options | **709** | 674 |
| Purchased options | **695** | 649 |
| **Total foreign exchange contracts** | **8,876** | 7,796 |
| **Equity contracts** | | |
| Swaps | **128** | 117 |
| Futures and forwards | **36** | 45 |
| Written options | **457** | 434 |
| Purchased options | **386** | 360 |
| **Total equity contracts** | **1,007** | 956 |
| **Commodity contracts** | | |
| Swaps | **381** | 338 |
| Spot, futures and forwards | **157** | 125 |
| Written options | **261** | 230 |
| Purchased options | **257** | 222 |
| **Total commodity contracts** | **1,056** | 915 |
| **Total derivative notional amounts** | **$ 79,907** | $ 78,147 |

*(a) Primarily consists of credit default swaps. For more information on volumes and types of credit derivative contracts, see the Credit derivatives discussion on pages 25–26 of this Note.*

*(b) Represents the sum of gross long and gross short notional derivative contracts with third parties and JPMorgan Chase affiliates. For additional information on related party derivatives, see Note 20, on page 67 of these Consolidated Financial Statements.*

While the notional amounts disclosed above give an indication of the volume of JPMorgan Chase Bank, N.A.'s derivatives activity, the notional amounts significantly exceed, in JPMorgan Chase Bank, N.A.'s view, the possible losses that could arise from such transactions. For most derivative transactions, the notional amount is not exchanged; it is used simply as a reference to calculate payments.

*Impact of derivatives on the Consolidated Balance Sheets*

The following tables summarize information on derivative fair values that are reflected on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets as of March 31, 2011, and December 31, 2010, by accounting designation (e.g., whether the derivatives were designated as hedges or not) and contract type.

**Free-standing derivatives**[a]

| **March 31, 2011** (in millions) | Derivative receivables: Not designated as hedges | Derivative receivables: Designated as hedges | Derivative receivables: Total derivative receivables | Derivative payables: Not designated as hedges | Derivative payables: Designated as hedges | Derivative payables: Total derivative payables |
|---|---|---|---|---|---|---|
| **Trading assets and liabilities** | | | | | | |
| Interest rate | **$ 933,556** | **$ 1,740** | **$ 935,296** | **$ 902,609** | **$ 344** | **$ 902,953** |
| Credit | **122,082** | **—** | **122,082** | **119,272** | **—** | **119,272** |
| Foreign exchange[b] | **159,635** | **225** | **159,860** | **159,445** | **1,046** | **160,491** |
| Equity | **48,441** | **—** | **48,441** | **47,236** | **—** | **47,236** |
| Commodity | **53,574** | **113** | **53,687** | **51,283** | **1,963** | **53,246** |
| **Gross fair value of trading assets and liabilities** | **$ 1,317,288** | **$ 2,078** | **$ 1,319,366** | **$ 1,279,845** | **$ 3,353** | **$ 1,283,198** |
| Netting adjustment[c] | | | **(1,247,593)** | | | **(1,217,625)** |
| **Carrying value of derivative trading assets and trading liabilities on the Consolidated Balance Sheets** | | | **$ 71,773** | | | **$ 65,573** |

| December 31, 2010 (in millions) | Derivative receivables: Not designated as hedges | Derivative receivables: Designated as hedges | Derivative receivables: Total derivative receivables | Derivative payables: Not designated as hedges | Derivative payables: Designated as hedges | Derivative payables: Total derivative payables |
|---|---|---|---|---|---|---|
| **Trading assets and liabilities** | | | | | | |
| Interest rate | $ 1,122,294 | $ 1,820 | $ 1,124,114 | $ 1,093,673 | $ 381 | $ 1,094,054 |
| Credit | 129,839 | — | 129,839 | 125,967 | — | 125,967 |
| Foreign exchange[b] | 166,517 | 234 | 166,751 | 164,034 | 1,056 | 165,090 |
| Equity | 43,534 | — | 43,534 | 46,202 | — | 46,202 |
| Commodity | 40,798 | 24 | 40,822 | 38,414 | 2,078[d] | 40,492 |
| **Gross fair value of trading assets and liabilities** | $ 1,502,982 | $ 2,078 | $ 1,505,060 | $ 1,468,290 | $ 3,515 | $ 1,471,805 |
| Netting adjustment[c] | | | (1,433,618) | | | (1,400,650) |
| **Carrying value of derivative trading assets and trading liabilities on the Consolidated Balance Sheets** | | | $ 71,442 | | | $ 71,155 |

*(a) Excludes structured notes for which the fair value option has been elected. See Note 5 on pages 18–19 of these Consolidated Financial Statements and Note 5 on pages 29–31 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements for further information.*

*(b) Excludes $20 million and $21 million of foreign currency-denominated debt designated as a net investment hedge at March 31, 2011, and December, 31, 2010, respectively.*

*(c) U.S. GAAP permits the netting of derivative receivables and payables, and the related cash collateral received and paid when a legally enforceable master netting agreement exists between JPMorgan Chase Bank, N.A. and a derivative counterparty.*

*(d) Excludes $1.0 billion related to commodity derivatives that are embedded in a debt instrument and used as fair value hedging instruments that are recorded in the line item of the host contract (other borrowed funds) for December 31, 2010.*

*Derivative receivables and payables fair value*

The following table summarizes the fair values of derivative receivables and payables, including those designated as hedges by contract type after netting adjustments as of March 31, 2011, and December 31, 2010.

| (in millions) | Trading assets–Derivative receivables: **March 31, 2011** | Trading assets–Derivative receivables: December 31, 2010 | Trading liabilities–Derivative payables: **March 31, 2011** | Trading liabilities–Derivative payables: December 31, 2010 |
|---|---|---|---|---|
| **Contract type** | | | | |
| Interest rate | **$ 28,614** | $ 28,693 | **$ 18,939** | $ 23,996 |
| Credit | **8,134** | 7,835 | **6,498** | 6,045 |
| Foreign exchange | **16,892** | 24,138 | **19,097** | 25,375 |
| Equity | **8,664** | 4,362 | **11,587** | 10,510 |
| Commodity | **9,469** | 6,414 | **9,452** | 5,229 |
| **Total** | **$ 71,773** | $ 71,442 | **$ 65,573** | $ 71,155 |

*Impact of derivatives on the Consolidated Statements of Income*

*Fair value hedge gains and losses*

The following tables present derivative instruments, by contract type, used in fair value hedge accounting relationships, as well as pretax gains/(losses) recorded on such derivatives and the related hedged items for the three months ended March 31, 2011 and 2010, respectively. JPMorgan Chase Bank, N.A. includes gains/(losses) on the hedging derivative and the related hedged item in the same line item in the Consolidated Statements of Income.

| | Gains/(losses) recorded in income | | | Income statement impact due to: | |
|---|---|---|---|---|---|
| **Three months ended March 31, 2011** (in millions) | Derivatives | Hedged items | Total income statement impact | Hedge ineffectiveness[e] | Excluded components[f] |
| **Contract type** | | | | | |
| Interest rate[a] | **$ (25)** | **$ 9** | **$ (16)** | **$ (2)** | **$ (14)** |
| Foreign exchange[b][c] | **(3,236)** | **3,142** | **(94)** | **—** | **(94)** |
| Commodity[d] | **63** | **275** | **338** | **—** | **338** |
| **Total** | **$ (3,198)** | **$ 3,426** | **$ 228** | **$ (2)** | **$ 230** |

| | Gains/(losses) recorded in income | | | Income statement impact due to: | |
|---|---|---|---|---|---|
| Three months ended March 31, 2010 (in millions) | Derivatives | Hedged items | Total income statement impact | Hedge ineffectiveness[e] | Excluded components[f] |
| **Contract type** | | | | | |
| Interest rate[a] | $ 7 | $ (106) | $ (99) | $ 10 | $ (109) |
| Foreign exchange[b][c] | 1,732 | (1,660) | 72 | — | 72 |
| Commodity[d] | (455) | 396 | (59) | — | (59) |
| **Total** | $ 1,284 | $ (1,370) | $ (86) | $ 10 | $ (96) |

*(a) Primarily consists of hedges of the benchmark (e.g., London Interbank Offered Rate ("LIBOR")) interest rate risk of fixed-rate long-term debt and AFS securities. Gains and losses were recorded in net interest income.*

*(b) Primarily consists of hedges of the foreign currency risk of long-term debt and AFS securities for changes in spot foreign currency rates. Gains and losses related to the derivatives and the hedged items, due to changes in spot foreign currency rates, were recorded in principal transactions revenue.*

*(c) Consists of foreign exchange trading derivatives designated as fair value hedging instruments.*

*(d) Consists of overall fair value hedges of certain commodities inventories. Gains and losses were recorded in principal transactions revenue.*

*(e) Hedge ineffectiveness is the amount by which the gain or loss on the designated derivative instrument does not exactly offset the gain or loss on the hedged item attributable to the hedged risk.*

*(f) Certain components of hedging derivatives are permitted to be excluded from the assessment of hedge effectiveness, such as forward points on a futures or forward contract. Amounts related to excluded components are recorded in current-period income.*

*Cash flow hedge gains and losses*

The following tables present derivative instruments, by contract type, used in cash flow hedge accounting relationships, and the pretax gains/(losses) recorded on such derivatives, for the three months ended March 31, 2011 and 2010, respectively. JPMorgan Chase Bank, N.A. includes the gain/(loss) on the hedging derivative in the same line item as the offsetting change in cash flows on the hedged item in the Consolidated Statements of Income.

| | Gains/(losses) recorded in income and other comprehensive income ("OCI")/(loss)[c] | | | | |
|---|---|---|---|---|---|
| **Three months ended March 31, 2011** (in millions) | Derivatives – effective portion reclassified from AOCI to income | Hedge ineffectiveness recorded directly in income[d] | Total income statement impact | Derivatives – effective portion recorded in OCI | Total change in OCI for period |
| **Contract type** | | | | | |
| Interest rate[a] | **$ 135** | **$ 3** | **$ 138** | **$ (14)** | **$ (149)** |
| Foreign exchange[b] | **22** | **—** | **22** | **18** | **(4)** |
| **Total** | **$ 157** | **$ 3** | **$ 160** | **$ 4** | **$ (153)** |

| | Gains/(losses) recorded in income and other comprehensive income/(loss)[c] | | | | |
|---|---|---|---|---|---|
| Three months ended March 31, 2010 (in millions) | Derivatives – effective portion reclassified from AOCI to income | Hedge ineffectiveness recorded directly in income[d] | Total income statement impact | Derivatives – effective portion recorded in OCI | Total change in OCI for period |
| **Contract type** | | | | | |
| Interest rate[a] | $ 47 | $ 3 | $ 50 | $ 332 | $ 285 |
| Foreign exchange[b] | (52) | — | (52) | (112) | (60) |
| **Total** | $ (5) | $ 3 | $ (2) | $ 220 | $ 225 |

*(a) Primarily consists of benchmark interest rate hedges of LIBOR-indexed floating-rate assets and floating-rate liabilities. Gains and losses were recorded in net interest income.*

*(b) Primarily consists of hedges of the foreign currency risk of non–U.S. dollar–denominated revenue and expense. The income statement classification of gains and losses follows the hedged item – primarily net interest income, compensation expense and other expense.*

*(c) JPMorgan Chase Bank, N.A. did not experience any forecasted transactions that failed to occur for the three months ended March 31, 2011 and 2010.*

*(d) Hedge ineffectiveness is the amount by which the cumulative gain or loss on the designated derivative instrument exceeds the present value of the cumulative expected change in cash flows on the hedged item attributable to the hedged risk.*

Over the next 12 months, JPMorgan Chase Bank, N.A. expects that $320 million (after-tax) of net losses recorded in accumulated other comprehensive income/(loss) ("AOCI") at March 31, 2011, related to cash flow hedges will be recognized in income. The maximum length of time over which forecasted transactions are hedged is 10 years, and such transactions primarily relate to core lending and borrowing activities.

*Net investment hedge gains and losses*

The following tables present hedging instruments, by contract type, that were used in net investment hedge accounting relationships, and the pretax gains/(losses) recorded on such instruments for the three months ended March 31, 2011 and 2010.

| | Gains/(losses) recorded in income and other comprehensive income/(loss) | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| Three months ended March 31, (in millions) | Excluded components recorded directly in income[a] | Effective portion recorded in OCI | Excluded components recorded directly in income[a] | Effective portion recorded in OCI |
| **Contract type** | | | | |
| Foreign exchange derivatives | **$ (64)** | **$ (243)** | $ (36) | $ 155 |
| Foreign currency denominated debt | **—** | **(1)** | — | 41 |
| **Total** | **$ (64)** | **$ (244)** | $ (36) | $ 196 |

*(a) Certain components of hedging derivatives are permitted to be excluded from the assessment of hedge effectiveness, such as forward points on a futures or forward contract. Amounts related to excluded components are recorded in current-period income. There was no ineffectiveness for net investment hedge accounting relationships during the three months ended March 31, 2011 and 2010.*

*Risk management derivatives gains and losses (not designated as hedging instruments)*

The following table presents nontrading derivatives, by contract type, that were not designated in hedge relationships, and the pretax gains/(losses) recorded on such derivatives for the three months ended March 31, 2011 and 2010. These derivatives are risk management instruments used to mitigate or transform the market risk exposures arising from banking activities other than trading activities, which are discussed separately below.

| Three months ended March 31, | Derivatives gains/(losses) recorded in income | |
|---|---|---|
| (in millions) | **2011** | 2010 |
| **Contract type** | | |
| Interest rate[(a)] | **$ 75** | $ 145 |
| Credit[(b)] | **(58)** | (119) |
| Foreign exchange[(c)] | **(22)** | (25) |
| **Total** | **$ (5)** | $ 1 |

*(a) Gains and losses were recorded in principal transactions revenue, mortgage fees and related income, and net interest income.*
*(b) Gains and losses were recorded in principal transactions revenue.*
*(c) Gains and losses were recorded in principal transactions revenue and net interest income.*

*Trading derivative gains and losses*

The following table presents trading derivatives gains and losses, by contract type, that are recorded in principal transactions revenue in the Consolidated Statements of Income for the three months ended March 31, 2011 and 2010. JPMorgan Chase Bank, N.A. has elected to present derivative gains and losses related to its trading activities together with the cash instruments with which they are risk managed.

| Three months ended March 31, | Gains/(losses) recorded in principal transactions revenue | |
|---|---|---|
| (in millions) | **2011** | 2010 |
| **Type of instrument** | | |
| Interest rate | **$ 528** | $ 388 |
| Credit | **671** | 1,545 |
| Foreign exchange[(a)] | **609** | 606 |
| Equity | **576** | 510 |
| Commodity | **(143)** | 214 |
| **Total** | **$ 2,241** | $ 3,263 |

*(a) In 2010, the reporting of trading gains and losses was enhanced to include trading gains and losses related to certain trading derivatives designated as fair value hedging instruments. Prior period amounts have been revised to conform to the current presentation.*

*Credit risk, liquidity risk and credit-related contingent features*

The aggregate fair value of net derivative payables that contain contingent collateral or termination features triggered upon a downgrade was $13.1 billion at March 31, 2011, for which JPMorgan Chase Bank, N.A. has posted collateral of $9.0 billion in the normal course of business. At March 31, 2011, the impact of a single-notch and two-notch ratings downgrade to JPMorgan Chase Bank, N.A. and its subsidiaries would have required $1.4 billion and $2.6 billion, respectively, of additional collateral to be posted by JPMorgan Chase Bank, N.A. In addition, at March 31, 2011, the impact of single-notch and two-notch ratings downgrades to JPMorgan Chase Bank, N.A. and its subsidiaries related to contracts with termination triggers would have required JPMorgan Chase Bank, N.A. to settle trades with a fair value of $382 million and $1.0 billion, respectively.

The following tables show the carrying value of derivative receivables and payables after netting adjustments and collateral received as of March 31, 2011, and December 31, 2010.

| | Derivative receivables | | Derivative payables | |
|---|---|---|---|---|
| (in millions) | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 |
| Gross derivative fair value | **$ 1,319,366** | $ 1,505,060 | **$ 1,283,198** | $ 1,471,805 |
| Netting adjustment – offsetting receivables/payables | **(1,183,912)** | (1,362,503) | **(1,183,912)** | (1,362,502) |
| Netting adjustment – cash collateral received/paid | **(63,681)** | (71,115) | **(33,713)** | (38,148) |
| **Carrying value on Consolidated Balance Sheets** | **$ 71,773** | $ 71,442 | **$ 65,573** | $ 71,155 |

In addition to the collateral amounts reflected in the tables above, at both March 31, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. had received liquid securities and other cash collateral in the amount of $17.1 billion, and had posted liquid securities and other cash collateral in the amount of $9.4 billion and $10.0 billion, respectively. JPMorgan Chase Bank, N.A. also receives and delivers collateral at the initiation of derivative transactions, which is available as security against potential exposure that could arise should the fair value of the transactions move, respectively, in JPMorgan Chase Bank, N.A.'s or client's favor. Furthermore, JPMorgan Chase Bank, N.A. and its counterparties hold collateral related to contracts that have a non-daily call frequency for collateral to be posted, and collateral that JPMorgan Chase Bank, N.A. or a counterparty has agreed to return but has not yet settled as of the reporting date. At March 31, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. had received $13.4 billion and $12.0 billion, respectively, and delivered $3.1 billion and $2.8 billion, respectively, of such additional collateral. These amounts were not netted against the derivative receivables and payables in the tables above, because, at an individual counterparty level, the collateral exceeded the fair value exposure at both March 31, 2011, and December 31, 2010.

*Credit derivatives*

For a more detailed discussion of credit derivatives, including a description of the different types used by JPMorgan Chase Bank, N.A., see Note 7 on pages 33–41 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The following tables present a summary of the notional amounts of credit derivatives and credit-related notes JPMorgan Chase Bank, N.A. sold and purchased as of March 31, 2011, and December 31, 2010. Upon a credit event, JPMorgan Chase Bank, N.A. as a seller of protection would typically pay out only a percentage of the full notional amount of net protection sold, as the amount actually required to be paid on the contracts takes into account the recovery value of the reference obligation at the time of settlement. JPMorgan Chase Bank, N.A. manages the credit risk on contracts to sell protection by purchasing protection with identical or similar underlying reference entities. Other purchased protection referenced in the following tables include credit derivatives bought on related, but not identical, reference positions (including indices, portfolio coverage and other reference points) as well as protection purchased through credit-related notes.

JPMorgan Chase Bank, N.A. does not use notional amounts of credit derivatives as the primary measure of risk management for such derivatives, because the notional amount does not take into account the probability of the occurrence of a credit event, the recovery value of the reference obligation, or related cash instruments and economic hedges, each of which reduces, in JPMorgan Chase Bank, N.A.'s view, the risks associated with such derivatives.

**Total credit derivatives and credit-related notes**

| | Maximum payout/Notional amount | | | |
|---|---|---|---|---|
| **March 31, 2011**<br>(in millions) | Protection sold | Protection purchased with identical underlyings[(b)] | Net protection (sold)/purchased[(c)] | Other protection purchased[(d)] |
| **Credit derivatives** | | | | |
| Credit default swaps | **$ (2,843,303)** | **$ 2,810,238** | **$ (33,065)** | **$ 33,368** |
| Other credit derivatives[(a)] | **(104,390)** | **25,687** | **(78,703)** | **30,692** |
| **Total credit derivatives** | **(2,947,693)** | **2,835,925** | **(111,768)** | **64,060** |
| Credit-related notes | **(1,939)** | **—** | **(1,939)** | **3,416** |
| **Total** | **$ (2,949,632)** | **$ 2,835,925** | **$ (113,707)** | **$ 67,476** |

| | Maximum payout/Notional amount | | | |
|---|---|---|---|---|
| December 31, 2010<br>(in millions) | Protection sold | Protection purchased with identical underlyings[(b)] | Net protection (sold)/purchased[(c)] | Other protection purchased[(d)] |
| **Credit derivatives** | | | | |
| Credit default swaps | $ (2,661,549) | $ 2,652,945 | $ (8,604) | $ 32,477 |
| Other credit derivatives[(a)] | (93,757) | 10,016 | (83,741) | 24,234 |
| **Total credit derivatives** | (2,755,306) | 2,662,961 | (92,345) | 56,711 |
| Credit-related notes | (1,977) | — | (1,977) | 2,990 |
| **Total** | $ (2,757,283) | $ 2,662,961 | $ (94,322) | $ 59,701 |

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

*(b) Represents the total notional amount of protection purchased where the underlying reference instrument is identical to the reference instrument on protection sold; the notional amount of protection purchased for each individual identical underlying reference instrument may be greater or lower than the notional amount of protection sold.*

*(c) Does not take into account the fair value of the reference obligation at the time of settlement, which would generally reduce the amount the seller of protection pays to the buyer of protection in determining settlement value.*

*(d) Represents protection purchased by JPMorgan Chase Bank, N.A. through single-name and index credit default swap or credit-related notes.*

The following tables summarize the notional and fair value amounts of credit derivatives and credit-related notes as of March 31, 2011, and December 31, 2010, where JPMorgan Chase Bank, N.A. is the seller of protection. The maturity profile is based on the remaining contractual maturity of the credit derivative contracts. The ratings profile is based on the rating of the reference entity on which the credit derivative contract is based. The ratings and maturity profile of protection purchased are comparable to the profile reflected below.

**Protection sold – credit derivatives and credit-related notes ratings[(a)]/maturity profile**

| **March 31, 2011** (in millions) | <1 year | 1–5 years | >5 years | Total notional amount | Fair value[(b)] |
|---|---|---|---|---|---|
| **Risk rating of reference entity** | | | | | |
| Investment-grade | **$ (186,725)** | **$ (1,225,002)** | **$ (382,266)** | **$ (1,793,993)** | **$ (12,159)** |
| Noninvestment-grade | **(164,168)** | **(759,624)** | **(231,847)** | **(1,155,639)** | **(54,725)** |
| **Total** | **$ (350,893)** | **$ (1,984,626)** | **$ (614,113)** | **$ (2,949,632)** | **$ (66,884)** |

| December 31, 2010 (in millions) | <1 year | 1–5 years | >5 years | Total notional amount | Fair value[(b)] |
|---|---|---|---|---|---|
| **Risk rating of reference entity** | | | | | |
| Investment-grade | $ (175,659) | $ (1,194,726) | $ (337,108) | $ (1,707,493) | $ (17,293) |
| Noninvestment-grade | (148,923) | (703,136) | (197,731) | (1,049,790) | (60,183) |
| **Total** | $ (324,582) | $ (1,897,862) | $ (534,839) | $ (2,757,283) | $ (77,476) |

*(a) The ratings scale is based on JPMorgan Chase Bank, N.A.'s internal ratings, which generally correspond to ratings as defined by S&P and Moody's.*

*(b) Amounts are shown on a gross basis, before the benefit of legally enforceable master netting agreements and cash collateral held by JPMorgan Chase Bank, N.A.*

## NOTE 7 – NONINTEREST REVENUE

For a discussion of the components of and accounting policies for JPMorgan Chase Bank, N.A.'s other noninterest revenue, see Note 8 on pages 41–42 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The following table presents the components of investment banking fees.

| | Three months ended March 31, | |
|---|---|---|
| (in millions) | **2011** | 2010 |
| Underwriting: | | |
| Equity | **$ 135** | $ 179 |
| Debt | **616** | 338 |
| **Total underwriting** | **751** | 517 |
| Advisory | **206** | 145 |
| **Total investment banking fees** | **$ 957** | $ 662 |

The following table presents components of asset management, administration and commissions.

| | Three months ended March 31, | |
|---|---|---|
| (in millions) | **2011** | 2010 |
| **Total asset management fees** | **$ 353** | $ 317 |
| Total administration fees[(a)] | **517** | 454 |
| Commission and other fees: | | |
| Brokerage commissions | **375** | 313 |
| All other commissions and fees | **1,199** | 1,171 |
| **Total commissions and fees** | **1,574** | 1,484 |
| **Total asset management, administration and commissions** | **$ 2,444** | $ 2,255 |

*(a) Includes fees for custody, securities lending, funds services and securities clearance.*

## NOTE 8 – INTEREST INCOME AND INTEREST EXPENSE

For a description of JPMorgan Chase Bank, N.A.'s accounting policies regarding interest income and interest expense, see Note 9 on page 42 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

Details of interest income and interest expense were as follows.

| (in millions) | Three months ended March 31, 2011 | 2010 |
|---|---|---|
| **Interest income** | | |
| Loans | **$ 5,899** | $ 6,180 |
| Securities | **2,176** | 2,911 |
| Trading assets | **1,836** | 1,651 |
| Federal funds sold and securities purchased under resale agreements | **505** | 368 |
| Securities borrowed | **107** | 87 |
| Deposits with banks | **93** | 87 |
| Other assets[(a)] | **(33)** | (23) |
| **Total interest income** | **10,583** | 11,261 |
| **Interest expense** | | |
| Interest-bearing deposits | **1,019** | 910 |
| Short-term and other liabilities[(b)(c)] | **661** | 500 |
| Long-term debt[(c)] | **257** | 397 |
| Beneficial interests issued by consolidated VIEs | **29** | 30 |
| **Total interest expense** | **1,966** | 1,837 |
| **Net interest income** | **$ 8,617** | $ 9,424 |
| Provision for credit losses | **1,039** | 3,431 |
| **Net interest income after provision for credit losses** | **$ 7,578** | $ 5,993 |

*(a) Primarily consists of excluded components of hedge accounting relationships, such as forward points on foreign currency forward contracts.*
*(b) Includes brokerage customer payables.*
*(c) Effective January 1, 2011, the long-term portion of advances from FHLBs was reclassified from other borrowed funds to long-term debt. The related interest expense for the prior-year period has also been reclassified to conform with the current presentation.*

## NOTE 9 – PENSION AND OTHER POSTRETIREMENT EMPLOYEE BENEFIT PLANS

For a discussion of JPMorgan Chase Bank, N.A.'s pension plans and United Kingdom ("U.K.") other postretirement employee benefit ("OPEB") plan, see Note 10 on pages 42–48 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The following table presents the components of net periodic benefit cost reported in the Consolidated Statements of Income for JPMorgan Chase Bank, N.A.'s U.S. and non-U.S. defined benefit pension plans, defined contribution plans and U.K. OPEB plan.

| | Pension plans | | | | | |
|---|---|---|---|---|---|---|
| | U.S. | | Non-U.S. | | U.K. OPEB plan | |
| Three months ended March 31, (in millions) | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| **Components of net periodic benefit cost** | | | | | | |
| Benefits earned during the period | **$ 1** | $ — | **$ 8** | $ 7 | **$ —** | $ — |
| Interest cost on benefit obligations | **5** | 5 | **32** | (14) | **—** | — |
| Expected return on plan assets | **—** | — | **(36)** | 13 | **—** | — |
| Amortization of net loss | **1** | 1 | **12** | 14 | **—** | — |
| **Net periodic defined benefit cost** | **7** | 6 | **16** | 20 | **—** | — |
| Other defined benefit pension plans[(a)] | **7** | 3 | **2** | 1 | **NA** | NA |
| **Total defined benefit plans** | **14** | 9 | **18** | 21 | **—** | — |
| Total defined contribution plans | **82** | 57 | **69** | 58 | **NA** | NA |
| **Total pension and OPEB cost included in compensation expense** | **$ 96** | $ 66 | **$ 87** | $ 79 | **$ —** | $ — |

*(a) Includes various defined benefit pension plans which are individually immaterial.*

The fair values of plan assets for the material non-U.S. defined benefit pension plans were $2.8 billion as of March 31, 2011, and $2.6 billion as of December 31, 2010. See Note 21 on page 68 of these Consolidated Financial Statements for further information on unrecognized amounts (i.e., net loss and prior service costs/(credit)) reflected in AOCI for the three-month periods ended March 31, 2011 and 2010.

For the full year 2011, the cost of funding benefits under JPMorgan Chase Bank, N.A.'s U.S. non-qualified defined benefit pension plans is expected to total $42 million. The 2011 contributions to JPMorgan Chase Bank, N.A.'s non-U.S. defined benefit pension and OPEB plans are expected to be $166 million and $2 million, respectively.

JPMorgan Chase charged JPMorgan Chase Bank, N.A. $49 million and $45 million, for the three-month periods ended March 31, 2011 and 2010, respectively, for its share of the U.S. qualified defined benefit pension plan expense. For its share of the U.S. OPEB plan expense, JPMorgan Chase charged JPMorgan Chase Bank, N.A. $0.3 million and $1 million, for the three-month periods ended March 31, 2011 and 2010, respectively.

Consolidated disclosures of information about the pension and OPEB plans of JPMorgan Chase are included in Note 9 on pages 201–210 of JPMorgan Chase's 2010 Annual Report on Form 10-K and in Note 8 on pages 114–115 of JPMorgan Chase's Quarterly Report on Form 10-Q for the three-month period ended March 31, 2011.

## NOTE 10 – EMPLOYEE STOCK-BASED INCENTIVES

Certain employees of JPMorgan Chase Bank, N.A. participate in JPMorgan Chase's long-term stock-based incentive plans, which provide grants of common stock-based awards, including stock options, stock appreciation rights ("SARs") and restricted stock units ("RSUs"). For a discussion of the accounting policies and other information relating to employee stock-based incentives, see Note 11 on pages 48–50 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements and Note 10 on pages 210–212 of JPMorgan Chase's 2010 Annual Report on Form 10-K.

JPMorgan Chase Bank, N.A. recognized the following compensation expense related to JPMorgan Chase's various employee stock-based incentive plans in its Consolidated Statements of Income.

| | Three months ended March 31, | |
|---|---|---|
| (in millions) | **2011** | 2010 |
| Cost of prior grants of RSUs and SARs that are amortized over their applicable vesting periods | **$ 364** | $ 400 |
| Accrual of estimated costs of RSUs and SARs to be granted in future periods including those to full-career eligible employees | **154** | 161 |
| **Total compensation expense related to employee stock-based incentive plans** | **$ 518** | $ 561 |

In the first quarter of 2011, in connection with its annual incentive grant, JPMorgan Chase granted employees of JPMorgan Chase Bank, N.A. 35 million RSUs and 11 million SARs with weighted-average grant date fair values of $44.32 per RSU and $13.13 per SAR.

## NOTE 11 – NONINTEREST EXPENSE

The following table presents the components of noninterest expense.

| (in millions) | Three months ended March 31, 2011 | 2010 |
|---|---|---|
| Compensation expense | **$ 6,349** | $ 5,378 |
| Noncompensation expense: | | |
| Occupancy expense | **856** | 767 |
| Technology, communications and equipment expense | **1,069** | 1,002 |
| Professional and outside services | **1,255** | 1,091 |
| Marketing | **176** | 174 |
| Other expense[(a)(b)] | **2,956** | 4,135 |
| Amortization of intangibles | **120** | 132 |
| **Total noncompensation expense** | **6,432** | 7,301 |
| **Total noninterest expense** | **$ 12,781** | $ 12,679 |

*(a) The three months ended March 31, 2011 and 2010, included litigation expense of $602 million and $2.3 billion, respectively.*
*(b) The three months ended March 31, 2011 and 2010, included foreclosed property expense of $165 million and $267 million, respectively.*

## NOTE 12 – SECURITIES

Securities are classified as AFS, held-to-maturity ("HTM") or trading. For additional information regarding AFS and HTM securities, see Note 13 on pages 52–56 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements. Trading securities are discussed in Note 4 on pages 7–17 of these Consolidated Financial Statements.

### Securities gains and losses

The following table presents realized gains and losses and credit losses that were recognized in income from AFS securities.

| (in millions) | Three months ended March 31, 2011 | 2010 |
|---|---|---|
| Realized gains | **$ 138** | $ 747 |
| Realized losses | **(19)** | (42) |
| **Net realized gains**[(a)] | **119** | 705 |
| Credit losses included in securities gains[(b)] | **(30)** | (6) |
| **Net securities gains** | **$ 89** | $ 699 |

*(a) Proceeds from securities sold were within approximately 2% of amortized cost.*
*(b) Includes other-than-temporary impairment losses recognized in income on certain prime mortgage-backed securities for the three months ended March 31, 2011 and 2010.*

The amortized costs and estimated fair values of AFS and HTM securities were as follows for the dates indicated.

| (in millions) | **March 31, 2011** Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | December 31, 2010 Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
|---|---|---|---|---|---|---|---|---|
| **Available-for-sale debt securities** | | | | | | | | |
| Mortgage-backed securities: | | | | | | | | |
| U.S. government agencies[(a)] | **$ 119,503** | **$ 2,762** | **$ 411** | **$ 121,854** | $ 117,364 | $ 3,159 | $ 297 | $ 120,226 |
| Residential: | | | | | | | | |
| Prime and Alt-A | **2,360** | **75** | **173**[(d)] | **2,262** | 2,173 | 81 | 250[(d)] | 2,004 |
| Non-U.S. | **52,946** | **372** | **341** | **52,977** | 47,089 | 290 | 409 | 46,970 |
| Commercial | **4,108** | **414** | **6** | **4,516** | 4,650 | 498 | 4 | 5,144 |
| **Total mortgage-backed securities** | **178,917** | **3,623** | **931** | **181,609** | 171,276 | 4,028 | 960 | 174,344 |
| U.S. Treasury and government agencies[(a)] | **6,912** | **88** | **35** | **6,965** | 11,168 | 118 | 28 | 11,258 |
| Obligations of U.S. states and municipalities | **8,397** | **46** | **345** | **8,098** | 8,436 | 45 | 285 | 8,196 |
| Certificates of deposit | **3,486** | **3** | **—** | **3,489** | 3,642 | 1 | 2 | 3,641 |
| Non-U.S. government debt securities | **33,008** | **164** | **108** | **33,064** | 20,614 | 191 | 28 | 20,777 |
| Corporate debt securities[(b)] | **62,432** | **441** | **359** | **62,514** | 60,587 | 491 | 417 | 60,661 |
| Asset-backed securities: | | | | | | | | |
| Credit card receivables | **7,046** | **383** | **—** | **7,429** | 8,469 | 392 | 5 | 8,856 |
| Collateralized loan obligations | **14,459** | **581** | **172** | **14,868** | 13,336 | 472 | 210 | 13,598 |
| Other | **9,038** | **101** | **8** | **9,131** | 8,694 | 91 | 8 | 8,777 |
| **Total available-for-sale debt securities** | **323,695** | **5,430** | **1,958**[(d)] | **327,167** | 306,222 | 5,829 | 1,943[(d)] | 310,108 |
| Available-for-sale equity securities | **490** | **91** | **—** | **581** | 560 | 83 | 6 | 637 |
| **Total available-for-sale securities** | **$ 324,185** | **$ 5,521** | **$ 1,958**[(d)] | **$ 327,748** | $ 306,782 | $ 5,912 | $ 1,949[(d)] | $ 310,745 |
| Total held-to-maturity securities[(c)] | **$ 16** | **$ 1** | **$ —** | **$ 17** | $ 17 | $ 2 | $ — | $ 19 |

*(a) Includes total U.S. government-sponsored enterprise obligations with fair values of $91.7 billion and $94.2 billion at March 31, 2011, and December 31, 2010, respectively, which were predominantly mortgage-related.*

*(b) Consists primarily of bank debt including sovereign government guaranteed bank debt.*

*(c) Consists primarily of mortgage-backed securities issued by U.S. government-sponsored enterprises.*

*(d) Includes a total of $106 million and $133 million (pretax) of unrealized losses related to prime mortgage-backed securities for which credit losses have been recognized in income at March 31, 2011, and December 31, 2010, respectively. These unrealized losses are not credit-related and remain reported in AOCI.*

## Securities impairment

The following tables present the fair value and gross unrealized losses for AFS securities by aging category at March 31, 2011, and December 31, 2010.

| March 31, 2011 (in millions) | Securities with gross unrealized losses: Less than 12 months: Fair value | Less than 12 months: Gross unrealized losses | 12 months or more: Fair value | 12 months or more: Gross unrealized losses | Total fair value | Total gross unrealized losses |
|---|---|---|---|---|---|---|
| **Available-for-sale debt securities** | | | | | | |
| Mortgage-backed securities: | | | | | | |
| U.S. government agencies | **$ 17,342** | **$ 408** | **$ 169** | **$ 3** | **$ 17,511** | **$ 411** |
| Residential: | | | | | | |
| Prime and Alt-A | — | — | **1,196** | **173** | **1,196** | **173** |
| Non-U.S. | **29,713** | **259** | **3,361** | **82** | **33,074** | **341** |
| Commercial | **112** | **6** | — | — | **112** | **6** |
| **Total mortgage-backed securities** | **47,167** | **673** | **4,726** | **258** | **51,893** | **931** |
| U.S. Treasury and government agencies | **715** | **35** | — | — | **715** | **35** |
| Obligations of U.S. states and municipalities | **6,013** | **337** | **18** | **8** | **6,031** | **345** |
| Certificates of deposit | — | — | — | — | — | — |
| Non-U.S. government debt securities | **11,506** | **108** | — | — | **11,506** | **108** |
| Corporate debt securities | **19,969** | **358** | **71** | **1** | **20,040** | **359** |
| Asset-backed securities: | | | | | | |
| Credit card receivables | — | — | — | — | — | — |
| Collateralized loan obligations | **824** | **5** | **5,610** | **167** | **6,434** | **172** |
| Other | **2,266** | **8** | — | — | **2,266** | **8** |
| **Total available-for-sale debt securities** | **88,460** | **1,524** | **10,425** | **434** | **98,885** | **1,958** |
| Available-for-sale equity securities | — | — | — | — | — | — |
| **Total securities with gross unrealized losses** | **$ 88,460** | **$ 1,524** | **$ 10,425** | **$ 434** | **$ 98,885** | **$ 1,958** |

| December 31, 2010 (in millions) | Securities with gross unrealized losses: Less than 12 months: Fair value | Less than 12 months: Gross unrealized losses | 12 months or more: Fair value | 12 months or more: Gross unrealized losses | Total fair value | Total gross unrealized losses |
|---|---|---|---|---|---|---|
| **Available-for-sale debt securities** | | | | | | |
| Mortgage-backed securities: | | | | | | |
| U.S. government agencies | $ 14,039 | $ 297 | $ — | $ — | $ 14,039 | $ 297 |
| Residential: | | | | | | |
| Prime and Alt-A | — | — | 1,193 | 250 | 1,193 | 250 |
| Non-U.S. | 35,166 | 379 | 1,080 | 30 | 36,246 | 409 |
| Commercial | 131 | 1 | 11 | 3 | 142 | 4 |
| **Total mortgage-backed securities** | 49,336 | 677 | 2,284 | 283 | 51,620 | 960 |
| U.S. Treasury and government agencies | 921 | 28 | — | — | 921 | 28 |
| Obligations of U.S. states and municipalities | 5,635 | 277 | 20 | 8 | 5,655 | 285 |
| Certificates of deposit | 1,771 | 2 | — | — | 1,771 | 2 |
| Non-U.S. government debt securities | 6,960 | 28 | — | — | 6,960 | 28 |
| Corporate debt securities | 18,287 | 416 | 64 | 1 | 18,351 | 417 |
| Asset-backed securities: | | | | | | |
| Credit card receivables | — | — | 345 | 5 | 345 | 5 |
| Collateralized loan obligations | 460 | 10 | 6,321 | 200 | 6,781 | 210 |
| Other | 2,609 | 8 | — | — | 2,609 | 8 |
| **Total available-for-sale debt securities** | 85,979 | 1,446 | 9,034 | 497 | 95,013 | 1,943 |
| Available-for-sale equity securities | — | — | 2 | 6 | 2 | 6 |
| **Total securities with gross unrealized losses** | $ 85,979 | $ 1,446 | $ 9,036 | $ 503 | $ 95,015 | $ 1,949 |

### Other-than-temporary impairment ("OTTI")

The following table presents credit losses that are included in the securities gains and losses table above.

| (in millions) | Three months ended March 31, 2011 | 2010 |
|---|---|---|
| **Debt securities JPMorgan Chase Bank, N.A. does not intend to sell that have credit losses** | | |
| Total other-than-temporary impairment losses[(a)] | **$ (27)** | $ — |
| Losses recorded in/(reclassified from) other comprehensive income | **(3)** | (6) |
| **Credit losses recognized in income[(b)]** | **$ (30)** | $ (6) |

*(a) For initial OTTI, represents the excess of the amortized cost over the fair value of AFS debt securities. For subsequent impairments of the same security, represents additional declines in fair value subsequent to previously recorded OTTI, if applicable.*

*(b) Represents the credit loss component of certain prime mortgage-backed securities that JPMorgan Chase Bank, N.A. does not intend to sell. Subsequent credit losses may be recorded on securities without a corresponding further decline in fair value if there has been a decline in expected cash flows.*

### Changes in the credit loss component of credit-impaired debt securities

The following table presents a rollforward for the three months ended March 31, 2011 and 2010, of the credit loss component of OTTI losses that have been recognized in income, related to debt securities that JPMorgan Chase Bank, N.A. does not intend to sell.

| (in millions) | Three months ended March 31, 2011 | 2010 |
|---|---|---|
| Balance, beginning of period | **$ 113** | $ 138 |
| Additions: | | |
| Newly credit-impaired securities | **4** | — |
| Losses reclassified from other comprehensive income on previously credit-impaired securities | **26** | 6 |
| Reductions: | | |
| Sales of credit-impaired securities | **—** | (3) |
| **Balance, end of period** | **$ 143** | $ 141 |

### Gross unrealized losses

Gross unrealized losses have increased slightly since December 31, 2010. As of March 31, 2011, JPMorgan Chase Bank, N.A. does not intend to sell the securities with a loss position in AOCI, and it is not likely that it will be required to sell these securities before recovery of their amortized cost basis. Except for the securities reported in the table above for which credit losses have been recognized in income, JPMorgan Chase Bank, N.A. believes that the securities with an unrealized loss in AOCI are not other-than-temporarily impaired as of March 31, 2011.

Following is a description of JPMorgan Chase Bank, N.A.'s principal investment securities with the most significant unrealized losses that have existed for 12 months or more as of March 31, 2011, and the key assumptions used in JPMorgan Chase Bank, N.A.'s estimate of the present value of the cash flows most likely to be collected from these investments.

*Mortgage-backed securities – Prime and Alt-A nonagency*

As of March 31, 2011, gross unrealized losses related to prime and Alt-A residential mortgage-backed securities issued by private issuers were $173 million, all of which related to securities that have been in an unrealized loss position for 12 months or more. Approximately 57% of the total portfolio (by amortized cost) are currently rated below investment-grade; JPMorgan Chase Bank, N.A. has recorded OTTI impairment losses on 67% of the below investment-grade positions. In analyzing prime and Alt-A residential mortgage-backed securities for potential credit losses, JPMorgan Chase Bank, N.A. utilizes a methodology that focuses on loan-level detail to estimate future cash flows, which are then allocated to the various tranches of the securities. The loan-level analysis primarily considers current home value, loan-to-value ("LTV") ratio, loan type and geographical location of the underlying property to forecast prepayment, home price, default rate and loss severity. The forecasted weighted average underlying default rate on the positions was 24% and the related weighted average loss severity was 49%. Based on this analysis, an OTTI loss of $30 million was recognized for the three months ended March 31, 2011, on certain securities related to higher default rate assumptions, partially offset by lower loss severities. Overall unrealized losses have decreased since December 31, 2010, as a result of the recovery in security prices due to increased demand for higher-yielding asset classes and a deceleration in the pace of home price declines due in part to the U.S. government programs to facilitate financing and to spur home purchases. The unrealized loss of $173 million is considered temporary, based on management's assessment that the estimated future

cash flows together with the credit enhancement levels for those securities remain sufficient to support JPMorgan Chase Bank, N.A.'s investment. The credit enhancements associated with the below investment-grade and investment-grade positions are 9% and 43%, respectively.

*Asset-backed securities – Collateralized loan obligations*
As of March 31, 2011, gross unrealized losses related to CLOs were $172 million, of which $167 million related to securities that were in an unrealized loss position for 12 months or more. Overall losses have decreased since December 31, 2010, mainly as a result of lower default forecasts and spread tightening across various asset classes. Substantially all of these securities are rated "AAA," "AA" and "A" and have an average credit enhancement of 30%. Credit enhancement in CLOs is primarily in the form of subordination, which is a form of structural credit enhancement where realized losses associated with assets held in an issuing vehicle are allocated to the various tranches of securities issued by the vehicle considering their relative seniority. The key assumptions considered in analyzing potential credit losses were underlying loan and debt security defaults and loss severity. Based on current default trends, JPMorgan Chase Bank, N.A. assumed collateral default rates of 2.1% for the first quarter 2011, and 5% thereafter. Further, loss severities were assumed to be 48% for loans and 82% for debt securities. Losses on collateral were estimated to occur approximately 18 months after default.

**Contractual maturities and yields**

The following table presents the amortized cost and estimated fair value at March 31, 2011, of JPMorgan Chase Bank, N.A.'s AFS and HTM securities by contractual maturity.

| By remaining maturity (in millions) | March 31, 2011 Due in one year or less | Due after one year through five years | Due after five years through 10 years | Due after 10 years[c] | Total |
|---|---|---|---|---|---|
| **Available-for-sale debt securities** | | | | | |
| Mortgage-backed securities[a] | | | | | |
| Amortized cost | $ — | $ 353 | $ 3,196 | $ 175,368 | $ 178,917 |
| Fair value | — | 375 | 3,217 | 178,017 | 181,609 |
| Average yield[b] | —% | 4.77% | 2.28% | 3.73% | 3.71% |
| U.S. Treasury and government agencies[a] | | | | | |
| Amortized cost | $ 2,818 | $ 3,843 | $ — | $ 251 | $ 6,912 |
| Fair value | 2,835 | 3,906 | — | 224 | 6,965 |
| Average yield[b] | 1.65% | 2.32% | —% | 3.86% | 2.10% |
| Obligations of U.S. states and municipalities | | | | | |
| Amortized cost | $ 14 | $ 31 | $ 242 | $ 8,110 | $ 8,397 |
| Fair value | 14 | 31 | 254 | 7,799 | 8,098 |
| Average yield[b] | 0.06% | 2.16% | 4.74% | 4.88% | 4.86% |
| Certificates of deposit | | | | | |
| Amortized cost | $ 3,390 | $ 96 | $ — | $ — | $ 3,486 |
| Fair value | 3,393 | 96 | — | — | 3,489 |
| Average yield[b] | 3.34% | 0.93% | —% | —% | 3.28% |
| Non-U.S. government debt securities | | | | | |
| Amortized cost | $ 7,892 | $ 22,095 | $ 2,872 | $ 149 | $ 33,008 |
| Fair value | 7,927 | 22,133 | 2,855 | 149 | 33,064 |
| Average yield[b] | 1.76% | 2.13% | 2.54% | 7.73% | 2.10% |
| Corporate debt securities | | | | | |
| Amortized cost | $ 16,612 | $ 40,168 | $ 5,651 | $ 1 | $ 62,432 |
| Fair value | 16,714 | 40,120 | 5,679 | 1 | 62,514 |
| Average yield[b] | 1.98% | 2.21% | 4.88% | 1.00% | 2.39% |
| Asset-backed securities | | | | | |
| Amortized cost | $ 41 | $ 4,060 | $ 13,900 | $ 12,542 | $ 30,543 |
| Fair value | 41 | 4,191 | 14,474 | 12,722 | 31,428 |
| Average yield[b] | 8.75% | 3.12% | 2.44% | 2.12% | 2.41% |
| **Total available-for-sale debt securities** | | | | | |
| Amortized cost | $ 30,767 | $ 70,646 | $ 25,861 | $ 196,421 | $ 323,695 |
| Fair value | 30,924 | 70,852 | 26,479 | 198,912 | 327,167 |
| Average yield[b] | 2.05% | 2.25% | 2.99% | 3.68% | 3.16% |
| **Available-for-sale equity securities** | | | | | |
| Amortized cost | $ — | $ — | $ — | $ 490 | $ 490 |
| Fair value | — | — | — | 581 | 581 |
| Average yield[b] | —% | —% | —% | 0.63% | 0.63% |
| **Total available-for-sale securities** | | | | | |
| Amortized cost | $ 30,767 | $ 70,646 | $ 25,861 | $ 196,911 | $ 324,185 |
| Fair value | 30,924 | 70,852 | 26,479 | 199,493 | 327,748 |
| Average yield[b] | 2.05% | 2.25% | 2.99% | 3.67% | 3.15% |
| **Total held-to-maturity securities** | | | | | |
| Amortized cost | $ — | $ 7 | $ 8 | $ 1 | $ 16 |
| Fair value | — | 7 | 9 | 1 | 17 |
| Average yield[b] | —% | 6.97% | 6.82% | 6.47% | 6.86% |

*(a) U.S. government agencies and U.S. government-sponsored enterprises were the only issuers whose securities exceeded 10% of JPMorgan Chase Bank, N.A.'s total stockholder's equity at March 31, 2011.*

*(b) The average yield is computed using the effective yield of each security owned at the end of the period, weighted based on the amortized cost of each security. The effective yield considers the contractual coupon, amortization of premiums and accretion of discounts, and the effect of related hedging derivatives. Taxable equivalent amounts are used where applicable.*

*(c) Includes securities with no stated maturity. Substantially all of JPMorgan Chase Bank, N.A.'s residential mortgage-backed securities and collateralized mortgage obligations are due in 10 years or more, based on contractual maturity. The estimated duration, which reflects anticipated future prepayments based on a consensus of dealers in the market, is approximately five years for agency residential mortgage-backed securities, three years for agency residential collateralized mortgage obligations and five years for nonagency residential collateralized mortgage obligations.*

## NOTE 13 – SECURITIES FINANCING ACTIVITIES

For a discussion of accounting policies relating to securities financing activities, see Note 14 on page 57 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements. For further information regarding securities borrowed and securities lending agreements for which the fair value option has been elected, see Note 5 on pages 18–19 of these Consolidated Financial Statements.

The following table details JPMorgan Chase Bank, N.A.'s securities financing agreements, all of which are accounted for as collateralized financings during the periods presented.

| (in millions) | **March 31, 2011** | December 31, 2010 |
|---|---|---|
| Securities purchased under resale agreements[a] | **$ 174,216** | $ 174,592 |
| Securities borrowed[b] | **56,868** | 57,370 |
| Securities sold under repurchase agreements[c] | **$ 169,641** | $ 158,688 |
| Securities loaned | **16,703** | 13,898 |

*(a) At March 31, 2011, and December 31, 2010, included resale agreements of $19.4 billion and $19.9 billion, respectively, accounted for at fair value.*

*(b) At March 31, 2011, and December 31, 2010, included securities borrowed of $15.3 billion and $14.0 billion, respectively, accounted for at fair value.*

*(c) At March 31, 2011, and December 31, 2010, included repurchase agreements of $4.0 billion and $2.6 billion, respectively, accounted for at fair value.*

The amounts reported in the table above were reduced by $72.9 billion and $54.8 billion at March 31, 2011, and December 31, 2010, respectively, as a result of agreements in effect that meet the specified conditions for net presentation under applicable accounting guidance.

For further information regarding assets pledged and collateral received in securities financing agreements, see Note 24 on page 74 of these Consolidated Financial Statements.

## NOTE 14 – LOANS

**Loan accounting framework**

The accounting for a loan depends on management's strategy for the loan, and on whether the loan was credit-impaired at the date of acquisition. JPMorgan Chase Bank, N.A. accounts for and measures the loans as follows:

- Originated or purchased loans held-for-investment (i.e., "retained"), other than purchased credit-impaired ("PCI") loans, are measured at the principal amount outstanding, net of the following: allowance for loan losses; net charge-offs; interest applied to principal (for loans accounted for on the cost recovery method); unamortized discounts and premiums; and deferred loan fees or costs.
- Held-for-sale loans are measured at the lower of cost or fair value, with valuation changes recorded in noninterest revenue.
- Loans used in a trading strategy or risk managed on a fair value basis are measured at fair value, with changes in fair value recorded in noninterest revenue.
- PCI loans held-for-investment are initially recorded at fair value upon acquisition.

For a detailed discussion of loans, including accounting policies, see Note 15 on pages 58–76 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements. See Note 5 on pages 18–19 of these Consolidated Financial Statements for further information on JPMorgan Chase Bank, N.A.'s elections of fair value accounting under the fair value option. See Note 4 on pages 7–17 of these Consolidated Financial Statements for further information on loans carried at fair value and classified as trading assets.

### Loan portfolio

JPMorgan Chase Bank, N.A.'s loan portfolio is divided into three portfolio segments, which are the same segments used to determine the allowance for loan losses: Wholesale; Consumer, excluding credit card; and Credit Card. Within each portfolio segment, JPMorgan Chase Bank, N.A. monitors and assesses the credit risk in the following classes of loans, based on the risk characteristics of each loan class:

| **Wholesale**[(a)] | **Consumer, excluding credit card**[(b)] | **Credit Card** |
|---|---|---|
| • Commercial and industrial<br>• Real estate<br>• Financial institutions<br>• Government agencies<br>• Other | Residential real estate – excluding PCI<br>• Home equity – senior lien<br>• Home equity – junior lien<br>• Prime mortgage, including option adjustable-rate mortgages ("ARMs")<br>• Subprime mortgage<br>Other consumer loans<br>• Auto[(c)]<br>• Business banking[(c)]<br>• Student and other<br>Residential real estate – PCI<br>• Home equity<br>• Prime mortgage<br>• Subprime mortgage<br>• Option ARMs | • Credit card |

*(a) Includes loans reported in investment banking, commercial banking, treasury and securities services, asset management and corporate businesses.*
*(b) Includes the retail financial services business and residential real estate loans reported in the corporate business.*
*(c) Includes risk-rated loans that apply the wholesale methodology for determining the allowance for loan losses; these loans are managed by the retail financial services business and therefore, for consistency in presentation, are included with the other consumer loan classes.*

The following table summarizes JPMorgan Chase Bank, N.A.'s loan balances by portfolio segment:

| **March 31, 2011** (in millions) | Wholesale | Consumer, excluding credit card | Credit Card | Total |
|---|---|---|---|---|
| Retained | **$ 228,678** | **$ 301,562** | **$ 22,980** | **$ 553,220**[(a)] |
| Held-for-sale | **4,326** | **188** | **57** | **4,571** |
| At fair value | **690** | **—** | **—** | **690** |
| **Total** | **$ 233,694** | **$ 301,750** | **$ 23,037** | **$ 558,481** |

| December 31, 2010 (in millions) | Wholesale | Consumer, excluding credit card | Credit Card | Total |
|---|---|---|---|---|
| Retained | $ 219,829 | $ 307,185 | $ 21,665 | $ 548,679[(a)] |
| Held-for-sale | 3,139 | 154 | 59 | 3,352 |
| At fair value | 973 | — | — | 973 |
| **Total** | $ 223,941 | $ 307,339 | $ 21,724 | $ 553,004 |

*(a) Loans (other than PCI loans and those for which the fair value option has been selected) are presented net of unamortized discounts and premiums, unearned income, and net deferred loan costs of $1.9 billion and $1.8 billion at March 31, 2011, and December 31, 2010, respectively.*

The following table provides information about the carrying value of retained loans purchased, retained loans sold and retained loans reclassified to loans held-for-sale during the periods indicated. This table excludes loans recorded at fair value. On an on-going basis, JPMorgan Chase Bank, N.A. manages its exposure to credit risk. Selling loans is one way that JPMorgan Chase Bank, N.A. reduces its credit exposures.

| **Three months ended March 31, 2011** (in millions) | Wholesale | Consumer, excluding credit card | Credit Card | Total |
|---|---|---|---|---|
| Purchases | **$ 123** | **$ 1,992** | **$ —** | **$ 2,115** |
| Sales | **877** | **257** | **—** | **1,134** |
| Reclassified to held-for-sale | **174** | **—** | **—** | **174** |

The following table provides information about gains and losses on loan sales by portfolio segment.

| Three months ended March 31, (in millions) | **2011** | 2010 |
|---|---|---|
| **Net gains/(losses) on sales of loans (including lower of cost or fair value adjustments)**[(a)] | | |
| Wholesale | **$ 60** | $ 68 |
| Consumer, excluding credit card | **25** | 30 |
| Credit Card | **(1)** | — |
| **Total net gains/(losses) on sales of loans (including lower of cost or fair value adjustments)**[(a)] | **$ 84** | $ 98 |

*(a) Excludes sales related to loans accounted for at fair value.*

## Wholesale loan portfolio

Wholesale loans include loans made to a variety of customers from large corporate and institutional clients to certain high-net worth individuals. The primary credit quality indicator for wholesale loans is the risk rating assigned each loan. For further information on the risk ratings, see Note 15 on pages 58–76 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The table below provides information by class of receivable for the retained loans in the Wholesale portfolio segment.

| | Commercial and industrial | | Real estate | |
|---|---|---|---|---|
| (in millions, except ratios) | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 |
| **Loans by risk ratings** | | | | |
| Investment-grade | **$ 33,298** | $ 30,729 | **$ 28,789** | $ 28,378 |
| Noninvestment-grade: | | | | |
| Noncriticized | **31,009** | 29,612 | **15,990** | 16,289 |
| Criticized performing | **2,312** | 2,290 | **5,361** | 5,720 |
| Criticized nonaccrual | **1,423** | 1,598 | **2,358** | 2,934 |
| **Total noninvestment grade** | **34,744** | 33,500 | **23,709** | 24,943 |
| **Total retained loans** | **$ 68,042** | $ 64,229 | **$ 52,498** | $ 53,321 |
| % of total criticized to total retained loans | **5.49%** | 6.05% | **14.70%** | 16.23% |
| % of nonaccrual loans to total retained loans | **2.09** | 2.49 | **4.49** | 5.50 |
| **Loans by geographic distribution**[(a)] | | | | |
| Total non-U.S. | **$ 19,232** | $ 17,720 | **$ 1,512** | $ 1,963 |
| Total U.S. | **48,810** | 46,509 | **50,986** | 51,358 |
| **Total retained loans** | **$ 68,042** | $ 64,229 | **$ 52,498** | $ 53,321 |
| **Loan delinquency**[(b)] | | | | |
| Current and less than 30 days past due and still accruing | **$ 66,433** | $ 62,190 | **$ 49,846** | $ 49,988 |
| 30–89 days past due and still accruing | **180** | 434 | **247** | 290 |
| 90 or more days past due and still accruing[(c)] | **6** | 7 | **47** | 109 |
| Criticized nonaccrual | **1,423** | 1,598 | **2,358** | 2,934 |
| **Total retained loans** | **$ 68,042** | $ 64,229 | **$ 52,498** | $ 53,321 |

*(a) U.S. and non-U.S. distribution is determined based predominantly on the domicile of the borrower.*

*(b) For wholesale loans, the past due status of a loan is generally not a significant indicator of credit quality due to the ongoing review and monitoring of an obligor's ability to meet contractual obligations. For a discussion of more significant factors, see Note 15 on page 61 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.*

*(c) Represents loans that are 90 days or more past due as to principal and/or interest, but that are still accruing interest; these loans are considered well-collateralized.*

*(d) Other primarily includes loans to special purpose entities and loans to private banking clients. See Note 1 on pages 6–8 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements for additional information on SPEs.*

The following table presents additional information on the real estate class of loans within the wholesale portfolio segment for the periods indicated. For further information on real estate loans, see Note 15 on pages 58–76 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

| | Multi-family | | Commercial lessors | |
|---|---|---|---|---|
| (in millions, except ratios) | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 |
| **Real estate retained loans** | **$ 30,410** | $ 30,595 | **$ 15,023** | $ 15,620 |
| Criticized exposure | **3,623** | 3,798 | **2,808** | 3,546 |
| % of total real estate retained loans | **11.91%** | 12.41% | **18.69%** | 22.70% |
| Criticized nonaccrual | **$ 1,027** | $ 1,016 | **$ 997** | $ 1,546 |
| % of total real estate retained loans | **3.38%** | 3.32% | **6.64%** | 9.90% |

(table continued from previous page)

| Financial institutions | | Government agencies | | Other[(d)] | | Total retained loans | |
|---|---|---|---|---|---|---|---|
| **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 |
| **$ 25,171** | $ 22,692 | **$ 5,448** | $ 5,980 | **$ 61,057** | $ 55,484 | **$ 153,763** | $ 143,263 |
| **7,166** | 8,358 | **351** | 377 | **7,495** | 7,809 | **62,011** | 62,445 |
| **296** | 317 | **5** | 3 | **392** | 320 | **8,366** | 8,650 |
| **90** | 136 | **22** | 22 | **645** | 781 | **4,538** | 5,471 |
| **7,552** | 8,811 | **378** | 402 | **8,532** | 8,910 | **74,915** | 76,566 |
| **$ 32,723** | $ 31,503 | **$ 5,826** | $ 6,382 | **$ 69,589** | $ 64,394 | **$ 228,678** | $ 219,829 |
| **1.18%** | 1.44% | **0.46%** | 0.39% | **1.49%** | 1.71% | **5.64%** | 6.42% |
| **0.28** | 0.43 | **0.38** | 0.34 | **0.93** | 1.21 | **1.98** | 2.49 |
| **$ 23,782** | $ 20,043 | **$ 834** | $ 874 | **$ 27,031** | $ 25,753 | **$ 72,391** | $ 66,353 |
| **8,941** | 11,460 | **4,992** | 5,508 | **42,558** | 38,641 | **156,287** | 153,476 |
| **$ 32,723** | $ 31,503 | **$ 5,826** | $ 6,382 | **$ 69,589** | $ 64,394 | **$ 228,678** | $ 219,829 |
| **$ 32,538** | $ 31,334 | **$ 5,798** | $ 6,345 | **$ 68,184** | $ 62,832 | **$ 222,799** | $ 212,689 |
| **93** | 31 | **6** | 15 | **692** | 541 | **1,218** | 1,311 |
| **2** | 2 | **—** | — | **68** | 240 | **123** | 358 |
| **90** | 136 | **22** | 22 | **645** | 781 | **4,538** | 5,471 |
| **$ 32,723** | $ 31,503 | **$ 5,826** | $ 6,382 | **$ 69,589** | $ 64,394 | **$ 228,678** | $ 219,829 |

(table continued from previous page)

| Commercial construction and development | | Other | | Total real estate loans | |
|---|---|---|---|---|---|
| **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 |
| **$ 3,285** | $ 3,395 | **$ 3,780** | $ 3,711 | **$ 52,498** | $ 53,321 |
| **535** | 618 | **753** | 692 | **7,719** | 8,654 |
| **16.29%** | 18.20% | **19.92%** | 18.65% | **14.70%** | 16.23% |
| **$ 141** | $ 173 | **$ 193** | $ 199 | **$ 2,358** | $ 2,934 |
| **4.29%** | 5.10% | **5.11%** | 5.36% | **4.49%** | 5.50% |

**Wholesale impaired loans and loan modifications**

Wholesale impaired loans include loans that have been placed on nonaccrual status and/or that have been modified in a TDR. All impaired loans are evaluated for an asset-specific allowance as described in Note 15 on pages 53–54 of these Consolidated Financial Statements.

The table below set forth information about JPMorgan Chase Bank, N.A.'s wholesale impaired loans.

| | Commercial and industrial | | Real estate | | Financial institutions | | Government agencies | | Other | | Total retained loans | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in millions) | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 |
| **Impaired loans** | | | | | | | | | | | | |
| With an allowance | **$ 1,353** | $ 1,482 | **$ 2,043** | $ 2,508 | **$ 72** | $ 127 | **$ 22** | $ 22 | **$ 550** | $ 697 | **$ 4,040** | $ 4,836 |
| Without an allowance[(a)] | **130** | 151 | **250** | 445 | **18** | 8 | **—** | — | **19** | 8 | **417** | 612 |
| **Total impaired loans** | **$ 1,483** | $ 1,633 | **$ 2,293** | $ 2,953 | **$ 90** | $ 135 | **$ 22** | $ 22 | **$ 569** | $ 705 | **$ 4,457** | $ 5,448 |
| Allowance for loan losses related to impaired loans[(b)] | **$ 385** | $ 431 | **$ 436** | $ 825 | **$ 28** | $ 61 | **$ 14** | $ 14 | **$ 138** | $ 238 | **$ 1,001** | $ 1,569 |
| Unpaid principal balance of impaired loans[(c)] | **2,465** | 2,406 | **2,768** | 3,483 | **218** | 244 | **31** | 30 | **917** | 1,046 | **6,399** | 7,209 |

*(a) When the discounted cash flows, collateral value or market price equals or exceeds the recorded investment in the loan, then the loan does not require an allowance. This typically occurs when the impaired loans have been partially charged-off and/or there have been interest payments received and applied to the loan balance.*

*(b) The allowance for impaired loans is included in JPMorgan Chase Bank, N.A.'s asset-specific allowance for loan losses.*

*(c) Represents the contractual amount of principal owed at March 31, 2011, and December 31, 2010. The unpaid principal balance differs from the impaired loan balances due to various factors, including charge-offs; interest payments received and applied to the carrying value; net deferred loan fees or costs; and unamortized discount or premiums on purchased loans.*

The following table presents JPMorgan Chase Bank, N.A.'s average impaired loans for the periods indicated.

| Three months ended March 31, | Average impaired loans | |
|---|---|---|
| (in millions) | **2011** | 2010 |
| Commercial and industrial | **$ 1,518** | $ 1,862 |
| Real estate | **2,724** | 3,035 |
| Financial institutions | **94** | 512 |
| Government agencies | **22** | 3 |
| Other | **637** | 923 |
| **Total**[(a)] | **$ 4,995** | $ 6,335 |

*(a) The related interest income on accruing impaired loans and interest income recognized on a cash basis were not material for the three months ended March 31, 2011 and 2010.*

The following table provides information about JPMorgan Chase Bank, N.A.'s wholesale loans modified in troubled debt restructurings ("TDRs"). These TDR loans are included as impaired loans in the above tables.

| | Commercial and industrial | | Real estate | | Financial institutions | | Government agencies | | Other | | Total retained loans | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in millions) | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 |
| Loans modified in troubled debt restructurings[(a)] | **$ 154** | $ 211 | **$ 270** | $ 907 | **$ 1** | $ 1 | **$ 22** | $ 22 | **$ —** | $ 1 | **$ 447** | $ 1,142 |
| TDRs on nonaccrual status | **104** | 162 | **269** | 830 | **1** | 1 | **22** | 22 | **—** | 1 | **396** | 1,016 |
| Additional commitments to lend to borrowers whose loans have been modified in TDRs | **4** | 1 | **18** | — | **—** | — | **—** | — | **—** | — | **22** | 1 |

*(a) These modifications generally provided interest rate concessions to the borrower or deferral of principal repayments.*

## Consumer loan portfolio

### Consumer, excluding credit card

Consumer loans, excluding credit card loans, consist primarily of residential mortgages, home equity loans, auto loans, business banking loans, and student and other loans, with a primary focus on serving the prime consumer credit market. The portfolio also includes home equity loans secured by junior liens and mortgage loans with interest-only payment options to predominantly prime borrowers, as well as certain payment-option loans originated by Washington Mutual that may result in negative amortization.

The table below provides information about consumer retained loans by class, excluding the credit card loan portfolio segment.

| (in millions) | **March 31, 2011** | December 31, 2010 |
|---|---|---|
| **Residential real estate – excluding PCI** | | |
| Home equity: | | |
| Senior lien[(a)] | **$ 20,815** | $ 21,076 |
| Junior lien[(b)] | **54,494** | 56,991 |
| Mortgages: | | |
| Prime, including option ARMs | **66,660** | 66,123 |
| Subprime | **9,473** | 9,849 |
| **Other consumer loans** | | |
| Auto | **47,411** | 48,367 |
| Business banking | **16,945** | 16,799 |
| Student and other | **14,999** | 15,217 |
| **Residential real estate – PCI** | | |
| Home equity | **23,973** | 24,459 |
| Prime mortgage | **16,725** | 17,322 |
| Subprime mortgage | **5,276** | 5,398 |
| Option ARMs | **24,791** | 25,584 |
| **Total retained loans** | **$ 301,562** | $ 307,185 |

*(a) Represents loans where JPMorgan Chase Bank, N.A. holds the first security interest on the property.*
*(b) Represents loans where JPMorgan Chase Bank, N.A. holds a security interest that is subordinate in rank to other liens.*

Delinquency rates are a primary credit quality indicator for consumer loans. Other credit quality indicators for consumer loans include:

- For residential real estate loans, including both non-PCI and PCI portfolios: The current estimated loan-to-value ("LTV") ratio, or the combined LTV ratio in the case of loans with a junior lien, the geographic distribution of the loan collateral, and the borrowers' current or "refreshed" FICO score.
- For auto, scored business banking and student loans: Geographic distribution.
- Risk-rated business banking and auto loans: Risk ratings of the loan, geographic considerations and whether the loan is considered to be criticized and/or nonaccrual.

For further information on consumer credit quality indicators, see Note 15 on pages 58–76 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

## Residential real estate – excluding PCI loans

The tables below provide information by class for residential real estate (excluding PCI) retained loans in the consumer, excluding credit card portfolio segment.

| | Home equity | | | |
|---|---|---|---|---|
| | Senior lien | | Junior lien | |
| (in millions, except ratios) | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 |
| **Loan delinquency**[(a)] | | | | |
| Current and less than 30 days past due | **$ 20,102** | $ 20,316 | **$ 52,996** | $ 55,301 |
| 30–149 days past due | **360** | 414 | **1,296** | 1,504 |
| 150 or more days past due | **353** | 346 | **202** | 186 |
| **Total retained loans** | **$ 20,815** | $ 21,076 | **$ 54,494** | $ 56,991 |
| % of 30+ days past due to total retained loans | **3.43%** | 3.61% | **2.75%** | 2.97% |
| 90 or more days past due and still accruing | **$ —** | $ — | **$ —** | $ — |
| Nonaccrual loans[(b)] | **469** | 479 | **789** | 784 |
| **Current estimated LTV ratios**[(c)(d)(e)] | | | | |
| Greater than 125% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **$ 557** | $ 528 | **$ 7,023** | $ 6,927 |
| Less than 660 | **243** | 238 | **2,530** | 2,494 |
| 101% to 125% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **1,093** | 963 | **9,371** | 9,377 |
| Less than 660 | **354** | 325 | **2,836** | 2,873 |
| 80% to 100% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **2,462** | 2,439 | **10,461** | 11,259 |
| Less than 660 | **739** | 737 | **2,907** | 3,147 |
| Less than 80% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **12,732** | 13,136 | **16,324** | 17,634 |
| Less than 660 | **2,635** | 2,710 | **3,042** | 3,280 |
| U.S. government-guaranteed | **—** | — | **—** | — |
| **Total retained loans** | **$ 20,815** | $ 21,076 | **$ 54,494** | $ 56,991 |
| **Geographic region** | | | | |
| California | **$ 3,261** | $ 3,257 | **$ 13,367** | $ 13,967 |
| New York | **2,565** | 2,575 | **10,305** | 10,710 |
| Texas | **3,312** | 3,392 | **1,697** | 1,791 |
| Florida | **1,008** | 1,013 | **3,185** | 3,341 |
| Illinois | **1,203** | 1,221 | **3,369** | 3,516 |
| Ohio | **1,623** | 1,655 | **1,186** | 1,247 |
| New Jersey | **536** | 538 | **2,941** | 3,072 |
| Michigan | **985** | 1,001 | **1,407** | 1,474 |
| Arizona | **1,196** | 1,215 | **2,594** | 2,735 |
| Washington | **753** | 759 | **1,958** | 2,046 |
| All other[(f)] | **4,373** | 4,450 | **12,485** | 13,092 |
| **Total retained loans** | **$ 20,815** | $ 21,076 | **$ 54,494** | $ 56,991 |

(a) *Mortgage loans insured by U.S. government agencies are included in the delinquency classifications presented. Prior period amounts have been revised to conform to the current period presentation.*

(b) *At March 31, 2011, and December 31, 2010, nonaccrual loans excluded mortgage loans insured by U.S. government agencies of $9.8 billion and $10.5 billion, respectively, that are accruing at the guaranteed reimbursement rate. These amounts were excluded as reimbursement of insured amounts is proceeding normally.*

(c) *Represents the aggregate unpaid principal balance of loans divided by the estimated current property value. Current property values are estimated, at a minimum, quarterly, based on home valuation models utilizing nationally recognized home price index valuation estimates incorporating actual data to the extent available and forecasted data where actual data is not available. These property values do not represent actual appraised loan level collateral values; as such, the resulting ratios are necessarily imprecise and should be viewed as estimates.*

(d) *Junior lien represents combined LTV, which considers all available lien positions related to the property. All other products are presented without consideration of subordinate liens on the property.*

(e) *Refreshed FICO scores represent each borrower's most recent credit score which is obtained by JPMorgan Chase Bank, N.A. at least on a quarterly basis.*

(f) *At March 31, 2011, and December 31, 2010, included mortgage loans insured by U.S. government agencies of $13.0 billion and $12.9 billion, respectively.*

(g) *At March 31, 2011, and December 31, 2010, excluded mortgage loans that are insured by U.S. government agencies of $10.4 billion and $11.3 billion, respectively. These amounts were excluded as reimbursement of insured amounts is proceeding normally.*

(table continued from previous page)

| Mortgages | | | | Total residential real estate (excluding PCI) | |
|---|---|---|---|---|---|
| Prime, including option ARMs | | Subprime | | | |
| **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 |
| **$ 52,984** | $ 51,583 | **$ 7,059** | $ 7,262 | **$ 133,141** | $ 134,462 |
| **2,931** | 3,707 | **878** | 1,088 | **5,465** | 6,713 |
| **10,745** | 10,833 | **1,536** | 1,499 | **12,836** | 12,864 |
| **$ 66,660** | $ 66,123 | **$ 9,473** | $ 9,849 | **$ 151,442** | $ 154,039 |
| **6.23%**[g] | 6.52%[g] | **25.48%** | 26.27% | **5.80%**[g] | 6.07%[g] |
| **$ —** | $ — | **$ —** | $ — | **$ —** | $ — |
| **3,675** | 3,773 | **1,965** | 2,047 | **6,898** | 7,083 |
| **$ 3,181** | $ 3,000 | **$ 370** | $ 332 | **$ 11,131** | $ 10,787 |
| **1,574** | 1,583 | **1,190** | 1,137 | **5,537** | 5,452 |
| **4,358** | 4,324 | **488** | 489 | **15,310** | 15,153 |
| **1,645** | 1,641 | **1,449** | 1,459 | **6,284** | 6,298 |
| **8,972** | 8,924 | **804** | 845 | **22,699** | 23,467 |
| **2,259** | 2,265 | **1,717** | 1,830 | **7,622** | 7,979 |
| **28,038** | 27,840 | **1,495** | 1,640 | **58,589** | 60,250 |
| **3,670** | 3,627 | **1,960** | 2,117 | **11,307** | 11,734 |
| **12,963** | 12,919 | **—** | — | **12,963** | 12,919 |
| **$ 66,660** | $ 66,123 | **$ 9,473** | $ 9,849 | **$ 151,442** | $ 154,039 |
| **$ 15,537** | $ 15,584 | **$ 1,348** | $ 1,509 | **$ 33,513** | $ 34,317 |
| **8,724** | 8,513 | **1,184** | 1,205 | **22,778** | 23,003 |
| **2,522** | 2,392 | **326** | 301 | **7,857** | 7,876 |
| **4,174** | 4,281 | **1,194** | 1,240 | **9,561** | 9,875 |
| **3,608** | 3,477 | **405** | 408 | **8,585** | 8,622 |
| **431** | 437 | **224** | 240 | **3,464** | 3,579 |
| **1,751** | 1,738 | **445** | 466 | **5,673** | 5,814 |
| **916** | 925 | **228** | 257 | **3,536** | 3,657 |
| **1,165** | 1,203 | **216** | 213 | **5,171** | 5,366 |
| **1,573** | 1,580 | **210** | 216 | **4,494** | 4,601 |
| **26,259** | 25,993 | **3,693** | 3,794 | **46,810** | 47,329 |
| **$ 66,660** | $ 66,123 | **$ 9,473** | $ 9,849 | **$ 151,442** | $ 154,039 |

**Residential real estate impaired loans and loan modifications – excluding PCI loans**

JPMorgan Chase Bank, N.A. 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 MHA programs. For further information, see Note 15 on pages 58–76 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The tables below set forth information about JPMorgan Chase Bank, N.A.'s residential real estate impaired loans, excluding PCI. These loans are considered to be impaired as they have been modified in a TDR. All impaired loans are evaluated for an asset-specific allowance as described in Note 15 on pages 53–54 of these Consolidated Financial Statements.

| | Home equity | | | | Mortgages | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Senior lien | | Junior lien | | Prime, including option ARMs | | Subprime | | Total residential real estate (excluding PCI) | |
| (in millions) | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 |
| **Impaired loans**[(a)(b)] | | | | | | | | | | |
| With an allowance | **$ 217** | $ 211 | **$ 379** | $ 258 | **$ 1,996** | $ 1,436 | **$ 2,492** | $ 2,490 | **$ 5,084** | $ 4,395 |
| Without an allowance[(c)] | **17** | 15 | **29** | 25 | **512** | 508 | **172** | 178 | **730** | 726 |
| **Total impaired loans**[(d)] | **$ 234** | $ 226 | **$ 408** | $ 283 | **$ 2,508** | $ 1,944 | **$ 2,664** | $ 2,668 | **$ 5,814** | $ 5,121 |
| Allowance for loan losses related to impaired loans | **$ 72** | $ 77 | **$ 114** | $ 82 | **$ 84** | $ 88 | **$ 516** | $ 532 | **$ 786** | $ 779 |
| Unpaid principal balance of impaired loans[(e)] | **281** | 265 | **551** | 402 | **3,232** | 2,582 | **3,758** | 3,674 | **7,822** | 6,923 |
| Impaired loans on nonaccrual status | **38** | 38 | **178** | 63 | **515** | 487 | **572** | 611 | **1,303** | 1,199 |

*(a) Represents loans modified in a TDR. These modifications generally provided interest rate concessions to the borrower or deferral of principal repayments.*

*(b) There were no additional commitments to lend to borrowers whose loans have been modified in TDRs as of March 31, 2011 and December 31, 2010.*

*(c) When discounted cash flows or collateral value equals or exceeds the recorded investment in the loan, the loan does not require an allowance. This result typically occurs when an impaired loan has been partially charged off.*

*(d) At March 31, 2011, and December 31, 2010, $3.6 billion and $3.0 billion, respectively, of loans modified subsequent to repurchase from Ginnie Mae were excluded from loans accounted for as TDRs. When such loans perform subsequent to modification they are generally sold back into Ginnie Mae loan pools. Modified loans that do not re-perform become subject to foreclosure. Substantially all amounts due under the terms of these loans continue to be insured, and where applicable, reimbursement of insured amounts is proceeding normally.*

*(e) Represents the contractual amount of principal owed at March 31, 2011, and December 31, 2010. The unpaid principal balance differs from the impaired loan balances due to various factors, including charge-offs; net deferred loan fees or costs; and unamortized discounts or premiums on purchased loans.*

The following table presents average impaired loans and the related interest income reported by JPMorgan Chase Bank, N.A.

| Three months ended March 31, | Average impaired loans | | Interest income on impaired loans[(a)] | | Interest income on impaired loans on a cash basis[(a)] | |
|---|---|---|---|---|---|---|
| (in millions) | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| **Home equity** | | | | | | |
| Senior lien | **$ 231** | $ 165 | **$ 3** | $ 2 | **$ —** | $ — |
| Junior lien | **352** | 269 | **4** | 3 | **—** | — |
| **Mortgages** | | | | | | |
| Prime, including option ARMs | **2,192** | 937 | **24** | 17 | **3** | 1 |
| Subprime | **2,664** | 2,154 | **34** | 27 | **3** | 4 |
| **Total residential real estate (excluding PCI)** | **$ 5,439** | $ 3,525 | **$ 65** | $ 49 | **$ 6** | $ 5 |

*(a) Generally, interest income on loans modified in a TDR is recognized on a cash basis until such time as the borrower has made a minimum of six payments under the new terms. As of March 31, 2011 and 2010, loans of $589 million and $614 million, respectively, were TDRs for which the borrowers had not yet made six payments under their modified terms.*

## Other consumer loans

The tables below provide information for other consumer retained loan classes, including auto, business banking and student loans.

| | Auto | | Business banking | | Student and other | | Total other consumer | |
|---|---|---|---|---|---|---|---|---|
| (in millions, except ratios) | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 |
| **Loan delinquency**[(a)] | | | | | | | | |
| Current and less than 30 days past due | **$ 46,949** | $ 47,778 | **$ 16,431** | $ 16,227 | **$ 13,654** | $ 13,904 | **$ 77,034** | $ 77,909 |
| 30–119 days past due | **454** | 579 | **322** | 351 | **828** | 795 | **1,604** | 1,725 |
| 120 or more days past due | **8** | 10 | **192** | 221 | **517** | 518 | **717** | 749 |
| **Total retained loans** | **$ 47,411** | $ 48,367 | **$ 16,945** | $ 16,799 | **$ 14,999** | $ 15,217 | **$ 79,355** | $ 80,383 |
| % of 30+ days past due to total retained loans | **0.97%** | 1.22% | **3.03%** | 3.40% | **2.00%**[(d)] | 1.62%[(d)] | **1.61%**[(d)] | 1.75%[(d)] |
| 90 or more days past due and still accruing[(b)] | **$ —** | $ — | **$ —** | $ — | **$ 615** | $ 625 | **$ 615** | $ 625 |
| Nonaccrual loans | **120** | 141 | **802** | 819 | **107** | 67 | **1,029** | 1,027 |
| **Geographic region** | | | | | | | | |
| California | **$ 4,214** | $ 4,307 | **$ 966** | $ 851 | **$ 1,311** | $ 1,327 | **$ 6,491** | $ 6,485 |
| New York | **3,781** | 3,875 | **2,882** | 2,876 | **1,291** | 1,299 | **7,954** | 8,050 |
| Texas | **4,385** | 4,505 | **2,578** | 2,547 | **1,220** | 1,247 | **8,183** | 8,299 |
| Florida | **1,865** | 1,923 | **222** | 220 | **708** | 720 | **2,795** | 2,863 |
| Illinois | **2,540** | 2,608 | **1,322** | 1,319 | **929** | 935 | **4,791** | 4,862 |
| Ohio | **2,855** | 2,961 | **1,602** | 1,645 | **987** | 1,003 | **5,444** | 5,609 |
| New Jersey | **1,832** | 1,842 | **229** | 422 | **498** | 501 | **2,559** | 2,765 |
| Michigan | **2,377** | 2,434 | **1,393** | 1,399 | **708** | 722 | **4,478** | 4,555 |
| Arizona | **1,438** | 1,499 | **1,209** | 1,218 | **369** | 379 | **3,016** | 3,096 |
| Washington | **734** | 716 | **133** | 115 | **271** | 276 | **1,138** | 1,107 |
| All other | **21,390** | 21,697 | **4,409** | 4,187 | **6,707** | 6,808 | **32,506** | 32,692 |
| **Total retained loans** | **$ 47,411** | $ 48,367 | **$ 16,945** | $ 16,799 | **$ 14,999** | $ 15,217 | **$ 79,355** | $ 80,383 |
| **Loans by risk ratings**[(c)] | | | | | | | | |
| Noncriticized | **$ 5,840** | $ 5,803 | **$ 11,153** | $ 10,831 | **NA** | NA | **$ 16,993** | $ 16,634 |
| Criticized performing | **257** | 265 | **457** | 502 | **NA** | NA | **714** | 767 |
| Criticized nonaccrual | **8** | 12 | **574** | 574 | **NA** | NA | **582** | 586 |

*(a) Loans insured by U.S. government agencies under the Federal Family Education Loan Program ("FFELP") are included in the delinquency classifications presented based on their payment status. Prior period amounts have been revised to conform to the current period presentation.*

*(b) These amounts represent student loans, which are insured by U.S. government agencies under the FFELP. These amounts were accruing as reimbursement of insured amounts is proceeding normally.*

*(c) For risk-rated business banking and auto loans, the primary credit quality indicator is the risk rating of the loan, including whether the loans are considered to be criticized and/or nonaccrual.*

*(d) At March 31, 2011, and December 31, 2010, excluded loans 30 days or more past due and still accruing, which are insured by U.S. government agencies under the FFELP, of $1.0 billion and $1.1 billion, respectively. These amounts were excluded as reimbursement of insured amounts is proceeding normally.*

**Other consumer impaired loans**

The tables below set forth information about JPMorgan Chase Bank, N.A.'s other consumer impaired loans, including risk-rated business banking and auto loans that have been placed on nonaccrual status, and any loan that has been modified in a TDR.

| | Auto | | Business banking | | Total other consumer[c] | |
|---|---|---|---|---|---|---|
| (in millions) | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 |
| **Impaired loans** | | | | | | |
| With an allowance | **$ 98** | $ 102 | **$ 769** | $ 774 | **$ 867** | $ 876 |
| Without an allowance[a] | **—** | — | **—** | — | **—** | — |
| **Total impaired loans** | **$ 98** | $ 102 | **$ 769** | $ 774 | **$ 867** | $ 876 |
| Allowance for loan losses related to impaired loans | **$ 16** | $ 16 | **$ 236** | $ 248 | **$ 252** | $ 264 |
| Unpaid principal balance of impaired loans[b] | **131** | 132 | **894** | 899 | **1,025** | 1,031 |
| Impaired loans on nonaccrual status | **47** | 50 | **631** | 647 | **678** | 697 |

(a) *When discounted cash flows, collateral value or market price equals or exceeds the recorded investment in the loan, then the loan does not require an allowance. This typically occurs when the impaired loans have been partially charged off and/or there have been interest payments received and applied to the loan balance.*

(b) *Represents the contractual amount of principal owed at March 31, 2011, and December 31, 2010. The unpaid principal balance differs from the impaired loan balances due to various factors, including charge-offs; interest payments received and applied to the principal balance; net deferred loan fees or costs; and unamortized discounts or premiums on purchased loans.*

(c) *There were no impaired student and other loans at March 31, 2011, and December 31, 2010.*

The following table presents average impaired loans.

| Three months ended March 31, (in millions) | Average impaired loans[b] 2011 | 2010 |
|---|---|---|
| Auto | $ **99** | $ 127 |
| Business banking | **772** | 510 |
| **Total other consumer**[a] | $ **871** | $ 637 |

*(a) There were no student and other loans modified in TDRs at March 31, 2011, and December 31, 2010.*
*(b) The related interest income on impaired loans, including those on cash basis, was not material for the three months ended March 31, 2011 and 2010.*

The following table provides information about JPMorgan Chase Bank, N.A.'s other consumer loans modified in TDRs. These TDR loans are included as impaired loans in the tables above.

| | Auto | | Business banking | | Total other consumer[c] | |
|---|---|---|---|---|---|---|
| (in millions) | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 |
| Loans modified in troubled debt restructurings[a][b] | $ **90** | $ 91 | $ **408** | $ 395 | $ **498** | $ 486 |
| TDRs on nonaccrual status | **39** | 39 | **270** | 268 | **309** | 307 |

*(a) These modifications generally provided interest rate concessions to the borrower or deferral of principal repayments.*
*(b) Additional commitments to lend to borrowers whose loans have been modified in TDRs as of March 31, 2011, and December 31, 2010, were immaterial.*
*(c) There were no student and other loans modified in TDRs at March 31, 2011, and December 31, 2010.*

### Purchased credit-impaired ("PCI") loans

For a detailed discussion of PCI loans, including the related accounting policies, see Note 15 on pages 58–76 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

### Residential real estate – PCI loans

The table below sets forth information about JPMorgan Chase Bank, N.A.'s consumer, excluding credit card PCI loans.

| | Home equity | | Prime mortgage | |
|---|---|---|---|---|
| (in millions, except ratios) | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 |
| Carrying value[a] | **$ 23,973** | $ 24,459 | **$ 16,725** | $ 17,322 |
| Related allowance for loan losses[b] | **1,583** | 1,583 | **1,766** | 1,766 |
| **Loan delinquency (based on unpaid principal balance)** | | | | |
| Current and less than 30 days past due | **$ 24,956** | $ 25,783 | **$ 12,632** | $ 13,035 |
| 30–149 days past due | **1,193** | 1,348 | **1,285** | 1,468 |
| 150 or more days past due | **1,248** | 1,181 | **4,238** | 4,425 |
| **Total loans** | **$ 27,397** | $ 28,312 | **$ 18,155** | $ 18,928 |
| % of 30+ days past due to total loans | **8.91%** | 8.93% | **30.42%** | 31.13% |
| **Current estimated LTV ratios (based on unpaid principal balance)**[c][d] | | | | |
| Greater than 125% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **$ 6,466** | $ 6,324 | **$ 2,424** | $ 2,400 |
| Less than 660 | **4,065** | 4,052 | **2,897** | 2,744 |
| 101% to 125% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **5,804** | 6,097 | **3,517** | 3,815 |
| Less than 660 | **2,584** | 2,701 | **2,904** | 3,011 |
| 80% to 100% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **3,685** | 4,019 | **1,757** | 1,970 |
| Less than 660 | **1,378** | 1,483 | **1,749** | 1,857 |
| Lower than 80% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **2,379** | 2,539 | **1,323** | 1,443 |
| Less than 660 | **1,036** | 1,097 | **1,584** | 1,688 |
| **Total unpaid principal balance** | **$ 27,397** | $ 28,312 | **$ 18,155** | $ 18,928 |
| **Geographic region (based on unpaid principal balance)** | | | | |
| California | **$ 16,466** | $ 17,012 | **$ 10,405** | $ 10,891 |
| New York | **1,276** | 1,316 | **1,086** | 1,111 |
| Texas | **508** | 525 | **184** | 194 |
| Florida | **2,521** | 2,595 | **1,467** | 1,519 |
| Illinois | **607** | 627 | **550** | 562 |
| Ohio | **36** | 38 | **88** | 91 |
| New Jersey | **520** | 540 | **478** | 486 |
| Michigan | **91** | 95 | **262** | 279 |
| Arizona | **521** | 539 | **330** | 359 |
| Washington | **1,486** | 1,535 | **432** | 451 |
| All other | **3,365** | 3,490 | **2,873** | 2,985 |
| **Total unpaid principal balance** | **$ 27,397** | $ 28,312 | **$ 18,155** | $ 18,928 |

*(a) Carrying value includes the effect of fair value adjustments that were applied to the consumer PCI portfolio at the date of acquisition.*

*(b) Management concluded as part of JPMorgan Chase Bank, N.A.'s regular assessment of the PCI loan pools that it was probable that higher expected principal credit losses would result in a decrease in expected cash flows. As a result, an allowance for loan losses for impairment of these pools has been recognized.*

*(c) Represents the aggregate unpaid principal balance of loans divided by the estimated current property value. Current property values are estimated, at a minimum, quarterly, based on home valuation models utilizing nationally recognized home price index valuation estimates incorporating actual data to the extent available and forecasted data where actual data is not available. These property values do not represent actual appraised loan level collateral values; as such, the resulting ratios are necessarily imprecise and should be viewed as estimates. Current estimated combined LTV for junior lien home equity loans considers all available lien positions related to the property.*

*(d) Refreshed FICO scores represent each borrower's most recent credit score obtained by JPMorgan Chase Bank, N.A. JPMorgan Chase Bank, N.A. obtains refreshed FICO scores at least quarterly.*

(table continued from previous page)

| | Subprime mortgage | | Option ARMs | | Total PCI | |
|---|---|---|---|---|---|---|
| | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 | **March 31, 2011** | December 31, 2010 |
| | **$ 5,276** | $ 5,398 | **$ 24,791** | $ 25,584 | **$ 70,765** | $ 72,763 |
| | **98** | 98 | **1,494** | 1,494 | **4,941** | 4,941 |
| | **$ 4,352** | $ 4,312 | **$ 18,317** | $ 18,672 | **$ 60,257** | $ 61,802 |
| | **833** | 1,020 | **1,932** | 2,215 | **5,243** | 6,051 |
| | **2,660** | 2,710 | **9,310** | 9,904 | **17,456** | 18,220 |
| | **$ 7,845** | $ 8,042 | **$ 29,559** | $ 30,791 | **$ 82,956** | $ 86,073 |
| | **44.53%** | 46.38% | **38.03%** | 39.36% | **27.36%** | 28.20% |
| | **$ 465** | $ 432 | **$ 2,737** | $ 2,681 | **$ 12,092** | $ 11,837 |
| | **2,174** | 2,129 | **6,315** | 6,330 | **15,451** | 15,255 |
| | **411** | 424 | **4,098** | 4,292 | **13,830** | 14,628 |
| | **1,637** | 1,663 | **4,814** | 5,005 | **11,939** | 12,380 |
| | **336** | 374 | **3,763** | 4,152 | **9,541** | 10,515 |
| | **1,380** | 1,477 | **3,396** | 3,551 | **7,903** | 8,368 |
| | **177** | 186 | **2,087** | 2,281 | **5,966** | 6,449 |
| | **1,265** | 1,357 | **2,349** | 2,499 | **6,234** | 6,641 |
| | **$ 7,845** | $ 8,042 | **$ 29,559** | $ 30,791 | **$ 82,956** | $ 86,073 |
| | **$ 1,889** | $ 1,971 | **$ 15,430** | $ 16,130 | **$ 44,190** | $ 46,004 |
| | **731** | 736 | **1,660** | 1,703 | **4,753** | 4,866 |
| | **428** | 435 | **151** | 155 | **1,271** | 1,309 |
| | **896** | 906 | **3,762** | 3,916 | **8,646** | 8,936 |
| | **432** | 438 | **753** | 760 | **2,342** | 2,387 |
| | **120** | 122 | **123** | 131 | **367** | 382 |
| | **313** | 316 | **1,039** | 1,064 | **2,350** | 2,406 |
| | **204** | 214 | **309** | 345 | **866** | 933 |
| | **154** | 165 | **482** | 528 | **1,487** | 1,591 |
| | **176** | 178 | **727** | 745 | **2,821** | 2,909 |
| | **2,502** | 2,561 | **5,123** | 5,314 | **13,863** | 14,350 |
| | **$ 7,845** | $ 8,042 | **$ 29,559** | $ 30,791 | **$ 82,956** | $ 86,073 |

The table below sets forth the accretable yield activity for JPMorgan Chase Bank, N.A.'s PCI consumer loans for the three months ended March 31, 2011 and 2010, and represents JPMorgan Chase Bank, N.A.'s estimate of gross interest income expected to be earned over the remaining life of the PCI loan portfolios. This table excludes the cost to fund the PCI portfolios, and therefore does not represent net interest income expected to be earned on these portfolios.

| Three months ended March 31 | Total PCI | |
|---|---|---|
| (in millions, except ratios) | **2011** | 2010 |
| **Balance, January 1** | **$ 19,097** | $ 25,544 |
| Accretion into interest income | **(704)** | (886) |
| Changes in interest rates on variable rate loans | **(32)** | (394) |
| Other changes in expected cash flows[(a)] | **455** | (3,693) |
| **Balance, March 31** | **$ 18,816** | $ 20,571 |
| Accretable yield percentage | **4.29%** | 4.57% |

*(a) Other changes in expected cash flows may vary from period to period as JPMorgan Chase Bank, N.A. continues to refine its cash flow model and periodically updates model assumptions. For the three months ended March 31, 2011, other changes in expected cash flows were principally driven by changes in prepayment assumptions. For the three months ended March 31, 2010, other changes in expected cash flows were principally driven by changes in prepayment assumptions, as well as reclassification to the nonaccretable difference. Changes to prepayment assumptions change the expected remaining life of the portfolio, which drives changes in expected future interest cash collections. Such changes do not have a significant impact on the accretable yield percentage.*

The factors that most significantly affect estimates of gross cash flows expected to be collected, and accordingly the accretable yield balance, include: (i) changes in the benchmark interest rate indices for variable rate products such as option ARM and home equity loans; and (ii) changes in prepayment assumptions.

Since the date of purchase, the decrease in the accretable yield percentage has been primarily related to a decrease in interest rates on variable-rate loans and, to a lesser extent, extended loan liquidation periods. Certain events, such as extended loan liquidation periods, affect the timing of expected cash flows but not the amount of cash expected to be received (i.e., the accretable yield balance). Extended loan liquidation periods reduce the accretable yield percentage because the same accretable yield balance is recognized against a higher-than-expected loan balance over a longer-than-expected period of time.

## Credit card loans

The credit card portfolio segment includes credit card loans originated and purchased by JPMorgan Chase Bank, N.A. In addition, an affiliate of JPMorgan Chase Bank, N.A. has a participation agreement with a subsidiary of JPMorgan Chase Bank, N.A. under which the affiliate sells credit card receivables to the subsidiary on an ongoing basis. The credit card receivables purchased by the subsidiary may subsequently be sold to credit card securitization trusts sponsored by the affiliate; those trusts, which are not consolidated by JPMorgan Chase Bank, N.A., are discussed further in Note 17 on pages 82–97 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements. Delinquency rates are the primary credit quality indicator for credit card loans. In addition to delinquency rates, the geographic distribution of the loans provides insight as to the credit quality of the portfolio based on the regional economy.

The borrower's credit score is another general indicator of credit quality. Because the credit score tends to be a lagging indicator of credit quality, JPMorgan Chase Bank, N.A. does not use credit scores as a primary indicator of credit quality. For more information on credit quality indicators, see Note 15 on pages 58–76 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements. JPMorgan Chase Bank, N.A. generally originates new card accounts to prime consumer borrowers. However, certain cardholders' refreshed FICO scores may change over time, depending on the performance of the cardholder and changes in credit score technology.

The table below sets forth information about JPMorgan Chase Bank, N.A.'s credit card loans.

| | Credit Card[b] | |
|---|---|---|
| (in millions, except ratios) | **March 31, 2011** | December 31, 2010 |
| **Loan delinquency[a]** | | |
| Current and less than 30 days past due and still accruing | **$ 22,205** | $ 20,825 |
| 30 – 89 days past due and still accruing | **375** | 397 |
| 90 or more days past due and still accruing | **400** | 443 |
| Nonaccrual loans | **—** | — |
| **Total retained loans** | **$ 22,980** | $ 21,665 |
| **Loan delinquency ratios** | | |
| % of 30 plus days past due to total retained loans | **3.37%** | 3.88% |
| % of 90 plus days past due to total retained loans | **1.74** | 2.04 |
| **Credit card loans by geographic region** | | |
| California | **$ 2,639** | $ 2,455 |
| New York | **1,623** | 1,530 |
| Texas | **1,662** | 1,481 |
| Florida | **1,172** | 1,116 |
| Illinois | **1,212** | 1,110 |
| Ohio | **858** | 807 |
| New Jersey | **844** | 792 |
| Pennsylvania | **757** | 722 |
| Michigan | **669** | 623 |
| Virginia | **493** | 464 |
| Georgia | **486** | 464 |
| Canada | **2,539** | 2,708 |
| All other | **8,026** | 7,393 |
| **Total retained loans** | **$ 22,980** | $ 21,665 |
| **Percentage of portfolio based on carrying value with estimated refreshed FICO scores[c]** | | |
| Equal to or greater than 660 | **80.9%** | 80.6% |
| Less than 660 | **19.1** | 19.4 |

*(a) JPMorgan Chase Bank, N.A.'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 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.*

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

*(c) Refreshed FICO scores are estimated based on a statistically significant random sample of credit card accounts in the credit card portfolio for the period shown. JPMorgan Chase Bank, N.A. obtains refreshed FICO scores at least quarterly.*

**Credit card impaired loans**

For a detailed discussion of impaired credit card loans, including credit card loan modifications, see Note 15 on pages 58–76 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The tables below set forth information about JPMorgan Chase Bank, N.A.'s impaired credit card loans. All of these loans are considered to be impaired as they have been modified in TDRs.

| | Credit Card | |
|---|---|---|
| (in millions) | **March 31, 2011** | December 31, 2010 |
| **Impaired loans with an allowance**[(a)(b)] | | |
| Credit card loans with modified payment terms[(c)] | **$ 1,215** | $ 1,195 |
| Modified credit card loans that have reverted to pre-modification payment terms[(d)] | **248** | 267 |
| **Total impaired loans** | **$ 1,463** | $ 1,462 |
| Allowance for loan losses related to impaired loans | **$ 593** | $ 571 |

*(a) The carrying value and the unpaid principal balance are the same for credit card impaired loans.*
*(b) There were no impaired loans without an allowance.*
*(c) Represents credit card loans outstanding to borrowers then enrolled in a credit card modification program.*
*(d) Represents credit card loans that were modified in TDRs but that have subsequently reverted back to the loans' pre-modification payment terms. At March 31, 2011, and December 31, 2010, of the $248 million and $267 million total loan amount, respectively, approximately $155 million and $167 million, respectively, of loans have reverted back to the pre-modification payment terms of the loans due to noncompliance with the terms of the modified loans. A substantial portion of these loans is expected to be charged-off in accordance with JPMorgan Chase Bank, N.A.'s standard charge-off policy. The remaining $93 million and $100 million at March 31, 2011, and December 31, 2010, respectively, of these loans are to borrowers who have successfully completed a short-term modification program. JPMorgan Chase Bank, N.A. continues to report these loans as TDRs since the borrowers' credit lines remain closed.*

The following table presents average balances of impaired credit card loans and interest income recognized on those loans.

| Three months ended March 31, (in millions) | **2011** | 2010 |
|---|---|---|
| Impaired loans – average balances | **$ 1,505** | $ 1,417 |
| Interest income on impaired loans[(a)] | **24** | 19 |

*(a) As permitted by regulatory guidance, credit card loans are generally exempt from being placed on nonaccrual status; accordingly, interest and fees related to credit card loans continue to accrue until the loan is charged off or paid in full. However, JPMorgan Chase Bank, N.A. separately establishes an allowance for the estimated uncollectible portion of billed and accrued interest and fee income on credit card loans.*

## NOTE 15 – ALLOWANCE FOR CREDIT LOSSES

For detailed discussion of the allowance for credit losses and the related accounting policies, see Note 16 on pages 77–81 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

**Allowance for credit losses and loans and lending-related commitments by impairment methodology**
The table below summarizes information about the allowance for loan losses and the loans by impairment methodology.

| Three months ended March 31, (in millions) | 2011 Wholesale | 2011 Consumer, excluding credit card | 2011 Credit Card | 2011 Total | 2010 Wholesale | 2010 Consumer, excluding credit card | 2010 Credit Card | 2010 Total |
|---|---|---|---|---|---|---|---|---|
| **Allowance for loan losses** | | | | | | | | |
| Beginning balance at January 1, | **$ 4,670** | **$ 16,199** | **$ 1,566** | **$ 22,435** | $ 7,137 | $ 14,663 | $ 1,966 | $ 23,766 |
| Cumulative effect of change in accounting principles[(a)] | **—** | **—** | **—** | **—** | 14 | 76 | 65 | 155 |
| Gross charge-offs | **252** | **1,351** | **407** | **2,010** | 1,013 | 2,502 | 495 | 4,010 |
| Gross (recoveries) | **(86)** | **(128)** | **(64)** | **(278)** | (54) | (114) | (39) | (207) |
| **Net charge-offs** | **166** | **1,223** | **343** | **1,732** | 959 | 2,388 | 456 | 3,803 |
| Provision for loan losses | **(382)** | **1,223** | **230** | **1,071** | (334) | 3,685 | 60 | 3,411 |
| Other | **(4)** | **4** | **6** | **6** | (2) | 3 | 6 | 7 |
| **Ending balance at March 31** | **$ 4,118** | **$ 16,203** | **$ 1,459** | **$ 21,780** | $ 5,856 | $ 16,039 | $ 1,641 | $ 23,536 |
| **Allowance for loan losses by impairment methodology** | | | | | | | | |
| Asset-specific[(b)(c)(d)] | **$ 1,001** | **$ 1,038** | **$ 593** | **$ 2,632** | $ 1,514 | $ 885 | $ 658 | $ 3,057 |
| Formula-based[(d)] | **3,117** | **10,224** | **866** | **14,207** | 4,342 | 12,343 | 983 | 17,668 |
| PCI | **—** | **4,941** | **—** | **4,941** | — | 2,811 | — | 2,811 |
| **Total allowance for loan losses** | **$ 4,118** | **$ 16,203** | **$ 1,459** | **$ 21,780** | $ 5,856 | $ 16,039 | $ 1,641 | $ 23,536 |
| **Loans by impairment methodology** | | | | | | | | |
| Asset-specific | **$ 4,457** | **$ 6,681** | **$ 1,463** | **$ 12,601** | $ 6,165 | $ 4,289 | $ 1,411 | $ 11,865 |
| Formula-based | **224,165** | **224,116** | **21,517** | **469,798** | 200,806 | 252,377 | 15,368 | 468,551 |
| PCI | **56** | **70,765** | **—** | **70,821** | 107 | 79,323 | — | 79,430 |
| **Total retained loans** | **$ 228,678** | **$ 301,562** | **$ 22,980** | **$ 553,220** | $ 207,078 | $ 335,989 | $ 16,779 | $ 559,846 |

*(a) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated its sponsored credit card securitization trust, administered multi-seller conduits and certain other consumer loan securitization entities, primarily mortgage-related. As a result, $14 million, $76 million and $65 million, respectively, of allowance for loan losses were recorded on-balance sheet with the consolidation of these entities. For further discussion, see Note 17 on pages 82–97 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.*

*(b) Relates to risk-rated loans that have been placed on nonaccrual status and loans that have been modified in a TDR.*

*(c) At March 31, 2011 and 2010, the asset-specific consumer, excluding credit card allowance for loan losses included TDR reserves of $941 million and $728 million, respectively. The asset-specific credit card allowance for loan losses is related to loans modified in TDRs.*

*(d) Prior period has been revised to reflect the reclassification of JPMorgan Chase Bank, N.A.'s allowance for loan losses on all impaired credit card loans from formula-based into asset-specific allowance.*

The table below summarizes information about the allowance for lending-related commitments and lending-related commitments by impairment methodology.

| Three months ended March 31, (in millions) | 2011 Wholesale | 2011 Consumer, excluding credit card | 2011 Credit Card | 2011 Total | 2010 Wholesale | 2010 Consumer, excluding credit card | 2010 Credit Card | 2010 Total |
|---|---|---|---|---|---|---|---|---|
| **Allowance for lending-related commitments** | | | | | | | | |
| Beginning balance at January 1, | **$ 685** | **$ 6** | **$ —** | **$ 691** | $ 923 | $ 12 | $ — | $ 935 |
| Cumulative effect of change in accounting principles[(a)] | **—** | **—** | **—** | **—** | (18) | — | — | (18) |
| Provision for lending-related commitments | **(32)** | **—** | **—** | **(32)** | 22 | (2) | — | 20 |
| Other | **(1)** | **—** | **—** | **(1)** | — | — | — | — |
| **Ending balance at March 31** | **$ 652** | **$ 6** | **$ —** | **$ 658** | $ 927 | $ 10 | $ — | $ 937 |
| **Allowance for lending-related commitments by impairment methodology** | | | | | | | | |
| Asset-specific | **$ 184** | **$ —** | **$ —** | **$ 184** | $ 296 | $ — | $ — | $ 296 |
| Formula-based | **468** | **6** | **—** | **474** | 631 | 10 | — | 641 |
| **Total allowance for lending-related commitments** | **$ 652** | **$ 6** | **$ —** | **$ 658** | $ 927 | $ 10 | $ — | $ 937 |
| **Lending-related commitments by impairment methodology** | | | | | | | | |
| Asset-specific | **$ 930** | **$ —** | **$ —** | **$ 930** | $ 1,529 | $ — | $ — | $ 1,529 |
| Formula-based | **352,387** | **59,062** | **24,559** | **436,008** | 324,341 | 72,243 | 17,837 | 414,421 |
| **Total lending-related commitments** | **$ 353,317** | **$ 59,062** | **$ 24,559** | **$ 436,938** | $ 325,870 | $72,243 | $ 17,837 | $ 415,950 |
| **Impaired collateral-dependent loans** | | | | | | | | |
| Net charge-offs | **$ 20** | **$ 19** | **$ —** | **$ 39** | $ 113 | $ 117 | $ — | $ 230 |
| Loans measured at fair value of collateral less cost to sell | **715** | **799**[(b)] | **—** | **1,514** | 1,065 | 507[(b)] | — | 1,572 |

*(a) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated its administered multi-seller conduits. As a result, related assets are now primarily recorded in loans and other assets on the Consolidated Balance Sheets.*

*(b) Includes collateral-dependent residential mortgage loans that are charged off to the fair value of the underlying collateral. These loans are considered collateral-dependent under regulatory guidance because they involve modifications where an interest-only period is provided or a significant portion of principal is deferred.*

## NOTE 16 – VARIABLE INTEREST ENTITIES

For a further description of JPMorgan Chase Bank, N.A.'s accounting policies regarding consolidation of VIEs and a detailed discussion of JPMorgan Chase Bank, N.A.'s principal involvement with VIEs, see Note 1 on pages 6–7, and Note 17 on pages 82–97, respectively, of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The following table summarizes the most significant types of JPMorgan Chase Bank, N.A.-sponsored VIEs by JPMorgan Chase Bank, N.A. businesses.

| **JPMorgan Chase Bank, N.A. business** | *Transaction Type* | *Activity* | *Consolidated Financial Statements page reference* |
|---|---|---|---|
| Retail financial services | Mortgage and other securitization trusts | Securitization of originated and purchased residential mortgages, automobile and student loans | 55–56 |
| Investment banking | Mortgage and other securitization trusts | Securitization of both originated and purchased residential and commercial mortgages, automobile and student loans | 55–56 |
| Investment banking | Multi-seller conduits | Assist clients in accessing the financial markets in a cost-efficient manner and structures transactions to meet investor needs | 57 |
| | Investor intermediation activities: | | |
| Investment banking | Municipal bond vehicles | | 57–58 |
| | Credit-related note vehicles and asset swap vehicles | | 58 |
| Card services | Credit card securitization trust | Securitization of both originated and purchased credit card receivables | 57 |

JPMorgan Chase Bank, N.A. also invests in and provides financing and other services to VIEs sponsored by third parties, as described on pages 58–59 of this Note and on page 91 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

### JPMorgan Chase Bank, N.A.-sponsored variable interest entities

**JPMorgan Chase Bank, N.A.-sponsored mortgage and other securitization trusts**

For a detailed description of JPMorgan Chase Bank, N.A.'s involvement with JPMorgan Chase Bank, N.A.-sponsored mortgage and other securitization trusts, as well as accounting treatment, see Note 17 on page 83 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The following table presents the total unpaid principal amount of assets held in JPMorgan Chase Bank, N.A.–sponsored securitization entities in which JPMorgan Chase Bank, N.A. has continuing involvement, including those that are consolidated or not consolidated by JPMorgan Chase Bank, N.A. Continuing involvement includes servicing the loans; holding senior interests or subordinated interests; recourse or guarantee arrangements; and derivative transactions. In certain instances, JPMorgan Chase Bank, N.A.'s only continuing involvement is servicing the loans. In the table below, the amount of beneficial interests held by JPMorgan Chase Bank, N.A. does not equal the assets held in nonconsolidated VIEs because of the existence of beneficial interests held by third parties, which are reflected at their current outstanding par amounts; and because a portion of JPMorgan Chase Bank, N.A.'s retained interests (trading assets and AFS securities) are reflected at their fair values. See Securitization activity on pages 60–62 of this Note for further information regarding JPMorgan Chase Bank, N.A.'s cash flows with and interests retained in nonconsolidated VIEs.

| **March 31, 2011**[a] (in billions) | Principal amount outstanding: Total assets held by securitization VIEs | Principal amount outstanding: Assets held in consolidated securitization VIEs | Principal amount outstanding: Assets held in nonconsolidated securitization VIEs with continuing involvement | JPMorgan Chase Bank, N.A. interest in securitized assets in nonconsolidated VIEs[d][e][f][g]: Trading assets | JPMorgan Chase Bank, N.A. interest in securitized assets in nonconsolidated VIEs[d][e][f][g]: AFS securities | JPMorgan Chase Bank, N.A. interest in securitized assets in nonconsolidated VIEs[d][e][f][g]: Total interests held by JPMorgan Chase Bank, N.A. |
|---|---|---|---|---|---|---|
| **Securitization-related** | | | | | | |
| Residential mortgage: | | | | | | |
| Prime[b] | **$ 80.2** | **$ 1.2** | **$ 78.8** | **$ 0.2** | **$ —** | **$ 0.2** |
| Subprime | **28.7** | **—** | **27.3** | **—** | **—** | **—** |
| Option ARMs | **35.0** | **0.3** | **34.7** | **—** | **—** | **—** |
| Commercial and other[c] | **103.0** | **—** | **84.3** | **—** | **0.5** | **0.5** |
| Student | **4.4** | **4.4** | **—** | **—** | **—** | **—** |
| **Total** | **$ 251.3** | **$ 5.9** | **$ 225.1** | **$ 0.2** | **$ 0.5** | **$ 0.7** |

| December 31, 2010[a] (in billions) | Principal amount outstanding: Total assets held by securitization VIEs | Principal amount outstanding: Assets held in consolidated securitization VIEs | Principal amount outstanding: Assets held in nonconsolidated securitization VIEs with continuing involvement | JPMorgan Chase Bank, N.A. interest in securitized assets in nonconsolidated VIEs[d][e][f][g]: Trading assets | JPMorgan Chase Bank, N.A. interest in securitized assets in nonconsolidated VIEs[d][e][f][g]: AFS securities | JPMorgan Chase Bank, N.A. interest in securitized assets in nonconsolidated VIEs[d][e][f][g]: Total interests held by JPMorgan Chase Bank, N.A. |
|---|---|---|---|---|---|---|
| **Securitization-related** | | | | | | |
| Residential mortgage: | | | | | | |
| Prime[b] | $ 85.0 | $ 1.3 | $ 83.5 | $ 0.2 | $ — | $ 0.2 |
| Subprime | 29.6 | — | 28.2 | — | — | — |
| Option ARMs | 36.1 | 0.3 | 35.8 | — | — | — |
| Commercial and other[c] | 104.6 | — | 84.4 | — | 0.7 | 0.7 |
| Student | 4.5 | 4.5 | — | — | — | — |
| **Total** | $ 259.8 | $ 6.1 | $ 231.9 | $ 0.2 | $ 0.7 | $ 0.9 |

*(a) Excludes loan sales to U.S. government agencies. See page 61 of this Note for information on JPMorgan Chase Bank, N.A.'s loan sales to U.S. government agencies.*

*(b) Includes Alt-A loans.*

*(c) Consists of securities backed by commercial loans (predominantly real estate) and non-mortgage-related consumer receivables purchased from third parties. JPMorgan Chase Bank, N.A. generally does not retain a residual interest in its sponsored commercial mortgage securitization transactions. Includes co-sponsored commercial securitizations and, therefore, includes non–JPMorgan Chase Bank, N.A.–originated commercial mortgage loans.*

*(d) Excludes retained servicing (for a discussion of MSRs, see Note 17 on pages 63–65 of these Consolidated Financial Statements) and securities retained from loan sales to U.S. government agencies.*

*(e) Excludes senior and subordinated securities of zero and $5 million, respectively, at March 31, 2011, which JPMorgan Chase Bank, N.A. purchased in connection with the investment banking business' secondary market-making activities. There were no secondary market-making activities at December 31, 2010.*

*(f) Excludes interest rate and foreign exchange derivatives primarily used to manage the interest rate and foreign exchange risks of the securitization entities. See Note 6 on pages 20–26 of these Consolidated Financial Statements for further information on derivatives.*

*(g) As of March 31, 2011, and December 31, 2010, 89% and 91% respectively, of JPMorgan Chase Bank, N.A.'s retained securitization interests, which are carried at fair value, were risk-rated "A" or better, on an S&P-equivalent basis. This includes $123 million and $107 million of investment-grade and $64 million and $59 million of noninvestment-grade retained interests in prime residential mortgages at March 31, 2011, and December 31, 2010, respectively, and $505 million and $674 million of investment-grade and $19 million and $16 million of noninvestment-grade retained interests in commercial and other securitization trusts, respectively.*

## Credit card securitizations

For a more detailed discussion of JPMorgan Chase Bank, N.A.'s involvement with credit card securitizations, see pages 86–87 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

As a result of JPMorgan Chase Bank, N.A.'s continuing involvement, JPMorgan Chase Bank, N.A. is considered to be the primary beneficiary of its sponsored credit card securitization trust SCORE. JPMorgan Chase Bank, N.A. consolidated $489 million and $537 million of assets held by its administered credit card securitization trust and $387 million and $377 million of beneficial interests issued to third parties at March 31, 2011, and December 31, 2010, respectively.

The underlying securitized credit card receivables and other assets are available only for payment of the beneficial interests issued by the SCORE trust; they are not available to pay JPMorgan Chase Bank, N.A.'s other obligations or the claims of JPMorgan Chase Bank, N.A.'s other creditors.

Retained interests in nonconsolidated credit card securitizations sponsored by an affiliate

In addition to the JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust, on an ongoing basis, JPMorgan Chase Bank, N.A. sells credit card receivables to various nonconsolidated credit card securitization trusts ("Trusts") sponsored by an affiliate. The consideration received for the sales is an undivided interest in the respective Trusts.

At March 31, 2011 and December 31, 2010, JPMorgan Chase Bank, N.A. had $5.6 billion and $6.9 billion, respectively, related to its undivided interests in the Trusts. These undivided interests are measured at fair value and classified in other assets. JPMorgan Chase Bank, N.A. also retains senior and subordinated securities issued from the Trusts. The retained securities totaled $1.1 billion at March 31, 2011, of which $1.0 billion was classified as AFS securities and $105 million classified as trading assets, and $1.4 billion at December 31, 2010, of which $1.3 billion was classified as AFS securities and $105 million as trading assets.

**Multi-seller conduits**

For a more detailed description of JPMorgan Chase Bank, N.A.'s principal involvement with its administered, multi-seller conduits, see Note 17 on pages 87–88 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

As a result of JPMorgan Chase Bank, N.A.'s continuing involvement, JPMorgan Chase Bank, N.A. consolidates its administered multi-seller conduits, as JPMorgan Chase Bank, N.A. has both the power to direct the significant activities of the conduits and a potentially significant economic interest. JPMorgan Chase Bank, N.A. consolidated $20.6 billion and $21.7 billion of assets held by its administered multi-seller conduits and $20.5 billion and $21.6 billion of beneficial interests in commercial paper issued to third parties at March 31, 2011, and December 31, 2010, respectively.

JPMorgan Chase Bank, N.A. provides deal-specific liquidity as well as program-wide liquidity and credit enhancement to its administered multi-seller conduits, which have been eliminated in consolidation. The administered multi-seller conduits then provide certain of their clients with lending-related commitments. The unfunded portion of these commitments was $10.3 billion and $10.0 billion at March 31, 2011, and December 31, 2010, respectively, and are included as off-balance sheet lending-related commitments. For more information on off-balance sheet lending-related commitments, see Note 23 on pages 70–74 of these Consolidated Financial Statements.

**VIEs associated with investor intermediation activities**

***Municipal bond vehicles***

For a more detailed description of JPMorgan Chase Bank, N.A.'s principal involvement with municipal bond vehicles, see Note 17 on pages 88–89 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

JPMorgan Chase Bank, N.A.'s exposure to nonconsolidated municipal bond VIEs at March 31, 2011, and December 31, 2010, including the ratings profile of the VIEs' assets, was as follows.

| (in billions) | Fair value of assets held by VIEs | Liquidity facilities[(a)] | Excess/(deficit)[(b)] | Maximum exposure |
|---|---|---|---|---|
| Nonconsolidated municipal bond vehicles | | | | |
| **March 31, 2011** | **$ 12.7** | **$ 8.2** | **$ 4.5** | **$ 8.2** |
| December 31, 2010 | 13.7 | 8.8 | 4.9 | 8.8 |

| | Ratings profile of VIE assets[(c)] | | | | | | |
|---|---|---|---|---|---|---|---|
| | Investment-grade | | | | Noninvestment-grade | | |
| (in billions, except where otherwise noted) | AAA to AAA- | AA+ to AA- | A+ to A- | BBB to BBB- | BB+ and below | Fair value of assets held by VIEs | Wt. avg. expected life of assets (years) |
| Nonconsolidated municipal bond vehicles | | | | | | | |
| **March 31, 2011** | **$ 2.0** | **$ 10.1** | **$ 0.6** | **$ —** | **$ —** | **$ 12.7** | **17.6** |
| December 31, 2010 | 1.9 | 11.2 | 0.6 | — | — | 13.7 | 15.5 |

*(a) JPMorgan Chase Bank, N.A. may serve as credit enhancement provider to municipal bond vehicles in which it serves as liquidity provider. JPMorgan Chase Bank, N.A. provided insurance on underlying municipal bonds, in the form of letters of credit, of $10 million at both March 31, 2011, and December 31, 2010.*

*(b) Represents the excess/(deficit) of the fair values of municipal bond assets available to repay the liquidity facilities, if drawn.*

*(c) The ratings scale is based on JPMorgan Chase Bank, N.A.'s internal risk ratings and is presented on an S&P-equivalent basis.*

JPMorgan Chase Bank, N.A. consolidated $426 million and $427 million of municipal bond vehicles as of March 31, 2011, and December 31, 2010, respectively, due to it owning the residual interests.

***Credit-related note and asset swap vehicles***

For a more detailed description of JPMorgan Chase Bank, N.A.'s principal involvement with credit-related note and asset swap vehicles, see Note 17 on pages 82–97 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

Exposure to nonconsolidated credit-related note and asset swap VIEs at March 31, 2011, and December 31, 2010, was as follows.

| **March 31, 2011** (in billions) | Net derivative receivables | Trading assets[(a)] | Total exposure[(b)] | Par value of collateral held by VIEs[(c)] |
|---|---|---|---|---|
| Credit-related notes | | | | |
| Static structure | **$ 0.5** | **$ —** | **$ 0.5** | **$ 10.8** |
| Managed structure | **2.1** | **—** | **2.1** | **10.1** |
| Total credit-related notes | **2.6** | **—** | **2.6** | **20.9** |
| Asset swaps | **0.3** | **—** | **0.3** | **7.7** |
| **Total** | **$ 2.9** | **$ —** | **$ 2.9** | **$ 28.6** |

| December 31, 2010 (in billions) | Net derivative receivables | Trading assets[(a)] | Total exposure[(b)] | Par value of collateral held by VIEs[(c)] |
|---|---|---|---|---|
| Credit-related notes | | | | |
| Static structure | $ 1.0 | $ — | $ 1.0 | $ 9.5 |
| Managed structure | 2.8 | — | 2.8 | 10.7 |
| Total credit-related notes | 3.8 | — | 3.8 | 20.2 |
| Asset swaps | 0.3 | — | 0.3 | 7.6 |
| **Total** | $ 4.1 | $ — | $ 4.1 | $ 27.8 |

*(a) Trading assets principally comprise notes issued by VIEs, which from time to time are held as part of the termination of a deal or to support limited market-making.*

*(b) On–balance sheet exposure that includes net derivative receivables and trading assets – debt and equity instruments.*

*(c) JPMorgan Chase Bank, N.A.'s maximum exposure arises through the derivatives executed with the VIEs; the exposure varies over time with changes in the fair value of the derivatives. JPMorgan Chase Bank, N.A. relies on the collateral held by the VIEs to pay any amounts due under the derivatives; the vehicles are structured at inception so that the par value of the collateral is expected to be sufficient to pay amounts due under the derivative contracts.*

JPMorgan Chase Bank, N.A. consolidated credit-related note vehicles with collateral fair values of $137 million and $142 million, at March 31, 2011, and December 31, 2010, respectively. JPMorgan Chase Bank, N.A. did not consolidate any asset swap vehicles at March 31, 2011, and December 31, 2010. JPMorgan Chase Bank, N.A. consolidated these vehicles because in its role as secondary market-maker, it held positions in these entities that provided JPMorgan Chase Bank, N.A. with control of certain vehicles.

## VIEs sponsored by third parties

JPMorgan Chase Bank, N.A. also invests in and provides financing and other services to VIEs sponsored by third parties, as described on page 91 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

***Investment in a third-party credit card securitization trust***

JPMorgan Chase Bank, N.A. holds two interests in a third-party-sponsored VIE, which is a credit card securitization trust that owns credit card receivables issued by a national retailer. JPMorgan Chase Bank, N.A. is not the primary beneficiary of the trust. JPMorgan Chase Bank, N.A.'s interests in the VIE includes investments classified as AFS securities that had a fair value of $3.2 billion and $3.1 billion at March 31, 2011, and December 31, 2010, respectively, and other interests which are classified as loans and have a fair value of approximately $1.0 billion at both March 31, 2011, and December 31, 2010. For more information on AFS securities and loans, see Notes 12 and 14 on pages 29–34 and 36–52, respectively, of these Consolidated Financial Statements.

**Consolidated VIE assets and liabilities**

The following table presents information on assets and liabilities related to VIEs consolidated by JPMorgan Chase Bank, N.A. as of March 31, 2011, and December 31, 2010.

| | Assets | | | | Liabilities | | |
|---|---|---|---|---|---|---|---|
| **March 31, 2011** (in billions) | Trading assets – debt and equity instruments | Loans | Other[(a)] | Total assets[(b)] | Beneficial interests in VIE assets[(c)] | Other[(d)] | Total liabilities |
| **VIE program type** | | | | | | | |
| JPMorgan Chase Bank, N.A.-administered multi-seller conduits | **$ —** | **$ 20.2** | **$ 0.4** | **$ 20.6** | **$ 20.5** | **$ —** | **$ 20.5** |
| Mortgage securitization entities[(e)] | **—** | **1.4** | **—** | **1.4** | **—** | **1.5** | **1.5** |
| Other[(f)] | **2.9** | **4.3** | **0.8** | **8.0** | **4.1** | **—** | **4.1** |
| JPMorgan Chase Bank, N.A.-sponsored credit card trust | **—** | **0.5** | **—** | **0.5** | **0.4** | **—** | **0.4** |
| **Total** | **$ 2.9** | **$ 26.4** | **$ 1.2** | **$ 30.5** | **$ 25.0** | **$ 1.5** | **$ 26.5** |

| | Assets | | | | Liabilities | | |
|---|---|---|---|---|---|---|---|
| December 31, 2010 (in billions) | Trading assets – debt and equity instruments | Loans | Other[(a)] | Total assets[(b)] | Beneficial interests in VIE assets[(c)] | Other[(d)] | Total liabilities |
| **VIE program type** | | | | | | | |
| JPMorgan Chase Bank, N.A.-administered multi-seller conduits | $ — | $ 21.1 | $ 0.6 | $ 21.7 | $ 21.6 | $ 0.1 | $ 21.7 |
| Mortgage securitization entities[(e)] | — | 1.5 | — | 1.5 | — | 1.6 | 1.6 |
| Other[(f)] | 2.9 | 4.4 | 0.9 | 8.2 | 4.1 | — | 4.1 |
| JPMorgan Chase Bank, N.A.-sponsored credit card trust | — | 0.5 | — | 0.5 | 0.4 | — | 0.4 |
| **Total** | $ 2.9 | $ 27.5 | $ 1.5 | $ 31.9 | $ 26.1 | $ 1.7 | $ 27.8 |

*(a) Included assets classified as cash, derivative receivables, AFS securities and other assets within the Consolidated Balance Sheets.*

*(b) The assets of the consolidated VIEs included in the program types above are used to settle the liabilities of those entities. The difference between total assets and total liabilities recognized for consolidated VIEs represents JPMorgan Chase Bank, N.A.'s interest in the consolidated VIEs for each program type.*

*(c) The interest-bearing beneficial-interest liabilities issued by consolidated VIEs are classified in the line item on the Consolidated Balance Sheets titled, "Beneficial interests issued by consolidated variable interest entities." The holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase Bank, N.A. Included in beneficial interests in VIE assets are long-term beneficial interests of $4.4 billion and $4.5 billion at March 31, 2011, and December 31, 2010, respectively. The maturities of the long-term beneficial interests as of March 31, 2011, and December 31, 2010, were as follows: zero under one year, $1.0 billion and $969 million between one and five years, and $3.4 billion and $3.5 billion over five years.*

*(d) Included liabilities classified as accounts payable and other liabilities in the Consolidated Balance Sheets.*

*(e) Includes residential and commercial mortgage securitizations.*

*(f) Primarily comprised of student loans and other asset-backed securities.*

**Supplemental information on loan securitizations**

JPMorgan Chase Bank, N.A. securitizes and sells a variety of loans, including residential mortgage, credit card, automobile, student and commercial (primarily related to real estate) loans, as well as debt securities. The primary purposes of these securitization transactions are to satisfy investor demand and to generate liquidity for JPMorgan Chase Bank, N.A.

**Securitization activity**

The following tables provide information related to JPMorgan Chase Bank, N.A.'s securitization activities for the three months ended March 31, 2011 and 2010, related to assets held in JPMorgan Chase Bank, N.A.–sponsored securitization entities that were not consolidated by JPMorgan Chase Bank, N.A., as sale accounting was achieved based on the accounting rules in effect at the time of the securitization. For the three month period ended March 31, 2011 and 2010, there were no mortgage loans that were securitized, except for commercial and other in 2011, and there were no cash flows from JPMorgan Chase Bank, N.A. to the SPEs related to recourse or guarantee arrangements.

| | **Three months ended March 31, 2011** | | | | |
|---|---|---|---|---|---|
| | | Residential mortgage | | | |
| (in millions) | Credit card[e] | Prime[f] | Subprime | Option ARMs | Commercial and other |
| Principal securitized | **$ —** | **$ —** | **$ —** | **$ —** | **$ 1,493** |
| **All cash flows during the period[a]:** | | | | | |
| Proceeds from new securitizations[b] | **$ —** | **$ —** | **$ —** | **$ —** | **$ 1,512** |
| Servicing fees collected | **—** | **53** | **32** | **96** | **—** |
| Proceeds from collections received in revolving securitizations | **9,459** | **—** | **—** | **—** | **—** |
| Purchases of previously transferred financial assets (or the underlying collateral)[c] | **—** | **365** | **6** | **6** | **—** |
| Cash flows received on the interests that continue to be held by JPMorgan Chase Bank, N.A.[d] | **4,556** | **6** | **—** | **1** | **11** |

| | Three months ended March 31, 2010 | | | | |
|---|---|---|---|---|---|
| | | Residential mortgage | | | |
| (in millions) | Credit card[e] | Prime[f] | Subprime | Option ARMs | Commercial and other |
| **All cash flows during the period[a]:** | | | | | |
| Servicing fees collected | $ — | $ 63 | $ 33 | $ 109 | $ 1 |
| Proceeds from collections received in revolving securitizations | 8,507 | — | — | — | — |
| Purchases of previously transferred financial assets (or the underlying collateral)[c] | — | 45 | — | — | — |
| Cash flows received on the interests that continue to be held by JPMorgan Chase Bank, N.A.[d] | 12,125 | 123 | 1 | 7 | 32 |

*(a) Excludes sales for which JPMorgan Chase Bank, N.A. did not securitize the loan (including loans sold to Ginnie Mae, Fannie Mae and Freddie Mac).*

*(b) Includes proceeds from new securitizations received as cash for the three months ended March 31, 2011. There were no new securitizations for the three months ended March 31, 2010.*

*(c) Includes cash paid by JPMorgan Chase Bank, N.A. to reacquire assets from the off–balance sheet, nonconsolidated entities – for example, servicer clean-up calls.*

*(d) Includes cash flows received on retained interests – including, for example, principal repayments and interest payments.*

*(e) Includes securitization activity related to JPMorgan Chase Bank, N.A.'s undivided interests in nonconsolidated credit card securitization trusts that are sponsored by a JPMorgan Chase affiliate.*

*(f) Includes Alt-A loans.*

**Loans sold to agencies and other third-party sponsored securitization entities**

In addition to the amounts reported in the securitization activity tables above, JPMorgan Chase Bank, N.A., in the normal course of business, sells originated and purchased mortgage loans, predominantly to Ginnie Mae, Fannie Mae and Freddie Mac (the "Agencies"). These loans are sold primarily for the purpose of securitization by the Agencies, which also provide credit enhancement of the loans through certain guarantee provisions. JPMorgan Chase Bank, N.A. does not consolidate these securitization vehicles as it is not the primary beneficiary. In connection with these loan sales, JPMorgan Chase Bank, N.A. makes certain representations and warranties. For additional information about JPMorgan Chase Bank, N.A.'s loan sale- and securitization-related indemnifications, see Note 23 on pages 70–74 of these Consolidated Financial Statements.

For a more detailed description of JPMorgan Chase Bank, N.A.'s principal involvement with loans sold to government-sponsored agencies and other third-party sponsored securitization entities, see Note 17 on page 95 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

The following table summarizes the activities related to loans sold to U.S. government-sponsored agencies and third-party sponsored securitization entities.

| (in millions) | Three months ended March 31, 2011 | 2010 |
|---|---|---|
| Carrying value of loans sold[(a)(b)] | **$ 39,247** | $ 35,374 |
| Proceeds received from loan sales as cash | **340** | 336 |
| Proceeds received from loan sales as securities[(c)] | **38,172** | 34,370 |
| **Total proceeds received from loan sales** | **$ 38,512** | $ 34,706 |
| Gains on loan sales | **22** | 21 |

*(a) Predominantly to U.S. government agencies.*
*(b) MSRs were excluded from the above table. See Note 17 on pages 63–65 of these Consolidated Financial Statements for further information on originated MSRs.*
*(c) Predominantly includes securities from U.S. government agencies that are generally sold shortly after receipt.*

As of March 31, 2011, and December 31, 2010, loans repurchased, or loans with the option to repurchase, were $13.1 billion and $13.0 billion, respectively, primarily related to loans sold to U.S. government agencies. Additionally, real estate owned resulting from repurchases of loans sold to U.S. government agencies was $2.3 billion and $1.9 billion as of March 31, 2011, and December 31, 2010, respectively. Substantially all of these loans and real estate owned continue to be insured or guaranteed by U.S. government agencies, and where applicable, reimbursement is proceeding normally.

**JPMorgan Chase Bank, N.A.'s interest in securitized assets held at fair value**

The following table outlines the key economic assumptions used to determine the fair value as of March 31, 2011, and December 31, 2010, of certain of JPMorgan Chase Bank, N.A.'s retained interests in nonconsolidated VIEs (other than MSRs), that are valued using modeling techniques. The table also outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in assumptions used to determine fair value. For a discussion of MSRs, see Note 17 on pages 63–65 of these Consolidated Financial Statements.

| **March 31, 2011**<br>(in millions, except rates and where otherwise noted) | Credit card[a][b] | Residential mortgage<br>Prime[c] | Commercial and other |
|---|---|---|---|
| JPMorgan Chase Bank, N.A. interests in securitized assets[d][e] | **$ 5,597** | **$ 187** | **$ 524** |
| Weighted-average life (in years) | **0.4** | **7.5** | **3.9** |
| Weighted-average constant prepayment rate[f] | **22.5%**<br>**PPR** | **6.7%**<br>**CPR** | **—%**<br>**CPR** |
| Impact of 10% adverse change | **$ (6)** | **$ (4)** | **$ —** |
| Impact of 20% adverse change | **(12)** | **(7)** | **—** |
| Weighted-average loss assumption | **6.3%** | **1.2%** | **—%** |
| Impact of 10% adverse change | **$ (48)** | **$ (1)** | **$ —** |
| Impact of 20% adverse change | **(83)** | **(1)** | **—** |
| Weighted-average discount rate | **12.0%** | **5.9%** | **7.2%** |
| Impact of 10% adverse change | **$ —** | **$ (7)** | **$ (8)** |
| Impact of 20% adverse change | **—** | **(14)** | **(16)** |

| December 31, 2010<br>(in millions, except rates and where otherwise noted) | Credit card[a][b] | Residential mortgage<br>Prime[c] | Commercial and other |
|---|---|---|---|
| JPMorgan Chase Bank, N.A. interests in securitized assets[d][e] | $ 6,886 | $ 166 | $ 689 |
| Weighted-average life (in years) | 0.4 | 7.3 | 4.2 |
| Weighted-average constant prepayment rate[f] | 21.8%<br>PPR | 7.3%<br>CPR | —%<br>CPR |
| Impact of 10% adverse change | $ (5) | $ (4) | $ — |
| Impact of 20% adverse change | (10) | (8) | — |
| Weighted-average loss assumption | 7.0% | 0.6% | —% |
| Impact of 10% adverse change | $ (67) | $ (1) | $ — |
| Impact of 20% adverse change | (91) | (1) | — |
| Weighted-average discount rate | 12.0% | 6.4% | 9.0% |
| Impact of 10% adverse change | $ — | $ (6) | $ (10) |
| Impact of 20% adverse change | — | (11) | (21) |

*(a) Excludes JPMorgan Chase Bank, N.A.'s retained senior and subordinated AFS securities in nonconsolidated credit card securitization trust. For further discussion see Note 17 on pages 86–87 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.*

*(b) Includes securitization activity related to JPMorgan Chase Bank, N.A.'s undivided interests in nonconsolidated credit card securitization trusts that are sponsored by a JPMorgan Chase affiliate.*

*(c) Includes retained interests in Alt-A loans.*

*(d) JPMorgan Chase Bank, N.A.'s had no interests in subprime securitizations as of March 31, 2011, and December 31, 2010, respectively. Additionally, excluded from the table are interests in option ARM securitizations of $29 million at both March 31, 2011, and December 31, 2010.*

*(e) Includes certain investments acquired in the secondary market but predominantly held for investment purposes.*

*(f) PPR: principal payment rate; CPR: constant prepayment rate.*

The sensitivity analysis in the preceding table is hypothetical. Changes in fair value based on a 10% or 20% variation in assumptions generally cannot be extrapolated easily, because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in the table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might counteract or magnify the sensitivities. The above sensitivities also do not reflect risk management practices JPMorgan Chase Bank, N.A. may undertake to mitigate such risks.

**Loan delinquencies and net charge-offs**

The table below includes information about delinquencies, liquidation losses and components of off–balance sheet securitized financial assets as of March 31, 2011, and December 31, 2010.

| (in millions) | Credit exposure March 31, 2011 | Credit exposure Dec. 31, 2010 | 90 days past due March 31, 2011 | 90 days past due Dec. 31, 2010 | Liquidation losses Three months ended March 31, 2011 | Liquidation losses Three months ended March 31, 2010 |
|---|---|---|---|---|---|---|
| Securitized loans[a] | | | | | | |
| Residential mortgage: | | | | | | |
| Prime mortgage[b] | **$ 78,864** | $ 83,530 | **$ 14,043** | $ 14,132 | **$ 541** | $ 455 |
| Subprime mortgage | **27,318** | 28,158 | **10,310** | 10,222 | **589** | 892 |
| Option ARMs | **34,648** | 35,786 | **10,733** | 10,788 | **443** | 589 |
| Commercial and other | **84,304** | 84,389 | **4,609** | 4,472 | **205** | 23 |
| **Total loans securitized**[c] | **$ 225,134** | $ 231,863 | **$ 39,695** | $ 39,614 | **$ 1,778** | $ 1,959 |

(a) *The total principal amount of assets held in securitization-related SPEs were $251.3 billion and $259.8 billion at March 31, 2011, and December 31, 2010, respectively. The $225.1 billion and $231.9 billion of loans securitized at March 31, 2011, and December 31, 2010, respectively, excludes: $20.3 billion and $21.8 billion of securitized loans in which JPMorgan Chase Bank, N.A. has no continuing involvement, and $5.9 billion and $6.1 billion of loan securitizations consolidated on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets at March 31, 2011, and December 31, 2010, respectively.*

(b) *Includes Alt-A loans.*

(c) *Includes securitized loans that were previously recorded at fair value and classified as trading assets.*

## NOTE 17 – GOODWILL AND OTHER INTANGIBLE ASSETS

For a discussion of accounting policies related to goodwill and other intangible assets, see Note 18 on pages 98–100 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

Goodwill and other intangible assets consist of the following.

| (in millions) | March 31, 2011 | December 31, 2010 |
|---|---|---|
| Goodwill | **$ 27,384** | $ 27,348 |
| Mortgage servicing rights | **12,881** | 13,440 |
| Other intangible assets: | | |
| Purchased credit card relationships | **$ 99** | $ 103 |
| Other credit card–related intangibles | **567** | 576 |
| Core deposit intangibles | **806** | 879 |
| Other intangibles | **390** | 409 |
| **Total other intangible assets** | **$ 1,862** | $ 1,967 |

### Goodwill

The following table presents changes in the carrying amount of goodwill.

| (in millions) | Three months ended March 31, 2011 | Three months ended March 31, 2010 |
|---|---|---|
| Balance at January 1,[a] | **$ 27,348** | $ 27,510 |
| Changes during the period from: | | |
| Business combinations | **22** | 9 |
| Dispositions | **—** | (318) |
| Other[b] | **14** | 13 |
| Balance at March 31,[a] | **$ 27,384** | $ 27,214 |

*(a) Reflects gross goodwill balances as JPMorgan Chase Bank, N.A. has not recognized any impairment losses to date.*

*(b) Includes foreign currency translation adjustments and other tax-related adjustments.*

Goodwill was not impaired at March 31, 2011, or December 31, 2010, nor was any goodwill written off due to impairment during the three month periods ended March 31, 2011 or 2010.

**Mortgage servicing rights**

Mortgage servicing rights represent the fair value of expected future cash flows for performing servicing activities for others. The fair value considers estimated future fees and ancillary revenues, offset by estimated costs to service the loans. The fair value of mortgage servicing rights naturally declines over time as net servicing cash flows are received, effectively amortizing the MSR asset against contractual and ancillary fee income. For a further description of the MSR asset, interest rate risk management, and the valuation of MSRs, see Notes 18 on pages 98–100, respectively of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements and Note 4 on pages 7–17 of these Consolidated Financial Statements.

In the first quarter of 2011, JPMorgan Chase Bank, N.A. determined that the fair value of the MSR asset had declined, reflecting higher estimated future servicing costs related to enhanced servicing processes, particularly loan modification and foreclosure procedures, including costs to comply with Consent Orders entered into with the banking regulators. The increase in the cost to service assumption contemplates significant and prolonged increases in staffing levels in the core and default servicing functions, and specifically considers the higher cost to service certain high-risk vintages. These higher estimated future costs resulted in a $1.1 billion decrease in the fair value of the MSR asset during the three months ended March 31, 2011. This decrease was partially offset by an increase in fair value due to the effects of higher market interest rates (which tend to decrease prepayments and therefore extend the expected life of the net servicing cash flows that comprise the MSR asset).

The decrease in the fair value of the MSR in the current quarter results in a lower asset value that will amortize in future periods against contractual and ancillary fee income received in future periods. While there is expected to be higher levels of noninterest expense associated with higher servicing costs in those future periods, there will also be less MSR amortization, which will have the effect of increasing mortgage fees and related income. The amortization of the MSR is reflected in the tables below in the row "Other changes in fair value."

The following table summarizes MSR activity for the three months ended March 31, 2011 and 2010.

| | Three months ended March 31, | |
|---|---|---|
| (in millions, except where otherwise noted) | **2011** | 2010 |
| Fair value at January 1, | **$ 13,440** | $ 15,342 |
| MSR activity | | |
| Originations of MSRs | **757** | 689 |
| Purchase of MSRs | **1** | 14 |
| **Total net additions** | **758** | 703 |
| Change in valuation due to inputs and assumptions[(a)] | **(763)** | (102) |
| Other changes in fair value[(b)] | **(554)** | (600) |
| **Total change in fair value of MSRs**[(c)] | **(1,317)** | (702) |
| **Fair value at March 31**[(d)] | **$ 12,881** | $ 15,343 |
| Change in unrealized gains/(losses) included in income related to MSRs held at March 31 | **$ (763)** | $ (102) |
| Contractual service fees, late fees and other ancillary fees included in income | **$ 975** | $ 1,074 |
| Third-party mortgage loans serviced at March 31 (in billions) | **$ 911** | $ 1,024 |
| Servicer advances, net at March 31 (in billions)[(e)] | **$ 8.4** | $ 7.0 |

*(a) Represents MSR asset fair value adjustments due to changes in inputs, such as interest rates and volatility, as well as updates to assumptions used in the valuation model.*

*(b) Includes changes in MSR value due to modeled servicing portfolio runoff (i.e., amortization or time decay).*

*(c) Includes changes related to commercial real estate of $(2) million for both the three months ended March 31, 2011 and 2010, respectively.*

*(d) Includes $38 million and $39 million related to commercial real estate at March 31, 2011 and 2010, respectively.*

*(e) Represents amounts JPMorgan Chase Bank, N.A. pays as the servicer (e.g., scheduled principal and interest to a trust, taxes and insurance), which will generally be reimbursed within a short period of time after the advance from future cash flows from the trust or the underlying loans. JPMorgan Chase Bank, N.A.'s credit risk associated with these advances is minimal because reimbursement of the advances is senior to all cash payments to investors. In addition, JPMorgan Chase Bank, N.A. maintains the right to stop payment if the collateral is insufficient to cover the advance.*

The table below outlines the key economic assumptions used to determine the fair value of JPMorgan Chase Bank, N.A.'s MSRs at March 31, 2011, and December 31, 2010; and it outlines the sensitivities of those fair values to immediate adverse changes in those assumptions, as defined below.

| (in millions, except rates) | **March 31, 2011** | December 31, 2010 |
|---|---|---|
| Weighted-average prepayment speed assumption ("CPR") | **9.81%** | 10.67% |
| Impact on fair value of 10% adverse change | **$ (714)** | $ (795) |
| Impact on fair value of 20% adverse change | **(1,382)** | (1,541) |
| Weighted-average option adjusted spread | **3.92%** | 3.92% |
| Impact on fair value of 100 basis points adverse change | **$ (583)** | $ (571) |
| Impact on fair value of 200 basis points adverse change | **(1,118)** | (1,097) |

*CPR: Constant prepayment rate.*

The sensitivity analysis in the preceding table is hypothetical and should be used with caution. Changes in fair value based on variation in assumptions generally cannot be easily extrapolated, because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in this table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

**Other intangible assets**

The $105 million decrease in other intangible assets during the three months ended March 31, 2011, was predominantly due to $120 million in amortization.

The components of credit card relationships, core deposits and other intangible assets were as follows.

| | **March 31, 2011** | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| (in millions) | Gross amount | Accumulated amortization | Net carrying value | Gross amount | Accumulated amortization | Net carrying value |
| Purchased credit card relationships | **$ 251** | **$ 152** | **$ 99** | $ 249 | $ 146 | $ 103 |
| Other credit card–related intangibles[(a)] | **794** | **227** | **567** | 828 | 252 | 576 |
| Core deposit intangibles[(a)] | **4,132** | **3,326** | **806** | 4,280 | 3,401 | 879 |
| Other intangibles[(a)] | **882** | **492** | **390** | 911 | 502 | 409 |

*(a) The decrease in the gross amount and accumulated amortization from December 31, 2010 was due to the removal of fully amortized assets.*

Intangible assets of approximately $60 million, consisting primarily of asset management advisory contracts, were determined to have an indefinite life and are not amortized.

**Amortization expense**

The following table presents amortization expense related to credit card relationships, core deposits and other intangible assets.

| | Three months ended March 31, | |
|---|---|---|
| (in millions) | **2011** | 2010 |
| Purchased credit card relationships | **$ 6** | $ 6 |
| All other intangibles: | | |
| Other credit card–related intangibles | **25** | 23 |
| Core deposit intangibles | **72** | 83 |
| Other intangibles | **17** | 20 |
| **Total amortization expense** | **$ 120** | $ 132 |

**Future amortization expense**

The following table presents estimated future amortization expense related to credit card relationships, core deposits and other intangible assets.

| For the year: (in millions) | Purchased credit card relationships | Other credit card–related intangibles | Core deposit intangibles | Other intangibles | **Total** |
|---|---|---|---|---|---|
| 2011[(a)] | $ 24 | $ 99 | $ 284 | $ 67 | $ 474 |
| 2012 | 24 | 103 | 240 | 65 | 432 |
| 2013 | 21 | 104 | 195 | 62 | 382 |
| 2014 | 19 | 104 | 100 | 47 | 270 |
| 2015 | 17 | 97 | 25 | 30 | 169 |

*(a) Includes $6 million, $25 million, $72 million and $17 million of amortization expense related to purchased credit card relationships, other credit-card related intangibles, core deposits and other intangibles, respectively, recognized during the first three months of 2011.*

## NOTE 18 – DEPOSITS

For further discussion of deposits, see Note 20 on page 101 in JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

At March 31, 2011, and December 31, 2010, noninterest-bearing and interest-bearing deposits were as follows.

| (in millions) | March 31, 2011 | December 31, 2010 |
|---|---|---|
| **U.S. offices** | | |
| Noninterest-bearing | **$ 245,978** | $ 230,412 |
| Interest-bearing | | |
| Demand[(a)] | **44,183** | 41,640 |
| Savings[(b)] | **345,543** | 334,620 |
| Time (included $3,022 and $2,691 at fair value)[(c)] | **66,375** | 66,776 |
| **Total interest-bearing deposits** | **456,101** | 443,036 |
| **Total deposits in U.S. offices** | **702,079** | 673,448 |
| **Non-U.S. offices** | | |
| Noninterest-bearing | **11,761** | 11,002 |
| Interest-bearing | | |
| Demand | **277,870** | 246,119 |
| Savings | **710** | 607 |
| Time (included $1,215 and $1,636 at fair value)[(c)] | **100,584** | 88,817 |
| **Total interest-bearing deposits** | **379,164** | 335,543 |
| **Total deposits in non-U.S. offices** | **390,925** | 346,545 |
| **Total deposits** | **$ 1,093,004** | $ 1,019,993 |

*(a) Includes Negotiable Order of Withdrawal ("NOW") accounts, and certain trust accounts.*

*(b) Includes Money Market Deposit Accounts ("MMDAs").*

*(c) Includes structured notes classified as deposits for which the fair value option has been elected. For further discussion, see Note 5 on pages 29–31 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.*

## NOTE 19 – OTHER BORROWED FUNDS

The following table details the components of other borrowed funds.

| (in millions) | March 31, 2011 | December 31, 2010 |
|---|---|---|
| **Total other borrowed funds**[(a)(b)(c)] | **$ 26,189** | $ 23,119 |

*(a) Effective January 1, 2011, $4.3 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.*

*(b) Includes other borrowed funds of $7.4 billion and $7.1 billion accounted for at fair value at March 31, 2011, and December 31, 2010, respectively.*

*(c) Includes other borrowed funds of $14.2 billion and $12.0 billion secured by assets totaling $14.6 billion and $12.6 billion at March 31, 2011, and December 31, 2010, respectively.*

As of March 31, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. had no significant lines of credit for general corporate purposes.

## NOTE 20 – RELATED PARTY TRANSACTIONS

JPMorgan Chase Bank, N.A. regularly enters into transactions with JPMorgan Chase and its various subsidiaries.

Significant revenue and expense transactions with related parties are listed below.

| | Three months ended March 31, | |
|---|---|---|
| (in millions) | **2011** | 2010 |
| **Interest income from affiliates** | | |
| Deposits with affiliated banks | **$ 3** | $ 2 |
| Available-for-sale securities with affiliates | **10** | 46 |
| Federal funds sold and securities purchased under resale agreements, and securities borrowed with affiliates | **16** | 5 |
| Loans to affiliates | **6** | 6 |
| **Interest expense to affiliates** | | |
| Interest-bearing deposits of affiliates | **103** | 64 |
| Federal funds purchased and securities loaned or sold under repurchase agreements, and other borrowed funds due to affiliates | **28** | 33 |
| Long-term debt payable to JPMorgan Chase & Co. and affiliates | **96** | 100 |
| Guaranteed capital debt securities issued to nonbank affiliates | **11** | 12 |
| **Servicing agreements and fee arrangements with affiliates** | | |
| Noninterest revenue | **1,199** | 755 |
| Noninterest expense | **1,166** | 764 |

Significant balances with related parties are listed below.

| (in millions) | **March 31, 2011** | December 31, 2010 |
|---|---|---|
| **Assets** | | |
| Deposits with affiliated banks | **$ 1,003** | $ 1,059 |
| Available-for-sale securities with affiliates | **1,013** | 1,248 |
| Federal funds sold and securities purchased under resale agreements, and securities borrowed with affiliates | **52,632** | 57,932 |
| Loans to affiliates | **3,322** | 2,213 |
| Accrued interest and accounts receivable, and other assets due from affiliates | **16,945** | 17,040 |
| **Liabilities** | | |
| Noninterest-bearing deposits of affiliates | **2,124** | 2,158 |
| Interest-bearing deposits of affiliates | **121,902** | 111,158 |
| Federal funds purchased and securities loaned or sold with affiliates under repurchase agreements, and other borrowed funds due to affiliates | **45,922** | 48,204 |
| Accounts payable and other liabilities payable to affiliates | **6,592** | 5,216 |
| Long-term debt payable to JPMorgan Chase & Co. and affiliates | **18,509** | 18,509 |
| Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities to nonbank affiliates | **600** | 600 |

At March 31, 2011, and December 31, 2010, net derivative payables to affiliates were $7.8 billion and $7.3 billion, respectively.

## NOTE 21 – ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

AOCI includes the after-tax change in unrealized gains and losses on AFS securities, foreign currency translation adjustments (including the impact of related derivatives), cash flow hedging activities and net loss and prior service costs/(credit) related to JPMorgan Chase Bank, N.A.'s defined benefit pension and OPEB plans.

| **As of or for the three months ended March 31, 2011** (in millions) | Unrealized gains/(losses) on AFS securities[(b)] | Translation adjustments, net of hedges | Cash flow hedges | Net loss and prior service costs/(credit) of defined benefit pension and OPEB plans | Accumulated other comprehensive income/(loss) |
|---|---|---|---|---|---|
| Balance at January 1, 2011 | **$ 2,451**[(c)] | **$ 390** | **$ 418** | **$ (383)** | **$ 2,876** |
| Net change | **(246)**[d)] | **10**[(e)] | **(94)**[(f)] | **(14)**[(g)] | **(344)** |
| **Balance at March 31, 2011** | **$ 2,205**[(c)] | **$ 400** | **$ 324** | **$ (397)** | **$ 2,532** |

| As of or for the three months ended March 31, 2010 (in millions) | Unrealized gains/(losses) on AFS securities[(b)] | Translation adjustments, net of hedges | Cash flow hedges | Net loss and prior service costs/(credit) of defined benefit pension and OPEB plans | Accumulated other comprehensive income/(loss) |
|---|---|---|---|---|---|
| Balance at January 1, 2010 | $ 1,819[(c)] | $ 127 | $ 125 | $ (433) | $ 1,638 |
| Cumulative effect of change in accounting principle[(a)] | (23) | — | — | — | (23) |
| Net change | 812[(d)] | 45[(e)] | 139[(f)] | 32[(g)] | 1,028 |
| Balance at March 31, 2010 | $ 2,608[(c)] | $ 172 | $ 264 | $ (401) | $ 2,643 |

*(a) Reflects the effect of adoption of accounting guidance related to the consolidation of VIEs. AOCI decreased by $23 million due to the adoption of the accounting guidance related to VIEs, as a result of the reversal of the fair value adjustments taken on retained AFS securities that were eliminated in consolidation; for further discussion see Note 17 on pages 82–97 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.*

*(b) Represents the after-tax difference between the fair value and amortized cost of securities accounted for as AFS.*

*(c) At March 31, 2011, January 1, 2011, March 31, 2010 and January 1, 2010, included after-tax unrealized losses not related to credit on debt securities for which credit losses have been recognized in income of $(65) million, $(81) million, $(193) million and $(226) million, respectively.*

*(d) The net change for the three months ended March 31, 2011, was due primarily to decreased market value on pass-through agency mortgage-backed securities ("MBS") and agency collateralized mortgage obligations, as well as on non-U.S. government debt securities, partially offset by the narrowing of spreads on collateralized loan obligations and non-U.S. residential MBS. The net change for the three months ended March 31, 2010, was due primarily to the narrowing of spreads on commercial and nonagency residential MBS, as well as on collateralized loan obligations; also reflected increased market value on pass-through agency residential MBS.*

*(e) At March 31, 2011 and 2010, included after-tax gains/(losses) on foreign currency translation from operations for which the functional currency is other than the U.S. dollar of $160 million and $(76) million, respectively, partially offset by after-tax gains/(losses) on hedges of $(150) million and $121 million, respectively. JPMorgan Chase Bank, N.A. may not hedge its entire exposure to foreign currency translation on net investments in foreign operations.*

*(f) The net change for the three months ended March 31, 2011, included $96 million of after-tax gains recognized in income, and $2 million of after-tax gains, representing the net change in derivative fair value that was reported in comprehensive income. The net change for the three months ended March 31, 2010, included $(3) million of after-tax losses recognized in income and $136 million of after-tax gains, representing the net change in derivative fair value that was reported in comprehensive income.*

*(g) The net changes for the three-month periods ended March 31, 2011 and 2010, were due to after-tax adjustments based on the final year-end actuarial valuations for the U.S. and non-U.S. defined benefit pension and OPEB plans (for 2010 and 2009, respectively); and the amortization of net loss and prior service credit into net periodic benefit cost.*

## NOTE 22 – CAPITAL

JPMorgan Chase Bank, N.A.'s banking regulator, the OCC, establishes capital requirements, including well-capitalized standards, for national banks. The "well-capitalized" and minimum capital and leverage ratios applicable to JPMorgan Chase Bank, N.A. under U.S. banking regulatory agency definitions are listed in the table below.

For additional information regarding JPMorgan Chase Bank, N.A.'s capital ratios and the federal regulatory capital standards to which it is subject, see Note 27 on pages 108–109 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements. As of March 31, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. was well-capitalized and met all capital requirements to which it was subject.

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

| (in millions, except ratios) | **March 31, 2011** | Dec. 31, 2010 | Well-capitalized ratios[g] | Minimum capital ratios[g] |
|---|---|---|---|---|
| **Regulatory capital** | | | | |
| Tier 1 | **$ 92,594** | $ 91,764 | | |
| Total | **131,545** | 130,444 | | |
| **Assets** | | | | |
| Risk-weighted[a][b] | **980,051** | 965,897 | | |
| Adjusted average[c] | **1,621,263** | 1,611,486 | | |
| **Capital ratios** | | | | |
| Tier 1[d] | **9.4%** | 9.5% | 6.0% | 4.0% |
| Total[e] | **13.4** | 13.5 | 10.0 | 8.0 |
| Tier 1 leverage[f] | **5.7** | 5.7 | 5.0[h] | 3.0[i] |

*(a) Risk-weighted assets 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. Risk-weighted assets also incorporate a measure for the market risk related to applicable trading assets–debt and equity instruments, and foreign exchange and commodity derivatives. The resulting risk-weighted values for each of the risk categories are then aggregated to determine total risk-weighted assets.*

*(b) At March 31, 2011, and December 31, 2010, includes off–balance sheet risk-weighted assets of $283.3 billion and $274.2 billion, respectively.*

*(c) 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.*

*(d) Tier 1 capital ratio is Tier 1 capital divided by risk-weighted assets. Tier 1 capital consists of common stockholder's equity, perpetual preferred stock, noncontrolling interests in subsidiaries and trust preferred capital debt securities, less goodwill and certain other adjustments.*

*(e) Total capital ratio is Total capital divided by risk-weighted assets. 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 risk-weighted assets.*

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

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

*(h) Represents requirements for banking subsidiaries pursuant to regulations issued under the FDIC Improvement Act.*

*(i) 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 OCC and the Federal Reserve.*

*Note: Rating agencies allow 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 March 31, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. had deferred tax liabilities resulting from nontaxable business combinations totaling $427 million and $458 million, respectively; and deferred tax liabilities resulting from tax-deductible goodwill of $979 million and $958 million, respectively.*

A reconciliation of Total stockholder's equity to Tier 1 capital and Total qualifying capital is presented in the table below.

| (in millions) | March 31, 2011 | December 31, 2010 |
|---|---|---|
| **Total stockholder's equity** | **$ 123,579** | $ 123,217 |
| Effect of certain items in accumulated other comprehensive (income)/loss excluded from Tier 1 equity | **(2,132)** | (2,486) |
| Qualifying hybrid securities and noncontrolling interests[(a)] | **784** | 783 |
| Less: Goodwill[(b)] | **26,405** | 26,389 |
| Fair value DVA on derivative and structured note liabilities related to JPMorgan Chase Bank, N.A.'s credit quality | **860** | 881 |
| Investments in certain subsidiaries and other | **1** | 1 |
| Other intangible assets[(b)] | **2,371** | 2,479 |
| **Total Tier 1 capital** | **92,594** | 91,764 |
| Long-term debt and other instruments qualifying as Tier 2 | **26,514** | 26,415 |
| Qualifying allowance for credit losses | **12,396** | 12,230 |
| Adjustment for investments in certain subsidiaries and other | **41** | 35 |
| **Tier 2 capital** | **38,951** | 38,680 |
| **Total qualifying capital** | **$ 131,545** | $ 130,444 |

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

## NOTE 23 – OFF–BALANCE SHEET LENDING-RELATED FINANCIAL INSTRUMENTS, GUARANTEES AND OTHER COMMITMENTS

JPMorgan Chase Bank, N.A. utilizes 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 JPMorgan Chase Bank, N.A.'s maximum possible credit risk should the counterparty draw upon the commitment or JPMorgan Chase Bank, N.A. be required to fulfill its obligation under the guarantee, and 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 JPMorgan Chase Bank, N.A.'s view, representative of its actual future credit exposure or funding requirements. For a discussion of off–balance sheet lending-related financial instruments and guarantees, and JPMorgan Chase Bank, N.A.'s related accounting policies, see Note 28 on pages 109–115 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

To provide for the risk of loss inherent in wholesale and consumer (excluding credit card) related contracts, an allowance for credit losses on lending-related commitments is maintained. See Note 15 on pages 53–54 of these Consolidated Financial Statements for further discussion regarding the allowance for credit losses on lending-related commitments.

The following table summarizes the contractual amounts and carrying values of off–balance sheet lending-related financial instruments, guarantees and other commitments at March 31, 2011, and December 31, 2010. The amounts in the table below for credit card and home equity lending-related commitments represent the total available credit for these products. JPMorgan Chase Bank, N.A. has not experienced, and does not anticipate, that all available lines of credit for these products will be utilized at the same time. JPMorgan Chase Bank, N.A. can reduce or cancel credit card lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law. JPMorgan Chase Bank, N.A. 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.

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

| (in millions) | Contractual amount March 31, 2011 | Contractual amount December 31, 2010 | Carrying value[k] March 31, 2011 | Carrying value[k] December 31, 2010 |
|---|---|---|---|---|
| **Lending-related** | | | | |
| Consumer, excluding credit card: | | | | |
| Home equity – senior lien | **$ 14,898** | $ 15,135 | **$ —** | $ — |
| Home equity – junior lien | **27,156** | 27,910 | **—** | — |
| Prime mortgage | **745** | 1,266 | **—** | — |
| Subprime mortgage | **—** | — | **—** | — |
| Auto | **5,947** | 5,246 | **1** | 2 |
| Business banking | **9,808** | 9,702 | **5** | 4 |
| Student and other | **508** | 579 | **—** | — |
| **Total consumer, excluding credit card** | **59,062** | 59,838 | **6** | 6 |
| Credit card | **24,559** | 19,506 | **—** | — |
| **Total consumer** | **83,621** | 79,344 | **6** | 6 |
| Wholesale: | | | | |
| Other unfunded commitments to extend credit[a][b][c] | **205,659** | 199,604 | **322** | 348 |
| Standby letters of credit and other financial guarantees[a][c][d][e] | **94,682** | 94,282 | **694** | 695 |
| Unused advised lines of credit | **47,033** | 44,232 | **—** | — |
| Other letters of credit[a][e] | **5,943** | 6,663 | **1** | 2 |
| **Total wholesale** | **353,317** | 344,781 | **1,017** | 1,045 |
| **Total lending-related** | **$ 436,938** | $ 424,125 | **$ 1,023** | $ 1,051 |
| **Other guarantees and commitments** | | | | |
| Securities lending indemnifications[f] | **$ 210,748** | $ 193,701 | **$ NA** | $ NA |
| Derivatives qualifying as guarantees[g] | **87,345** | 87,749 | **373** | 295 |
| Unsettled reverse repurchase and securities borrowing agreements[h] | **41,492** | 32,332 | **—** | — |
| Other guarantees and commitments[i] | **5,011** | 4,993 | **(6)** | (6) |
| Loan sale and securitization-related indemnifications: | | | | |
| Repurchase liability[j] | **NA** | NA | **3,228** | 3,000 |
| Loans sold with recourse | **10,025** | 10,162 | **144** | 147 |

*(a) At March 31, 2011, and December 31, 2010, represents the contractual amount net of risk participations totaling $465 million and $437 million, respectively, for other unfunded commitments to extend credit; $22.8 billion and $22.4 billion, respectively, for standby letters of credit and other financial guarantees; and $1.3 billion and $1.1 billion, respectively, for other letters of credit. In regulatory filings with the Federal Reserve Board these commitments are shown gross of risk participations.*

*(b) At March 31, 2011, and December 31, 2010, included commitments to affiliates of $66 million and $70 million, respectively.*

*(c) At March 31, 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 $43.9 billion and $43.4 billion, respectively.*

*(d) At March 31, 2011, and December 31, 2010, included unissued standby letters of credit commitments of $41.3 billion and $41.4 billion, respectively.*

*(e) At March 31, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. held collateral relating to $38.0 billion and $37.7 billion, respectively, of standby letters of credit; and $2.0 billion and $2.1 billion, respectively, of other letters of credit.*

*(f) At March 31, 2011, and December 31, 2010, collateral held by JPMorgan Chase Bank, N.A. in support of securities lending indemnification agreements was $212.8 billion and $196.2 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.*

*(g) Represents notional amounts of derivatives qualifying as guarantees. The carrying value at March 31, 2011, and December 31, 2010, reflected derivative payables of $467 million and $390 million, respectively, less derivative receivables of $94 million and $95 million, respectively.*

*(h) At March 31, 2011, and December 31, 2010, the amount of commitments related to forward starting reverse repurchase agreements and securities borrowing agreements were $7.2 billion and $6.8 billion, respectively. Commitments related to unsettled reverse repurchase agreements and securities borrowing agreements with regular way settlement periods were $34.3 billion and $25.5 billion at March 31, 2011, and December 31, 2010, respectively.*

*(i) At March 31, 2011, and December 31, 2010, included unfunded equity investment commitments of $938 million and $969 million, respectively. These commitments included $30 million and $36 million, respectively, related to investments that are generally fair valued at net asset value as discussed in Note 4 on pages 7–17 of these Consolidated Financial Statements. In addition, at both March 31, 2011, and December 31, 2010, included letters of credit hedged by derivative transactions and managed on a market risk basis of $3.8 billion.*

*(j) Represents estimated repurchase liability related to indemnifications for breaches of representations and warranties in loan sale and securitization agreements. For additional information, see Loan sale and securitization-related indemnifications on pages 73–74 of this Note.*

*(k) For lending-related products, the carrying value represents the allowance for lending-related commitments and the guarantee liability, for derivative-related products the carrying value represents the fair value. For all other products the carrying value represents the valuation reserve.*

**Other unfunded commitments to extend credit**

Other unfunded commitments to extend credit are generally comprised of commitments for working capital and general corporate purposes, as well as extensions of credit to support commercial paper facilities and bond financings in the event that those obligations cannot be remarketed to new investors.

Also included in other unfunded commitments to extend credit are commitments to noninvestment-grade counterparties in connection with leveraged and acquisition finance activities, which were $5.3 billion and $5.8 billion at March 31, 2011, and December 31, 2010, respectively. For further information, see Note 4 and Note 5 on pages 7–17 and 18–19 respectively, of these Consolidated Financial Statements.

*Guarantees*

JPMorgan Chase Bank, N.A. considers the following off–balance sheet lending-related arrangements to be guarantees under U.S. GAAP: standby letters of credit and financial guarantees, securities lending indemnifications, certain indemnification agreements included within third-party contractual arrangements and certain derivative contracts. For a further discussion of the off–balance sheet lending-related arrangements JPMorgan Chase Bank, N.A. considers to be guarantees, and the related accounting policies, see Note 28 on pages 109–115 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements. The recorded amounts of the liabilities related to guarantees and indemnifications at March 31, 2011, and December 31, 2010, excluding the allowance for credit losses on lending-related commitments, are discussed on pages 72–74 of this Note.

**Standby letters of credit**

Standby letters of credit ("SBLC") and other financial guarantees are conditional lending commitments issued by JPMorgan Chase Bank, N.A. to guarantee the performance of a customer to a third party under certain arrangements, such as commercial paper facilities, bond financings, acquisition financings, trade and similar transactions. The carrying values of standby and other letters of credit were $695 million and $697 million at March 31, 2011, and December 31, 2010, respectively, which were classified in accounts payable and other liabilities on the Consolidated Balance Sheets; these carrying values include $330 million and $337 million, respectively, for the allowance for lending-related commitments, and $365 million and $360 million, respectively, for the guarantee liability and corresponding asset.

The following table summarizes the types of facilities under which standby letters of credit and other letters of credit arrangements are outstanding by the ratings profiles of JPMorgan Chase Bank, N.A.'s customers, as of March 31, 2011, and December 31, 2010.

**Standby letters of credit and other financial guarantees and other letters of credit**

| | **March 31, 2011** | | December 31, 2010 | |
|---|---|---|---|---|
| (in millions) | Standby letters of credit and other financial guarantees | Other letters of credit | Standby letters of credit and other financial guarantees | Other letters of credit |
| Investment-grade[(a)] | **$ 70,645** | **$ 4,761** | $ 69,759 | $ 5,289 |
| Noninvestment-grade[(a)] | **24,037** | **1,182** | 24,523 | 1,374 |
| **Total contractual amount[(b)]** | **$ 94,682[(c)]** | **$ 5,943** | $ 94,282[(c)] | $ 6,663 |
| Allowance for lending-related commitments | **$ 329** | **$ 1** | $ 335 | $ 2 |
| Commitments with collateral | **37,961** | **1,986** | 37,749 | 2,127 |

*(a) The ratings scale is based on JPMorgan Chase Bank, N.A.'s internal ratings which generally correspond to ratings as defined by S&P and Moody's.*

*(b) At March 31, 2011, and December 31, 2010, represented contractual amount net of risk participations totaling $22.8 billion and $22.4 billion, respectively, for standby letters of credit and other financial guarantees; and $1.3 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.*

*(c) At March 31, 2011, and December 31, 2010, included unissued standby letters of credit commitments of $41.3 billion and $41.4 billion, respectively.*

**Derivatives qualifying as guarantees**

In addition to the contracts described above, JPMorgan Chase Bank, N.A. transacts certain derivative contracts that meet the characteristics of a guarantee under U.S. GAAP. For further information on these derivatives, see Note 28 on pages 109–115 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements. The total notional value of the derivatives that JPMorgan Chase Bank, N.A. deems to be guarantees was $87.3 billion and $87.7 billion at March 31, 2011, and December 31, 2010, respectively. The notional amount generally represents JPMorgan Chase Bank, N.A.'s maximum exposure to derivatives qualifying as guarantees. However, exposure to certain stable value derivatives is contractually limited to a substantially lower percentage of the notional amount; the notional amount on these stable value contracts was $25.5 billion and $25.9 billion and the maximum exposure to loss was $2.7 billion, at both March 31, 2011, and December

31, 2010. The fair values of the contracts reflects the probability of whether JPMorgan Chase Bank, N.A. will be required to perform under the contract. The fair value related to derivative guarantees were derivative payables of $467 million and $390 million and derivative receivables of $94 million and $95 million at March 31, 2011, and December 31, 2010, respectively. JPMorgan Chase Bank, N.A. reduces exposures to these contracts by entering into offsetting transactions, or by entering into contracts that hedge the market risk related to the derivative guarantees.

In addition to derivative contracts that meet the characteristics of a guarantee, JPMorgan Chase Bank, N.A. is both a purchaser and seller of credit protection in the credit derivatives market. For a further discussion of credit derivatives, see Note 6 on pages 20–26 of these Consolidated Financial Statements, and Note 7 on pages 33–41 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

**Loan sale- and securitization-related indemnifications**

*Indemnifications for breaches of representations and warranties*

In connection with JPMorgan Chase Bank, N.A.'s loan sale and securitization activities with the U.S. government-sponsored entities ("GSEs") and other loan sale and private-label securitization transactions, as described in Notes 14 and 16 on pages 36–52 and 55–63, respectively, of these Consolidated Financial Statements, and Notes 15 and 17 on pages 58–76 and 82–97, respectively of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements, JPMorgan Chase Bank, N.A. has made representations and warranties that the loans sold meet certain requirements. JPMorgan Chase Bank, N.A. 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; however, predominantly all of the repurchase demands received by JPMorgan Chase Bank, N.A. and JPMorgan Chase Bank, N.A.'s losses realized to date are related to loans sold to the GSEs.

JPMorgan Chase Bank, N.A. has recognized a repurchase liability of $3.2 billion and $3.0 billion, as of March 31, 2011, and December 31, 2010, respectively, which is reported in accounts payable and other liabilities net of probable recoveries from third parties.

Substantially all of the estimates and assumptions underlying JPMorgan Chase Bank, N.A.'s established methodology for computing its recorded repurchase liability – including factors such as the amount of probable future demands from purchasers, the ability of JPMorgan Chase Bank, N.A. 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 limited and rapidly changing historical data and uncertainty surrounding numerous external factors, including: (i) macro-economic factors and (ii) the level of future demands, which is dependent, in part, on actions taken by third parties such as the GSEs and mortgage insurers. While JPMorgan Chase Bank, N.A. uses the best information available to it in estimating its repurchase liability, the estimation process is inherently uncertain and imprecise and, accordingly, losses in excess of the amounts accrued as of March 31, 2011, are reasonably possible.

JPMorgan Chase Bank, N.A. believes the estimate of the range of reasonably possible losses, in excess of reserves established, for its repurchase liability is from $0 to approximately $1.7 billion at March 31, 2011. This estimated range of reasonably possible loss is based on an assumed peak to trough decline in home prices of 44%, which is an additional 11 percentage point decline in home prices beyond JPMorgan Chase Bank, N.A.'s current assumptions. Such a decline could increase the level of loan delinquencies, thereby potentially increasing the repurchase demand rate from the GSEs and increasing loss severity on repurchased loans, each of which could affect JPMorgan Chase Bank, N.A.'s repurchase liability. JPMorgan Chase Bank, N.A. does not consider such a further decline in home prices to be likely to occur, and actual repurchase losses could vary significantly from JPMorgan Chase Bank, N.A.'s recorded repurchase liability or this estimate of reasonably possible additional losses, depending on the outcome of various factors, including those considered above.

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

**Summary of changes in repurchase liability**

| Three months ended March 31, (in millions) | 2011 | 2010 |
|---|---|---|
| Repurchase liability at beginning of period | **$ 3,000** | $ 1,449 |
| Realized losses[(a)] | **(216)** | (239) |
| Provision for repurchase losses | **444** | 432 |
| **Repurchase liability at end of period** | **$ 3,228** | $ 1,642 |

*(a) Includes principal losses and accrued interest on repurchased loans, "make-whole" settlements, settlements with claimants, and certain related expenses. Make-whole settlements were $112 million and $98 million at March 31, 2011 and 2010, respectively.*

*Loans sold with recourse*

JPMorgan Chase Bank, N.A. provides servicing for mortgages and certain commercial lending products on both a recourse and nonrecourse basis. In nonrecourse servicing, the principal credit risk to JPMorgan Chase Bank, N.A. is the cost of temporary servicing advances of funds (i.e., normal servicing advances). In recourse servicing, the servicer agrees to share credit risk with the owner of the mortgage loans, such as Fannie Mae or Freddie Mac or a private investor, insurer or guarantor. Losses on recourse servicing predominantly occur when foreclosure sales proceeds of the property underlying a defaulted loan are less than the sum of the outstanding principal balance, plus accrued interest on the loan and the cost of holding and disposing of the underlying property. JPMorgan Chase Bank, N.A.'s securitizations are predominantly nonrecourse, thereby effectively transferring the risk of future credit losses to the purchaser of the mortgage-backed securities issued by the trust. At March 31, 2011, and December 31, 2010, the unpaid principal balance of loans sold with recourse totaled $10.0 billion and $10.2 billion, respectively. The carrying value of the related liability that JPMorgan Chase Bank, N.A. has recorded, which is representative of JPMorgan Chase Bank, N.A.'s view of the likelihood it will have to perform under this guarantee, was $144 million and $147 million at March 31, 2011, and December 31, 2010, respectively.

## NOTE 24 – PLEDGED ASSETS AND COLLATERAL

For a discussion of JPMorgan Chase Bank, N.A.'s pledged assets and collateral, see Note 29 on page 115 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

**Pledged assets**

At March 31, 2011, assets were pledged to collateralize repurchase agreements, other securities financing agreements, derivative transactions and for other purposes, including to secure borrowings and public deposits. Certain of these pledged assets may be sold or repledged by the secured parties and are identified as financial instruments owned (pledged to various parties) on the Consolidated Balance Sheets. In addition, at March 31, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. had pledged $225.5 billion and $193.2 billion, respectively, of financial instruments it owns that may not be sold or repledged by the secured parties. Total assets pledged do not include assets of consolidated VIEs; these assets are used to settle the liabilities of those entities. See Note 16 on pages 55–63 of these Consolidated Financial Statements, and Note 17 on pages 82–97 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements, for additional information on assets and liabilities of consolidated VIEs. For further information regarding pledged assets, see Note 29 on page 115 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

**Collateral**

At March 31, 2011, and December 31, 2010, JPMorgan Chase Bank, N.A. had accepted assets as collateral that it could sell or repledge, deliver or otherwise use with a fair value of approximately $407.7 billion and $360.8 billion, respectively. This collateral was generally obtained under resale agreements, securities borrowing agreements, customer margin loans and derivative agreements. Of the collateral received, approximately $303.6 billion and $296.1 billion, respectively, were sold or repledged, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales and to collateralize deposits and derivative agreements. For further information regarding collateral, see Note 29 on page 115 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

**NOTE 25 – LITIGATION**

As of March 31, 2011, JPMorgan Chase Bank, N.A. and its subsidiaries are defendants or putative defendants in thousands of legal proceedings, in the form of regulatory/government investigations as well as private, civil litigations. The litigations range from individual actions involving a single plaintiff to class action lawsuits with potentially millions of class members. Investigations involve both formal and informal proceedings, by both governmental agencies and self-regulatory organizations. These legal proceedings are at varying stages of adjudication, arbitration or investigation, and involve JPMorgan Chase Bank, N.A.'s various businesses and geographies and a wide variety of claims (including common law tort and contract claims and statutory antitrust, securities and consumer protection claims), some of which present novel claims or legal theories.

Estimates of reasonably possible losses for legal proceedings are analyzed and managed at the JPMorgan Chase level and not at the subsidiary level (i.e., JPMorgan Chase Bank, N.A.). JPMorgan Chase believes the estimate of the aggregate range of reasonably possible losses, in excess of reserves established, for its legal proceedings is from $0 to approximately $4.5 billion at March 31, 2011. This estimated aggregate range of reasonably possible losses is based upon currently available information for those proceedings in which JPMorgan Chase is involved, taking into account JPMorgan Chase's best estimate of such losses for those cases for which such estimate can be made. For certain cases, JPMorgan Chase does not believe that an estimate can currently be made. JPMorgan Chase's estimate involves significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants (including JPMorgan Chase or one or more of its subsidiaries, including JPMorgan Chase Bank, N.A.) in many of such proceedings whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the proceedings (including issues regarding class certification and the scope of many of the claims), and the attendant uncertainty of the various potential outcomes of such proceedings. Accordingly, JPMorgan Chase's estimate will change from time to time, and actual losses may be more than the current estimate.

Set forth below are descriptions of material legal proceedings in which JPMorgan Chase Bank, N.A. is involved or has been named as a party.

*Auction-Rate Securities Investigations and Litigation.* Beginning in March 2008, several regulatory authorities initiated investigations of a number of industry participants, including JPMorgan Chase, concerning possible state and federal securities law violations in connection with the sale of auction-rate securities. The market for many such securities had frozen and a significant number of auctions for those securities began to fail in February 2008.

JPMorgan Chase, on behalf of itself and affiliates, agreed to a settlement in principle with the New York Attorney General's Office which provided, among other things, that JPMorgan Chase would offer to purchase at par certain auction-rate securities purchased from J.P. Morgan Securities LLC ("JPMorgan Securities", formerly J.P. Morgan Securities Inc.), Chase Investment Services Corp. and Bear, Stearns & Co. Inc. by individual investors, charities and small- to medium-sized businesses. JPMorgan Chase also agreed to a substantively similar settlement in principle with the Office of Financial Regulation for the State of Florida and the North American Securities Administrators Association ("NASAA") Task Force, which agreed to recommend approval of the settlement to all remaining states, Puerto Rico and the U.S. Virgin Islands. JPMorgan Chase has finalized the settlement agreements with the New York Attorney General's Office and the Office of Financial Regulation for the State of Florida. The settlement agreements provide for the payment of penalties totaling $25 million to all states. JPMorgan Chase is currently in the process of finalizing consent agreements with NASAA's member states; over 40 of these consent agreements have been finalized to date.

JPMorgan Chase also faces a number of civil actions relating to JPMorgan Chase's sales of auction-rate securities, including a putative securities class action in the United States District Court for the Southern District of New York that seeks unspecified damages, and individual arbitrations and lawsuits in various forums brought by institutional and individual investors that, together, seek damages totaling more than $200 million relating to JPMorgan Chase's sales of auction-rate securities. One action is brought by an issuer of auction-rate securities. The actions generally allege that JPMorgan Chase and other firms manipulated the market for auction-rate securities by placing bids at auctions that affected these securities' clearing rates or otherwise supported the auctions without properly disclosing these activities. Some actions also allege that JPMorgan Chase misrepresented that auction-rate securities were short-term instruments. JPMorgan Chase has filed motions to dismiss each of the actions pending in federal court, which are being coordinated before the Southern District. These motions are currently pending.

Additionally, JPMorgan Chase was named in two putative antitrust class actions in the United States District Court for the Southern District of New York. The actions allege that JPMorgan Chase, along with numerous other financial institution defendants, colluded to maintain and stabilize the auction-rate securities market and then to withdraw their

support for the auction-rate securities market. In January 2010, the District Court dismissed both actions. An appeal is pending in the Second Circuit Court of Appeals.

*Bear Stearns Hedge Fund Matters.* Bear Stearns, certain current or former subsidiaries of Bear Stearns, including Bear Stearns Asset Management, Inc. ("BSAM") and Bear, Stearns & Co. Inc., and certain current or former Bear Stearns employees are named defendants (collectively the "Bear Stearns defendants") in multiple civil actions and arbitrations relating to alleged losses resulting from the failure of the Bear Stearns High Grade Structured Credit Strategies Master Fund, Ltd. (the "High Grade Fund") and the Bear Stearns High Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd. (the "Enhanced Leverage Fund") (collectively, the "Funds"). BSAM served as investment manager for both of the Funds, which were organized such that there were U.S. and Cayman Islands "feeder funds" that invested substantially all their assets, directly or indirectly, in the Funds. The Funds are in liquidation.

There are currently four civil actions pending in the United States District Court for the Southern District of New York relating to the Funds. Two of these actions involve derivative lawsuits brought on behalf of purchasers of partnership interests in the two U.S. feeder funds, alleging that the Bear Stearns defendants mismanaged the Funds and made material misrepresentations to and/or withheld information from investors in the feeder funds. These actions seek, among other things, unspecified compensatory damages based on alleged investor losses. The third action, brought by the Joint Voluntary Liquidators of the Cayman Islands feeder funds, makes allegations similar to those asserted in the derivative lawsuits related to the U.S. feeder funds, and seeks compensatory and punitive damages. Motions to dismiss in these three cases have been granted in part and denied in part. An agreement in principle has been reached, pursuant to which BSAM would pay a maximum of approximately $19 million to settle the one derivative action relating to the feeder fund to the High Grade Fund. BSAM has reserved the right not to proceed with this settlement if plaintiff is unable to secure the participation of investors whose net contributions meet a prescribed percentage of the aggregate net contributions to the High Grade Fund. The agreement in principle remains subject to documentation and approval by the Court. In the other two actions, the parties have been ordered by the court to engage in settlement discussions and discovery has been limited for the duration of that process. Total alleged losses in these three actions exceed $1 billion.

The fourth action was brought by Bank of America and Banc of America Securities LLC (together "BofA") alleging breach of contract and fraud in connection with a May 2007 $4 billion securitization, known as a "CDO-squared," for which BSAM served as collateral manager. This securitization was composed of certain collateralized debt obligation ("CDO") holdings that were purchased by BofA from the Funds. Bank of America seeks in excess of $3 billion in damages. Defendants' motion to dismiss in this action was largely denied, an amended complaint was filed and discovery is ongoing.

*Bear Stearns Shareholder Litigation and Related Matters.* Various shareholders of Bear Stearns have commenced purported class actions against Bear Stearns and certain of its former officers and/or directors on behalf of all persons who purchased or otherwise acquired common stock of Bear Stearns between December 14, 2006, and March 14, 2008 (the "Class Period"). During the Class Period, Bear Stearns had between 115 and 120 million common shares outstanding, and the price of those securities declined from a high of $172.61 to a low of $30 at the end of the period. The actions, originally commenced in several federal courts, allege that the defendants issued materially false and misleading statements regarding Bear Stearns' business and financial results and that, as a result of those false statements, Bear Stearns' common stock traded at artificially inflated prices during the Class Period. Separately, several individual shareholders of Bear Stearns have commenced or threatened to commence arbitration proceedings and lawsuits asserting claims similar to those in the putative class actions. Certain of these matters have been dismissed or settled. In addition, Bear Stearns and certain of its former officers and/or directors have also been named as defendants in a number of purported class actions commenced in the United States District Court for the Southern District of New York seeking to represent the interests of participants in the Bear Stearns Employee Stock Ownership Plan ("ESOP") during the time period of December 2006 to March 2008. These actions, brought under the Employee Retirement Income Security Act ("ERISA"), allege that defendants breached their fiduciary duties to plaintiffs and to the other participants and beneficiaries of the ESOP by (a) failing to manage prudently the ESOP's investment in Bear Stearns securities; (b) failing to communicate fully and accurately about the risks of the ESOP's investment in Bear Stearns stock; (c) failing to avoid or address alleged conflicts of interest; and (d) failing to monitor those who managed and administered the ESOP.

Bear Stearns, former members of Bear Stearns' Board of Directors and certain of Bear Stearns' former executive officers have also been named as defendants in a shareholder derivative and class action suit which is pending in the United States District Court for the Southern District of New York. Plaintiffs are asserting claims for breach of fiduciary duty, violations of federal securities laws, waste of corporate assets and gross mismanagement, unjust enrichment, abuse of control and indemnification and contribution in connection with the losses sustained by Bear Stearns as a result of its purchases of subprime loans and certain repurchases of its own common stock. Certain individual defendants are also

alleged to have sold their holdings of Bear Stearns common stock while in possession of material nonpublic information. Plaintiffs seek compensatory damages in an unspecified amount.

All of the above-described actions filed in federal courts were ordered transferred and joined for pre-trial purposes before the United States District Court for the Southern District of New York. Defendants moved to dismiss the purported securities class action, the shareholders' derivative action and the ERISA action. In January 2011, the District Court granted the motions to dismiss the derivative and ERISA actions, and denied the motion as to the securities action. Plaintiffs in the derivative action have filed a motion for reconsideration of the dismissal as well as an appeal. Plaintiffs in the ESOP action have filed a motion to alter the judgment and for leave to amend their amended consolidated complaint. Discovery will now commence in the securities action.

*City of Milan Litigation and Criminal Investigation.* In January 2009, the City of Milan, Italy (the "City") issued civil proceedings against (among others) JPMorgan Chase Bank, N.A. and J.P. Morgan Securities Ltd. in the District Court of Milan. The proceedings relate to (a) a bond issue by the City in June 2005 (the "Bond"), and (b) an associated swap transaction, which was subsequently restructured on a number of occasions between 2005 and 2007 (the "Swap"). The City seeks damages and/or other remedies against JPMorgan Chase (among others) on the grounds of alleged "fraudulent and deceitful acts" and alleged breach of advisory obligations in connection with the Swap and the Bond, together with related swap transactions with other counterparties. The judge directed four current and former JPMorgan Chase personnel and JPMorgan Chase Bank, N.A. (as well as other individuals and three other banks) to go forward to a full trial that started in May 2010. Although JPMorgan Chase is not charged with any crime and does not face criminal liability, if one or more of its employees were found guilty, JPMorgan Chase could be subject to administrative sanctions, including restrictions on its ability to conduct business in Italy and monetary penalties. Hearings have continued on a weekly basis since May 2010.

*Enron Litigation.* JPMorgan Chase and certain of its officers and directors are involved in several lawsuits that together seek substantial damages arising out of JPMorgan Chase's banking relationships with Enron Corp. and its subsidiaries ("Enron"). A number of actions and other proceedings against JPMorgan Chase previously were resolved, including a class action lawsuit captioned Newby v. Enron Corp. and adversary proceedings brought by Enron's bankruptcy estate. The remaining Enron-related actions include individual actions by Enron investors, an action by an Enron counterparty, and a purported class action filed on behalf of JPMorgan Chase employees who participated in JPMorgan Chase's 401(k) plan asserting claims under the ERISA for alleged breaches of fiduciary duties by JPMorgan Chase, its directors and named officers. That action has been dismissed, and is on appeal to the United States Court of Appeals for the Second Circuit.

*Interchange Litigation.* A group of merchants has filed a series of putative class action complaints in several federal courts. The complaints allege that VISA and MasterCard, as well as certain other banks and their respective bank holding companies, conspired to set the price of credit and debit card interchange fees, enacted respective association rules in violation of antitrust laws, and engaged in tying/bundling and exclusive dealing. The complaint seeks unspecified damages and injunctive relief based on the theory that interchange would be lower or eliminated but for the challenged conduct. Based on publicly available estimates, Visa and MasterCard branded payment cards generated approximately $40 billion of interchange fees industry-wide in 2009. All cases have been consolidated in the United States District Court for the Eastern District of New York for pretrial proceedings. The Court has dismissed all claims relating to periods prior to January 2004. The Court has not yet ruled on motions relating to the remainder of the case. Fact and expert discovery in the case have closed. The Court has not yet ruled on plaintiffs' class certification motion.

In addition to the consolidated class action complaint, plaintiffs filed supplemental complaints challenging the initial public offerings ("IPOs") of MasterCard and Visa (the "IPO Complaints"). With respect to the MasterCard IPO, plaintiffs allege that the offering violated Section 7 of the Clayton Act and Section 1 of the Sherman Act and that the offering was a fraudulent conveyance. With respect to the Visa IPO, plaintiffs are challenging the Visa IPO on antitrust theories parallel to those articulated in the MasterCard IPO pleading. Defendants have filed motions to dismiss the IPO Complaints. The Court has not yet ruled on those motions.

The parties also have filed motions seeking summary judgment as to various claims in the complaints. Briefing is expected to be completed in June 2011.

*Investment Management Litigation.* Four cases have been filed claiming that investment portfolios managed by JPMorgan Investment Management Inc. ("JPMorgan Investment Management") were inappropriately invested in securities backed by subprime residential real estate collateral. Plaintiffs claim that JPMorgan Investment Management and related defendants are liable for losses of more than $1 billion in market value of these securities. The first case was filed by NM Homes One, Inc. in federal District Court in New York. Following rulings on motions addressed to the

pleadings, plaintiff's claims for breach of contract, breach of fiduciary duty, negligence and gross negligence survive, and discovery is proceeding. In the second case, which was filed by Assured Guaranty (U.K.) in New York state court, the New York State Appellate Division allowed plaintiff to proceed with its claims for breach of fiduciary duty and gross negligence, and for breach of contract based on alleged violations of the Delaware Insurance Code. JPMorgan Investment Management's appeal is pending in the New York State Court of Appeals. Discovery is also proceeding. In the third case, filed by Ambac Assurance UK Limited in New York state court, the lower court granted JPMorgan Investment Management's motion to dismiss. Plaintiff appealed and the appeal is pending. The fourth case was filed by CMMF LLP in New York state court. The amended complaint asserts claims under New York law for breach of fiduciary duty, gross negligence, breach of contract and negligent misrepresentation. The lower court denied in part defendants' motion to dismiss and discovery is proceeding.

*Lehman Brothers Bankruptcy Proceedings.* In May 2010, Lehman Brothers Holdings Inc. ("LBHI") and its Official Committee of Unsecured Creditors filed a complaint (and later an amended complaint) against JPMorgan Chase Bank, N.A. in the United States Bankruptcy Court for the Southern District of New York that asserts both federal bankruptcy law and state common law claims, and seeks, among other relief, to recover $8.6 billion in collateral that was transferred to JPMorgan Chase Bank, N.A. in the weeks preceding LBHI's bankruptcy. The amended complaint also seeks unspecified damages on the grounds that JPMorgan Chase Bank, N.A.'s collateral requests hastened LBHI's demise. JPMorgan Chase Bank, N.A. has moved to dismiss plaintiffs' amended complaint in its entirety. JPMorgan Chase Bank, N.A. also filed counterclaims against LBHI alleging that LBHI fraudulently induced JPMorgan Chase Bank, N.A. to make large clearing advances to Lehman against inappropriate collateral, which left JPMorgan Chase Bank, N.A. with more than $25 billion in claims against the estate of Lehman's broker-dealer, which could be unpaid if JPMorgan Chase Bank, N.A. is required to return any collateral to Lehman. Discovery is underway with a trial scheduled for 2012. In addition, in April 2011 JPMorgan Chase Bank, N.A. and the SIPA Trustee for LBHI's U.S. broker-dealer subsidiary, Lehman Brothers Inc. ("LBI") announced that they had reached an agreement to return more than $800 million in alleged LBI customer assets to the LBI Estate for distribution to its customer claimants. The agreement is subject to the approval of the Bankruptcy Court. JPMorgan Chase Bank, N.A. has also responded to various regulatory inquiries regarding the Lehman matter.

*Madoff Litigation.* JPMorgan Chase & Co., JPMorgan Chase Bank, N.A., JPMorgan Securities LLC, and JPMorgan Securities Ltd. have been named as defendants in a lawsuit brought by the trustee for the liquidation of Bernard L. Madoff Investment Securities LLC (the "Trustee"). The Trustee asserts 28 causes of action against JPMorgan Chase, 16 of which seek to avoid certain transfers (direct or indirect) made to JPMorgan Chase that are alleged to have been preferential or fraudulent under the federal Bankruptcy Code and the New York Debtor and Creditor Law. The remaining causes of action are for, among other things, aiding and abetting fraud, aiding and abetting breach of fiduciary duty, conversion and unjust enrichment. The complaint generally alleges that JPMorgan Chase, as Madoff's long-time bank, facilitated the maintenance of Madoff's Ponzi scheme and overlooked signs of wrongdoing in order to obtain profits and fees. The complaint purports to seek approximately $6 billion in damages from JPMorgan Chase, and to recover approximately $425 million in transfers that JPMorgan Chase allegedly received directly or indirectly from Bernard Madoff's brokerage firm. JPMorgan Chase has filed a motion to return the case from the Bankruptcy Court to the District Court, and intends to seek the dismissal of all or most of the Trustee's claims once that motion is decided.

Separately, J.P. Morgan Trust Company (Cayman) Limited, JPMorgan (Suisse) SA, J.P. Morgan Securities Ltd., and Bear Stearns Alternative Assets International Ltd. have been named as defendants in several suits in Bankruptcy Court and state and federal courts in New York arising out of the liquidation proceedings of Fairfield Sentry Limited and Fairfield Sigma Limited (together, "Fairfield"), so-called Madoff feeder funds. These actions advance theories of mistake and restitution and seek to recover payments previously made to defendants by the funds totaling approximately $140 million.

In addition, a purported class action is pending against JPMorgan Chase in the United States District Court for the Southern District of New York, as is a motion by separate potential class plaintiffs to add claims against JPMorgan Chase, JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC and J.P. Morgan Securities Ltd. to an already-pending purported class action in the same court. The allegations in these complaints largely track those raised by the Trustee. Defendants' motions to dismiss and opposition to the motions for leave to amend are currently due on June 29, 2011.

Finally, JPMorgan Chase is a defendant in five actions pending in the New York state court and one individual action in federal court in New York. The allegations in all of these actions are essentially identical, and involve claims against JPMorgan Chase Bank, N.A. for aiding and abetting fraud, aiding and abetting breach of fiduciary duty, conversion and unjust enrichment. In the federal action, JPMorgan Chase Bank, N.A. prevailed on its motion to dismiss before the District Court, and plaintiff appealed. In the state court actions, JPMorgan Chase Bank, N.A.'s motion to dismiss has

been fully-briefed and the parties are awaiting the court's decision. JPMorgan Chase Bank, N.A. has also responded to various governmental inquiries concerning the Madoff matter.

*Mortgage-Backed Securities Litigation and Regulatory Investigations.* JPMorgan Chase and affiliates, Bear Stearns and affiliates and Washington Mutual affiliates have been named as defendants in a number of cases in their various roles as issuer or underwriter in mortgage-backed securities ("MBS") offerings. These cases include purported class action suits, actions by individual purchasers of securities, actions by insurance companies that guaranteed payments of principal and interest for particular tranches and an action by a trustee. Although the allegations vary by lawsuit, these cases generally allege that the offering documents for more than $100 billion of securities issued by dozens of securitization trusts contained material misrepresentations and omissions, including statements regarding the underwriting standards pursuant to which the underlying mortgage loans were issued, or assert that various representations or warranties relating to the loans were breached at the time of origination.

In the actions against JPMorgan Chase as an MBS issuer (and, in some cases, also as an underwriter of its own MBS offerings), three purported class actions are pending against JPMorgan Chase and Bear Stearns, and/or certain of their affiliates and current and former employees, in the United States District Courts for the Eastern and Southern Districts of New York. Defendants have moved to dismiss these actions. One of those motions has been granted in part to dismiss all claims relating to MBS offerings in which a named plaintiff was not a purchaser or the claims were barred by statutes of limitations. The other two motions remain pending. In addition, Washington Mutual affiliates, WaMu Asset Acceptance Corp. and WaMu Capital Corp., along with certain former officers or directors of WaMu Asset Acceptance Corp., have been named as defendants in three now-consolidated purported class action cases pending in the Western District of Washington. Defendants' motion to dismiss was granted in part to dismiss all claims relating to MBS offerings in which a named plaintiff was not a purchaser. Plaintiffs are seeking class certification, and discovery is ongoing.

In other actions brought against JPMorgan Chase as an MBS issuer (and, in some cases, also as an underwriter) certain JPMorgan Chase entities, several Bear Stearns entities, and certain Washington Mutual affiliates are defendants in ten separate individual actions commenced by the Federal Home Loan Banks of Pittsburgh, Seattle, San Francisco, Chicago, Indianapolis, Atlanta and Boston in various state courts around the country; and certain JPMorgan Chase, Bear Stearns and Washington Mutual entities are also among the defendants named in separate individual actions commenced by various institutional investors in federal and states courts. Certain of the state court proceedings have been removed to federal court, and motions to remand are pending.

EMC Mortgage Corporation ("EMC"), a subsidiary of JPMorgan Chase & Co., and certain other JPMorgan Chase entities are defendants in four pending actions commenced by bond insurers that guaranteed payments of principal and interest on approximately $3.6 billion of certain classes of seven different MBS offerings sponsored by EMC. Two of those actions, commenced by Assured Guaranty Corp. and Syncora Guarantee, Inc., respectively, are pending in the United States District Court for the Southern District of New York. The third action, filed by Ambac Assurance Corporation, was dismissed on jurisdictional grounds by the United States District for the Southern District of New York. The dismissal is on appeal to the United States Court of Appeals for the Second Circuit. Ambac has also filed a nearly identical complaint in New York state court. Defendants have moved to stay the state court proceeding pending the outcome of the federal appeal. The fourth action, commenced by CIFG Assurance North America, Inc., is pending in state court in Texas. In each action, plaintiff claims that the underlying mortgage loans had origination defects that purportedly violate certain representations and warranties given by EMC to plaintiffs, and that EMC has breached the relevant agreements between the parties by failing to repurchase allegedly defective mortgage loans. In addition, the Ambac and CIFG complaints allege fraudulent inducement. Each action seeks unspecified damages and an order compelling EMC to repurchase those loans. The CIFG complaint seeks punitive damages.

In the actions against JPMorgan Chase solely as an underwriter of other issuers' MBS offerings, JPMorgan Chase has contractual rights to indemnification from the issuers, but those indemnity rights may prove effectively unenforceable where the issuers are now defunct, such as affiliates of IndyMac Bancorp ("IndyMac Trusts") and Thornburg Mortgage ("Thornburg"). With respect to the IndyMac Trusts, JPMorgan Securities, along with numerous other underwriters and individuals, is named as a defendant, both in its own capacity and as successor to Bear Stearns in a purported class action pending in the United States District Court for the Southern District of New York brought on behalf of purchasers of securities in various IndyMac Trust MBS offerings. The Court in that action has dismissed claims as to certain such securitizations, including all offerings in which no named plaintiff purchased securities, and allowed claims as to other offerings to proceed. Plaintiffs' motion to certify a class of investors in certain offerings is pending, and discovery is ongoing. In addition, JPMorgan Securities and JPMorgan Chase are named as defendants in an individual action filed by the Federal Home Loan Bank of Pittsburgh in connection with a single offering by an affiliate of IndyMac Bancorp. Discovery in that action is ongoing. Separately, JPMorgan Securities, as successor to Bear, Stearns & Co. Inc., along

with other underwriters and certain individuals, are defendants in an action pending in state court in California brought by MBIA Insurance Corp. ("MBIA"). The action relates to certain securities issued by IndyMac trusts in offerings in which Bear Stearns was an underwriter, and as to which MBIA provided guaranty insurance policies. MBIA purports to be subrogated to the rights of the MBS holders, and seeks recovery of sums it has paid and will pay pursuant to those policies. Discovery is ongoing. With respect to Thornburg, a Bear Stearns subsidiary is also a named defendant in a purported class action pending in the United States District Court for the District of New Mexico along with a number of other financial institutions that served as depositors and/or underwriters for three Thornburg MBS offerings. Defendants have moved to dismiss this action.

In addition to the above-described litigation, JPMorgan Chase has also received, and responded to, a number of subpoenas and informal requests for information from federal and state authorities concerning mortgage-related matters, including inquiries concerning a number of transactions involving JPMorgan Chase's underwriting and issuance of MBS and its participation in offerings of certain collateralized debt obligations. As has been previously reported, JPMorgan Securities has been cooperating with the staff of the SEC's Division of Enforcement regarding its investigation of certain collateralized debt obligations, and is currently in advanced discussions with the staff concerning a potential resolution of that investigation. There can be no assurance that any such resolution will be finalized or approved.

In addition to the above mortgage-related matters, JPMorgan Chase is now a defendant in an action commenced by Deutsche Bank, described in more detail below with respect to the Washington Mutual Litigations.

*Mortgage Foreclosure Investigations and Litigation.* Multiple state and federal officials have announced investigations into the procedures followed by mortgage servicing companies and banks, including JPMorgan Chase & Co. and its affiliates, relating to foreclosure and loss mitigation processes. JPMorgan Chase is cooperating with these investigations, and these investigations could result in material fines, penalties, equitable remedies (including requiring default servicing or other process changes), or other enforcement actions, as well as significant legal costs in responding to governmental investigations and additional litigation. The Office of the Comptroller of the Currency and the Federal Reserve have issued Consent Orders as to JPMorgan Chase Bank, N.A., and JPMorgan Chase & Co., respectively. In their Orders, the regulators have mandated significant changes to JPMorgan Chase's servicing and default business and outlined requirements to implement these changes. Included in these requirements is the retention of an independent consultant to conduct an independent review of certain residential foreclosure actions or proceedings for loans serviced by JPMorgan Chase that have been pending at any time from January 1, 2009 to December 31, 2010, as well as residential foreclosure sales that occurred during this time period. These regulators have reserved the right to impose civil monetary penalties at a later date. Investigations by other state and federal authorities remain pending.

Four purported class action lawsuits have also been filed against JPMorgan Chase relating to its mortgage foreclosure procedures. Additionally, Bank of America has tendered defense of a purported class action brought against it involving an EMC loan. One of the cases has been voluntarily dismissed with prejudice by the plaintiff. JPMorgan Chase has moved to dismiss the remaining cases.

As of January 2011, JPMorgan Chase had resumed initiation of new foreclosure proceedings in nearly all states in which it had previously suspended such proceedings, utilizing revised procedures in connection with the execution of affidavits and other documents used by JPMorgan Chase employees in the foreclosure process. JPMorgan Chase is also in the process of reviewing pending foreclosure matters to determine whether remediation of specific documentation is necessary, and is resuming pending foreclosures as the review, and if necessary, remediation, of each pending matter is completed.

*Municipal Derivatives Investigations and Litigation.* The Department of Justice (in conjunction with the Internal Revenue Service), the Securities and Exchange Commission ("SEC"), a group of state attorneys general and the Office of the Comptroller of the Currency ("OCC") have been investigating JPMorgan Chase and Bear Stearns for possible antitrust, securities and tax-related violations in connection with the bidding or sale of guaranteed investment contracts and derivatives to municipal issuers. The Philadelphia Office of the SEC provided notice to JPMorgan Securities that it intends to recommend that the SEC bring civil charges in connection with its investigation. JPMorgan Securities has responded to that notice, as well as to a separate notice that the Philadelphia Office of the SEC provided to Bear, Stearns & Co. Inc. JPMorgan Chase has been cooperating with all of these investigations, and is seeking to resolve them on a negotiated basis.

Purported class action lawsuits and individual actions (the "Municipal Derivatives Actions") have been filed against JPMorgan Chase and Bear Stearns, as well as numerous other providers and brokers, alleging antitrust violations in the reportedly $100 billion to $300 billion annual market for financial instruments related to municipal bond offerings referred to collectively as "municipal derivatives." The Municipal Derivatives Actions have been consolidated in the United States

District Court for the Southern District of New York. The Court denied in part and granted in part defendants' motions to dismiss the purported class and individual actions, permitting certain claims to proceed against JPMorgan Chase and others under federal and California state antitrust laws and under the California false claims act. Subsequently, a number of additional individual actions asserting substantially similar claims, including claims under New York and West Virginia state antitrust statutes, were filed against JPMorgan Chase, Bear Stearns and numerous other defendants. All of these cases have been coordinated for pretrial purposes in the United States District Court for the Southern District of New York. Discovery is ongoing.

Following J.P. Morgan Securities' settlement with the SEC in connection with certain Jefferson County, Alabama (the "County") warrant underwritings and swap transactions, various parties have brought civil litigation against JPMorgan Chase. The County and a putative class of sewer rate payers have filed complaints against JPMorgan Chase and several other defendants in Alabama state court. The suits allege that JPMorgan Chase made payments to certain third parties in exchange for being chosen to underwrite more than $3 billion in warrants issued by the County and chosen as the counterparty for certain swaps executed by the County. The complaints also allege that JPMorgan Chase concealed these third-party payments and that, but for this concealment, the County would not have entered into the transactions. The Court denied JPMorgan Chase's motions to dismiss the complaints in both proceedings. JPMorgan Chase filed a mandamus petition with the Alabama Supreme Court, seeking immediate appellate review of this decision. The mandamus petition in the County's lawsuit was denied in April 2011. The mandamus petition in the lawsuit brought by sewer ratepayers remains pending.

Separately, two insurance companies that guaranteed the payment of principal and interest on warrants issued by Jefferson County have filed separate actions against JPMorgan Chase in New York state court. Their complaints assert that JPMorgan Chase fraudulently misled them into issuing insurance based upon substantially the same alleged conduct described above and other alleged non-disclosures. One insurer claims that it insured an aggregate principal amount of nearly $1.2 billion and seeks unspecified damages in excess of $400 million, as well as unspecified punitive damages. The other insurer claims that it insured an aggregate principal amount of more than $378 million and seeks recovery of $4 million allegedly paid under the policies to date as well as any future payments and unspecified punitive damages. In December 2010, the court denied JPMorgan Chase's motions to dismiss each of the complaints. Discovery is proceeding.

*Overdraft Fee/Debit Posting Order Litigation.* JPMorgan Chase Bank, N.A. has been named as a defendant in several purported class actions relating to its practices in posting debit card transactions to customers' deposit accounts. Plaintiffs allege that JPMorgan Chase improperly re-ordered debit card transactions from the highest amount to lowest amount before processing these transactions in order to generate unwarranted overdraft fees. Plaintiffs contend that JPMorgan Chase should have processed such transactions in the chronological order they were authorized. Plaintiffs seek the disgorgement of all overdraft fees paid to JPMorgan Chase by plaintiffs, since approximately 2003, as a result of the re-ordering of debit card transactions. The claims against JPMorgan Chase have been consolidated with numerous complaints against other national banks in Multi-District Litigation pending in the United States District Court for the Southern District of Florida. JPMorgan Chase's motion to compel arbitration of certain plaintiffs' claims was denied by the District Court. That ruling is currently on appeal. Discovery is proceeding in the District Court. Plaintiffs' motion for class certification is pending.

*Petters Bankruptcy and Related Matters.* JPMorgan Chase and certain of its affiliates, including One Equity Partners, LLC ("OEP"), have been named as defendants in several actions filed in connection with the receivership and bankruptcy proceedings pertaining to Thomas J. Petters and certain entities affiliated with Petters (collectively, "Petters") and the Polaroid Corporation. The principal actions against JPMorgan Chase and its affiliates have been brought by the receiver in Petter's personal bankruptcy and the trustees in the bankruptcy proceedings for three Petters entities, and generally seek to avoid, on fraudulent transfer and preference grounds, certain purported transfers in connection with (i) the 2005 acquisition of Polaroid by Petters, which at the time was majority-owned by OEP; (ii) two credit facilities that JPMorgan Chase and other financial institutions entered into with Polaroid; and (iii) a credit line and investment accounts held by Petters. The actions collectively seek recovery of approximately $450 million. Defendants have moved to dismiss the complaints in the actions filed by the Petters bankruptcy trustees and have also sought to transfer those actions to the United States District Court for the District of Minnesota, where the receiver's action is pending.

*Securities Lending Litigation.* JPMorgan Chase Bank, N.A. has been named as a defendant in four putative class actions asserting ERISA and other claims pending in the United States District Court for the Southern District of New York brought by participants in JPMorgan Chase's securities lending business. A fifth lawsuit was filed in New York state court by an individual participant in the program. Three of the purported class actions, which have been consolidated, relate to investments of approximately $500 million in medium-term notes of Sigma Finance Inc. ("Sigma"). In August 2010, the Court certified a plaintiff class consisting of all securities lending participants that held Sigma medium-term

notes on September 30, 2008, including those that held the notes by virtue of participation in the investment of cash collateral through a collective fund, as well as those that held the notes by virtue of the investment of cash collateral through individual accounts. All discovery has been completed. JPMorgan Chase has moved for partial summary judgment as to plaintiffs' duty of loyalty claim, in which it is alleged that JPMorgan Chase created an impermissible conflict of interest by providing repurchase financing to Sigma while also holding Sigma medium-term notes in securities lending accounts.

The fourth putative class action concerns investments of approximately $500 million in Lehman Brothers medium-term notes. JPMorgan Chase has moved to dismiss the amended complaint and is awaiting a decision. Discovery is proceeding while the motion is pending. The New York state court action, which is not a class action, concerns the plaintiff's alleged loss of money in both Sigma and Lehman Brothers medium-term notes. JPMorgan Chase has answered the complaint. Discovery is proceeding.

*Service Members Civil Relief Act and Housing and Economic Recovery Act Investigations and Litigation.* Multiple government officials have announced inquiries into JPMorgan Chase's procedures related to the Service Members Civil Relief Act ("SCRA") and the Housing and Economic Recovery Act of 2008 ("HERA"). These inquiries have been prompted by JPMorgan Chase's public statements about its SCRA and HERA compliance and actions to remedy certain instances in which JPMorgan Chase mistakenly charged active or recently-active military personnel mortgage interest and fees in excess of that permitted by SCRA and HERA, and in a number of instances, foreclosed on borrowers protected by SCRA and HERA. JPMorgan Chase has implemented a number of procedural enhancements and controls to strengthen its SCRA and HERA compliance. In addition, an individual borrower filed a nationwide class action in United States District Court for South Carolina against JPMorgan Chase alleging violations of the SCRA related to home loans. JPMorgan Chase agreed to pay $27 million plus attorneys' fees, in addition to reimbursements previously paid by JPMorgan Chase, to settle the class action. The settlement is subject to court approval.

*Washington Mutual Litigations.* Subsequent to JPMorgan Chase Bank, N.A.'s acquisition from the Federal Deposit Insurance Corporation ("FDIC") of substantially all of the assets and certain specified liabilities of Washington Mutual Bank ("Washington Mutual Bank"), in September 2008, Washington Mutual Bank's parent holding company, Washington Mutual, Inc. ("WMI") and its wholly-owned subsidiary, WMI Investment Corp. (together, the "Debtors"), both commenced voluntary cases under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Case"). In the Bankruptcy Case, the Debtors have asserted rights and interests in certain assets. The assets in dispute include principally the following: (a) approximately $4 billion in trust securities contributed by WMI to Washington Mutual Bank (the "Trust Securities"); (b) the right to tax refunds arising from overpayments attributable to operations of Washington Mutual Bank and its subsidiaries; (c) ownership of and other rights in approximately $4 billion that WMI contends are deposit accounts at Washington Mutual Bank and one of its subsidiaries; and (d) ownership of and rights in various other contracts and other assets (collectively, the "Disputed Assets").

WMI, JPMorgan Chase and the FDIC have since been involved in litigations over these and other claims pending in the Bankruptcy Court and the United States District Court for the District of Columbia.

In May 2010, WMI, JPMorgan Chase and the FDIC announced a global settlement agreement among themselves and significant creditor groups (the "Global Settlement Agreement"). The Global Settlement Agreement is incorporated into WMI's proposed Chapter 11 plan ("the Plan") that has been submitted to the Bankruptcy Court. If approved by the Bankruptcy Court, the Global Settlement would resolve numerous disputes among WMI, JPMorgan Chase, the FDIC in its capacity as receiver for Washington Mutual Bank and the FDIC in its corporate capacity, as well as those of significant creditor groups, including disputes relating to the Disputed Assets.

Other proceedings related to Washington Mutual's failure are also pending before the Bankruptcy Court. Among other actions, in July 2010, certain holders of the Trust Securities commenced an adversary proceeding in the Bankruptcy Court against JPMorgan Chase, WMI, and other entities seeking, among other relief, a declaratory judgment that WMI and JPMorgan Chase do not have any right, title or interest in the Trust Securities. In early January 2011, the Bankruptcy Court granted summary judgment to JPMorgan Chase and denied summary judgment to the plaintiffs in the Trust Securities adversary proceeding.

The Bankruptcy Court considered confirmation of the Plan, including the Global Settlement Agreement, in hearings in early December 2010. In early January 2011, the Bankruptcy Court issued an opinion in which it concluded that the Global Settlement Agreement is fair and reasonable, but that the Plan cannot be confirmed until the parties correct certain deficiencies, which include the scope of releases. None of these deficiencies relates to the Disputed Assets. The Equity Committee, which represents shareholders of WMI, has filed a petition seeking a direct appeal to the United

States Court of Appeals for the Third Circuit from so much of the Bankruptcy Court's ruling that found the settlement to be fair and reasonable. A revised Plan was filed with the Bankruptcy Court in February 2011, and the Bankruptcy Court has scheduled confirmation hearings for early June 2011. If the Global Settlement is effected and the Plan is confirmed, then JPMorgan Chase and JPMorgan Chase Bank, N.A. currently estimate that they will not incur net additional liabilities beyond those already reflected in its balance sheet for the numerous disputes covered by the Global Settlement.

Other proceedings related to Washington Mutual's failure are pending before the United States District Court for the District of Columbia and include a lawsuit brought by Deutsche Bank National Trust Company, initially against the FDIC, asserting an estimated $6 billion to $10 billion in damages based upon alleged breach of various mortgage securitization agreements and alleged violation of certain representations and warranties given by certain WMI subsidiaries in connection with those securitization agreements. The case includes assertions that JPMorgan Chase may have assumed liabilities relating to the mortgage securitization agreements. In April 2011, the District Court denied as premature motions by JPMorgan Chase and the FDIC that sought a ruling on whether the FDIC retained liability for Deutsche Bank's claims.

In addition, JPMorgan Chase was sued in an action originally filed in State Court in Texas (the "Texas Action") by certain holders of WMI common stock and debt of WMI and Washington Mutual Bank who seek unspecified damages alleging that JPMorgan Chase acquired substantially all of the assets of Washington Mutual Bank from the FDIC at an allegedly too-low price. The Texas Action was transferred to the United States District Court for the District of Columbia, which ultimately granted JPMorgan Chase's and the FDIC's motions to dismiss the complaint. Plaintiffs' appeal of this dismissal is pending.

* * *

In addition to the various legal proceedings discussed above, JPMorgan Chase Bank, N.A. and its subsidiaries are named as defendants or otherwise involved in a substantial number of other legal proceedings. JPMorgan Chase Bank, N.A. believes it has meritorious defenses to the claims asserted against it in its currently outstanding legal proceedings and it intends to defend itself vigorously in all such matters. Additional legal proceedings may be initiated from time to time in the future.

JPMorgan Chase Bank, N.A. has established reserves for several hundred of its currently outstanding legal proceedings. JPMorgan Chase Bank, N.A. accrues for potential liability arising from such proceedings when it is probable that such liability has been incurred and the amount of the loss can be reasonably estimated. JPMorgan Chase Bank, N.A. evaluates its outstanding legal proceedings each quarter to assess its litigation reserves, and makes adjustments in such reserves, upwards or downwards, as appropriate, based on management's best judgment after consultation with counsel. During the three months ended March 31, 2011 and 2010, JPMorgan Chase Bank, N.A. incurred $602 million and $2.3 billion, respectively, of litigation expense. There is no assurance that JPMorgan Chase Bank, N.A.'s litigation reserves will not need to be adjusted in the future.

In view of the inherent difficulty of predicting the outcome of legal proceedings, particularly where the claimants seek very large or indeterminate damages, or where the matters present novel legal theories, involve a large number of parties or are in early stages of discovery, JPMorgan Chase Bank, N.A. cannot state with confidence what the eventual outcome of the currently pending matters will be, what the timing of the ultimate resolution of these pending matters will be or what the eventual loss, fines, penalties or impact related to each currently pending matter may be. JPMorgan Chase Bank, N.A. believes, based upon its current knowledge, after consultation with counsel and after taking into account its current litigation reserves, that the legal proceedings currently pending against it should not have a material adverse effect on JPMorgan Chase Bank, N.A.'s consolidated financial condition. JPMorgan Chase Bank, N.A. notes, however, that in light of the uncertainties involved in such proceedings, there is no assurance the ultimate resolution of these matters will not significantly exceed the reserves it has currently accrued; as a result, the outcome of a particular matter may be material to JPMorgan Chase Bank, N.A.'s operating results for a particular period, depending on, among other factors, the size of the loss or liability imposed and the level of JPMorgan Chase Bank, N.A.'s income for that period.

## NOTE 26 – BUSINESS SEGMENTS

U.S. GAAP for business segments of an enterprise and related information defines the criteria by which management determines the number and nature of its "operating segments" (i.e., business segments) and sets forth the financial information that is required to be disclosed about these business segments. This information is accumulated, managed and discussed at the JPMorgan Chase level and not at the subsidiary level (i.e., JPMorgan Chase Bank, N.A.). For financial reporting purposes, JPMorgan Chase Bank, N.A. is viewed by JPMorgan Chase as a legal entity only; business segment financial information is not prepared for JPMorgan Chase Bank, N.A.

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of JPMorgan Chase Bank, National Association:

We have reviewed the accompanying consolidated balance sheet of JPMorgan Chase Bank, National Association and its subsidiaries as of March 31, 2011, and the related consolidated statements of income, of cash flows, and of changes in stockholder's equity and comprehensive income for the three-month periods ended March 31, 2011 and March 31, 2010. These consolidated interim financial statements are the responsibility of JPMorgan Chase Bank, National Association's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2010, and the related consolidated statements of income, changes in stockholder's equity and comprehensive income, and cash flows for the year then ended (not presented herein), and in our report dated March 24, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2010, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP

May 31, 2011

*PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017*

# Supplementary information

JPMorgan Chase Bank, National Association
(a wholly owned subsidiary of JPMorgan Chase & Co.)

## Selected quarterly financial data (unaudited)

| (in millions, except ratio data) | 2011 | 2010 | | | |
|---|---|---|---|---|---|
| As of or for the period ended | 1st | 4th | 3rd | 2nd | 1st |
| **Selected income statement data** | | | | | |
| Noninterest revenue | **$ 8,907** | $ 10,207 | $ 7,920 | $ 10,331 | $ 10,205 |
| Net interest income | **8,617** | 8,638 | 8,982 | 8,887 | 9,424 |
| **Total net revenue** | **17,524** | 18,845 | 16,902 | 19,218 | 19,629 |
| Provision for credit losses | **1,039** | 2,742 | 1,941 | 1,292 | 3,431 |
| Total noninterest expense | **12,781** | 12,947 | 11,655 | 12,150 | 12,679 |
| **Income before income tax expense** | **3,704** | 3,156 | 3,306 | 5,776 | 3,519 |
| Income tax expense | **1,003** | 570 | 751 | 1,825 | 785 |
| **Net income** | **$ 2,701** | $ 2,586 | $ 2,555 | $ 3,951 | $ 2,734 |
| **Selected ratios** | | | | | |
| Tier 1 capital | **9.4%** | 9.5% | 10.2% | 10.5% | 10.0% |
| Total capital | **13.4** | 13.5 | 14.3 | 14.6 | 14.1 |
| Tier 1 leverage | **5.7** | 5.7 | 6.3 | 6.1 | 6.0 |
| Tier 1 common capital[(a)] | **9.4** | 9.4 | 10.2 | 10.4 | 9.9 |
| **Selected balance sheet data (period-end)** | | | | | |
| Trading assets | **$ 371,498** | $ 358,150 | $ 355,575 | $ 293,927 | $ 325,713 |
| Securities | **327,764** | 310,762 | 334,447 | 307,380 | 339,922 |
| Loans | **558,481** | 553,004 | 559,220 | 559,219 | 566,013 |
| Allowance for credit losses | **(22,438)** | (23,126) | (23,147) | (23,363) | (24,473) |
| Total assets | **1,723,460** | 1,631,621 | 1,642,691 | 1,568,093 | 1,674,523 |
| Deposits | **1,093,004** | 1,019,993 | 984,210 | 969,042 | 1,020,582 |
| Long-term debt[(b)] | **64,511** | 67,584 | 69,565 | 74,967 | 82,977 |
| Total stockholder's equity | **123,579** | 123,217 | 132,170 | 130,905 | 127,370 |

(a) *The Tier 1 common ratio is Tier 1 common capital divided by risk-weighted assets. 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 JPMorgan Chase Bank, N.A.'s capital with the capital of other financial services companies. JPMorgan Chase Bank, N.A. uses Tier 1 common capital along with the other capital measures to assess and monitor its capital position.*

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

# Supplementary information

JPMorgan Chase Bank, National Association
(a wholly owned subsidiary of JPMorgan Chase & Co.)

## Selected annual financial data (unaudited)

| (in millions, except ratio data)<br>As of or for the year ended December 31, | 2010 | 2009 | 2008[c] | 2007 | 2006 |
|---|---|---|---|---|---|
| **Selected income statement data** | | | | | |
| Noninterest revenue | $ 38,663 | $ 38,397 | $ 33,229 | $ 31,630 | $ 29,191 |
| Net interest income | 35,931 | 39,591 | 31,517 | 23,137 | 18,135 |
| **Total net revenue** | 74,594 | 77,988 | 64,746 | 54,767 | 47,326 |
| Provision for credit losses | 9,406 | 22,712 | 14,704 | 4,672 | 1,809 |
| Provision for credit losses – accounting conformity[a] | — | — | 1,534 | — | — |
| Total noninterest expense | 49,431 | 43,391 | 37,284 | 33,998 | 31,909 |
| **Income from continuing operations before income tax expense** | 15,757 | 11,885 | 11,224 | 16,097 | 13,608 |
| Income tax expense | 3,931 | 3,539 | 2,711 | 5,365 | 4,487 |
| **Income from continuing operations** | 11,826 | 8,346 | 8,513 | 10,732 | 9,121 |
| Income from discontinued operations[b] | — | — | — | — | 798 |
| Income before extraordinary gain | 11,826 | 8,346 | 8,513 | 10,732 | 9,919 |
| Extraordinary gain[c] | — | 76 | 1,906 | — | — |
| **Net income** | $ 11,826 | $ 8,422 | $ 10,419 | $ 10,732 | $ 9,919 |
| **Selected ratios** | | | | | |
| Tier 1 capital | 9.5% | 9.5% | 8.7% | 8.3% | 8.2% |
| Total capital | 13.5 | 13.5 | 12.5 | 11.8 | 11.4 |
| Tier 1 leverage | 5.7 | 6.0 | 5.9 | 6.2 | 5.9 |
| Tier 1 common capital[d] | 9.4 | 9.4 | 8.6 | 8.1 | 8.1 |
| **Selected balance sheet data (period-end)** | | | | | |
| Trading assets | $ 358,150 | $ 302,589 | $ 365,365 | $ 390,459 | $ 284,282 |
| Securities | 310,762 | 347,873 | 199,744 | 82,511 | 88,487 |
| Loans | 553,004 | 558,424 | 662,312 | 461,662 | 421,833 |
| Allowance for credit losses | (23,126) | (24,701) | (17,809) | (7,864) | (5,693) |
| Total assets | 1,631,621 | 1,627,684 | 1,746,242 | 1,318,888 | 1,179,390 |
| Deposits | 1,019,993 | 1,024,036 | 1,055,765 | 772,087 | 640,466 |
| Long-term debt[e] | 67,584 | 91,526 | 104,738 | 88,175 | 71,869 |
| Total stockholder's equity | 123,217 | 127,294 | 128,767 | 106,346 | 96,010 |

(a) *Results for 2008 included an accounting conformity credit loss reserve provision related to the acquisition of Washington Mutual's banking operations.*

(b) *On October 1, 2006, JPMorgan Chase & Co. completed the exchange of selected corporate trust businesses for the consumer, business banking and middle-market banking businesses of The Bank of New York Company Inc. The financial performance of these corporate trust businesses were reported as discontinued operations.*

(c) *On September 25, 2008, JPMorgan Chase Bank, N.A. acquired the banking operations of Washington Mutual Bank. The Washington Mutual acquisition resulted in negative goodwill, and accordingly, JPMorgan Chase Bank, N.A. recorded an extraordinary gain. For additional information on this transaction, see Note 3 on pages 9–12 of JPMorgan Chase Bank, N.A.'s 2010 Annual Report.*

(d) *The Tier 1 common ratio is Tier 1 common capital divided by risk-weighted assets. 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 JPMorgan Chase Bank, N.A.'s capital with the capital of other financial services companies. JPMorgan Chase Bank, N.A. uses Tier 1 common capital along with the other capital measures to assess and monitor its capital position.*

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

## GLOSSARY OF TERMS

**Advised lines of credit:** An authorization which specifies the maximum amount of a credit facility JPMorgan Chase Bank, N.A. has made available to an obligor on a revolving but non-binding basis. The borrower receives written or oral advice of this facility. JPMorgan Chase Bank, N.A. may cancel this facility at any time.

**Beneficial interests issued by consolidated VIEs:** Represents the interest of third-party holders of debt/equity securities, or other obligations, issued by VIEs that JPMorgan Chase Bank, N.A. consolidates. The underlying obligations of the VIEs consist of short-term borrowings, commercial paper and long-term debt. The related assets consist of trading assets, available-for-sale securities, loans and other assets.

**Credit derivatives:** Contractual agreements that provide protection against a credit event on one or more referenced credits. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency or failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of a credit event.

**FASB:** Financial Accounting Standards Board.

**FDIC:** Federal Deposit Insurance Corporation.

**FICO:** Fair Isaac Corporation.

**Forward points:** Represents the interest rate differential between two currencies, which is either added to or subtracted from the current exchange rate (i.e., “spot rate”) to determine the forward exchange rate.

**IASB:** International Accounting Standards Board.

**Interchange income:** A fee that is paid to a credit card issuer in the clearing and settlement of a sales or cash advance transaction.

**Investment-grade:** An indication of credit quality based on JPMorgan Chase Bank, N.A.’s internal risk assessment system. “Investment grade” generally represents a risk profile similar to a rating of a “BBB-”/ “Baa3” or better, as defined by independent rating agencies.

**LLC:** Limited Liability Company.

**Loan-to-value (“LTV”) ratio:** For residential real estate loans, the relationship expressed as a percent, between the principal amount of a loan and the appraised value of the collateral (i.e., residential real estate) securing the loan.

*Origination date LTV ratio*
The LTV ratio at the origination date of the loan. Origination date LTV ratios are calculated based on the actual appraised values of collateral (i.e., loan-level data) at the origination date.

*Current estimated LTV ratio*
An estimate of the LTV as of a certain date. The current estimated LTV ratios are calculated using estimated collateral values derived from a nationally recognized home price index measured at the MSA level. These MSA-level home price indices comprise actual data to the extent available and forecasted data where actual data is not available. As a result, the estimated collateral values used to calculate these ratios do not represent actual appraised loan-level collateral values; as such, the resulting LTV ratios are necessarily imprecise and should therefore be viewed as estimates.

*Combined LTV ratio*
The LTV ratio considering all lien positions related to the property. Combined LTV ratios are used for junior lien home equity products.

**Master netting agreement:** An agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract.

**Mortgage product types:**

*Alt-A*
Alt-A loans are generally higher in credit quality than subprime loans but have characteristics that would disqualify the borrower from a traditional prime loan. Alt-A lending characteristics may include one or more of the following: (i) limited

documentation; (ii) high combined-loan-to-value ("CLTV") ratio; (iii) loans secured by non-owner occupied properties; or (iv) debt-to-income ratio above normal limits. Perhaps the most important characteristic is limited documentation. A substantial proportion of traditional Alt-A loans are those where a borrower does not provide complete documentation of his or her assets or the amount or source of his or her income.

*Option ARMs*
The option ARM real estate loan product is an adjustable-rate mortgage loan that provides the borrower with the option each month to make a fully amortizing, interest-only, or minimum payment. The minimum payment on an option ARM loan is based on the interest rate charged during the introductory period. This introductory rate is usually significantly below the fully indexed rate. The fully indexed rate is calculated using an index rate plus a margin. Once the introductory period ends, the contractual interest rate charged on the loan increases to the fully indexed rate and adjusts monthly to reflect movements in the index. The minimum payment is typically insufficient to cover interest accrued in the prior month, and any unpaid interest is deferred and added to the principal balance of the loan. Option ARM loans are subject to payment recast, which converts the loan to a variable-rate fully amortizing loan upon meeting specified loan balance and anniversary date triggers.

*Prime*
Prime mortgage loans generally have low default risk and are made to borrowers with good credit records and a monthly income that is at least three to four times greater than their monthly housing expense (mortgage payments plus taxes and other debt payments). These borrowers provide full documentation and generally have reliable payment histories.

*Subprime*
Subprime loans are designed for customers with one or more high risk characteristics, including but not limited to: (i) unreliable or poor payment histories; (ii) a high LTV ratio of greater than 80% (without borrower-paid mortgage insurance); (iii) a high debt-to-income ratio; (iv) an occupancy type for the loan is other than the borrower's primary residence; or (v) a history of delinquencies or late payments on the loan.

**NA:** Data is not applicable or available for the period presented.

**Net charge-off rate:** Represents net charge-offs (annualized) divided by average retained loans for the reporting period.

**OPEB:** Other postretirement employee benefits.

**Principal transactions:** Predominantly reflects realized and unrealized gains and losses from trading activities (including physical commodities inventories that generally are accounted for at the lower of cost or fair value) and changes in fair value associated with financial instruments held predominantly by the investment banking business for which the fair value option was elected.

**Purchased credit-impaired ("PCI") loans:** Acquired loans deemed to be credit-impaired under the FASB guidance for PCI loans. The guidance allows purchasers to aggregate credit-impaired loans acquired in the same fiscal quarter into one or more pools, provided that the loans have common risk characteristics (e.g., FICO score, geographic location). A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Wholesale loans are determined to be credit-impaired if they meet the definition of an impaired loan under U.S. GAAP at the acquisition date. Consumer loans are determined to be credit-impaired based on specific risk characteristics of the loan, including product type, LTV ratios, FICO scores, and past due status.

**Retained loans:** Loans that are held-for-investment excluding loans held-for-sale and loans at fair value.

**Risk-weighted assets ("RWA")**: Risk-weighted assets 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 applicable 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. Risk-weighted assets also incorporate a measure for the market risk related to applicable trading assets-debt and equity instruments, and foreign exchange and commodity derivatives. The resulting risk-weighted values for each of the risk categories are then aggregated to determine total risk-weighted assets.

**Troubled debt restructuring ("TDR"):** Occurs when JPMorgan Chase Bank, N.A. modifies the original terms of a loan agreement by granting a concession to a borrower that is experiencing financial difficulty.

**Unaudited:** Financial statements and information that have not been subjected to auditing procedures sufficient to permit an independent certified public accountant to express an opinion.

**U.S. GAAP:** Accounting principles generally accepted in the United States of America.

**U.S. government-sponsored enterprise obligations:** Obligations of agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

**U.S. Treasury:** U.S. Department of the Treasury.

**Washington Mutual transaction:** On September 25, 2008, JPMorgan Chase Bank, N.A. acquired the banking operations of Washington Mutual Bank ("Washington Mutual") from the FDIC. For additional information, see Note 3 on pages 9–12 of JPMorgan Chase Bank, N.A.'s 2010 Annual Financial Statements.

# JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

(a wholly-owned subsidiary of JPMorgan Chase & Co.)

# CONSOLIDATED FINANCIAL STATEMENTS

For the three years ended December 31, 2010

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JPMorgan Chase Bank, National Association
(a wholly owned subsidiary of JPMorgan Chase & Co.)

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# Report of independent registered public accounting firm

**Report of Independent Registered Public Accounting Firm**

**To the Board of Directors and Stockholder of JPMorgan Chase Bank, National Association:**

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in stockholder's equity and comprehensive income and cash flows present fairly, in all material respects, the financial position of JPMorgan Chase Bank, National Association and its subsidiaries (the "Bank") at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 24, 2010

**PricewaterhouseCoopers LLP • 300 Madison Avenue • New York, NY 10017**

# Consolidated statements of income

JPMorgan Chase Bank, National Association
(a wholly owned subsidiary of JPMorgan Chase & Co.)

| Year ended December 31, (in millions) | **2010** | 2009 | 2008 |
|---|---|---|---|
| **Revenue** | | | |
| Investment banking fees | **$ 3,104** | $ 3,534 | $ 2,675 |
| Principal transactions | **7,824** | 8,688 | 5,016 |
| Lending- and deposit-related fees | **6,328** | 7,033 | 5,073 |
| Asset management, administration and commissions | **9,365** | 9,000 | 9,594 |
| Securities gains[(a)] | **2,975** | 1,369 | 1,328 |
| Mortgage fees and related income | **3,219** | 3,080 | 3,557 |
| Credit card income | **3,386** | 4,254 | 3,569 |
| Other income | **2,462** | 1,439 | 2,417 |
| **Noninterest revenue** | **38,663** | 38,397 | 33,229 |
| Interest income | **42,951** | 50,093 | 57,437 |
| Interest expense | **7,020** | 10,502 | 25,920 |
| **Net interest income** | **35,931** | 39,591 | 31,517 |
| **Total net revenue** | **74,594** | 77,988 | 64,746 |
| **Provision for credit losses** | **9,406** | 22,712 | 16,238 |
| **Noninterest expense** | | | |
| Compensation expense | **20,811** | 19,791 | 17,122 |
| Occupancy expense | **3,226** | 3,250 | 2,659 |
| Technology, communications and equipment expense | **4,155** | 4,029 | 3,663 |
| Professional and outside services | **4,728** | 4,335 | 4,277 |
| Marketing | **786** | 621 | 631 |
| Other expense | **15,191** | 10,356 | 8,091 |
| Amortization of intangibles | **534** | 599 | 612 |
| Merger costs | **—** | 410 | 229 |
| **Total noninterest expense** | **49,431** | 43,391 | 37,284 |
| **Income before income tax expense and extraordinary gain** | **15,757** | 11,885 | 11,224 |
| Income tax expense | **3,931** | 3,539 | 2,711 |
| **Income before extraordinary gain** | **11,826** | 8,346 | 8,513 |
| Extraordinary gain | **—** | 76 | 1,906 |
| **Net income** | **$11,826** | $ 8,422 | $ 10,419 |

(a) The following other-than-temporary impairment losses are included in securities gains for the periods presented.

| Year ended December 31, (in millions) | **2010** | 2009 |
|---|---|---|
| Total other-than-temporary impairment losses | **$ —** | $ (506) |
| Losses recorded in/(reclassified from) other comprehensive income | **(6)** | 368 |
| **Total credit losses recognized in income** | **$ (6)** | $ (138) |

The Notes to Consolidated Financial Statements are an integral part of these statements.

# Consolidated balance sheets

JPMorgan Chase Bank, National Association
(a wholly owned subsidiary of JPMorgan Chase & Co.)

| December 31, (in millions, except share data) | 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | **$ 26,604** | $ 25,179 |
| Deposits with banks | **20,451** | 61,851 |
| Federal funds sold and securities purchased under resale agreements (included **$19,876** and $20,055 at fair value) | **175,166** | 165,696 |
| Securities borrowed (included **$13,961** and $7,032 at fair value) | **57,370** | 45,320 |
| Trading assets (included assets pledged of **$25,690** and $21,691) | **358,150** | 302,589 |
| Securities (included **$310,745** and $347,848 at fair value and assets pledged of **$87,107** and $140,995) | **310,762** | 347,873 |
| Loans (included **$973** and $553 at fair value) | **553,004** | 558,424 |
| Allowance for loan losses | **(22,435)** | (23,766) |
| **Loans, net of allowance for loan losses** | **530,569** | 534,658 |
| Accrued interest and accounts receivable (included **zero** and $2,271 at fair value) | **35,985** | 35,650 |
| Premises and equipment | **10,987** | 9,755 |
| Goodwill | **27,348** | 27,510 |
| Mortgage servicing rights | **13,440** | 15,342 |
| Other intangible assets | **1,967** | 2,959 |
| Other assets (included **$8,139** and $1,339 at fair value and assets pledged of **$1,305** and $1,416) | **62,822** | 53,302 |
| **Total assets**[(a)] | **$ 1,631,621** | $ 1,627,684 |
| **Liabilities** | | |
| Deposits (included **$4,327** and $4,455 at fair value) | **$ 1,019,993** | $ 1,024,036 |
| Federal funds purchased and securities loaned or sold under repurchase agreements (included **$2,555** and $2,222 at fair value) | **178,552** | 193,996 |
| Other borrowed funds (included **$7,125** and $4,761 at fair value) | **27,403** | 43,929 |
| Trading liabilities | **124,438** | 109,508 |
| Accounts payable and other liabilities (included the allowance for lending-related commitments of **$691** and $935 and **$127** and $5 at fair value) | **68,619** | 51,842 |
| Beneficial interests issued by consolidated variable interest entities (included **$354** and $736 at fair value) | **26,099** | 8,400 |
| Long-term debt (included **$20,819** and $27,865 at fair value) | **63,300** | 68,679 |
| **Total liabilities**[(a)] | **1,508,404** | 1,500,390 |
| Commitments and contingencies (see Note 29 on page 115 of these Consolidated Financial Statements) | | |
| **Stockholder's equity** | | |
| Preferred stock ($1 par value; authorized 15,000,000 shares; issued **zero** shares at December 31, 2010, and 2009) | **—** | — |
| Common stock ($12 par value; authorized 150,000,000 shares; issued **148,761,243** shares at December 31, 2010, and 2009) | **1,785** | 1,785 |
| Capital surplus | **76,771** | 78,377 |
| Retained earnings | **41,785** | 45,494 |
| Accumulated other comprehensive income | **2,876** | 1,638 |
| **Total stockholder's equity** | **123,217** | 127,294 |
| **Total liabilities and stockholder's equity** | **$ 1,631,621** | $ 1,627,684 |

(a) The following table presents information on assets and liabilities related to VIEs that are consolidated by JPMorgan Chase Bank, N.A. at December 31, 2010 and 2009. The difference between total VIE assets and liabilities represents JPMorgan Chase Bank, N.A.'s interests in those entities, which were eliminated in consolidation.

| December 31, (in millions) | 2010 | 2009 |
|---|---|---|
| **Assets** | | |
| Trading assets | **$ 2,947** | $ 2,411 |
| Loans | **27,467** | 6,367 |
| All other assets | **1,520** | 3,426 |
| **Total assets** | **$ 31,934** | $ 12,204 |
| **Liabilities** | | |
| Beneficial interests issued by consolidated variable interest entities | **$ 26,099** | $ 8,400 |
| All other liabilities | **1,661** | 1,236 |
| **Total liabilities** | **$ 27,760** | $ 9,636 |

The assets of the consolidated VIEs are used to settle the liabilities of those entities. The holders of the beneficial interests do not have recourse to the general credit of JPMorgan Chase Bank, N.A. At December 31, 2010, JPMorgan Chase Bank, N.A. provided limited program-wide credit enhancement of $2.0 billion related to its JPMorgan Chase Bank, N.A.-administered multi-seller conduits. For further discussion, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

The Notes to Consolidated Financial Statements are an integral part of these statements.

# Consolidated statements changes in stockholder's equity and comprehensive income

JPMorgan Chase Bank, National Association
(a wholly owned subsidiary of JPMorgan Chase & Co.)

| Year ended December 31, (in millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Common stock** | | | |
| Balance at January 1 and December 31 | **$ 1,785** | $ 1,785 | $ 1,785 |
| **Capital surplus** | | | |
| Balance at January 1 | **78,377** | 77,254 | 62,439 |
| Cash capital contribution from JPMorgan Chase & Co. | **594** | 704 | 14,485 |
| Adjustments to capital due to transactions with JPMorgan Chase & Co. | **(927)** | 419 | 330 |
| Other | **(1,273)** | — | — |
| **Balance at December 31** | **76,771** | 78,377 | 77,254 |
| **Retained earnings** | | | |
| Balance at January 1 | **45,494** | 52,309 | 42,808 |
| Cumulative effect of change in accounting principles | **19** | — | — |
| Net income | **11,826** | 8,422 | 10,419 |
| Cash dividends paid to JPMorgan Chase & Co. | **(15,500)** | (15,200) | (1,000) |
| Net internal legal entity mergers | **(54)** | (37) | 82 |
| **Balance at December 31** | **41,785** | 45,494 | 52,309 |
| **Accumulated other comprehensive income/(loss)** | | | |
| Balance at January 1 | **1,638** | (2,581) | (686) |
| Cumulative effect of change in accounting principles | **(38)** | — | — |
| Other comprehensive income/(loss) | **1,276** | 4,219 | (1,895) |
| **Balance at December 31** | **2,876** | 1,638 | (2,581) |
| **Total stockholder's equity** | **$ 123,217** | $ 127,294 | $ 128,767 |
| **Comprehensive income** | | | |
| Net income | **$ 11,826** | $ 8,422 | $ 10,419 |
| Other comprehensive income/(loss) | **1,276** | 4,219 | (1,895) |
| **Comprehensive income** | **$ 13,102** | $ 12,641 | $ 8,524 |

The Notes to Consolidated Financial Statements are an integral part of these statements.

# Consolidated statements of cash flows

JPMorgan Chase Bank, National Association
(a wholly owned subsidiary of JPMorgan Chase & Co.)

| Year ended December 31, (in millions) | **2010** | 2009 | 2008 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | **$ 11,826** | $ 8,422 | $ 10,419 |
| Adjustments to reconcile net income to net cash (used in)/provided by operating activities: | | | |
| Provision for credit losses | **9,406** | 22,712 | 16,238 |
| Depreciation and amortization | **3,113** | 2,707 | 2,482 |
| Amortization of intangibles | **534** | 599 | 612 |
| Deferred tax benefit | **(1,951)** | (3,339) | (2,930) |
| Investment securities gains | **(2,975)** | (1,369) | (1,328) |
| Originations and purchases of loans held-for-sale | **(37,086)** | (21,976) | (34,749) |
| Proceeds from sales, securitizations and paydowns of loans held-for-sale | **40,054** | 32,655 | 37,345 |
| Net change in: | | | |
| Trading assets | **(57,261)** | 96,801 | (29,251) |
| Securities borrowed | **(12,019)** | (2,580) | 1,504 |
| Accrued interest and accounts receivable | **2,287** | 8,742 | (8,353) |
| Other assets | **(18,584)** | 29,590 | (44,437) |
| Trading liabilities | **13,687** | (66,404) | 40,806 |
| Accounts payable and other liabilities | **22,545** | (14,974) | (9,937) |
| Other operating adjustments | **6,764** | 3,187 | (5,487) |
| **Net cash (used in)/provided by operating activities** | **(19,660)** | 94,773 | (27,066) |
| **Investing activities** | | | |
| Net change in: | | | |
| Deposits with banks | **41,454** | 65,730 | (112,355) |
| Federal funds sold and securities purchased under resale agreements | **(9,274)** | 33,530 | (3,909) |
| Held-to-maturity securities: | | | |
| Proceeds | **8** | 9 | 10 |
| Available-for-sale securities: | | | |
| Proceeds from maturities | **99,807** | 82,634 | 44,168 |
| Proceeds from sales | **115,985** | 110,148 | 94,703 |
| Purchases | **(175,145)** | (331,539) | (242,086) |
| Proceeds from sales and securitizations of loans held-for-investment | **18,192** | 28,575 | 16,230 |
| Other changes in loans, net | **(5,896)** | 49,455 | (37,533) |
| Net cash (used)/received in business acquisitions or dispositions | **(1,576)** | 3 | 16,521 |
| Net maturities/(purchases) of asset-backed commercial paper guaranteed by the FRBB | **—** | 130 | (130) |
| All other investing activities, net | **(238)** | (642) | (2,065) |
| **Net cash provided by/(used in) investing activities** | **83,317** | 38,033 | (226,446) |
| **Financing activities** | | | |
| Net change in: | | | |
| Deposits | **(6,965)** | (68,668) | 192,117 |
| Federal funds purchased and securities loaned or sold under repurchase agreements | **(15,475)** | 13,395 | 57,415 |
| Other borrowed funds | **1,460** | (45,087) | (9,022) |
| Beneficial interests issued by consolidated variable interest entities | **(1,015)** | (2,197) | (55) |
| Proceeds from long-term borrowings and trust preferred capital debt securities | **13,286** | 16,737 | 23,120 |
| Payments of long-term borrowings and trust preferred capital debt securities | **(38,020)** | (32,117) | (36,479) |
| Cash capital contribution from JPMorgan Chase & Co. | **594** | 704 | 14,485 |
| Dividends paid to JPMorgan Chase & Co. | **(15,500)** | (15,200) | (1,000) |
| All other financing activities, net | **(909)** | (1,023) | 51 |
| **Net cash (used in)/provided by financing activities** | **(62,544)** | (133,456) | 240,632 |
| Effect of exchange rate changes on cash and due from banks | **312** | 327 | (314) |
| Net increase /(decrease) in cash and due from banks | **1,425** | (323) | (13,194) |
| Cash and due from banks at the beginning of the year | **25,179** | 25,502 | 38,696 |
| **Cash and due from banks at the end of the year** | **$ 26,604** | $ 25,179 | $ 25,502 |
| Cash interest paid | **$ 7,269** | $ 11,657 | $ 29,023 |
| Cash income taxes paid, net[a] | **6,117** | 6,664 | 5,803 |

Note: Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated noncash assets and liabilities of $22.6 billion and $22.7 billion, respectively.

In 2008, the fair values of noncash assets acquired and liabilities assumed in the Washington Mutual transaction were $260.3 billion and $260.1 billion, respectively.

(a) Includes $3.7 billion, $4.6 billion and $4.1 billion paid to JPMorgan Chase & Co. in 2010, 2009 and 2008, respectively.

The Notes to Consolidated Financial Statements are an integral part of these statements.

## Note 1 – Basis of presentation

JPMorgan Chase Bank, National Association ("JPMorgan Chase Bank, N.A.") is a wholly-owned bank subsidiary of JPMorgan Chase & Co. ("JPMorgan Chase"), which is a leading global financial services firm and one of the largest banking institutions in the United States of America ("U.S."), with operations in more than 60 countries. JPMorgan Chase Bank, N.A. is a national banking association that is chartered by the Office of the Comptroller of the Currency ("OCC"), a bureau of the United States Department of the Treasury. JPMorgan Chase Bank, N.A.'s main office is located in Columbus, Ohio, and it has branches in 23 states. JPMorgan Chase Bank, N.A. offers a wide range of banking services to its customers both in the U.S. and internationally, including investment banking, financial services for consumers, small business and commercial banking, financial transaction processing and asset management. Under the J.P. Morgan and Chase brands, JPMorgan Chase Bank, N.A. serves millions of customers in the U.S. and many of the world's most prominent corporate, institutional and governmental clients.

The accounting and financial reporting policies of JPMorgan Chase Bank, N.A. and its subsidiaries conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities.

Certain amounts in prior periods have been reclassified to conform to the current presentation.

**Consolidation**

The Consolidated Financial Statements include the accounts of JPMorgan Chase Bank, N.A. and other entities in which JPMorgan Chase Bank, N.A. has a controlling financial interest. All material intercompany balances and transactions have been eliminated. JPMorgan Chase Bank, N.A. determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity ("VIE").

*Voting Interest Entities*

Voting interest entities are entities that have sufficient equity and provide the equity investors voting rights that enable them to make significant decisions relating to the entity's operations. For these types of entities, JPMorgan Chase Bank, N.A.'s determination of whether it has a controlling interest is primarily based on the amount of voting equity interests held. Entities in which JPMorgan Chase Bank, N.A. has a controlling financial interest, through ownership of the majority of the entities' voting equity interests, or through other contractual rights that give JPMorgan Chase Bank, N.A. control, are consolidated by JPMorgan Chase Bank, N.A.

Investments in companies in which JPMorgan Chase Bank, N.A. has significant influence over operating and financing decisions (but does not own a majority of the voting equity interests) are accounted for (i) in accordance with the equity method of accounting (which requires JPMorgan Chase Bank, N.A. to recognize its proportionate share of the entity's net earnings), or (ii) at fair value if the fair value option was elected at the inception of JPMorgan Chase Bank, N.A.'s investment. These investments are generally included in other assets, with income or loss included in other income.

JPMorgan Chase Bank, N.A.-sponsored asset management funds are generally structured as limited partnerships or limited liability companies, which are typically considered voting interest entities. For the significant majority of these entities, JPMorgan Chase Bank, N.A. is the general partner or managing member but the non-affiliated partners or members have the ability to remove JPMorgan Chase Bank, N.A. as the general partner or managing member without cause (i.e., kick-out rights), based on a simple majority vote, or the non-affiliated partners or members have rights to participate in important decisions. Accordingly, JPMorgan Chase Bank, N.A. does not consolidate these funds. In the limited cases where the non-affiliated partners or members do not have substantive kick-out or participating rights, JPMorgan Chase Bank, N.A. consolidates the funds.

JPMorgan Chase Bank, N.A.'s investment companies make investments in both public and private entities, including investments in buyouts, growth equity and venture opportunities. These investments are accounted for under investment company guidelines and accordingly, irrespective of the percentage of equity ownership interests held, are carried on the Consolidated Balance Sheets at fair value, and are recorded in other assets.

*Variable Interest Entities*

VIEs are entities that, by design, either (1) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity.

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

On January 1, 2010, JPMorgan Chase Bank, N.A. implemented new consolidation accounting guidance related to VIEs. The new guidance eliminates the concept of qualified special purpose entities ("QSPEs") that were previously exempt from consolidation, and introduces a new framework for consolidation of VIEs. The primary beneficiary of a VIE is required to consolidate the assets and liabilities of the VIE. Under the new guidance, the primary beneficiary is the party that has both (1) the power to direct the activities of an entity that most significantly impact the VIE's economic performance; and (2) through its interests in the VIE, the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

To assess whether JPMorgan Chase Bank, N.A. has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, JPMorgan Chase Bank, N.A. considers all the facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes, first, identifying the activities that most significantly impact the VIE's economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE (such as asset managers, collateral managers, servicers, or owners of call options or liquidation rights over the VIE's assets) or have the right to unilaterally remove those decision-makers are deemed to have the power to direct the activities of a VIE.

To assess whether JPMorgan Chase Bank, N.A. has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, JPMorgan Chase Bank, N.A. considers all of its economic interests, including debt and equity investments, servicing fees, and derivative or other arrangements deemed to be variable interests in the VIE. This assessment requires that JPMorgan Chase Bank, N.A. apply judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE's capital structure; and the reasons why the interests are held by JPMorgan Chase Bank, N.A.

JPMorgan Chase Bank, N.A. performs on-going reassessments of: (1) whether entities previously evaluated under the majority voting-interest framework have become VIEs, based on certain events, and therefore subject to the VIE consolidation framework; and (2) whether changes in the facts and circumstances regarding JPMorgan Chase Bank, N.A.'s involvement with a VIE cause JPMorgan Chase Bank, N.A.'s consolidation conclusion to change.

For further details regarding JPMorgan Chase Bank, N.A.'s application of the accounting guidance effective January 1, 2010, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

The Financial Accounting Standards Board ("FASB") issued an amendment which deferred the requirements of the accounting guidance for certain investment funds, including mutual funds, private equity funds and hedge funds. For the funds to which the deferral applies, JPMorgan Chase Bank, N.A. continues to apply other existing authoritative guidance to determine whether such funds should be consolidated.

Assets held for clients in an agency or fiduciary capacity by JPMorgan Chase Bank, N.A. are not assets of JPMorgan Chase Bank, N.A. and are not included in the Consolidated Balance Sheets.

For reporting periods prior to January 1, 2010, there were two different accounting frameworks applicable to SPEs: The qualifying special purpose entity ("QSPE") framework and the VIE framework. The applicable framework depended on the nature of the entity and JPMorgan Chase Bank, N.A.'s relation to that entity. The QSPE framework was applicable when an entity sold financial assets to an SPE meeting certain defined criteria that were designed to ensure that the activities of the entity were essentially predetermined at the inception of the vehicle and that the transferor of the financial assets could not exercise control over the entity and the assets therein. QSPEs were not consolidated by the transferor or other counterparties as long as they did not have the unilateral ability to liquidate or to cause the entity to no longer meet the QSPE criteria. JPMorgan Chase Bank, N.A.'s securitizations of residential and commercial mortgages, credit card, automobile and student loans generally were evaluated using the QSPE framework. For further details, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

Additionally, the other SPEs were evaluated using the VIE framework, which was based on a risk and reward approach, and required a variable interest holder (i.e., an investor or other counterparty to a VIE) to consolidate the VIE if that party absorbed a majority of the expected losses of the VIE, received the majority of the expected residual returns of the VIE, or both. In making the determination of whether JPMorgan Chase Bank, N.A. should consolidate a VIE, JPMorgan Chase Bank, N.A. evaluated the VIE's design, capital structure and relationships among the variable interest holders. If JPMorgan Chase Bank, N.A. could not identify the party that consolidates a VIE through a qualitative analysis, JPMorgan Chase Bank, N.A. performed a quantitative analysis, which computed and allocated expected losses or residual returns to variable interest holders. The allocation of expected cash flows in this analysis was based on the relative rights and preferences of each variable interest holder in the VIE's capital structure. JPMorgan Chase Bank, N.A. reconsidered whether it was the primary beneficiary of a VIE only when certain defined events occurred.

**Use of estimates in the preparation of consolidated financial statements**

The preparation of Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expense, and disclosures of contingent assets and liabilities. Actual results could be different from these estimates.

**Foreign currency translation**

JPMorgan Chase Bank, N.A. revalues assets, liabilities, revenue and expense denominated in non-U.S. currencies into U.S. dollars using applicable exchange rates.

Gains and losses relating to translating functional currency financial statements for U.S. reporting are included in other comprehensive income/(loss) within stockholder's equity. Gains and losses relating to nonfunctional currency transactions, including non-U.S. operations where the functional currency is the U.S. dollar, are reported in the Consolidated Statements of Income.

**Statements of cash flows**

For JPMorgan Chase Bank, N.A.'s Consolidated Statements of Cash Flows, cash is defined as those amounts included in cash and due from banks.

**Significant accounting policies**

The following table identifies JPMorgan Chase Bank, N.A.'s other significant accounting policies and the Note and page where a detailed description of each policy can be found.

| | | |
|---|---|---|
| Business changes and developments | Note 3 | Page 9 |
| Fair value measurement | Note 4 | Page 12 |
| Fair value option | Note 5 | Page 29 |
| Derivative instruments | Note 7 | Page 33 |
| Noninterest revenue | Note 8 | Page 41 |
| Interest income and interest expense | Note 9 | Page 42 |
| Pension and other postretirement employee benefit plans | Note 10 | Page 42 |
| Employee stock-based incentives | Note 11 | Page 48 |
| Securities | Note 13 | Page 52 |
| Securities financing activities | Note 14 | Page 57 |
| Loans | Note 15 | Page 58 |
| Allowance for credit losses | Note 16 | Page 77 |
| Variable interest entities | Note 17 | Page 82 |
| Goodwill and other intangible assets | Note 18 | Page 98 |
| Premises and equipment | Note 19 | Page 100 |
| Long-term debt | Note 22 | Page 102 |
| Income taxes | Note 25 | Page 106 |
| Off–balance sheet lending-related financial instruments, guarantees and other commitments | Note 28 | Page 109 |
| Litigation | Note 30 | Page 116 |

## Note 2 – Accounting and reporting developments

**Accounting for transfers of financial assets and consolidation of variable interest entities**

Effective January 1, 2010, JPMorgan Chase Bank, N.A. implemented new accounting guidance that amends the accounting for the transfers of financial assets and the consolidation of VIEs. Upon adoption of the new guidance, JPMorgan Chase Bank, N.A. consolidated its JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust, JPMorgan Chase Bank, N.A.-administered multi-seller conduits, and certain mortgage and other consumer loan securitization entities. The FASB deferred the requirements of the new accounting guidance for VIEs for certain investment funds, including mutual funds, private equity funds and hedge funds, until the FASB reconsiders the appropriate accounting guidance for these funds. For additional information about the impact of the adoption of the new accounting guidance on January 1, 2010, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

**Fair value measurements and disclosures**

In January 2010, the FASB issued guidance that requires new disclosures, and clarifies existing disclosure requirements, about fair value measurements. The clarifications and the requirement to separately disclose transfers of instruments between level 1 and level 2 of the fair value hierarchy are effective for interim reporting periods beginning after December 15, 2009; JPMorgan Chase Bank, N.A. adopted this guidance in the first quarter of 2010. For additional information about the impact of the adoption of the new fair value measurements guidance, see Note 4 on pages 12–29 of these Consolidated Financial Statements. In addition, a new requirement to provide purchases, sales, issuances and settlements in the level 3 rollforward on a gross basis is effective for fiscal years beginning after December 15, 2010.

**Subsequent events**

In May 2009, the FASB issued guidance that established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The guidance was effective for interim or annual financial periods ending after June 15, 2009. JPMorgan Chase Bank, N.A. adopted the guidance in the second quarter of 2009. In February 2010, the FASB issued amendments to the guidance that was effective for JPMorgan Chase Bank, N.A. immediately upon issuance. The application of the guidance and amendments did not have any impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or financial performance.

**Accounting for certain embedded credit derivatives**

In March 2010, the FASB issued guidance clarifying the circumstances in which a credit derivative embedded in beneficial interests in securitized financial assets is required to be separately accounted for as a derivative instrument. The guidance is effective for the first fiscal quarter beginning after June 15, 2010, with early adoption permitted. Upon adoption, the new guidance permits the election of the fair value option for beneficial interests in securitized financial assets. JPMorgan Chase Bank, N.A. adopted the new guidance prospectively, effective July 1, 2010. The adoption of the guidance did not have a material impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or financial performance. For additional information about the impact of the adoption of the new guidance, see Note 7 on pages 33–41 of these Consolidated Financial Statements.

**Accounting for troubled debt restructurings of purchased credit-impaired loans that are part of a pool**

In April 2010, the FASB issued guidance that amends the accounting for troubled debt restructurings of purchased credit-impaired loans accounted for within a pool. The guidance clarifies that modified PCI loans should not be removed from a pool even if the modification would otherwise be considered a TDR. Additionally, the guidance clarifies that the impact of modifications should be included in evaluating whether a pool of loans is impaired. The guidance was effective for JPMorgan Chase Bank, N.A. beginning in the third quarter of 2010, and is to be applied prospectively. The guidance is consistent with JPMorgan Chase Bank, N.A.'s previously existing accounting practice and, therefore, had no impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or financial performance.

**Disclosures about the credit quality of financing receivables and the allowance for credit losses**

In July 2010, the FASB issued guidance that requires enhanced disclosures surrounding the credit characteristics of JPMorgan Chase Bank, N.A.'s loan portfolio. Under the new guidance, JPMorgan Chase Bank, N.A. is required to disclose its accounting policies, the methods it uses to determine the components of the allowance for credit losses, and qualitative and quantitative information about the credit risk inherent in the loan portfolio, including additional information on certain types of loan modifications. For JPMorgan Chase Bank, N.A., the new disclosures became effective for the 2010 Annual Financial Statements. The adoption of this guidance only affects JPMorgan Chase Bank, N.A.'s disclosures of financing receivables and not its Consolidated Balance Sheets or financial performance. In January 2011, the FASB issued guidance that deferred the effective date of certain disclosures in this guidance regarding TDRs, pending resolution on the FASB's project to amend the scope of TDR guidance.

## Note 3 – Business changes and developments

**Acquisition of the banking operations of Washington Mutual Bank**

On September 25, 2008, JPMorgan Chase Bank, N.A. acquired the banking operations of Washington Mutual Bank ("Washington Mutual") from the Federal Deposit Insurance Corporation ("FDIC") for $1.9 billion. The acquisition expanded JPMorgan Chase Bank, N.A.'s consumer branch network into several states, including California, Florida Washington, Georgia, Idaho, Nevada and Oregon and created the third largest branch network in the U.S. The acquisition also extended the reach of JPMorgan Chase Bank, N.A.'s business banking, commercial banking, credit card, consumer lending and wealth management businesses. The acquisition was accounted for under the purchase method of accounting, which requires that the assets and liabilities of Washington Mutual be initially reported at fair value.

In 2008, the $1.9 billion purchase price was preliminarily allocated to the Washington Mutual assets acquired and liabilities assumed, which resulted in negative goodwill. In accordance with U.S. GAAP for business combinations that was in effect at the time of the acquisition, noncurrent nonfinancial assets acquired in the Washington Mutual transaction that were not held-for-sale, such as the premises and equipment and other intangibles, were written down against the negative goodwill. The negative goodwill that remained after writing down the nonfinancial assets was recognized as an extraordinary gain of $1.9 billion at December 31, 2008. The final total extraordinary gain that resulted from the Washington Mutual transaction was $2.0 billion.

The final summary computation of the purchase price and the allocation of the final total purchase price of $1.9 billion to the net assets acquired of Washington Mutual – based on their respective fair values as of September 25, 2008, and the resulting final negative goodwill of $2.0 billion are presented below.

| September 25, 2008 (in millions) | | |
|---|---|---|
| **Purchase price** | | |
| Purchase price | | $ 1,938 |
| Direct acquisition costs | | 3 |
| **Total purchase price** | | 1,941 |
| **Net assets acquired:** | | |
| Washington Mutual's net assets before fair value adjustments | $ 39,186 | |
| Washington Mutual's goodwill and other intangible assets | (7,566) | |
| **Subtotal** | 31,620 | |
| **Adjustments to reflect assets acquired at fair value:** | | |
| Securities | (16) | |
| Trading assets | (591) | |
| Loans | (30,998) | |
| Allowance for loan losses | 8,216 | |
| Premises and equipment | 680 | |
| Accrued interest and accounts receivable | (243) | |
| Other assets | 4,010 | |
| **Adjustments to reflect liabilities assumed at fair value:** | | |
| Deposits | (686) | |
| Other borrowed funds | 68 | |
| Accounts payable, accrued expense and other liabilities | (1,124) | |
| Long-term debt | 1,063 | |
| **Fair value of net assets acquired** | | 11,999 |
| Negative goodwill before allocation to nonfinancial assets | | (10,058) |
| Negative goodwill allocated to nonfinancial assets[(a)] | | 8,076 |
| **Negative goodwill resulting from the acquisition[(b)]** | | $ (1,982) |

(a) The acquisition was accounted for as a purchase business combination, which requires the assets (including identifiable intangible assets) and liabilities (including executory contracts and other commitments) of an acquired business to be recorded at their respective fair values as of the effective date of the acquisition and consolidated with those of JPMorgan Chase Bank, N.A. The fair value of the net assets of Washington Mutual's banking operations exceeded the $1.9 billion purchase price, resulting in negative goodwill. Noncurrent, nonfinancial assets not held-for-sale, such as premises and equipment and other intangibles, were written down against the negative goodwill. The negative goodwill that remained after writing down transaction-related core deposit intangibles of approximately $4.9 billion and premises and equipment of approximately $3.2 billion was recognized as an extraordinary gain of $2.0 billion.
(b) The extraordinary gain was recorded net of tax expense in JPMorgan Chase Bank, N.A.'s Consolidated Financial Statements.

## Condensed statement of net assets acquired

The following condensed statement of net assets acquired reflects the final value assigned to the Washington Mutual net assets as of September 25, 2008.

| (in millions) | September 25, 2008 |
|---|---|
| **Assets** | |
| Cash and due from banks | $ 3,680 |
| Deposits with banks | 3,517 |
| Federal funds sold and securities purchased under resale agreements | 1,700 |
| Trading assets | 5,691 |
| Securities | 17,224 |
| Loans (net of allowance for loan losses) | 206,456 |
| Accrued interest and accounts receivable | 3,253 |
| Mortgage servicing rights | 5,874 |
| All other assets | 16,596 |
| **Total assets** | $ 263,991 |
| **Liabilities** | |
| Deposits | $ 159,872 |
| Federal funds purchased and securities loaned or sold under repurchase agreements | 4,549 |
| Other borrowed funds | 81,636 |
| Trading liabilities | 585 |
| Accounts payable, accrued expense and other liabilities | 6,708 |
| Long-term debt | 6,718 |
| **Total liabilities** | 260,068 |
| **Washington Mutual net assets acquired** | $ 3,923 |

### Unaudited pro forma condensed combined financial information reflecting the Washington Mutual transaction

The following unaudited pro forma condensed combined financial information presents the 2008 results of operations of JPMorgan Chase Bank, N.A. as they may have appeared, if the Washington Mutual transaction had been completed on January 1, 2008.

| Year ended December 31, (in millions) | 2008 |
|---|---|
| **Total net revenue** | $ 74,035 |
| **Income before extraordinary gain** | 375 |
| **Net income** | 2,281 |

The unaudited pro forma combined financial information is presented for illustrative purposes only and does not indicate the financial results of the combined company had the companies actually been combined as of January 1, 2008, nor is it indicative of the results of operations in future periods. Included in the unaudited pro forma combined financial information for the year ended December 31, 2008, were pro forma adjustments to reflect the results of operations of Washington Mutual's banking operations, considering the purchase accounting, valuation and accounting conformity adjustments. The amortization of purchase accounting adjustments to report interest-earning assets acquired and interest-bearing liabilities assumed at current interest rates is reflected for the year ended December 31, 2008. Valuation adjustments and the adjustment to conform allowance methodologies in the Washington Mutual transaction, are reflected in the results for the year ended December 31, 2008.

## Other business events

### RBS Sempra transaction

On July 1, 2010, JPMorgan Chase & Co. completed the acquisition of RBS Sempra Commodities' global oil, global metals and European power and gas businesses. JPMorgan Chase & Co. acquired approximately $1.7 billion of the net assets, which included $3.3 billion of debt which was immediately repaid. JPMorgan Chase Bank, N.A. paid approximately $1.7 billion related to this acquisition including the repayment of debt attributed to JPMorgan Chase Bank, N.A. This acquisition significantly expanded the number of clients the commodities business can serve and will enable the commodities business to offer clients more products in more regions of the world.

### Purchase of remaining interest in J.P. Morgan Cazenove

On January 4, 2010, JPMorgan Chase Bank, N.A. purchased the remaining interest in J.P. Morgan Cazenove, an investment banking business partnership formed in 2005 which resulted in an adjustment to JPMorgan Chase Bank, N.A.'s capital surplus of approximately $1.3 billion.

### Termination of Chase Paymentech Solutions joint venture

The dissolution of Chase Paymentech Solutions joint venture, a global payments and merchant acquiring joint venture between JPMorgan Chase Bank, N.A. and First Data Corporation, was completed on November 1, 2008. JPMorgan Chase Bank, N.A. retained approximately 51% of the business, which it operates under the name Chase Paymentech Solutions. The dissolution of the Chase Paymentech Solutions joint venture was accounted for as a step acquisition in accordance with U.S. GAAP for business combinations, and JPMorgan Chase Bank, N.A. recognized an after-tax gain of $627 million in the fourth quarter of 2008 as a result of the dissolution. The gain represents the amount by which the fair value of the net assets acquired (predominantly intangible assets and goodwill) exceeded JPMorgan Chase Bank, N.A.'s carrying value in the net assets transferred to First Data Corporation. Upon dissolution, JPMorgan Chase Bank, N.A. consolidated the retained Chase Paymentech Solutions business.

### Sale of Washington Mutual's credit card assets to Chase Bank, USA, N.A.

On October 3, 2008, JPMorgan Chase Bank, N.A. sold net credit card-related assets acquired in the Washington Mutual transaction to Chase Bank USA, N.A. for $14.7 billion in cash. The sale included $15.0 billion and $251 million of credit card-related assets and liabilities, respectively.

### Merger with The Bear Stearns Companies Inc.

Effective May 30, 2008, BSC Merger Corporation, a wholly owned subsidiary of JPMorgan Chase, merged with The Bear Stearns Companies Inc. ("Bear Stearns") pursuant to the Agreement and Plan of Merger, dated as of March 16, 2008, as amended March 24, 2008, and Bear Stearns became a wholly-owned subsidiary of JPMorgan Chase. The merger provided JPMorgan Chase with a leading global prime brokerage platform; strengthened JPMorgan Chase's equities and asset management businesses; enhanced capabilities in mortgage origination, securitization and servicing; and expanded the platform of JPMorgan Chase's energy business. The merger was accounted for under the purchase method of accounting, which requires that the assets and liabilities of Bear Stearns be fair valued. The final total purchase price to complete the merger was $1.5 billion. Additional information regarding the Merger is provided in Note 2 on pages 167–169 of JPMorgan Chase's Annual Report on Form 10-K for the year ended December 31, 2010.

Following the Merger, JPMorgan Chase Bank, N.A. acquired in a cash transaction, four wholly-owned subsidiaries of Bear Stearns that engage in various derivative and mortgage lending activities, which are permissible activities for national banks and their operating subsidiaries. JPMorgan Chase Bank, N.A. accounted for the acquisition of the four Bear Stearns subsidiaries in accordance with U.S. GAAP for business combinations, and the results of operations of the Bear Stearns subsidiaries were reported in JPMorgan Chase Bank, N.A.'s results beginning in the third quarter of 2008.

In connection with the transactions described in the preceding paragraph, JPMorgan Chase agreed to indemnify JPMorgan Chase Bank, N.A. for specified losses and related expenditures related to any loan assets owned or held by the Bear Stearns subsidiaries on July 1, 2008, or derivatives entered into, owned or held by the Bear Stearns' subsidiaries on July 1, 2008, or to be transferred to JPMorgan Chase Bank, N.A., and any losses, judgments, costs or expenses incurred by JPMorgan Chase Bank, N.A. arising out of any conduct or breach of any covenant or agreement by or on behalf of the Bear Stearns subsidiaries. These indemnities are effective until June 30, 2013.

JPMorgan Chase made a capital contribution of $4.6 billion, an amount equal to the estimated additional amount of capital required to ensure that JPMorgan Chase Bank, N.A.'s regulatory capital ratios (i.e., Tier 1; total capital and leverage) do not decline from the levels for the quarter ended June 30, 2008, as a result of the aforementioned indemnified transactions. To the extent that any capital contribution by JPMorgan Chase exceeds the actual regulatory capital impact of these transactions, JPMorgan Chase Bank, N.A. will pay JPMorgan Chase the difference.

**Other internal transfers of legal entities under common control**

On January 1, 2010, JPMorgan Chase Bank, N.A. distributed its wholly-owned subsidiary, JPMorgan Investment Advisors Inc. ("JPMIA"), to a JPMorgan Chase affiliate. JPMIA's principal activity was investment advisory for the asset management business. At the time of the transfer, JPMIA had approximately $850 million of assets, predominantly consisting of $546 million of other intangible assets and $255 million of deposits with banks. In addition, $300 million of goodwill recorded on the books of JPMorgan Chase Bank, N.A. was also transferred to JPMorgan Chase in connection with this transaction.

On May 1, 2009, JPMorgan Chase contributed its wholly-owned subsidiary, Bear Stearns Financial Products Inc. ("BSFP"), to JPMorgan Chase Bank, N.A. BSFP's principal activity is offering fixed income and equity-index derivative products to AAA or similarly rated counterparties. At the time of the transfer, BSFP had approximately $1.1 billion of assets, predominantly consisting of $560 million of accrued interest and accounts receivable and $541 million of trading assets-derivative receivables.

In addition to the above transfer to JPMorgan Chase Bank, N.A., in 2009 and 2008, JPMorgan Chase transferred various other wholly-owned subsidiaries to JPMorgan Chase Bank, N.A. In 2009, the total assets for these subsidiaries were $93 million, which were predominantly deposits with banks and equity investments. In 2008, the total assets for these subsidiaries were $280 million, which were largely loans and federal funds sold. There were no wholly-owned subsidiaries transferred from JPMorgan Chase to JPMorgan Chase Bank N.A. in 2010.

In addition to the above transfers from JPMorgan Chase Bank, N.A., in 2010 and 2009, JPMorgan Chase Bank, N.A. transferred various wholly-owned subsidiaries to JPMorgan Chase. The total assets for these subsidiaries were $11 million and $36 million in 2010 and 2009, respectively. In 2010, these assets were primarily accrued interest and accounts receivable, and in 2009 these assets were largely cash and due from banks. There were no wholly-owned subsidiaries transferred from JPMorgan Chase Bank, N.A. to JPMorgan Chase in 2008.

The internal transfers of the above legal entities were accounted for at historical cost in accordance with U.S. GAAP for business combinations. However, all of the transfers were reflected in the Consolidated Financial Statements prospectively, and not as of the beginning of all periods presented, because the impact of these transfers was not material to JPMorgan Chase Bank, N.A's Consolidated Financial Statements for any of the years ended December 31, 2010, 2009 or 2008.

**Subsequent events**

JPMorgan Chase Bank, N.A. has performed an evaluation of events that have occurred subsequent to December 31, 2010, and through March 24, 2011 (the date these Consolidated Financial Statements were available to be issued). There have been no material subsequent events that occurred during such period that would require disclosure or recognition in these Consolidated Financial Statements, as of or for the year ended December 31, 2010.

## Note 4 – Fair value measurement

JPMorgan Chase Bank, N.A. carries a portion of its assets and liabilities at fair value. The majority of such assets and liabilities are carried at fair value on a recurring basis. Certain assets and liabilities are carried at fair value on a nonrecurring basis, including held-for-sale loans, which are accounted for at the lower of cost or fair value and that are only subject to fair value adjustments under certain circumstances.

JPMorgan Chase Bank, N.A. has an established and well-documented process for determining fair values. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on internally developed models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. In addition to market information, models also incorporate transaction details, such as maturity of the instrument. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, JPMorgan Chase Bank, N.A.'s creditworthiness, constraints on liquidity and unobservable parameters. Valuation adjustments are applied consistently over time.

- Credit valuation adjustments ("CVA") are necessary when the market price (or parameter) is not indicative of the credit quality of the counterparty. As few classes of derivative contracts are listed on an exchange, the majority of derivative positions are valued using internally developed models that use as their basis observable market parameters. An adjustment is necessary to reflect the credit quality of each derivative counterparty to arrive at fair value. The adjustment also takes into account contractual factors designed to reduce JPMorgan Chase Bank, N.A.'s credit exposure to each counterparty, such as collateral and legal rights of offset.
- Debit valuation adjustments ("DVA") are necessary to reflect the credit quality of JPMorgan Chase Bank, N.A. in the valuation of liabilities measured at fair value. The methodology to determine the adjustment is consistent with CVA and incorporates JPMorgan Chase Bank, N.A.'s credit spread as observed through the credit default swap market.
- Liquidity valuation adjustments are necessary when JPMorgan Chase Bank, N.A. may not be able to observe a recent market price for a financial instrument that trades in inactive (or less active) markets or to reflect the cost of exiting larger-than-normal market-size risk positions (liquidity adjustments are not taken for positions classified within level 1 of the fair value hierarchy; see below). JPMorgan Chase Bank, N.A. estimates the amount of uncertainty in the initial valuation based on the degree of liquidity in the market in which the financial instrument trades and makes liquidity adjustments to the carrying value of the financial instrument. JPMorgan Chase Bank, N.A. measures the liquidity adjustment based on the following factors: (1) the amount of time since the last relevant pricing point; (2) whether there was an actual trade or relevant external quote; and (3) the volatility of the principal risk component of the financial instrument. Costs to exit larger-than-normal market-size risk positions are determined based on the size of the adverse market move that is likely to occur during the period required to bring a position down to a nonconcentrated level.
- Unobservable parameter valuation adjustments are necessary when positions are valued using internally developed models that use as their basis unobservable parameters – that is, parameters that must be estimated and are, therefore, subject to management judgment. Such positions are normally traded less actively. Examples include certain credit products where parameters such as correlation and recovery rates are unobservable. Unobservable parameter valuation adjustments are applied to mitigate the possibility of error and revision in the estimate of the market price provided by the model.

JPMorgan Chase Bank, N.A. has numerous controls in place intended to ensure that its fair values are appropriate. An independent model review group reviews JPMorgan Chase Bank, N.A.'s valuation models and approves them for use for specific products. All valuation models within JPMorgan Chase Bank, N.A. are subject to this review process. A price verification group, independent from the risk-taking function, ensures observable market prices and market-based parameters are used for valuation wherever possible. For those products with material parameter risk for which observable market levels do not exist, an independent review of the assumptions made on pricing is performed. Additional review includes deconstruction of the model valuations for certain structured instruments into their components and benchmarking valuations, where possible, to similar products; validating valuation estimates through actual cash settlement; and detailed review and explanation of recorded gains and losses, which are analyzed daily and over time. Valuation adjustments, which are also determined by the independent price verification group, are based on established policies and applied consistently over time. Any changes to the valuation methodology are reviewed by management to confirm that the changes are justified. As markets and products develop and the pricing for certain products becomes more or less transparent, JPMorgan Chase Bank, N.A. continues to refine its valuation methodologies. During 2010, no changes were made to JPMorgan Chase Bank, N.A.'s valuation models that had, or are expected to have, a material impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or financial performance.

The methods described above to estimate fair value may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while JPMorgan Chase Bank, N.A. believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

**Valuation Hierarchy**

A three-level valuation hierarchy has been established under U.S. GAAP for disclosure of fair value measurements. The valuation hierarchy is based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows.

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – one or more inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used by JPMorgan Chase Bank, N.A. to measure instruments at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

**Assets**

**Securities purchased under resale agreements ("resale agreements") and securities borrowed**
To estimate the fair value of resale agreements and securities borrowed transactions, cash flows are first evaluated taking into consideration any derivative features of the resale agreement and are then discounted using the appropriate market rates for the applicable maturity. As the inputs into the valuation are primarily based on readily observable pricing information, such resale agreements are classified within level 2 of the valuation hierarchy.

**Loans and unfunded lending-related commitments**
The majority of JPMorgan Chase Bank, N.A.'s loans and lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets, nor are they actively traded. The fair value of such loans and lending-related commitments is included in the additional disclosures of fair value of certain financial instruments required by U.S. GAAP on pages 27–28 of this Note. Loans carried at fair value on a recurring and nonrecurring basis are included in the applicable tables that follow.

*Wholesale*
There is no liquid secondary market for most loans and lending-related commitments in JPMorgan Chase Bank, N.A.'s wholesale portfolio. In the limited circumstances where direct secondary market information – including pricing of actual market transactions, broker quotations or quoted market prices for similar instruments – is available (principally for loans in JPMorgan Chase Bank, N.A.'s secondary trading portfolio), such information is used in the determination of fair value. For the remainder of the portfolio, fair value is estimated using a discounted cash flow ("DCF") model. In addition to the characteristics of the underlying loans (including principal, contractual interest rate and contractual fees), key inputs to the model include interest rates, prepayment rates and credit spreads. The credit spread input is derived from the cost of credit default swaps ("CDS") and, as a result, also incorporates the effects of secondary market liquidity. As many of JPMorgan Chase Bank, N.A.'s clients do not have bonds traded with sufficient liquidity in the public markets to have observable CDS spreads, JPMorgan Chase Bank, N.A. principally develops benchmark credit curves by industry and credit rating to estimate fair value. Also incorporated into the valuation process are additional adjustments to account for the difference in loss severity rates between bonds, on which the cost of credit derivatives is based, and loans as well as loan equivalents (which represent the portion of an unused commitment expected, based on JPMorgan Chase Bank, N.A.'s average portfolio historical experience, to become outstanding prior to an obligor default). Certain floating rate loans that are not carried on the balance sheet at fair value are carried at amounts that approximate fair value due to their short term nature and negligible credit risk (e.g., based on historical experience or collateralization).

JPMorgan Chase Bank, N.A.'s loans and unfunded lending-related commitments carried at fair value are classified within level 2 or 3 of the valuation hierarchy depending on the level of liquidity and activity in the markets for a particular product.

*Consumer*
The only products in JPMorgan Chase Bank, N.A.'s consumer loan portfolio with a meaningful level of secondary market activity in the current economic environment are certain conforming residential mortgages. These loans are classified as trading assets and carried at fair value on the Consolidated Balance Sheets. They are predominantly classified within level 2 of the valuation hierarchy based on the level of market liquidity and activity.

The fair value of JPMorgan Chase Bank, N.A.'s other consumer loans (except for credit card receivables) is generally determined by discounting the loan principal and interest cash flows expected to be collected at a market observable discount rate, when available. Portfolio-specific factors that a market participant would consider in determining fair value (e.g., expected lifetime credit losses, estimated prepayments, servicing costs and market liquidity) are either modeled into the cash flow projections or incorporated as an adjustment to the discount rate. For products that continue to be offered in the market, discount rates are derived from market-observable primary origination rates. Where primary origination rates are not available (i.e., subprime mortgages, subprime home equity and option adjustable-rate mortgages ("option ARMs")) the valuation is based on JPMorgan Chase Bank, N.A.'s estimate of a market participant's required return on equity for similar products (i.e., a hypothetical origination spread). Estimated lifetime credit losses consider expected and current default rates for existing portfolios, collateral prices (where applicable) and expectations about changes in the economic environment (e.g., unemployment rates).

The fair value of credit card receivables is determined using a discounted expected cash flow methodology. Key estimates and assumptions include: projected interest income and late fee revenue, funding, servicing, credit costs, and loan payment rates. The projected loan payment rates are used to determine the estimated life of the credit card loan receivables, which are then discounted using a risk-appropriate discount rate. The discount rate is derived from JPMorgan Chase Bank, N.A.'s estimate of a market participant's expected return on credit card receivables. As the credit card portfolio has a short-term life, an amount equal to the allowance for loan losses is considered a reasonable proxy for the credit cost component.

Loans that are not carried on the Consolidated Balance Sheets at fair value are not classified within the fair value hierarchy.

*Mortgage loans carried at fair value*

For certain loans that are expected to be securitized, fair value is estimated using a combination of observed transaction prices, independent pricing services and relevant broker quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided from independent pricing services. When relevant market activity is not occurring or is limited, fair value is estimated by projecting the expected cash flows and discounting those cash flows at a rate reflective of current market liquidity. To estimate the projected cash flows of a residential mortgage loan (inclusive of assumptions of prepayment, default rates and loss severity), specific consideration is given to both borrower-specific and other market factors, including, but not limited to: the borrower's FICO score; the type of collateral supporting the loans; the level of documentation for the loan; and market-derived expectations for home price appreciation or depreciation in the respective geography of the borrower. For commercial mortgages consideration is given to both borrower-specific and other market factors, including but not limited to: the borrower's debt-service coverage ratio; the type of commercial property (e.g., retail, office, lodging, multi-family, etc.); an estimate of the current loan-to-value ratio; and market-derived expectations for property price appreciation or depreciation in the respective geographic location. In addition, commercial mortgage loans typically have lock-out periods where the borrower is restricted from prepaying the loan due to prepayment penalties. These features reduce prepayment risk for commercial mortgages relative to that of residential mortgages. These loans are classified within level 2 or 3 of the valuation hierarchy depending on the level of liquidity and activity in the markets for the particular product.

**Securities**

Where quoted prices for identical securities are available in an active market, securities are classified in level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds; mortgage products for which there are quoted prices in active markets such as U.S. government agency or U.S. government-sponsored enterprise (collectively, "U.S. government agencies") markets; pass-through mortgage-backed securities ("MBS"); and exchange-traded equities (e.g., common and preferred stocks).

If quoted market prices are not available for the specific security, JPMorgan Chase Bank, N.A. may estimate the value of such instruments using a combination of observed transaction prices, independent pricing services and relevant broker quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided from independent pricing services. JPMorgan Chase Bank, N.A. may also use pricing models or discounted cash flows. The majority of such instruments are classified within level 2 of the valuation hierarchy; however, in cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy.

For mortgage-backed securities, where market activity is not occurring or is limited, fair value is estimated considering the value of the collateral and the specific attributes of the securities held by JPMorgan Chase Bank, N.A. The value of the collateral pool supporting the securities is analyzed using the same techniques and factors described above for residential mortgage loans, albeit in a more aggregated manner across the pool. For example, for residential MBS, factors evaluated may include average FICO scores, average delinquency rates, average loss severities and prepayment rates, among other metrics. For commercial MBS, factors evaluated may include average delinquencies, loan or geographic concentrations, and average debt-service coverage ratios, among other metrics. In addition, as each securitization vehicle distributes cash in a manner or order that is predetermined at the inception of the vehicle, the priority in which each particular MBS is allocated cash flows, and the level of credit enhancement in place to support those cash flows, are key considerations in deriving the value of MBS. Finally, the risk premium that investors demand for securitized products in the current market is factored into the valuation. To benchmark its valuations, JPMorgan Chase Bank, N.A. looks to transactions for similar instruments and uses independent pricing provided by third-party vendors, broker quotes and relevant market indices, such as the ABX index, as applicable. While none of those sources are solely indicative of fair value, they serve as directional indicators for the appropriateness of JPMorgan Chase Bank, N.A.'s estimates.

For certain collateralized mortgage and debt obligations, asset-backed securities ("ABS") and high-yield debt securities, the determination of fair value may require benchmarking to similar instruments or analyzing default and recovery rates. For cash collateralized debt obligations ("CDOs"), external price information is not available. Therefore, cash CDOs are valued using market-standard models, such as Intex, to model the specific collateral composition and cash flow structure of each deal; key inputs to the model are market spread data for each credit rating, collateral type and other relevant contractual features. Asset-backed securities are valued based on external prices or market spread data, using current market assumptions on prepayments and defaults. For ABS where the external price data is not observable or the limited available data is opaque, the collateral performance is monitored and considered in the valuation of the security. To benchmark its valuations, JPMorgan Chase Bank, N.A. looks to transactions for similar instruments and uses independent prices provided by third-party vendors, broker quotes and relevant market indices, such as the ABX index, as applicable. While none of those sources are solely indicative of fair value, they serve as directional indicators for the appropriateness of JPMorgan Chase Bank, N.A.'s estimates. The majority of collateralized mortgage and debt obligations, high-yield debt securities and ABS are currently classified in level 3 of the valuation hierarchy.

Collateralized loan obligations ("CLOs") are securities backed by corporate loans, and they are predominantly held in JPMorgan Chase Bank, N.A.'s available-for-sale ("AFS") securities portfolio. For these securities, external pricing information is not readily available. They are therefore valued using market-standard models to model the specific collateral composition and cash flow structure of each deal; key inputs to the model are market spread data for each credit rating, collateral type and other relevant contractual features. For further discussion, see Note 13 on pages 52–56 of these Consolidated Financial Statements.

**Commodities**

Commodities inventory is generally carried at the lower of cost or fair value. The fair value of commodities inventory is determined primarily using pricing and data derived from the markets on which the commodities are traded. The majority of commodities inventory is classified within level 1 of the valuation hierarchy.

JPMorgan Chase Bank, N.A. also has positions in commodities-based derivatives that can be traded on an exchange or over-the-counter ("OTC") and carried at fair value. The pricing inputs to these derivatives include forward curves of underlying commodities, basis curves, volatilities, correlations, and occasionally other model parameters. The valuation of these derivatives is based on calibrating to market transactions, as well as to independent pricing information from sources such as brokers and consensus pricing services. Where inputs are historical time series data, they are adjusted for uncertainty where appropriate. The majority of commodities-based derivatives are classified within level 2 of the valuation hierarchy.

**Derivatives**

Exchange-traded derivatives valued using quoted prices are classified within level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of JPMorgan Chase Bank, N.A.'s derivative positions are valued using internally developed models that use as their basis readily observable market parameters – that is, parameters that are actively quoted and can be validated to external sources, including industry pricing services. Depending on the types and contractual terms of derivatives, fair value can be modeled using a series of techniques, such as the Black-Scholes option pricing model, simulation models or a combination of various models, which are consistently applied. Where derivative products have been established for some time, JPMorgan Chase Bank, N.A. uses models that are widely accepted in the financial services industry. These models reflect the contractual terms of the derivatives, including the period to maturity, and market-based parameters such as interest rates, volatility, and the credit quality of the counterparty. Further, many of these models do not contain a high level of subjectivity, as the methodologies used in the models do not require significant judgment, and inputs to the models are readily observable from actively quoted markets, as is the case for "plain vanilla" interest rate swaps, option contracts and CDS. Such instruments are generally classified within level 2 of the valuation hierarchy.

Derivatives that are valued based on models with significant unobservable market parameters and that are normally traded less actively, have trade activity that is one way, and/or are traded in less-developed markets are classified within level 3 of the valuation hierarchy. Level 3 derivatives include, for example, CDS referenced to certain MBS, certain types of CDO transactions, options on baskets of single-name stocks, and callable exotic interest rate options.

Other complex products, such as those sensitive to correlation between two or more underlying parameters, also fall within level 3 of the valuation hierarchy, and include structured credit derivatives which are illiquid and non-standard in nature (e.g., synthetic CDOs collateralized by a portfolio of credit default swaps "CDS"). For most CDO transactions, while inputs such as CDS spreads may be observable, the correlation between the underlying debt instruments is unobservable. Correlation levels are modeled on a transaction basis and calibrated to liquid benchmark tranche indices. For all structured credit derivatives, actual transactions, where available, are used regularly to recalibrate all unobservable parameters.

Correlation sensitivity is also material to the overall valuation of options on baskets of single-name stocks; the valuation of these baskets is typically not observable due to their non-standardized structuring. Correlation for products such as these is typically estimated based on an observable basket of stocks and then adjusted to reflect the differences between the underlying equities.

For callable exotic interest rate options, while most of the assumptions in the valuation can be observed in active markets (e.g., interest rates and volatility), the callable option transaction flow is essentially one-way, and as such, price observability is limited. As pricing information is limited, assumptions are based on the dynamics of the underlying markets (e.g., the interest rate markets) including the range and possible outcomes of the applicable inputs. In addition, the models used are calibrated, as relevant, to liquid benchmarks, and valuation is tested against monthly independent pricing services and actual transactions.

**Mortgage servicing rights and certain retained interests in securitizations**

Mortgage servicing rights ("MSRs") and certain retained interests from securitization activities do not trade in an active, open market with readily observable prices. Accordingly, JPMorgan Chase Bank, N.A. estimates the fair value of MSRs and certain other retained interests in securitizations using DCF models.

- For MSRs, JPMorgan Chase Bank, N.A. uses an option-adjusted spread ("OAS") valuation model in conjunction with JPMorgan Chase Bank, N.A.'s proprietary prepayment model to project MSR cash flows over multiple interest rate scenarios; these scenarios are then discounted at risk-adjusted rates to estimate the fair value of the MSRs. The OAS model consid-

ers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs to service and other economic factors. JPMorgan Chase Bank, N.A. reassesses and periodically adjusts the underlying inputs and assumptions used in the OAS model to reflect market conditions and assumptions that a market participant would consider in valuing the MSR asset. Due to the nature of the valuation inputs, MSRs are classified within level 3 of the valuation hierarchy.

- For certain retained interests in securitizations, JPMorgan Chase Bank, N.A. estimates the fair value for those retained interests by calculating the present value of future expected cash flows using modeling techniques. Such models incorporate management's best estimates of key variables, such as expected credit losses, prepayment speeds and the appropriate discount rates, considering the risk involved. Changes in the assumptions used may have a significant impact on JPMorgan Chase Bank, N.A.'s valuation of retained interests, and such interests are therefore typically classified within level 3 of the valuation hierarchy.

For both MSRs and certain other retained interests in securitizations, JPMorgan Chase Bank, N.A. compares its fair value estimates and assumptions to observable market data where available and to recent market activity and actual portfolio experience. For further discussion of the most significant assumptions used to value retained interests and MSRs, as well as the applicable stress tests for those assumptions, see Note 17 on pages 82–97, and Note 18 on pages 98–100 of these Consolidated Financial Statements.

**Other fund investments**

JPMorgan Chase Bank, N.A. holds investments in mutual/collective investment funds, private equity funds, hedge funds and real estate funds. Where the funds produce a daily net asset value ("NAV") that is validated by a sufficient level of observable activity (purchases and sales at NAV), the NAV is used to value the fund investment and it is classified in level 1 of the valuation hierarchy. Where adjustments to the NAV are required, for example, with respect to interests in funds subject to restrictions on redemption (such as lock-up periods or withdrawal limitations) and/or observable activity for the fund investment is limited, investments are classified within level 2 or 3 of the valuation hierarchy.

**Liabilities**

**Securities sold under repurchase agreements ("repurchase agreements")**

To estimate the fair value of repurchase agreements, cash flows are first evaluated taking into consideration any derivative features of the repurchase agreements and are then discounted using the appropriate market rates for the applicable maturity. Generally, for these types of agreements, there is a requirement that collateral be maintained with a market value equal to, or in excess of, the principal amount loaned; as a result, there would be no adjustment, or an immaterial adjustment, to reflect the credit quality of JPMorgan Chase Bank, N.A. (i.e., DVA) related to these agreements. As the inputs into the valuation are primarily based on observable pricing information, repurchase agreements are classified within level 2 of the valuation hierarchy.

**Beneficial interests issued by consolidated VIEs**

The fair value of beneficial interests issued by consolidated VIEs ("beneficial interests") is estimated based on the fair value of the underlying assets held by the VIEs. The valuation of beneficial interests does not include an adjustment to reflect the credit quality of JPMorgan Chase Bank, N.A., as the holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase Bank, N.A. Where the inputs into the valuation are based on observable market pricing information, the beneficial interests are classified within level 2 of the valuation hierarchy. Where significant inputs into the valuation are unobservable, the beneficial interests are classified within level 3 of the valuation hierarchy.

**Deposits, other borrowed funds and long-term debt**

To estimate the fair value of long-term debt, cash flows are discounted using the appropriate market rates for the applicable maturities with an adjustment to reflect the credit quality of JPMorgan Chase Bank, N.A. (i.e., the DVA). Included within deposits, other borrowed funds and long-term debt are structured notes issued by JPMorgan Chase Bank, N.A. that are financial instruments containing embedded derivatives. In addition to the above, the estimation of the fair value of structured notes takes into consideration any derivative features. Where the inputs into the valuation are primarily based on observable market prices, the structured notes are classified within level 2 of the valuation hierarchy. Where significant inputs are unobservable, the structured notes are classified within level 3 of the valuation hierarchy.

The following tables present the assets and liabilities measured at fair value as of December 31, 2010 and 2009, by major product category and by the fair value hierarchy (as described above).

**Assets and liabilities measured at fair value on a recurring basis**

| | Fair value hierarchy | | | | |
|---|---|---|---|---|---|
| **December 31, 2010** (in millions) | Level 1[g] | Level 2[g] | Level 3[g] | Netting adjustments | Total fair value |
| Federal funds sold and securities purchased under resale agreements | $ — | $ 19,876 | $ — | $ — | $ 19,876 |
| Securities borrowed | — | 13,961 | — | — | 13,961 |
| Trading assets: | | | | | |
| Debt instruments: | | | | | |
| Mortgage-backed securities: | | | | | |
| U.S. government agencies[a] | 384 | 215 | — | — | 599 |
| Residential – nonagency | — | 852 | 187 | — | 1,039 |
| Commercial – nonagency | — | 263 | 200 | — | 463 |
| **Total mortgage-backed securities** | 384 | 1,330 | 387 | — | 2,101 |
| U.S. Treasury and government agencies[a] | 8,178 | 282 | — | — | 8,460 |
| Obligations of U.S. states and municipalities | — | 781 | 244 | — | 1,025 |
| Certificates of deposit, bankers' acceptances and commercial paper | 137 | 1,090 | — | — | 1,227 |
| Non-U.S. government debt securities | 31,591 | 38,464 | 202 | — | 70,257 |
| Corporate debt securities | — | 32,182 | 4,844 | — | 37,026 |
| Loans | — | 21,642 | 10,423 | — | 32,065 |
| Asset-backed securities | — | 903 | 6,368 | — | 7,271 |
| **Total debt instruments** | 40,290 | 96,674 | 22,468 | — | 159,432 |
| Equity securities | 106,318 | 880 | 344 | — | 107,542 |
| Physical commodities[b] | 18,105 | 24 | — | — | 18,129 |
| Other | — | 1,532 | 73 | — | 1,605 |
| **Total debt and equity instruments**[c] | 164,713 | 99,110 | 22,885 | — | 286,708 |
| Derivative receivables: | | | | | |
| Interest rate | 872 | 1,117,915 | 5,327 | (1,095,421) | 28,693 |
| Credit[d] | — | 111,937 | 17,902 | (122,004) | 7,835 |
| Foreign exchange | 1,121 | 161,396 | 4,234 | (142,613) | 24,138 |
| Equity | — | 37,989 | 5,545 | (39,172) | 4,362 |
| Commodity | 1,323 | 37,622 | 1,877 | (34,408) | 6,414 |
| **Total derivative receivables**[e] | 3,316 | 1,466,859 | 34,885 | (1,433,618) | 71,442 |
| **Total trading assets** | 168,029 | 1,565,969 | 57,770 | (1,433,618) | 358,150 |
| Available-for-sale securities: | | | | | |
| Mortgage-backed securities: | | | | | |
| U.S. government agencies[a] | 104,736 | 15,490 | — | — | 120,226 |
| Residential – nonagency | — | 48,969 | 5 | — | 48,974 |
| Commercial – nonagency | — | 4,893 | 251 | — | 5,144 |
| **Total mortgage-backed securities** | 104,736 | 69,352 | 256 | — | 174,344 |
| U.S. Treasury and government agencies[a] | 432 | 10,826 | — | — | 11,258 |
| Obligations of U.S. states and municipalities | 31 | 8,098 | 67 | — | 8,196 |
| Certificates of deposit | — | 3,641 | — | — | 3,641 |
| Non-U.S. government debt securities | 13,107 | 7,670 | — | — | 20,777 |
| Corporate debt securities | 1 | 60,660 | — | — | 60,661 |
| Asset-backed securities: | | | | | |
| Credit card receivables | — | 8,856 | — | — | 8,856 |
| Collateralized loan obligations | — | 128 | 13,470 | — | 13,598 |
| Other | — | 8,777 | — | — | 8,777 |
| Equity securities | 593 | 44 | — | — | 637 |
| **Total available-for-sale securities** | 118,900 | 178,052 | 13,793 | — | 310,745 |
| Loans | — | 422 | 551 | — | 973 |
| Mortgage servicing rights | — | — | 13,440 | — | 13,440 |
| Other assets | 6 | 7 | 8,126 | — | 8,139 |
| **Total assets measured at fair value on a recurring basis**[f] | $ 286,935 | $ 1,778,287 | $ 93,680 | $(1,433,618) | $ 725,284 |

| December 31, 2010 (in millions) | Fair value hierarchy Level 1[g] | Level 2[g] | Level 3[g] | Netting adjustments | Total fair value |
|---|---|---|---|---|---|
| Deposits | $ — | $ 3,693 | $ 634 | $ — | $ 4,327 |
| Federal funds purchased and securities loaned or sold under repurchase agreements | — | 2,555 | — | — | 2,555 |
| Other borrowed funds | — | 6,342 | 783 | — | 7,125 |
| Trading liabilities: | | | | | |
| Debt and equity instruments[c] | 40,266 | 13,015 | 2 | — | 53,283 |
| Derivative payables: | | | | | |
| Interest rate | 1,139 | 1,089,777 | 3,138 | (1,070,058) | 23,996 |
| Credit[d] | — | 113,405 | 12,562 | (119,922) | 6,045 |
| Foreign exchange | 972 | 159,248 | 4,870 | (139,715) | 25,375 |
| Equity | — | 38,633 | 7,569 | (35,692) | 10,510 |
| Commodity | 866 | 36,992 | 2,634 | (35,263) | 5,229 |
| **Total derivative payables[e]** | 2,977 | 1,438,055 | 30,773 | (1,400,650) | 71,155 |
| **Total trading liabilities** | 43,243 | 1,451,070 | 30,775 | (1,400,650) | 124,438 |
| Accounts payable and other liabilities | — | — | 127 | — | 127 |
| Beneficial interests issued by consolidated VIEs | — | 179 | 175 | — | 354 |
| Long-term debt | — | 11,261 | 9,558 | — | 20,819 |
| **Total liabilities measured at fair value on a recurring basis** | $ 43,243 | $ 1,475,100 | $ 42,052 | $(1,400,650) | $ 159,745 |

| | Fair value hierarchy | | | | |
|---|---|---|---|---|---|
| December 31, 2009 (in millions) | Level 1 | Level 2 | Level 3 | Netting adjustments | Total fair value |
| Federal funds sold and securities purchased under resale agreements | $ — | $ 20,055 | $ — | $ — | $ 20,055 |
| Securities borrowed | — | 7,032 | — | — | 7,032 |
| Trading assets: | | | | | |
| Debt instruments: | | | | | |
| Mortgage-backed securities: | | | | | |
| U.S. government agencies[a] | 805 | 5 | — | — | 810 |
| Residential – nonagency | — | 761 | 242 | — | 1,003 |
| Commercial – nonagency | — | 43 | 180 | — | 223 |
| **Total mortgage-backed securities** | 805 | 809 | 422 | — | 2,036 |
| U.S. Treasury and government agencies[a] | 4,404 | 523 | — | — | 4,927 |
| Obligations of U.S. states and municipalities | — | 365 | 257 | — | 622 |
| Certificates of deposit, bankers' acceptances and commercial paper | — | 1,941 | — | — | 1,941 |
| Non–U.S. government debt securities | 27,340 | 32,481 | 88 | — | 59,909 |
| Corporate debt securities | — | 39,854 | 4,558 | — | 44,412 |
| Loans | — | 18,168 | 11,070 | — | 29,238 |
| Asset-backed securities | — | 804 | 6,520 | — | 7,324 |
| **Total debt instruments** | 32,549 | 94,945 | 22,915 | — | 150,409 |
| Equity securities | 67,801 | 1,156 | 284 | — | 69,241 |
| Physical commodities[b] | 9,450 | — | — | — | 9,450 |
| Other | — | 1,312 | 160 | — | 1,472 |
| **Total debt and equity instruments[c]** | 109,800 | 97,413 | 23,359 | — | 230,572 |
| Derivative receivables[d][e] | 979 | 1,506,366 | 46,026 | (1,481,354) | 72,017 |
| **Total trading assets** | 110,779 | 1,603,779 | 69,385 | (1,481,354) | 302,589 |
| Available-for-sale securities: | | | | | |
| Mortgage-backed securities: | | | | | |
| U.S. government agencies[a] | 158,957 | 8,941 | — | — | 167,898 |
| Residential – nonagency | — | 14,773 | 8 | — | 14,781 |
| Commercial – nonagency | — | 4,575 | — | — | 4,575 |
| **Total mortgage-backed securities** | 158,957 | 28,289 | 8 | — | 187,254 |
| U.S. Treasury and government agencies[a] | 350 | 29,592 | — | — | 29,942 |
| Obligations of U.S. states and municipalities | — | 3,541 | 65 | — | 3,606 |
| Certificates of deposit | — | 2,650 | — | — | 2,650 |
| Non–U.S. government debt securities | 5,506 | 18,997 | — | — | 24,503 |
| Corporate debt securities | 1 | 61,486 | — | — | 61,487 |
| Asset-backed securities: | | | | | |
| Credit card receivables | — | 19,108 | — | — | 19,108 |
| Collateralized loan obligations | — | 5 | 12,144 | — | 12,149 |
| Other | — | 6,204 | 111 | — | 6,315 |
| Equity securities | 679 | 77 | 78 | — | 834 |
| **Total available-for-sale securities** | 165,493 | 169,949 | 12,406 | — | 347,848 |
| Loans | — | 243 | 310 | — | 553 |
| Mortgage servicing rights | — | — | 15,342 | — | 15,342 |
| Other assets[h] | — | — | 3,610 | — | 3,610 |
| **Total assets measured at fair value on a recurring basis[f]** | $ 276,272 | $ 1,801,058 | $ 101,053 | $ (1,481,354) | $ 697,029 |

| December 31, 2009 (in millions) | Fair value hierarchy Level 1 | Level 2 | Level 3 | Netting adjustments | Total fair value |
|---|---|---|---|---|---|
| Deposits | $ — | $ 3,979 | $ 476 | $ — | $ 4,455 |
| Federal funds purchased and securities loaned or sold under repurchase agreements | — | 2,222 | — | — | 2,222 |
| Other borrowed funds | — | 4,269 | 492 | — | 4,761 |
| Trading liabilities: | | | | | |
| Debt and equity instruments[c] | 36,158 | 8,983 | 10 | — | 45,151 |
| Derivative payables[d][e] | 1,051 | 1,483,164 | 34,627 | (1,454,485) | 64,357 |
| **Total trading liabilities** | 37,209 | 1,492,147 | 34,637 | (1,454,485) | 109,508 |
| Accounts payable and other liabilities | — | 2 | 3 | — | 5 |
| Beneficial interests issued by consolidated VIEs | — | 168 | 568 | — | 736 |
| Long-term debt | — | 13,900 | 13,965 | — | 27,865 |
| **Total liabilities measured at fair value on a recurring basis** | $ 37,209 | $ 1,516,687 | $ 50,141 | $ (1,454,485) | $ 149,552 |

(a) At December 31, 2010 and 2009, included total U.S. government-sponsored enterprise obligations of $94.7 billion and $155.0 billion, respectively, which were predominantly mortgage-related.

(b) Physical commodities inventories are generally accounted for at the lower of cost or fair value.

(c) Balances reflect the reduction of securities owned (long positions) by the amount of securities sold but not yet purchased (short positions) when the long and short positions have identical Committee on Uniform Security Identification Procedures ("CUSIPs").

(d) The level 3 amounts for derivative receivables and derivative payables related to credit primarily include structured credit derivative instruments. For further information on the classification of instruments within the valuation hierarchy, see pages 13–17 of this Note.

(e) As permitted under U.S. GAAP, JPMorgan Chase Bank, N.A. has elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists. For purposes of the tables above, JPMorgan Chase Bank, N.A. does not reduce derivative receivables and derivative payables balances for this netting adjustment, either within or across the levels of the fair value hierarchy, as such netting is not relevant to a presentation based on the transparency of inputs to the valuation of an asset or liability. Therefore, the balances reported in the fair value hierarchy table above are gross of any counterparty netting adjustments. However, if JPMorgan Chase Bank, N.A. were to net such balances within level 3, the reduction in the level 3 derivative receivable and derivative payable balances would be $12.5 billion and $16.0 billion at December 31, 2010 and 2009, respectively, exclusive of the netting benefit associated with cash collateral, which would further reduce the level 3 balances.

(f) At December 31, 2010 and 2009, balances included investments valued at net asset value of $1.9 billion and $4.1 billion, respectively, of which $874 million and $1.2 billion, respectively, were classified in level 1, $741 million and $2.0 billion, respectively, in level 2 and $243 million and $866 million in level 3.

(g) For the year ended December 31, 2010, there were no significant transfers between levels 1 and 2. Transfers from level 3 into level 2 included $1.2 billion of trading loans due to increased price transparency. There were no significant transfers into level 3.

(h) Included assets within accrued interest receivable and other assets at December 31, 2009.

**Changes in level 3 recurring fair value measurements**

The following tables include a rollforward of the balance sheet amounts (including changes in fair value) for financial instruments classified by JPMorgan Chase Bank, N.A. within level 3 of the fair value hierarchy for the years ended December 31, 2010, 2009 and 2008. When a determination is made to classify a financial instrument within level 3, the determination is based on the significance of the unobservable parameters to the overall fair value measurement. However, level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. Also, JPMorgan Chase Bank, N.A. risk-manages the observable components of level 3 financial instruments using securities and derivative positions that are classified within level 1 or 2 of the fair value hierarchy; as these level 1 and level 2 risk management instruments are not included below, the gains or losses in the following tables do not reflect the effect of JPMorgan Chase Bank, N.A.'s risk management activities related to such level 3 instruments.

| Year ended December 31, 2010 (in millions) | Fair value measurements using significant unobservable inputs: Fair value at January 1, 2010 | Total realized/ unrealized gains/(losses) | Purchases, issuances settlements, net | Transfers into and/or out of level 3[e] | Fair value at December 31, 2010 | Change in unrealized gains/(losses) related to financial instruments held at December 31, 2010 |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Trading assets: | | | | | | |
| Debt instruments: | | | | | | |
| Mortgage-backed securities: | | | | | | |
| U.S. government agencies | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** |
| Residential – nonagency | **242** | **117** | **(144)** | **(28)** | **187** | **95** |
| Commercial – nonagency | **180** | **75** | **(56)** | **1** | **200** | **—** |
| **Total mortgage-backed securities** | **422** | **192** | **(200)** | **(27)** | **387** | **95** |
| Obligations of U.S. states and municipalities | **257** | **(7)** | **(6)** | **—** | **244** | **(6)** |
| Non-U.S. government debt securities | **88** | **(33)** | **192** | **(45)** | **202** | **(8)** |
| Corporate debt securities | **4,558** | **(416)** | **757** | **(55)** | **4,844** | **32** |
| Loans | **11,070** | **(140)** | **737** | **(1,244)** | **10,423** | **(250)** |
| Asset-backed securities | **6,520** | **136** | **(302)** | **14** | **6,368** | **156** |
| **Total debt instruments** | **22,915** | **(268)** | **1,178** | **(1,357)** | **22,468** | **19** |
| Equity securities | **284** | **137** | **3** | **(80)** | **344** | **163** |
| Other | **160** | **24** | **(112)** | **1** | **73** | **74** |
| **Total debt and equity instruments** | **23,359** | **(107)**[a] | **1,069** | **(1,436)** | **22,885** | **256**[a] |
| Net derivative receivables: | | | | | | |
| Interest rate | **2,038** | **2,697** | **(2,523)** | **(23)** | **2,189** | **111** |
| Credit | **10,182** | **(1,764)** | **(2,987)** | **(91)** | **5,340** | **(1,059)** |
| Foreign exchange | **1,083** | **(796)** | **(485)** | **(438)** | **(636)** | **(378)** |
| Equity | **(1,400)** | **(234)** | **(483)** | **93** | **(2,024)** | **118** |
| Commodity | **(504)** | **(124)** | **(192)** | **63** | **(757)** | **(75)** |
| **Total net derivative receivables** | **11,399** | **(221)**[a] | **(6,670)** | **(396)** | **4,112** | **(1,283)**[a] |
| Available-for-sale securities: | | | | | | |
| Asset-backed securities | **12,255** | **(215)** | **1,430** | **—** | **13,470** | **(168)** |
| Other | **151** | **39** | **61** | **72** | **323** | **18** |
| **Total available-for-sale securities** | **12,406** | **(176)**[b] | **1,491** | **72** | **13,793** | **(150)**[b] |
| Loans | **310** | **52**[a] | **197** | **(8)** | **551** | **34**[a] |
| Mortgage servicing rights | **15,342** | **(2,325)**[c] | **423** | **—** | **13,440** | **(2,325)**[c] |
| Other assets | **3,610** | **(53)**[d] | **4,569** | **—** | **8,126** | **(92)**[d] |

| Year ended December 31, 2010 (in millions) | Fair value measurements using significant unobservable inputs: Fair value at January 1, 2010 | Total realized/ unrealized (gains)/losses | Purchases, issuances settlements, net | Transfers into and/or out of level 3[e] | Fair value at December 31, 2010 | Change in unrealized (gains)/losses related to financial instruments held at December 31, 2010 |
|---|---|---|---|---|---|---|
| **Liabilities**[f]: | | | | | | |
| Deposits | **$ 476** | **$ 28**[a] | **$ (200)** | **$ 330** | **$ 634** | **$ (77)**[a] |
| Other borrowed funds | **492** | **(126)**[a] | **659** | **(242)** | **783** | **414**[a] |
| Trading liabilities: | | | | | | |
| Debt and equity instruments | **10** | **5**[a] | **(32)** | **19** | **2** | **—**[a] |
| Accounts payable and other liabilities | **3** | **(7)**[d] | **131** | **—** | **127** | **(5)**[d] |
| Beneficial interests issued by consolidated VIEs | **568** | **26**[a] | **(419)** | **—** | **175** | **27**[a] |
| Long-term debt | **13,965** | **(147)**[a] | **(4,352)** | **92** | **9,558** | **713**[a] |

| Year ended December 31, 2009 (in millions) | Fair value measurements using significant unobservable inputs | | | | | Change in unrealized gains/(losses) related to financial instruments held at December 31, 2009 |
|---|---|---|---|---|---|---|
| | Fair value, January 1, 2009 | Total realized/ unrealized gains/(losses) | Purchases, issuances settlements, net | Transfers into and/or out of level 3[e] | Fair value, December 31, 2009 | |
| **Assets:** | | | | | | |
| Trading assets: | | | | | | |
| Debt instruments: | | | | | | |
| Mortgage-backed securities: | | | | | | |
| U.S. government agencies | $ — | $ — | $ — | $ — | $ — | $ — |
| Residential – nonagency | 615 | 113 | (129) | (357) | 242 | 22 |
| Commercial – nonagency | 174 | 73 | (68) | 1 | 180 | — |
| **Total mortgage-backed securities** | 789 | 186 | (197) | (356) | 422 | 22 |
| Obligations of U.S. states and municipalities | 353 | (30) | (66) | — | 257 | (28) |
| Non-U.S. government debt securities | 12 | 35 | (22) | 63 | 88 | 32 |
| Corporate debt securities | 4,838 | 154 | (3,516) | 3,082 | 4,558 | (9) |
| Loans | 14,481 | (366) | (3,306) | 261 | 11,070 | (615) |
| Asset-backed securities | 5,540 | 1,432 | (378) | (74) | 6,520 | 736 |
| **Total debt instruments** | 26,013 | 1,411 | (7,485) | 2,976 | 22,915 | 138 |
| Equity securities | 235 | (43) | (96) | 188 | 284 | 9 |
| Other | 21 | 14 | 75 | 50 | 160 | 22 |
| **Total debt and equity instruments** | 26,269 | 1,382[a] | (7,506) | 3,214 | 23,359 | 169[a] |
| Total net derivative receivables | 8,932 | (12,257)[a] | (1,769) | 16,493 | 11,399 | (10,991)[a] |
| Available-for-sale securities: | | | | | | |
| Asset-backed securities | 11,195 | (77) | 1,137 | — | 12,255 | (101) |
| Other | 63 | 59 | 371 | (342) | 151 | 58 |
| **Total available-for-sale securities** | 11,258 | (18)[b] | 1,508 | (342) | 12,406 | (43)[b] |
| Loans | 1,397 | (47)[a] | (1,818) | 778 | 310 | (85)[a] |
| Mortgage servicing rights | 9,236 | 5,735[c] | 371 | — | 15,342 | 5,735[c] |
| Other assets[g] | 2,826 | (434)[d] | 1,201 | 17 | 3,610 | (447)[d] |

| Year ended December 31, 2009 (in millions) | Fair value measurements using significant unobservable inputs | | | | | Change in unrealized (gains)/losses related to financial instruments held at December 31, 2009 |
|---|---|---|---|---|---|---|
| | Fair value, January 1, 2009 | Total realized/ unrealized (gains)/losses | Purchases, issuances settlements, net | Transfers into and/or out of level 3[e] | Fair value, December 31, 2009 | |
| **Liabilities[f]:** | | | | | | |
| Deposits | $ 1,235 | $ 47[a] | $ (870) | $ 64 | $ 476 | $ (36)[a] |
| Other borrowed funds | 56 | (63)[a] | 653 | (154) | 492 | 9[a] |
| Trading liabilities: | | | | | | |
| Debt and equity instruments | 287 | 57[a] | (331) | (3) | 10 | 9[a] |
| Accounts payable and other liabilities | — | (7)[a] | 10 | — | 3 | (7)[a] |
| Beneficial interests issued by consolidated VIEs | — | 344[a] | (766) | 990 | 568 | 327[a] |
| Long-term debt | 14,525 | 1,173[a] | (3,059) | 1,326 | 13,965 | 1,534[a] |

| Year ended December 31, 2008 (in millions) | Fair value measurements using significant unobservable inputs: Fair value, January 1, 2008 | Total realized/ unrealized gains/(losses) | Purchases, issuances settlements, net | Transfers into and/or out of level 3[e] | Fair value, December 31, 2008 | Change in unrealized gains/(losses) related to financial instruments held at December 31, 2008 |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Trading assets: | | | | | | |
| Debt and equity instruments | $ 18,815 | $ (4,969)[a] | $ (1,063) | $13,486 | $ 26,269 | $ (4,229)[a] |
| Net derivative receivables | 206 | 1,846[a] | 5,645 | 1,235 | 8,932 | (1,670)[a] |
| Available-for-sale securities | 10 | (895)[b] | 3,439 | 8,704 | 11,258 | (187)[b] |
| Loans | 7,797 | (1,091)[a] | (1,181) | (4,128) | 1,397 | (1,159)[a] |
| Mortgage servicing rights | 8,632 | (6,772)[c] | 7,376 | — | 9,236 | (6,772)[c] |
| Other assets[g] | 1,938 | (170)[d] | 1,077 | (19) | 2,826 | (141)[d] |

| Year ended December 31, 2008 (in millions) | Fair value measurements using significant unobservable inputs: Fair value, January 1, 2008 | Total realized/ unrealized (gains)/losses | Purchases, issuances settlements, net | Transfers into and/or out of level 3[e] | Fair value, December 31, 2008 | Change in unrealized (gains)/losses related to financial instruments held at December 31, 2008 |
|---|---|---|---|---|---|---|
| **Liabilities**[f]: | | | | | | |
| Deposits | $ 1,228 | $ (72)[a] | $ 28 | $ 51 | $ 1,235 | $ (69)[a] |
| Other borrowed funds | 101 | 19[a] | — | (64) | 56 | (5)[a] |
| Trading liabilities: | | | | | | |
| Debt and equity instruments | 480 | (78)[a] | (27) | (88) | 287 | (127)[a] |
| Accounts payable and other liabilities | 25 | (25)[a] | — | — | — | — |
| Beneficial interests issued by consolidated VIEs | 82 | (53)[a] | (5) | (24) | — | — |
| Long-term debt | 21,198 | (3,968)[a] | (3,604) | 899 | 14,525 | (3,227)[a] |

(a) Predominantly reported in principal transactions revenue, except for changes in fair value for mortgage loans originated with the intent to sell within the retail financial services business, which are reported in mortgage fees and related income.
(b) Realized gains and losses on available-for-sale securities, as well as other-than-temporary impairment losses that are recorded in earnings, are reported in securities gains. Unrealized gains and losses are reported in other comprehensive income.
(c) Changes in fair value for mortgage servicing rights within the retail financial services business are reported in mortgage fees and related income.
(d) Predominantly reported in other income
(e) All transfers into and/or out of level 3 are assumed to occur at the beginning of the reporting period.
(f) Level 3 liabilities as a percentage of total JPMorgan Chase Bank, N.A. liabilities accounted for at fair value (including liabilities measured at fair value on a nonrecurring basis) were 26%, 34% and 30% at December 31, 2010, 2009 and 2008, respectively.
(g) Includes certain assets that are classified within accrued interest receivable and other assets on the Consolidated Balance Sheet at December 31, 2009 and 2008.

**Assets and liabilities measured at fair value on a nonrecurring basis**

Certain assets, liabilities and unfunded lending-related commitments are measured at fair value on a nonrecurring basis; that is, they are not measured at fair value on an ongoing basis but instead are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The following tables present the assets and liabilities carried on the Consolidated Balance Sheets by caption and level within the valuation hierarchy (as described above) as of December 31, 2010 and 2009, for which a nonrecurring change in fair value has been recorded during the reporting period.

| | Fair value hierarchy | | | |
|---|---|---|---|---|
| **December 31, 2010** (in millions) | Level 1[(d)] | Level 2[(d)] | Level 3[(d)] | Total fair value |
| Loans retained[(a)] | **$ —** | **$ 5,032** | **$ 690** | **$ 5,722** |
| Loans held-for-sale[(b)] | **—** | **312** | **1,039** | **1,351** |
| **Total loans** | **—** | **5,344** | **1,729** | **7,073** |
| Other real estate owned | **—** | **23** | **235** | **258** |
| Other assets | **—** | **—** | **1** | **1** |
| **Total other assets** | **—** | **23** | **236** | **259** |
| **Total assets at fair value on a nonrecurring basis** | **$ —** | **$ 5,367** | **$ 1,965** | **$ 7,332** |
| Accounts payable and other liabilities[(c)] | **$ —** | **$ 53** | **$ 18** | **$ 71** |
| **Total liabilities at fair value on a nonrecurring basis** | **$ —** | **$ 53** | **$ 18** | **$ 71** |

| | Fair value hierarchy | | | |
|---|---|---|---|---|
| **December 31, 2009** (in millions) | Level 1 | Level 2 | Level 3 | Total fair value |
| Loans retained[(a)] | $ — | $ 4,539 | $ 1,137 | $ 5,676 |
| Loans held-for-sale[(b)] | — | 601 | 978 | 1,579 |
| **Total loans** | — | 5,140 | 2,115 | 7,255 |
| Other real estate owned | — | 177 | 228 | 405 |
| Other assets | — | — | 160 | 160 |
| **Total other assets** | — | 177 | 388 | 565 |
| **Total assets at fair value on a nonrecurring basis** | $ — | $ 5,317 | $ 2,503 | $ 7,820 |
| Accounts payable and other liabilities[(c)] | $ — | $ 87 | $ 39 | $ 126 |
| **Total liabilities at fair value on a nonrecurring basis** | $ — | $ 87 | $ 39 | $ 126 |

(a) Reflects mortgage, home equity and other loans where the carrying value is based on the fair value of the underlying collateral.
(b) Predominantly includes leveraged lending loans at December 31, 2010 and 2009. Loans held-for-sale are carried on the Consolidated Balance Sheets at the lower of cost or fair value.
(c) Represents, at December 31, 2010 and 2009, fair value adjustments associated with $517 million and $688 million, respectively, of unfunded held-for-sale lending-related commitments within the leveraged lending portfolio.
(d) In the year ended December 31, 2010, transfers between levels 1, 2 and 3 were not significant.

The method used to estimate the fair value of impaired collateral-dependent loans, and other loans where the carrying value is based on the fair value of the underlying collateral (e.g., residential mortgage loans charged off in accordance with regulatory guidance), depends on the type of collateral (e.g., securities, real estate, nonfinancial assets) underlying the loan. Fair value of the collateral is estimated based on quoted market prices, broker quotes or independent appraisals, or by using a discounted cash flow model. For further information, see Note 16 on pages 77–81 of these Consolidated Financial Statements.

### Nonrecurring fair value changes

The following table presents the total change in value of assets and liabilities for which a fair value adjustment has been included in the Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008, related to financial instruments held at those dates.

| Year ended December 31, (in millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Loans retained | **$ (3,213)** | $ (3,548) | $ (1,158) |
| Loans held-for-sale | **49** | (386) | (2,628) |
| **Total loans** | **(3,164)** | (3,934) | (3,786) |
| Other assets | **48** | 17 | (211) |
| Accounts payable and other liabilities | **6** | 31 | (263) |
| **Total nonrecurring fair value gains/(losses)** | **$ (3,110)** | $ (3,886) | $ (4,260) |

In the above table, loans predominantly include: (1) mortgage, home equity, and other loans where changes in the carrying value are based on the fair value of the underlying collateral; and (2) the change in fair value for leveraged lending loans carried on the Consolidated Balance Sheets at the lower of cost or fair value. Accounts payable and other liabilities predominantly include the change in fair value for unfunded lending-related commitments within the leveraged lending portfolio.

### Level 3 analysis

Level 3 assets at December 31, 2010, predominantly include derivative receivables, mortgage servicing rights ("MSRs"), collateralized loan obligations ("CLOs") held within the available-for-sale securities portfolio, trading loans and asset-backed trading securities.

- Derivative receivables included $34.9 billion of interest rate, credit, foreign exchange, equity and commodity contracts classified within level 3 at December 31, 2010. Included within this balance was $11.6 billion of structured credit derivatives with corporate debt underlying. In assessing JPMorgan Chase Bank, N.A.'s risk exposure to structured credit derivatives, JPMorgan Chase Bank, N.A. believes consideration should also be given to derivative liabilities with similar, and therefore offsetting, risk profiles. At December 31, 2010, $5.6 billion of level 3 derivative liabilities had risk characteristics similar to those of the derivative receivable assets classified in level 3.
- Mortgage servicing rights represent the fair value of future cash flows for performing specified mortgage servicing activities for others (predominantly with respect to residential mortgage loans). For a further description of the MSR asset, interest rate risk management and the valuation methodology used for MSRs, including valuation assumptions and sensitivities, see Note 18 on pages 98–100 of these Consolidated Financial Statements.
- CLOs totaling $13.5 billion were securities backed by corporate loans held in JPMorgan Chase Bank, N.A.'s AFS securities portfolio. Substantially all of these securities are rated "AAA," "AA" and "A" and had an average credit enhancement of 30%. Credit enhancement in CLOs is primarily in the form of subordination, which is a form of structural credit enhancement where realized losses associated with assets held by an issuing vehicle are allocated to issued tranches considering their relative seniority. For further discussion, see Note 13 on pages 52–56 of these Consolidated Financial Statements.
- Trading loans totaling $10.4 billion included $2.3 billion of nonagency residential mortgage whole loans and commercial mortgage loans held in the investment banking business for which there is limited price transparency; and $3.9 billion of reverse mortgages for which the principal risk sensitivities are mortality risk and home prices. The fair value of the commercial and residential mortgage loans is estimated by projecting expected cash flows, considering relevant borrower-specific and market factors, and discounting those cash flows at a rate reflecting current market liquidity. Loans are partially hedged by level 2 instruments, including credit default swaps and interest rate derivatives, which are observable and liquid.

*Consolidated Balance Sheets changes*

Level 3 assets (including assets measured at fair value on a nonrecurring basis) were 6% of total JPMorgan Chase Bank, N.A. assets and 13% of total assets measured at fair value at December 31, 2010. The following describes significant changes to level 3 assets during the year.

*For the year ended December 31, 2010*

Level 3 assets decreased by $7.9 billion during 2010, due to the following:

- $11.1 billion decrease in derivative receivables, predominantly driven by changes in credit spreads;
- A net increase of $2.8 billion due to the adoption of new accounting guidance related to VIEs. As a result of the adoption of the new guidance, there was an increase of $5.1 billion in other assets related to the reclassification of JPMorgan Chase Bank, N.A.'s share of its undivided interest in nonconsolidated credit card securitization trusts sponsored by an affiliate from loans, partially offset by a decrease of $2.3 billion in retained securitization interests in trusts consolidated by an affiliate that were eliminated;
- $1.9 billion decrease in MSRs. For a further discussion of the change, refer to Note 18 on pages 98–100 of these Consolidated Financial Statements;

- $1.8 billion increase in JPMorgan Chase Bank, N.A.'s undivided interests in nonconsolidated credit card trusts sponsored by an affiliate which is classified in other assets; and,
- $1.2 billion increase in asset-backed AFS securities predominantly driven by purchases of CLOs.

***Gains and Losses***

Gains and losses included in the tables for 2010, 2009 and 2008 included:

**2010**

Included in the tables for the year ended December 31, 2010

- $2.3 billion of losses on MSRs.

**2009**

Included in the tables for the year ended December 31, 2009

- $12.3 billion of net losses on derivatives primarily related to the tightening of credit spreads;
- $1.4 billion of gains related to trading–debt and equity assets primarily related to asset-backed securities;
- $5.7 billion of gains on MSRs; and
- $1.2 billion of losses related to structured note liabilities, predominantly due to volatility in the equity markets.

**2008**

Included in the tables for the year ended December 31, 2008

- Losses on trading-debt and equity instruments of approximately $5.0 billion, principally from mortgage-related transactions;
- Losses of $6.8 billion on MSRs;
- Losses of approximately $3.2 billion on leveraged loans;
- Net gains of $1.8 billion related to derivatives, principally due to changes in credit spreads and rate curves; and
- Gains of $4.0 billion related to structured notes, principally due to significant volatility in the fixed income, commodities and equity markets.

For further information on changes in the fair value of the MSRs, see Note 18 on pages 98–100 of these Consolidated Financial Statements.

**Additional disclosures about the fair value of financial instruments (including financial instruments not carried at fair value)**

U.S. GAAP requires disclosure of the estimated fair value of certain financial instruments, and the methods and significant assumptions used to estimate their fair value. Financial instruments within the scope of these disclosure requirements are included in the following table. However, certain financial instruments and all nonfinancial instruments are excluded from the scope of these disclosure requirements. Accordingly, the fair value disclosures provided in the following table include only a partial estimate of the fair value of JPMorgan Chase Bank, N.A.'s assets and liabilities. For example, JPMorgan Chase Bank, N.A. has developed long-term relationships with its customers through its deposit base and credit card accounts, commonly referred to as core deposit intangibles and credit card relationships. In the opinion of management, these items, in the aggregate, add significant value to JPMorgan Chase Bank, N.A., but their fair value is not disclosed in this Note.

*Financial instruments for which carrying value approximates fair value*

Certain financial instruments that are not carried at fair value on the Consolidated Balance Sheets are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These instruments include cash and due from banks; deposits with banks; federal funds sold; securities purchased under resale agreements and securities borrowed with short-dated maturities; short-term receivables and accrued interest receivable; commercial paper; federal funds purchased; securities loaned and sold under repurchase agreements with short-dated maturities; other borrowed funds (excluding advances from the Federal Home Loan Banks ("FHLBs")); accounts payable; and accrued liabilities. In addition, U.S. GAAP requires that the fair value for deposit liabilities with no stated maturity (i.e., demand, savings and certain money market deposits) be equal to their carrying value; recognition of the inherent funding value of these instruments is not permitted.

The following table presents the carrying value and estimated fair values of financial assets and liabilities.

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| December 31, (in billions, except where otherwise noted) | Carrying value | Estimated fair value | Appreciation/ (depreciation) | Carrying value | Estimated fair value | Appreciation/ (depreciation) |
| **Financial assets** | | | | | | |
| Assets for which fair value approximates carrying value | **$ 47.1** | **$ 47.1** | **$ —** | $ 87.0 | $ 87.0 | $ — |
| Accrued interest and accounts receivable (included **zero** and $2.3 at fair value) | **36.0** | **36.0** | **—** | 35.7 | 35.7 | — |
| Federal funds sold and securities purchased under resale agreements (included **$19.9** and $20.1 at fair value) | **175.2** | **175.2** | **—** | 165.7 | 165.7 | — |
| Securities borrowed (included **$14.0** and $7.0 at fair value) | **57.4** | **57.4** | **—** | 45.3 | 45.3 | — |
| Trading assets | **358.2** | **358.2** | **—** | 302.6 | 302.6 | — |
| Securities (included **$310.7** and $347.8 at fair value) | **310.8** | **310.8** | **—** | 347.9 | 347.9 | — |
| Loans (included **$1.0** and $0.6 at fair value)(a)(b) | **530.6** | **531.6** | **1.0** | 534.7 | 528.8 | (5.9) |
| Mortgage servicing rights at fair value | **13.4** | **13.4** | **—** | 15.3 | 15.3 | — |
| Other (included **$8.1** and $1.3 at fair value) | **41.1** | **41.3** | **0.2** | 34.4 | 34.3 | (0.1) |
| **Total financial assets** | **$ 1,569.8** | **$ 1,571.0** | **$ 1.2** | $ 1,568.6 | $ 1,562.6 | $ (6.0) |
| **Financial liabilities** | | | | | | |
| Deposits (included **$4.3** and $4.5 at fair value) | **$ 1,020.0** | **$ 1,021.1** | **$ (1.1)** | $ 1,024.0 | $ 1,025.1 | $ (1.1) |
| Federal funds purchased and securities loaned or sold under repurchase agreements (included **$2.6** and $2.2 at fair value) | **178.6** | **178.6** | **—** | 194.0 | 194.0 | — |
| Other borrowed funds (included **$7.1** and $4.8 at fair value) | **27.4** | **27.4** | **—** | 43.9 | 44.1 | (0.2) |
| Trading liabilities | **124.4** | **124.4** | **—** | 109.5 | 109.5 | — |
| Accounts payable and other liabilities (included **$127** million and $5 million at fair value) | **47.7** | **47.7** | **—** | 35.5 | 35.5 | — |
| Beneficial interests issued by consolidated VIEs (included **$0.4** and $0.7 at fair value) | **26.1** | **26.1** | **—** | 8.4 | 8.4 | — |
| Long-term debt and junior subordinated deferrable interest debentures (included **$20.8** and $27.9 at fair value) | **63.3** | **62.8** | **0.5** | 68.7 | 68.3 | 0.4 |
| **Total financial liabilities** | **$ 1,487.5** | **$ 1,488.1** | **$ (0.6)** | $ 1,484.0 | $ 1,484.9 | $ (0.9) |
| **Net appreciation/(depreciation)** | | | **$ 0.6** | | | $ (6.9) |

(a) For originated or purchased loans held for investment, other than PCI loans, the carrying value is the principal amount outstanding, net of the allowance for loan losses, net charge-offs, interest applied to principal (for loans accounted for on the cost recovery method), unamortized discounts and premiums, and deferred loan fees or costs. For a further discussion of JPMorgan Chase Bank, N.A.'s loan accounting framework, see Note 15 on pages 58–76 of these Consolidated Financial Statements.

(b) Fair value is typically estimated using a discounted cash flow model that incorporates the characteristics of the underlying loans (including principal, contractual interest rate and contractual fees) and key inputs, including expected lifetime credit losses, interest rates, prepayment rates, and primary origination or secondary market spreads. The difference between the estimated fair value and carrying value is the result of the different methodologies used to determine fair value as compared to carrying value. For example, credit losses are estimated for the asset's remaining life in a fair value calculation but are estimated for a loss emergence period (which is frequently shorter than remaining life) in a loan loss reserve calculation; future loan income (interest and fees) is incorporated in a fair value calculation but is generally not considered in a loan loss reserve calculation. For a further discussion of JPMorgan Chase Bank, N.A.'s methodologies for estimating the fair value of loans and lending-related commitments, see pages 14–15 of this Note.

The majority of JPMorgan Chase Bank, N.A.'s unfunded lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets, nor are they actively traded. The carrying value and estimated fair value of JPMorgan Chase Bank, N.A.'s wholesale lending-related commitments were as follows for the periods indicated.

| | **2010** | | 2009 | |
|---|---|---|---|---|
| December 31, (in billions) | Carrying value(a) | Estimated fair value | Carrying value(a) | Estimated fair value |
| Wholesale lending-related commitments | **$ 0.7** | **$ 0.9** | $ 0.9 | $ 1.3 |

(a) Represents the allowance for wholesale unfunded lending-related commitments. Excludes the current carrying values of the guarantee liability and the offsetting asset each recognized at fair value at the inception of guarantees.

JPMorgan Chase Bank, N.A. does not estimate the fair value of consumer lending-related commitments. In many cases, JPMorgan Chase Bank, N.A. can reduce or cancel these commitments by providing the borrower prior notice or, in some cases, without notice as permitted by law. For a further discussion of the valuation of lending-related commitments, see Loans and unfunded lending-related commitments on pages 14–15 of this Note.

**Trading assets and liabilities**

Trading assets include debt and equity instruments held for trading purposes that JPMorgan Chase Bank, N.A. owns ("long" positions), certain loans managed on a fair value basis and for which JPMorgan Chase Bank, N.A. has elected the fair value option, and physical commodities inventories that are generally accounted for at the lower of cost or fair value. Trading liabilities include debt and equity instruments that JPMorgan Chase Bank, N.A. has sold to other parties but does not own ("short" positions). JPMorgan Chase Bank, N.A. is obligated to purchase instruments at a future date to cover the short positions. Included in trading assets and trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. Trading assets and liabilities are carried at fair value on the Consolidated Balance Sheets. Balances reflect the reduction of securities owned (long positions) by the amount of securities sold but not yet purchased (short positions) when the long and short positions have identical Committee on Uniform Security Identification Procedures ("CUSIPs").

**Trading assets and liabilities–average balances**

Average trading assets and liabilities were as follows for the periods indicated.

| Year ended December 31, (in millions) | **2010** | 2009 | 2008 |
|---|---|---|---|
| Trading assets – debt and equity instruments[(a)] | **$ 252,926** | $ 213,483 | $ 268,986 |
| Trading assets – derivative receivables | **74,416** | 95,231 | 106,225 |
| Trading liabilities – debt and equity instruments[(a)(b)] | **53,824** | 41,188 | 55,921 |
| Trading liabilities – derivative payables | **68,291** | 74,412 | 84,411 |

(a) Balances reflect the reduction of securities owned (long positions) by the amount of securities sold, but not yet purchased (short positions) when the long and short positions have identical CUSIPs.
(b) Primarily represent securities sold, not yet purchased.

## Note 5 – Fair value option

The fair value option provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments not previously carried at fair value.

**Elections**

Elections were made by JPMorgan Chase Bank, N.A. to:

(a) Mitigate income statement volatility caused by the differences in the measurement basis of elected instruments (for example, certain instruments elected were previously accounted for on an accrual basis) while the associated risk management arrangements are accounted for on a fair value basis;

(b) Eliminate the complexities of applying certain accounting models (e.g., hedge accounting or bifurcation accounting for hybrid instruments); and

(c) Better reflect those instruments that are managed on a fair value basis.

Elections include the following:

- Loans purchased or originated as part of securitization warehousing activity, subject to bifurcation accounting, or managed on a fair value basis.
- Securities financing arrangements with an embedded derivative and/or a maturity of greater than one year.
- Owned beneficial interests in securitized financial assets that contain embedded credit derivatives, which would otherwise be required to be separately accounted for as a derivative instrument.
- Certain tax credits and other equity investments acquired as part of the Washington Mutual transaction.
- Structured notes issued as part of the investment banking business's client-driven activities. (Structured notes are financial instruments that contain embedded derivatives.)
- Long-term beneficial interests issued by the investment banking business's consolidated securitization trusts where the underlying assets are carried at fair value.

**Changes in fair value under the fair value option election**

The following table presents the changes in fair value included in the Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008, for items for which the fair value election was made. The profit and loss information presented below only includes the financial instruments that were elected to be measured at fair value; related risk management instruments, which are required to be measured at fair value, are not included in the table.

| | **2010** | | | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|---|---|---|
| December 31, (in millions) | Principal transactions | Other income | Total changes in fair value recorded | Principal transactions | Other income | Total changes in fair value recorded | Principal transactions | Other income | Total changes in fair value recorded |
| Federal funds sold and securities purchased under resale agreements | **$ 176** | **$ —** | **$ 176** | $ (533) | $ — | $ (533) | $ 1,116 | $ — | $ 1,116 |
| Securities borrowed | **31** | **—** | **31** | 82 | — | 82 | 29 | — | 29 |
| Trading assets: | | | | | | | | | |
| Debt and equity instruments, excluding loans | **345** | **(2)[c]** | **343** | 405 | 34[c] | 439 | (558) | (15)[c] | (573) |
| Loans reported as trading assets: | | | | | | | | | |
| Changes in instrument-specific credit risk | **921** | **(6)[c]** | **915** | 157 | (177)[c] | (20) | (8,869) | (283)[c] | (9,152) |
| Other changes in fair value | **(270)** | **4,449[c]** | **4,179** | 1,117 | 3,119[c] | 4,236 | 786 | 1,178[c] | 1,964 |
| Loans: | | | | | | | | | |
| Changes in instrument-specific credit risk | **47** | **—** | **47** | (69) | — | (69) | (1,210) | — | (1,210) |
| Other changes in fair value | **41** | **—** | **41** | 40 | — | 40 | (44) | — | (44) |
| Other assets | **—** | **(79)[d]** | **(79)** | — | (359)[d] | (359) | — | (168)[d] | (168) |
| Deposits[a] | **(566)** | **—** | **(566)** | (766) | — | (766) | (117) | — | (117) |
| Federal funds purchased and securities loaned or sold under repurchase agreements | **(31)** | **—** | **(31)** | 115 | — | 115 | (121) | — | (121) |
| Other borrowed funds[a] | **522** | **—** | **522** | (796) | — | (796) | 1,243 | — | 1,243 |
| Trading liabilities | **(19)** | **—** | **(19)** | 1 | — | 1 | 14 | — | 14 |
| Beneficial interests issued by consolidated VIEs | **(35)** | **—** | **(35)** | 3 | — | 3 | — | — | — |
| Other liabilities | **1** | **9[d]** | **10** | (132) | — | (132) | 421 | — | 421 |
| Long-term debt: | | | | | | | | | |
| Changes in instrument-specific credit risk[a] | **397** | **—** | **397** | (1,241) | — | (1,241) | 797 | — | 797 |
| Other changes in fair value[b] | **660** | **—** | **660** | (1,663) | — | (1,663) | 11,990 | — | 11,990 |

(a) Total changes in instrument-specific credit risk related to structured notes were $467 million, ($1.3) billion and $834 million for the years ended December 31, 2010, 2009 and 2008, respectively. These totals include adjustments for structured notes classified within deposits and other borrowed funds, as well as long-term debt.
(b) Structured notes are debt instruments with embedded derivatives that are tailored to meet a client's need for derivative risk in funded form. The embedded derivative is the primary driver of risk. The 2008 gain included in "Other changes in fair value" results from a significant decline in the value of certain structured notes where the embedded derivative is principally linked to either equity indices or commodity prices, both of which declined sharply during the third quarter of 2008. Although the risk associated with the structured notes is actively managed, the gains reported in this table do not include the income statement impact of such risk management instruments.
(c) Reported in mortgage fees and related income.
(d) Reported in other income.

**Determination of instrument-specific credit risk for items for which a fair value election was made**

The following describes how the gains and losses included in earnings during 2010, 2009 and 2008, which were attributable to changes in instrument-specific credit risk, were determined.

- Loans and lending-related commitments: For floating-rate instruments, all changes in value are attributed to instrument-specific credit risk. For fixed-rate instruments, an allocation of the changes in value for the period is made between those changes in value that are interest rate-related and changes in value that are credit-related. Allocations are generally based on an analysis of borrower-specific credit spread and recovery information, where available, or benchmarking to similar entities or industries.
- Long-term debt: Changes in value attributable to instrument-specific credit risk were derived principally from observable changes in JPMorgan Chase Bank, N.A.'s credit spread.
- Resale and repurchase agreements, securities borrowed agreements and securities lending agreements: Generally, for these types of agreements, there is a requirement that collateral be maintained with a market value equal to or in excess of the principal amount loaned; as a result, there would be no adjustment or an immaterial adjustment for instrument-specific credit risk related to these agreements.

**Difference between aggregate fair value and aggregate remaining contractual principal balance outstanding**

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of December 31, 2010 and 2009, for loans, long-term debt and long-term beneficial interests for which the fair value option has been elected.

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| December 31, (in millions) | Contractual principal outstanding | Fair value | Fair value over/(under) contractual principal outstanding | Contractual principal outstanding | Fair value | Fair value over/(under) contractual principal outstanding |
| **Loans** | | | | | | |
| **Performing loans 90 days or more past due** | | | | | | |
| Loans reported as trading assets | **$ —** | **$ —** | **$ —** | $ — | $ — | $ — |
| Loans | **—** | **—** | **—** | — | — | — |
| **Nonaccrual loans** | | | | | | |
| Loans reported as trading assets | **3,389** | **877** | **(2,512)** | 4,835 | 1,723 | (3,112) |
| Loans | **132** | **111** | **(21)** | 234 | 108 | (126) |
| **Subtotal** | **3,521** | **988** | **(2,533)** | 5,069 | 1,831 | (3,238) |
| **All other performing loans** | | | | | | |
| Loans reported as trading assets | **32,584** | **31,188** | **(1,396)** | 30,050 | 27,515 | (2,535) |
| Loans | **952** | **862** | **(90)** | 571 | 445 | (126) |
| **Total loans** | **$ 37,057** | **$33,038** | **$ (4,019)** | $ 35,690 | $ 29,791 | $ (5,899) |
| **Long-term debt** | | | | | | |
| Principal-protected debt | **$ 7,942**[(c)] | **$ 7,913** | **$ (29)** | $ 10,991[(c)] | $ 10,840 | $ (151) |
| Nonprincipal-protected debt[(a)] | **NA** | **12,906** | **NA** | NA | 17,025 | NA |
| **Total long-term debt** | **NA** | **$20,819** | **NA** | NA | $ 27,865 | NA |
| **Total long-term beneficial interests**[(a)(b)] | **NA** | **$ 354** | **NA** | NA | $ 736 | NA |

(a) Remaining contractual principal is not applicable to nonprincipal-protected notes. Unlike principal-protected notes, for which JPMorgan Chase Bank, N.A. is obligated to return a stated amount of principal at the maturity of the note, nonprincipal-protected notes do not obligate JPMorgan Chase Bank, N.A. to return a stated amount of principal at maturity, but to return an amount based on the performance of an underlying variable or derivative feature embedded in the note.

(b) Includes only nonprincipal protected debt at December 31, 2010 and 2009.

(c) Where JPMorgan Chase Bank, N.A. issues principal-protected zero-coupon or discount notes, the balance reflected as the remaining contractual principal is the final principal payment at maturity.

At December 31, 2010 and 2009, the contractual amount of letters of credit for which the fair value option was elected was $3.8 billion and $3.7 billion, respectively, with a corresponding fair value of $6 million at both December 31, 2010 and 2009. For further information regarding off-balance sheet commitments see Note 28 on pages 109–115 of these Consolidated Financial Statements.

## Note 6 – Credit risk concentrations

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

JPMorgan Chase Bank, N.A. regularly monitors various segments of its credit portfolio to assess potential concentration risks and to obtain collateral when deemed necessary. Senior management is significantly involved in the credit approval and review process, and risk levels are adjusted as needed to reflect management's risk tolerance.

In JPMorgan Chase Bank, N.A.'s wholesale portfolio, risk concentrations are evaluated primarily by industry and monitored regularly on both an aggregate portfolio level and on an individual customer basis. Management of JPMorgan Chase Bank, N.A.'s wholesale exposure is accomplished through loan syndication and participation, loan sales, securitizations, credit derivatives, use of master netting agreements, and collateral and other risk-reduction techniques. In the consumer portfolio, concentrations are evaluated primarily by product and by U.S. geographic region, with a key focus on trends and concentrations at the portfolio level, where potential risk concentrations can be remedied through changes in underwriting policies and portfolio guidelines.

JPMorgan Chase Bank, N.A. does not believe that its exposure to any particular loan product (e.g., option ARMs), industry segment (e.g., commercial real estate) or its exposure to residential real estate loans with high loan-to-value ratios results in a significant concentration of credit risk. Terms of loan products and collateral coverage are included in JPMorgan Chase Bank, N.A.'s assessment when extending credit and establishing its allowance for loan losses.

For further information regarding on–balance sheet credit concentrations by major product and/or geography, see Notes 15 and 16 on pages 58–76 and 77–81, respectively, of these Consolidated Financial Statements. For information regarding concentrations of off–balance sheet lending-related financial instruments by major product, see Note 28 on pages 109–115 of these Consolidated Financial Statements.

The table below presents both on–balance sheet and off–balance sheet wholesale- and consumer-related credit exposure by JPMorgan Chase Bank, N.A.'s three portfolio segments as of December 31, 2010, and 2009.

| | **2010** | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | | On-balance sheet | | | | On-balance sheet | | |
| December 31, (in millions) | Credit exposure | Loans | Derivatives | Off-balance sheet[(d)] | Credit exposure | Loans | Derivatives | Off-balance sheet[(d)] |
| **Wholesale**[(a)] | | | | | | | | |
| Real estate | **$ 63,995** | **$ 53,321** | **$ 830** | **$ 9,844** | $ 68,451 | $ 57,195 | $ 1,077 | $ 10,179 |
| Banks and finance companies | **62,520** | **21,738** | **17,466** | **23,316** | 51,064 | 14,389 | 14,977 | 21,698 |
| Healthcare | **40,706** | **5,754** | **2,015** | **32,937** | 35,012 | 4,477 | 1,846 | 28,689 |
| State and municipal governments | **34,715** | **5,226** | **4,924** | **24,565** | 33,375 | 4,515 | 4,800 | 24,060 |
| Asset managers | **28,218** | **6,970** | **6,212** | **15,036** | 23,705 | 5,894 | 5,630 | 12,181 |
| Consumer products | **27,279** | **7,777** | **973** | **18,529** | 26,957 | 7,880 | 1,056 | 18,021 |
| Oil and gas | **25,410** | **5,530** | **3,420** | **16,460** | 22,632 | 5,756 | 2,225 | 14,651 |
| Utilities | **25,366** | **3,674** | **3,104** | **18,588** | 26,766 | 5,175 | 2,943 | 18,648 |
| Retail and consumer services | **20,569** | **5,675** | **758** | **14,136** | 20,450 | 5,482 | 750 | 14,218 |
| Technology | **14,235** | **2,720** | **1,479** | **10,036** | 14,106 | 3,796 | 1,352 | 8,958 |
| Machinery and equipment manufacturing | **13,237** | **3,545** | **427** | **9,265** | 12,736 | 3,179 | 443 | 9,114 |
| Building materials/construction | **12,773** | **3,266** | **279** | **9,228** | 10,438 | 3,252 | 271 | 6,915 |
| Chemicals/plastics | **12,093** | **3,176** | **334** | **8,583** | 9,741 | 2,608 | 379 | 6,754 |
| Metals/mining | **11,100** | **3,267** | **726** | **7,107** | 12,506 | 3,410 | 1,117 | 7,979 |
| Business services | **11,072** | **3,712** | **345** | **7,015** | 10,599 | 3,587 | 381 | 6,631 |
| Central government | **10,858** | **1,118** | **5,765** | **3,975** | 9,210 | 1,703 | 5,154 | 2,353 |
| Insurance | **10,823** | **1,092** | **1,576** | **8,155** | 13,318 | 1,285 | 2,415 | 9,618 |
| Media | **10,807** | **3,669** | **273** | **6,865** | 12,314 | 4,160 | 319 | 7,835 |
| Telecom services | **10,664** | **1,508** | **1,332** | **7,824** | 11,162 | 2,042 | 1,226 | 7,894 |
| Holding companies | **10,410** | **3,836** | **853** | **5,721** | 15,972 | 4,360 | 1,000 | 10,612 |
| Transportation | **9,440** | **3,593** | **772** | **5,075** | 9,560 | 3,006 | 1,196 | 5,358 |
| Automotive | **8,947** | **1,973** | **237** | **6,737** | 9,247 | 2,439 | 343 | 6,465 |
| Securities firms and exchanges | **7,411** | **1,703** | **3,114** | **2,594** | 8,475 | 3,441 | 2,570 | 2,464 |
| Agriculture/paper manufacturing | **7,218** | **1,777** | **240** | **5,201** | 5,699 | 1,834 | 243 | 3,622 |
| Aerospace | **5,675** | **468** | **188** | **5,019** | 5,234 | 580 | 76 | 4,578 |
| All other[(b)] | **140,511** | **63,741** | **13,800** | **62,970** | 135,100 | 41,370 | 18,228 | 75,502 |
| **Subtotal** | **636,052** | **219,829** | **71,442** | **344,781** | 613,829 | 196,815 | 72,017 | 344,997 |
| Loans held-for-sale and loans at fair value | **4,112** | **4,112** | **—** | **—** | 3,219 | 3,219 | — | — |
| Interests in purchased receivables | **391** | **—** | **—** | **—** | 2,927 | — | — | — |
| **Total wholesale** | **640,555** | **223,941** | **71,442** | **344,781** | 619,975 | 200,034 | 72,017 | 344,997 |
| **Consumer, excluding credit card** | | | | | | | | |
| Home equity – senior lien | **34,609** | **21,076** | **—** | **13,533** | 46,622 | 27,376 | — | 19,246 |
| Home equity – junior lien | **82,634** | **56,991** | **—** | **25,643** | 111,280 | 74,049 | — | 37,231 |
| Prime mortgage, including option ARMs[(a)] | **67,389** | **66,123** | **—** | **1,266** | 67,005 | 65,351 | — | 1,654 |
| Subprime mortgage[(a)] | **9,849** | **9,849** | **—** | **—** | 12,522 | 12,522 | — | — |
| Auto[(a)] | **53,613** | **48,367** | **—** | **5,246** | 51,498 | 46,031 | — | 5,467 |
| Business banking | **26,501** | **16,799** | **—** | **9,702** | 25,996 | 16,956 | — | 9,040 |
| Student and other[(a)] | **15,796** | **15,217** | **—** | **579** | 16,915 | 14,726 | — | 2,189 |
| PCI-Home equity | **24,459** | **24,459** | **—** | **—** | 26,520 | 26,520 | — | — |
| PCI-Prime mortgage | **17,322** | **17,322** | **—** | **—** | 19,693 | 19,693 | — | — |
| PCI-Subprime mortgage | **5,398** | **5,398** | **—** | **—** | 5,993 | 5,993 | — | — |
| PCI-option ARMs | **25,584** | **25,584** | **—** | **—** | 29,039 | 29,039 | — | — |
| Loans held-for-sale | **154** | **154** | **—** | **—** | 2,142 | 2,142 | — | — |
| **Total consumer, excluding credit card** | **363,308** | **307,339** | **—** | **55,969** | 415,225 | 340,398 | — | 74,827 |
| **Credit Card** | | | | | | | | |
| Credit card - retained[(a)(c)] | **41,171** | **21,665** | **—** | **19,506** | 37,667 | 17,992 | — | 19,675 |
| Credit card - held-for-sale | **59** | **59** | **—** | **—** | — | — | — | — |
| **Total credit card** | **41,230** | **21,724** | **—** | **19,506** | 37,667 | 17,992 | — | 19,675 |
| **Total exposure** | **$ 1,045,093** | **$ 553,004** | **$ 71,442** | **$ 420,256** | $ 1,072,867 | $ 558,424 | $ 72,017 | $ 439,499 |

(a) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon the adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated its JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust and certain other consumer loan securitization entities, primarily mortgage-related. As a result, related receivables are now recorded as loans on the Consolidated Balance Sheet. For further information, see Note 17 on pages 82–97 of these Consolidated Financial Statements.
(b) For more information on exposures to SPEs included in all other, see Note 17 on pages 82–97 of these Consolidated Financial Statements.
(c) Excludes $38.3 billion of securitized credit card receivables at December 31, 2009.
(d) Represents lending-related financial instruments.

## Note 7 – Derivative instruments

Derivative instruments enable end-users to modify or mitigate exposure to credit or market risks. Counterparties to a derivative contract seek to obtain risks and rewards similar to those that could be obtained from purchasing or selling a related cash instrument without having to exchange upfront the full purchase or sales price. JPMorgan Chase Bank, N.A. makes markets in derivatives for customers and also uses derivatives to hedge or manage its own market risk exposures. The majority of JPMorgan Chase Bank, N.A.'s derivatives are entered into for market-making purposes.

*Trading derivatives*

JPMorgan Chase Bank, N.A. makes markets in a variety of derivatives in its trading portfolios to meet the needs of customers (both dealers and clients) and to generate revenue through this trading activity ("client derivatives"). Customers use derivatives to mitigate or modify interest rate, credit, foreign exchange, equity and commodity risks. JPMorgan Chase Bank, N.A. actively manages the risks from its exposure to these derivatives by entering into other derivative transactions or by purchasing or selling other financial instruments that partially or fully offset the exposure from client derivatives. JPMorgan Chase Bank, N.A. also seeks to earn a spread between the client derivatives and offsetting positions, and from the remaining open risk positions.

*Risk management derivatives*

JPMorgan Chase Bank, N.A. manages its market risk exposures using various derivative instruments.

Interest rate contracts are used to minimize fluctuations in earnings that are caused by changes in interest rates. Fixed-rate assets and liabilities appreciate or depreciate in market value as interest rates change. Similarly, interest income and expense increase or decrease as a result of variable-rate assets and liabilities resetting to current market rates, and as a result of the repayment and subsequent origination or issuance of fixed-rate assets and liabilities at current market rates. Gains or losses on the derivative instruments that are related to such assets and liabilities are expected to substantially offset this variability in earnings. JPMorgan Chase Bank, N.A. generally uses interest rate swaps, forwards and futures to manage the impact of interest rate fluctuations on earnings.

Foreign currency forward contracts are used to manage the foreign exchange risk associated with certain foreign currency–denominated (i.e., non-U.S.) assets and liabilities and forecasted transactions, as well as JPMorgan Chase Bank, N.A.'s net investments in certain non-U.S. subsidiaries or branches whose functional currencies are not the U.S. dollar. As a result of fluctuations in foreign currencies, the U.S. dollar–equivalent values of the foreign currency–denominated assets and liabilities or forecasted revenue or expense increase or decrease. Gains or losses on the derivative instruments related to these foreign currency–denominated assets or liabilities, or forecasted transactions, are expected to substantially offset this variability.

Commodities based forward and futures contracts are used to manage the price risk of certain inventory, including gold and base metals, in JPMorgan Chase Bank, N.A.'s commodities portfolio. Gains or losses on the forwards and futures are expected to substantially offset the depreciation or appreciation of the related inventory. Also in the commodities portfolio, electricity and natural gas futures and forwards contracts are used to manage price risk associated with energy-related tolling and load-serving contracts and investments.

JPMorgan Chase Bank, N.A. uses credit derivatives to manage the counterparty credit risk associated with loans and lending-related commitments. Credit derivatives compensate the purchaser when the entity referenced in the contract experiences a credit event, such as bankruptcy or a failure to pay an obligation when due. For a further discussion of credit derivatives, see the discussion in the Credit derivatives section on pages 39–41 of this Note.

For more information about risk management derivatives, see the risk management derivatives gains and losses table on page 38 of this Note, and the hedge accounting gains and losses tables on pages 36–37 of this Note.

*Accounting for derivatives*

All free-standing derivatives are required to be recorded on the Consolidated Balance Sheets at fair value. As permitted under U.S. GAAP, JPMorgan Chase Bank, N.A. nets derivative assets and liabilities, and the related cash collateral received and paid, when a legally enforceable master netting agreement exists between JPMorgan Chase Bank, N.A. and the derivative counterparty. The accounting for changes in value of a derivative depends on whether or not the transaction has been designated and qualifies for hedge accounting. Derivatives that are not designated as hedges are marked to market through earnings. The tabular disclosures on pages 34–41 of this Note provide additional information on the amount of, and reporting for, derivative assets, liabilities, gains and losses. For further discussion of derivatives embedded in structured notes, see Notes 4 and 5 on pages 12–29 and 29–31, respectively, of these Consolidated Financial Statements.

*Derivatives designated as hedges*

JPMorgan Chase Bank, N.A. applies hedge accounting to certain derivatives executed for risk management purposes – generally interest rate, foreign exchange and gold and base metal derivatives. However, JPMorgan Chase Bank, N.A. does not seek to apply hedge accounting to all of the derivatives involved in JPMorgan Chase Bank, N.A.'s risk management activities. For example, JPMorgan Chase Bank, N.A. does not apply hedge accounting to purchased credit default swaps used to manage the credit risk of loans and commitments, because of the difficulties in qualifying such contracts as hedges. For the same reason, JPMorgan Chase Bank, N.A. does not apply hedge accounting to certain interest rate and commodity derivatives used for risk management purposes.

To qualify for hedge accounting, a derivative must be highly effective at reducing the risk associated with the exposure being hedged. In addition, for a derivative to be designated as a hedge, the risk management objective and strategy must be documented. Hedge documentation must identify the derivative hedging instrument, the asset or liability or forecasted transaction and type of risk to be hedged, and how the effectiveness of the derivative is assessed prospectively and retrospectively. To assess effectiveness, JPMorgan Chase Bank, N.A. uses statistical methods such as regression analysis, as well as nonstatistical methods including dollar-value comparisons of the change in the fair value of the derivative to the change in the fair value or cash flows of the hedged item. The extent to which a derivative has been, and is expected to continue to be, effective at offsetting changes in the fair value or cash flows of the hedged item must be assessed and documented at least quarterly. Any hedge ineffectiveness (i.e., the amount by which the gain or loss on the designated derivative instrument does not exactly offset the change in the hedged item attributable to the hedged risk) must be reported in current-period earnings. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued.

There are three types of hedge accounting designations: fair value hedges, cash flow hedges and net investment hedges. JPMorgan Chase Bank, N.A. uses fair value hedges primarily to hedge fixed-rate long-term debt, AFS securities and gold and base metal inventory. For qualifying fair value hedges, the changes in the fair value of the derivative, and in the value of the hedged item, for the risk being hedged, are recognized in earnings. If the hedge relationship is terminated, then the fair value adjustment to the hedged item continues to be reported as part of the basis of the hedged item and for interest-bearing instruments is amortized to earnings as a yield adjustment. Derivative amounts affecting earnings are recognized consistent with the classification of the hedged item – primarily net interest income and principal transactions revenue.

JPMorgan Chase Bank, N.A. uses cash flow hedges to hedge the exposure to variability in cash flows from floating-rate financial instruments and forecasted transactions, primarily the rollover of short-term assets and liabilities, and foreign currency–denominated revenue and expense. For qualifying cash flow hedges, the effective portion of the change in the fair value of the derivative is recorded in other comprehensive income/(loss) ("OCI") and recognized in the Consolidated Statements of Income when the hedged cash flows affect earnings. Derivative amounts affecting earnings are recognized consistent with the classification of the hedged item – primarily interest income, interest expense, noninterest revenue and compensation expense. The ineffective portions of cash flow hedges are immediately recognized in earnings. If the hedge relationship is terminated, then the value of the derivative recorded in accumulated other comprehensive income/(loss) ("AOCI") is recognized in earnings when the cash flows that were hedged affect earnings. For hedge relationships that are discontinued because a forecasted transaction is not expected to occur according to the original hedge forecast, any related derivative values recorded in AOCI are immediately recognized in earnings.

JPMorgan Chase Bank, N.A. uses foreign currency hedges to protect the value of JPMorgan Chase Bank, N.A.'s net investments in certain non-U.S. subsidiaries or branches whose functional currencies are not the U.S. dollar. For foreign currency qualifying net investment hedges, changes in the fair value of the derivatives are recorded in the translation adjustments account within AOCI.

*Notional amount of derivative contracts*

The following table summarizes the notional amount of derivative contracts outstanding as of December 31, 2010 and 2009.

| | Notional amounts[b] | |
|---|---|---|
| December 31, (in billions) | **2010** | 2009 |
| **Interest rate contracts** | | |
| Swaps | **$ 46,371** | $ 47,762 |
| Futures and forwards | **8,607** | 6,575 |
| Written options | **4,069** | 4,550 |
| Purchased options | **3,958** | 4,563 |
| **Total interest rate contracts** | **63,005** | 63,450 |
| **Credit derivatives[a]** | **5,475** | 5,998 |
| **Foreign exchange contracts** | | |
| Cross-currency swaps | **2,566** | 2,213 |
| Spot, futures and forwards | **3,907** | 3,587 |
| Written options | **674** | 685 |
| Purchased options | **649** | 698 |
| **Total foreign exchange contracts** | **7,796** | 7,183 |
| **Equity contracts** | | |
| Swaps | **117** | 88 |
| Futures and forwards | **45** | 37 |
| Written options | **434** | 669 |
| Purchased options | **360** | 444 |
| **Total equity contracts** | **956** | 1,238 |
| **Commodity contracts** | | |
| Swaps | **338** | 224 |
| Spot, futures and forwards | **125** | 91 |
| Written options | **230** | 211 |
| Purchased options | **222** | 216 |
| **Total commodity contracts** | **915** | 742 |
| **Total derivative notional amounts** | **$ 78,147** | $ 78,611 |

(a) Primarily consists of credit default swaps. For more information on volumes and types of credit derivative contracts, see the Credit derivatives discussion on pages 39–41 of this Note.
(b) Represents the sum of gross long and gross short notional derivative contracts with third parties and JPMorgan Chase affiliates. For additional information on related party derivatives, see Note 23, on page 104 of these Consolidated Financial Statements.

While the notional amounts disclosed above give an indication of the volume of JPMorgan Chase Bank, N.A.'s derivative activity, the notional amounts significantly exceed, in JPMorgan Chase Bank, N.A.'s view, the possible losses that could arise from such transactions. For most derivative transactions, the notional amount does not change hands; it is used simply as a reference to calculate payments.

*Impact of derivatives on the Consolidated Balance Sheets*

The following tables summarize derivative fair values as of December 31, 2010 and 2009, by accounting designation (e.g., whether the derivatives were designated as hedges or not) and contract type.

**Free-standing derivatives**[a]

| | Derivative receivables | | | Derivative payables | | |
|---|---|---|---|---|---|---|
| **December 31, 2010** (in millions) | Not designated as hedges | Designated as hedges | Total derivative receivables | Not designated as hedges | Designated as hedges | Total derivative payables |
| **Trading assets and liabilities** | | | | | | |
| Interest rate | **$ 1,122,294** | **$ 1,820** | **$ 1,124,114** | **$ 1,093,673** | **$ 381** | **$ 1,094,054** |
| Credit | **129,839** | **—** | **129,839** | **125,967** | **—** | **125,967** |
| Foreign exchange[b] | **166,517** | **234** | **166,751** | **164,034** | **1,056** | **165,090** |
| Equity | **43,534** | **—** | **43,534** | **46,202** | **—** | **46,202** |
| Commodity | **40,798** | **24** | **40,822** | **38,414** | **2,078**[d] | **40,492** |
| **Gross fair value of trading assets and liabilities** | **$ 1,502,982** | **$ 2,078** | **$ 1,505,060** | **$ 1,468,290** | **$ 3,515** | **$ 1,471,805** |
| Netting adjustment[c] | | | **(1,433,618)** | | | **(1,400,650)** |
| **Carrying value of derivative trading assets and trading liabilities on the Consolidated Balance Sheets** | | | **$ 71,442** | | | **$ 71,155** |

| | Derivative receivables | | | Derivative payables | | |
|---|---|---|---|---|---|---|
| December 31, 2009 (in millions) | Not designated as hedges | Designated as hedges | Total derivative receivables | Not designated as hedges | Designated as hedges | Total derivative payables |
| **Trading assets and liabilities** | | | | | | |
| Interest rate | $ 1,149,497 | $ 1,239 | $ 1,150,736 | $ 1,120,784 | $ 114 | $ 1,120,898 |
| Credit | 171,028 | — | 171,028 | 165,214 | — | 165,214 |
| Foreign exchange[b] | 142,868 | 580 | 143,448 | 144,617 | 351 | 144,968 |
| Equity | 57,886 | — | 57,886 | 58,336 | — | 58,336 |
| Commodity | 30,234 | 39 | 30,273 | 29,232 | 194[d] | 29,426 |
| **Gross fair value of trading assets and liabilities** | $ 1,551,513 | $ 1,858 | $ 1,553,371 | $ 1,518,183 | $ 659 | $ 1,518,842 |
| Netting adjustment[c] | | | (1,481,354) | | | (1,454,485) |
| **Carrying value of derivative trading assets and trading liabilities on the Consolidated Balance Sheets** | | | $ 72,017 | | | $ 64,357 |

(a) Excludes structured notes for which the fair value option has been elected. See Note 5 on pages 29–31 of these Consolidated Financial Statements for further information.

(b) Excludes $21 million of foreign currency-denominated debt designated as a net investment hedge at December 31, 2010. JPMorgan Chase Bank, N.A. did not use foreign currency-denominated debt as a hedging instrument in 2009, and therefore there was no impact as of December, 31, 2009.

(c) U.S. GAAP permits the netting of derivative receivables and payables, and the related cash collateral received and paid when a legally enforceable master netting agreement exists between JPMorgan Chase Bank, N.A. and a derivative counterparty.

(d) Excludes $1.0 billion and $1.3 billion related to commodity derivatives that are embedded in a debt instrument and used as fair value hedging instruments that are recorded in the line item of the host contract (other borrowed funds) for December 31, 2010 and 2009, respectively.

*Derivative receivables and payables mark-to-market*

The following table summarizes the fair values of derivative receivables and payables, including those designated as hedges, by contract type after netting adjustments as of December 31, 2010 and 2009.

| | Trading assets – Derivative receivables | | Trading liabilities – Derivative payables | |
|---|---|---|---|---|
| December 31, (in millions) | **2010** | 2009 | **2010** | 2009 |
| **Contract type:** | | | | |
| Interest rate[(a)] | **$ 28,693** | $ 31,015 | **$ 23,996** | $ 17,888 |
| Credit[(a)] | **7,835** | 10,080 | **6,045** | 6,754 |
| Foreign exchange | **24,138** | 20,872 | **25,375** | 26,526 |
| Equity | **4,362** | 6,637 | **10,510** | 11,396 |
| Commodity | **6,414** | 3,413 | **5,229** | 1,793 |
| **Total** | **$ 71,442** | $ 72,017 | **$ 71,155** | $ 64,357 |

(a) In 2010, the reporting of cash collateral netting was enhanced to reflect a refined allocation by product. Prior periods have been revised to conform to the current presentation. The refinement resulted in an increase to interest rate derivative receivables, and an offsetting decrease to credit derivative receivables of $7.0 billion, and an increase to interest rate derivative payables and a corresponding decrease to credit derivative payables of $4.5 billion as of December 31, 2009.

The tables that follow reflect the derivative-related income statement impact by accounting designation for the years ended December 31, 2010 and 2009, respectively.

*Fair value hedge gains and losses*

The following tables present derivative instruments, by contract type, used in fair value hedge accounting relationships, as well as pretax gains/(losses) recorded on such derivatives and the related hedged items for the years ended December 31, 2010 and 2009. JPMorgan Chase Bank, N.A. includes gains/(losses) on the hedging derivative and the related hedged item in the same line item in the Consolidated Statements of Income.

| | Gains/(losses) recorded in income | | | Income statement impact due to: | |
|---|---|---|---|---|---|
| **Year ended December 31, 2010** (in millions) | Derivatives | Hedged items | Total income statement impact[(e)] | Hedge ineffectiveness[(f)] | Excluded components[(g)] |
| **Contract type** | | | | | |
| Interest rate[(a)] | **$ (77)** | **$ (109)** | **$ (186)** | **$ 40** | **$ (226)** |
| Foreign exchange[(b)(c)] | **278** | **(529)** | **(251)** | **—** | **(251)** |
| Commodity[(d)] | **(1,354)** | **1,882** | **528** | **—** | **528** |
| **Total** | **$ (1,153)** | **$ 1,244** | **$ 91** | **$ 40** | **$ 51** |

| | Gains/(losses) recorded in income | | | Income statement impact due to: | |
|---|---|---|---|---|---|
| Year ended December 31, 2009 (in millions) | Derivatives | Hedged items | Total income statement impact[(e)] | Hedge ineffectiveness[(f)] | Excluded components[(g)] |
| **Contract type** | | | | | |
| Interest rate[(a)] | $ (244) | $ 287 | $ 43 | $ (49) | $ 92 |
| Foreign exchange[(b)(c)] | (1,629) | 1,884 | 255 | — | 255 |
| Commodity[(d)] | (430) | 399 | (31) | — | (31) |
| **Total** | $ (2,303) | $ 2,570 | $ 267 | $ (49) | $ 316 |

(a) Primarily consists of hedges of the benchmark (e.g., London Interbank Offered Rate ("LIBOR")) interest rate risk of fixed-rate long-term debt and AFS securities. Gains and losses were recorded in net interest income.
(b) Primarily consists of hedges of the foreign currency risk of long-term debt and AFS securities for changes in spot foreign currency rates. Gains and losses related to the derivatives and the hedged items, due to changes in spot foreign currency rates, were recorded in principal transactions revenue.
(c) Consists of foreign exchange trading derivatives designated as fair value hedging instruments.
(d) Consists of overall fair value hedges of gold and base metal inventory. Gains and losses were recorded in principal transactions revenue.
(e) Total income statement impact for fair value hedges consists of hedge ineffectiveness and any components excluded from the assessment of hedge effectiveness. The related amount for the year ended December 31, 2008 was a net gain of $1 million.
(f) Hedge ineffectiveness is the amount by which the gain or loss on the designated derivative instrument does not exactly offset the gain or loss on the hedged item attributable to the hedged risk.
(g) Certain components of hedging derivatives are permitted to be excluded from the assessment of hedge effectiveness, such as forward points on a futures or forward contract. Amounts related to excluded components are recorded in current-period income.

*Cash flow hedge gains and losses*

The following tables present derivative instruments, by contract type, used in cash flow hedge accounting relationships, and the pretax gains/(losses) recorded on such derivatives, for the years ended December 31, 2010 and 2009, respectively. JPMorgan Chase Bank, N.A. includes the gain/(loss) on the hedging derivative in the same line item as the offsetting change in cash flows on the hedged item in the Consolidated Statements of Income.

| | Gains/(losses) recorded in income and other comprehensive income/(loss) | | | | |
|---|---|---|---|---|---|
| **Year ended December 31, 2010** (in millions) | Derivatives – effective portion reclassified from AOCI to income | Hedge ineffectiveness recorded directly in income[d] | Total income statement impact | Derivatives – effective portion recorded in OCI | Total change in OCI for period |
| **Contract type** | | | | | |
| Interest rate[a] | **$ 274**[c] | **$ 20** | **$ 294** | **$ 812** | **$ 538** |
| Foreign exchange[b] | **(82)** | **(3)** | **(85)** | **(141)** | **(59)** |
| **Total** | **$ 192** | **$ 17** | **$ 209** | **$ 671** | **$ 479** |

| | Gains/(losses) recorded in income and other comprehensive income/(loss) | | | | |
|---|---|---|---|---|---|
| Year ended December 31, 2009 (in millions) | Derivatives – effective portion reclassified from AOCI to income | Hedge ineffectiveness recorded directly in income[d] | Total income statement impact | Derivatives – effective portion recorded in OCI | Total change in OCI for period |
| **Contract type** | | | | | |
| Interest rate[a] | $ (157)[c] | $ (63) | $ (220) | $ 30 | $ 187 |
| Foreign exchange[b] | 279 | — | 279 | 693 | 414 |
| **Total** | $ 122 | $ (63) | $ 59 | $ 723 | $ 601 |

(a) Primarily consists of benchmark interest rate hedges of LIBOR-indexed floating-rate assets and floating-rate liabilities. Gains and losses were recorded in net interest income.

(b) Primarily consists of hedges of the foreign currency risk of non–U.S. dollar–denominated revenue and expense. The income statement classification of gains and losses follows the hedged item – primarily net interest income, compensation expense and other expense.

(c) In 2010, JPMorgan Chase Bank, N.A. reclassified a $25 million loss from accumulated other comprehensive income ("AOCI") to earnings because JPMorgan Chase Bank, N.A. determined that it is probable that forecasted interest payment cash flows related to certain wholesale deposits will not occur. JPMorgan Chase Bank, N.A. did not experience forecasted transactions that failed to occur for the year ended December 31, 2009.

(d) Hedge ineffectiveness is the amount by which the cumulative gain or loss on the designated derivative instrument exceeds the present value of the cumulative expected change in cash flows on the hedged item attributable to the hedged risk. Hedge ineffectiveness recorded directly in income for cash flow hedges was a net gain of $18 million for the year ended December 31, 2008.

Over the next 12 months, JPMorgan Chase Bank, N.A. expects that $340 million (after-tax) of net losses recorded in AOCI at December 31, 2010, related to cash flow hedges will be recognized in income. The maximum length of time over which forecasted transactions are hedged is 10 years, and such transactions primarily relate to core lending and borrowing activities.

*Net investment hedge gains and losses*

The following table presents hedging instruments, by contract type, that were used in net investment hedge accounting relationships, and the pretax gains/(losses) recorded on such instruments for the years ended December 31, 2010 and 2009.

| | Gains/(losses) recorded in income and other comprehensive income/(loss) | | | |
|---|---|---|---|---|
| Year ended | Hedging instruments – excluded components recorded directly in income[a] | | Hedging instruments – effective portion recorded in OCI | |
| December 31, (in millions) | **2010** | 2009 | **2010** | 2009 |
| **Contract type** | | | | |
| Foreign exchange derivatives | **$ (125)** | $ (101) | **$ (123)** | $ (389) |
| Foreign currency denominated debt | **—** | NA | **41** | NA |
| **Total** | **$ (125)** | $ (101) | **$ (82)** | $ (389) |

(a) Certain components of hedging derivatives are permitted to be excluded from the assessment of hedge effectiveness, such as forward points on a futures or forward contract. Amounts related to excluded components are recorded in current-period income. There was no ineffectiveness for net investment hedge accounting relationships during 2010 and 2009.

*Risk management derivatives gains and losses (not designated as hedging instruments)*

The following table presents nontrading derivatives, by contract type, that were not designated in hedge accounting relationships, and the pretax gains/(losses) recorded on such derivatives for the years ended December 31, 2010 and 2009. These derivatives are risk management instruments used to mitigate or transform market risk exposures arising from banking activities other than trading activities, which are discussed separately below.

| Year ended December 31, | Derivatives gains/(losses) recorded in income | |
|---|---|---|
| (in millions) | **2010** | 2009 |
| **Contract type** | | |
| Interest rate[(a)] | **$ 5,008** | $ (3,102) |
| Credit[(b)] | **(237)** | (3,222) |
| Foreign exchange[(c)] | **(69)** | (56) |
| Equity[(b)] | **—** | (9) |
| Commodity[(b)] | **—** | — |
| **Total** | **$ 4,702** | $ (6,389) |

(a) Gains and losses were recorded in principal transactions revenue, mortgage fees and related income, and net interest income.

(b) Gains and losses were recorded in principal transactions revenue.

(c) Gains and losses were recorded in principal transactions revenue and net interest income.

*Trading derivative gains and losses*

JPMorgan Chase Bank, N.A. has elected to present derivative gains and losses related to its trading activities together with the cash instruments with which they are risk managed. All amounts are recorded in principal transactions revenue in the Consolidated Statements of Income for the years ended December 31, 2010 and 2009. The amounts below do not represent a comprehensive view of JPMorgan Chase Bank, N.A.'s trading activities because they do not include certain revenue associated with those activities, including net interest income earned on cash instruments used in trading activities and gains and losses on cash instruments that are risk managed without derivative instruments.

| Year ended December 31, | Gains/(losses) recorded in principal transactions revenue | |
|---|---|---|
| (in millions) | **2010** | 2009 |
| **Type of instrument** | | |
| Interest rate | **$ 577** | $ 4,691 |
| Credit | **3,080** | 4,599 |
| Foreign exchange[(a)] | **1,844** | 2,690 |
| Equity | **1,359** | 1,008 |
| Commodity | **63** | 668 |
| **Total** | **$ 6,923** | $ 13,656 |

(a) In 2010, the reporting of trading gains and losses was enhanced to include trading gains and losses related to certain trading derivatives designated as fair value hedging instruments. Prior period amounts have been revised to conform to the current presentation.

*Credit risk, liquidity risk and credit-related contingent features*

In addition to the specific market risks introduced by each derivative contract type, derivatives expose JPMorgan Chase Bank, N.A. to credit risk – the risk that derivative counterparties may fail to meet their payment obligations under the derivative contracts and the collateral, if any, held by JPMorgan Chase Bank, N.A. proves to be of insufficient value to cover the payment obligation. It is the policy of JPMorgan Chase Bank, N.A. to enter into legally enforceable master netting agreements as well as to actively pursue the use of collateral agreements to mitigate derivative counterparty credit risk. The amount of derivative receivables reported on the Consolidated Balance Sheets is the fair value of the derivative contracts after giving effect to legally enforceable master netting agreements and cash collateral held by JPMorgan Chase Bank, N.A. These amounts represent the cost to JPMorgan Chase Bank, N.A. to replace the contracts at then-current market rates should the counterparty default.

While derivative receivables expose JPMorgan Chase Bank, N.A. to credit risk, derivative payables expose JPMorgan Chase Bank, N.A. to liquidity risk, as the derivative contracts typically require JPMorgan Chase Bank, N.A. to post cash or securities collateral with counterparties as the mark-to-market ("MTM") of the contracts moves in the counterparties' favor, or upon specified downgrades in JPMorgan Chase Bank, N.A.'s and its subsidiaries' respective credit ratings. Certain derivative contracts also provide for termination of the contract, generally upon a downgrade of either JPMorgan Chase Bank, N.A. or the counterparty, at the fair value of the derivative contracts. The aggregate fair value of net derivative payables that contain contingent collateral or termination features triggered upon a downgrade was $15.1 billion and $19.6 billion at December 31, 2010 and 2009, respectively, for which JPMorgan Chase Bank, N.A. has posted collateral of $10.9 billion and $20.4 billion, respectively, in the normal course of business. At December 31, 2010 and 2009, the impact of a single-notch and two-notch ratings downgrade to JPMorgan Chase Bank, N.A. and its subsidiaries, would have required $1.4 billion and $2.9 billion, respectively, and $1.1 billion and $2.1 billion, respectively, of additional collateral to be posted by JPMorgan Chase Bank, N.A. In addition, at December 31, 2010 and 2009, the impact of single-notch and two-notch ratings downgrades to JPMorgan Chase Bank, N.A. and its subsidiaries, related to contracts with termination triggers would have required JPMorgan Chase Bank, N.A. to settle trades with a fair value of $430 million and $1.0 billion, respectively, and $260 million and $270 million, respectively.

The following table shows the current credit risk of derivative receivables after netting adjustments, and the current liquidity risk of derivative payables after netting adjustments, as of December 31, 2010 and 2009.

| | Derivative receivables | | Derivative payables | |
|---|---|---|---|---|
| December 31, (in millions) | **2010** | 2009 | **2010** | 2009 |
| Gross derivative fair value | **$ 1,505,060** | $ 1,553,371 | **$ 1,471,805** | $ 1,518,842 |
| Netting adjustment – offsetting receivables/payables | **(1,362,503)** | (1,416,053) | **(1,362,502)** | (1,416,053) |
| Netting adjustment – cash collateral received/paid | **(71,115)** | (65,301) | **(38,148)** | (38,432) |
| **Carrying value on Consolidated Balance Sheets** | **$ 71,442** | $ 72,017 | **$ 71,155** | $ 64,357 |

In addition to the collateral amounts reflected in the table above, at December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. had received liquid securities and other cash collateral in the amount of $17.1 billion and $15.5 billion, respectively, and had posted $10.0 billion and $11.2 billion, respectively. JPMorgan Chase Bank, N.A. also receives and delivers collateral at the initiation of derivative transactions, which is available as security against potential exposure that could arise should the fair value of the transactions move in JPMorgan Chase Bank, N.A.'s or client's favor, respectively. Furthermore, JPMorgan Chase Bank, N.A. and its counterparties hold collateral related to contracts that have a non-daily call frequency for collateral to be posted, and collateral that JPMorgan Chase Bank, N.A. or a counterparty has agreed to return but has not yet settled as of the reporting date. At December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. had received $12.0 billion and $13.4 billion, respectively, and delivered $2.8 billion and $1.0 billion, respectively, of such additional collateral. These amounts were not netted against the derivative receivables and payables in the table above, because, at an individual counterparty level, the collateral exceeded the fair value exposure at December 31, 2010 and 2009.

*Credit derivatives*

Credit derivatives are financial instruments whose value is derived from the credit risk associated with the debt of a third-party issuer (the reference entity) and which allow one party (the protection purchaser) to transfer that risk to another party (the protection seller). Credit derivatives expose the protection purchaser to the creditworthiness of the protection seller, as the protection seller is required to make payments under the contract when the reference entity experiences a credit event, such as a bankruptcy, a failure to pay its obligation or a restructuring. The seller of credit protection receives a premium for providing protection but has the risk that the underlying instrument referenced in the contract will be subject to a credit event.

JPMorgan Chase Bank, N.A. is both a purchaser and seller of protection in the credit derivatives market and uses these derivatives for two primary purposes. First, in its capacity as a market-maker in the dealer/client business, JPMorgan Chase Bank, N.A. actively risk manages a portfolio of credit derivatives by purchasing and selling credit protection, predominantly on corporate debt obligations, to meet the needs of customers. As a seller of protection, JPMorgan Chase Bank, N.A.'s exposure to a given reference entity may be offset partially, or entirely, with a contract to purchase protection from another counterparty on the same or similar reference entity. Second, JPMorgan Chase Bank, N.A. uses credit derivatives to mitigate credit risk associated with its overall derivative receivables and traditional commercial credit lending exposures (loans and unfunded commitments) as well as to manage its exposure to residential and commercial mortgages. See Note 4 on pages 12–29 of these Consolidated Financial Statements for further information on JPMorgan Chase Bank, N.A.'s mortgage-related exposures. In accomplishing the above, JPMorgan Chase Bank, N.A. uses different types of credit derivatives. Following is a summary of various types of credit derivatives.

*Credit default swaps*

Credit derivatives may reference the credit of either a single reference entity ("single-name") or a broad-based index. JPMorgan Chase Bank, N.A. purchases and sells protection on both single-name and index-reference obligations. Single-name CDS and index CDS contracts are OTC derivative contracts. Single-name CDS are used to manage the default risk of a single reference entity, while index CDS contracts are used to manage the credit risk associated with the broader credit markets or credit market segments. Like the S&P 500 and other market indices, a CDS index comprises a portfolio of CDS across many reference entities. New series of CDS indices are periodically established with a new underlying portfolio of reference entities to reflect changes in the credit markets. If one of the reference entities in the index experiences a credit event, then the reference entity that defaulted is removed from the index. CDS can also be referenced against specific portfolios of reference names or against customized exposure levels based on specific client demands: for example, to provide protection against the first $1 million of realized credit losses in a $10 million portfolio of exposure. Such structures are commonly known as tranche CDS.

For both single-name CDS contracts and index CDS contracts, upon the occurrence of a credit event, under the terms of a CDS contract neither party to the CDS contract 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, also known as the recovery value. The protection purchaser does not need to hold the debt instrument of the underlying reference entity in order to receive amounts due under the CDS contract when a credit event occurs.

*Credit-related notes*

A credit-related note is a funded credit derivative where the issuer of the credit-related note purchases from the note investor credit protection on a referenced entity. Under the contract, the investor pays the

issuer the par value of the note at the inception of the transaction, and in return, the issuer pays periodic payments to the investor, based on the credit risk of the referenced entity. The issuer also repays the investor the par value of the note at maturity unless the reference entity experiences a specified credit event. If a credit event occurs, the issuer is not obligated to repay the par value of the note, but rather, the issuer pays the investor the difference between the par value of the note and the fair value of the defaulted reference obligation at the time of settlement. Neither party to the credit-related note has recourse to the defaulting reference entity. For a further discussion of credit-related notes, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

Effective July 1, 2010, JPMorgan Chase Bank, N.A. adopted new accounting guidance prospectively related to credit derivatives embedded in beneficial interests in securitized financial assets, which resulted in the election of the fair value option for certain instruments in the AFS securities portfolio. The related cumulative effect adjustment increased retained earnings and decreased accumulated other comprehensive income by $15 million, respectively, as of July 1, 2010.

The following table presents a summary of the notional amounts of credit derivatives and credit-related notes JPMorgan Chase Bank, N.A. sold and purchased as of December 31, 2010 and 2009. Upon a credit event, JPMorgan Chase Bank, N.A. as seller of protection would typically pay out only a percentage of the full notional amount of net protection sold, as the amount actually required to be paid on the contracts takes into account the recovery value of the reference obligation at the time of settlement. JPMorgan Chase Bank, N.A. manages the credit risk on contracts to sell protection by purchasing protection with identical or similar underlying reference entities. Other purchased protection referenced in the following table includes credit derivatives bought on related, but not identical, reference positions (including indices, portfolio coverage and other reference points) as well as protection purchased through credit-related notes.

JPMorgan Chase Bank, N.A. does not use notional amounts as the primary measure of risk management for credit derivatives, because the notional amount does not take into account the probability of the occurrence of a credit event, the recovery value of the reference obligation, or related cash instruments and economic hedges.

**Total credit derivatives and credit-related notes**

| | Maximum payout/Notional amount | | | |
|---|---|---|---|---|
| **December 31, 2010** (in millions) | Protection sold | Protection purchased with identical underlyings[c] | Net protection (sold)/purchased[d] | Other protection purchased[e] |
| **Credit derivatives** | | | | |
| Credit default swaps | **$(2,661,549)** | **$ 2,652,945** | **$ (8,604)** | **$ 32,477** |
| Other credit derivatives[a] | **(93,757)** | **10,016** | **(83,741)** | **24,234** |
| **Total credit derivatives** | **(2,755,306)** | **2,662,961** | **(92,345)** | **56,711** |
| Credit-related notes[b] | **(1,977)** | **—** | **(1,977)** | **2,990** |
| **Total** | **$(2,757,283)** | **$ 2,662,961** | **$ (94,322)** | **$ 59,701** |

| | Maximum payout/Notional amount | | | |
|---|---|---|---|---|
| December 31, 2009 (in millions) | Protection sold | Protection purchased with identical underlyings[c] | Net protection (sold)/purchased[d] | Other protection purchased[e] |
| **Credit derivatives** | | | | |
| Credit default swaps | $ (2,939,912) | $ 2,979,923 | $ 40,011 | $ 27,380 |
| Other credit derivatives[a] | (10,575) | 9,290 | (1,285) | 30,473 |
| **Total credit derivatives** | (2,950,487) | 2,989,213 | 38,726 | 57,853 |
| Credit-related notes | (4,031) | — | (4,031) | 1,596 |
| **Total** | $ (2,954,518) | $ 2,989,213 | $ 34,695 | $ 59,449 |

(a) Primarily consists of total return swaps and credit default swap options.
(b) As a result of the adoption of new accounting guidance, effective July 1, 2010, includes beneficial interests in securitized financial assets that contain embedded credit derivatives.
(c) Represents the total notional amount of protection purchased where the underlying reference instrument is identical to the reference instrument on protection sold; the notional amount of protection purchased for each individual identical underlying reference instrument may be greater or lower than the notional amount of protection sold.
(d) Does not take into account the fair value of the reference obligation at the time of settlement, which would generally reduce the amount the seller of protection pays to the buyer of protection in determining settlement value.
(e) Represents protection purchased by JPMorgan Chase Bank, N.A. through single-name and index credit default swap or credit-related notes.

The following tables summarize the notional and fair value amounts of credit derivatives and credit-related notes as of December 31, 2010 and 2009, where JPMorgan Chase Bank, N.A. is the seller of protection. The maturity profile is based on the remaining contractual maturity of the credit derivative contracts. The ratings profile is based on the rating of the reference entity on which the credit derivative contract is based. The ratings and maturity profile of protection purchased are comparable to the profile reflected below.

**Protection sold – credit derivatives and credit-related notes ratings[(a)]/maturity profile**

| **December 31, 2010** (in millions) | <1 year | 1–5 years | >5 years | Total notional amount | Fair value[(b)] |
|---|---|---|---|---|---|
| **Risk rating of reference entity** | | | | | |
| Investment-grade | **$ (175,659)** | **$ (1,194,726)** | **$ (337,108)** | **$ (1,707,493)** | **$ (17,293)** |
| Noninvestment-grade | **(148,923)** | **(703,136)** | **(197,731)** | **(1,049,790)** | **(60,183)** |
| **Total** | **$ (324,582)** | **$ (1,897,862)** | **$ (534,839)** | **$ (2,757,283)** | **$ (77,476)** |

| December 31, 2009 (in millions) | <1 year | 1–5 years | >5 years | Total notional amount | Fair value[(b)] |
|---|---|---|---|---|---|
| **Risk rating of reference entity:** | | | | | |
| Investment-grade | $ (215,585) | $ (1,140,207) | $ (367,016) | $ (1,722,808) | $ (16,595) |
| Noninvestment-grade | (150,119) | (807,300) | (274,291) | (1,231,710) | (90,810) |
| **Total** | $ (365,704) | $ (1,947,507) | $ (641,307) | $ (2,954,518) | $ (107,405) |

(a) The ratings scale is based on JPMorgan Chase Bank, N.A.'s internal ratings, which generally correspond to ratings as defined by S&P and Moody's.
(b) Amounts are shown on a gross basis, before the benefit of legally enforceable master netting agreements and cash collateral held by JPMorgan Chase Bank, N.A.

## Note 8 – Noninterest revenue

### Investment banking fees

This revenue category includes advisory and equity and debt underwriting fees. Advisory fees are recognized as revenue when the related services have been performed and the fee has been earned. Underwriting fees are recognized as revenue when JPMorgan Chase Bank, N.A. has rendered all services to the issuer and is entitled to collect the fee from the issuer, as long as there are no other contingencies associated with the fee (e.g., the fee is not contingent upon the customer obtaining financing). Underwriting fees are net of syndicate expense; JPMorgan Chase Bank, N.A. recognizes credit arrangement and syndication fees as revenue after satisfying certain retention, timing and yield criteria.

The following table presents the components of investment banking fees.

| Year ended December 31, (in millions) | **2010** | 2009 | 2008 |
|---|---|---|---|
| Underwriting: | | | |
| Equity | **$ 759** | $ 1,295 | $ 708 |
| Debt | **1,697** | 1,458 | 1,171 |
| **Total underwriting** | **2,456** | 2,753 | 1,879 |
| Advisory[(a)] | **648** | 781 | 796 |
| **Total investment banking fees** | **$ 3,104** | $ 3,534 | $ 2,675 |

(a) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated its JPMorgan Chase Bank, N.A.-administered multi-seller conduits. The consolidation of the conduits did not significantly change JPMorgan Chase Bank, N.A.'s net income as a whole; however, it did affect the classification of items on JPMorgan Chase Bank, N.A.'s Consolidated Statements of Income. As a result, certain advisory fees were considered intercompany and eliminated, and the fees charged by the consolidated multi-seller conduits to its customers were classified as lending-and-deposit-related fees.

### Principal transactions

Principal transactions revenue consists of realized and unrealized gains and losses from trading activities (including physical commodities inventories that are generally accounted for at the lower of cost or fair value), changes in fair value associated with financial instruments held by the investment banking business for which the fair value option was elected, and loans held-for-sale within the wholesale lines of business.

### Lending- and deposit-related fees

This revenue category includes fees from loan commitments, standby letters of credit, financial guarantees, deposit-related fees in lieu of compensating balances, cash management-related activities or transactions, deposit accounts and other loan-servicing activities. These fees are recognized over the period in which the related service is provided.

### Asset management, administration and commissions

This revenue category includes fees from investment management and related services, custody, brokerage services, insurance premiums and commissions, and other products. These fees are recognized over the period in which the related service is provided. Performance-based fees, which are earned based on exceeding certain benchmarks or other performance targets, are accrued and recognized at the end of the performance period in which the target is met.

The following table presents the components of asset management, administration and commissions.

| Year ended December 31, (in millions) | **2010** | 2009 | 2008 |
|---|---|---|---|
| **Total asset management fees** | **$ 1,345** | $ 1,385 | $ 1,509 |
| Total administration fees[(a)] | **1,884** | 1,769 | 2,263 |
| Commission and other fees: | | | |
| Brokerage commissions | **1,318** | 1,300 | 1,780 |
| All other commissions and fees | **4,818** | 4,546 | 4,042 |
| **Total commissions and fees** | **6,136** | 5,846 | 5,822 |
| **Total asset management, administration and commissions** | **$ 9,365** | $ 9,000 | $ 9,594 |

(a) Includes fees for custody, securities lending, funds services and securities clearance.

### Mortgage fees and related income

This revenue category primarily reflects the retail financial services business's mortgage banking revenue, including: fees and income derived from mortgages originated with the intent to sell; mortgage sales and servicing including losses related to the repurchase of previously-sold loans; the impact of risk management activities

associated with the mortgage pipeline, warehouse loans and MSRs; and revenue related to any residual interests held from mortgage securitizations. This revenue category also includes gains and losses on sales and lower of cost or fair value adjustments for mortgage loans held-for-sale, as well as changes in fair value for mortgage loans originated with the intent to sell and measured at fair value under the fair value option. Changes in the fair value of the retail financial services business's mortgage servicing rights are reported in mortgage fees and related income. Net interest income from mortgage loans, and securities gains and losses on AFS securities used in mortgage-related risk management activities, are recorded in interest income and securities gains/(losses), respectively. For a further discussion of MSRs, see Note 18 on pages 98–100 of these Consolidated Financial Statements.

**Credit card income**

The revenue related to credit cards primarily results from a participating arrangement with a bank affiliate of JPMorgan Chase Bank, N.A. and from the credit card business in Canada.

This revenue category includes interchange income from credit and debit cards. Prior to 2010, this revenue category included servicing fees earned in connection with securitization activities. Effective January 1, 2010, JPMorgan Chase Bank, N.A. consolidated its JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust (See Note 17 on pages 82–97 of these Consolidated Financial Statement) and, as a result, the servicing fees were eliminated in consolidation. Volume-related payments to partners and expense for rewards programs are netted against interchange income; expense related to rewards programs are recorded when the rewards are earned by the customer. Other fee revenue is recognized as earned, except for annual fees, which are deferred and recognized on a straight-line basis over the 12-month period to which they pertain. Direct loan origination costs are also deferred and recognized over a 12-month period. In addition, due to the consolidation of Chase Paymentech Solutions in the fourth quarter of 2008, this category now includes net fees earned for processing card transactions for merchants.

## Note 9 – Interest income and Interest expense

Interest income and interest expense is recorded in the Consolidated Statements of Income and classified based on the nature of the underlying asset or liability. Interest income and interest expense includes the current-period interest accruals for financial instruments measured at fair value, except for financial instruments containing embedded derivatives that would be separately accounted for in accordance with U.S. GAAP absent the fair value option election; for those instruments, all changes in fair value, including any interest elements, are reported in principal transactions revenue. For financial instruments that are not measured at fair value, the related interest is included within interest income or interest expense, as applicable.

Details of interest income and interest expense were as follows.

| Year ended December 31, (in millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Interest income** | | | |
| Loans | **$ 24,428** | $ 28,479 | $ 31,049 |
| Securities | **9,454** | 11,993 | 6,213 |
| Trading assets | **6,814** | 6,979 | 11,071 |
| Federal funds sold and securities purchased under resale agreements | **1,590** | 1,513 | 5,805 |
| Securities borrowed | **395** | 334 | 1,436 |
| Deposits with banks | **315** | 860 | 1,765 |
| Other assets[(a)] | **(45)** | (65) | 98 |
| **Total interest income[(b)]** | **42,951** | 50,093 | 57,437 |
| **Interest expense** | | | |
| Interest-bearing deposits | **3,718** | 5,231 | 15,705 |
| Short-term and other liabilities[(c)] | **2,164** | 3,954 | 8,234 |
| Long-term debt | **1,009** | 1,216 | 1,729 |
| Beneficial interests issued by consolidated VIEs | **129** | 101 | 252 |
| **Total interest expense[(b)]** | **7,020** | 10,502 | 25,920 |
| **Net interest income** | **$ 35,931** | $ 39,591 | $ 31,517 |
| Provision for credit losses | **9,406** | 22,712 | 14,704 |
| Provision for credit losses – accounting conformity[(d)] | **—** | — | 1,534 |
| **Total provision for credit losses** | **$ 9,406** | $ 22,712 | $ 16,238 |
| **Net interest income after provision for credit losses** | **$ 26,525** | $ 16,879 | $ 15,279 |

(a) Predominantly margin loans.
(b) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon the adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated its JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust, its JPMorgan Chase Bank, N.A.-administered multi-seller conduits and certain other consumer loan securitization entities, primarily mortgage-related. The consolidation of these VIEs did not significantly change JPMorgan Chase Bank, N.A.'s total net income. However, it did affect the classification of items on JPMorgan Chase Bank, N.A.'s Consolidated Statements of Income; as a result of the adoption of the guidance, certain noninterest revenue was eliminated in consolidation, offset by the recognition of interest income, interest expense, and provision for credit losses.
(c) Includes brokerage customer payables.
(d) 2008 includes an accounting conformity loan loss reserve provision related to the acquisition of Washington Mutual's banking operations.

## Note 10 – Pension and other postretirement employee benefit plans

JPMorgan Chase Bank, N.A.'s defined benefit pension plans and the United Kingdom ("U.K.") other postretirement employee benefit ("OPEB") plan are accounted for in accordance with U.S. GAAP for retirement benefits.

*Defined benefit pension plans and OPEB plan*

Substantially all of JPMorgan Chase Bank, N.A.'s U.S. employees are provided benefits through JPMorgan Chase's qualified noncontributory, U.S. defined benefit pension plan. In addition, JPMorgan Chase Bank, N.A. offers postretirement medical and life insurance benefits to certain retirees and postretirement medical benefits to qualifying U.S. employees through JPMorgan Chase plans. These JPMorgan Chase plans are discussed in the JPMorgan Chase pension and OPEB plans section below.

JPMorgan Chase Bank, N.A. offers benefits through defined benefit pension plans to qualifying employees in certain non-U.S. locations and OPEB to qualifying U.K. employees. The U.K. OPEB plan is unfunded. JPMorgan Chase Bank, N.A. also offers certain qualifying employees in the U.S. the ability to participate in a

number of defined benefit pension plans not subject to Title IV of the Employee Retirement Income Security Act. The most significant of these plans is the U.S. Excess Retirement Plan, pursuant to which certain employees earn pay and interest credits on compensation amounts above the maximum stipulated by law under a qualified plan. JPMorgan Chase Bank, N.A. announced that, effective May 1, 2009, pay credits would no longer be provided on compensation amounts above the maximum stipulated by law. The U.S. Excess Retirement Plan had an unfunded projected benefit obligation in the amount of $221 million and $222 million, at December 31, 2010 and 2009, respectively.

It is JPMorgan Chase Bank, N.A.'s policy to fund the pension plans in amounts sufficient to meet the requirements under applicable laws. In 2011, the cost of funding benefits under the U.S. Excess Retirement Plan is expected to be $34 million. The expected amount of 2011 contributions to the non-U.S. defined benefit pension plans and U.K. OPEB plan is $168 million of which $154 million is contractually required.

*Defined contribution plans*

JPMorgan Chase Bank, N.A.'s employees may also participate in one of the two qualified defined contribution plans offered by JPMorgan Chase in the U.S. and other similar arrangements offered by JPMorgan Chase Bank, N.A. in certain non-U.S. locations, all of which are administered in accordance with applicable local laws and regulations. The most significant of these plans is The JPMorgan Chase 401(k) Savings Plan (the"401(k) Savings Plan"), which covers substantially all U.S. employees. The 401(k) Savings Plan allows employees to make pretax and Roth 401(k) contributions to tax-deferred investment portfolios. The JPMorgan Chase Common Stock Fund, which is an investment option under the 401(k) Savings Plan, is a nonleveraged employee stock ownership plan.

JPMorgan Chase Bank, N.A. matched eligible employee contributions in the 401(k) Savings Plan up to 5% of benefits-eligible compensation (e.g., base pay) on a per pay period basis through April 30, 2009, and then amended the plan to provide that thereafter matching contributions would be made annually. Employees begin to receive matching contributions after completing the one-year-of-service requirement. Employees with total annual cash compensation of $250,000 or more are not eligible for matching contributions. Matching contributions are immediately vested for employees hired before May 1, 2009, and will vest after three years of service for employees hired on or after May 1, 2009. The 401(k) Savings Plan also permits discretionary profit-sharing contributions by participating companies for certain employees, subject to a specified vesting schedule.

Effective August 10, 2009, JPMorgan Chase Bank, N.A. became the sponsor of the WaMu Savings Plan and that plan's assets were merged into the 401(k) Savings Plan effective March 31, 2010.

The following table presents the changes in benefit obligations and plan assets and funded status amounts reported on the Consolidated Balance Sheets for JPMorgan Chase Bank, N.A.'s U.S. and non-U.S. defined benefit pension plans and U.K. OPEB plan.

| | Defined benefit pension plans | | | | | |
|---|---|---|---|---|---|---|
| As of or for the year ended December 31, | U.S. | | Non-U.S. | | U.K. OPEB plan | |
| (in millions) | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| **Change in benefit obligation** | | | | | | |
| Benefit obligation, beginning of year | **$ (344)** | $ (295) | **$ (2,531)** | $ (2,007) | **$ (29)** | $ (32) |
| Benefits earned during the year | **(3)** | (5) | **(26)** | (28) | **—** | — |
| Interest cost on benefit obligations | **(20)** | (21) | **(120)** | (122) | **(2)** | (2) |
| Plan amendments | **—** | — | **10** | 1 | **—** | — |
| Business combinations | **—** | (4)[(b)] | **(12)**[(b)] | — | **—** | — |
| Employee contributions | **NA** | NA | **(4)** | (3) | **—** | — |
| Net gain/(loss) | **(20)** | (17) | **(71)** | (287) | **(9)** | 7 |
| Benefits paid | **29** | 34 | **96** | 95 | **3** | 2 |
| Curtailments | **—** | — | **—** | 1 | **—** | — |
| Settlements | **—** | — | **(1)** | 4 | **—** | — |
| Special termination benefits | **—** | — | **(1)** | (1) | **—** | — |
| Foreign exchange impact and other | **(1)** | (36) | **62** | (184) | **1** | (4) |
| **Benefit obligation, end of year** | **$ (359)** | $ (344) | **$ (2,598)** | $ (2,531) | **$ (36)** | $ (29) |
| **Change in plan assets** | | | | | | |
| Fair value of plan assets, beginning of year | **$ —** | $ — | **$ 2,432** | $ 2,008 | **$ —** | $ — |
| Actual return on plan assets | **—** | — | **228** | 218 | **—** | — |
| JPMorgan Chase Bank, N.A. contributions | **29** | 32 | **157** | 115 | **3** | 2 |
| Employee contributions | **—** | — | **4** | 3 | **—** | — |
| Benefits paid | **(29)** | (32) | **(96)** | (95) | **(3)** | (2) |
| Settlements | **—** | — | **(5)** | (4) | **—** | — |
| Foreign exchange impact and other | **—** | — | **(73)** | 187 | **—** | — |
| **Fair value of plan assets, end of year** | **$ —** | $ — | **$ 2,647**[(c)] | $ 2,432[(c)] | **$ —** | $ — |
| **Funded/(unfunded) status**[(a)] | **$ (359)** | $ (344) | **$ 49** | $ (99) | **$ (36)** | $ (29) |
| **Accumulated benefit obligation, end of year** | **$ (359)** | $ (344) | **$ (2,575)** | $ (2,506) | **NA** | NA |

(a) Represents underfunded plans with an aggregate balance of $459 million and $502 million at December 31, 2010 and 2009, respectively, and overfunded plans with an aggregate balance of $113 million and $30 million at December 31, 2010 and 2009, respectively.

(b) Represents change resulting from the RBS Sempra Commodities business in 2010 and from the Washington Mutual plan in 2009.

(c) At December 31, 2010 and 2009, defined benefit pension plan amounts not measured at fair value include $9 million and $8 million, respectively, of accrued receivables for non-U.S. plans.

### Gains and losses

For JPMorgan Chase Bank, N.A.'s defined benefit pension plans, fair value is used to determine the expected return on plan assets. Amortization of net gains and losses is included in annual net periodic benefit cost if, as of the beginning of the year, the net gain or loss exceeds 10% of the greater of the projected benefit obligation or the fair value of the plan assets. Any excess, as well as prior service costs, are amortized over the average future service period of defined benefit pension plan participants, which for the U.S. Excess Retirement Plan is currently nine years and for the non-U.S. defined benefit pension plans is the period appropriate for the affected plan. For the U.K. OPEB plan, any excess net gains or losses are amortized over the average future service period of plan participants expected to receive benefits, which is currently 15 years.

The following table presents pretax pension and U.K. OPEB amounts recorded in AOCI.

| December 31, | Defined benefit pension plans | | | | | |
|---|---|---|---|---|---|---|
| | U.S. | | Non-U.S. | | U.K. OPEB plan | |
| (in millions) | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| Net gain/(loss) | **$ (74)** | $ (57) | **$ (566)** | $ (668) | **$ 6** | $ 17 |
| Prior service credit/(cost) | **(1)** | (1) | **13** | 3 | **—** | — |
| **Accumulated other comprehensive income/ (loss), pretax, end of year** | **$ (75)** | $ (58) | **$ (553)** | $ (665) | **$ 6** | $ 17 |

The following table presents the components of net periodic benefit costs reported in the Consolidated Statements of Income and other comprehensive income for JPMorgan Chase Bank, N.A.'s U.S. and non-U.S. defined benefit pension plans, defined contribution plans and U.K. OPEB plan.

| | Pension plans | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | U.S. | | | Non-U.S. | | | U.K. OPEB plan | | |
| Year ended December 31, (in millions) | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 |
| **Components of net periodic benefit cost** | | | | | | | | | |
| Benefits earned during the year | **$ 3** | $ 5 | $ 5 | **$ 28** | $ 26 | $ 29 | **$ —** | $ — | $ — |
| Interest cost on benefit obligations | **20** | 21 | 18 | **121** | 122 | 142 | **2** | 2 | 3 |
| Expected return on plan assets | **—** | — | — | **(126)** | (114) | (152) | **—** | — | — |
| Amortization: | | | | | | | | | |
| Net loss/(gain) | **2** | 2 | — | **56** | 44 | 25 | **(1)** | — | — |
| Prior service credit | **—** | — | — | **(1)** | — | — | **—** | — | — |
| Settlement loss | **—** | — | — | **6** | 1 | — | **—** | — | — |
| Special termination benefits | **—** | — | — | **1** | — | 3 | **—** | — | — |
| **Net periodic benefit cost** | **25** | 28 | 23 | **85** | 79 | 47 | **1** | 2 | 3 |
| Other defined benefit pension plans[(a)] | **14** | 14 | 14 | **7** | 8 | 14 | **NA** | NA | NA |
| **Total defined benefit plans** | **39** | 42 | 37 | **92** | 87 | 61 | **1** | 2 | 3 |
| Total defined contribution plans | **298** | 318 | 209 | **222** | 198 | 286 | **NA** | NA | NA |
| **Total pension and OPEB cost included in compensation expense** | **$ 337** | $ 360 | $ 246 | **$ 314** | $ 285 | $ 347 | **$ 1** | $ 2 | $ 3 |
| **Changes in plan assets and benefit obligations recognized in other comprehensive income** | | | | | | | | | |
| Net (gain)/loss arising during the year | **$ 20** | $ 23 | $ 22 | **$ (21)** | $ 183 | $ 230 | **$ 9** | $ (6) | $ (1) |
| Prior service credit arising during the year | **—** | — | — | **(10)** | (1) | — | **—** | — | — |
| Amortization of net (loss)/gain | **(3)** | (2) | — | **(56)** | (44) | (27) | **1** | — | — |
| Amortization of prior service (cost)/credit | **—** | (1) | — | **1** | — | — | **—** | — | — |
| Settlement gain | **—** | — | — | **(1)** | (1) | — | **—** | — | — |
| Foreign exchange impact and other | **—** | — | — | **(25)** | 43 | (150) | **1** | (2) | — |
| **Total recognized in other comprehensive income** | **17** | 20 | 22 | **(112)** | 180 | 53 | **11** | (8) | (1) |
| **Total recognized in net periodic benefit cost and other comprehensive income** | **$ 42** | $ 48 | $ 45 | **$ (27)** | $ 259 | $ 100 | **$ 12** | $ (6) | $ 2 |

(a) Includes various defined benefit pension plans, which are individually immaterial.

It is expected that $44 million and $1 million, pretax, of net loss and prior service credit, respectively, related to non-U.S. defined benefit pension plans recorded in AOCI at December 31, 2010, will be recognized in earnings during 2011.

The following table presents the actual rate of return on plan assets for the non-U.S. defined benefit pension plans.

| | Non-U.S. defined benefit pension plans | | |
|---|---|---|---|
| December 31, | **2010** | 2009 | 2008 |
| Actual rate of return | **0.77-10.65%** | 3.17-22.43% | (21.58)-5.06% |

**Plan assumptions**

JPMorgan Chase Bank, N.A.'s expected long-term rate of return for its non-U.S. defined benefit pension plans' assets is a blended average of the investment advisor's projected long-term (10 years or more) returns for the various asset classes, weighted by the asset allocation. Returns on asset classes are developed using a forward-looking building-block approach and are not strictly based upon historical returns. For the U.K. defined benefit pension plans, which represent the most significant of JPMorgan Chase Bank, N.A.'s non-U.S. defined benefit pension plans, procedures are used to develop the expected long-term rate of return on defined benefit pension plan assets, taking into consideration local market conditions and the specific allocation of plan assets. The expected long-term rate of return on U.K. plan assets is an average of projected long-term returns for each asset class. The return on equities has been selected by reference to the yield on long-term U.K. government bonds plus an equity risk premium above the risk-free rate. The return on "AA"-rated long-term corporate bonds has been taken as the average yield on such bonds.

The discount rate used in determining the benefit obligation under the U.S. Excess Retirement Plan was selected by reference to the yields on portfolios of bonds with maturity dates and coupons that closely match the plan's projected cash flows; such portfolios are derived from a broad-based universe of high-quality corporate bonds as of the measurement date. In years in which these hypothetical bond portfolios generates excess cash, such excess is assumed to be reinvested at the one-year forward rates implied by the Citigroup Pension Discount Curve published as of the measurement date. The discount rate for the U.K. defined benefit pension and OPEB plans represents a rate implied from the yield curve of the year-end iBoxx £ corporate "AA" 15-year-plus bond index.

The following tables present the weighted-average annualized actuarial assumptions for the projected and accumulated postretirement benefit obligations, and the components of net periodic benefit costs, for JPMorgan Chase Bank, N.A.'s U.S. and non-U.S. defined benefit pension plans and U.K. OPEB plan, as of and for the periods indicated.

**Weighted-average assumptions used to determine benefit obligations**

| | U.S. | | Non-U.S. | |
|---|---|---|---|---|
| December 31, | **2010** | 2009 | **2010** | 2009 |
| Discount rate: | | | | |
| Defined benefit pension plans | **5.50%** | 6.00% | **1.60-5.50%** | 2.00-5.70% |
| OPEB plan | **NA** | NA | **5.50** | 5.70 |
| Rate of compensation increase | **NA** | 4.00 | **3.00-4.50** | 3.00-4.50 |
| Health care cost trend rate: | | | | |
| Assumed for next year | **NA** | NA | **6.50** | 5.40 |
| Ultimate | **NA** | NA | **6.00** | 4.50 |
| Year when rate will reach ultimate | **NA** | NA | **2015** | 2014 |

**Weighted-average assumptions used to determine net periodic benefit costs**

| | U.S. | | | Non-U.S. | | |
|---|---|---|---|---|---|---|
| Year ended December 31, | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 |
| Discount rate: | | | | | | |
| Defined benefit pension plans | **6.00%** | 6.65% | 6.60% | **2.00-5.70%** | 2.00-6.20% | 2.25-5.80% |
| OPEB plan | **NA** | NA | NA | **5.70** | 6.20 | 5.80 |
| Expected long-term rate of return on plan assets: | | | | | | |
| Defined benefit pension plans | **NA** | NA | NA | **2.40-6.20** | 2.50-6.90 | 3.25-5.75 |
| OPEB plan | **NA** | NA | NA | **NA** | NA | NA |
| Rate of compensation increase | **4.00** | 4.00 | 4.00 | **3.00-4.50** | 3.00-4.00 | 3.00-4.25 |
| Health care cost trend rate: | | | | | | |
| Assumed for next year | **NA** | NA | NA | **5.40** | 7.00 | 5.75 |
| Ultimate | **NA** | NA | NA | **4.50** | 5.50 | 4.00 |
| Year when rate will reach ultimate | **NA** | NA | NA | **2014** | 2012 | 2010 |

The following table presents the effect of a one-percentage-point change in the assumed health care cost trend rate on JPMorgan Chase Bank, N.A.'s total service and interest cost and accumulated postretirement benefit obligation.

| Year ended December 31, 2010 (in millions) | 1-Percentage-point increase | 1-Percentage-point decrease |
|---|---|---|
| Effect on total service and interest cost | $ — | $ — |
| Effect on accumulated postretirement benefit obligation | 4 | (3) |

At December 31, 2010, JPMorgan Chase Bank, N.A. decreased the discount rates used to determine its benefit obligations for the U.S. Excess Retirement Plan in light of current market interest rates, which will result in an immaterial increase in expense for 2011. To indicate the sensitivity of the U.S. Excess Retirement Plan to changes in the discount rate, a 25-basis point decline in the discount rate would result in an immaterial increase for 2011 and a $5 million increase in the related projected benefit obligations.

As of December 31, 2010, the interest crediting rate assumption remained at 5.25%. A 25-point basis point increase in the interest crediting rate for the U.S. Excess Retirement Plan would result in an immaterial increase in 2011 U.S. defined benefit pension expense and an immaterial increase in the related projected benefit obligations.

JPMorgan Chase Bank, N.A.'s non-U.S. defined benefit pension plans expense is also sensitive to changes in the discount rate. A 25-basis point decline in the discount rates for the non-U.S. plans would result in an increase in the 2011 non-U.S. defined benefit pension plan expense of approximately $11 million.

**Investment strategy and asset allocation**

The investment policy for the U.K. defined benefit pension plans, which represent the most significant of the non-U.S. defined benefit pension plans, is to maximize returns subject to an appropriate level of risk relative to the plans' liabilities. In order to reduce the volatility in returns relative to the plans' liability profiles, the U.K. defined benefit pension plans' largest asset allocations are to debt securities of appropriate durations. Other assets, mainly equity securities, are then invested for capital appreciation, to provide long-term investment growth. Asset allocations for the U.K. defined benefit pension plans are reviewed and rebalanced on a regular basis.

As of December 31, 2010, assets held by JPMorgan Chase Bank, N.A.'s non-U.S. defined benefit pension plans do not include JPMorgan Chase common stock, except in connection with the investments in third-party stock-index funds. The non-U.S. plans hold investments in funds that are sponsored or managed by affiliates of JPMorgan Chase Bank, N.A. in the amount of $155 million and $474 million as of December 31, 2010 and 2009, respectively.

The following table presents the weighted-average asset allocation of the fair values of total plan assets at December 31 for the years indicated, as well as the respective approved target allocation by asset category, for JPMorgan Chase Bank, N.A.'s non-U.S. defined benefit pension plans.

| | Non-U.S. defined benefit pension plans | | |
|---|---|---|---|
| | Target | % of plan assets | |
| December 31, | Allocation | **2010** | 2009 |
| **Asset category** | | | |
| Debt securities[(a)] | 72% | **71%** | 75% |
| Equity securities | 26 | **28** | 23 |
| Real estate | 1 | **—** | 1 |
| Alternatives | 1 | **1** | 1 |
| **Total** | 100% | **100%** | 100% |

(a) Debt securities primarily include corporate debt and non-U.S. government debt securities.

**Fair value measurement of the plans' assets and liabilities**

The following details the instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy, as described in Note 4 on pages 12–29 of these Consolidated Financial Statements.

*Cash and cash equivalents*

Cash and cash equivalents includes currency on hand, demand deposits with banks or other financial institutions, and any short-term, highly liquid investments readily convertible into cash (i.e., investments with original maturities of three months or less). Due to the highly liquid nature of these assets, they are classified within level 1 of the valuation hierarchy.

*Equity securities*

Common and preferred stocks are valued at the closing price reported on the major market on which the individual securities are traded and are generally classified within level 1 of the valuation hierarchy. If quoted exchange prices are not available for the specific security, other independent pricing or broker quotes are consulted for valuation purposes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided from independent pricing services. Common and preferred stock that do not have quoted exchange prices are generally classified within level 2 of the valuation hierarchy.

*Common/collective trust funds*

These investments are public investment vehicles valued based on the calculated NAV of the fund. Where the funds produce a daily NAV that is validated by a sufficient level of observable activity (purchases and sales at NAV), the NAV is used to value the fund investment and it is classified in level 1 of the valuation hierarchy. Where adjustments to the NAV are required, for example, with respect to interests in funds subject to restrictions on redemption (such as withdrawal limitations) and/or observable activity for the fund investment is limited, investments are classified within level 2 of the valuation hierarchy.

*Corporate debt securities and non-U.S. government debt securities*

JPMorgan Chase Bank, N.A. estimates the value of debt instruments using a combination of observed transaction prices, independent pricing services and relevant broker quotes.

Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided from independent pricing services. JPMorgan Chase Bank, N.A. may also use pricing models or discounted cash flows. Such securities are generally classified within level 2 of the valuation hierarchy.

*Derivative receivables and derivative payables*

In the normal course of business, foreign exchange, credit, interest rate and equity derivative contracts are used to minimize fluctuations in the value of plan assets caused by exposure to credit or market risks. These instruments may also be used in lieu of investing in cash instruments. Derivative instruments are primarily valued using internally developed models that use as their basis readily observable market parameters and are therefore classified within level 2 of the valuation hierarchy.

*Other*

Other consists of exchange traded funds ("ETFs"), mutual fund investments, and insurance contracts. ETFs are valued at the closing price reported on the major market on which the individual securities are traded and are generally classified within level 1 of the valuation hierarchy. Mutual fund investments are valued using NAV. Those fund investments with a daily NAV that are validated by a sufficient level of observable activity (purchases and sales at NAV) are classified in level 1 of the valuation hierarchy. Where adjustments to the NAV are required, for example, for fund investments subject to restrictions on redemption (such as lock-up periods or withdrawal limitations), and/or observable activity for the fund investment is limited, the mutual fund investments are classified in level 2 of the valuation hierarchy. Insurance contracts are guaranteed return investments subject to the credit risk of the insurance company and are classified in level 2 of the valuation hierarchy.

**Pension and OPEB plan assets and liabilities measured at fair value**

| | Non-U.S. defined benefit pension plans | | | |
|---|---|---|---|---|
| **December 31, 2010** (in millions) | Level 1 | Level 2 | Level 3 | Total fair value |
| Cash and cash equivalents | **$ 81** | **$ —** | **$ —** | **$ 81** |
| Equity securities: | | | | |
| Capital equipment | **68** | **13** | **—** | **81** |
| Consumer goods | **75** | **21** | **—** | **96** |
| Banks and finance companies | **113** | **9** | **—** | **122** |
| Business services | **53** | **10** | **—** | **63** |
| Energy | **59** | **6** | **—** | **65** |
| Materials | **50** | **13** | **—** | **63** |
| Other | **195** | **16** | **—** | **211** |
| **Total equity securities** | **613** | **88** | **—** | **701** |
| Common/collective trust funds | **46** | **180** | **—** | **226** |
| Corporate debt securities | **—** | **718** | **—** | **718** |
| Non-U.S. government debt securities | **—** | **864** | **—** | **864** |
| Derivative receivables | **—** | **3** | **—** | **3** |
| Other | **19** | **51** | **—** | **70** |
| **Total assets measured at fair value**(a)(b) | **$ 759** | **$ 1,904** | **$ —** | **$ 2,663** |
| Derivative payables | **—** | **(25)** | **—** | **(25)** |
| **Total liabilities measured at fair value** | **$ —** | **$ (25)** | **$ —** | **$ (25)** |

| | Non-U.S. defined benefit pension plans | | | |
|---|---|---|---|---|
| December 31, 2009 (in millions) | Level 1 | Level 2 | Level 3 | Total fair value |
| Cash and cash equivalents | $ 27 | $ — | $ — | $ 27 |
| Equity securities: | | | | |
| Capital equipment | 49 | 16 | — | 65 |
| Consumer goods | 64 | 18 | — | 82 |
| Banks and finance companies | 90 | 12 | — | 102 |
| Business services | 39 | 13 | — | 52 |
| Energy | 45 | 13 | — | 58 |
| Materials | 35 | 3 | — | 38 |
| Other | 171 | — | — | 171 |
| **Total equity securities** | 493 | 75 | — | 568 |
| Common/collective trust funds | 23 | 185 | — | 208 |
| Corporate debt securities | — | 685 | — | 685 |
| Non-U.S. government debt securities | — | 841 | — | 841 |
| Derivative receivables | — | 5 | — | 5 |
| Other | 18 | 89 | 13 | 120 |
| **Total assets measured at fair value**(a)(b) | $ 561 | $ 1,880 | $ 13 | $ 2,454 |
| Derivative payables | — | (30) | — | (30) |
| **Total liabilities measured at fair value** | $ — | $ (30) | $ — | $ (30) |

(a) At December 31, 2010 and 2009, excluded dividends and interest receivables of $9 million and $8 million, respectively.

(b) At December 31, 2010 and 2009, the fair value of investments valued at NAV were $226 million and $211 million, respectively, which were classified within the valuation hierarchy as follows: $46 million and $23 million in level 1 and $180 million and $188 million in level 2.

**Changes in level 3 fair value measurements using significant unobservable inputs**

| **Year ended December 31, 2010** (in millions) | Fair value, January 1, 2010 | Total realized/ unrealized gains/(losses)(a) | Purchases, sales and settlements, net | Transfers in and/or out of level 3 | Fair value, December 31, 2010 |
|---|---|---|---|---|---|
| **Non-U.S. defined benefit pension plans** | | | | | |
| Other | **$ 13** | **$ (1)** | **$ (12)** | **$ —** | **$ —** |
| **Total non-U.S. plans** | **$ 13** | **$ (1)** | **$ (12)** | **$ —** | **$ —** |

| Year ended December 31, 2009 (in millions) | Fair value, January 1, 2009 | Total realized/ unrealized gains/(losses)(a) | Purchases, sales and settlements, net | Transfers in and/or out of level 3 | Fair value, December 31, 2009 |
|---|---|---|---|---|---|
| **Non-U.S. defined benefit pension plans** | | | | | |
| Other | $ 14 | $ (1) | $ — | $ — | $ 13 |
| **Total non-U.S. plans** | $ 14 | $ (1) | $ — | $ — | $ 13 |

(a) For the years ended December 31, 2010 and 2009, respectively, total realized/unrealized gains/(losses) are the changes in unrealized gains or losses relating to assets held at December 31, 2010 and 2009, respectively.

**Estimated future benefit payments**

The following table presents benefit payments expected to be paid, which include the effect of expected future service, for the years indicated. The OPEB medical and life insurance payments are net of expected retiree contributions.

| Year ended December 31, (in millions) | U.S. defined benefit pension plans | Non-U.S. defined benefit pension plans | U.K. OPEB plan |
|---|---|---|---|
| 2011 | $ 35 | $ 84 | $ 2 |
| 2012 | 32 | 92 | 2 |
| 2013 | 28 | 98 | 2 |
| 2014 | 28 | 102 | 2 |
| 2015 | 28 | 111 | 2 |
| Years 2016–2020 | 137 | 640 | 13 |

**JPMorgan Chase defined benefit pension and OPEB plans**

JPMorgan Chase Bank, N.A.'s U.S. employees are eligible to participate in JPMorgan Chase's U.S. qualified, noncontributory defined benefit pension plan. In addition, qualifying U.S. employees may receive medical and life insurance benefits that are provided through JPMorgan Chase's U.S. OPEB plan. Benefits vary with length of service and date of hire and provide for limits on JPMorgan Chase Bank, N.A.'s share of covered medical benefits. The medical and life insurance benefits are both contributory. Defined benefit pension expense and postretirement medical benefit expense are determined based upon participation and effected through an intercompany charge from JPMorgan Chase.

JPMorgan Chase Bank, N.A. was charged $182 million, $246 million and $215 million in 2010, 2009 and 2008, respectively, for its share of the U.S. qualified defined benefit pension plan expense; and it was charged $1 million, $12 million and $8 million in 2010, 2009 and 2008, respectively, for its share of the U.S. OPEB plan expense.

Consolidated disclosures of information about the defined benefit pension and OPEB plans of JPMorgan Chase, including the funded status of the plans, components of benefit cost and weighted-average actuarial assumptions are included in Note 9 on pages 201–210 of JPMorgan Chase's 2010 Annual Report on Form 10-K.

## Note 11 – Employee stock-based incentives

**Employee stock-based awards**

JPMorgan Chase Bank,N.A.'s employees receive annual incentive compensation based on their performance, the performance of their business and JPMorgan Chase's consolidated operating results. JPMorgan Chase Bank, N.A.'s employees participate, to the extent they meet minimum eligibility requirements, in various stock-based incentive plans sponsored by JPMorgan Chase. For additional information regarding JPMorgan Chase's employee stock-based incentives, see Note 10 on pages 210–212 of JPMorgan Chase's Annual Report on Form 10-K for the year ended December 31, 2010.

In 2010, 2009, and 2008, JPMorgan Chase granted long-term stock-based awards to certain key employees under the 2005 Long-Term Incentive Plan (the "2005 Plan"). The 2005 Plan became effective on May 17, 2005, and was amended in May 2008. Under the terms of the amended 2005 plan, as of December 31, 2010, 113 million shares of common stock are available for issuance through May 2013. The amended 2005 Plan is the only active plan under which JPMorgan Chase is currently granting stock-based incentive awards. In the following discussion, the 2005 Plan, plus prior Firm plans and plans assumed as the result of acquisitions, are referred to collectively as the "LTI Plans," and such plans constitute JPMorgan Chase stock-based incentive plans.

Restricted stock units ("RSUs") are awarded at no cost to the recipi-

ent upon their grant. RSUs are generally granted annually and generally vest at a rate of 50% after two years and 50% after three years and convert into shares of JPMorgan Chase common stock at the vesting date. In addition, RSUs typically include full-career eligibility provisions, which allow employees to continue to vest upon voluntary termination, subject to post-employment and other restrictions based on age or service-related requirements. All of these awards are subject to forfeiture until vested. An RSU entitles the recipient to receive cash payments equivalent to any dividends paid on the underlying common stock during the period the RSU is outstanding and, as such, are considered participating securities as discussed in Note 25 on page 269 of JPMorgan Chase's 2010 Annual Report on Form 10K.

Under the LTI Plans, stock options and stock appreciation rights ("SARs") have generally been granted with an exercise price equal to the fair value of JPMorgan Chase's common stock on the grant date. JPMorgan Chase typically awards SARs to certain key employees once per year, and it also periodically grants discretionary stock-based incentive awards to individual employees, primarily in the form of both employee stock options and SARs. The 2010, 2009 and 2008 grants of SARs to key employees vest ratably over five years (i.e., 20% per year). The 2010 grants of SARs contain full-career eligibility provisions; the 2009 and 2008 grants of SARs do not include any full-career eligibility provisions. SARs generally expire 10 years after the grant date.

JPMorgan Chase Bank, N.A. separately recognizes compensation expense for each tranche of each award as if it were a separate award with its own vesting date. Generally, for each tranche granted, compensation expense is recognized on a straight-line basis from the grant date until the vesting date of the respective tranche, provided that the employees will not become full-career eligible during the vesting period. For awards with full-career eligibility provisions and awards granted with no future substantive service requirement, JPMorgan Chase Bank, N.A. accrues the estimated value of awards expected to be awarded to employees as of the grant date without giving consideration to the impact of post-employment restrictions. For each tranche granted to employees who will become full-career eligible during the vesting period, compensation expense is recognized on a straight-line basis from the grant date until the earlier of the employee's full-career eligibility date or the vesting date of the respective tranche.

In January 2008, JPMorgan Chase awarded to its Chairman and Chief Executive Officer up to 2 million SARs. The terms of this award are distinct from, and more restrictive than, other equity grants regularly awarded by JPMorgan Chase. The SARs, which have a 10-year term, will become exercisable no earlier than January 22, 2013, and have an exercise price of $39.83. The number of SARs that will become exercisable (ranging from none to the full 2 million) and their exercise date or dates may be determined by the Board of Directors based on an annual assessment of the performance of both the CEO and JPMorgan Chase. JPMorgan Chase recognizes this award ratably over an assumed five-year service period, subject to a requirement to recognize changes in the fair value of the award through the grant date. JPMorgan Chase Bank, N.A. recognized $4 million, $9 million and $1 million in compensation expense in 2010, 2009 and 2008, respectively, for this award.

**RSU activity**

Compensation expense for RSUs is measured based on the number of shares granted multiplied by the stock price at the grant date and is recognized in income as previously described. The following table summarizes JPMorgan Chase Bank, N.A.'s RSU activity for 2010.

| Year ended December 31, 2010<br>(in thousands, except weighted average data) | Number of shares | Weighted-average<br>grant date fair value |
|---|---|---|
| Outstanding, January 1 | 140,326 | $ 28.66 |
| Granted | 54,790 | 42.89 |
| Vested | (36,458) | 42.91 |
| Forfeited | (6,138) | 30.75 |
| Transferred | (1,498) | 28.66 |
| **Outstanding, December 31** | 151,022 | $ 30.28 |

The total fair value of shares that vested during the years ended December 31, 2010, 2009 and 2008, was $1.5 billion, $777 million and $1.0 billion, respectively.

### Employee stock option and SARs activity

Compensation expense for employee stock options and SARs, which is measured at the grant date as the fair value of employee stock options and SARs, is recognized in net income as described above.

The following table summarizes JPMorgan Chase Bank, N.A.'s employee stock option and SARs activity for the year ended December 31, 2010, including awards granted to key employees and awards granted in prior years under broad-based plans.

| Year ended December 31, 2010 (in thousands, except weighted-average data, and where otherwise noted) | Number of options/SARs | Weighted-average exercise price | Weighted-average remaining contractual life (in years) | Aggregate intrinsic value |
|---|---|---|---|---|
| Outstanding, January 1 | 214,224 | $ 41.28 | | |
| Granted | 16,092 | 42.90 | | |
| Exercised | (11,328) | 30.74 | | |
| Forfeited | (2,557) | 33.56 | | |
| Canceled | (30,771) | 49.70 | | |
| Transferred | (902) | 41.28 | | |
| **Outstanding, December 31** | 184,758 | $ 40.91 | 3.3 | $ 960,445 |
| Exercisable, December 31 | 143,596 | 42.37 | 2.0 | 648,775 |

The weighted-average grant date per share fair value of stock options and SARs granted during the years ended December 31, 2010, 2009 and 2008, was $12.23, $8.23 and $9.94, respectively. The total intrinsic value of options exercised during the years ended December 31, 2010, 2009 and 2008, was $135 million, $130 million and $315 million, respectively.

### Compensation expense

JPMorgan Chase Bank, N.A. recognized the following compensation expense related to JPMorgan Chase's various employee stock-based incentive plans in its Consolidated Statements of Income.

| Year ended December 31, (in millions) | **2010** | 2009 | 2008 |
|---|---|---|---|
| Cost of prior grants of RSUs and SARs that are amortized over their applicable vesting periods | **$ 1,559** | $ 1,538 | $1,367 |
| Accrual of estimated costs of RSUs and SARs to be granted in future periods including those to full-career eligible employees | **473** | 570 | 259 |
| **Total compensation expense related to employee stock-based incentive plans** | **$ 2,032** | $ 2,108 | $1,626 |

At December 31, 2010, approximately $1.0 billion (pretax) of compensation cost related to unvested awards had not yet been charged to net income. That cost is expected to be amortized into compensation expense over a weighted-average period of 0.9 years. JPMorgan Chase Bank, N.A. does not capitalize any compensation cost related to share-based compensation awards to employees.

### Tax benefits

Income tax benefits related to stock-based incentive arrangements recognized in JPMorgan Chase Bank, N.A.'s Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008, were $793 million, $822 million and $651 million, respectively. Pursuant to a tax sharing agreement between JPMorgan Chase Bank, N.A. and its parent, JPMorgan Chase, excess tax benefits related to stock-based incentive awards, are recorded by JPMorgan Chase. In addition, the above compensation expense allocated to JPMorgan Chase Bank, N.A. was cash settled in accordance with the aforementioned tax sharing arrangement through cash payments made by JPMorgan Chase Bank, N.A. to JPMorgan Chase.

### Valuation assumptions

The following table presents the assumptions used to value employee stock options and SARs granted during the years ended December 31, 2010, 2009 and 2008, under the Black-Scholes valuation model.

| Year ended December 31, | **2010** | 2009 | 2008 |
|---|---|---|---|
| **Weighted-average annualized valuation assumptions** | | | |
| Risk-free interest rate | **3.89%** | 2.32% | 3.80% |
| Expected dividend yield[(a)] | **3.13** | 3.40 | 3.53 |
| Expected common stock price volatility | **37** | 56 | 34 |
| Expected life (in years) | **6.4** | 6.6 | 6.8 |

(a) In 2010 and 2009, the expected dividend yield was determined using historical dividend yields.

The expected volatility assumption is derived from the implied volatility of JPMorgan Chase's publicly traded stock options. The expected life assumption is an estimate of the length of time that an employee might hold an option or SAR before it is exercised or canceled, and the assumption is based on JPMorgan Chase's historic experience.

## Note 12 – Noninterest expense

The following table presents the components of noninterest expense.

| Year ended December 31, (in millions) | **2010** | 2009 | 2008 |
|---|---|---|---|
| Compensation expense[a] | **$ 20,811** | $ 19,791 | $ 17,122 |
| Noncompensation expense: | | | |
| Occupancy expense | **3,226** | 3,250 | 2,659 |
| Technology, communications and equipment expense | **4,155** | 4,029 | 3,663 |
| Professional and outside services | **4,728** | 4,335 | 4,277 |
| Marketing | **786** | 621 | 631 |
| Other expense[b][c][d] | **15,191** | 10,356 | 8,091 |
| Amortization of intangibles | **534** | 599 | 612 |
| **Total noncompensation expense** | **28,620** | 23,190 | 19,933 |
| Merger costs | **—** | 410 | 229 |
| **Total noninterest expense** | **$ 49,431** | $ 43,391 | $ 37,284 |

(a) 2010 includes 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) In 2010, 2009 and 2008, included litigation expense of $6.2 billion, $57 million and $251 million, respectively.
(c) Includes foreclosed property expense of $875 million, $1.2 billion and $157 million in 2010, 2009 and 2008, respectively.
(d) Expense for 2009 included a $650 million FDIC special assessment.

### Merger costs

Costs associated with the Bear Stearns merger and the Washington Mutual transaction in 2008 are reflected in the merger costs caption of the Consolidated Statements of Income. For a further discussion of the Bear Stearns merger and the Washington Mutual transaction, see Note 3 on pages 9–12 of these Consolidated Financial Statements. A summary of merger-related costs is shown in the following table.

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| Year ended December 31, (in millions) | Bear Stearns | Washington Mutual | Total | Bear Stearns | Washington Mutual | Total |
| **Expense category** | | | | | | |
| Compensation | $ (2) | $ 255 | $ 253 | $ 32 | $ 113 | $ 145 |
| Occupancy | (4) | 15 | 11 | 40 | — | 40 |
| Technology and communications and other | 6 | 140 | 146 | 34 | 10 | 44 |
| **Total**[a][b] | $ — | $ 410 | $ 410 | $ 106 | $ 123 | $ 229 |

(a) With the exception of occupancy- and technology-related write-offs, all of the costs in the table required the expenditure of cash.
(b) There were no merger costs for 2010.

The table below shows changes in the merger reserve balance related to costs associated with the above transactions.

| | **2010** | | | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|---|---|---|
| Year ended December 31, (in millions) | Bear Stearns | Washington Mutual | Total | Bear Stearns | Washington Mutual | Total | Bear Stearns | Washington Mutual | Total |
| Merger reserve balance, beginning of period | **$ —** | **$ 57** | **$ 57** | $ 64 | $ 441 | $ 505 | $ — | $ — | $ — |
| Recorded as merger costs[a] | **—** | **—** | **—** | — | 410 | 410 | 106 | 123 | 229 |
| Recorded as goodwill | **—** | **—** | **—** | — | — | — | — | 430 | 430 |
| Utilization of merger reserve | **—** | **(57)** | **(57)** | (64) | (794) | (858) | (42) | (112) | (154) |
| **Merger reserve balance, end of period** | **$ —** | **$ —** | **$ —** | $ — | $ 57 | $ 57 | $ 64 | $ 441 | $ 505 |

(a) There were no merger costs for 2010.

## Note 13 – Securities

Securities are classified as AFS, held-to-maturity ("HTM") or trading. Trading securities are discussed in Note 4 on pages 12–29 of these Consolidated Financial Statements. Securities are classified primarily as AFS when used to manage JPMorgan Chase Bank, N.A.'s exposure to interest rate movements or used for longer-term strategic purposes. AFS securities are carried at fair value on the Consolidated Balance Sheets. Unrealized gains and losses, after any applicable hedge accounting adjustments, are reported as net increases or decreases to accumulated other comprehensive income/(loss). The specific identification method is used to determine realized gains and losses on AFS securities, which are included in securities gains/(losses) on the Consolidated Statements of Income. Securities that JPMorgan Chase Bank, N.A. has the positive intent and ability to hold to maturity are classified as HTM and are carried at amortized cost on the Consolidated Balance Sheets. JPMorgan Chase Bank, N.A. has not classified new purchases of securities as HTM for the past several years.

**Other-than-temporary impairment**

AFS debt and equity securities in unrealized loss positions are analyzed as part of JPMorgan Chase Bank, N.A.'s ongoing assessment of other-than-temporary impairment ("OTTI"). For debt securities, JPMorgan Chase Bank, N.A. considers a decline in fair value to be other-than-temporary when JPMorgan Chase Bank, N.A. does not expect to recover the entire amortized cost basis of the security. JPMorgan Chase Bank, N.A. also considers an OTTI to have occurred when there is an adverse change in cash flows to beneficial interests in securitizations that are rated below "AA" at their acquisition, or that can be contractually prepaid or otherwise settled in such a way that JPMorgan Chase Bank, N.A. would not recover substantially all of its recorded investment. For AFS equity securities, JPMorgan Chase Bank, N.A. considers a decline in fair value to be other-than-temporary if it is probable that JPMorgan Chase Bank, N.A. will not recover its amortized cost basis.

For debt securities, OTTI losses must be recognized in earnings if an investor has the intent to sell the debt security, or if it is more likely than not that the investor will be required to sell the debt security before recovery of its amortized cost basis. However, even if an investor does not expect to sell a debt security, it must evaluate the expected cash flows to be received and determine if a credit loss exists. In the event of a credit loss, only the amount of impairment associated with the credit loss is recognized in income. Amounts relating to factors other than credit losses are recorded in OCI.

When JPMorgan Chase Bank, N.A. intends to sell AFS debt or equity securities, it recognizes an impairment loss equal to the full difference between the amortized cost basis and the fair value of those securities.

When JPMorgan Chase Bank, N.A. does not intend to sell AFS debt or equity securities in an unrealized loss position, potential OTTI is considered using a variety of factors, including the length of time and extent to which the market value has been less than cost; adverse conditions specifically related to the industry, geographic area or financial condition of the issuer or underlying collateral of a security; payment structure of the security; changes to the rating of the security by a rating agency; the volatility of the fair value changes; and changes in fair value of the security after the balance sheet date. For debt securities, JPMorgan Chase Bank, N.A. estimates cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist and, where applicable for purchased or retained beneficial interests in securitized assets, to determine if any adverse changes in cash flows have occurred. JPMorgan Chase Bank, N.A.'s cash flow estimates take into account expectations of relevant market and economic data as of the end of the reporting period. For securities issued in a securitization, JPMorgan Chase Bank, N.A. also takes into consideration underlying loan-level data, and structural features of the securitization, such as subordination, excess spread, overcollateralization or other forms of credit enhancement, and compares the losses projected for the underlying collateral ("pool losses") against the level of credit enhancement in the securitization structure to determine whether these features are sufficient to absorb the pool losses, or whether a credit loss on the AFS debt security exists. JPMorgan Chase Bank, N.A. also performs other analyses to support its cash flow projections, such as first-loss analyses or stress scenarios.

For equity securities, JPMorgan Chase Bank, N.A. considers the above factors, as well as JPMorgan Chase Bank, N.A.'s intent and ability to retain its investment for a period of time sufficient to allow for any anticipated recovery in market value, and whether evidence exists to support a realizable value equal to or greater than the carrying value.

**Realized gains and losses**

The following table presents realized gains and losses from AFS securities.

| Year ended December 31, (in millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Realized gains | $ 3,298 | $ 2,066 | $ 1,569 |
| Realized losses | (317) | (559) | (241) |
| **Net realized gains**[(a)] | **2,981** | 1,507 | 1,328 |
| Credit losses included in securities gains[(b)] | (6) | (138) | NA |
| **Net securities gains** | **$ 2,975** | $ 1,369 | $ 1,328 |

(a) Proceeds from securities sold were within approximately 3% of amortized cost in 2010 and 2009 and within approximately 2% of amortized cost in 2008.
(b) Includes other-than-temporary impairment losses recognized in income on certain prime mortgage-backed securities for the years ended December 31, 2010 and 2009.

The amortized costs and estimated fair values of AFS and HTM securities were as follows at December 31, 2010 and 2009.

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| December 31, (in millions) | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| **Available-for-sale debt securities** | | | | | | | | |
| Mortgage-backed securities: | | | | | | | | |
| U.S. government agencies[a] | **$ 117,364** | **$ 3,159** | **$ 297** | **$ 120,226** | $ 166,094 | $ 2,412 | $ 608 | $ 167,898 |
| Residential: | | | | | | | | |
| Prime and Alt-A | **2,173** | **81** | **250**[d] | **2,004** | 5,234 | 96 | 807[d] | 4,523 |
| Non-U.S. | **47,089** | **290** | **409** | **46,970** | 10,003 | 320 | 65 | 10,258 |
| Commercial | **4,650** | **498** | **4** | **5,144** | 4,506 | 132 | 63 | 4,575 |
| **Total mortgage-backed securities** | **171,276** | **4,028** | **960** | **174,344** | 185,837 | 2,960 | 1,543 | 187,254 |
| U.S. Treasury and government agencies[a] | **11,168** | **118** | **28** | **11,258** | 29,989 | 88 | 135 | 29,942 |
| Obligations of U.S. states and municipalities | **8,436** | **45** | **285** | **8,196** | 3,536 | 93 | 23 | 3,606 |
| Certificates of deposit | **3,642** | **1** | **2** | **3,641** | 2,649 | 1 | — | 2,650 |
| Non-U.S. government debt securities | **20,614** | **191** | **28** | **20,777** | 24,320 | 234 | 51 | 24,503 |
| Corporate debt securities[b] | **60,587** | **491** | **417** | **60,661** | 60,706 | 810 | 29 | 61,487 |
| Asset-backed securities: | | | | | | | | |
| Credit card receivables | **8,469** | **392** | **5** | **8,856** | 18,692 | 436 | 20 | 19,108 |
| Collateralized loan obligations | **13,336** | **472** | **210** | **13,598** | 12,172 | 413 | 436 | 12,149 |
| Other | **8,694** | **91** | **8** | **8,777** | 6,255 | 98 | 38 | 6,315 |
| **Total available-for-sale debt securities** | **306,222** | **5,829** | **1,943**[d] | **310,108** | 344,156 | 5,133 | 2,275[d] | 347,014 |
| Available-for-sale equity securities | **560** | **83** | **6** | **637** | 726 | 112 | 4 | 834 |
| **Total available-for-sale securities** | **306,782** | **5,912** | **1,949**[d] | **310,745** | 344,882 | 5,245 | 2,279[d] | 347,848 |
| Total held-to-maturity securities[c] | **$ 17** | **$ 2** | **$ —** | **$ 19** | $ 25 | $ 2 | $ — | $ 27 |

(a) Includes total U.S. government-sponsored enterprise obligations with fair values of $94.2 billion and $153.0 billion at December 31, 2010 and 2009, respectively, which were predominantly mortgage-related.

(b) Consists primarily of bank debt including sovereign government-guaranteed bank debt.

(c) Consists primarily of mortgage-backed securities issued by U.S. government-sponsored enterprises.

(d) Includes a total of $133 million and $368 million (before tax) of unrealized losses related to prime mortgage-backed securities for which credit losses have been recognized in income at December 31, 2010 and 2009, respectively. These unrealized losses are not credit-related and remain reported in AOCI.

### Securities impairment

The following table presents the fair value and gross unrealized losses for AFS securities by aging category at December 31, 2010 and 2009.

| | Securities with gross unrealized losses | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | | |
| **December 31, 2010** (in millions) | Fair value | Gross unrealized losses | Fair value | Gross unrealized losses | Total fair value | Total gross unrealized losses |
| Available-for-sale debt securities | | | | | | |
| Mortgage-backed securities: | | | | | | |
| U.S. government agencies | **$ 14,039** | **$ 297** | **$ —** | **$ —** | **$ 14,039** | **$ 297** |
| Residential: | | | | | | |
| Prime and Alt-A | **—** | **—** | **1,193** | **250** | **1,193** | **250** |
| Non-U.S. | **35,166** | **379** | **1,080** | **30** | **36,246** | **409** |
| Commercial | **131** | **1** | **11** | **3** | **142** | **4** |
| **Total mortgage-backed securities** | **49,336** | **677** | **2,284** | **283** | **51,620** | **960** |
| U.S. Treasury and government agencies | **921** | **28** | **—** | **—** | **921** | **28** |
| Obligations of U.S. states and municipalities | **5,635** | **277** | **20** | **8** | **5,655** | **285** |
| Certificates of deposit | **1,771** | **2** | **—** | **—** | **1,771** | **2** |
| Non-U.S. government debt securities | **6,960** | **28** | **—** | **—** | **6,960** | **28** |
| Corporate debt securities | **18,287** | **416** | **64** | **1** | **18,351** | **417** |
| Asset-backed securities: | | | | | | |
| Credit card receivables | **—** | **—** | **345** | **5** | **345** | **5** |
| Collateralized loan obligations | **460** | **10** | **6,321** | **200** | **6,781** | **210** |
| Other | **2,609** | **8** | **—** | **—** | **2,609** | **8** |
| **Total available-for-sale debt securities** | **85,979** | **1,446** | **9,034** | **497** | **95,013** | **1,943** |
| Available-for-sale equity securities | **—** | **—** | **2** | **6** | **2** | **6** |
| **Total securities with gross unrealized losses** | **$ 85,979** | **$ 1,446** | **$ 9,036** | **$ 503** | **$ 95,015** | **$ 1,949** |

| | Securities with gross unrealized losses | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | | |
| December 31, 2009 (in millions) | Fair value | Gross unrealized losses | Fair value | Gross unrealized losses | Total fair value | Total gross unrealized losses |
| Available-for-sale debt securities | | | | | | |
| Mortgage-backed securities: | | | | | | |
| U.S. government agencies | $ 43,235 | $ 603 | $ 644 | $ 5 | $ 43,879 | $ 608 |
| Residential: | | | | | | |
| Prime and Alt-A | 183 | 27 | 3,032 | 780 | 3,215 | 807 |
| Non-U.S. | 391 | 1 | 1,773 | 64 | 2,164 | 65 |
| Commercial | 664 | 34 | 229 | 29 | 893 | 63 |
| **Total mortgage-backed securities** | 44,473 | 665 | 5,678 | 878 | 50,151 | 1,543 |
| U.S. Treasury and government agencies | 8,432 | 135 | — | — | 8,432 | 135 |
| Obligations of U.S. states and municipalities | 472 | 11 | 136 | 12 | 608 | 23 |
| Certificates of deposit | — | — | — | — | — | — |
| Non-U.S. government debt securities | 2,471 | 46 | 835 | 5 | 3,306 | 51 |
| Corporate debt securities | 1,525 | 11 | 4,634 | 18 | 6,159 | 29 |
| Asset-backed securities: | | | | | | |
| Credit card receivables | — | — | 451 | 20 | 451 | 20 |
| Collateralized loan obligations | 42 | 1 | 7,883 | 435 | 7,925 | 436 |
| Other | 767 | 8 | 1,688 | 30 | 2,455 | 38 |
| **Total available-for-sale debt securities** | 58,182 | 877 | 21,305 | 1,398 | 79,487 | 2,275 |
| Available-for-sale equity securities | 1 | 1 | 3 | 3 | 4 | 4 |
| **Total securities with gross unrealized losses** | $ 58,183 | $ 878 | $ 21,308 | $ 1,401 | $ 79,491 | $ 2,279 |

### Other-than-temporary impairment

The following table presents credit losses that are included in the securities gains and losses table above.

| Year ended December 31, (in millions) | 2010 | 2009 |
|---|---|---|
| **Debt securities JPMorgan Chase Bank, N.A. does not intend to sell that have credit losses** | | |
| Total other-than-temporary impairment losses[a] | $ — | $ (506) |
| Losses recorded in/(reclassified from) other comprehensive income | (6) | 368 |
| **Credit losses recognized in income[b]** | **$ (6)** | $ (138) |

(a) For initial OTTI, represents the excess of the amortized cost over the fair value of AFS debt securities. For subsequent OTTI of the same security, represents additional declines in fair value subsequent to the previously recorded OTTI, if applicable.

(b) Represents the credit loss component of certain prime mortgage-backed securities for the years ended December 31, 2010 and 2009, that JPMorgan Chase Bank, N.A. does not intend to sell. Subsequent credit losses may be recorded on securities without a corresponding further decline in fair value if there has been a decline in expected cash flows.

### Changes in the credit loss component of credit-impaired debt securities

The following table presents a rollforward for the years ended December 31, 2010 and 2009, of the credit loss component of OTTI losses that were recognized in income related to debt securities that JPMorgan Chase Bank, N.A. does not intend to sell.

| Year ended December 31, (in millions) | 2010 | 2009 |
|---|---|---|
| Balance, beginning of period | $ 138 | $ — |
| Additions: | | |
| Newly credit-impaired securities | — | 138 |
| Increase in losses on previously credit-impaired securities | — | — |
| Losses reclassified from other comprehensive income on previously credit-impaired securities | 6 | — |
| Reductions: | | |
| Sales of credit-impaired securities | (31) | — |
| Impact of new accounting guidance related to VIEs | — | — |
| **Balance, end of period** | **$ 113** | $ 138 |

### Gross unrealized losses

Gross unrealized losses have generally decreased since December 31, 2009, due primarily to market spread improvement and increased liquidity, driving asset prices higher. However, gross unrealized losses on certain securities have increased, including on certain corporate debt securities, which are primarily government-guaranteed positions that experienced credit spread widening. As of December 31, 2010, JPMorgan Chase Bank, N.A. does not intend to sell the securities with a loss position in AOCI, and it is not likely that JPMorgan Chase Bank, N.A. will be required to sell these securities before recovery of their amortized cost basis. Except for the securities reported in the table above for which credit losses have been recognized in income, JPMorgan Chase Bank, N.A. believes that the securities with an unrealized loss in AOCI are not other-than-temporarily impaired as of December 31, 2010.

Following is a description of JPMorgan Chase Bank, N.A.'s principal security investments with the most significant unrealized losses as of December 31, 2010, and the key assumptions used in JPMorgan Chase Bank, N.A.'s estimate of the present value of the cash flows most likely to be collected from these investments.

*Mortgage-backed securities – Prime and Alt-A nonagency*

As of December 31, 2010, gross unrealized losses related to prime and Alt-A residential mortgage-backed securities issued by private issuers were $250 million, all of which have been in an unrealized loss position for 12 months or more. Approximately 70% of the total portfolio (by amortized cost) are currently rated below investment-grade; JPMorgan Chase Bank, N.A. has recorded other-than-temporary impairment losses on 55% of the below investment-grade positions. In analyzing prime and Alt-A residential mortgage-backed securities for potential credit losses, JPMorgan Chase Bank, N.A. utilizes a methodology that focuses on loan-level detail to estimate future cash flows, which are then allocated to the various tranches of the securities. The loan-level analysis primarily considers current home value, loan-to-value ("LTV") ratio, loan type and geographical location of the underlying property to forecast prepayment, home price, default rate and loss severity. The forecasted weighted average underlying default rate on the positions was 21% and the related weighted average loss severity was 50%. Based on this analysis, an OTTI loss of $6 million was recognized in 2010 related to securities that experienced increased delinquency rates associated with specific collateral types and origination dates. Overall losses have decreased since December 31, 2009, with the recovery in security prices resulting from increased demand for higher-yielding asset classes and a deceleration in the pace of home price declines due in part to the U.S. government programs to facilitate financing and to spur home purchases. The unrealized loss of $250 million is considered temporary, based on management's assessment that the estimated future cash flows together with the credit enhancement levels for those securities remain sufficient to support JPMorgan Chase Bank, N.A.'s investment. The credit enhancements associated with the below investment-grade and investment-grade positions are 9% and 24%, respectively.

*Asset-backed securities – Collateralized loan obligations*

As of December 31, 2010, gross unrealized losses related to CLOs were $210 million, of which $200 million related to securities that were in an unrealized loss position for 12 months or more. Overall losses have decreased since December 31, 2009, mainly as a result of lower default forecasts and spread tightening across various asset classes. Substantially all of these securities are rated "AAA," "AA" and "A" and have an average credit enhancement of 30%. Credit enhancement in CLOs is primarily in the form of subordination, which is a form of structural credit enhancement where realized losses associated with assets held by an issuing vehicle are allocated to issued tranches considering their relative seniority. The key assumptions considered in analyzing potential credit losses were underlying loan and debt security defaults and loss severity. Based on current default trends, JPMorgan Chase Bank, N.A. assumed collateral default rates of 2.1% for 2010 and 5% thereafter. Further, loss severities were assumed to be 48% for loans and 78% for debt securities. Losses on collateral were estimated to occur approximately 18 months after default.

**Contractual maturities and yields**

The following table presents the amortized cost and estimated fair value at December 31, 2010, of JPMorgan Chase Bank, N.A.'s AFS and HTM securities by contractual maturity.

| By remaining maturity December 31, 2010 (in millions) | Due in one year or less | Due after one year through five years | Due after five years through 10 years | Due after 10 years[c] | Total |
|---|---|---|---|---|---|
| **Available-for-sale debt securities** | | | | | |
| Mortgage-backed securities:[a] | | | | | |
| Amortized cost | $ 15 | $ 259 | $ 2,667 | $ 168,335 | $ 171,276 |
| Fair value | 15 | 282 | 2,707 | 171,340 | 174,344 |
| Average yield[b] | 8.63% | 6.25% | 2.66% | 3.85% | 3.84 % |
| U.S. Treasury and government agencies:[a] | | | | | |
| Amortized cost | $ 1,753 | $ 4,913 | $ 4,251 | $ 251 | $ 11,168 |
| Fair value | 1,760 | 5,007 | 4,260 | 231 | 11,258 |
| Average yield[b] | 1.75% | 2.62% | 3.84% | 3.86% | 2.97 % |
| Obligations of U.S. states and municipalities: | | | | | |
| Amortized cost | $ 14 | $ 31 | $ 243 | $ 8,148 | $ 8,436 |
| Fair value | 14 | 31 | 255 | 7,896 | 8,196 |
| Average yield[b] | 0.14% | 2.22% | 5.39% | 5.10% | 5.09 % |
| Certificates of deposit: | | | | | |
| Amortized cost | $ 3,642 | $ — | $ — | $ — | $ 3,642 |
| Fair value | 3,641 | — | — | — | 3,641 |
| Average yield[b] | 5.16% | —% | —% | —% | 5.16 % |
| Non-U.S. government debt securities: | | | | | |
| Amortized cost | $ 5,666 | $ 13,557 | $ 1,388 | $ 3 | $ 20,614 |
| Fair value | 5,673 | 13,712 | 1,389 | 3 | 20,777 |
| Average yield[b] | 1.81% | 2.23% | 3.56% | 5.34% | 2.21 % |
| Corporate debt securities: | | | | | |
| Amortized cost | $ 11,883 | $ 43,638 | $ 5,065 | $ 1 | $ 60,587 |
| Fair value | 11,966 | 43,598 | 5,096 | 1 | 60,661 |
| Average yield[b] | 2.34% | 2.20% | 4.81% | 1.07% | 2.44 % |
| Asset-backed securities: | | | | | |
| Amortized cost | $ 38 | $ 4,249 | $ 13,875 | $ 12,337 | $ 30,499 |
| Fair value | 38 | 4,352 | 14,386 | 12,455 | 31,231 |
| Average yield[b] | 8.94% | 1.89% | 2.44% | 2.19% | 2.27 % |
| **Total available-for-sale debt securities** | | | | | |
| Amortized cost | $ 23,011 | $ 66,647 | $ 27,489 | $ 189,075 | $ 306,222 |
| Fair value | 23,107 | 66,982 | 28,093 | 191,926 | 310,108 |
| Average yield[b] | 2.62% | 2.23% | 3.20% | 3.80% | 3.31 % |
| **Available-for-sale equity securities** | | | | | |
| Amortized cost | $ — | $ — | $ — | $ 560 | $ 560 |
| Fair value | — | — | — | 637 | 637 |
| Average yield[b] | —% | —% | —% | 0.57% | 0.57 % |
| **Total available-for-sale securities** | | | | | |
| Amortized cost | $ 23,011 | $ 66,647 | $ 27,489 | $ 189,635 | $ 306,782 |
| Fair value | 23,107 | 66,982 | 28,093 | 192,563 | 310,745 |
| Average yield[b] | 2.62% | 2.23% | 3.20% | 3.79% | 3.31 % |
| **Total held-to-maturity securities** | | | | | |
| Amortized cost | $ — | $ 6 | $ 10 | $ 1 | $ 17 |
| Fair value | — | 6 | 11 | 2 | 19 |
| Average yield[b] | —% | 6.97% | 6.83% | 6.49% | 6.85 % |

(a) U.S. government agencies and U.S. government-sponsored enterprises were the only issuers whose securities exceeded 10% of JPMorgan Chase Bank, N.A.'s total stockholder's equity at December 31, 2010.

(b) Average yield was based on amortized cost balances at the end of the period and did not give effect to changes in fair value reflected in accumulated other comprehensive income/(loss). Yields are derived by dividing interest/dividend income (including the effect of related derivatives on AFS securities and the amortization of premiums and accretion of discounts) by total amortized cost. Taxable-equivalent yields are used where applicable.

(c) Includes securities with no stated maturity. Substantially all of JPMorgan Chase Bank, N.A.'s residential mortgage-backed securities and collateralized mortgage obligations are due in 10 years or more, based on contractual maturity. The estimated duration, which reflects anticipated future prepayments based on a consensus of dealers in the market, is approximately five years for agency residential mortgage-backed securities, three years for agency residential collateralized mortgage obligations and six years for nonagency residential collateralized mortgage obligations.

## Note 14 – Securities financing activities

JPMorgan Chase Bank, N.A. enters into resale agreements, repurchase agreements, securities borrowed transactions and securities loaned transactions (collectively, "securities financing agreements") primarily to finance JPMorgan Chase Bank, N.A.'s inventory positions, acquire securities to cover short positions, accommodate customers' financing needs, and settle other securities obligations.

Securities financing agreements are treated as collateralized financings on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets. Resale and repurchase agreements are generally carried at the amounts at which the securities will be subsequently sold or repurchased, plus accrued interest. Securities borrowed and securities loaned transactions are generally carried at the amount of cash collateral advanced or received. Where appropriate under applicable accounting guidance, resale and repurchase agreements with the same counterparty are reported on a net basis. Fees received or paid in connection with securities financing agreements are recorded in interest income or interest expense.

JPMorgan Chase Bank, N.A. has elected the fair value option for certain securities financing agreements. For a further discussion of the fair value option, see Note 5 on pages 29–31 of these Consolidated Financial Statements. The securities financing agreements for which the fair value option has been elected are reported within securities purchased under resale agreements; securities loaned or sold under repurchase agreements; and securities borrowed on the Consolidated Balance Sheets. Generally, for agreements carried at fair value, current-period interest accruals are recorded within interest income and interest expense, with changes in fair value reported in principal transactions revenue. However, for financial instruments containing embedded derivatives that would be separately accounted for in accordance with accounting guidance for hybrid instruments, all changes in fair value, including any interest elements, are reported in principal transactions revenue.

The following table details JPMorgan Chase Bank, N.A.'s securities financing agreements, all of which are accounted for as collateralized financings during the periods presented.

| December 31, (in millions) | **2010** | 2009 |
|---|---|---|
| Securities purchased under resale agreements[(a)] | **$174,592** | $ 165,620 |
| Securities borrowed[(b)] | **57,370** | 45,320 |
| Securities sold under repurchase agreements[(c)] | **$ 158,688** | $ 172,740 |
| Securities loaned | **13,898** | 12,841 |

(a) Includes resale agreements of $19.9 billion and $20.1 billion accounted for at fair value at December 31, 2010 and 2009, respectively.
(b) Includes securities borrowed of $14.0 billion and $7.0 billion accounted for at fair value at December 31, 2010 and 2009, respectively.
(c) Includes repurchase agreements of $2.6 billion and $2.2 billion accounted for at fair value at December 31, 2010 and 2009, respectively.

The amounts reported in the table above have been reduced by $54.8 billion and $30.2 billion at December 31, 2010 and 2009, respectively, as a result of agreements in effect that meet the specified conditions for net presentation under applicable accounting guidance.

JPMorgan Chase Bank, N.A.'s policy is to take possession, where possible, of securities purchased under resale agreements and of securities borrowed. JPMorgan Chase Bank, N.A. monitors the market value of the underlying securities that it has received from its counterparties and either requests additional collateral or returns a portion of the collateral when appropriate in light of the market value of the underlying securities. Margin levels are established initially based upon the counterparty and type of collateral and monitored on an ongoing basis to protect against declines in collateral value in the event of default. JPMorgan Chase Bank, N.A. typically enters into master netting agreements and other collateral arrangements with its resale agreement and securities borrowed counterparties, which provide for the right to liquidate the purchased or borrowed securities in the event of a customer default. As a result of JPMorgan Chase Bank, N.A.'s credit risk mitigation practices, JPMorgan Chase Bank, N.A. did not hold any reserves for credit impairment on these agreements as of December 31, 2010 and 2009.

For a further discussion of assets pledged and collateral received in securities financing agreements see Notes 29 on page 115 of these Consolidated Financial Statements.

## Note 15 – Loans

**Loan accounting framework**

The accounting for a loan depends on management's strategy for the loan, and on whether the loan was credit-impaired at the date of acquisition. JPMorgan Chase Bank, N.A. accounts for loans based on the following categories:

- Originated or purchased loans held-for-investment (other than purchased credit-impaired ("PCI") loans);
- Loans held-for-sale;
- Fair value loans;
- PCI loans held-for-investment

The following provides a detailed accounting discussion of these loan categories:

*Loans held-for-investment (other than PCI loans)*

Originated or purchased loans held-for-investment, other than PCI loans, are measured at the principal amount outstanding, net of the following: allowance for loan losses; net charge-offs; interest applied to principal (for loans accounted for on the cost recovery method); unamortized discounts and premiums; and deferred loan fees or cost.

*Interest income*

Interest income on performing loans held-for-investment, other than PCI loans, is accrued and recognized as interest income at the contractual rate of interest. Purchase price discounts or premiums, as well as net deferred loan fees or costs, are amortized into interest income over the life of the loan to produce a level rate of return.

*Nonaccrual loans*

Nonaccrual loans are those on which the accrual of interest has been suspended. Loans (other than credit card loans and certain consumer loans insured by U.S. government agencies) are placed on nonaccrual status and considered nonperforming when full payment of principal and interest is in doubt, which is generally determined when principal or interest is 90 days or more past due and collateral, if any, is insufficient to cover principal and interest. A loan is determined to be past due when the minimum payment is not received from the borrower by the contractually specified due date or for certain loans (e.g., residential real estate loans), when a monthly payment is due and unpaid for 30 days or more. All interest accrued but not collected is reversed against interest income at the date a loan is placed on nonaccrual status. In addition, the amortization of deferred amounts is suspended. In certain cases, interest income on nonaccrual loans may be recognized to the extent cash is received (e.g., cash basis) when the recorded loan balance is deemed fully collectible; however, if there is doubt regarding the ultimate collectability of the recorded loan balance, all interest cash receipts are applied to reduce the carrying value of the loan (the cost recovery method).

A loan may be returned to accrual status when repayment is reasonably assured and there has been demonstrated performance under the terms of the loan or, if applicable, the terms of the restructured loan.

As permitted by regulatory guidance, credit card loans are generally exempt from being placed on nonaccrual status; accordingly, interest and fees related to credit card loans continue to accrue until the loan is charged off or paid in full. However, JPMorgan Chase Bank, N.A. separately establishes an allowance for the estimated uncollectible portion of billed and accrued interest and fee income on credit card loans.

*Allowance for loan losses*

The allowance for loan losses represents the estimated probable losses on held-for-investment loans. Changes in the allowance for loan losses are recorded in the provision for credit losses on JPMorgan Chase Bank, N.A.'s Consolidated Statements of Income. See Note 16 on pages 77–81 for further information on JPMorgan Chase Bank, N.A.'s accounting polices for the allowance for loan losses.

*Charge-offs*

Wholesale loans and risk-rated business banking and auto loans are charged off against the allowance for loan losses when it is highly certain that a loss has been realized. This determination includes many factors, including the prioritization of JPMorgan Chase Bank, N.A.'s claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower's equity.

Consumer loans, other than risk-rated business banking and auto loans and PCI loans, are generally charged off to the allowance for loan losses upon reaching specified stages of delinquency, in accordance with the Federal Financial Institutions Examination Council ("FFIEC") policy. Residential mortgage loans and scored business banking loans are generally charged down to estimated net realizable value at no later than 180 days past due. Certain consumer loans, including auto loans and non-government guaranteed student loans, are generally charged down to estimated net realizable value at 120 days past due. JPMorgan Chase Bank, N.A. regularly assesses the assumptions that it uses to estimate these net realizable values, and updates the underlying assumptions as necessary to further refine its estimates.

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.

Certain impaired loans are deemed collateral-dependent because repayment of the loan is expected to be provided solely by the underlying collateral, rather than by cash flows from the borrower's operations, income or other resources. Impaired collateral-dependent loans are charged-off to the fair value of the collateral, less costs to sell. See Note 16 on pages 77–81 for information on JPMorgan Chase Bank, N.A.'s charge-off and valuation policies for collateral-dependent loans.

*Loans held-for-sale*
Held-for-sale loans are measured at the lower of cost or fair value, with valuation changes recorded in noninterest revenue. For wholesale loans, the valuation is performed on an individual loan basis. For consumer loans, the valuation is performed on a portfolio basis.

Interest income on loans held-for-sale is accrued and recognized based on the contractual rate of interest.

Loan origination fees or costs and purchase price discounts or premiums are deferred in a contra loan account until the related loan is sold. The deferred fees and discounts or premiums are an adjustment to the basis of the loan and therefore are included in the periodic determination of the lower of cost or fair value adjustments and/or the gain or losses recognized at the time of sale.

Held-for-sale loans are subject to the nonaccrual policies described above.

Because held-for-sale loans are recognized at the lower of cost or fair value, JPMorgan Chase Bank, N.A.'s allowance for loan losses and charge-off policies do not apply to these loans.

*Fair value loans*
Loans used in a trading strategy or risk managed on a fair value basis are measured at fair value, with changes in fair value recorded in noninterest revenue.

For these loans, the earned current contractual interest payment is recognized in interest income. Changes in fair value are recognized in noninterest revenue. Loan origination fees are recognized upfront in noninterest revenue. Loan origination costs are recognized in the associated expense category as incurred.

Because these loans are recognized at fair value, JPMorgan Chase Bank, N.A.'s nonaccrual, allowance for loan losses, and charge-off policies do not apply to these loans.

See Note 5 on pages 29–31 of these Consolidated Financial Statements for further information on JPMorgan Chase Bank, N.A.'s elections of fair value accounting under the fair value option. See Note 4 and Note 5 on pages 12–29 and 29–31 of these Consolidated Financial Statements for further information on loans carried at fair value and classified as trading assets.

*PCI loans*
PCI loans held-for-investment are initially measured at fair value. PCI loans have evidence of credit deterioration since the loan's origination date and therefore it is probable, at acquisition, that all contractually required payments will not be collected. Because PCI loans are initially measured at fair value, which includes an estimate of future credit losses, no allowance for loan losses related to PCI loans is recorded at the acquisition date. See page 71 of this Note for information on accounting for PCI loans subsequent to their acquisition.

**Loan classification changes**
Loans in the held-for-investment portfolio that management decides to sell are transferred to the held-for-sale portfolio at the lower of cost or fair value on the date of transfer. Credit-related losses are charged against the allowance for loan losses; losses due to changes in interest rates or foreign currency exchange rates are recognized in noninterest revenue.

In certain limited cases, loans in the held-for-sale portfolio that management decides to retain are transferred to the held-for-investment portfolio at the lower of cost or fair value on the date of transfer. These loans are subsequently assessed for impairment based on JPMorgan Chase Bank, N.A.'s allowance methodology. For a further discussion of the methodologies used in establishing JPMorgan Chase Bank, N.A.'s allowance for loan losses, see Note 16 on pages 77–81 of these Consolidated Financial Statements.

**Loan modifications**
JPMorgan Chase Bank, N.A. seeks to modify certain loans in conjunction with its loss-mitigation activities. Through the modification, JPMorgan Chase Bank, N.A. grants one or more concessions to a borrower who is experiencing financial difficulty in order to minimize JPMorgan Chase Bank, N.A.'s economic loss, avoid foreclosure or repossession of the collateral and to ultimately maximize payments received by JPMorgan Chase Bank, N.A. from the borrower. The concessions granted vary by program and by borrower-specific characteristics, and may include interest rate reductions, term extensions, payment deferrals, or the acceptance of equity or other assets in lieu of payments. In certain limited circumstances, loan modifications include principal forgiveness.

Such modifications are accounted for and reported as troubled debt restructurings ("TDRs"). A loan that has been modified in a TDR is generally considered to be impaired until it matures, is repaid, or is otherwise liquidated, regardless of whether the borrower performs under the modified terms. In certain limited cases, the effective interest rate applicable to the modified loan is at or above the current market rate at the time of the restructuring. In such circumstances, and assuming that the loan subsequently performs under its modified terms and JPMorgan Chase Bank, N.A. expects to collect all contractual principal and interest cash flows, the loan is disclosed as impaired and as a TDR only during the year of the modification; in subsequent years, the loan is not disclosed as an impaired loan or as a TDR so long as repayment of the restructured loan under its modified terms is reasonably assured.

Loans, except for credit card loans, modified in a TDR are generally placed on nonaccrual status, although in most cases such loans were already on nonaccrual status prior to modification. These loans may be returned to performing status (resuming the accrual of interest) if the following criteria are met: (a) the borrower has performed under the modified terms for a minimum of six months and/or six payments, and (b) JPMorgan Chase Bank, N.A. has an expectation that repayment of the modified loan is reasonably assured based on, for example, the borrower's debt

capacity and level of future earnings, collateral values, LTV ratios, and other current market considerations.

Because TDRs are considered to be impaired, these loans are evaluated for an asset-specific allowance, which considers the expected re-default rates for the modified loans and is determined based on the same methodology used to estimate JPMorgan Chase Bank, N.A.'s asset-specific allowance component regardless of whether the loan is performing and has been returned to accrual status. For further discussion of the methodology used to estimate JPMorgan Chase Bank, N.A.'s asset-specific allowance, see Note 16 on pages 77-81 of these Consolidated Financial Statements.

**Foreclosed property**

JPMorgan Chase Bank, N.A. acquires property from borrowers through loan restructurings, workouts, and foreclosures. Property acquired may include real property (e.g., residential real estate, land, buildings, and fixtures) and commercial and personal property (e.g., aircraft, railcars, and ships).

At the time JPMorgan Chase Bank, N.A. takes physical possession, the property is recorded in other assets on the Consolidated Balance Sheets at fair value less estimated costs to sell. Each quarter the fair value of the acquired property is reviewed and adjusted, if necessary. Subsequent changes to fair value are charged/credited to noninterest revenue. Operating expense, such as real estate taxes and maintenance, are charged to other expense.

**Loan Portfolio**

JPMorgan Chase Bank, N.A.'s loan portfolio is divided into three portfolio segments, which are the same segments used by JPMorgan Chase Bank, N.A. to determine the allowance for loan losses: Wholesale; Consumer, excluding credit card; and Credit Card. Within each portfolio segment, JPMorgan Chase Bank, N.A. monitors and assesses the credit risk in the following classes of loans, based on the risk characteristics of each loan class:

| Wholesale[(a)] | Consumer, excluding credit card[(b)] | Credit Card |
|---|---|---|
| • Commercial and industrial<br>• Real estate<br>• Financial institutions<br>• Government agencies<br>• Other | Residential real estate – excluding PCI<br>• Home equity - senior lien<br>• Home equity - junior lien<br>• Prime mortgage, including option ARMs<br>• Subprime mortgage<br>Other consumer loans<br>• Auto[(c)]<br>• Business banking[(c)]<br>• Student and other<br>Residential real estate – PCI<br>• Home equity<br>• Prime mortgage<br>• Subprime mortgage<br>• Option ARMs | • Credit card |

(a) Includes loans reported in the investment banking business, the commercial banking business, the treasury and security services business, the asset management business and the corporate business.
(b) Includes the retail financial services business and residential real estate loans reported in the corporate.
(c) Includes risk-rated loans that apply JPMorgan Chase Bank, N.A.'s wholesale methodology for determining the allowance for loan losses; these loans are managed by the retail financial services business, and therefore for consistency in presentation, are included with the other consumer loan classes.

The following table summarizes JPMorgan Chase Bank, N.A.'s loan balances by portfolio segment:

| **December 31, 2010** (in millions) | Wholesale | Consumer, excluding credit card | Credit Card | **Total** |
|---|---|---|---|---|
| Retained[a] | **$ 219,829** | **$ 307,185** | **$ 21,665** | **$ 548,679**[b] |
| Held-for-sale | **3,139** | **154** | **59** | **3,352** |
| At fair value | **973** | **—** | **—** | **973** |
| **Total** | **$ 223,941** | **$ 307,339** | **$ 21,724** | **$ 553,004** |

| December 31, 2009 (in millions) | Wholesale | Consumer, excluding credit card | Credit Card | **Total** |
|---|---|---|---|---|
| Retained | $ 196,815 | $ 338,256 | $ 17,992 | $ 553,063[b] |
| Held-for-sale | 2,666 | 2,142 | — | 4,808 |
| At fair value | 553 | — | — | 553 |
| **Total** | $ 200,034 | $ 340,398 | $ 17,992 | $ 558,424 |

(a) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated $15.1 billion of wholesale loans; and $3.1 billion of loans associated with certain other consumer securitization entities, primarily mortgage-related, and $2.0 billion of loans associated with its JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust. For further information, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

(b) Loans (other than PCI loans and those for which the fair value option has been selected) are presented net of unamortized discounts and premiums, unearned income and net deferred loan costs of $1.8 billion and $803 million at December 31, 2010 and 2009, respectively.

On an on-going basis, JPMorgan Chase Bank, N.A. manages its exposure to credit risk. Selling loans is one way that JPMorgan Chase Bank, N.A. reduces its credit exposures. The following table provides information about JPMorgan Chase Bank, N.A.'s loan sales by portfolio segment.

| Year ended December 31, (in millions) | **2010** | 2009 | 2008 |
|---|---|---|---|
| **Net gains/(losses) on sales of loans (including lower of cost or fair value adjustments)**[a] | | | |
| Wholesale | **$ 204** | $ 234 | $ (2,713) |
| Consumer, excluding credit card | **265** | 127 | (11) |
| Credit Card | **2** | 10 | 60 |
| **Total net gains/(losses) on sales of loans (including lower of cost or fair value adjustments)**[a] | **$ 471** | $ 371 | $ (2,664) |

(a) Excludes sales related to loans accounted for at fair value.

## Wholesale loan portfolio

Wholesale loans include loans made to a variety of customers from large corporate and institutional clients to certain high-net worth individuals.

The primary credit quality indicator for wholesale loans is the risk rating assigned each loan. Risk ratings are used to identify the credit quality of loans and differentiate risk within the portfolio. Risk ratings on loans consider the probability of default ("PD") and the loss given default ("LGD"). PD is the likelihood that a loan will not be repaid at default. The LGD is the estimated loss on the loan that would be realized upon the default of the borrower and takes into consideration collateral and structural support for each credit facility.

Management considers several factors to determine an appropriate risk rating, including the obligor's debt capacity and financial flexibility, the level of the obligor's earnings, the amount and sources for repayment, the level and nature of contingencies, management strength, and the industry and geography in which the obligor operates. Risk ratings generally represent ratings profiles similar to those defined by S&P and Moody's. Investment grade ratings range from "AAA/Aaa" to "BBB-/Baa3". Noninvestment grade ratings are further classified as noncriticized ("BB+/Ba1 and B-/B3") and criticized ("CCC+"/"Caa1 and lower"), and the criticized portion is further subdivided into performing and nonaccrual loans, representing management's assessment of the collectibility of principal and interest. Criticized loans have a higher probability of default than noncriticized loans.

Risk ratings are reviewed on a regular and ongoing basis by Credit Risk Management and are adjusted as necessary for updated information affecting the obligor's ability to fulfill its obligations.

As noted above, the risk rating of a loan considers the industry in which the obligor conducts its operations. As part of the overall credit risk management framework, JPMorgan Chase Bank, N.A. focuses on the management and diversification of its industry and client exposures, with particular attention paid to industries with actual or potential credit concern. See Note 6 on pages 31–32 in these Consolidated Financial Statements for further detail on industry concentrations.

The table below provides information by class of receivable for the retained loans in the Wholesale portfolio segment.

| As of or for the year ended December 31, | Commercial and industrial | | Real estate | |
|---|---|---|---|---|
| (in millions, except ratios) | **2010** | 2009 | **2010** | 2009 |
| **Loans by risk ratings** | | | | |
| Investment grade | **$ 30,729** | $ 30,520 | **$ 28,378** | $ 31,959 |
| Noninvestment grade: | | | | |
| Noncriticized | **29,612** | 28,535 | **16,289** | 14,556 |
| Criticized performing | **2,290** | 5,933 | **5,720** | 7,795 |
| Criticized-total nonaccrual | **1,598** | 2,191 | **2,934** | 2,885 |
| **Total noninvestment grade** | **33,500** | 36,659 | **24,943** | 25,236 |
| **Total retained loans** | **$ 64,229** | $ 67,179 | **$ 53,321** | $ 57,195 |
| % of total criticized to total retained loans | **6.05%** | 12.09% | **16.23%** | 18.67% |
| % of nonaccrual loans to total retained loans | **2.49** | 3.26 | **5.50** | 5.04 |
| **Loans by geographic distribution**[(a)] | | | | |
| Total non-U.S. | **$ 17,720** | $ 18,781 | **$ 1,963** | $ 2,227 |
| Total U.S. | **46,509** | 48,398 | **51,358** | 54,968 |
| **Total retained loans** | **$ 64,229** | $ 67,179 | **$ 53,321** | $ 57,195 |
| Net charge-offs | **$ 403** | $ 1,219 | **$ 859** | $ 688 |
| % of net charge-offs to retained loans[(b)] | **0.63%** | 1.81% | **1.61%** | 1.20% |
| **Loan deliquency**[(c)] | | | | |
| Current and less than 30 days past due and still accruing | **$ 62,190** | $ 64,684 | **$ 49,988** | $ 53,532 |
| 30–89 days past due and still accruing | **434** | 275 | **290** | 668 |
| 90 or more days past due and still accruing[(d)] | **7** | 29 | **109** | 110 |
| Nonaccrual | **1,598** | 2,191 | **2,934** | 2,885 |
| **Total retained loans** | **$ 64,229** | $ 67,179 | **$ 53,321** | $ 57,195 |

(a) U.S. and non-U.S. distribution is determined based predominantly on the domicile of the borrower.
(b) Ratios were calculated using end-of-period retained loans.
(c) For wholesale loans, the past due status of a loan is generally not a significant indicator of credit quality due to the ongoing review and monitoring of an obligor's ability to meet contractual obligations. For a discussion of more significant factors, see page 61 of this Note.
(d) Represents loans that are 90 days or more past due as to principal and/or interest, but that are still accruing interest; these loans are considered well-collateralized.
(e) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated $15.1 billion of wholesale loans. For further information, see Note 17 on pages 82–97 of these Consolidated Financial Statements.
(f) Other primarily includes loans to special purpose entities and loans to private banking clients. See Note 1 on page 6–8 of these Consolidated Financial Statements for additional information on SPEs.

The following table presents additional information on the real estate class of loans within the wholesale portfolio segment for the periods ended December 31, 2010 and 2009. The real estate class primarily consists of secured commercial loans mainly to borrowers for multi-family and commercial lessor properties. Multi-family lending specifically finances apartment buildings. Commercial lessors receive financing specifically for real estate leased to retail, office and industrial tenants. The commercial construction and development loans represent financing for the construction of apartments, office and professional buildings and malls. Other real estate loans include lodging, real estate investment trusts ("REITs"), single-family, homebuilders and other real estate.

| December 31, | Multi-family | | Commercial lessors | |
|---|---|---|---|---|
| (in millions, except ratios) | **2010** | 2009 | **2010** | 2009 |
| Real estate retained loans | **$ 30,595** | $ 31,077 | **$ 15,620** | $ 15,170 |
| Criticized exposure | **3,798** | 3,942 | **3,546** | 3,798 |
| % of total real estate retained loans | **12.41%** | 12.68% | **22.70%** | 25.04% |
| Criticized nonaccrual | **$ 1,016** | $ 1,109 | **$ 1,546** | $ 687 |
| % of total real estate retained loans | **3.32%** | 3.57% | **9.90%** | 4.53% |

(table continued from previous page)

| Financial institutions | | Government agencies | | Other[e][f] | | Total retained loans[e] | |
|---|---|---|---|---|---|---|---|
| **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| **$ 22,692** | $ 14,936 | **$ 5,980** | $ 5,766 | **$ 55,484** | $ 33,053 | **$ 143,263** | $ 116,234 |
| **8,358** | 8,236 | **377** | 423 | **7,809** | 6,543 | **62,445** | 58,293 |
| **317** | 1,107 | **3** | 28 | **320** | 997 | **8,650** | 15,860 |
| **136** | 729 | **22** | 4 | **781** | 619 | **5,471** | 6,428 |
| **8,811** | 10,072 | **402** | 455 | **8,910** | 8,159 | **76,566** | 80,581 |
| **$ 31,503** | $ 25,008 | **$ 6,382** | $ 6,221 | **$ 64,394** | $ 41,212 | **$ 219,829** | $ 196,815 |
| **1.44%** | 7.34% | **0.39%** | 0.51% | **1.71%** | 3.92% | **6.42%** | 11.32% |
| **0.43** | 2.92 | **0.34** | 0.06 | **1.21** | 1.50 | **2.49** | 3.27 |
| **$ 20,043** | $ 11,754 | **$ 874** | $ 1,519 | **$ 25,753** | $ 18,767 | **$ 66,353** | $ 53,048 |
| **11,460** | 13,254 | **5,508** | 4,702 | **38,641** | 22,445 | **153,476** | 143,767 |
| **$ 31,503** | $ 25,008 | **$ 6,382** | $ 6,221 | **$ 64,394** | $ 41,212 | **$ 219,829** | $ 196,815 |
| **$ 72** | $ 671 | **$ 2** | $ — | **$ 387** | $ 407 | **$ 1,723** | $ 2,985 |
| **0.23%** | 2.68% | **0.03%** | —% | **0.60%** | 0.99% | **0.78%** | 1.52% |
| **$ 31,334** | $ 24,206 | **$ 6,345** | $ 6,202 | **$ 62,832** | $ 39,908 | **$ 212,689** | $ 188,532 |
| **31** | 67 | **15** | 15 | **541** | 510 | **1,311** | 1,535 |
| **2** | 6 | **—** | — | **240** | 175 | **358** | 320 |
| **136** | 729 | **22** | 4 | **781** | 619 | **5,471** | 6,428 |
| **$ 31,503** | $ 25,008 | **$ 6,382** | $ 6,221 | **$ 64,394** | $ 41,212 | **$ 219,829** | $ 196,815 |

(table continued from previous page)

| Commercial construction and development | | Other | | Total real estate loans | |
|---|---|---|---|---|---|
| **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| **$ 3,395** | $ 4,599 | **$ 3,711** | $ 6,349 | **$ 53,321** | $ 57,195 |
| **618** | 1,359 | **692** | 1,581 | **8,654** | 10,680 |
| **18.20%** | 29.55% | **18.65%** | 24.90% | **16.23%** | 18.67% |
| **$ 173** | $ 313 | **$ 199** | $ 776 | **$ 2,934** | $ 2,885 |
| **5.10%** | 6.81% | **5.36%** | 12.22% | **5.50%** | 5.04% |

**Wholesale impaired loans and loan modifications**

Wholesale impaired loans include loans that have been placed on nonaccrual status and/or that have been modified in a TDR. All impaired loans are evaluated for an asset-specific allowance as described in Note 16 on pages 77–81 of these Consolidated Financial Statements.

The table below set forth information about JPMorgan Chase Bank, N.A.'s wholesale impaired loans.

| December 31, | Commercial and industrial | | Real estate | | Financial institutions | | Government agencies | | Other | | Total retained loans | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in millions) | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| **Impaired loans** | | | | | | | | | | | | |
| With an allowance | **$ 1,482** | $ 2,125 | **$ 2,508** | $ 2,995 | **$ 127** | $ 579 | **$ 22** | $ 4 | **$ 697** | $ 523 | **$ 4,836** | $ 6,226 |
| Without an allowance[(a)] | **151** | 79 | **445** | 362 | **8** | 149 | **—** | — | **8** | 13 | **612** | 603 |
| **Total impaired loans** | **$ 1,633** | $ 2,204 | **$ 2,953** | $ 3,357 | **$ 135** | $ 728 | **$ 22** | $ 4 | **$ 705** | $ 536 | **$ 5,448** | $ 6,829 |
| Allowance for loan losses related to impaired loans[(b)] | **$ 431** | $ 442 | **$ 825** | $ 1,211 | **$ 61** | $ 165 | **$ 14** | $ 1 | **$ 238** | $ 214 | **$ 1,569** | $ 2,033 |
| Unpaid principal balance of impaired loans[(c)] | **2,406** | 2,985 | **3,483** | 3,645 | **244** | 918 | **30** | 4 | **1,046** | 688 | **7,209** | 8,240 |

(a) When the discounted cash flows, collateral value or market price equals or exceeds the recorded investment in the loan, then the loan does not require an allowance. This typically occurs when the impaired loans have been partially charged-off and/or there have been interest payments received and applied to the loan balance.
(b) The allowance for impaired loans is included in JPMorgan Chase Bank, N.A.'s asset-specific allowance for loan losses.
(c) Represents the contractual amount of principal owed at December 31, 2010 and 2009. The unpaid principal balance differs from the impaired loan balances due to various factors, including charge-offs; interest payments received and applied to the carrying value; net deferred loan fees or costs; and discount or premiums on purchased loans.

The following table presents JPMorgan Chase Bank, N.A.'s average impaired loans for the years ended 2010, 2009 and 2008.

| For the year ended December 31, | Impaired loans (average) | | |
|---|---|---|---|
| (in millions) | **2010** | 2009 | 2008 |
| Commercial and industrial | **$ 1,618** | $ 1,737 | $ 332 |
| Real estate | **3,082** | 2,416 | 387 |
| Financial institutions | **304** | 646 | 49 |
| Government agencies | **5** | 4 | — |
| Other | **855** | 457 | 119 |
| **Total**[(a)] | **$ 5,864** | $ 5,260 | $ 887 |

(a) The related interest income on accruing impaired loans, largely in real estate, was $21 million, $15 million and zero for the years ended December 31, 2010, 2009 and 2008. The interest income recognized on a cash basis was not material for the years 2010, 2009 and 2008.

The following table provides information about JPMorgan Chase Bank, N.A.'s wholesale loans modified in troubled debt restructurings. These TDR loans are included as impaired loans in the above tables.

| December 31, | Commercial and industrial | | Real estate | | Financial institutions | | Government agencies | | Other | | Total retained loans | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in millions) | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| Loans modified in troubled debt restructurings[(a)] | **$ 211** | $ 225 | **$ 907** | $ 856 | **$ 1** | $ — | **$ 22** | $ — | **$ 1** | $ — | **$1,142** | $ 1,081 |
| TDRs on nonaccrual status | **162** | 194 | **830** | 269 | **1** | — | **22** | — | **1** | — | **1,016** | 463 |
| Additional commitments to lend to borrowers whose loans have been modified in TDRs | **1** | 33 | **—** | 6 | **—** | — | **—** | — | **—** | — | **1** | 39 |

(a) These modifications generally provided interest rate concessions to the borrower or deferral of principal repayments.

## Consumer loan portfolio

Consumer loans, excluding credit card loans, consist primarily of residential mortgages, home equity loans, auto loans, business banking loans, and student and other loans, with a primary focus on serving the prime consumer credit market. The portfolio also includes home equity loans secured by junior liens and mortgage loans with interest-only payment options to predominantly prime borrowers, as well as certain payment-option loans originated by Washington Mutual that may result in negative amortization.

The table below provides information about consumer retained loans by class, excluding the credit card loan portfolio segment.

| December 31, (in millions) | 2010 | 2009 |
|---|---|---|
| **Residential real estate – excluding PCI** | | |
| Home equity: | | |
| Senior lien[(a)] | **$ 21,076** | $ 27,376 |
| Junior lien[(b)] | **56,991** | 74,049 |
| Mortgages: | | |
| Prime, including option ARMs[(c)] | **66,123** | 65,351 |
| Subprime | **9,849** | 12,522 |
| **Other consumer loans** | | |
| Auto[(c)] | **48,367** | 46,031 |
| Business banking | **16,799** | 16,956 |
| Student and other[(c)] | **15,217** | 14,726 |
| **Residential real estate – PCI** | | |
| Home equity | **24,459** | 26,520 |
| Prime mortgage | **17,322** | 19,693 |
| Subprime mortgage | **5,398** | 5,993 |
| Option ARMs | **25,584** | 29,039 |
| **Total retained loans** | **$307,185** | $ 338,256 |

(a) Represents loans where JPMorgan Chase Bank, N.A. holds the first security interest on the property.
(b) Represents loans where JPMorgan Chase Bank, N.A. holds a security interest that is subordinate in rank to other liens.
(c) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated $3.1 billion of certain consumer loan securitization entities, primarily mortgage-related. For further information, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

Delinquency rates are a primary credit quality indicator for consumer loans. Loans that are more than 30 days past due provide an early warning of borrowers that may be experiencing financial difficulties and/or who may be unable or unwilling to repay the loan. As the loan continues to age, it becomes more clear that the borrower is likely either unable or unwilling to pay. In the case of residential real estate loans, late-stage delinquencies (greater than 150 days past due) are a strong indicator of loans that will ultimately result in a short sale or foreclosure. In addition to delinquency rates, other credit quality indicators for consumer loans vary based on the class of loan, as follows:

- For residential real estate loans, including both non-PCI and PCI portfolios, the current estimated loan-to-value ("LTV") ratio, or the combined LTV ratio in the case of loans with a junior lien, is an indicator of the potential loss severity in the event of default. Additionally, LTV or combined LTV can provide insight into a borrower's continued willingness to pay, as the delinquency rate of high LTV loans tends to be greater than that for loans where the borrower has equity in the collateral. The geographic distribution of the loan collateral also provides insight as to the credit quality of the portfolio, as factors such as the regional economy, home price changes and specific events such as hurricanes, earthquakes, etc. will affect credit quality. The borrower's current or "refreshed" FICO score is a secondary credit-quality indicator for certain loans, as FICO scores are an indication of the borrower's credit payment history. Thus, a loan to a borrower with a low FICO score (660 or below) is considered to be of higher risk than a loan to a borrower with a high FICO score. Further, a loan to a borrower with a high LTV ratio and a low FICO score is at greater risk of default than a loan to a borrower that has both a high LTV ratio and a high FICO score.
- For auto, scored business banking and student loans, geographic distribution is an indicator of the credit performance of the portfolio. Similar to residential real estate loans, geographic distribution provides insight into the portfolio performance based on regional economic activity and events.
- Risk-rated business banking and auto loans are similar to wholesale loans in that the primary credit quality indicators are the risk rating that is assigned to the loan and whether the loans are considered to be criticized and/or nonaccrual. Risk ratings are reviewed on a regular and ongoing basis by Credit Risk Management and are adjusted as necessary for updated information affecting borrowers' ability to fulfill their obligations. Consistent with other classes of consumer loans, the geographic distribution of the portfolio provides insights into portfolio performance based on the regional economic activity and events.

## Residential real estate – excluding PCI loans

The tables below provide information by class for residential real estate (excluding PCI) retained loans in the consumer, excluding credit card portfolio segment.

| As of or for the year ended December 31, (in millions, except ratios) | Home equity | | | |
|---|---|---|---|---|
| | Senior lien | | Junior lien | |
| | **2010** | 2009 | **2010** | 2009 |
| Net charge-offs | **$ 262** | $ 234 | **$ 3,182** | $ 4,448 |
| % of net charge-offs to retained loans | **1.02%** | 0.80% | **4.69%** | 5.62% |
| **Loan delinquency** | | | | |
| Current and less than 30 days past due | **$ 20,316** | $ 26,543 | **$ 55,301** | $ 71,534 |
| 30 – 149 days past due | **414** | 512 | **1,504** | 2,224 |
| 150 or more days past due | **346** | 321 | **186** | 291 |
| **Total retained loans** | **$ 21,076** | $ 27,376 | **$ 56,991** | $ 74,049 |
| % of 30+days past due to total retained loans | **3.61%** | 3.04% | **2.97%** | 3.40% |
| 90 or more days past due and still accruing | **$ —** | $ — | **$ —** | $ — |
| Nonaccrual loans[(a)] | **479** | 477 | **784** | 1,188 |
| **Current estimated LTV ratios**[(b)(c)(d)] | | | | |
| Greater than 125% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **$ 528** | $ 472 | **$ 6,927** | $ 6,788 |
| Less than 660 | **238** | 235 | **2,494** | 2,703 |
| 101% to 125% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **963** | 933 | **9,377** | 10,616 |
| Less than 660 | **325** | 319 | **2,873** | 3,277 |
| 80% to 100% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **2,439** | 3,038 | **11,259** | 16,098 |
| Less than 660 | **737** | 825 | **3,147** | 3,657 |
| Less than 80% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **13,136** | 18,591 | **17,634** | 27,225 |
| Less than 660 | **2,710** | 2,963 | **3,280** | 3,685 |
| U.S. government guaranteed | **—** | — | **—** | — |
| **Total retained loans** | **$ 21,076** | $ 27,376 | **$ 56,991** | $ 74,049 |
| **Geographic region** | | | | |
| California | **$ 3,257** | $ 3,658 | **$ 13,967** | $ 16,990 |
| New York | **2,575** | 3,438 | **10,710** | 13,456 |
| Texas | **3,392** | 4,306 | **1,791** | 2,711 |
| Florida | **1,013** | 1,198 | **3,341** | 4,123 |
| Illinois | **1,221** | 1,795 | **3,516** | 4,849 |
| Ohio | **1,655** | 2,338 | **1,247** | 1,865 |
| New Jersey | **538** | 777 | **3,072** | 4,090 |
| Michigan | **1,001** | 1,329 | **1,474** | 1,900 |
| Arizona | **1,215** | 1,648 | **2,735** | 3,582 |
| Washington | **759** | 868 | **2,046** | 2,481 |
| All other[(e)] | **4,450** | 6,021 | **13,092** | 18,002 |
| **Total retained loans** | **$ 21,076** | $ 27,376 | **$ 56,991** | $ 74,049 |

(a) At December 31, 2010 and 2009, nonaccrual loans excluded mortgage loans insured by U.S. government agencies of $10.5 billion and $9.0 billion, respectively, that are 90 days past due and accruing at the guaranteed reimbursement rate. These amounts are excluded as reimbursement of insured amounts is proceeding normally.
(b) Represents the aggregate unpaid principal balance of loans divided by the estimated current property value. Current property values are estimated, at a minimum, quarterly, based on home valuation models utilizing nationally recognized home price index valuation estimates and do not represent actual appraised loan level collateral values; as such, the resulting ratios are necessarily imprecise and should be viewed as estimates.
(c) Junior lien represents combined LTV, which considers all available lien positions related to the property. All other products are presented without consideration of subordinate liens on the property.
(d) Refreshed FICO scores represent each borrower's most recent credit score obtained by JPMorgan Chase Bank, N.A.; current FICO scores are obtained at least quarterly.
(e) At December 31, 2010 and 2009, includes prime mortgage loans insured by U.S. government agencies of $12.9 billion and $10.5 billion, respectively.
(f) At December 31, 2010 and 2009, included 30+ day delinquent mortgage loans that are insured by U.S. government agencies of $11.3 billion and $9.7 billion, respectively. These amounts are considered current as reimbursement of insured amounts is proceeding normally.

(table continued from previous page)

| Mortgages | | | | Total residential real estate (excluding PCI) | |
|---|---|---|---|---|---|
| Prime, including option ARMs | | Subprime | | | |
| **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| **$ 1,485** | $ 1,913 | **$ 1,347** | $ 1,648 | **$ 6,276** | $ 8,243 |
| **2.24%** | 2.74% | **12.14%** | 11.86% | **3.67%** | 4.29% |
| | | | | | |
| **$ 61,809**[f] | $ 60,183[f] | **$ 7,262** | $ 8,291 | **$ 144,688** | $ 166,551 |
| **1,337** | 2,086 | **1,088** | 1,883 | **4,343** | 6,705 |
| **2,977** | 3,082 | **1,499** | 2,348 | **5,008** | 6,042 |
| **$ 66,123** | $ 65,351 | **$ 9,849** | $ 12,522 | **$ 154,039** | $ 179,298 |
| **6.52%** | 7.91% | **26.27%** | 33.79% | **6.07%** | 7.11% |
| **$ —** | $ — | **$ —** | $ — | **$ —** | $ — |
| **3,773** | 4,308 | **2,047** | 3,247 | **7,083** | 9,220 |
| | | | | | |
| **$ 3,000** | $ 2,412 | **$ 332** | $ 335 | **$ 10,787** | $ 10,007 |
| **1,583** | 1,334 | **1,137** | 1,169 | **5,452** | 5,441 |
| | | | | | |
| **4,324** | 4,458 | **489** | 593 | **15,153** | 16,600 |
| **1,641** | 1,845 | **1,459** | 1,902 | **6,298** | 7,343 |
| | | | | | |
| **8,924** | 10,825 | **845** | 1,094 | **23,467** | 31,055 |
| **2,265** | 2,686 | **1,830** | 2,662 | **7,979** | 9,830 |
| | | | | | |
| **27,840** | 27,441 | **1,640** | 2,061 | **60,250** | 75,318 |
| **3,627** | 3,819 | **2,117** | 2,706 | **11,734** | 13,173 |
| **12,919** | 10,531 | **—** | — | **12,919** | 10,531 |
| **$ 66,123** | $ 65,351 | **$ 9,849** | $ 12,522 | **$ 154,039** | $ 179,298 |
| **$ 15,584** | $ 17,164 | **$ 1,509** | $ 1,719 | **$ 34,317** | $ 39,531 |
| **8,513** | 8,516 | **1,205** | 1,535 | **23,003** | 26,945 |
| **2,392** | 1,985 | **301** | 407 | **7,876** | 9,409 |
| **4,281** | 4,636 | **1,240** | 1,625 | **9,875** | 11,582 |
| **3,477** | 2,919 | **408** | 584 | **8,622** | 10,147 |
| **437** | 432 | **240** | 299 | **3,579** | 4,934 |
| **1,738** | 1,879 | **466** | 617 | **5,814** | 7,363 |
| **925** | 966 | **257** | 324 | **3,657** | 4,519 |
| **1,203** | 1,284 | **213** | 301 | **5,366** | 6,815 |
| **1,580** | 1,620 | **216** | 274 | **4,601** | 5,243 |
| **25,993** | 23,950 | **3,794** | 4,837 | **47,329** | 52,810 |
| **$ 66,123** | $ 65,351 | **$ 9,849** | $ 12,522 | **$ 154,039** | $ 179,298 |

**Residential real estate impaired loans and loan modifications – excluding PCI loans**

JPMorgan Chase Bank, N.A. 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 MHA programs.

MHA, as well as JPMorgan Chase Bank, N.A.'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 of principal payments that would otherwise have been required under the terms of the original agreement. Principal forgiveness has been limited to a specific modification program for option ARMs.

Generally, borrowers must make at least three payments under the revised contractual terms during a trial modification and be successfully re-underwritten with income verification before a mortgage or home equity loan can be permanently modified. When JPMorgan Chase Bank, N.A. modifies home equity lines of credit in troubled debt restructurings, future lending commitments related to the modified loans are canceled as part of the terms of the modification.

Modifications of residential real estate loans other than PCI loans are generally accounted for and reported as TDRs. For further discussion of the accounting for loan modifications and TDRs, see Loan modifications on pages 59–60 of this Note.

The tables below set forth information about JPMorgan Chase Bank, N.A.'s residential real estate impaired loans, excluding PCI. These loans are considered to be impaired as they have been modified in a TDR. All impaired loans are evaluated for an asset-specific allowance as described in Note 16 on pages 77–81 of these Consolidated Financial Statements.

| | Home equity | | | | Mortgages | | | | Total residential real estate (excluding PCI) | |
|---|---|---|---|---|---|---|---|---|---|---|
| December 31, | Senior lien | | Junior lien | | Prime | | Subprime | | | |
| (in millions) | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| **Impaired loans**[a][b] | | | | | | | | | | |
| With an allowance | **$ 211** | $ 167 | **$ 258** | $ 221 | **$ 1,436** | $ 534 | **$ 2,490** | $ 1,952 | **$ 4,395** | $ 2,874 |
| Without an allowance[c] | **15** | 1 | **25** | 1 | **508** | 65 | **178** | 46 | **726** | 113 |
| **Total impaired loans**[d] | **$ 226** | $ 168 | **$ 283** | 222 | **$ 1,944** | $ 599 | **$ 2,668** | $ 1,998 | **$ 5,121** | $ 2,987 |
| Allowance for loan losses related to impaired loans | **$ 77** | $ 73 | **$ 82** | $ 100 | **$ 88** | $ 66 | **$ 532** | $ 494 | **$ 779** | $ 733 |
| Unpaid principal balance of impaired loans[e] | **265** | 178 | **402** | 273 | **2,582** | 739 | **3,674** | 2,303 | **6,923** | 3,493 |
| Impaired loans on nonaccrual status | **38** | 30 | **63** | 43 | **487** | 233 | **611** | 598 | **1,199** | 904 |

(a) Represents loans modified in a TDR. These modifications generally provided interest rate concessions to the borrower or deferral of principal repayments.
(b) There are no additional commitments to lend to borrowers whose loans have been modified in TDRs as of December 31, 2010 and 2009.
(c) When discounted cash flows or collateral value equals or exceed the recorded investment in the loan, then the loan does not require an allowance. This typically occurs when the impaired loans have been partially charged-off and/or there have been interest payments received and applied to the loan balance.
(d) At December 31, 2010 and 2009, $3.0 billion and $296 million, respectively, of loans modified subsequent to repurchase from Ginnie Mae were excluded from loans accounted for as TDRs. When such loans perform subsequent to modification they are generally sold back into Ginnie Mae loan pools. Modified loans that do not re-perform become subject to foreclosure. Substantially all amounts due under the terms of these loans continue to be insured and, where applicable, reimbursement of insured amounts is proceeding normally.
(e) Represents the contractual amount of principal owed at December 31, 2010 and 2009. The unpaid principal balance differs from the impaired loan balances due to various factors, including charge-offs; interest payments received and applied to the principal balance; net deferred loan fees or costs; and discounts or premiums on purchased loans.

The following table presents average impaired loans and the related interest income reported by JPMorgan Chase Bank, N.A.

| For the year ended December 31, | Impaired loans (average) | | | Interest income on impaired loans[a] | | | Interest income on impaired loans on a cash basis[a] | | |
|---|---|---|---|---|---|---|---|---|---|
| (in millions) | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 |
| **Home equity** | | | | | | | | | |
| Senior lien | **$ 207** | $ 142 | $ 39 | **$ 15** | $ 7 | $ 2 | **$ 1** | $ 1 | $ — |
| Junior lien | **266** | 187 | 39 | **10** | 9 | 3 | **1** | 1 | — |
| **Mortgages** | | | | | | | | | |
| Prime including option ARMs | **1,446** | 463 | 41 | **68** | 32 | 2 | **13** | 8 | — |
| Subprime | **2,466** | 1,948 | 690 | **119** | 98 | 47 | **19** | 6 | 2 |
| **Total residential real estate (excluding PCI)** | **$ 4,385** | $ 2,740 | $ 809 | **$ 212** | $ 146 | $ 54 | **$ 34** | $ 16 | $ 2 |

(a) Generally, interest income on loans modified in a TDR is recognized on a cash basis until such time as the borrower has made a minimum of six payments under the new terms. As of December 31, 2010 and 2009, loans of $537 million and $247 million, respectively, are TDRs for which the borrowers have not yet made six payments under their modified terms.

### Other consumer loans

The tables below provide information for other consumer retained loan classes, including auto, business banking, student and other loans.

| As of or for the year ended December 31, (in millions, except ratios) | Auto[c] 2010 | Auto[c] 2009 | Business banking 2010 | Business banking 2009 | Student and other[c] 2010 | Student and other[c] 2009 | Total other consumer 2010 | Total other consumer 2009 |
|---|---|---|---|---|---|---|---|---|
| Net charge-offs | **$ 298** | $ 627 | **$ 707** | $ 842 | **$ 469** | $ 365 | **$ 1,474** | $ 1,834 |
| % of net charge-offs to retained loans | **0.63%** | 1.44% | **4.23%** | 4.73% | **2.93%** | 2.39% | **1.84%** | 2.39% |
| **Loan delinquency** | | | | | | | | |
| Current and less than 30 days past due | **$ 47,778** | $ 45,281 | **$ 16,227** | $ 16,262 | **$ 14,980**[d] | $ 14,479[d] | **$ 78,985** | $ 76,022 |
| 30 – 119 days past due | **579** | 720 | **351** | 424 | **232** | 240 | **1,162** | 1,384 |
| 120 or more days past due | **10** | 30 | **221** | 270 | **5** | 7 | **236** | 307 |
| **Total retained loans** | **$ 48,367** | $ 46,031 | **$ 16,799** | $ 16,956 | **$ 15,217** | $ 14,726 | **$ 80,383** | $ 77,713 |
| % of 30+ days past due to total retained loans | **1.22%** | 1.63% | **3.40%** | 4.09% | **1.56%** | 1.68% | **1.74%** | 2.18% |
| 90 or more days past due and still accruing | **$ —** | $ — | **$ —** | $ — | **$ 625** | $ 542 | **$ 625** | $ 542 |
| Nonaccrual loans[a] | **141** | 177 | **819** | 814 | **67** | 74 | **1,027** | 1,065 |
| **Geographic region** | | | | | | | | |
| California | **$ 4,307** | $ 4,440 | **$ 851** | $ 515 | **$ 1,327** | $ 1,304 | **$ 6,485** | $ 6,259 |
| New York | **3,875** | 3,756 | **2,876** | 3,039 | **1,299** | 1,243 | **8,050** | 8,038 |
| Texas | **4,505** | 4,330 | **2,547** | 2,482 | **1,247** | 1,197 | **8,299** | 8,009 |
| Florida | **1,923** | 1,750 | **220** | 166 | **720** | 715 | **2,863** | 2,631 |
| Illinois | **2,608** | 2,440 | **1,319** | 1,379 | **935** | 868 | **4,862** | 4,687 |
| Ohio | **2,961** | 3,153 | **1,645** | 1,781 | **1,003** | 957 | **5,609** | 5,891 |
| New Jersey | **1,842** | 1,776 | **422** | 426 | **501** | 475 | **2,765** | 2,677 |
| Michigan | **2,434** | 2,108 | **1,399** | 1,611 | **722** | 686 | **4,555** | 4,405 |
| Arizona | **1,499** | 1,479 | **1,218** | 1,209 | **379** | 366 | **3,096** | 3,054 |
| Washington | **716** | 627 | **115** | 84 | **276** | 266 | **1,107** | 977 |
| All other | **21,697** | 20,172 | **4,187** | 4,264 | **6,808** | 6,649 | **32,692** | 31,085 |
| **Total retained loans** | **$ 48,367** | $ 46,031 | **$ 16,799** | $ 16,956 | **$ 15,217** | $ 14,726 | **$ 80,383** | $ 77,713 |
| **Loans by risk ratings**[b] | | | | | | | | |
| Noncriticized | **$ 5,803** | $ 4,564 | **$ 10,831** | $ 10,450 | **NA** | NA | **$ 16,634** | $ 15,014 |
| Criticized performing | **265** | 448 | **502** | 517 | **NA** | NA | **767** | 965 |
| Criticized nonaccrual | **12** | 39 | **574** | 542 | **NA** | NA | **586** | 581 |

(a) At December 31, 2010 and 2009, excludes student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program ("FFELP"), of $625 million and $542 million, respectively. These amounts are excluded as reimbursement of insured amounts is proceeding normally.

(b) For risk-rated business banking and auto loans, the primary credit quality indicator is the risk-rating of the loan, including whether the loans are considered to be criticized and/or nonaccrual.

(c) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon the adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated certain consumer loan securitization entities. For further information, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

(d) Includes 30+ day delinquent loans that are 30 days or more past due and still accruing, which are insured by U.S. government agencies under the FFELP, of $1.1 billion and $942 million at December 31, 2010 and 2009, respectively. These amounts are considered current as reimbursement of insured amounts is proceeding normally.

### Other consumer impaired loans

The tables below set forth information about JPMorgan Chase Bank, N.A.'s other consumer impaired loans, including risk-rated business banking and auto loans that have been placed on nonaccrual status, and any loan that has been modified in a troubled debt restructuring.

| | Auto | | Business banking | | Total other consumer[c] | |
|---|---|---|---|---|---|---|
| December 31, (in millions) | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| **Impaired loans** | | | | | | |
| With an allowance | **$ 102** | $ 118 | **$ 774** | $ 500 | **$ 876** | $ 618 |
| Without an allowance[a] | **—** | — | **—** | — | **—** | — |
| **Total impaired loans** | **$ 102** | $ 118 | **$ 774** | $ 500 | **$ 876** | $ 618 |
| Allowance for loan losses related to impaired loans | **$ 16** | $ 30 | **$ 248** | $ 129 | **$ 264** | $ 159 |
| Unpaid principal balance of impaired loans[b] | **132** | 137 | **899** | 577 | **1,031** | 714 |

(a) When discounted cash flows, collateral value or market price equals or exceeds the recorded investment in the loan, then the loan does not require an allowance. This typically occurs when the impaired loans have been partially charged-off and/or there have been interest payments received and applied to the loan balance.
(b) Represents the contractual amount of principal owed at December 31, 2010 and 2009. The unpaid principal balance differs from the impaired loan balances due to various factors, including charge-offs; interest payments received and applied to the principal balance; net deferred loan fees or costs; and discounts or premiums on purchased loans.
(c) There were no student and other loans modified in TDRs at December 31, 2010 and 2009.

The following table presents average impaired loans.

| For the year ended December 31, | Impaired loans (average)[b] | | |
|---|---|---|---|
| (in millions) | **2010** | 2009 | 2008 |
| Auto | **$ 120** | $ 100 | $71 |
| Business banking | **682** | 396 | 200 |
| **Total other consumer**[a] | **$ 802** | $ 496 | $271 |

(a) There were no student and other loans modified in TDRs at December 31, 2010, 2009 and 2008.
(b) The related interest income on impaired loans, including those on cash basis, were not material for the years 2010, 2009 and 2008.

The following table provides information about JPMorgan Chase Bank, N.A.'s other consumer loans modified in troubled debt restructurings. These TDR loans are included as impaired loans in the tables above.

| | Auto | | Business banking | | Total other consumer[c] | |
|---|---|---|---|---|---|---|
| December 31, (in millions) | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| Loans modified in troubled debt restructurings[a][b] | **$ 91** | $ 79 | **$ 395** | $ 17 | **$ 486** | $ 96 |
| TDRs on nonaccrual status | **39** | 30 | **268** | 16 | **307** | 46 |

(a) These modifications generally provided interest rate concessions to the borrower or deferral of principal repayments.
(b) Additional commitments to lend to borrowers whose loans have been modified in TDRs as of December 31, 2010 and 2009 are immaterial.
(c) There were no student and other loans modified in TDRs at December 31, 2010 and 2009.

**Purchased credit-impaired ("PCI") loans**

PCI loans were determined to be credit-impaired upon acquisition based on specific risk characteristics of the loan, including product type, loan-to-value ratios, FICO scores, and past-due status. Upon acquisition, credit-impaired loans acquired in the same fiscal quarter may be aggregated into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. With respect to the Washington Mutual transaction, all of the consumer loans were aggregated into pools of loans with common risk characteristics.

PCI loans are initially recorded at fair value upon acquisition. For each PCI loan, or pool of loans, JPMorgan Chase Bank, N.A. is required to estimate the total cash flows (both principal and interest) expected to be collected over the remaining life of the loan or pool. These estimates incorporate assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that reflect then-current market conditions.

The excess of cash flows expected to be collected over the carrying value of the underlying loans is referred to as the accretable yield. This amount is not reported on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets but is accreted into interest income at a level rate of return over the remaining estimated lives of the underlying pools of loans. For variable-rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

On a quarterly basis, JPMorgan Chase Bank, N.A. updates the amount of loan principal and interest cash flows expected to be collected. Probable decreases in expected loan principal cash flows trigger the recognition of impairment, which is then measured as the present value of the expected principal loss plus any related forgone interest cash flows, discounted at the pool's effective interest rate. Impairments are recognized through the provision and allowance 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 increases recognized prospectively as a yield adjustment over the remaining estimated lives of the underlying loans. The impacts of (i) prepayments, (ii) changes in variable interest rates, and (iii) any other changes in the timing of expected cash flows are recognized prospectively as adjustments to interest income. Disposals of loans – which may include sales of loans, receipt of payments in full by the borrower, or foreclosure – result in removal of the loan from the PCI portfolio.

If the timing and/or amounts of expected cash flows on PCI loans were determined not to be reasonably estimable, no interest would be accreted and the loans would be reported as nonaccrual loans; however, since the timing and amounts of expected cash flows for JPMorgan Chase Bank, N.A.'s PCI consumer loans are reasonably estimable, interest is being accreted and the loans are being reported as performing loans.

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

The PCI portfolio affects JPMorgan Chase Bank, N.A.'s results of operations primarily through: (i) contribution to net interest margin; (ii) expense related to defaults and servicing resulting from the liquidation of the loans; and (iii) any provision for loan losses. The PCI loans acquired in the Washington Mutual transaction were funded based on the interest rate characteristics of the loans. For example, variable-rate loans were funded with variable-rate liabilities and fixed-rate loans were funded with fixed-rate liabilities with a similar maturity profile. A net spread will be earned on the declining balance of the portfolio, which is estimated as of December 31, 2010, to have a remaining weighted-average life of 7.0 years.

JPMorgan Chase Bank, N.A. continues to modify certain PCI loans. The impact of these modifications is incorporated into JPMorgan Chase Bank, N.A.'s quarterly assessment of whether a probable and significant change in expected cash flows has occurred, and the loans continue to be accounted for and reported as PCI loans. The impact of modifications on expected cash flows is estimated using JPMorgan Chase Bank, N.A.'s experience with previously modified loans and other relevant data. Additionally, JPMorgan Chase Bank, N.A. monitors the performance of modified loans and updates and/or refines assumptions as experience and changes in circumstances or data warrant.

## Residential real estate – PCI loans

The table below sets forth information about JPMorgan Chase Bank, N.A.'s consumer PCI loans.

| December 31, | Home equity | | Prime mortgage | |
|---|---|---|---|---|
| (in millions, except ratios) | **2010** | 2009 | **2010** | 2009 |
| Carrying value[(a)] | **$ 24,459** | $ 26,520 | **$ 17,322** | $ 19,693 |
| Related allowance for loan losses[(b)] | **1,583** | — | **1,766** | 1,090 |
| **Loan delinquency (based on unpaid principal balance)** | | | | |
| Current and less than 30 days past due | **$ 25,783** | $ 29,697 | **$ 13,035** | $ 15,404 |
| 30 – 149 days past due | **1,348** | 2,117 | **1,468** | 2,026 |
| 150 or more days past due | **1,181** | 1,144 | **4,425** | 4,542 |
| **Total loans** | **$ 28,312** | $ 32,958 | **$ 18,928** | $ 21,972 |
| % of 30+ days past due to total loans | **8.93%** | 9.89% | **31.13%** | 29.89% |
| **Current estimated LTV ratios (based on unpaid principal balance)[(c)(d)]** | | | | |
| Greater than 125% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **$ 6,324** | $ 6,139 | **$ 2,400** | $ 1,935 |
| Less than 660 | **4,052** | 4,401 | **2,744** | 2,244 |
| 101% to 125% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **6,097** | 6,875 | **3,815** | 4,566 |
| Less than 660 | **2,701** | 3,141 | **3,011** | 3,213 |
| 80% to 100% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **4,019** | 5,713 | **1,970** | 3,364 |
| Less than 660 | **1,483** | 1,930 | **1,857** | 2,594 |
| Lower than 80% and refreshed FICO scores: | | | | |
| Equal to or greater than 660 | **2,539** | 3,330 | **1,443** | 1,832 |
| Less than 660 | **1,097** | 1,429 | **1,688** | 2,224 |
| **Total unpaid principal balance** | **$ 28,312** | $ 32,958 | **$ 18,928** | $ 21,972 |
| **Geographic region (based on unpaid principal balance)** | | | | |
| California | **$ 17,012** | $ 19,749 | **$ 10,891** | $ 12,657 |
| New York | **1,316** | 1,495 | **1,111** | 1,239 |
| Texas | **525** | 616 | **194** | 231 |
| Florida | **2,595** | 3,045 | **1,519** | 1,801 |
| Illinois | **627** | 723 | **562** | 650 |
| Ohio | **38** | 47 | **91** | 106 |
| New Jersey | **540** | 625 | **486** | 540 |
| Michigan | **95** | 113 | **279** | 307 |
| Arizona | **539** | 653 | **359** | 438 |
| Washington | **1,535** | 1,766 | **451** | 533 |
| All other | **3,490** | 4,126 | **2,985** | 3,470 |
| **Total unpaid principal balance** | **$ 28,312** | $ 32,958 | **$ 18,928** | $ 21,972 |

(a) Carrying value includes the effect of fair value adjustments that were applied to the consumer PCI portfolio at the date of acquisition.
(b) Management concluded as part of JPMorgan Chase Bank, N.A.'s regular assessment of the PCI loan pools that it was probable that higher expected principal credit losses would result in a decrease in expected cash flows. As a result, an allowance for loan losses for impairment of these pools has been recognized.
(c) Represents the aggregate unpaid principal balance of loans divided by the estimated current property value. Current property values are estimated, at a minimum quarterly, based on home valuation models utilizing nationally recognized home price index valuation estimates and do not represent actual appraised loan level collateral values; as such the resulting ratios are necessarily imprecise and should be viewed as estimates. Current estimated combined LTV for junior lien home equity loans considers all available lien positions related to the property.
(d) Refreshed FICO scores represent each borrower's most recent credit score obtained by JPMorgan Chase Bank, N.A.; current FICO scores are obtained at least quarterly.

(table continued from previous page)

| Subprime mortgage | | Option ARMs | | Total PCI | |
|---|---|---|---|---|---|
| **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| **$ 5,398** | $ 5,993 | **$ 25,584** | $ 29,039 | **$ 72,763** | $ 81,245 |
| **98** | — | **1,494** | 491 | **4,941** | 1,581 |
| | | | | | |
| **$ 4,312** | $ 4,531 | **$ 18,672** | $ 23,709 | **$ 61,802** | $ 73,341 |
| **1,020** | 1,383 | **2,215** | 4,010 | **6,051** | 9,536 |
| **2,710** | 3,107 | **9,904** | 9,660 | **18,220** | 18,453 |
| **$ 8,042** | $ 9,021 | **$ 30,791** | $ 37,379 | **$ 86,073** | $ 101,330 |
| **46.38%** | 49.77% | **39.36%** | 36.57% | **28.20%** | 27.62% |
| | | | | | |
| **$ 432** | $ 409 | **$ 2,681** | $ 4,081 | **$ 11,837** | $ 12,564 |
| **2,129** | 2,084 | **6,330** | 6,761 | **15,255** | 15,490 |
| **424** | 481 | **4,292** | 5,518 | **14,628** | 17,440 |
| **1,663** | 1,877 | **5,005** | 6,291 | **12,380** | 14,522 |
| **374** | 497 | **4,152** | 4,925 | **10,515** | 14,499 |
| **1,477** | 1,917 | **3,551** | 4,213 | **8,368** | 10,654 |
| **186** | 179 | **2,281** | 2,549 | **6,449** | 7,890 |
| **1,357** | 1,577 | **2,499** | 3,041 | **6,641** | 8,271 |
| **$ 8,042** | $ 9,021 | **$ 30,791** | $ 37,379 | **$ 86,073** | $ 101,330 |
| | | | | | |
| **$ 1,971** | $ 2,244 | **$ 16,130** | $ 19,637 | **$ 46,004** | $ 54,287 |
| **736** | 774 | **1,703** | 1,848 | **4,866** | 5,356 |
| **435** | 476 | **155** | 191 | **1,309** | 1,514 |
| **906** | 1,049 | **3,916** | 5,106 | **8,936** | 11,001 |
| **438** | 480 | **760** | 896 | **2,387** | 2,749 |
| **122** | 135 | **131** | 156 | **382** | 444 |
| **316** | 350 | **1,064** | 1,166 | **2,406** | 2,681 |
| **214** | 245 | **345** | 448 | **933** | 1,113 |
| **165** | 194 | **528** | 708 | **1,591** | 1,993 |
| **178** | 200 | **745** | 877 | **2,909** | 3,376 |
| **2,561** | 2,874 | **5,314** | 6,346 | **14,350** | 16,816 |
| **$ 8,042** | $ 9,021 | **$ 30,791** | $ 37,379 | **$ 86,073** | $ 101,330 |

The table below sets forth the accretable yield activity for JPMorgan Chase Bank, N.A.'s PCI consumer loans for the years ended December 31, 2010, 2009 and 2008.

| Year ended December 31, | Total PCI | | |
|---|---|---|---|
| (in millions, except ratios) | **2010** | 2009 | 2008 |
| **Balance, January 1** | **$ 25,544** | $ 32,619 | $ — |
| Washington Mutual acquisition | **—** | — | 39,454 |
| Accretion into interest income | **(3,232)** | (4,363) | (1,292) |
| Changes in interest rates on variable rate loans | **(819)** | (4,849) | (5,543) |
| Other changes in expected cash flows[(a)] | **(2,396)** | 2,137 | — |
| **Balance, December 31** | **$ 19,097** | $ 25,544 | $32,619 |
| Accretable yield percentage | **4.35%** | 5.14% | 5.81% |

(a) Other changes in expected cash flows may vary from period to period as JPMorgan Chase Bank, N.A. continues to refine its cash flow model and periodically updates model assumptions. For the years ended December 31, 2010 and 2009, other changes in expected cash flows were principally driven by changes in prepayment assumptions as well as reclassification to the nonaccretable difference. Such changes are expected to have an insignificant impact on the accretable yield percentage.

The factors that most significantly affect estimates of gross cash flows expected to be collected, and accordingly the accretable yield balance, include: (i) changes in the benchmark interest rate indices for variable rate products such as option ARM and home equity loans; and (ii) changes in prepayment assumptions.

To date, the decrease in the accretable yield percentage has been primarily related to a decrease in interest rates on variable-rate loans and, to a lesser extent, extended loan liquidation periods. Certain events, such as extended loan liquidation periods, affect the timing of expected cash flows but not the amount of cash expected to be received (i.e., the accretable yield balance). Extended loan liquidation periods reduce the accretable yield percentage because the same accretable yield balance is recognized against a higher-than-expected loan balance over a longer-than-expected period of time.

## Credit card loans

The credit card portfolio segment includes credit card loans originated and purchased by JPMorgan Chase Bank, N.A. In addition, an affiliate of JPMorgan Chase Bank, N.A. has a participation agreement with a subsidiary of JPMorgan Chase Bank, N.A. under which the affiliate sells credit card receivables to the subsidiary on an ongoing basis. The credit card receivables purchased by the subsidiary may subsequently be sold to credit card securitization trusts sponsored by the affiliate; those trusts, which are not consolidated by JPMorgan Chase Bank, N.A., are discussed further in Note 17 on pages 82–97 of these Consolidated Financial Statements.

Delinquency rates are the primary credit quality indicator for credit card loans as they provide an early warning that borrowers may be experiencing difficulties (30-days past due), as well as information on those borrowers that have been delinquent for a longer period of time (90-days past due). In addition to delinquency rates, the geographic distribution of the loans provides insight as to the credit quality of the portfolio based on the regional economy.

The borrower's credit score is another general indicator of credit quality. Because the borrower's credit score tends to be a lagging indicator of credit quality, JPMorgan Chase Bank, N.A. does not use credit scores as a primary indicator of credit quality. However, the distribution of such scores provides a general indicator of credit quality trends within the portfolio. Refreshed FICO score information for a random sample of the credit card portfolio is indicated in the table below, as FICO is considered to be the industry benchmark for credit scores.

JPMorgan Chase Bank, N.A. generally originates new card accounts to prime consumer borrowers. However, certain cardholders' refreshed FICO scores may change over time, depending on the performance of the cardholder and changes in credit score technology.

The table below sets forth information about JPMorgan Chase Bank, N.A.'s Credit Card loans.

| As of or for the year ended December 31, | Credit Card | |
|---|---|---|
| (in millions, except ratios) | **2010** | 2009 |
| Net charge-offs | **$ 1,643** | $ 2,670 |
| % of net charge-offs to retained loans | **9.44%** | 12.45% |
| **Loan delinquency**[(a)] | | |
| Current and less than 30 days past due and still accruing | **$ 20,825** | $ 16,788 |
| 30 – 89 days past due and still accruing | **397** | 528 |
| 90 or more days past due and still accruing | **443** | 676 |
| Nonaccrual loans | **—** | — |
| **Total retained loans** | **$ 21,665** | $ 17,992 |
| **Loan delinquency ratios** | | |
| % of 30 plus days past due to total retained loans | **3.88%** | 6.69% |
| % of 90 plus days past due to total retained loans | **2.04%** | 3.76% |
| **Credit card loans by geographic region** | | |
| California | **$ 2,455** | $ 2,020 |
| New York | **1,530** | 1,235 |
| Texas | **1,481** | 1,179 |
| Florida | **1,116** | 1,020 |
| Illinois | **1,110** | 857 |
| Ohio | **807** | 686 |
| New Jersey | **792** | 633 |
| Pennsylvania | **722** | 610 |
| Michigan | **623** | 534 |
| Virginia | **464** | 380 |
| Georgia | **464** | 425 |
| All other | **7,393** | 6,256 |
| Canada | **2,708** | 2,157 |
| **Total retained loans**[(b)(c)] | **$ 21,665** | $ 17,992 |
| **Percentage of portfolio based on carrying value with estimated refreshed FICO scores**[(d)] | | |
| Equal to or greater than 660 | **80.6%** | 72.6% |
| Less than 660 | **19.4** | 27.4 |

(a) JPMorgan Chase Bank, N.A.'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.

(b) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated $2.0 billion of loans associated with its JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust. For further information, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

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

(d) Refreshed FICO scores are estimated based on a statistically significant random sample of credit card accounts in the credit card portfolio for the period shown. JPMorgan Chase Bank, N.A. obtains refreshed FICO scores on a quarterly basis.

### Credit card impaired loans

JPMorgan Chase Bank, N.A. may offer one of a number of loan modification programs to credit card borrowers who are experiencing financial difficulty. JPMorgan Chase Bank, N.A. has short-term programs for borrowers who may be in need of temporary relief, and long-term programs for borrowers who are experiencing a more fundamental level of financial difficulties. Most of JPMorgan Chase Bank, N.A.'s modified credit card loans have been modified under the long-term programs. Modifications under JPMorgan Chase Bank, N.A.'s long-term programs involve placing the customer on a fixed payment plan not exceeding 60 months. Modifications under all of these programs typically include reducing the interest rate on the card. Also in all cases, JPMorgan Chase Bank, N.A. cancels the customer's available line of credit on the credit card. Substantially all of these modifications, both long-term and short-term are considered to be troubled debt restructurings.

If the cardholder does not comply with the modified payment terms, then the credit card loan agreement reverts back to its pre-modification payment terms. Assuming that the cardholder does not begin to perform in accordance with those payment terms, the loan continues to age and will ultimately be charged-off in accordance with JPMorgan Chase Bank, N.A.'s standard charge-off policy. In addition, if a borrower successfully completes a short-term modification program, then the loan reverts back to its pre-modification payment terms. However, in most cases, JPMorgan Chase Bank, N.A. does not reinstate the borrower's line of credit.

JPMorgan Chase Bank, N.A. measures the allowance for loan losses related to impaired credit card loans as the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected, discounted at the loan's original contractual interest rate and, therefore, does not consider any incremental penalty rate in this measurement.

The tables below set forth information about JPMorgan Chase Bank, N.A.'s impaired credit card loans. All of these loans are considered to be impaired as they have been modified in troubled debt restructurings.

| | Credit Card | |
|---|---|---|
| December 31, (in millions) | **2010** | 2009 |
| **Impaired loans with an allowance**[a][b] | | |
| Credit card loans with modified payment terms[c] | **$ 1,195** | $ 1,221 |
| Modified credit card loans that have reverted to pre-modification payment terms[d] | **267** | 282 |
| **Total impaired loans** | **$ 1,462** | $ 1,503 |
| Allowance for loan losses related to impaired loans | **571** | 708 |

(a) The carrying value and the unpaid principal balance are the same for credit card impaired loans.
(b) There are no impaired loans without an allowance.
(c) Represents credit card loans outstanding to borrowers enrolled in a credit card modification program.
(d) Represents credit card loans that were modified in troubled debt restructurings but that have subsequently reverted back to the loans' pre-modification payment terms. Of the $267 million total loan amount at December 31, 2010, approximately $167 million of loans have reverted back to the pre-modification payment terms of the loans due to non-compliance with the terms of the modified loans. A substantial portion of these loans is expected to be charged-off in accordance with JPMorgan Chase Bank, N.A.'s standard charge-off policy. The remaining $100 million of loans are to borrowers who have successfully completed a short-term modification program. JPMorgan Chase Bank, N.A. continues to report these loans as troubled debt restructurings since the borrowers' credit lines remain closed. Prior-period amounts have been revised to conform to the current presentation.

The following table presents average balances of impaired credit card loans and interest income recognized on those loans.

| For the year ended December 31, (in millions) | **2010** | 2009 | 2008 |
|---|---|---|---|
| **Impaired loans:** | | | |
| Impaired loans – average balance | **$ 1,117** | $ 1,017 | $ 930 |
| Interest income on impaired loans[a] | **61** | 60 | 65 |

(a) As permitted by regulatory guidance, credit card loans are generally exempt from being placed on nonaccrual status; accordingly, interest and fees related to credit card loans continue to accrue until the loan is charged off or paid in full. However, JPMorgan Chase Bank, N.A. separately establishes an allowance for the estimated uncollectible portion of billed and accrued interest and fee income on credit card loans.

## Note 16 – Allowance for credit losses

JPMorgan Chase Bank, N.A.'s allowance for loan losses covers the wholesale and consumer, including credit card loan portfolios, and represents management's estimate of probable credit losses inherent in JPMorgan Chase Bank, N.A.'s loan portfolio. Management also computes an allowance for wholesale and consumer lending-related commitments using methodologies similar to those used to compute the allowance on the underlying loans. During 2010, JPMorgan Chase Bank, N.A. did not make any significant changes to the methodologies or policies used to determine its allowance for credit losses, which policies are described in the following paragraphs.

The allowance for loan losses includes an asset-specific component, a formula-based component and a component related to PCI loans.

The asset-specific component relates to loans considered to be impaired, which includes loans that have been modified in a troubled debt restructuring as well as risk-rated loans that have been placed on nonaccrual status. An asset-specific allowance for impaired loans is established when the loan's discounted cash flows (or, in certain cases, the loan's observable market price) is lower than the recorded investment in the loan. To compute the asset-specific component of the allowance, larger loans are evaluated individually, while smaller loans are evaluated as pools using historical loss experience for the respective class of assets. Risk-rated loans (primarily wholesale loans) are pooled by risk rating, while scored loans (i.e., consumer loans) are pooled by product type.

JPMorgan Chase Bank, N.A. generally measures the asset-specific allowance as the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected, discounted at the loan's original effective interest rate. Subsequent changes in impairment due to the impact of discounting are reported as an adjustment to the provision for loan losses, not as an adjustment to interest income. An asset-specific allowance for an impaired loan that is determined using an observable market price is measured as the difference between the recorded investment in the loan and the loan's fair value.

Certain loans are deemed collateral-dependent because repayment of the loan is expected to be provided solely by the underlying collateral, rather than by cash flows from the borrower's operations, income or other resources. Impaired collateral-dependent loans are charged-off to the fair value of the collateral, less costs to sell, rather than being subject to an asset-specific reserve as for other impaired loans.

The determination of the fair value of the collateral depends on the type of collateral (e.g., securities, real estate). In cases where the collateral is in the form of liquid securities, the fair value is based on quoted market prices or broker quotes. For illiquid securities or other financial assets, the fair value of the collateral is estimated using a discounted cash flow model.

For residential real estate loans, collateral values are based upon external valuation sources. When it becomes likely that a borrower is either unable or unwilling to pay, JPMorgan Chase Bank, N.A. obtains a broker's price opinion of the home based on an exterior-only valuation ("exterior opinions"). As soon as practicable after taking physical possession of the property through foreclosure, JPMorgan Chase Bank, N.A. obtains an appraisal based on an inspection that includes the interior of the home ("interior appraisals"). Exterior opinions and interior appraisals are discounted based upon JPMorgan Chase Bank, N.A.'s experience with actual liquidation values as compared to the estimated values provided by exterior opinions and interior appraisals, considering state- and product-specific factors.

For commercial real estate loans, the collateral value is generally based on appraisals from internal and external valuation sources. Collateral values are typically updated every six to twelve months, either by obtaining a new appraisal or by performing an internal analysis, in accordance with JPMorgan Chase Bank, N.A.'s policies. JPMorgan Chase Bank, N.A. also considers both borrower- and market-specific factors, which may result in obtaining appraisal updates or broker price opinions at more frequent intervals.

See Note 4 on pages 12–29 of these Consolidated Financial Statements for further information on the fair value hierarchy for impaired collateral-dependent loans.

The formula-based component is based on a statistical calculation to provide for probable principal losses inherent in performing risk-rated loans and consumer loans, except for loans restructured in troubled debt restructurings and PCI loans. See Note 15 on pages 58–76 of these Consolidated Financial Statements for more information on PCI loans.

For risk-rated loans, the statistical calculation is the product of an estimated probability of default and an estimated loss given default. These factors are differentiated by risk rating and expected maturity. In assessing the risk rating of a particular loan, among the factors considered are the obligor's debt capacity and financial flexibility, the level of the obligor's earnings, the amount and sources for repayment, the level and nature of contingencies, management strength, and the industry and geography in which the obligor operates. These factors are based on an evaluation of historical and current information, and involve subjective assessment and interpretation. Emphasizing one factor over another or considering additional factors could impact the risk rating assigned by JPMorgan Chase Bank, N.A. to that loan. PD estimates are based on observable external through-the-cycle data, using credit-rating agency default statistics. LGD estimates are based on JPMorgan Chase Bank, N.A.'s history of actual credit losses over more than one credit cycle.

For scored loans, the statistical calculation is performed on pools of loans with similar risk characteristics (e.g., product type) and generally computed as the product of actual outstandings, an expected-loss factor and an estimated-loss coverage period. Expected-loss factors are statistically derived and consider historical factors such as loss frequency and severity. In developing loss frequency and severity assumptions, JPMorgan Chase Bank, N.A. considers known and anticipated changes in the economic environment, including changes in housing prices, unemployment rates and other risk indicators.

A nationally recognized home price index measure is used to develop loss severity estimates on defaulted residential real estate loans at the metropolitan statistical areas ("MSA") level. These loss severity estimates are regularly validated by comparison to actual losses recognized on defaulted loans, market-specific real estate appraisals and property sales activity. Real estate broker price opinions are obtained when the loan is being evaluated for charge-off and at least every six months thereafter. When foreclosure is determined to be probable, a third-party appraisal is obtained as soon as practicable. Forecasting methods are used to estimate expected-loss factors, including credit loss forecasting models and vintage-based loss forecasting.

The economic impact of potential modifications of residential real estate loans is not included in the formula-based allowance because of the uncertainty regarding the type and results of such modifications. As discussed in Note 15 on pages 58–76 of these Consolidated Financial Statements, modified residential real estate loans are generally accounted for as troubled debt restructurings upon contractual modification and are evaluated for an asset-specific allowance at and subsequent to modification. Assumptions regarding the loans' expected re-default rates are incorporated into the measurement of the asset-specific allowance.

Management applies judgment within an established framework to adjust the results of applying the statistical calculation described above. The determination of the appropriate adjustment is based on management's view of uncertainties that have occurred but are not yet reflected in the loss factors and that relate to current macroeconomic and political conditions, the quality of underwriting standards and other relevant internal and external factors affecting the credit quality of the portfolio. In addition, for the risk-rated portfolios, any adjustments made to the statistical calculation also consider concentrated and deteriorating industries. For the scored loan portfolios, adjustments to the statistical calculation are accomplished in part by analyzing the historical loss experience for each major product segment. Factors related to unemployment, housing prices, borrower behavior and lien position are incorporated into the calculation, where relevant.

**Allowance for credit losses and loans and lending-related commitments by impairment methodology**

| Year ended December 31, (in millions) | 2010 Wholesale | Consumer, excluding credit card | Credit Card | Total |
|---|---|---|---|---|
| **Allowance for loan losses** | | | | |
| Beginning balance at January 1, | $ 7,137 | $ 14,663 | $ 1,966 | $ 23,766 |
| Cumulative effect of change in accounting principles[a] | 14 | 76 | 65 | 155 |
| Gross charge-offs[a] | 1,984 | 8,213 | 1,818 | 12,015 |
| Gross (recoveries)[a] | (261) | (463) | (175) | (899) |
| **Net charge-offs**[a] | 1,723 | 7,750 | 1,643 | 11,116 |
| Provision for loan losses: | | | | |
| Excluding accounting conformity[a] | (761) | 9,200 | 1,172 | 9,611 |
| Accounting conformity[b] | — | — | — | — |
| **Total provision for loan losses** | (761) | 9,200 | 1,172 | 9,611 |
| Acquired allowance resulting from Washington Mutual transaction | — | — | — | — |
| Other[c] | 3 | 10 | 6 | 19 |
| **Ending balance at December 31** | $ 4,670 | $ 16,199 | $ 1,566 | $ 22,435 |
| **Allowance for loan losses by impairment methodology** | | | | |
| Asset-specific[d][e][f] | $ 1,569 | $ 1,043 | $ 571 | $3,183 |
| Formula-based[a][f] | 3,101 | 10,215 | 995 | 14,311 |
| PCI | — | 4,941 | — | 4,941 |
| **Total allowance for loan losses** | $ 4,670 | $ 16,199 | $ 1,566 | $ 22,435 |
| **Loans by impairment methodology** | | | | |
| Asset-specific[c] | $ 5,448 | $ 5,997 | $ 1,462 | $ 12,907 |
| Formula-based | 214,337 | 228,425 | 20,203 | 462,965 |
| PCI | 44 | 72,763 | — | 72,807 |
| **Total retained loans** | $ 219,829 | $ 307,185 | $ 21,665 | $ 548,679 |

Management establishes an asset-specific allowance for lending-related commitments that are considered impaired and computes a formula-based allowance for performing wholesale and consumer lending-related commitments. These are computed using a methodology similar to that used for the wholesale loan portfolio, modified for expected maturities and probabilities of drawdown.

Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowances for loan losses and lending-related commitments in future periods.

At least quarterly, the allowance for credit losses is reviewed by the Chief Risk Officer, the Chief Financial Officer and the Controller of JPMorgan Chase Bank, N.A. and discussed with the Risk Policy and Audit Committees of the Board of Directors of JPMorgan Chase Bank, N.A. As of December 31, 2010, JPMorgan Chase Bank, N.A. deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb losses that are inherent in the portfolio, including those not yet identifiable).

(table continued from previous page)

| 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|
| Wholesale | Consumer, excluding credit card | Credit Card | Total | Wholesale | Consumer, excluding credit card | Credit Card | Total |
| $ 6,419 | $ 8,927 | $ 1,807 | $ 17,153 | $ 3,103 | $ 2,672 | $ 1,240 | $ 7,015 |
| — | — | — | — | — | — | — | — |
| 3,075 | 10,377 | 2,851 | 16,303 | 505 | 5,083 | 1,837 | 7,425 |
| (90) | (300) | (181) | (571) | (112) | (207) | (220) | (539) |
| 2,985 | 10,077 | 2,670 | 15,732 | 393 | 4,876 | 1,617 | 6,886 |
| 3,660 | 15,793 | 2,980 | 22,433 | 2,810 | 9,912 | 2,200 | 14,922 |
| — | — | — | — | 641 | 350 | 586 | 1,577 |
| 3,660 | 15,793 | 2,980 | 22,433 | 3,451 | 10,262 | 2,786 | 16,499 |
| — | — | — | — | 229 | 897 | 1,409 | 2,535 |
| 43 | 20 | (151) | (88) | 29 | (28) | (2,011) | (2,010) |
| $ 7,137 | 14,663 | $ 1,966 | $ 23,766 | $ 6,419 | $ 8,927 | $ 1,807 | 17,153 |
| $ 2,033 | $ 892 | $ 708 | $ 3,633 | $ 712 | $ 332 | $ 512 | $ 1,556 |
| 5,104 | 12,190 | 1,258 | 18,552 | 5,707 | 8,595 | 1,295 | 15,597 |
| — | 1,581 | — | 1,581 | — | — | — | — |
| $ 7,137 | $ 14,663 | $ 1,966 | $ 23,766 | $ 6,419 | $ 8,927 | $ 1,807 | $ 17,153 |
| $ 6,829 | $ 3,605 | $ 1,503 | $ 11,937 | $ 2,061 | $ 2,086 | $ 1,075 | $5,222 |
| 189,851 | 253,406 | 16,489 | 459,746 | 238,934 | 285,057 | 30,066 | 554,057 |
| 135 | 81,245 | — | 81,380 | 224 | 88,813 | — | 89,037 |
| $ 196,815 | $ 338,256 | $ 17,992 | $ 553,063 | $ 241,219 | $ 375,956 | $ 31,141 | $ 648,316 |

| Year ended December 31, (in millions) | 2010 Wholesale | Consumer, excluding credit card | Credit Card | Total |
|---|---|---|---|---|
| **Allowance for lending-related commitments** | | | | |
| Beginning balance at January 1, | $ 923 | $ 12 | $ — | $ 935 |
| Cumulative effect of change in accounting principles[a] | (18) | — | — | (18) |
| Provision for lending-related commitments: | | | | |
| Excluding accounting conformity[a] | (199) | (6) | — | (205) |
| Accounting conformity[b] | — | — | — | — |
| **Total provision for lending-related commitments** | (199) | (6) | — | (205) |
| Acquired allowance resulting from Washington Mutual transaction | — | — | — | — |
| Other[c] | (21) | — | — | (21) |
| **Ending balance at December 31** | $ 685 | $ 6 | $ — | $ 691 |
| **Allowance for lending-related commitments by impairment methodology** | | | | |
| Asset-specific | $ 180 | $ — | $ — | $ 180 |
| Formula-based | 505 | 6 | — | 511 |
| **Total allowance for lending-related commitments** | $ 685 | $ 6 | $ — | $ 691 |
| **Lending-related commitments by impairment methodology** | | | | |
| Asset-specific | $ 1,071 | $ — | $ — | $ 1,071 |
| Formula-based | 343,710 | 55,969 | 19,506 | 419,185 |
| **Total lending-related commitments** | $ 344,781 | $ 55,969 | $ 19,506 | $ 420,256 |
| **Impaired collateral-dependent loans** | | | | |
| Net charge-offs | $ 269 | $ 285 | $ — | $ 554 |
| Loans measured at fair value of collateral less cost to sell | 806 | 830 | — | 1,636 |

(a) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated its JPMorgan Chase Bank, N.A.-administered multi-seller conduits, and certain other consumer loan securitization entities, primarily mortgage-related, and its JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust. As a result, $14 million, $76 million and $65 million, respectively, of allowance for loan losses were recorded on-balance sheet with the consolidation of these entities. For further discussion, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

(b) Represents adjustments to the provision for credit losses recognized in the corporate business related to the Washington Mutual transaction in 2008.

(c) The 2009 amount predominantly represents a reclassification related to the issuance and retention of securities from the Chase Issuance Trust. For further information, see Note 17 on pages 82–97 of these Consolidated Financial Statements. The 2008 amount predominantly represents a transfer of allowance between the corporate business and the credit card business.

(d) Relates to risk-rated loans that have been placed on nonaccrual status and loans that have been modified in a troubled debt restructuring.

(e) At December 31, 2010, 2009 and 2008 the asset-specific consumer excluding card allowance for loan losses included troubled debt restructuring reserves of $953 million, $749 million and $258 million respectively. The asset-specific credit card allowance for loan losses is related to loans modified in troubled debt restructurings.

(f) At December 31, 2010, JPMorgan Chase Bank, N.A.'s allowance for loan losses on all impaired credit card loans was reclassified to the asset-specific allowance. This reclassification had no incremental impact on JPMorgan Chase Bank, N.A.'s allowance for loan losses. Prior periods have been revised to reflect the current presentation.

(table continued from previous page)

| 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|
| Wholesale | Consumer, excluding credit card | Credit card | Total | Wholesale | Consumer, excluding credit card | Credit card | Total |
| $ 631 | $ 25 | $ — | $ 656 | $ 834 | $ 15 | $ — | $ 849 |
| — | — | — | — | — | — | — | — |
| 289 | (10) | — | 279 | (217) | (1) | — | (218) |
| — | — | — | — | 5 | (48) | — | (43) |
| 289 | (10) | — | 279 | (212) | (49) | — | (261) |
| — | — | — | — | — | 66 | — | 66 |
| 3 | (3) | — | — | 9 | (7) | — | 2 |
| $ 923 | $ 12 | $ — | $ 935 | $ 631 | $ 25 | $ — | $ 656 |
| $ 297 | $ — | $ — | $ 297 | $ 29 | $ — | $ — | $ 29 |
| 626 | 12 | — | 638 | 602 | 25 | — | 627 |
| $ 923 | $ 12 | $ — | $ 935 | $ 631 | $ 25 | $ — | $ 656 |
| $ 1,556 | $ — | $ — | $ 1,556 | $ 220 | $ — | $ — | $ 220 |
| 343,441 | 74,827 | 19,675 | 437,943 | 375,468 | 117,805 | 25,742 | 519,015 |
| $ 344,997 | $ 74,827 | $ 19,675 | $ 439,499 | $ 375,688 | $ 117,805 | $ 25,742 | $ 519,235 |
| $ 905 | $ 166 | $ — | $ 1,071 | $ 117 | $ 22 | $ — | $ 139 |
| 1,127 | 186 | — | 1,313 | 1,032 | 33 | — | 1,065 |

## Note 17 – Variable interest entities

For a further description of JPMorgan Chase Bank, N.A.'s accounting policies regarding consolidation of VIEs, see Note 1 on pages 6–8 of these Consolidated Financial Statements.

The following table summarizes the most significant types of JPMorgan Chase Bank, N.A.-sponsored VIEs by each JPMorgan Chase Bank, N.A. business. JPMorgan Chase Bank, N.A. considers a "sponsored" VIE to include any entity where: (1) JPMorgan Chase Bank, N.A. is the principal beneficiary of the structure; (2) the VIE is used by JPMorgan Chase Bank, N.A. to securitize JPMorgan Chase Bank, N.A.'s assets; (3) the VIE issues financial instruments with the JPMorgan Chase Bank, N.A. name; or (4) the entity is a JPMorgan Chase Bank, N.A.–administered asset-backed commercial paper ("ABCP") conduit.

| **JPMorgan Chase Bank, N.A. business** | Transaction type | Activity | Consolidated Financial Statements page reference |
|---|---|---|---|
| Retail financial services | Mortgage and other securitization trusts | Securitization of originated and purchased residential mortgages, automobile and student loans | 83–86 |
| Investment banking | Mortgage and other securitization trusts | Securitization of both originated and purchased residential and commercial mortgages, automobile and student loans | 83–86 |
| | Multi-seller conduits | Assisting clients in accessing the financial markets in a cost-efficient manner and structures transactions to meet investor needs | 87–88 |
| | Investor intermediation activities: | | |
| | Municipal bond vehicles | | 88–89 |
| | Credit-linked note vehicles | | 89–90 |
| | Asset swap vehicles | | 90–91 |
| Card services | Credit card securitization trust | Securitization of both originated and purchased credit card receivables | 86–87 |

JPMorgan Chase Bank, N.A.'s other businesses are also involved with VIEs, but to a lesser extent, as follows:

- Asset management business: Sponsors and manages a limited number of funds that are deemed VIEs. As asset manager of the funds, the asset management business earns a fee based on assets managed; the fee varies with each fund's investment objective and is competitively priced. For those limited number of fund entities that qualify as VIEs, the asset management business's interests are, in certain cases, considered to be significant variable interests that result in consolidation of the financial results of these entities.
- Treasury and securities services business: Provides services to a number of VIEs that are similar to those provided to non-VIEs. The treasury and securities services business earns market-based fees for the services it provides. The treasury and securities services business's interests are generally not considered to be significant variable interests and/or do not control these VIEs; therefore, the treasury and securities services business does not consolidate these VIEs.
- Commercial banking business: The commercial banking business makes investments in and provides lending to community development entities that may meet the definition of a VIE. In addition, the commercial banking business provides financing and lending-related services to certain client sponsored VIEs. In general, the commercial banking business does not control the activities of these entities and does not consolidate these entities.
- Corporate business: The corporate business uses VIEs to issue guaranteed capital debt securities. See Note 22 on pages 102–103 of these Consolidated Financial Statements for further information.

JPMorgan Chase Bank, N.A. also invests in and provides financing and other services to VIEs sponsored by third parties, as described on page 91 of this Note.

### New consolidation accounting guidance for VIEs

On January 1, 2010, JPMorgan Chase Bank, N.A. implemented consolidation accounting guidance related to VIEs. The following table summarizes the incremental impact at adoption:

| (in millions) | GAAP assets | GAAP liabilities | Stockholder's equity | Tier 1 capital |
|---|---|---|---|---|
| As of December 31, 2009 | $ 1,627,684 | $ 1,500,390 | $ 127,294 | 9.52% |
| **Impact of new accounting guidance for consolidation of VIEs** | | | | |
| Multi-seller conduits[(a)] | 17,724 | 17,744 | (20) | — |
| Mortgage & other[(b)(c)] | 4,528 | 4,572 | (44) | (0.02)% |
| Credit card[(d)] | 393 | 348 | 45 | 0.30 |
| **Total impact of new guidance** | 22,645 | 22,664 | (19) | 0.28[(e)] |
| **Beginning balance as of January 1, 2010** | $ 1,650,329 | $ 1,523,054 | $ 127,275 | 9.80% |

(a) The assets and liabilities of the JPMorgan Chase Bank, N.A.-administered multi-seller conduits which were consolidated were initially measured at their carrying values, primarily amortized cost, as this method is consistent with the business's intent to hold the assets for the longer-term. The assets were recorded primarily in loans and in other assets on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets.

(b) The retail financial services business consolidated certain mortgage and other consumer securitizations, which resulted in a net increase in both assets and liabilities of $3.0 billion ($1.8 billion related to residential mortgage securitizations and $1.2 billion related to other consumer securitizations). These assets were initially measured at their unpaid principal balance and recorded primarily in loans on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets. This method was elected as a practical expedient.

(c) The investment banking business consolidated certain mortgage and other consumer securitizations, which resulted in a net increase in both assets and liabilities of $1.5 billion (generally related to residential mortgage securitizations). These assets were initially measured at their fair value, as this method is consistent with the approach that the investment banking business utilizes to manage similar assets. These assets were recorded primarily in trading assets on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets.

(d) The assets and liabilities of the JPMorgan Chase Bank, N.A.-sponsored SCORE credit card securitization trust that was consolidated were initially measured at their carrying values, primarily amortized cost, as this method is consistent with the approach that the card services business utilizes to manage its other assets. These assets are primarily recorded in loans on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets. In addition, the card services business established an allowance for loan losses of $65 million (pretax) which was reported as a transition adjustment in stockholder's equity. The impact to stockholder's equity also includes a decrease to AOCI of $10 million as a result of the reversal of the fair value adjustments taken on retained AFS securities that were eliminated in consolidation.

(e) The U.S. GAAP consolidation of these VIEs increased the Tier 1 capital ratio by 28 basis points. The impact to the Tier 1 capital ratio predominantly reflects JPMorgan Chase Bank, N.A. no longer being required to consolidate, for regulatory capital purposes, its portion of the Chase Issuance Trust (the "Trust") as a result of actions taken in the second quarter of 2009. As of the adoption date of the new accounting guidance, the Trust was fully consolidated, for regulatory capital and U.S. GAAP purposes, by its sponsor (an affiliate of JPMorgan Chase Bank, N.A.). In addition, JPMorgan Chase Bank, N.A. elected a two-quarter regulatory implementation deferral of the effect of this accounting guidance on risk-weighted assets and risk-based capital requirements, as permitted for its JPMorgan Chase Bank, N.A.-administered multi-seller conduits and certain mortgage-related and other securitization entities. The deferral period ended July 1, 2010, and JPMorgan Chase Bank, N.A. consolidated, for regulatory purposes, the deferred amounts, which had a negligible impact on risk-weighted assets and risk-based capital ratios.

### JPMorgan Chase Bank, N.A.-sponsored mortgage and other securitization trusts

JPMorgan Chase Bank, N.A. securitizes originated and purchased residential mortgages, commercial mortgages and other consumer loans (including automobile and student loans) primarily in its retail financial services business and the investment banking business. Depending on the particular transaction, as well as the respective business involved, JPMorgan Chase Bank, N.A. may act as the servicer of the loans and/or retain certain beneficial interests in the securitization trusts.

Effective January 1, 2010, JPMorgan Chase Bank, N.A. consolidated certain mortgage securitization trusts (both residential and commercial) and JPMorgan Chase Bank, N.A.-sponsored automobile and student loan trusts as a result of the implementation of the accounting guidance. The consolidation determination was based on JPMorgan Chase Bank, N.A.'s ability to direct the activities of these VIEs through its servicing responsibilities and duties, including making decisions related to loan modifications and workouts. Additionally, the nature and extent of JPMorgan Chase Bank, N.A.'s continuing economic involvement with these trusts obligates JPMorgan Chase Bank, N.A. to absorb losses and gives JPMorgan Chase Bank, N.A. the right to receive benefits from the VIEs that could potentially be significant.

Prior to January 1, 2010, JPMorgan Chase Bank, N.A. accounted for its residential and commercial mortgage, automobile, and certain student loan securitizations as QSPEs and therefore did not consolidate these entities; only JPMorgan Chase Bank, N.A.'s retained interests in these entities were recorded on its Consolidated Balance Sheets. In addition, JPMorgan Chase Bank, N.A. previously consolidated certain other student loan securitizations in accordance with the accounting treatment under prior accounting guidance.

The following table presents the total unpaid principal amount of assets held in JPMorgan Chase Bank, N.A.–sponsored securitization entities in which JPMorgan Chase Bank, N.A. has continuing involvement, including those JPMorgan Chase Bank, N.A.–sponsored securitization entities that are consolidated by JPMorgan Chase Bank, N.A. and those that are not consolidated by JPMorgan Chase Bank, N.A. Continuing involvement includes servicing the loans; holding senior interests or subordinated interests, recourse or guarantee arrangements; and derivative transactions. In certain instances, JPMorgan Chase Bank, N.A.'s only continuing involvement is servicing the loans. In the table below, the amount of

beneficial interests held by JPMorgan Chase Bank, N.A. does not equal the assets held in nonconsolidated VIEs because of the existence of beneficial interests held by third parties, which are reflected at their current outstanding par amounts; and because a portion of JPMorgan Chase Bank, N.A.'s retained interests (trading assets and AFS securities) are reflected at their fair values. See Securitization activity on pages 93–97 of this Note for further information regarding JPMorgan Chase Bank, N.A.'s cash flows with and interests retained in nonconsolidated VIEs.

**JPMorgan Chase Bank, N.A.-sponsored mortgage and other consumer securitization trusts**

| | Principal amount outstanding | | | JPMorgan Chase Bank, N.A. interest in securitized assets in nonconsolidated VIEs[d][e][f][g][h] | | | |
|---|---|---|---|---|---|---|---|
| **December 31, 2010**[a] (in billions) | Total assets held by securitization VIEs | Assets held in consolidated securitization VIEs | Assets held in nonconsolidated securitization VIEs with continuing involvement | Trading assets | AFS securities | Other assets | Total interests held by JPMorgan Chase Bank, N.A. |
| **Securitization-related** | | | | | | | |
| Residential mortgage: | | | | | | | |
| Prime[b] | **$ 85.0** | **$ 1.3** | **$ 83.5** | **$ 0.2** | **$ —** | **$ —** | **$ 0.2** |
| Subprime | **29.6** | **—** | **28.2** | **—** | **—** | **—** | **—** |
| Option ARMs | **36.1** | **0.3** | **35.8** | **—** | **—** | **—** | **—** |
| Commercial and other[c] | **104.6** | **—** | **84.4** | **—** | **0.7** | **—** | **0.7** |
| Credit card | **0.5** | **0.5** | **—** | **—** | **—** | **—** | **—** |
| Student | **4.5** | **4.5** | **—** | **—** | **—** | **—** | **—** |
| Auto | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| **Total** | **$ 260.3** | **$ 6.6** | **$ 231.9** | **$ 0.2** | **$ 0.7** | **$ —** | **$ 0.9** |

| | Principal amount outstanding | | | JPMorgan Chase Bank, N.A. interest in securitized assets in nonconsolidated VIEs[d][e][f][g][h] | | | |
|---|---|---|---|---|---|---|---|
| December 31, 2009[a] (in billions) | Total assets held by securitization VIEs | Assets held in consolidated securitization VIEs | Assets held in nonconsolidated securitization VIEs with continuing involvement | Trading assets | AFS securities | Other assets | Total interests held by JPMorgan Chase Bank, N.A. |
| **Securitization-related** | | | | | | | |
| Residential mortgage: | | | | | | | |
| Prime[b] | $ 102.2 | $ — | $ 102.1 | $ 0.1 | $ 0.2 | $ — | $ 0.3 |
| Subprime | 34.4 | — | 32.4 | — | — | — | — |
| Option ARMs | 42.0 | — | 42.0 | — | 0.1 | — | 0.1 |
| Commercial and other[c] | 99.5 | — | 19.3 | — | 0.7 | — | 0.7 |
| Credit card | 0.5 | — | 0.5 | — | — | 0.1 | 0.1 |
| Student | 4.8 | 3.8 | 1.0 | — | — | 0.1 | 0.1 |
| Auto | 0.2 | — | 0.2 | — | — | — | — |
| **Total** | $ 283.6 | $ 3.8 | $ 197.5 | $ 0.1 | $ 1.0 | $ 0.2 | $ 1.3 |

(a) Excludes loan sales to U.S. government agencies. See page 95 of this Note for information on JPMorgan Chase Bank, N.A.'s loan sales to U.S. government agencies.
(b) Includes Alt-A loans.
(c) Consists of securities backed by commercial loans (predominantly real estate) and non-mortgage-related consumer receivables purchased from third parties. JPMorgan Chase Bank, N.A. generally does not retain a residual interest in its sponsored commercial mortgage securitization transactions. Includes co-sponsored commercial securitizations and, therefore, includes non–JPMorgan Chase Bank, N.A.–originated commercial mortgage loans.
(d) Excludes retained servicing (for a discussion of MSRs, see Note 18 on page 98–100 of these Consolidated Financial Statements) and securities retained from loan sales to U.S. government agencies.
(e) Excludes senior and subordinated securities of $38 million and $42 million, respectively, at December 31, 2009, which JPMorgan Chase Bank, N.A. purchased in connection with the investment banking business' secondary market-making activities. There were no secondary market-making activities at December 31, 2010.
(f) Includes investments acquired in the secondary market that are predominantly held-for-investment purposes of $78 million and $124 million as of December 31, 2010 and 2009, respectively. This comprises of $39 million and $76 million of AFS securities, related to commercial and other; and $39 million and $48 million of investments classified as trading assets–debt and equity instruments, including $39 million and $47 million of residential mortgages, and zero and $1 million of commercial and other, all respectively, at December 31, 2010 and 2009.
(g) Excludes $1.4 billion and $9.0 billion of retained interests, including investments acquired in the secondary market, that are predominantly held-for-investment purposes, and $6.9 billion and $5.3 billion of undivided interests related to nonconsolidated credit card securitizations sponsored by an affiliate as of December 31, 2010 and 2009, respectively.
(h) Excludes interest rate and foreign exchange derivatives primarily used to manage the interest rate and foreign exchange risks of the securitization entities. See Note 7 on pages 33–41 of these Consolidated Financial Statements for further information on derivatives.

*Residential mortgage*
JPMorgan Chase Bank, N.A. securitizes residential mortgage loans originated by the retail financial services business, as well as residential mortgage loans purchased from third parties by either the retail financial services business or the investment banking business. The retail financial services business generally retains servicing for all residential mortgage loans originated or purchased by the retail financial services business, and for certain mortgage loans purchased by the investment banking business.

For securitizations serviced by the retail financial services business, JPMorgan Chase Bank, N.A. has the power to direct the significant activities of the VIE because it is responsible for decisions related to loan modifications and workouts. In a limited number of these securitizations, the retail financial services business also retains an interest in the VIE that could potentially be significant to the VIE. In these instances, JPMorgan Chase Bank, N.A. is deemed to be the primary beneficiary. At December 31, 2010, approximately $1.5 billion of assets and $1.6 billion of liabilities of JPMorgan Chase Bank, N.A.-sponsored residential mortgage securitization trusts were consolidated on-balance sheet. For JPMorgan Chase Bank, N.A.-sponsored securitizations serviced by unrelated third parties, JPMorgan Chase Bank, N.A. does not consolidate the VIE as the power to direct the significant activities resides with the third party servicer. At December 31, 2009, the retail financial services business did not consolidate any VIEs in accordance with the accounting treatment under prior accounting rules. The retail financial services business held retained interests of approximately $42 million and $392 million as of December 31, 2010 and 2009, respectively, in nonconsolidated residential mortgage securitization entities. See pages 96–97 of this Note for further information on retained interests held in nonconsolidated VIEs; these retained interests are classified as trading assets or AFS securities.

JPMorgan Chase Bank, N.A.'s mortgage loan sales are primarily nonrecourse, thereby effectively transferring the risk of future credit losses to the purchaser of the mortgage-backed securities issued by the trust. However, for a limited number of loan sales, JPMorgan Chase Bank, N.A. is obligated to share a portion of the credit risk associated with the sold loans with the purchaser. See Note 28 on pages 109–115 of these Consolidated Financial Statements for additional information on loans sold with recourse, as well as information on indemnification liability for breaches of representations and warranties. See page 95 of this Note for further information on loans sold to U.S. government agencies.

The investment banking business engages in underwriting and trading activities involving securities issued by JPMorgan Chase Bank, N.A.-sponsored securitization trusts. As a result, the investment banking business at times retains senior and/or subordinated interests (including residual interests) in residential mortgage securitizations upon securitization, and/or reacquires positions in the secondary market in the normal course of business. In certain instances, as a result of the positions retained or reacquired by the investment banking business, when considered together with the servicing arrangements entered into by the retail financial services business, JPMorgan Chase Bank, N.A. is deemed to be the primary beneficiary of certain securitization trusts. At December 31, 2010, there were no consolidated assets and liabilities due to the investment banking business's involvement with such trusts. The investment banking business did not consolidate any residential securitization VIEs at December 31, 2009, in accordance with the accounting treatment under prior accounting rules. The investment banking business held approximately $114 million, and zero of senior and subordinated interests at December 31, 2010 and 2009, respectively, in nonconsolidated residential mortgage securitization entities. See pages 96–97 of this Note for further information on interests held in nonconsolidated securitizations. These retained interests are accounted for at fair value and classified as trading assets.

*Commercial mortgages and other consumer securitizations*
The investment banking business originates and securitizes commercial mortgage loans, and engages in underwriting and trading activities involving the securities issued by securitization trusts. The investment banking business may retain unsold senior and/or subordinated interests in commercial mortgage securitizations at the time of securitization but, generally, JPMorgan Chase Bank, N.A. does not service commercial loan securitizations. For commercial mortgage securitizations the power to direct the significant activities of the VIE generally is held by the servicer or investors in a specified class of securities ("controlling class"). As of December 31, 2010, JPMorgan Chase Bank, N.A. did not consolidate any commercial mortgage securitization trusts. The investment banking business did not consolidate any commercial mortgage securitizations trusts at December 31, 2009, in accordance with the accounting treatment under prior accounting rules. At December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. held $4 million and $1 million, respectively, of retained interests in nonconsolidated commercial mortgage securitizations. At December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. did not have any residual interests in nonconsolidated commercial mortgage securitizations.

JPMorgan Chase Bank, N.A. also securitizes automobile and student loans originated by the retail financial services business, and consumer loans (including automobile and student loans) purchased by the investment banking business. JPMorgan Chase Bank, N.A. retains servicing responsibilities for all originated and certain purchased student and automobile loans and has the power to direct the activities of these VIEs through these servicing responsibilities. At December 31, 2010, $4.5 billion of assets and $3.2 billion of liabilities of student loan securitizations were consolidated due to the combination of retained interests held by JPMorgan Chase Bank, N.A. and servicing responsibilities. Auto loans previously securitized were repurchased by JPMorgan Chase Bank, N.A. during 2010 as these securitization entities were terminated. As of December 31, 2009, JPMorgan Chase Bank, N.A. held $9 million and $49 million of retained interests in securitized automobile and student loan securitizations, respectively, which were not consolidated in accordance with the accounting treatment under prior

accounting rules. These retained interests were reported in other assets. In addition, at December 31, 2009, JPMorgan Chase Bank, N.A. held interests in other student loans which resulted in $3.8 billion of other student loans being consolidated on the balance sheet in accordance with the accounting treatment under prior accounting rules.

**Credit card securitizations**

Consolidation of JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust

JPMorgan Chase Bank, N.A. securitizes originated and purchased credit card loans in a JPMorgan Chase Bank, N.A.-sponsored entity. JPMorgan Chase Bank, N.A.'s primary continuing involvement after securitization includes servicing the receivables, retaining an undivided seller's interest in the receivables, retaining certain senior and subordinated securities and maintaining escrow accounts.

Additionally, JPMorgan Chase Bank, N.A. also retains a participation interest in the undivided seller's interest in receivables and certain senior securities resulting from securitizations sponsored by a nonconsolidated affiliate of JPMorgan Chase Bank, N.A. ("participating securitizations"). JPMorgan Chase Bank, N.A. receives servicing fees from participating securitizations. As servicer and transferor, JPMorgan Chase Bank, N.A. receives contractual servicing fees based on the securitized loan balance plus excess servicing fees, which are recorded in credit card income as discussed in Note 8 on page 42 of these Consolidated Financial Statements.

Effective January 1, 2010, JPMorgan Chase Bank, N.A. was deemed to be the primary beneficiary of the SCORE trust, a JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust, and consolidated the assets and liabilities of the trust. The primary beneficiary determination was based on JPMorgan Chase Bank, N.A.'s ability to direct the activities of the VIE through its servicing responsibilities and other duties, including making decisions as to the receivables that are transferred into the trust and as to any related modifications and workouts. Additionally, the nature and extent of JPMorgan Chase Bank, N.A.'s other continuing involvement with the trust, including the retention of an undivided seller's interest in the receivables and the maintenance of escrow accounts, obligates JPMorgan Chase Bank, N.A. to absorb losses and gives JPMorgan Chase Bank, N.A. the right to receive certain benefits from the VIE that could potentially be significant.

The following table summarizes the assets and liabilities of the consolidated JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust at December 31, 2010:

| (in billions) | Loans | Other assets | Total assets held by the consolidated JPMorgan Chase Bank, N.A.–sponsored credit card securitization trust | Beneficial interests issued to third parties |
|---|---|---|---|---|
| **December 31, 2010** | **$ 0.5** | **$ —** | **$ 0.5** | **$ 0.4** |

The underlying securitized credit card receivables and other assets are available only for payment of the beneficial interests issued by the SCORE trust; they are not available to pay JPMorgan Chase Bank, N.A.'s other obligations or the claims of JPMorgan Chase Bank, N.A.'s other creditors.

The agreement with the SCORE trust requires JPMorgan Chase Bank, N.A. to maintain a minimum undivided interest in the receivables transferred to the trust of 12%. As of December 31, 2010, JPMorgan Chase Bank, N.A. held an undivided interest in the SCORE trust of $121 million which was eliminated in consolidation. The credit card receivables in the SCORE trust underlying this undivided interest are classified within loans. JPMorgan Chase Bank, N.A. did not retain any senior and subordinated securities from the SCORE trust as of December 31, 2010.

Upon implementation of the consolidation accounting guidance related to VIEs at January 1, 2010, JPMorgan Chase Bank, N.A. recorded a net increase in GAAP assets of $393 million on the Consolidated Balance Sheets. In addition, JPMorgan Chase Bank, N.A. recognized $348 million of liabilities primarily representing the SCORE trust's beneficial interests issued to third parties.

Prior to January 1, 2010, JPMorgan Chase Bank, N.A. accounted for its credit card securitizations as QSPEs and therefore these entities were not consolidated.

JPMorgan Chase Bank, N.A. involvement with credit card-affiliated securitization entities sponsored by an affiliate

In addition to the JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust, on an ongoing basis, JPMorgan Chase Bank, N.A. sells credit card receivables to various credit card securitization trusts ("Trusts") sponsored by an affiliate. The consideration received for the sales is an undivided interest in the respective Trusts. These credit card securitizations trusts were consolidated by an affiliate at December 31, 2010, due to the change in the consolidation accounting guidance.

During 2009, the overall performance of certain Trusts declined primarily due to the increase in credit losses incurred on the underlying credit card receivables and certain actions were taken by the Trust's sponsor, as permitted by the Trust agreements, to enhance the performance of the Trust, including increasing the required credit enhancement level of each tranche of outstanding notes issued by the Trust and increasing the excess spread for the Trust. JPMorgan Chase Bank, N.A. had a retained participation interest in the undivided seller's interest in the receivables of the Chase Issuance Trust. These actions resulted in the addition of approximately $20.0 billion of risk-weighted assets for regulatory capital purposes, which decreased JPMorgan Chase Bank, N.A.'s Tier 1 capital ratio by approximately 20 basis points, but did not have a material impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or financial performance.

Retained interests in nonconsolidated credit card securitizations sponsored by an affiliate

At December 31, 2009, the principal amount outstanding of credit card receivables sold by JPMorgan Chase Bank, N.A. to various nonconsolidated credit card securitizations trusts sponsored by an affiliate was $47.4 billion. These credit card securitizations trusts were consolidated by an affiliate on January 1, 2010, in accordance with the new accounting guidance. The consideration received for the sale is an undivided interest in the respective Trusts. At December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. had $6.9 billion and $5.3 billion, respectively, related to its undivided interests in the Trusts. These undivided interests are measured at fair value and classified in other assets beginning January 1, 2010. Prior to January 1, 2010, these undivided interests were carried at historical cost and classified in loans. JPMorgan Chase Bank, N.A. also retains senior and subordinated securities issued from the Trusts. The retained securities totaled $1.4 billion at December 31, 2010, of which $1.3 billion was classified as AFS securities and $105 million classified as trading assets, and $9.0 billion at December 31, 2009, of which $8.9 billion was classified as AFS securities and $104 million as trading assets. The decline in AFS securities from December 31, 2009, was the result of the maturities of certain senior AFS securities which were used by JPMorgan Chase Bank, N.A. as collateral for a secured financing transaction.

**Multi-seller conduits**

JPMorgan Chase Bank, N.A. is an active participant in the asset-backed securities business, and it helps customers meet their financing needs by providing access to the commercial paper markets through VIEs known as multi-seller conduits. Multi-seller conduit entities are separate bankruptcy remote entities that purchase interests in, and make loans secured by, pools of receivables and other financial assets pursuant to agreements with customers of JPMorgan Chase Bank, N.A. The conduits fund their purchases and loans through the issuance of highly rated commercial paper to third-party investors. The primary source of repayment of the commercial paper is the cash flows from the pools of assets. In most instances, the assets are structured with deal-specific credit enhancements provided by the customers (i.e., sellers) to the conduits or other third parties. Deal-specific credit enhancements is generally structured to cover a multiple of historical losses expected on the pool of assets, and are typically in the form of overcollateralization provided by the seller, but also may include any combination of the following: recourse to the seller or originator, cash collateral accounts, letters of credit, excess spread, retention of subordinated interests or third-party guarantees. The deal-specific credit enhancements mitigate JPMorgan Chase Bank, N.A.'s potential losses on its agreements with the conduits.

To ensure timely repayment of the commercial paper, each asset pool financed by the conduits has a minimum 100% deal-specific liquidity facility associated with it. Deal-specific liquidity facilities are the primary source of liquidity support for the conduits and are typically in the form of asset purchase agreements. They are generally structured so the liquidity that will be provided by JPMorgan Chase Bank, N.A. (as liquidity provider) will be affected by JPMorgan Chase Bank, N.A. purchasing, or lending against, a pool of nondefaulted, performing assets. In limited circumstances, JPMorgan Chase Bank, N.A. may provide unconditional liquidity.

The conduit's administrative agent can require the liquidity provider to perform under its asset purchase agreement with the conduit at any time. These agreements may cause the liquidity provider, which is generally JPMorgan Chase Bank, N.A., to purchase an asset from the conduit at an amount above the asset's then current fair value – in effect, providing a guarantee of the asset's initial value.

JPMorgan Chase Bank, N.A. also provides the multi-seller conduit vehicles with program-wide liquidity facilities in the form of uncommitted short-term revolving facilities established to handle funding increments too small to be funded by commercial paper and that can be accessed by the conduits only in the event of short-term disruptions in the commercial paper market.

Because the majority of the deal-specific liquidity facilities will only fund nondefaulted assets, program-wide credit enhancement is required to absorb losses on defaulted receivables in excess of losses absorbed by any deal-specific credit enhancement. Program-wide credit enhancement may be provided by JPMorgan Chase Bank, N.A. in the form of standby letters of credit or by third-party surety bond providers. The amount of program-wide credit enhancement required varies by conduit and ranges between 5% and 10% of the applicable commercial paper that is outstanding. JPMorgan Chase Bank, N.A. provided $2.0 billion and $2.4 billion of program-wide credit enhancement at December 31, 2010 and 2009, respectively.

JPMorgan Chase Bank, N.A. receives compensation from the multi-seller conduits for its role as administrative agent, liquidity provider, and provider of program-wide credit enhancement.

Effective January 1, 2010, JPMorgan Chase Bank, N.A. consolidated its JPMorgan Chase Bank, N.A.-administered multi-seller conduits as it had both the power to direct the significant activities of the conduits and a potentially significant economic interest. JPMorgan Chase Bank, N.A. directs the economic performance of the conduits as administrative agent and in its role in structuring transactions for the conduits. In these roles, JPMorgan Chase Bank, N.A. makes decisions regarding concentration of asset types and credit quality of transactions, and is responsible for managing the commercial paper funding needs of the conduits. JPMorgan Chase Bank, N.A.'s interests that could potentially be significant to the VIEs include the fees received as administrative agent, liquidity provider and provider of program-wide credit enhancement, as well as JPMorgan Chase Bank, N.A.'s potential exposure as a result of the liquidity and credit enhancement facilities provided to the conduits.

| December 31, 2010 (in billions) | Loans | Other assets | Total assets held by JPMorgan Chase Bank, N.A.-administered multi-seller conduits | Commercial paper issued to third parties |
|---|---|---|---|---|
| Consolidated[(a)] | **$ 21.1** | **$ 0.6** | **$ 21.7** | **$ 21.6** |

(a) JPMorgan Chase Bank, N.A. provided certain deal-specific liquidity facilities (primarily asset purchase agreements); program-wide liquidity facilities; and program-wide enhancements that were eliminated in consolidation.

*Accounting Treatment Prior to January 1, 2010*

Prior to January 1, 2010, JPMorgan Chase Bank, N.A. had consolidated one of its multi-seller conduits; all other JPMorgan Chase Bank, N.A.-administered multi-seller conduits were not consolidated in accordance with prior accounting rules. Under prior accounting rules, the party that absorbed the majority of the entity's expected losses, received a majority of the entity's residual returns, or both, would consolidate. Each nonconsolidated multi-seller conduit administered by JPMorgan Chase Bank, N.A. at December 31, 2009, had issued Expected Loss Notes ("ELNs"), the holders of which were committed to absorbing the majority of the expected loss of each respective conduit. The total amounts of ELNs outstanding for nonconsolidated conduits at December 31, 2009, was $96 million.

At December 31, 2009, total assets funded and commercial paper issued by JPMorgan Chase Bank, N.A.-sponsored multi-seller conduits were as follows.

| December 31, 2009 (in billions) | Total assets funded | Commercial paper issued |
|---|---|---|
| Consolidated | $ 5.1 | $ 5.1 |
| Non-consolidated[(a)] | 17.8 | 17.8 |

(a) JPMorgan Chase Bank, N.A. provided certain deal-specific liquidity facilities (primarily asset purchase agreements) of $24.2 billion. Additionally, JPMorgan Chase Bank, N.A. provided program-wide liquidity facilities of $13.0 billion and program-wide credit enhancements of $2.0 billion.

JPMorgan Chase Bank, N.A.'s maximum exposure to loss on nonconsolidated Firm-administered multi-seller conduits was $24.8 billion at December 31, 2009. The maximum exposure to loss, calculated separately for each multi-seller conduit, included JPMorgan Chase Bank, N.A.'s exposure to both deal-specific liquidity facilities and program-wide credit enhancements. For purposes of calculating maximum exposure to loss, JPMorgan Chase Bank, N.A.-provided program-wide credit enhancement was limited to deal-specific liquidity facilities provided to third parties.

**VIEs associated with investor intermediation activities**

As a financial intermediary, JPMorgan Chase Bank, N.A. creates certain types of VIEs and also structures transactions, typically using derivatives, with these VIEs to meet investor needs. JPMorgan Chase Bank, N.A. may also provide liquidity and other support. The risks inherent in the derivative instruments or liquidity commitments are managed similarly to other credit, market or liquidity risks to which JPMorgan Chase Bank, N.A. is exposed. The principal types of VIEs for which JPMorgan Chase Bank, N.A. is engaged in on behalf of clients are municipal bond vehicles, credit-related note vehicles and asset swap vehicles.

*Municipal bond vehicles*

JPMorgan Chase Bank, N.A. has created a series of trusts that provide short-term investors with qualifying tax-exempt investments, and that allow investors in tax-exempt securities to finance their investments at short-term tax-exempt rates. In a typical transaction, the vehicle purchases fixed-rate longer-term highly rated municipal bonds and funds the purchase by issuing two types of securities: (1) putable floating-rate certificates and (2) inverse floating-rate residual interests ("residual interests"). The maturity of each of the putable floating-rate certificates and the residual interests is equal to the life of the vehicle, while the maturity of the underlying municipal bonds is longer. Holders of the putable floating-rate certificates may "put," or tender, the certificates if the remarketing agent cannot successfully remarket the floating-rate certificates to another investor. A liquidity facility conditionally obligates the liquidity provider to fund the purchase of the tendered floating-rate certificates. If funded, the liquidity facility would be repaid by the proceeds from the sale of the underlying municipal bonds upon termination of the vehicle. In certain transactions, if the proceeds from the sale of the underlying municipal bonds are not sufficient to repay the liquidity facility, the liquidity provider has recourse to the residual interest holders for reimbursement.

The holders of the residual interests in these vehicles could experience losses if the face amount of the putable floating-rate certificates exceeds the market value of the municipal bonds upon termination of the vehicle. Certain vehicles require a smaller initial investment by the residual interest holders and thus do not result in excess collateralization. For these vehicles there exists a reimbursement obligation which requires the residual interest holders to post, during the life of the vehicle, additional collateral to JPMorgan Chase Bank, N.A., as liquidity provider, on a daily basis should the market value of the municipal bonds decline.

JPMorgan Chase Bank, N.A. often serves as the sole liquidity provider of the putable floating-rate certificates. The liquidity provider's obligation to perform is conditional and is limited by certain termination events, which include bankruptcy or failure to pay by the municipal bond issuer or credit enhancement provider, an event of taxability on the municipal bonds or the immediate downgrade of the municipal bond to below investment-grade. A downgrade of JPMorgan Chase Bank, N.A.'s short-term rating does not affect JPMorgan Chase Bank, N.A.'s obligation under the liquidity facility. However, in the event of a downgrade in JPMorgan Chase Bank, N.A.'s credit ratings, holders of the putable floating-rate certificates supported by those liquidity facility commitments might choose to sell their instruments, which could increase the likelihood that the liquidity commitments could be drawn. In vehicles in which third-party investors own

the residual interests, in addition to the termination events, JPMorgan Chase Bank, N.A.'s exposure as liquidity provider is further limited by the high credit quality of the underlying municipal bonds, the excess collateralization in the vehicle or, in certain transactions, the reimbursement agreements with the residual interest holders.

The long-term credit ratings of the putable floating-rate certificates are directly related to the credit ratings of the underlying municipal bonds, and to the credit rating of any insurer of the underlying municipal bond. A downgrade of a bond insurer would result in a downgrade of the insured municipal bonds, which would affect the rating of the putable floating-rate certificates. This could cause demand for these certificates by investors to decline or disappear, as putable floating-rate certificate holders typically require an "AA-" bond rating. At December 31, 2010 and 2009, 96% and 98%, respectively, of the municipal bonds held by vehicles for which JPMorgan Chase Bank, N.A. served as liquidity provider were rated "AA-" or better, based on either the rating of the underlying municipal bond itself or the bond rating including any credit enhancement. At December 31, 2010 and 2009, $3.4 billion and $2.3 billion, respectively, of the bonds were insured by monoline bond insurers.

JPMorgan Chase Bank, N.A. consolidates municipal bond vehicles if it owns the residual interest. The residual interest generally allows the owner to make decisions that significantly impact the economic performance of the municipal bond vehicle, primarily by directing the sale of the municipal bonds owned by the vehicle. In addition, the residual interest owners have the right to receive benefits and bear losses that could potentially be significant to the municipal bond vehicle. JPMorgan Chase Bank, N.A. does not consolidate municipal bond vehicles if it does not own the residual interests, since JPMorgan Chase Bank, N.A. does not have the power to make decisions that significantly impact the economic performance of the municipal bond vehicle.

JPMorgan Chase Bank, N.A.'s exposure to nonconsolidated municipal bond VIEs at December 31, 2010 and 2009, including the ratings profile of the VIEs' assets was as follows.

| December 31, (in billions) | Fair value of assets held by VIEs | Liquidity facilities[(b)] | Excess/(deficit)[(c)] | Maximum exposure |
|---|---|---|---|---|
| Nonconsolidated municipal bond vehicles(a) | | | | |
| **2010** | **$ 13.7** | **$ 8.8** | **$ 4.9** | **$ 8.8** |
| 2009 | 13.2 | 8.4 | 4.8 | 8.4 |

| | Ratings profile of VIE assets[(d)] | | | | | | |
|---|---|---|---|---|---|---|---|
| | Investment-grade | | | | Noninvestment -grade | | |
| December 31, (in billions, except where otherwise noted) | AAA to AAA- | AA+ to AA- | A+ to A- | BBB to BBB- | BB+ and below | Fair value of assets held by VIEs | Wt. avg. expected life of assets (years) |
| Nonconsolidated municipal bond vehicles(a) | | | | | | | |
| **2010** | **$ 1.9** | **$ 11.2** | **$ 0.6** | **$ —** | **$ —** | **$ 13.7** | **15.5** |
| 2009 | 1.6 | 11.4 | 0.2 | — | — | 13.2 | 10.1 |

(a) Excluded $427 million and $196 million, as of December 31, 2010 and 2009, respectively, which were consolidated due to JPMorgan Chase Bank, N.A. owning the residual interests.
(b) JPMorgan Chase Bank, N.A. may serve as credit enhancement provider to municipal bond vehicles in which it serves as liquidity provider. JPMorgan Chase Bank, N.A. provided insurance on underlying municipal bonds, in the form of letters of credit, of $10 million at both December 31, 2010 and 2009.
(c) Represents the excess/(deficit) of the fair values of municipal bond assets available to repay the liquidity facilities, if drawn.
(d) The ratings scale is based on JPMorgan Chase Bank, N.A.'s internal risk ratings and is presented on an S&P-equivalent basis.

*Credit-linked note vehicles*

JPMorgan Chase Bank, N.A. structures transactions with credit-related note vehicles in which the VIE purchases highly rated assets, such as asset-backed securities, and enters into a credit derivative contract with JPMorgan Chase Bank, N.A. to obtain exposure to a referenced credit which the VIE otherwise does not hold. The VIE then issues credit-linked notes ("CLNs") with maturities predominantly ranging from one to 10 years in order to transfer the risk of the referenced credit to the VIE's investors. Clients and investors often prefer using a CLN vehicle since the CLNs issued by the VIE generally carry a higher credit rating than such notes would if issued directly by JPMorgan Chase Bank, N.A. JPMorgan Chase Bank, N.A.'s exposure to the CLN vehicles is generally limited to its rights and obligations under the credit derivative contract with the VIE, as JPMorgan Chase Bank, N.A. does not provide any additional contractual financial support to the VIE. In addition, JPMorgan Chase Bank, N.A. has not historically provided any financial support to the CLN vehicles over and above its contractual obligations. Accordingly, JPMorgan Chase Bank, N.A. typically does not consolidate the CLN vehicles. As a derivative counterparty in a credit-related note structure, JPMorgan Chase Bank, N.A. has a senior claim on the collateral of the VIE and reports such derivatives on its balance sheet at fair value. The collateral purchased by such VIEs is largely investment-grade, with a significant amount being rated "AAA." JPMorgan Chase Bank, N.A. divides its credit-related note structures broadly into two types: static and managed.

In a static credit-related note structure, the CLNs and associated credit derivative contract either reference a single credit (e.g., a multi-national corporation), or all or part of a fixed portfolio of credits. JPMorgan Chase Bank, N.A. generally buys protection from the VIE under the credit derivative. In a managed credit-related note structure, the CLNs and associated credit derivative generally reference all

or part of an actively managed portfolio of credits. An agreement exists between a portfolio manager and the VIE that gives the portfolio manager the ability to substitute each referenced credit in the portfolio for an alternative credit. By participating in a structure where a portfolio manager has the ability to substitute credits within pre-agreed terms, the investors who own the CLNs seek to reduce the risk that any single credit in the portfolio will default. JPMorgan Chase Bank, N.A. does not act as portfolio manager; its involvement with the VIE is generally limited to being a derivative counterparty. As a net buyer of credit protection, in both static and managed credit-related note structures, JPMorgan Chase Bank, N.A. pays a premium to the VIE in return for the receipt of a payment (up to the notional of the derivative) if one or more of the credits within the portfolio defaults, or if the losses resulting from the default of reference credits exceed specified levels. Since each CLN is established to the specifications of the investors, the investors have the power over the activities of that VIE that most significantly affect the performance of the CLN. Accordingly, JPMorgan Chase Bank, N.A. does not generally consolidate these credit-related note entities. Furthermore, JPMorgan Chase Bank, N.A. does not have a variable interest that could potentially be significant. As a derivative counterparty, JPMorgan Chase Bank, N.A. has a senior claim on the collateral of the VIE and reports such derivatives on its balance sheet at fair value. Substantially all of the assets purchased by such VIEs are investment-grade.

Exposure to nonconsolidated credit-linked note VIEs at December 31, 2010 and 2009, was as follows.

| December 31, 2010 (in billions) | Net derivative receivables | Trading assets(b) | Total exposure(c) | Par value of collateral held by VIEs(d) |
|---|---|---|---|---|
| **Credit-linked notes**(a) | | | | |
| Static structure | **$ 1.0** | **$ —** | **$ 1.0** | **$ 9.5** |
| Managed structure | **2.8** | **—** | **2.8** | **10.7** |
| **Total** | **$ 3.8** | **$ —** | **$ 3.8** | **$ 20.2** |

| December 31, 2009 (in billions) | Net derivative receivables | Trading assets(b) | Total exposure(c) | Par value of collateral held by VIEs(d) |
|---|---|---|---|---|
| **Credit-linked notes**(a) | | | | |
| Static structure | $ 1.9 | $ 0.7 | $ 2.6 | $ 10.8 |
| Managed structure | 5.0 | 0.6 | 5.6 | 15.2 |
| **Total** | $ 6.9 | $ 1.3 | $ 8.2 | $ 26.0 |

(a) Excluded collateral with a fair value of $142 million and $855 million at December 31, 2010 and 2009, respectively, which was consolidated, as JPMorgan Chase Bank, N.A., in its role as secondary market-maker, held a majority of the issued credit-linked notes of certain vehicles.
(b) Trading assets principally comprise notes issued by VIEs, which from time to time are held as part of the termination of a deal or to support limited market-making.
(c) On–balance sheet exposure that includes net derivative receivables and trading assets–debt and equity instruments.
(d) JPMorgan Chase Bank, N.A.'s maximum exposure arises through the derivatives executed with the VIEs; the exposure varies over time with changes in the fair value of the derivatives. JPMorgan Chase Bank, N.A. relies on the collateral held by the VIEs to pay any amounts due under the derivatives; the vehicles are structured at inception so that the par value of the collateral is expected to be sufficient to pay amounts due under the derivative contracts.

*Asset swap vehicles*

JPMorgan Chase Bank, N.A. structures and executes transactions with asset swap vehicles on behalf of investors. In such transactions, the VIE purchases a specific asset or assets and then enters into a derivative with JPMorgan Chase Bank, N.A. in order to tailor the interest rate or foreign exchange currency risk, or both, according to investors' requirements. Generally, the assets are held by the VIE to maturity, and the tenor of the derivatives would match the maturity of the assets. Investors typically invest in the notes issued by such VIEs in order to obtain exposure to the credit risk of the specific assets, as well as exposure to foreign exchange and interest rate risk that is tailored to their specific needs. The derivative transaction between JPMorgan Chase Bank, N.A. and the VIE may include currency swaps to hedge assets held by the VIE denominated in foreign currency into the investors' local currency or interest rate swaps to hedge the interest rate risk of assets held by the VIE; to add additional interest rate exposure into the VIE in order to increase the return on the issued notes, or to convert an interest-bearing asset into a zero-coupon bond.

JPMorgan Chase Bank, N.A.'s exposure to asset swap vehicles is generally limited to its rights and obligations under the interest rate and/or foreign exchange derivative contracts. JPMorgan Chase Bank, N.A. historically has not provided any financial support to the asset swap vehicles over and above its contractual obligations. JPMorgan Chase Bank, N.A. does not generally consolidate these asset swap vehicles, since JPMorgan Chase Bank, N.A. does not have the power to direct the significant activities of these entities and does not have a variable interest that could potentially be significant. As a derivative counterparty, JPMorgan Chase Bank, N.A. has a senior claim on the collateral of the VIE and reports such derivatives on its balance sheet at fair value. Substantially all of the assets purchased by such VIEs are investment-grade.

Exposure to nonconsolidated asset swap VIEs at December 31, 2010 and 2009, was as follows.

| December 31, (in billions) | Net derivative receivables | Trading assets[b] | Total exposure[c] | Par value of collateral held by VIEs[d] |
|---|---|---|---|---|
| **2010[a]** | **$ 0.3** | **$ —** | **$ 0.3** | **$ 7.6** |
| 2009[a] | 0.1 | — | 0.1 | 10.2 |

(a) Excluded the fair value of collateral of zero and $623 million at December 31, 2010 and 2009, respectively, which was consolidated as JPMorgan Chase Bank, N.A., in its role as secondary market-maker, held a majority of the issued notes of certain vehicles.
(b) Trading assets principally comprise notes issued by VIEs, which from time to time are held as part of the termination of a deal or to support limited market-making.
(c) On–balance sheet exposure that includes net derivative receivables and trading assets-debt and equity instruments.
(d) JPMorgan Chase Bank, N.A.'s maximum exposure arises through the derivatives executed with the VIEs; the exposure varies over time with changes in the fair value of the derivatives. JPMorgan Chase Bank, N.A. relies on the collateral held by the VIEs to pay any amounts due under the derivatives; the vehicles are structured at inception so that the par value of the collateral is expected to be sufficient to pay amounts due under the derivative contracts.

**VIEs sponsored by third parties**

*Investment in a third-party credit card securitization trust*

JPMorgan Chase Bank, N.A. holds two interests in a third-party-sponsored VIE, which is a credit card securitization trust that owns credit card receivables issued by a national retailer. JPMorgan Chase Bank, N.A. is not the primary beneficiary of the trust, as JPMorgan Chase Bank, N.A. does not have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. The first note is structured so that the principal amount can float up to 47% of the principal amount of the receivables held by the trust, not to exceed $4.2 billion. JPMorgan Chase Bank, N.A. accounts for its investment at fair value within AFS securities. At December 31, 2010 and 2009, the amortized cost of the note was $3.0 billion and $3.5 billion, respectively, and the fair value was $3.1 billion and $3.5 billion, respectively. JPMorgan Chase Bank, N.A. accounts for its other interest with the trust, which is not subject to the limits noted above, as a loan at amortized cost. This senior loan had an amortized cost and fair value of approximately $1.0 billion at both December 31, 2010 and 2009. For more information on AFS securities and loans, see Notes 13 and 15 on pages 52–56 and 58–76, respectively, of these Consolidated Financial Statements.

*Other VIEs sponsored by third parties*

JPMorgan Chase Bank, N.A. enters into transactions with VIEs structured by other parties. These include, for example, acting as a derivative counterparty, liquidity provider, investor, underwriter, placement agent, trustee or custodian. These transactions are conducted at arm's length, and individual credit decisions are based on the analysis of the specific VIE, taking into consideration the quality of the underlying assets. Where JPMorgan Chase Bank, N.A. does not have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, or a variable interest that could potentially be significant, JPMorgan Chase Bank, N.A. records and reports these positions on its Consolidated Balance Sheets similarly to the way it would record and report positions in respect of any other third-party transaction.

**Consolidated VIE assets and liabilities**

The following table presents information on assets and liabilities related to VIEs that are consolidated by JPMorgan Chase Bank, N.A. as of December 31, 2010 and 2009.

| **December 31, 2010** (in billions) | Assets | | | | Liabilities | | |
|---|---|---|---|---|---|---|---|
| | Trading assets – debt and equity instruments | Loans | Other(a) | Total assets(b) | Beneficial interests in VIE assets(c) | Other(d) | Total liabilities |
| **VIE program type** | | | | | | | |
| JPMorgan Chase Bank, N.A.-administered multi-seller conduits | **$ —** | **$ 21.1** | **$ 0.6** | **$ 21.7** | **$ 21.6** | **$ 0.1** | **$ 21.7** |
| Mortgage securitization entities | **—** | **1.5** | **—** | **1.5** | **—** | **1.6** | **1.6** |
| Other | **2.9** | **4.4** | **0.9** | **8.2** | **4.1** | **—** | **4.1** |
| JPMorgan Chase Bank, N.A.-sponsored credit card trust | **—** | **0.5** | **—** | **0.5** | **0.4** | **—** | **0.4** |
| **Total** | **$ 2.9** | **$ 27.5** | **$ 1.5** | **$ 31.9** | **$ 26.1** | **$ 1.7** | **$ 27.8** |

| December 31, 2009 (in billions) | Assets | | | | Liabilities | | |
|---|---|---|---|---|---|---|---|
| | Trading assets – debt and equity instruments | Loans | Other(a) | Total assets(b) | Beneficial interests in VIE assets(c) | Other(d) | Total liabilities |
| **VIE program type** | | | | | | | |
| JPMorgan Chase Bank, N.A.-administered multi-seller conduits | $ — | $ 2.2 | $ 2.9 | $ 5.1 | $ 5.1 | $ — | $ 5.1 |
| Mortgage securitization entities | — | — | — | — | — | — | — |
| Other | 2.4 | 4.2 | 0.5 | 7.1 | 3.3 | 1.2 | 4.5 |
| JPMorgan Chase Bank, N.A.-sponsored credit card trust | — | — | — | — | — | — | — |
| **Total** | $ 2.4 | $ 6.4 | $ 3.4 | $ 12.2 | $ 8.4 | $ 1.2 | $ 9.6 |

(a) Included assets classified as cash, resale agreements, derivative receivables, AFS securities, and other assets within the Consolidated Balance Sheets.
(b) The assets of the consolidated VIEs included in the program types above are used to settle the liabilities of those entities. The difference between total assets and total liabilities recognized for consolidated VIEs represents JPMorgan Chase Bank, N.A.'s interest in the consolidated VIEs for each program type.
(c) The interest-bearing beneficial interest liabilities issued by consolidated VIEs are classified in the line item on the Consolidated Balance Sheets titled, "Beneficial interests issued by consolidated variable interest entities." The holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase Bank, N.A. Included in beneficial interests in VIE assets are long-term beneficial interests of $4.5 billion and $3.3 billion at December 31, 2010 and 2009, respectively. The maturities of the long-term beneficial interests as of December 31, 2010, were as follows: zero under one year, $969 million between one and five years, and $3.5 billion over 5 years.
(d) Included liabilities predominantly classified as other liabilities as of December 31, 2010, and predominantly classified as other liabilities and other borrowed funds as of December 31, 2009.

**Supplemental information on loan securitizations**

For loan securitizations in which JPMorgan Chase Bank, N.A. is not required to consolidate the trust, JPMorgan Chase Bank, N.A. records the transfer of the loan receivable to the trust as a sale when the accounting criteria for a sale are met. Those criteria are: (1) the transferred financial assets are legally isolated from JPMorgan Chase Bank, N.A.'s creditors; (2) the transferee or beneficial interest holder can pledge or exchange the transferred financial assets; and (3) JPMorgan Chase Bank, N.A. does not maintain effective control over the transferred financial assets (e.g., JPMorgan Chase Bank, N.A. cannot repurchase the transferred assets before their maturity and it does not have the ability to unilaterally cause the holder to return the transferred assets).

For loan securitizations accounted for as a sale, JPMorgan Chase Bank, N.A. recognizes a gain or loss based on the difference between the value of proceeds received (including cash, beneficial interests, or servicing assets received) and the carrying value of the assets sold. Gains and losses on securitizations are reported in noninterest revenue. The value of the proceeds received is determined under JPMorgan Chase Bank, N.A.'s valuation policies described in Note 4 on pages 12–29 of these Consolidated Financial Statements.

The accounting for retained interests is dependent upon several factors, including the form and economic characteristics of the retained interest. Interests retained by the investment banking business are classified as trading assets. Interests retained in other JPMorgan Chase Bank, N.A. businesses, including the retail financial services business and the corporate treasury business, may be classified as AFS securities or trading assets. See Note 13 on pages 52–56 of these Consolidated Financial Statements for more information on AFS securities.

**Securitization activity**

The following tables provide information related to JPMorgan Chase Bank, N.A.'s securitization activities for years ended December 31, 2010, 2009 and 2008, related to assets held in JPMorgan Chase Bank, N.A.–sponsored securitization entities that were not consolidated by it, for the periods presented. For years ended December 31, 2009 and 2008, there were no residential mortgage loans that were securitized, and there were no cash flows from JPMorgan Chase Bank, N.A. to the SPEs related to recourse or guarantee arrangements. Effective January 1, 2010, all of JPMorgan Chase Bank, N.A.-sponsored credit card, student loan and auto securitization trusts were consolidated as a result of the accounting guidance related to VIEs, and accordingly, are not included in the securitization activity tables below for the year ended December 31, 2010.

| Year ended December 31, 2010 (in millions) | Credit card[f] | Residential mortgage Prime[g] | Residential mortgage Subprime | Residential mortgage Option ARMs | Commercial and other |
|---|---|---|---|---|---|
| Principal securitized | **$ 1,150** | **$ 35** | **$ —** | **$ —** | **$ 2,237** |
| Pretax gains | **16** | **—** | **—** | **—** | **—**[h] |
| **All cash flows during the period[a]:** | | | | | |
| Proceeds from new securitizations[b] | **$ 1,150** | **$ 35** | **$ —** | **$ —** | **$ 2,326** |
| Servicing fees collected | **—** | **254** | **117** | **413** | **4** |
| Other cash flows received | **—** | **—** | **—** | **—** | **—** |
| Proceeds from collections reinvested in revolving securitizations | **44,587** | **—** | **—** | **—** | **—** |
| Purchases of previously transferred financial assets (or the underlying collateral)[c] | **—** | **163** | **109** | **1** | **—** |
| Cash flows received on the interests that continue to be held by JPMorgan Chase Bank, N.A.[d] | **24,035** | **33** | **—** | **5** | **48** |
| **Key assumptions used to measure retained interests originated during the year (rates per annum)** | | | | | |
| Prepayment rate[e] | **19.6% PPR** | **—** | | | |
| Weighted-average life (in years) | **0.4** | **—** | | | |
| Expected credit losses | **9.8** | **—** | | | |
| Discount rate | **12.0%** | **—** | | | |

| Year ended December 31, 2009 (in millions, except for ratios and where otherwise noted) | Credit card(f) | Residential mortgage Prime(g) | Subprime | Option ARMs | Commercial and other | Student loans | Auto |
|---|---|---|---|---|---|---|---|
| Principal securitized | $ 13,868 | $ — | $ — | $ — | $ 500 | $ — | $ — |
| Pretax gains | 10 | — | — | — | —(h) | — | — |
| **All cash flows during the period:** (a) | | | | | | | |
| Proceeds from new securitizations(b) | $ 13,868 | $ — | $ — | $ — | $ 542 | $ — | $ — |
| Servicing fees collected | 540 | 324 | 126 | 483 | 11 | 3 | 4 |
| Other cash flows received | 2,180 | — | — | — | — | — | — |
| Proceeds from collections reinvested in revolving securitizations | 71,856 | — | — | — | — | — | — |
| Purchases of previously transferred financial assets (or the underlying collateral)(c) | — | 136 | — | 29 | — | — | 167 |
| Cash flows received on the interests that continue to be held by JPMorgan Chase Bank, N.A.(d) | 184 | 389 | 2 | 38 | 64 | 7 | 4 |
| **Key assumptions used to measure retained interests originated during the year (rates per annum):** | | | | | | | |
| Prepayment rate(e) | 16.7% PPR | | | | 100%(i) CPY | | |
| Weighted-average life (in years) | 0.5 | | | | 9.0 | | |
| Expected credit losses | 8.9% | | | | —%(i) | | |
| Discount rate | 16.0% | | | | 10.7% | | |

| Year ended December 31, 2008 (in millions, except for ratios and where otherwise noted) | Credit card(f) | Residential mortgage Prime(g) | Subprime | Option ARMs | Commercial and other | Student loans | Auto |
|---|---|---|---|---|---|---|---|
| Principal securitized | $ 10,716 | $ — | $ — | $ — | $ 1,023 | $ — | $ — |
| Pretax gains | 60 | — | — | — | —(h) | — | — |
| **All cash flows during the period:** (a) | | | | | | | |
| Proceeds from new securitizations(b) | $ 10,716 | $ — | $ — | $ — | $ 989 | $ — | $ — |
| Servicing fees collected | 459 | 192 | 107 | 129 | 11 | 4 | 12 |
| Other cash flows received | 2,056 | — | — | — | — | — | — |
| Proceeds from collections reinvested in revolving securitizations | 62,998 | — | — | — | — | — | — |
| Purchases of previously transferred financial assets (or the underlying collateral)(c) | — | 217 | 13 | 6 | — | — | 234 |
| Cash flows received on the interests that continue to be held by JPMorgan Chase Bank, N.A.(d) | 45 | 165 | 8 | 53 | 368 | — | 31 |
| **Key assumptions used to measure retained interests originated during the year (rates per annum):** | | | | | | | |
| Prepayment rate(e) | 19.3% PPR | | | | 1.5% CPR | | |
| Weighted-average life (in years) | 0.4 | | | | 2.1 | | |
| Expected credit losses | 4.4% | | | | 1.5% | | |
| Discount rate | 12.0% | | | | 25.0% | | |

(a) Excludes loan sales for which JPMorgan Chase Bank, N.A. did not securitize (including loans sold to U.S. government agencies).
(b) Proceeds from new securitizations received as cash for the years ended December 31, 2010, 2009 and 2008, except for $3.5 billion and $3.6 billion received as securities from credit card securitization trust classified in level 2 of the valuation hierarchy for the years ended December 31, 2009 and 2008, respectively.
(c) Includes cash paid by JPMorgan Chase Bank, N.A. to reacquire assets from the off–balance sheet, nonconsolidated entities – for example, servicer clean-up calls.
(d) Includes cash flows received on retained interests – including, for example, principal repayments and interest payments.
(e) PPR: principal payment rate; CPR: constant prepayment rate; CPY: constant prepayment yield.
(f) Includes securitization activity related to JPMorgan Chase Bank, N.A.'s undivided interests in nonconsolidated credit card securitization trusts that are sponsored by a JPMorgan Chase affiliate.
(g) Includes Alt-A loans.
(h) JPMorgan Chase Bank, N.A. elected the fair value option for loans pending securitization. The carrying value of these loans accounted for at fair value approximated the proceeds received from securitization.
(i) Represents a senior interest-only security that is expected to prepay in full as soon as permitted, as such there is no expected credit loss on this security. Market convention is to utilize a 100% prepayment rate for this type of interest.

**Loans sold to U.S. government agencies and other third-party sponsored securitization entities**

In addition to the amounts reported in the securitization activity tables above, JPMorgan Chase Bank, N.A., in the normal course of business, sells originated and purchased mortgage loans, predominantly to U.S. government agencies. These loans are sold primarily for the purpose of securitization by U.S. government agencies, which also provide credit enhancement of the loans through certain guarantee provisions. JPMorgan Chase Bank, N.A. does not consolidate these securitization vehicles as it is not the primary beneficiary. In connection with these loan sales, JPMorgan Chase Bank, N.A. makes certain representations and warranties. For additional information about JPMorgan Chase Bank, N.A.'s loan sale- and securitization-related indemnifications, see Note 28 on pages 109–115 of these Consolidated Financial Statements.

JPMorgan Chase Bank, N.A. generally retains the right to service the mortgage loans in accordance with the respective servicing guidelines and standards, and records a servicing asset at the time of sale.

The following table summarizes these loan sale activities.

| Year ended December 31, (in millions) | **2010** | 2009 | 2008 |
|---|---|---|---|
| Carrying value of loans sold[a][b] | **$156,615** | $ 154,571 | $ 132,111 |
| Proceeds received from loan sales as cash | **3,887** | 1,702 | 7,112 |
| Proceeds received from loan sales as securities[c] | **149,786** | 149,343 | 121,947 |
| **Total proceeds received from loan sales** | **$153,673** | $151,045 | $ 129,059 |
| Gains on loan sales | **212** | 89 | 30 |

(a) Predominantly to U.S. government agencies.
(b) MSRs were excluded from the above table. See Note 18 on pages 98–100 of these Consolidated Financial Statements for further information on originated MSRs.
(c) Predominantly includes securities from U.S. government agencies that are generally sold shortly after receipt.

JPMorgan Chase Bank, N.A. has the option to repurchase certain loans sold to U.S. government agencies (predominantly loans securitized in Ginnie Mae pools) if they reach certain delinquency triggers. Once the delinquency trigger has been met, regardless of whether the repurchase option has been exercised, JPMorgan Chase Bank, N.A. recognizes the loan on the Consolidated Balance Sheet. JPMorgan Chase Bank, N.A. also recognizes an offsetting liability in accounts payable and other liabilities for any loans subject to the repurchase option, but for which the option to repurchase has not been exercised. As of December 31, 2010 and 2009, loans repurchased or with the option to repurchase were $13.0 billion and $10.6 billion, respectively. Additionally, real estate owned resulting from repurchases of loans sold to U.S. government agencies was $1.9 billion and $579 million as of December 31, 2010 and 2009, respectively. Substantially all of these loans and real estate continue to be insured or guaranteed by U.S. government agencies and, where applicable, reimbursement is proceeding normally.

**JPMorgan Chase Bank, N.A.'s interests in JPMorgan Chase Bank, N.A.-sponsored securitized assets**

The following table summarizes JPMorgan Chase Bank, N.A.'s interests in JPMorgan Chase Bank, N.A.-sponsored non-consolidated securitizations, which are carried at fair value on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets at December 31, 2010 and 2009. The risk ratings are periodically reassessed as information becomes available. As of December 31, 2010 and 2009, 10% and 77%, respectively, of JPMorgan Chase Bank, N.A.'s retained securitization interests in JPMorgan Chase Bank, N.A.-sponsored securitizations were risk-rated "A" or better.

| | Ratings profile of interests held[c][d][e] | | | | | |
|---|---|---|---|---|---|---|
| | **2010** | | | 2009 | | |
| December 31, (in billions) | Investment-grade | Noninvestment-grade | Retained interests | Investment-grade | Noninvestment-grade | Retained interests[f] |
| **Asset types:** | | | | | | |
| Credit card[a] | **$ 1.4** | **$ 6.9** | **$ 8.3** | $ 9.0 | $ 2.3 | $ 11.3 |
| Residential mortgage: | | | | | | |
| Prime[b] | **0.1** | **0.1** | **0.2** | 0.3 | — | 0.3 |
| Subprime | **—** | **—** | **—** | — | — | — |
| Option ARMs | **—** | **—** | **—** | 0.1 | — | 0.1 |
| Commercial and other | **0.7** | **—** | **0.7** | 0.7 | — | 0.7 |
| **Total** | **$ 2.2** | **$ 7.0** | **$ 9.2** | $ 10.1 | $ 2.3 | $ 12.4 |

(a) Includes securitization activity related to JPMorgan Chase Bank, N.A.'s undivided interests in nonconsolidated credit card securitization trusts that are sponsored by a JPMorgan Chase affiliate. At December 31, 2009, excludes undivided interests in the trust of $5.3 billion and unencumbered cash amounts and deposits of $3.0 billion carried at historical costs which were settled during the period.
(b) Includes retained interests in Alt-A loans.
(c) The ratings scale is based on JPMorgan Chase Bank, N.A.'s internal ratings and is presented on an S&P-equivalent basis.
(d) Includes $1.4 billion and $2.0 billion of investments acquired in the secondary market, but predominantly held for investment purposes, as of December 31, 2010 and 2009, respectively. Of this amount, $1.4 billion and $1.9 billion is classified as investment-grade as of December 31, 2010 and 2009, respectively.
(e) Excludes senior and subordinated securities of zero and $80 million at December 31, 2010 and 2009, respectively, which JPMorgan Chase Bank, N.A. purchased in connection with the investment banking business's secondary market-making activities.
(f) Excludes $49 million of retained interests in student loans at December 31, 2009.

The table below outlines the key economic assumptions used to determine the fair value as of December 31, 2010 and 2009, of certain of JPMorgan Chase Bank, N.A.'s retained interests in nonconsolidated JPMorgan Chase Bank, N.A.-sponsored securitizations, other than MSRs, that are valued using modeling techniques. The table below also outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in assumptions used to determine fair value. For a discussion of MSRs, see Note 18 on pages 98–100 of these Consolidated Financial Statements.

| **December 31, 2010** (in millions, except rates and where otherwise noted) | Credit card[d][e] | Residential mortgage: Prime[f] | Subprime | Option ARMs | Commercial and other[g] |
|---|---|---|---|---|---|
| JPMorgan Chase Bank, N.A. interests in securitized assets[a][b] | **$ 6,886** | **$ 166** | **$ —** | **$ 29** | **$ 689** |
| Weighted-average life (in years) | **0.4** | **7.3** | **—** | **7.7** | **4.2** |
| Weighted-average constant prepayment rate[c] | **21.8% PPR** | **7.3% CPR** | **—% CPR** | **8.4% CPR** | **—% CPR** |
| Impact of 10% adverse change | **$ (5)** | **$ (4)** | **$ —** | **$ —** | **$ —** |
| Impact of 20% adverse change | **(10)** | **(8)** | **—** | **(1)** | **—** |
| Weighted-average loss assumption | **7.0%** | **0.6%** | **—%** | **30.0%** | **—%** |
| Impact of 10% adverse change | **$ (67)** | **$ (1)** | **$ —** | **$ —** | **$ —** |
| Impact of 20% adverse change | **(91)** | **(1)** | **—** | **(1)** | **—** |
| Weighted-average discount rate | **12.0%** | **6.4%** | **—%** | **6.3%** | **9.0%** |
| Impact of 10% adverse change | **$ —** | **$ (6)** | **$ —** | **$ (1)** | **$ (10)** |
| Impact of 20% adverse change | **—** | **(11)** | **—** | **(2)** | **(21)** |

| December 31, 2009 (in millions, except rates, and where otherwise noted) | Credit card[d][e] | Residential mortgage Prime[f] | Subprime | Option ARMs | Commercial and other[g] | Student | Auto |
|---|---|---|---|---|---|---|---|
| JPMorgan Chase Bank, N.A. interests in securitized assets[b] | **$ 1,822** | **$ 320** | **$ 6** | **$ 113** | **$ 734** | **$ 51** | **$ 9** |
| Weighted-average life (in years) | **0.6** | **7.1** | **7.4** | **5.1** | **5.2** | **8.1** | **0.6** |
| Weighted-average prepayment rate[c] | **14.3% PPR** | **7.8% CPR** | **7.0% CPR** | **15.7% CPR** | **—% CPR** | **5.0% CPR** | **1.4% ABS** |
| Impact of 10% adverse change | **$ (1)** | **$ (4)** | **$ —** | **$ —** | **$ —** | **$ (1)** | **$ —** |
| Impact of 20% adverse change | **(2)** | **(8)** | **—** | **(1)** | **—** | **(2)** | **(1)** |
| Weighted-average loss assumption | **6.8%** | **2.3%** | **3.4%** | **0.7%** | **—%** | **—%**[h] | **0.8%** |
| Impact of 10% adverse change | **$ (1)** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** |
| Impact of 20% adverse change | **(3)** | **—** | **—** | **—** | **—** | **—** | **—** |
| Weighted-average discount rate | **12.0%** | **6.3%** | **14.5%** | **5.4%** | **7.8%** | **9.0%** | **2.8%** |
| Impact of 10% adverse change | **$ (5)** | **$ (6)** | **$ —** | **$ (1)** | **$ (22)** | **$ (2)** | **$ —** |
| Impact of 20% adverse change | **(9)** | **(12)** | **—** | **(3)** | **(43)** | **(4)** | **—** |

(a) Effective January 1, 2010, all of JPMorgan Chase Bank, N.A.-sponsored credit card, student loan and auto securitization trusts were consolidated as a result of the accounting guidance related to VIEs and, accordingly, are not included in the table above for the year ended December 31, 2010.
(b) Includes certain investments acquired in the secondary market but predominantly held for investment purposes.
(c) PPR: principal payment rate; ABS: absolute prepayment speed; CPR: constant prepayment rate.
(d) Excludes JPMorgan Chase Bank, N.A.'s retained senior and subordinated AFS securities in its credit card securitization trust, which are discussed on pages 86–87 of this Note.
(e) Includes securitization activity related to JPMorgan Chase Bank, N.A.'s undivided interests in nonconsolidated credit card securitization trusts that are sponsored by a JPMorgan Chase affiliate.
(f) Includes retained interests in Alt-A.
(g) The anticipated credit losses, including expected static pool losses, are immaterial for JPMorgan Chase Bank, N.A.'s retained interests on commercial and other securitizations that had occurred during 2010, 2009 and 2008.
(h) Expected losses for student loans securitizations are minimal and are incorporated into other assumptions.

The sensitivity analysis in the preceding table is hypothetical. Changes in fair value based on a 10% or 20% variation in assumptions generally cannot be extrapolated easily, because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in the table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might counteract or magnify the sensitivities. The above sensitivities also do not reflect risk management practices JPMorgan Chase Bank, N.A. may undertake to mitigate such risks.

### Loan delinquencies and net charge-offs

The table below includes information about delinquencies, net charge-offs and components of off–balance sheet securitized financial assets as of December 31, 2010 and 2009.

| As of or for the year ended December 31, (in millions) | Credit exposure 2010 | Credit exposure 2009 | 90 days past due and still accruing 2010 | 90 days past due and still accruing 2009 | Nonaccrual loans 2010 | Nonaccrual loans 2009 | Net loan charge-offs[d] 2010 | Net loan charge-offs[d] 2009 |
|---|---|---|---|---|---|---|---|---|
| **Securitized loans**[a] | | | | | | | | |
| Residential mortgage: | | | | | | | | |
| Prime mortgage[b] | **$ 83,530** | $ 102,070 | **$ —** | $ — | **$ 14,132** | $ 13,178 | **$ 2,020** | $ 2,110 |
| Subprime mortgage | **28,158** | 32,451 | **—** | — | **10,222** | 13,086 | **2,725** | 5,617 |
| Option ARMs | **35,786** | 41,983 | **—** | — | **10,788** | 10,973 | **2,305** | 2,287 |
| Commercial and other | **84,389** | 19,297 | **—** | — | **4,472** | 1,085 | **583** | 15 |
| Credit card | **NA** | 38,347 | **NA** | 1,078 | **NA** | — | **NA** | 2,454 |
| Student | **NA** | 1,008 | **NA** | 64 | **NA** | — | **NA** | 1 |
| Automobile | **NA** | 218 | **NA** | — | **NA** | 1 | **NA** | 4 |
| **Total loans securitized**[c] | **$ 231,863** | $ 235,374 | **$ —** | $ 1,142 | **$ 39,614** | $ 38,323 | **$ 7,633** | $ 12,488 |

(a) Total assets held in securitization-related SPEs, including credit card securitization trusts, were $260.3 billion and $330.5 billion at December 31, 2010 and 2009, respectively. The $231.9 billion and $235.4 billion of loans securitized at December 31, 2010 and 2009, respectively, excludes: $21.8 billion and $82.3 billion of securitized loans in which JPMorgan Chase Bank, N.A. has no continuing involvement, zero and $5.3 billion of seller's interests in the credit card master trust, zero and $3.7 billion cash amounts on deposit and escrow accounts, and $6.6 billion and $3.8 billion of loan securitizations consolidated on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets at December 31, 2010 and 2009, respectively.
(b) Includes Alt-A loans.
(c) Includes securitized loans that were previously recorded at fair value and classified as trading assets.
(d) Net charge-offs represent losses realized upon liquidation of the assets held by off–balance sheet securitization entities.

## Note 18 – Goodwill and other intangible assets

Goodwill and other intangible assets consist of the following.

| December 31, (in millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Goodwill** | **$ 27,348** | $ 27,510 | $ 27,371 |
| **Mortgage servicing rights** | **13,440** | 15,342 | 9,236 |
| **Other intangible assets** | | | |
| Purchased credit card relationships | **$ 103** | $ 122 | $ 128 |
| Other credit card–related intangibles | **576** | 657 | 698 |
| Core deposit intangibles | **879** | 1,207 | 1,597 |
| Other intangibles | **409** | 973 | 1,051 |
| **Total other intangible assets** | **$ 1,967** | $ 2,959 | $ 3,474 |

### Goodwill

Goodwill is recorded upon completion of a business combination as the difference between the purchase price and the fair value of the net assets acquired. Subsequent to initial recognition, goodwill is not amortized but is tested for impairment during the fourth quarter of each fiscal year, or more often if events or circumstances, such as adverse changes in the business climate, indicate there may be impairment.

The decrease in goodwill during 2010 was primarily due to transfers of certain strategic businesses related to the asset management business within JPMorgan Chase Bank N.A. to a JPMorgan Chase affiliate, partially offset by the acquisition of RBS Sempra Commodities' businesses, and foreign currency translation adjustments related to JPMorgan Chase Bank, N.A.'s credit card business. The increase in goodwill during 2009 was primarily due to foreign currency translation adjustments related to JPMorgan Bank, N.A.'s credit card business. The increase in goodwill during 2008 was primarily due to the dissolution of the Chase Paymentech Solutions joint venture and the tax-related purchase accounting adjustments associated with the Bank One Merger.

The following table presents changes in the carrying amount of goodwill.

| Year ended December 31, (in millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Beginning balance at January 1,[(a)]: | **$ 27,510** | $ 27,371 | $ 25,819 |
| Changes from: | | | |
| Business combinations | **125** | 44 | 1,249 |
| Dispositions | **(318)** | — | (38) |
| Other[(b)] | **31** | 95 | 341 |
| **Balance at December 31,[(a)]** | **$ 27,348** | $ 27,510 | $ 27,371 |

(a) Reflects gross goodwill balances as JPMorgan Chase Bank, N.A. has not recognized any impairment losses to date.
(b) Includes foreign currency translation adjustments and other tax-related adjustments.

*Impairment testing*

Goodwill was not impaired at December 31, 2010 or 2009, nor was any goodwill written off due to impairment during 2010, 2009 or 2008.

The goodwill impairment test is performed in two steps. In the first step, the current fair value of each reporting unit is compared with its carrying value, including goodwill. If the fair value is in excess of the carrying value (including goodwill), then the reporting unit's goodwill is considered not to be impaired. If the fair value is less than the carrying value (including goodwill), then a second step is performed. In the second step, the implied current fair value of the reporting unit's goodwill is determined by comparing the fair value of the reporting unit (as determined in step one) to the fair value of the net assets of the reporting unit, as if the reporting unit were being acquired in a business combination. The resulting implied current fair value of goodwill is then compared with the carrying value of the reporting unit's goodwill. If the carrying value of the goodwill exceeds its implied current fair value, then an impairment charge is recognized for the excess. If the carrying value of goodwill is less than its implied current fair value, then no goodwill impairment is recognized.

### Mortgage servicing rights

Mortgage servicing rights represent the fair value of future cash flows for performing specified mortgage servicing activities (predominantly with respect to residential mortgage) for others. MSRs are either purchased from third parties or retained upon sale or securitization of mortgage loans. Servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to the investors of the mortgage-backed securities.

JPMorgan Chase Bank, N.A. made the determination to treat its MSRs as one class of servicing assets based on the availability of market inputs used to measure its MSR asset at fair value and its treatment of MSRs as one aggregate pool for risk management purposes. As permitted by U.S. GAAP, JPMorgan Chase Bank, N.A. elected to account for this one class of servicing assets at fair value. JPMorgan Chase Bank, N.A. estimates the fair value of MSRs using an OAS valuation model, which projects MSR cash flows over multiple interest rate scenarios in conjunction with JPMorgan Chase Bank, N.A.'s prepayment model and then discounts these cash flows at risk-adjusted rates. The model considers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue and costs to service, and other economic factors. JPMorgan Chase Bank, N.A. reassesses and periodically adjusts the underlying inputs and assumptions used in the OAS model to reflect market conditions and assumptions that a market participant would consider in valuing the MSR asset. During 2010 and 2009, JPMorgan Chase Bank, N.A. continued to refine its proprietary prepayment model based on a number of market-related factors, including a downward trend in home prices, general tightening of credit underwriting standards and the associated impact on refinancing activity. JPMorgan Chase Bank, N.A. compares fair value estimates and assumptions to observable market data where available, and to recent market activity and actual portfolio experience.

The fair value of MSRs is sensitive to changes in interest rates, including their effect on prepayment speeds. JPMorgan Chase Bank, N.A. uses combinations of derivatives and securities to manage changes in the fair value of MSRs. The intent is to offset any changes in the fair value of MSRs with changes in the fair value of the related risk management instruments. MSRs decrease in value when interest rates decline. Conversely, securities (such as mortgage-backed securities), principal-only certificates and certain

derivatives (when JPMorgan Chase Bank, N.A. receives fixed-rate interest payments) increase in value when interest rates decline.

The following table summarizes MSR activity for the years ended December 31, 2010, 2009 and 2008.

| Year ended December 31, (in millions, except where otherwise noted) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Fair value at beginning of period | **$ 15,342** | $ 9,236 | $ 8,632 |
| MSR activity: | | | |
| Originations of MSRs | **3,153** | 3,615 | 3,021 |
| Purchase of MSRs | **26** | 2 | 6,382(f) |
| Disposition of MSRs | **(402)** | (10) | — |
| **Total net additions** | **2,777** | 3,607 | 9,403 |
| Change in valuation due to inputs and assumptions(a) | **(2,325)** | 5,735 | (6,772) |
| Other changes in fair value(b) | **(2,354)** | (3,236) | (2,027) |
| **Total change in fair value of MSRs(c)** | **(4,679)** | 2,499 | (8,799) |
| **Fair value at December 31(d)** | **$ 13,440** | $ 15,342 | $ 9,236 |
| Change in unrealized gains/ (losses) included in income related to MSRs held at December 31 | **$ (2,325)** | $ 5,735 | $ (6,772) |
| Contractual service fees, late fees and other ancillary fees included in income | **$ 4,256** | $ 4,447 | $ 3,111 |
| Third-party mortgage loans serviced at December 31 (in billions) | **$ 922** | $ 1,030 | $ 1,112 |
| Servicer advances, net at December 31 (in billions)(e) | **$ 7.6** | $ 5.8 | $ 4.0 |

(a) Represents MSR asset fair value adjustments due to changes in inputs, such as interest rates and volatility, as well as updates to assumptions used in the valuation model. "Total realized/unrealized gains/(losses)" columns in the Changes in level 3 recurring fair value measurements tables in Note 4 on pages 12–29 of these Consolidated Financial Statements include these amounts.
(b) Includes changes in MSR value due to modeled servicing portfolio runoff (or time decay). "Purchases, issuances, settlements, net" columns in the Changes in level 3 recurring fair value measurements tables in Note 4 on pages 12–29 of these Consolidated Financial Statements include these amounts.
(c) Includes changes related to commercial real estate of $(1) million, $(4) million and $(4) million for the years ended December 31, 2010, 2009 and 2008, respectively.
(d) Includes $40 million, $41 million and $55 million related to commercial real estate at December 31, 2010, 2009 and 2008, respectively.
(e) Represents amounts JPMorgan Chase Bank, N.A. pays as the servicer (e.g., scheduled principal and interest to a trust, taxes and insurance), which will generally be reimbursed within a short period of time after the advance from future cash flows from the trust or the underlying loans. JPMorgan Chase Bank, N.A.'s credit risk associated with these advances is minimal because reimbursement of the advances is senior to all cash payments to investors. In addition, JPMorgan Chase Bank, N.A. maintains the right to stop payment if the collateral is insufficient to cover the advance.
(f) Includes MSRs acquired as a result of the Washington Mutual transaction (of which $59 million related to commercial real estate). For further discussion, see Note 3 on pages 9–12 of these Consolidated Financial Statements.

The table below outlines the key economic assumptions used to determine the fair value of JPMorgan Chase Bank, N.A.'s MSRs at December 31, 2010, and 2009; and it outlines the sensitivities of those fair values to immediate adverse changes in those assumptions, as defined below.

| Year ended December 31, (in millions, except rates) | 2010 | 2009 |
|---|---|---|
| Weighted-average prepayment speed assumption (CPR) | **10.67%** | 10.65% |
| Impact on fair value of 10% adverse change | **$ (795)** | $ (880) |
| Impact on fair value of 20% adverse change | **(1,541)** | (1,702) |
| Weighted-average option adjusted spread | **3.92%** | 4.61% |
| Impact on fair value of 100 basis points adverse change | **$ (571)** | $ (633) |
| Impact on fair value of 200 basis points adverse change | **(1,097)** | (1,218) |

CPR: Constant prepayment rate.

The sensitivity analysis in the preceding table is hypothetical and should be used with caution. Changes in fair value based on variation in assumptions generally cannot be easily extrapolated, because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in this table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

**Other intangible assets**

Other intangible assets are recorded at their fair value upon completion of a business combination or certain other transactions, and generally represent the value of customer relationships or arrangements. Subsequently, JPMorgan Chase Bank, N.A.'s intangible assets with finite lives, including core deposit intangibles, purchased credit card relationships, and other intangible assets, are amortized over their useful lives in a manner that best reflects the economic benefits of the intangible asset. The decrease in other intangible assets during 2010 was primarily due to transfers of other intangible assets related to the asset management business within JPMorgan Chase Bank N.A. to a JPMorgan Chase affiliate and amortization expense associated with credit card-related intangibles, core deposit intangibles and other intangibles.

The components of credit card relationships, core deposits and other intangible assets were as follows.

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| December 31, (in millions) | Gross amount | Accumulated amortization | Net carrying value | Gross amount | Accumulated amortization | Net carrying value |
| Purchased credit card relationships | **$ 249** | **$ 146** | **$ 103** | $ 243 | $ 121 | $ 122 |
| Other credit card–related intangibles | **828** | **252** | **576** | 816 | 159 | 657 |
| Core deposit intangibles | **4,280** | **3,401** | **879** | 4,280 | 3,073 | 1,207 |
| Other intangibles | **911** | **502** | **409** | 1,488 | 515 | 973 |

**Amortization expense**

Intangible assets of approximately $60 million, consisting primarily of asset management advisory contracts, were determined to have an indefinite life and are not amortized.

The following table presents amortization expense related to credit card relationships, core deposits and all other intangible assets.

| Year ended December 31, (in millions) | **2010** | 2009 | 2008 |
|---|---|---|---|
| Purchased credit card relationships | **$ 25** | $ 25 | $ 29 |
| All other intangibles: | | | |
| Other credit card–related intangibles | **93** | 84 | 23 |
| Core deposit intangibles | **328** | 390 | 469 |
| Other intangibles | **88** | 100 | 91 |
| **Total amortization expense** | **$ 534** | $ 599 | $ 612 |

**Future amortization expense**

The following table presents estimated future amortization expense related to credit card relationships, core deposits and all other intangible assets at December 31, 2010.

| Year ended December 31, (in millions) | Purchased credit card relationships | Other credit card-related intangibles | Core deposit intangibles | All other intangible assets | **Total** |
|---|---|---|---|---|---|
| 2011 | $ 24 | $ 96 | $ 284 | $ 65 | $ 469 |
| 2012 | 23 | 100 | 240 | 62 | 425 |
| 2013 | 21 | 101 | 195 | 59 | 376 |
| 2014 | 18 | 101 | 100 | 46 | 265 |
| 2015 | 17 | 95 | 25 | 28 | 165 |

*Impairment testing*

JPMorgan Chase Bank, N.A.'s intangible assets are tested for impairment if events or changes in circumstances indicate that the asset might be impaired, and, for intangible assets with indefinite lives, on an annual basis.

The impairment test for a finite-lived intangible asset compares the undiscounted cash flows associated with the use or disposition of the intangible asset to its carrying value. If the sum of the undiscounted cash flows exceeds its carrying value, then no impairment charge is recorded. If the sum of the undiscounted cash flows is less than its carrying value, then an impairment charge is recognized to the extent the carrying amount of the asset exceeds its fair value.

The impairment test for indefinite-lived intangible assets compares the fair value of the intangible asset to its carrying amount. If the carrying value exceeds the fair value, then an impairment charge is recognized for the difference.

## Note 19 – Premises and equipment

Premises and equipment, including leasehold improvements, are carried at cost less accumulated depreciation and amortization. JPMorgan Chase Bank, N.A. computes depreciation using the straight-line method over the estimated useful life of an asset. For leasehold improvements, JPMorgan Chase Bank, N.A. uses the straight-line method computed over the lesser of the remaining term of the leased facility or the estimated useful life of the leased asset. JPMorgan Chase Bank, N.A. has recorded immaterial asset retirement obligations related to asbestos remediation in those cases where it has sufficient information to estimate the obligations' fair value.

JPMorgan Chase Bank, N.A. capitalizes certain costs associated with the acquisition or development of internal-use software. Once the software is ready for its intended use, these costs are amortized on a straight-line basis over the software's expected useful life and reviewed for impairment on an ongoing basis.

## Note 20 – Deposits

At December 31, 2010 and 2009, noninterest-bearing and interest-bearing deposits were as follows.

| December 31, (in millions) | 2010 | 2009 |
|---|---|---|
| **U.S. offices** | | |
| Noninterest-bearing | **$ 230,412** | $ 205,723 |
| Interest-bearing: | | |
| Demand[a] | **41,640** | 15,957 |
| Savings[b] | **334,620** | 297,942 |
| Time (included $2,691 and $1,463 at fair value at December 31, 2010 and 2009, respectively)[c] | **66,776** | 110,605 |
| **Total interest-bearing deposits** | **443,036** | 424,504 |
| **Total deposits in U.S. offices** | **673,448** | 630,227 |
| **Non-U.S. offices** | | |
| Noninterest-bearing | **11,002** | 8,273 |
| Interest-bearing: | | |
| Demand | **246,119** | 257,055 |
| Savings | **607** | 660 |
| Time (included $1,636 and $2,992 at fair value at December 31, 2010 and 2009, respectively)[c] | **88,817** | 127,821 |
| **Total interest-bearing deposits** | **335,543** | 385,536 |
| **Total deposits in non-U.S. offices** | **346,545** | 393,809 |
| **Total deposits** | **$ 1,019,993** | $ 1,024,036 |

(a) 2010 and 2009 includes Negotiable Order of Withdrawal ("NOW") accounts. 2010 includes certain trust accounts.
(b) Includes Money Market Deposit Accounts ("MMDAs").
(c) See Note 5 on pages 29–31 of these Consolidated Financial Statements for further information on structured notes classified as deposits for which the fair value option has been elected.

At December 31, 2010 and 2009, time deposits in denominations of $100,000 or more were as follows.

| December 31, (in millions) | 2010 | 2009 |
|---|---|---|
| U.S. | **$ 40,628** | $ 77,400 |
| Non-U.S. | **72,627** | 105,958 [a] |
| **Total** | **$ 113,255** | $ 183,358 [a] |

(a) The prior period amount has been revised.

At December 31, 2010, the maturities of interest-bearing time deposits were as follows.

| December 31, 2010 (in millions) | U.S. | Non-U.S. | Total |
|---|---|---|---|
| 2011 | $ 51,469 | $ 73,602 | $ 125,071 |
| 2012 | 7,382 | 2,447 | 9,829 |
| 2013 | 4,281 | 3,523 | 7,804 |
| 2014 | 1,432 | 4,335 | 5,767 |
| 2015 | 2,074 | 2,796 | 4,870 |
| After 5 years | 138 | 2,114 | 2,252 |
| **Total** | $ 66,776 | $ 88,817 | $ 155,593 |

On November 21, 2008, the FDIC released final rules on the FDIC Temporary Liquidity Guarantee Program (the "TLG Program"). One component of this program, the Transaction Account Guarantee Program (the "TAG Program"), provided unlimited deposit insurance through December 31, 2009, on certain noninterest-bearing transaction accounts at FDIC-insured participating institutions. JPMorgan Chase Bank, N.A. elected to participate in the TLG Program and, as a result, was required to pay additional insurance premiums to the FDIC in an amount equal to an annualized 10 basis points on balances in noninterest-bearing transaction accounts that exceeded the $250,000 FDIC deposit insurance limits. The expiration date of the program was extended to December 31, 2010, to provide continued support to those institutions most affected by the financial crisis and to enable the program to be phased-out in an orderly manner. Beginning January 1, 2010, JPMorgan Chase Bank, N.A. no longer participated in the TAG Program. As a result, funds held in noninterest-bearing transaction accounts after December 31, 2009, were no longer guaranteed in full. Instead, they are insured up to $250,000 under the FDIC's general deposit rules.

## Note 21 – Other borrowed funds

The following table details the components of other borrowed funds.

| December 31, (in millions) | 2010 | 2009 |
|---|---|---|
| Advances from Federal Home Loan Banks[a] | **$ 4,284** | $ 22,847 |
| Other | **23,119** | 21,082 |
| **Total**[b][c] | **$ 27,403** | $ 43,929 |

(a) Advances from the FHLBs of $2.6 billion, $20 million, $723 million, $25 million and $5 million matures in each of the 12-month periods ending December 31, 2011, 2012, 2013, 2014, and 2015, respectively, and $928 million matures after December 31, 2015.
(b) Includes other borrowed funds of $7.1 billion and $4.8 billion accounted for at fair value at December 31, 2010 and 2009, respectively. See Note 4 on pages 12–29 of these Consolidated Financial Statements for further information.
(c) Includes other borrowed funds of $16.3 billion and $24.9 billion secured by assets totaling $77.3 billion and $134.2 billion at December 31, 2010 and 2009, respectively.

As of December 31, 2010 and 2009 JPMorgan Chase Bank, N.A. had no significant lines of credit for general corporate purposes.

## Note 22 – Long-term debt

JPMorgan Chase Bank, N.A. issues long-term debt denominated in various currencies, although predominantly U.S. dollars, with both fixed and variable interest rates. Included in senior debt below are various equity-linked or other indexed instruments, which JPMorgan Chase Bank, N.A. has elected to measure at fair value. These hybrid securities are classified in the line item of the host contract on the Consolidated Balance Sheets. Changes in fair value are recorded in principal transactions revenue in the Consolidated Statements of Income. The following table is a summary of long-term debt carrying values (including unamortized original issue discount, valuation adjustments and fair value adjustments, where applicable) by remaining contractual maturity as of December 31, 2010.

| By remaining maturity at December 31, 2010 (in millions, except rates) | | 2010 Under 1 year | 2010 1–5 years | 2010 After 5 years | 2010 Total | 2009 Total |
|---|---|---|---|---|---|---|
| **Long-term debt issued to unrelated parties** | | | | | | |
| Senior debt: | Fixed rate | **$ 488** | **$ 1,714** | **$ 2,705** | **$ 4,907** | $ 3,145 |
| | Variable rate | **6,475** | **17,262** | **5,792** | **29,529** | 36,620 |
| | Interest rates[a] | **0.26–0.30%** | **0.21–3.75%** | **0.32–14.21%** | **0.21–14.21%** | 0.16–14.21% |
| Subordinated debt: | Fixed rate | **$ —** | **$ —** | **$ 8,605** | **$ 8,605** | $ 8,655 |
| | Variable rate | **—** | **—** | **1,150** | **1,150** | 1,150 |
| | Interest rates[a] | **—%** | **—%** | **0.63–8.25%** | **0.63–8.25%** | 0.58–8.25% |
| | **Subtotal** | **$ 6,963** | **$ 18,976** | **$ 18,252** | **$ 44,191** | $ 49,570 |
| **Long-term debt payable to JPMorgan Chase & Co. and affiliates** | | | | | | |
| Subordinated debt: | Fixed rate | **$ —** | **$ 4,500** | **$ —** | **$ 4,500** | $ 4,500 |
| | Variable rate | **—** | **—** | **14,009** | **14,009** | 14,009 |
| | Interest rates[a] | **—%** | **5.75%** | **0.66–1.11%** | **0.66–5.75%** | 0.87–5.75% |
| | **Subtotal** | **$ —** | **$ 4,500** | **$ 14,009** | **$ 18,509** | $ 18,509 |
| **Junior subordinated debt payable to affiliates:** | Fixed rate | **$ —** | **$ —** | **$ 600** | **$ 600** | $ 600 |
| | Variable rate | **—** | **—** | **—** | **—** | — |
| | Interest rates[a] | **—%** | **—%** | **7.00–8.20%** | **7.00–8.20%** | 7.00–8.20% |
| | **Subtotal** | **$ —** | **$ —** | **$ 600** | **$ 600** | $ 600 |
| **Total long-term debt**[b][c][d] | | **$ 6,963** | **$ 23,476** | **$ 32,861** | **$ 63,300**[f][g] | $ 68,679 |
| **Long-term beneficial interests:** | | | | | | |
| | Fixed rate | **$ —** | **$ 568** | **$ 90** | **$ 658** | $ 272 |
| | Variable rate | **—** | **401** | **3,401** | **3,802** | 2,979 |
| | Interest rates | **—%** | **0.25–11.00%** | **0.05–1.00%** | **0.05–11.00%** | 0.25–7.00% |
| **Total long-term beneficial interests**[e] | | **$ —** | **$ 969** | **$ 3,491** | **$ 4,460** | $ 3,251 |

(a) The interest rates shown are the range of contractual rates in effect at year-end, including non-U.S. dollar fixed- and variable-rate issuances, which excludes the effects of the associated derivative instruments used in hedge accounting relationships, if applicable. The use of these derivative instruments modifies JPMorgan Chase Bank, N.A.'s exposure to the contractual interest rates disclosed in the table above. Including the effects of the hedge accounting derivatives, the range of modified rates in effect at December 31, 2010, for total long-term debt was 0.21% to 14.21%, versus the contractual range of 0.21% to 14.21% presented in the table above. The interest rate ranges shown exclude structured notes accounted for at fair value.
(b) Included long-term debt of $8.2 billion and $7.5 billion secured by assets totaling $11.6 billion and $11.4 billion at December 31, 2010 and 2009, respectively. Excludes amounts related to hybrid instruments.
(c) Included $20.8 billion and $27.9 billion of outstanding structured notes accounted for at fair value at December 31, 2010 and 2009, respectively.
(d) Included $639 million and $3.2 billion of outstanding zero-coupon notes at December 31, 2010, and 2009, respectively. The aggregate principal amount of these notes at their respective maturities was $2.0 billion and $5.9 billion, respectively.
(e) Included on the Consolidated Balance Sheets in beneficial interests issued by consolidated VIEs. Also included $354 million and $736 million of outstanding structured notes accounted for at fair value at December 31, 2010, and 2009, respectively. Excluded short-term commercial paper and other short-term beneficial interests of $21.6 billion and $5.1 billion at December 31, 2010 and 2009, respectively.
(f) At December 31, 2010, long-term debt aggregating $9.2 billion was redeemable at the option of JPMorgan Chase Bank, N.A., in whole or in part, prior to maturity, based on the terms specified in the respective notes.
(g) The aggregate carrying values of debt that matures in each of the five years subsequent to 2010 is $7.0 billion in 2011, $9.5 billion in 2012, $3.0 billion in 2013, $9.0 billion in 2014 and $2.1 billion in 2015.

The weighted-average contractual interest rates for total long-term debt excluding structured notes accounted for at fair value were 2.36% and 2.45% as of December 31, 2010 and 2009, respectively. In order to modify exposure to interest rate and currency exchange rate movements, JPMorgan Chase Bank, N.A. utilizes derivative instruments, primarily interest rate and cross-currency interest rate swaps, in conjunction with some of its debt issues. The use of these instruments modifies JPMorgan Chase Bank, N.A.

interest expense on the associated debt. The modified weighted-average interest rates for total long-term debt, including the effects of related derivative instruments, were 1.68% and 1.70% as of December 31, 2010 and 2009, respectively.

JPMorgan Chase Bank, N.A. has guaranteed certain debt of its subsidiaries, including both long-term debt and structured notes sold as part of JPMorgan Chase Bank, N.A.'s market-making activities. These guarantees rank on parity with all of JPMorgan Chase Bank, N.A.'s other unsecured and unsubordinated indebtedness. Guaranteed liabilities totaled $13.5 billion and $21.0 billion at December 31, 2010 and 2009, respectively.

JPMorgan Chase Bank, N.A. 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 JPMorgan Chase Bank, N.A. credit ratings, financial ratios or earnings.

**Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities**

At December 31, 2010, JPMorgan Chase Bank, N.A. had established two wholly-owned Delaware statutory business trusts ("issuer trusts") that had issued guaranteed capital debt securities.

The junior subordinated deferrable interest debentures issued by JPMorgan Chase Bank, N.A. to the issuer trusts, totaling $600 million at both December 31, 2010 and 2009, respectively, were reflected in JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets in long-term debt, and in the table on the preceding page under the caption "Junior subordinated debt" (i.e., trust preferred capital debt securities). JPMorgan Chase Bank, N.A. also records the common capital securities issued by the issuer trusts in other assets on the Consolidated Balance Sheets at December 31, 2010, and 2009. The debentures issued to the issuer trusts by JPMorgan Chase Bank, N.A., less the common capital securities of the issuer trusts, qualified as Tier 1 capital as of December 31, 2010.

The following is a summary of the outstanding trust preferred capital debt securities, including unamortized original issue discount, issued by each trust, and the junior subordinated deferrable interest debenture issued to each trust, as of December 31, 2010.

| December 31, 2010 (in millions) | Amount of trust preferred capital debt securities issued by trust (a) | Issue date | Stated maturity of trust preferred capital securities and debentures | Earliest redemption date | Interest rate of trust preferred capital securities and debentures | Interest payment/ distribution dates |
|---|---|---|---|---|---|---|
| Bank One Capital I, LLC | $ 300 | 2000 | 2030 | Any time | 8.20% | Semiannually |
| Bank One Capital II, LLC | 300 | 2002 | 2032 | Any time | 7.00% | Semiannually |
| **Total** | $ 600 | | | | | |

(a) Represents the amount of trust preferred capital debt securities issued to the public by each trust, including unamortized original issue discount.

## Note 23 – Related party transactions

JPMorgan Chase Bank, N.A. regularly enters into transactions with JPMorgan Chase and its various subsidiaries.

Significant revenue- and expense-related transactions with related parties are listed below.

| Year ended December 31, (in millions) | **2010** | 2009 | 2008 |
|---|---|---|---|
| **Interest income from affiliates** | | | |
| Deposits with affiliated banks | **$ 8** | $ 10 | $ 18 |
| Available-for-sale securities with affiliates | **93** | — | — |
| Federal funds sold and securities purchased under resale agreements, and securities borrowed with affiliates | **30** | 40 | 1,759 |
| Loans to affiliates | **27** | 30 | 53 |
| **Interest expense to affiliates** | | | |
| Interest-bearing deposits of affiliates | **298** | 457 | 2,117 |
| Federal funds purchased and securities loaned or sold under repurchase agreements, and other borrowed funds due to affiliates | **133** | 319 | 2,415 |
| Long-term debt payable to JPMorgan Chase & Co. and affiliates | **396** | 580 | 772 |
| Guaranteed capital debt securities issued to nonbank affiliates | **46** | 46 | 46 |
| **Servicing agreements and fee arrangements with affiliates** | | | |
| Noninterest revenue | **3,976** | 3,362 | 3,534 |
| Noninterest expense | **4,006** | 4,596 | 4,638 |

Significant balances with related parties are listed below.

| December 31, (in millions) | **2010** | 2009 |
|---|---|---|
| **Assets** | | |
| Deposits with affiliated banks | **$ 1,059** | $ 748 |
| Available-for-sale securities with affiliates | **1,248** | — |
| Federal funds sold and securities purchased under resale agreements, and securities borrowed with affiliates | **57,932** | 64,253 |
| Loans to affiliates | **2,213** | 2,651 |
| Accrued interest and accounts receivable, and other assets due from affiliates | **17,040** | 8,573 |
| **Liabilities** | | |
| Noninterest-bearing deposits of affiliates | **2,158** | 2,057 |
| Interest-bearing deposits of affiliates | **102,883** | 107,751 |
| Federal funds purchased and securities loaned or sold with affiliates under repurchase agreements, and other borrowed funds due to affiliates | **48,204** | 40,684 |
| Accounts payable and other liabilities payable to affiliates | **5,216** | 4,025 |
| Long-term debt payable to JPMorgan Chase & Co. and affiliates | **18,509** | 18,870 |
| Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities to nonblank affiliates | **600** | 600 |

At December 31, 2010 and 2009, net derivative payables to affiliates were $7.3 billion and $7.6 billion, respectively.

## Note 24 – Accumulated other comprehensive income/(loss)

Accumulated other comprehensive income/(loss) includes the after-tax change in unrealized gains/(losses) on AFS securities, foreign currency translation adjustments (including the impact of related derivatives), cash flow hedging activities and net loss and prior service costs/(credit) related to JPMorgan Chase Bank, N.A.'s defined benefit pension and OPEB plans.

| As of or for the year ended December 31, (in millions) | Unrealized gains/(losses) on AFS securities[b] | Translation adjustments, net of hedges | Cash flow hedges | Net loss and prior service costs/(credit) of defined benefit pension and OPEB plans | Accumulated other comprehensive income/(loss) |
|---|---|---|---|---|---|
| Balance at December 31, 2007 | $ 376 | $ 17 | $ (816) | $ (263) | $ (686) |
| Net change | (2,191)[c] | (237) | 577 | (44) | (1,895) |
| Balance at December 31, 2008 | (1,815) | (220) | (239) | (307) | (2,581) |
| Net change | 3,634[d] | 347 | 364 | (126) | 4,219 |
| Balance at December 31, 2009 | 1,819[e] | 127 | 125 | (433) | 1,638 |
| Cumulative effect of changes in accounting principles[a] | (38) | — | — | — | (38) |
| Net change | **670[f]** | **263** | **293** | **50** | **1,276** |
| **Balance at December 31, 2010** | **$ 2,451[e]** | **$ 390** | **$ 418** | **$ (383)** | **$ 2,876** |

(a) Reflects the effect of adoption of new accounting guidance related to the consolidation of VIEs, and to embedded credit derivatives in beneficial interests in securitized financial assets. AOCI decreased by $23 million due to the adoption of the new accounting guidance related to VIEs as a result of the reversal of the fair value adjustments taken on retained AFS securities that were eliminated in consolidation; for further discussion see Note 17 on pages 82–97 of these Consolidated Financial Statements. AOCI decreased by $15 million due to the adoption of the new guidance related to credit derivatives embedded in certain of JPMorgan Chase Bank, N.A.'s AFS securities; for further discussion, see Note 7 on pages 33–41 of these Consolidated Financial Statements.
(b) Represents the after-tax difference between the fair value and amortized cost of the AFS securities portfolio and retained interests in securitizations recorded in other assets.
(c) The net change during 2008 was due primarily to spread widening related to credit card asset-backed securities, nonagency MBS and collateralized loan obligations.
(d) The net change during 2009 was due primarily to overall market spread and market liquidity improvement as well as changes in the composition of investments.
(e) Includes after-tax unrealized losses of $(81) million and $(226) million not related to credit on debt securities for which credit losses have been recognized in income at December 31, 2010 and 2009, respectively.
(f) The net change during 2010 was due primarily to the narrowing of spreads on commercial and nonagency MBS as well as on collateralized loan obligations; also reflects increased market value on pass-through MBS due to narrowing of spreads and other market factors.

The following table presents the before- and after-tax changes in net unrealized gains/(losses) arising during the period and reclassification adjustments for realized (gains)/losses on AFS securities and cash flow hedges; changes resulting from foreign currency translation adjustments (including the impact of related derivatives); net gains/(losses) and prior service costs/(credits) from pension and OPEB plans and amortization of pension and OPEB amounts into net income. Reclassification adjustments include amounts recognized in net income that had been recorded previously in other comprehensive income/(loss).

| | **2010** | | | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|---|---|---|
| Year ended December 31, (in millions) | Before tax | Tax effect | After tax | Before tax | Tax effect | After tax | Before tax | Tax effect | After tax |
| **Unrealized gains/(losses) on AFS securities:** | | | | | | | | | |
| Net unrealized gains/(losses) arising during the period | **$ 4,051** | **$ (1,547)** | **$ 2,504** | $ 7,309 | $ (2,824) | $ 4,485 | $ (2,599) | $ 996 | $ (1,603) |
| Reclassification adjustment for realized (gains)/losses included in net income | **(2,992)** | **1,158** | **(1,834)** | (1,388) | 537 | (851) | (977) | 389 | (588) |
| **Net change** | **1,059** | **(389)** | **670** | 5,921 | (2,287) | 3,634 | (3,576) | 1,385 | (2,191) |
| **Translation adjustments:** | | | | | | | | | |
| Translation | **491** | **(179)** | **312** | 931 | (346) | 585 | (1,109) | 416 | (693) |
| Hedges | **(82)** | **33** | **(49)** | (389) | 151 | (238) | 758 | (302) | 456 |
| **Net change** | **409** | **(146)** | **263** | 542 | (195) | 347 | (351) | 114 | (237) |
| **Cash flow hedges:** | | | | | | | | | |
| Net unrealized gains/(losses) arising during the period | **671** | **(260)** | **411** | 723 | (284) | 439 | 570 | (227) | 343 |
| Reclassification adjustment for realized (gains)/losses included in net income | **(192)** | **74** | **(118)** | (122) | 47 | (75) | 389 | (155) | 234 |
| **Net change** | **479** | **(186)** | **293** | 601 | (237) | 364 | 959 | (382) | 577 |
| **Net gains (losses) and prior service cost/(credits) of defined benefit pension and OPEB plans:** | | | | | | | | | |
| Net gains/(losses) and prior service credits arising during the period | **26** | **(11)** | **15** | (240) | 89 | (151) | (101) | 41 | (60) |
| Reclassification adjustment for net loss and prior service credits included in net income | **58** | **(23)** | **35** | 48 | (23) | 25 | 27 | (11) | 16 |
| **Net change** | **84** | **(34)** | **50** | (192) | 66 | (126) | (74) | 30 | (44) |
| **Total other comprehensive income/(loss)** | **$ 2,031** | **$ (755)** | **$ 1,276** | $ 6,872 | $ (2,653) | $ 4,219 | $ (3,042) | $ 1,147 | $ (1,895) |

## Note 25 – Income taxes

The results of operations of JPMorgan Chase Bank, N.A. are included in the consolidated federal, combined New York State and New York City, and certain other state income tax returns filed by JPMorgan Chase. A tax sharing arrangement between JPMorgan Chase and JPMorgan Chase Bank, N.A. requires intercompany payments to or from JPMorgan Chase for outstanding current tax assets and liabilities. JPMorgan Chase allocates to JPMorgan Chase Bank, N.A. its share of the consolidated and combined income tax expense or benefit based upon statutory rates applied to JPMorgan Chase Bank, N.A.'s earnings as if it were filing separate income tax returns.

JPMorgan Chase Bank, N.A. uses the asset and liability method to provide income taxes on all transactions recorded in the Consolidated Financial Statements. This method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book and tax purposes. Accordingly, a deferred tax asset or liability for each temporary difference is determined based upon the tax rates that JPMorgan Chase Bank, N.A. expects to be in effect when the underlying items of income and expense are realized. JPMorgan Chase Bank, N.A.'s expense for income taxes includes the current and deferred portions of that expense. A valuation allowance is established to reduce deferred tax assets to the amount JPMorgan Chase Bank, N.A. expects to realize.

Due to the inherent complexities arising from the nature of JPMorgan Chase Bank, N.A.'s businesses, and from conducting business and being taxed in a substantial number of jurisdictions, significant judgments and estimates are required to be made. Agreement of tax liabilities between JPMorgan Chase Bank, N.A. and the many tax jurisdictions in which JPMorgan Chase Bank, N.A. files tax returns may not be finalized for several years. Thus, JPMorgan Chase Bank, N.A.'s final tax-related assets and liabilities may ultimately be different from those currently reported.

The components of income tax expense/(benefit) included in the Consolidated Statements of Income were as follows for each of the years ended December 31, 2010, 2009 and 2008.

| Year ended December 31, (in millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Current income tax expense** | | | |
| U.S. federal | **$ 2,943** | $ 3,429 | $ 4,034 |
| Non-U.S. | **2,343** | 2,251 | 792 |
| U.S. state and local | **596** | 1,198 | 815 |
| **Total current income tax expense** | **5,882** | 6,878 | 5,641 |
| **Deferred income tax (benefit)** | | | |
| U.S. federal | **(1,829)** | (2,401) | (3,164) |
| Non-U.S. | **168** | (478) | 10 |
| U.S. state and local | **(290)** | (460) | 224 |
| **Total deferred income tax (benefit)** | **(1,951)** | (3,339) | (2,930) |
| **Total income tax expense before extraordinary gain** | **$ 3,931** | $ 3,539 | $ 2,711 |

Total income tax expense includes $485 million, $218 million and $55 million of tax benefits recorded in 2010, 2009 and 2008, respectively, as a result of tax audit resolutions.

The preceding table does not reflect the tax effect of certain items that are recorded each period directly in stockholder's equity. The tax effect of all items recorded directly to stockholder's equity resulted in a decrease of $719 and $2.7 billion in 2010 and 2009, respectively, and an increase of $1.1 billion in 2008.

U.S. federal income taxes have not been provided on the undistributed earnings of certain non-U.S. subsidiaries, to the extent that such earnings have been reinvested abroad for an indefinite period of time. During 2008, as part of JPMorgan Chase Bank, N.A.'s periodic review of the business requirements and capital needs of its non-U.S. subsidiaries, combined with the formation of specific strategies and steps taken to fulfill these requirements and needs, JPMorgan Chase Bank, N.A. determined that the undistributed earnings of certain of its subsidiaries, for which U.S. federal income taxes had been provided, would be indefinitely reinvested to fund the current and future growth of the related businesses. As management does not intend to use the earnings of these subsidiaries as a source of funding for its U.S. operations, such earnings will not be distributed to the U.S. in the foreseeable future. This determination resulted in the release of deferred tax liabilities and the recognition of an income tax benefit of $1.1 billion associated with these undistributed earnings in 2008. For 2010, pretax earnings of approximately $3.5 billion were generated that will be indefinitely reinvested in these subsidiaries. At December 31, 2010, the cumulative amount of undistributed pretax earnings in these subsidiaries approximated $19.2 billion. If JPMorgan Chase Bank, N.A. were to record a deferred tax liability associated with these undistributed earnings, the amount would be $4.3 billion at December 31, 2010.

Tax expense applicable to securities gains and losses for the years 2010, 2009 and 2008 was $1.2 billion, $531 million, and $529 million, respectively.

A reconciliation of the applicable statutory U.S. income tax rate to the effective tax rate for each of the years ended December 31, 2010, 2009 and 2008, is presented in the following table.

| Year ended December 31, | 2010 | 2009 | 2008 |
|---|---|---|---|
| Statutory U.S. federal tax rate | **35.0%** | 35.0% | 35.0% |
| Increase/(decrease) in tax rate resulting from: | | | |
| U.S. state and local income taxes, net of U.S. federal income tax benefit | **1.3** | 4.0 | 6.0 |
| Tax-exempt income | **(1.6)** | (2.0) | (0.8) |
| Non-U.S. subsidiary earnings[a] | **(4.4)** | (3.8) | (13.2) |
| Business tax credits | **(4.2)** | (5.0) | (3.4) |
| Other, net | **(1.2)** | 1.6 | 0.6 |
| **Effective tax rate** | **24.9%** | 29.8% | 24.2% |

(a) Includes earnings deemed to be reinvested indefinitely in non-U.S. subsidiaries.

Deferred income tax expense/(benefit) results from differences between assets and liabilities measured for financial reporting versus income-tax return purposes. Deferred tax assets are recognized if, in management's judgment, their realizability is determined to be more likely than not. If a deferred tax asset is determined to be unrealizable, a valuation allowance is established. The significant components of deferred tax assets and liabilities are reflected in the following table as of December 31, 2010 and 2009.

| December 31, (in millions) | 2010 | 2009 |
|---|---|---|
| **Deferred tax assets** | | |
| Allowance for loan losses | **$ 8,954** | $ 9,650 |
| Employee benefits | **1,371** | 1,463 |
| Allowance for other than loan losses | **3,958** | 2,428 |
| Non-U.S. operations | **—** | 727 |
| Fee income | **67** | — |
| Fair value adjustments[a] | **13** | 52 |
| Other, net | **613** | 354 |
| **Gross deferred tax assets** | **$ 14,976** | $ 14,674 |
| **Deferred tax liabilities** | | |
| Depreciation and amortization | **$ 2,360** | $ 4,683 |
| Leasing transactions | **1,912** | 1,658 |
| Non-U.S. operations | **2,457** | 1,129 |
| Fee income | **—** | 639 |
| **Gross deferred tax liabilities** | **$ 6,729** | $ 8,109 |
| Valuation allowance | **825** | 532 |
| **Net deferred tax asset** | **$ 7,422** | $ 6,033 |

A valuation allowance has been recorded for certain state and local tax benefits.

At December 31, 2010, 2009 and 2008, JPMorgan Chase Bank, N.A.'s unrecognized tax benefits, excluding related interest expense and penalties, were $4.6 billion, $4.1 billion and $3.7 billion, respectively, of which $1.9 billion, $1.7 billion and $1.5 billion, respectively, if recognized, would reduce the annual effective tax rate. As JPMorgan Chase Bank, N.A. is presently under audit by a number of tax authorities, it is reasonably possible that significant changes in the gross balance of unrecognized tax benefits may occur within the next 12 months. JPMorgan Chase Bank, N.A. does not expect that any changes over the next twelve months in its gross balance of unrecognized tax benefits caused by such audits would result in a significant change in its annual effective tax rate.

The following table presents a reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2010, 2009 and 2008.

**Unrecognized tax benefits**

| Year ended December 31, (in millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| Balance at January 1, | **$ 4,076** | $ 3,661 | $ 3,255 |
| Increases based on tax positions related to the current period | **471** | 322 | 676 |
| Decreases based on tax positions related to the current period | **(5)** | (6) | (57) |
| Increases based on tax positions related to prior periods | **1,537** | 301 | 319 |
| Decreases based on tax positions related to prior periods | **(1,345)** | (115) | (501) |
| Decreases related to settlements with taxing authorities | **(70)** | (45) | (19) |
| Decreases related to a lapse of applicable statute of limitations | **(39)** | (42) | (12) |
| **Balance at December 31,** | **$ 4,625** | $ 4,076 | $3,661 |

After-tax interest expense/(benefit) and penalties related to income tax liabilities recognized in income tax expense were $(74) million, $196 million and $209 million in 2010, 2009 and 2008, respectively.

Included in accounts payable and other liabilities at December 31, 2010 and 2009, in addition to JPMorgan Chase Bank, N.A.'s liability for unrecognized tax benefits, was $1.4 billion and $1.6 billion, respectively, for income tax-related interest and penalties.

JPMorgan Chase Bank, N.A. is subject to ongoing tax examinations by the tax authorities of the various jurisdictions in which it operates, including U.S. federal, state and local, and non-U.S. jurisdictions. JPMorgan Chase Bank, N.A.'s consolidated federal income tax returns are presently under examination by the Internal Revenue Service ("IRS") for the years 2003, 2004 and 2005. This examination is expected to conclude in 2011.

The IRS audits of the consolidated federal income tax returns of JPMorgan Chase Bank, N.A. for the years 2006, 2007 and 2008 are expected to commence in 2011. Administrative appeals are pending with the IRS relating to prior periods that were examined for JPMorgan Chase Bank, N.A. and for certain of its predecessor entities. For 2002 and prior years, refund claims relating to income and credit adjustments, and to tax attribute carrybacks, for JPMorgan Chase Bank, N.A. have been filed. Refund claims have been filed for Bank One for the period January 1, 2004, through July 31, 2004, and for prior years primarily to reflect income adjustments.

The following table presents the U.S. and non-U.S. components of income before income tax expense and extraordinary gain for the years ended December 31, 2010, 2009 and 2008.

| Year ended December 31, (in millions) | 2010 | 2009 | 2008 |
|---|---|---|---|
| U.S. | **$ 9,909** | $ 3,013 | $ 4,218 |
| Non-U.S.[a] | **5,848** | 8,872 | 7,006 |
| **Income before income tax expense and extraordinary gain** | **$ 15,757** | $ 11,885 | $ 11,224 |

(a) For purposes of this table, non-U.S. income is defined as income generated from operations located outside the U.S.

## Note 26 – Restrictions on cash and intercompany funds transfers

The business of JPMorgan Chase Bank, National Association ("JPMorgan Chase Bank, N.A.") is subject to examination and regulation by the OCC. JPMorgan Chase Bank, N.A. is a member of the U.S. Federal Reserve System, and its deposits in the U.S. are insured by the FDIC.

The Board of Governors of the Federal Reserve System (the "Federal Reserve") requires depository institutions to maintain cash reserves with a Federal Reserve Bank. The average amount of reserve balances deposited by JPMorgan Chase Bank, N.A. with various Federal Reserve Banks was approximately $803 million and $821 million in 2010 and 2009, respectively.

Restrictions imposed by U.S. federal law prohibit JPMorgan Chase Bank, N.A. and certain of its affiliates from borrowing from banking

subsidiaries unless the loans are secured in specified amounts. Such secured loans are generally limited to 10% of the banking subsidiary's total capital, as determined by the risk-based capital guidelines; the aggregate amount of all such loans is limited to 20% of the banking subsidiary's total capital.

In addition to dividend restrictions set forth in statutes and regulations, the OCC, the FDIC and the Federal Reserve have authority under the Financial Institutions Supervisory Act to prohibit or to limit the payment of dividends by the banking organizations they supervise, including JPMorgan Chase Bank, N.A. if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization.

At January 1, 2011, JPMorgan Chase Bank, N.A. could pay zero in dividends to JPMorgan Chase without the prior approval of its relevant banking regulators. The capacity to pay dividends in 2011 will be supplemented by JPMorgan Chase Bank, N.A.'s earnings during the year.

In compliance with rules and regulations established by U.S. and non-U.S. regulators, as of December 31, 2010 and 2009, cash in the amount of $15.5 billion and $14.6 billion, respectively, and securities with a fair value of $2.3 million and $1.7 million, respectively, were segregated in special bank accounts for the benefit of securities and futures brokerage customers.

## Note 27 – Capital

JPMorgan Chase Bank, N.A.'s banking regulator, the OCC, establishes capital requirements, including well-capitalized standards for national banks.

There are two categories of risk-based capital: Tier 1 capital, and Tier 2 capital. Tier 1 capital consists of common stockholder's equity, perpetual preferred stock, noncontrolling interests in subsidiaries and trust preferred capital debt securities, less goodwill and certain other adjustments. 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 risk-weighted assets. Total capital is Tier 1 capital plus Tier 2 capital. Under the risk-based capital guidelines of the OCC, JPMorgan Chase Bank, N.A. is required to maintain minimum ratios of Tier 1 and Total capital to risk-weighted assets, as well as minimum leverage ratios (which are defined as Tier 1 capital divided by adjusted quarterly average assets). Failure to meet these minimum requirements could cause the OCC and the Federal Reserve to take action. As of December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. was well-capitalized and met all capital requirements to which it was subject.

**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. 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 Bank, N.A. to implement Basel II.

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. The U.S. implementation timetable consists of the qualification period, starting no later than April 1, 2010, followed by a minimum transition period of three years. During the transition period, Basel II risk-based capital requirements cannot fall below certain floors based on current ("Basel I") regulations. JPMorgan Chase Bank, N.A. is currently in the qualification period and expects to be in compliance with all relevant Basel II rules within the established timelines.

**Basel III**

In addition to the Basel II Framework, on December 16, 2010, the Basel Committee finalized revisions to the Capital Accord ("Basel III"), which included 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.

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 / Basel III capital calculations.

JPMorgan Chase Bank, N.A. fully expects to be in compliance with the higher Basel III capital standards as announced by the Basel Committee when they become effective on January 1, 2019, as well as additional Dodd-Frank Act requirements when they are implemented. The Basel III revisions governing liquidity and capital requirements are subject to prolonged observation and transition periods. The observation period for the liquidity coverage ratio and term funding standards begins in 2011, with implementation in 2015 and 2018, respectively. The transition period for banks to meet the revised common equity requirement will begin in 2013, with implementation on January 1, 2019. JPMorgan Chase Bank, N.A. 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.

The following table presents the regulatory capital, assets and risk-based capital ratios for JPMorgan Chase Bank, N.A. at December 31, 2010 and 2009. These amounts are determined in accordance with regulations issued by the OCC and/or the Federal Reserve.

| December 31, (in millions, except ratios) | JPMorgan Chase Bank, N.A.[e] 2010 | 2009 | Well-capitalized ratios[e] | Minimum capital ratios[e] |
|---|---|---|---|---|
| **Regulatory capital** | | | | |
| Tier 1 | **$ 91,764** | $ 96,372 | | |
| Total | **130,444** | 136,646 | | |
| **Assets** | | | | |
| Risk-weighted[a][b] | **965,897** | 1,011,995 | | |
| Adjusted average[c] | **1,611,486** | 1,609,081 | | |
| **Capital ratios** | | | | |
| Tier 1 | **9.5%**[d] | 9.5% | 6.0% | 4.0% |
| Total | **13.5** | 13.5 | 10.0 | 8.0 |
| Tier 1 leverage | **5.7** | 6.0 | 5.0[f] | 3.0[g] |

(a) Risk-weighted assets 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 applicable 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. Risk-weighted assets also incorporate a measure for the market risk related to applicable trading assets—debt and equity instruments, and foreign exchange and commodity derivatives. The resulting risk-weighted values for each of the risk categories are then aggregated to determine total risk-weighted assets.
(b) Includes off–balance sheet risk-weighted assets at December 31, 2010 and 2009, of $274.2 billion and $312.3 billion, respectively.
(c) 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.
(d) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted new guidance that amended the accounting for the consolidation of VIEs, which resulted in a decrease in the Tier 1 capital ratio of 28 basis points. See Note 17 on pages 82–97 of these Consolidated Financial Statements for further information.
(e) As defined by the regulations issued by the OCC, FDIC, and Federal Reserve.
(f) Represents requirements for banking subsidiaries pursuant to regulations issued under the FDIC Improvement Act.
(g) 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 OCC and Federal Reserve.
Note: Rating agencies allow measures of capital to be adjusted upward for deferred tax liabilities, which have resulted from both nontaxable business combinations and from tax-deductible goodwill. JPMorgan Chase Bank, N.A. had deferred tax liabilities resulting from nontaxable business combinations totaling $458 million and $691 million at December 31, 2010 and 2009, respectively; and deferred tax liabilities resulting from tax-deductible goodwill of $958 million and $845 million at December 31, 2010 and 2009, respectively.

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

| December 31, (in millions) | 2010 | 2009 |
|---|---|---|
| **Tier 1 capital** | | |
| **Total stockholder's equity** | **$ 123,217** | $ 127,294 |
| Effect of certain items in accumulated other comprehensive income/(loss) excluded from Tier 1 capital | **(2,486)** | (1,510 ) |
| Qualifying hybrid securities and noncontrolling interests[a] | **783** | 1,019 |
| Less: Goodwill[b] | **26,389** | 26,665 |
| Fair value DVA on derivative and structured note liabilities related to JPMorgan Chase Bank, N.A.'s credit quality | **881** | 540 |
| Investments in certain subsidiaries and other | **1** | 1 |
| Other intangible assets[b] | **2,479** | 3,225 |
| **Total Tier 1 capital** | **91,764** | 96,372 |
| **Tier 2 capital** | | |
| Long-term debt and other instruments qualifying as Tier 2 | **26,415** | 27,359 |
| Qualifying allowance for credit losses | **12,230** | 12,866 |
| Adjustment for investments in certain subsidiaries and other | **35** | 49 |
| **Total Tier 2 capital** | **38,680** | 40,274 |
| **Total qualifying capital** | **$ 130,444** | $ 136,646 |

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

## Note 28 – Off–balance sheet lending-related financial instruments, guarantees and other commitments

JPMorgan Chase Bank, N.A. utilizes 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 JPMorgan Chase Bank, N.A.'s maximum possible credit risk should the counterparty draw upon the commitment or JPMorgan Chase Bank, N.A. 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. As a result, the total contractual amount of these instruments is not, in JPMorgan Chase Bank, N.A.'s view, representative of its actual future credit exposure or funding requirements.

To provide for the risk of loss inherent in wholesale and consumer (excluding credit card) related contracts, an allowance for credit losses on lending-related commitments is maintained. See Note 16 on pages 77–81 of these Consolidated Financial Statements for further discussion regarding the allowance for credit losses on lending-related commitments.

The following table summarizes the contractual amounts and carrying values of off-balance sheet lending-related financial instruments, guarantees and other commitments at December 31, 2010 and 2009. The amounts in the table below for credit card and home equity lending-related commitments represent the total available credit for these products. JPMorgan Chase Bank, N.A. has not experienced, and does not anticipate, that all available lines of credit for these products will be utilized at the same time. JPMorgan Chase Bank, N.A. can reduce or cancel credit card lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law. JPMorgan Chase Bank, N.A. 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 credit-worthiness of the borrower.

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

| | Contractual amount | | Carrying value[n] | |
|---|---|---|---|---|
| December 31, (in millions) | **2010** | 2009 | **2010** | 2009 |
| **Lending-related** | | | | |
| Consumer, excluding credit card: | | | | |
| Home equity — senior lien | **$ 13,533** | $ 19,246 | **$ —** | $ — |
| Home equity — junior lien | **25,643** | 37,231 | **—** | — |
| Prime mortgage | **1,266** | 1,654 | **—** | — |
| Subprime mortgage | **—** | — | **—** | — |
| Auto | **5,246** | 5,467 | **2** | 7 |
| Business banking | **9,702** | 9,040 | **4** | 5 |
| Student and other | **579** | 2,189 | **—** | — |
| **Total consumer, excluding credit card** | **55,969** | 74,827 | **6** | 12 |
| Credit card | **19,506** | 19,675 | **—** | — |
| **Total consumer** | **75,475** | 94,502 | **6** | 12 |
| Wholesale: | | | | |
| Other unfunded commitments to extend credit[a][b][c][d] | **199,604** | 191,063 | **348** | 355 |
| Asset purchase agreements[c][e] | **—** | 22,685 | **—** | 126 |
| Standby letters of credit and other financial guarantees[a][d][f][g] | **94,282** | 90,846 | **695** | 916 |
| Unused advised lines of credit | **44,232** | 35,236 | **—** | — |
| Other letters of credit[a][g] | **6,663** | 5,167 | **2** | 1 |
| **Total wholesale** | **344,781** | 344,997 | **1,045** | 1,398 |
| **Total lending-related** | **$ 420,256** | $ 439,499 | **$ 1,051** | $ 1,410 |
| **Other guarantees and commitments** | | | | |
| Securities lending indemnifications[h] | **$ 193,701** | $ 185,427 | **$ NA** | $ NA |
| Derivatives qualifying as guarantees[i] | **87,749** | 98,052[m] | **295** | 897[m] |
| Unsettled reverse repurchase and securities borrowing agreements | **32,332** | 31,685 | **—** | — |
| Equity investment commitments[j] | **969** | 738 | **—** | — |
| Other guarantees and commitments[k] | **3,766** | 3,671 | **(6)** | (6) |
| Building purchase commitments | **258** | — | **—** | — |
| Loan sale and securitization-related indemnifications: | | | | |
| Repurchase liability[l] | **NA** | NA | **3,000** | 1,449 |
| Loans sold with recourse | **10,162** | 12,637 | **147** | 260 |

(a) At December 31, 2010 and 2009, represents the contractual amount net of risk participations totaling $437 million and $540 million, respectively, for other unfunded commitments to extend credit; $22.4 billion and $24.6 billion, respectively, for standby letters of credit and other financial guarantees; and $1.1 billion and $690 million, respectively, for other letters of credit. In regulatory filings with the Federal Reserve Board these commitments are shown gross of risk participations.
(b) At December 31, 2010 and 2009, includes commitments to affiliates of $70 million and $92 million, respectively.
(c) Upon the adoption of the accounting guidance related to VIEs, $24.2 billion of lending-related commitments between JPMorgan Chase Bank, N.A. and JPMorgan Chase Bank, N.A.-administered multi-seller conduits were eliminated upon consolidation. The decrease in lending-related commitments was partially offset by the addition of $6.5 billion of unfunded commitments directly between the multi-seller conduits and clients; these unfunded commitments of the consolidated conduits are now included as off–balance sheet lending-related commitments of JPMorgan Chase Bank, N.A.
(d) Includes credit enhancements and bond and commercial paper liquidity commitments to U.S. states and municipalities, hospitals and other not-for-profit entities of $43.4 billion and $44.1 billion, at December 31, 2010 and 2009, respectively.
(e) The carrying value of asset purchase agreements of $126 million at December 31, 2009 was comprised of $18 million for the allowance for lending-related commitments; and $108 million for the guarantee liability and corresponding asset.
(f) At December 31, 2010 and 2009, includes unissued standby letters of credit commitments of $41.4 billion and $38.2 billion, respectively.
(g) At December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. held collateral relating to $37.7 billion and $31.5 billion, respectively, of standby letters of credit; and $2.1 billion and $1.3 billion, respectively, of other letters of credit.

(h) At December 31, 2010 and 2009, collateral held by JPMorgan Chase Bank, N.A. in support of securities lending indemnification agreements was $196.2 billion and $186.9 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.
(i) Represents notional amounts of derivatives qualifying as guarantees. The carrying value at December 31, 2010 and 2009, reflects derivative payables of $390 million and $974 million, respectively, less derivative receivables of $95 million and $77 million, respectively.
(j) At December 31, 2010 and 2009, includes commitments of $36 million and $57 million, respectively, related to investments that are generally fair valued at net asset value as discussed in Note 4 on pages 12–29 of these Consolidated Financial Statements.
(k) Amounts include letters of credit hedged by derivative transactions and manged on a market risk basis.
(l) Represents estimated repurchase liability related to indemnifications for breaches of representations and warranties in loan sale and securitization agreements. For additional information, see Loan sale and securitization-related indemnifications on pages 113–114 of this Note.
(m) The prior period has been revised to conform to current presentation.
(n) For lending-related products the carrying value represents the allowance for lending-related commitments and the fair value of the guarantee liability; for derivative-related products the carrying value represents the fair value. For all other products the carrying value represents the valuation reserve.

**Other unfunded commitments to extend credit**

Other unfunded commitments to extend credit are generally comprised of commitments for working capital and general corporate purposes as well as extensions of credit to support commercial paper facilities and bond financings in the event that those obligations cannot be remarketed to new investors.

Also included in other unfunded commitments to extend credit are commitments to noninvestment-grade counterparties in connection with leveraged and acquisition finance activities which were $5.8 billion and $6.8 billion at December 31, 2010 and 2009, respectively. For further information, see Note 4 and Note 5 on pages 12–29 and 29–31 respectively, of these Consolidated Financial Statements.

*Guarantees*

U.S. GAAP requires that a guarantor recognize, at the inception of a guarantee, a liability in an amount equal to the fair value of the obligation undertaken in issuing the guarantee. U.S. GAAP defines a guarantee as a contract that contingently requires the guarantor to pay a guaranteed party based upon: (a) changes in an underlying asset, liability or equity security of the guaranteed party; or (b) a third party's failure to perform under a specified agreement. JPMorgan Chase Bank, N.A. considers the following off–balance sheet lending-related arrangements to be guarantees under U.S. GAAP: certain asset purchase agreements, standby letters of credit and financial guarantees, securities lending indemnifications, certain indemnification agreements included within third-party contractual arrangements and certain derivative contracts.

As required by U.S. GAAP, JPMorgan Chase Bank, N.A. initially records guarantees at the inception date fair value of the obligation assumed (e.g., the amount of consideration received, the net present value of the premium receivable). For certain types of guarantees, JPMorgan Chase Bank, N.A. records this fair value amount in other liabilities with an offsetting entry recorded in cash (for premiums received), or other assets (for premiums receivable). Any premium receivable recorded in other assets is reduced as cash is received under the contract, and the fair value of the liability recorded at inception is amortized into income as lending- and deposit-related fees over the life of the guarantee contract. For indemnifications provided in sales agreements, a portion of the sale proceeds is allocated to the guarantee, which adjusts the gain or loss that would otherwise result from the transaction. For these indemnifications, the initial liability is amortized to income as JPMorgan Chase Bank, N.A.'s risk is reduced (i.e., over time or when the indemnification expires). Any contingent liability that exists as a result of issuing the guarantee or indemnification is recognized when it becomes probable and reasonably estimable. The contingent portion of the liability is not recognized if the estimated amount is less than the carrying amount of the liability recognized at inception (adjusted for any amortization). The recorded amounts of the liabilities related to guarantees and indemnifications at December 31, 2010 and 2009, excluding the allowance for credit losses on lending-related commitments, are discussed below in this Note on pages 111–115 and in footnote (e) to the table above.

**Standby letters of credit**

Standby letters of credit ("SBLC") and other financial guarantees are conditional lending commitments issued by JPMorgan Chase Bank, N.A. to guarantee the performance of a customer to a third party under certain arrangements, such as commercial paper facilities, bond financings, acquisition financings, trade and similar transactions. The carrying values of standby and other letters of credit were $697 million and $917 million at December 31, 2010 and 2009, respectively, which were classified in accounts payable and other liabilities on the Consolidated Balance Sheets; these carrying values include $337 million and $550 million, respectively, for the allowance for lending-related commitments, and $360 million and $367 million, respectively, for the guarantee liability and corresponding asset.

The following table presents standby letters of credit and other letters of credit arrangements by the ratings profiles of JPMorgan Chase Bank, N.A.'s customers as of December 31, 2010 and 2009.

**Standby letters of credit and other financial guarantees and other letters of credit**

| | **2010** | | 2009 | |
|---|---|---|---|---|
| December 31, (in millions) | Standby letters of credit and other financial guarantees | Other letters of credit | Standby letters of credit and other financial guarantees | Other letters of credit |
| Investment-grade[(a)] | **$ 69,759** | **$ 5,289** | $ 66,324 | $ 3,861 |
| Noninvestment-grade[(a)] | **24,523** | **1,374** | 24,522 | 1,306 |
| **Total contractual amount**[(b)] | **94,282**[(c)] | **6,663** | 90,846[(c)] | 5,167 |
| Allowance for lending-related commitments | **335** | **2** | 549 | 1 |
| Commitments with collateral | **37,749** | **2,127** | 31,454 | 1,315 |

(a) The ratings scale is based on JPMorgan Chase Bank, N.A.'s internal ratings which generally correspond to ratings as defined by S&P and Moody's.
(b) At December 31, 2010 and 2009, represents the contractual amount net of risk participations totaling $22.4 billion and $24.6 billion, respectively, for standby letters of credit and other financial guarantees; and $1.1 billion and $690 million, respectively, for other letters of credit. In regulatory filings with the Federal Reserve these commitments are shown gross of risk participations.
(c) At December 31, 2010 and 2009, includes unissued standby letters of credit commitments of $41.4 billion and $38.2 billion, respectively.

**Indemnification agreements – general**

In connection with issuing securities to investors, JPMorgan Chase Bank, N.A. may enter into contractual arrangements with third parties that require JPMorgan Chase Bank, N.A. to make a payment to them in the event of a change in tax law or an adverse interpretation of tax law. In certain cases, the contract also may include a termination clause, which would allow JPMorgan Chase Bank, N.A. to settle the contract at its fair value in lieu of making a payment under the indemnification clause. JPMorgan Chase Bank, N.A. may also enter into indemnification clauses in connection with the licensing of software to clients ("software licensees") or when it sells a business or assets to a third party ("third-party purchasers"), pursuant to which it indemnifies software licensees for claims of liability or damages that may occur subsequent to the licensing of the software, or third-party purchasers for losses they may incur due to actions taken by JPMorgan Chase Bank, N.A. prior to the sale of the business or assets. It is difficult to estimate JPMorgan Chase Bank, N.A.'s maximum exposure under these indemnification arrangements, since this would require an assessment of future changes in tax law and future claims that may be made against JPMorgan Chase Bank, N.A. that have not yet occurred. However, based on historical experience, management expects the risk of loss to be remote.

**Securities lending indemnification**

Through JPMorgan Chase Bank, N.A.'s securities lending program, customers' securities, via custodial and non-custodial arrangements, may be lent to third parties. As part of this program, JPMorgan Chase Bank, N.A. provides an indemnification in the lending agreements which protect the lender against the failure of the third-party borrower to return the lent securities in the event JPMorgan Chase Bank, N.A. did not obtain sufficient collateral. To minimize its liability under these indemnification agreements, JPMorgan Chase Bank, N.A. obtains cash or other highly liquid collateral with a market value exceeding 100% of the value of the securities on loan from the borrower. Collateral is marked to market daily to help assure that collateralization is adequate. Additional collateral is called from the borrower if a shortfall exists, or collateral may be released to the borrower in the event of overcollateralization. If a borrower defaults, JPMorgan Chase Bank, N.A. would use the collateral held to purchase replacement securities in the market or to credit the lending customer with the cash equivalent thereof. Also, as part of this program, JPMorgan Chase Bank, N.A. invests cash collateral received from the borrower in accordance with approved guidelines.

**Derivatives qualifying as guarantees**

In addition to the contracts described above, JPMorgan Chase Bank, N.A. transacts certain derivative contracts that meet the characteristics of a guarantee under U.S. GAAP. These contracts include written put options that require JPMorgan Chase Bank, N.A. to purchase assets upon exercise by the option holder at a specified price by a specified date in the future. JPMorgan Chase Bank, N.A. may enter into written put option contracts in order to meet client needs, or for trading purposes. The terms of written put options are typically five years or less. Derivative guarantees also include contracts such as stable value derivatives that require JPMorgan Chase Bank, N.A. to make a payment of the difference between the market value and the book value of a counterparty's reference portfolio of assets in the event that market value is less than book value and certain other conditions have been met. Stable value derivatives, commonly referred to as "stable value wraps", are transacted in order to allow investors to realize investment returns with less volatility than an unprotected portfolio and are typically longer-term or may have no stated maturity, but allow JPMorgan Chase Bank, N.A. to terminate the contract under certain conditions.

Derivative guarantees are recorded on the Consolidated Balance Sheets at fair value in trading assets and trading liabilities. The total notional amount of the derivatives that JPMorgan Chase Bank, N.A. deems to be guarantees was $87.7 billion and $98.1 billion at December 31, 2010 and 2009, respectively. The notional amount generally represents JPMorgan Chase Bank, N.A.'s maximum exposure to derivatives qualifying as guarantees. However, exposure to certain stable value derivatives is contractually limited to a substantially lower percentage of the notional amount; the notional amount on these stable value contracts was $25.9 billion and $24.8 billion and the maximum exposure to loss was $2.7 billion and $2.5 billion, at December 31, 2010 and 2009, respectively. The fair values of the contracts reflects the probability of whether JPMorgan Chase Bank, N.A. will be required to perform under the contract. The fair values related to derivative guarantees were derivative payables of $390 million and $974 million and derivative receivables of $95 million and $77 million at December 31, 2010 and 2009, respectively. JPMorgan Chase Bank, N.A. reduces exposures to these contracts by entering into offsetting transactions, or by entering into contracts that hedge the market risk related to the derivative guarantees.

In addition to derivative contracts that meet the characteristics of a guarantee, JPMorgan Chase Bank, N.A. is both a purchaser and seller of credit protection in the credit derivatives market. For a further discussion of credit derivatives, see Note 7 on pages 33–41 of these Consolidated Financial Statements.

**Unsettled reverse repurchase and securities borrowing agreements**

In the normal course of business, JPMorgan Chase Bank, N.A. enters into reverse repurchase agreements and securities borrowing agreements that settle at a future date. At settlement, these commitments require that JPMorgan Chase Bank, N.A. advance cash to and accept securities from the counterparty. These agreements generally do not meet the definition of a derivative, and therefore, are not recorded on the Consolidated Balance Sheets until settlement date. At December 31, 2010 and 2009, the amount of commitments related to forward starting reverse repurchase

agreements and securities borrowing agreements were $6.8 billion and $6.3 billion, respectively. Commitments related to unsettled reverse repurchase agreements and securities borrowing agreements with regular way settlement periods were $25.5 billion and $25.4 billion at December 31, 2010 and 2009, respectively.

**Building purchase commitments**

On December 15, 2010, JPMorgan Chase Bank, N.A. entered into an agreement to purchase the leasehold property at 60 Victoria Embankment in London, a building JPMorgan Chase Bank, N.A. has leased since 1991, for approximately $253 million. The purchase of this building is expected to close in the second quarter of 2011.

**Loan sale and securitization-related indemnifications**

*Indemnifications for breaches of representations and warranties*

In connection with JPMorgan Chase Bank, N.A.'s loan sale and securitization activities with U.S. government-sponsored enterprises (the "GSEs") and other loan sale and private-label securitization transactions, as described in Notes 15 and 17 on pages 58–76 and 82–97, respectively, of these Consolidated Financial Statements, JPMorgan Chase Bank, N.A. has made representations and warranties that the loans sold meet certain requirements. For transactions with the GSEs, these representations include type of collateral, underwriting standards, validity of certain borrower representations in connection with the loan, that primary mortgage insurance is in force for any mortgage loan with an LTV ratio greater than 80%, and the use of the GSEs' standard legal documentation. JPMorgan Chase Bank, N.A. 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; however, predominantly all of the repurchase demands received by JPMorgan Chase Bank, N.A. and JPMorgan Chase Bank, N.A.'s losses realized to date are related to loans sold to the GSEs. Generally, the maximum amount of future payments JPMorgan Chase Bank, N.A. would be required to make for breaches of these representations and warranties would be equal to the unpaid principal balance of such loans that are deemed to have defects sold to purchasers (including securitization-related SPEs) plus, in certain circumstances, accrued and unpaid interest on such loans and certain expense.

Subsequent to JPMorgan Chase Bank, N.A.'s acquisition of certain assets and liabilities of Washington Mutual from the FDIC in September 2008, JPMorgan Chase Bank, N.A. resolved and/or limited certain current and future repurchase demands for loans sold to the GSEs by Washington Mutual, although it remains JPMorgan Chase Bank, N.A.'s position that such obligations remain with the FDIC receivership. Nevertheless, certain payments have been made with respect to certain of the then current and future repurchase demands, and JPMorgan Chase Bank, N.A. will continue to evaluate and may pay certain future repurchase demands related to individual loans. In addition to the payments already made, JPMorgan Chase Bank, N.A. has a remaining repurchase liability of approximately $190 million as of December 31, 2010, relating to unresolved and future demands on the Washington Mutual portfolio.

The primary reasons for repurchase demands from the GSEs relate to alleged misrepresentations primarily driven by: (i) credit quality and/or undisclosed debt of the borrower; (ii) income level and/or employment status of the borrower; and (iii) appraised value of collateral. Ineligibility of the borrower for the particular product, mortgage insurance rescissions and missing documentation are other reasons for repurchase demands.

Beginning in 2009, mortgage insurers more frequently rescinded mortgage insurance coverage. The successful rescission of mortgage insurance typically results in a violation of representations and warranties made to the GSEs and, therefore, have been a significant cause of repurchase demands from the GSEs. JPMorgan Chase Bank, N.A. actively reviews all rescission notices from mortgage insurers and contests them when appropriate. In addition, JPMorgan Chase Bank, N.A. is engaged in discussions with various mortgage insurers on their rights and practices related to rescinding mortgage insurance coverage. JPMorgan Chase Bank, N.A. has entered into agreements with two mortgage insurers to make processes more efficient and reduce exposure on claims on certain portfolios for which JPMorgan Chase Bank, N.A. is a servicer. The impact of these agreements is reflected in the repurchase liability as of December 31, 2010.

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

To estimate JPMorgan Chase Bank, N.A.'s repurchase liability arising from breaches of representations and warranties, JPMorgan Chase Bank, N.A. considers:

(i) the level of current unresolved repurchase demands and mortgage insurance rescission notices,
(ii) estimated probable future repurchase demands based upon loans that are or ever have been 90 days past due considering historical experience,
(iii) the potential ability of JPMorgan Chase Bank, N.A. to cure the defects identified in the repurchase demands,
(iv) the estimated severity of loss upon repurchase of the loan or collateral, make-whole settlement, or indemnification,
(v) JPMorgan Chase Bank, N.A.'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, JPMorgan Chase Bank, N.A. has recognized a repurchase liability of $3.0 billion and $1.4 billion, including the Washington Mutual liability described above, as of December 31, 2010 and 2009, respectively, which is reported in accounts payable and other liabilities net of probable recoveries from third parties.

Substantially all of the estimates and assumptions underlying JPMorgan Chase Bank, N.A.'s established methodology for computing its recorded repurchase liability – including factors such as the amount of probable future demands from purchasers, the ability of JPMorgan Chase Bank, N.A. 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 limited and rapidly changing historical data and uncertainty

surrounding numerous external factors, including: (i) macro-economic factors, and (ii) the level of future demands, which is dependent, in part, on actions taken by third parties such as the GSEs and mortgage insurers. While JPMorgan Chase Bank, N.A. uses the best information available to it in estimating its repurchase liability, the estimation process is inherently uncertain and imprecise and, accordingly, losses in excess of the amounts accrued as of December 31, 2010 are reasonably possible.

JPMorgan Chase Bank, N.A. believes the estimate of the range of reasonably possible losses, in excess of reserves established, for its repurchase liability is from $0 to approximately $2 billion at December 31, 2010. This estimated range of reasonably possible loss is based on an assumed peak to trough decline in home prices of 46%, which is an additional 12 percentage point decline in home prices beyond JPMorgan Chase Bank, N.A.'s current assumptions. Such a decline could increase the level of loan delinquencies, thereby potentially increasing the repurchase demand rate from the GSEs and increasing loss severity on repurchased loans, each of which could affect JPMorgan Chase Bank, N.A.'s repurchase liability. JPMorgan Chase Bank, N.A. does not consider such a further decline in home prices to be likely to occur, and actual repurchase losses could vary significantly from JPMorgan Chase Bank, N.A.'s recorded repurchase liability or this estimate of reasonably possible additional losses, depending on the outcome of various factors, including those considered above.

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

**Summary of changes in repurchase liability**

| Year ended December 31, (in millions) | **2010** | 2009 | 2008 |
|---|---|---|---|
| Repurchase liability at beginning of period | **$ 1,449** | $ 1,012 | $ 15 |
| Realized losses[a] | **(1,361)** | (1,175)[c] | (155) |
| Provision for repurchase losses | **2,912** | 1,612 | 1,152[d] |
| **Repurchase liability at end of period** | **$ 3,000**[b] | $ 1,449 | $ 1,012 |

(a) Includes principal losses and accrued interest on repurchased loans, "make-whole" settlements, settlements with claimants, and certain related expense. For the years ended December 31, 2010, 2009 and 2008, make-whole settlements were $580 million, $227 million and $34 million, respectively.
(b) Includes $190 million at December 31, 2010, related to future demands on loans sold by Washington Mutual to the GSEs.
(c) Includes JPMorgan Chase Bank, N.A.'s resolution of certain current and future repurchase demands for certain loans sold by Washington Mutual.
(d) Includes a repurchase liability assumed for certain loans sold by Washington Mutual; this assumed liability was reported as a reduction of the extraordinary gain rather than as a charge to the provision for credit losses.

*Loans sold with recourse*

JPMorgan Chase Bank, N.A. provides servicing for mortgages and certain commercial lending products on both a recourse and nonrecourse basis. In nonrecourse servicing, the principal credit risk to JPMorgan Chase Bank, N.A. is the cost of temporary servicing advances of funds (i.e., normal servicing advances). In recourse servicing, the servicer agrees to share credit risk with the owner of the mortgage loans, such as Fannie Mae or Freddie Mac or a private investor, insurer or guarantor. Losses on recourse servicing predominantly occur when foreclosure sales proceeds of the property underlying a defaulted loan are less than the sum of the outstanding principal balance, plus accrued interest on the loan and the cost of holding and disposing of the underlying property. JPMorgan Chase Bank, N.A.'s securitizations are predominantly nonrecourse, thereby effectively transferring the risk of future credit losses to the purchaser of the mortgage-backed securities issued by the trust. At December 31, 2010 and 2009, the unpaid principal balance of loans sold with recourse totaled $10.2 billion and $12.6 billion, respectively. The carrying value of the related liability that JPMorgan Chase Bank, N.A. has recorded, which is representative of JPMorgan Chase Bank, N.A.'s view of the likelihood it will have to perform under this guarantee, was $147 million and $260 million at December 31, 2010 and 2009, respectively.

**Credit card charge-backs**

Prior to November 1, 2008, JPMorgan Chase Bank, N.A. was a partner with one of the leading companies in electronic payment services in a joint venture operating under the name of Chase Paymentech Solutions, LLC (the "joint venture"). The joint venture provided merchant processing services in the U.S. and Canada. The dissolution of the joint venture was completed on November 1, 2008, and JPMorgan Chase Bank, N.A. retained approximately 51% of the business under the Chase Paymentech name.

Under the rules of Visa USA, Inc., and MasterCard International, JPMorgan Chase Bank, N.A., is liable primarily for the amount of each processed credit card sales transaction that is the subject of a dispute between a cardmember and a merchant. If a dispute is resolved in the cardmember's favor, Chase Paymentech will (through the cardmember's issuing bank) credit or refund the amount to the cardmember and will charge back the transaction to the merchant. If Chase Paymentech is unable to collect the amount from the merchant, Chase Paymentech will bear the loss for the amount credited or refunded to the cardmember. Chase Paymentech mitigates this risk by withholding future settlements, retaining cash reserve accounts or by obtaining other security. However, in the unlikely event that: (1) a merchant ceases operations and is unable to deliver products, services or a refund; (2) Chase Paymentech does not have sufficient collateral from the merchant to provide customer refunds; and (3) Chase Paymentech does not have sufficient financial resources to provide customer refunds, JPMorgan Chase Bank, N.A., would be liable for the amount of the transaction. For the year ended December 31, 2010, Chase Paymentech incurred aggregate credit losses of $12 million on $469.3 billion of aggregate volume processed, and at December 31, 2010, it held $189 million of collateral. For the year ended December 31, 2009, Chase Paymentech incurred aggregate credit losses of $11 million on $409.7 billion of aggregate volume processed, and at December 31, 2009, it held $213 million of collateral. For the year ended December 31, 2008, Chase Paymentech incurred aggregate credit losses of $13 million on $713.9 billion of aggregate volume processed, and at December 31, 2008, it held $222 million of collateral. JPMorgan Chase Bank, N.A. believes that, based on historical experience and the collateral held by Chase Paymentech, the fair value of JPMorgan Chase Bank, N.A.'s charge back-related

obligations, which are representative of the payment or performance risk to JPMorgan Chase Bank, N.A. is immaterial.

**Exchange and clearinghouse guarantees**

JPMorgan Chase Bank, N.A. is a member of several securities and futures exchanges and clearinghouses, both in the U.S. and other countries. Membership in some of these organizations requires JPMorgan Chase Bank, N.A. to pay a pro rata share of the losses incurred by the organization as a result of the default of another member. Such obligations vary with different organizations. These obligations may be limited to members who dealt with the defaulting member or to the amount (or a multiple of the amount) of JPMorgan Chase Bank, N.A.'s contribution to a member's guarantee fund, or, in a few cases, the obligation may be unlimited. It is difficult to estimate JPMorgan Chase Bank, N.A.'s maximum exposure under these membership agreements, since this would require an assessment of future claims that may be made against JPMorgan Chase Bank, N.A. that have not yet occurred. However, based on historical experience, management expects the risk of loss to be remote.

## Note 29 – Commitments, pledged assets, collateral and contingencies

**Lease commitments**

At December 31, 2010, JPMorgan Chase Bank, N.A. and its subsidiaries were obligated under a number of noncancelable operating leases for premises and equipment used primarily for banking purposes, and for energy-related tolling service agreements. Certain leases contain renewal options or escalation clauses providing for increased rental payments based on maintenance, utility and tax increases, or they require JPMorgan Chase Bank, N.A. to perform restoration work on leased premises. No lease agreement imposes restrictions on JPMorgan Chase Bank, N.A.'s ability to pay dividends, engage in debt or equity financing transactions or enter into further lease agreements.

The following table presents required future minimum rental payments under operating leases with noncancelable lease terms that expire after December 31, 2010.

| Year ended December 31, (in millions) | |
|---|---|
| 2011 | $ 1,259 |
| 2012 | 1,260 |
| 2013 | 1,177 |
| 2014 | 1,080 |
| 2015 | 971 |
| After 2015 | 5,808 |
| **Total minimum payments required**[a] | 11,555 |
| Less: Sublease rentals under noncancelable subleases | (1,205) |
| **Net minimum payment required** | $ 10,350 |

(a) Lease restoration obligations are accrued in accordance with U.S. GAAP, and are not reported as a required minimum lease payment.

Total rental expense was as follows.

| Year ended December 31, (in millions) | **2010** | 2009 | 2008 |
|---|---|---|---|
| Gross rental expense | **$ 1,611** | $ 1,614 | $ 1,395 |
| Sublease rental income | **(140)** | (140) | (138) |
| **Net rental expense** | **$ 1,471** | $ 1,474 | $ 1,257 |

**Pledged assets**

At December 31, 2010, assets were pledged to collateralize repurchase agreements, other securities financing agreements, derivative transactions and for other purposes, including to secure borrowings and public deposits. Certain of these pledged assets may be sold or repledged by the secured parties and are identified as financial instruments owned (pledged to various parties) on the Consolidated Balance Sheets. In addition, at December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. had pledged $193.2 billion and $265.3 billion, respectively, of financial instruments it owns that may not be sold or repledged by the secured parties.

The significant components of the JPMorgan Chase Bank, N.A.'s pledged assets were as follows.

| December 31, (in billions) | **2010** | 2009 |
|---|---|---|
| Securities | **$ 112.1** | $ 156.5 |
| Loans | **158.7** | 244.7 |
| Trading assets and other | **36.5** | 28.3 |
| **Total assets pledged**[a] | **$ 307.3** | $ 429.5 |

(a) Total assets pledged do not include assets of consolidated VIEs; these assets are used to settle the liabilities of those entities. See Note 17 on pages 82–97 of these Consolidated Financial Statements for additional information on assets and liabilities of consolidated VIEs.

**Collateral**

At December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. had accepted assets as collateral that it could sell or repledge, deliver or otherwise use with a fair value of approximately $360.8 billion and $335.0 billion, respectively. This collateral was generally obtained under resale agreements, securities borrowing agreements, customer margin loans and derivative agreements. Of the collateral received, approximately $296.1 billion and $226.1 billion were sold or repledged, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales and to collateralize deposits and derivative agreements. The reporting of collateral sold or repledged was revised in 2010 to include certain securities used to cover short sales and to collateralize deposits and derivative agreements. Prior period amounts have been revised to conform to the current presentation. This revision had no impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or its financial performance.

**Contingencies**

In 2008, JPMorgan Chase Bank, N.A. resolved with the IRS issues related to compliance with reporting and withholding requirements for certain accounts transferred to The Bank of New York Mellon Corporation ("BNYM") in connection with JPMorgan Chase Bank, N.A.'s sale to BNYM of its corporate trust business. The resolution of these issues did not have a material effect on JPMorgan Chase Bank, N.A.

## Note 30 – Litigation

As of December 31, 2010, JPMorgan Chase Bank, N.A. and its subsidiaries are defendants or putative defendants in thousands of legal proceedings, in the form of regulatory/government investigations as well as private, civil litigations. The litigations range from individual actions involving a single plaintiff to class action lawsuits with potentially millions of class members. Investigations involve both formal and informal proceedings, by both governmental agencies and self-regulatory organizations. These legal proceedings are at varying stages of adjudication, arbitration or investigation, and involve JPMorgan Chase Bank, N.A.'s various businesses and geographies and a wide variety of claims (including common law tort and contract claims and statutory antitrust, securities and consumer protection claims), some of which present novel claims or legal theories.

Estimates of reasonably possible losses for legal proceedings are analyzed and managed at the JPMorgan Chase level and not at the subsidiary level (i.e., JPMorgan Chase Bank, N.A.). JPMorgan Chase believes the estimate of the aggregate range of reasonably possible losses, in excess of reserves established, for its legal proceedings is from $0 to approximately $4.5 billion at December 31, 2010. This estimated aggregate range of reasonably possible losses is based upon currently available information for those proceedings in which JPMorgan Chase is involved, taking into account JPMorgan Chase's best estimate of such losses for those cases for which such estimate can be made. For certain cases, JPMorgan Chase does not believe that an estimate can currently be made. JPMorgan Chase's estimate involves significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants (including JPMorgan Chase or one or more of its subsidiaries, including JPMorgan Chase Bank, N.A.) in many of such proceedings whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the proceedings (including issues regarding class certification and the scope of many of the claims), and the attendant uncertainty of the various potential outcomes of such proceedings. Accordingly, JPMorgan Chase's estimate will change from time to time, and actual losses may be more than the current estimate.

Set forth below are descriptions of material legal proceedings in which JPMorgan Chase Bank, N.A. is involved or has been named as a party.

*Auction-Rate Securities Investigations and Litigation.* Beginning in March 2008, several regulatory authorities initiated investigations of a number of industry participants, including JPMorgan Chase, concerning possible state and federal securities law violations in connection with the sale of auction-rate securities. The market for many such securities had frozen and a significant number of auctions for those securities began to fail in February 2008.

JPMorgan Chase, on behalf of itself and affiliates, agreed to a settlement in principle with the New York Attorney General's Office which provided, among other things, that JPMorgan Chase would offer to purchase at par certain auction-rate securities purchased from J.P. Morgan Securities LLC ("JPMorgan Securities", formerly J.P. Morgan Securities Inc.), Chase Investment Services Corp. and Bear, Stearns & Co. Inc. by individual investors, charities and small-to medium-sized businesses. JPMorgan Chase also agreed to a substantively similar settlement in principle with the Office of Financial Regulation for the State of Florida and the North American Securities Administrator Association ("NASAA") Task Force, which agreed to recommend approval of the settlement to all remaining states, Puerto Rico and the U.S. Virgin Islands. JPMorgan Chase has finalized the settlement agreements with the New York Attorney General's Office and the Office of Financial Regulation for the State of Florida. The settlement agreements provide for the payment of penalties totaling $25 million to all states. JPMorgan Chase is currently in the process of finalizing consent agreements with NASAA's member states; over 40 of these consent agreements have been finalized to date.

JPMorgan Chase also faces a number of civil actions relating to JPMorgan Chase's sales of auction-rate securities, including a putative securities class action in the United States District Court for the Southern District of New York that seeks unspecified damages, and individual arbitrations and lawsuits in various forums brought by institutional and individual investors that, together, seek damages totaling more than $200 million relating to JPMorgan Chase's sales of auction-rate securities. One action is brought by an issuer of auction-rate securities. The actions generally allege that JPMorgan Chase and other firms manipulated the market for auction-rate securities by placing bids at auctions that affected these securities' clearing rates or otherwise supported the auctions without properly disclosing these activities. Some actions also allege that JPMorgan Chase misrepresented that auction-rate securities were short-term instruments. JPMorgan Chase has filed motions to dismiss each of the actions, which are being coordinated before the Southern District. These motions are currently pending.

Additionally, JPMorgan Chase was named in two putative antitrust class actions in the United States District Court for the Southern District of New York. The actions allege that JPMorgan Chase, along with numerous other financial institution defendants, colluded to maintain and stabilize the auction-rate securities market and then to withdraw their support for the auction-rate securities market. In January 2010, the District Court dismissed both actions. The Second Circuit Court of Appeals consolidated the two appeals. That appeal is currently pending.

*Bear Stearns Hedge Fund Matters.* Bear Stearns, certain current or former subsidiaries of Bear Stearns, including Bear Stearns Asset Management, Inc. ("BSAM") and Bear, Stearns & Co. Inc., and certain current or former Bear Stearns employees are named defendants (collectively the "Bear Stearns defendants") in multiple civil actions and arbitrations relating to alleged losses of more than $1 billion resulting from the failure of the Bear Stearns High Grade Structured Credit Strategies Master Fund, Ltd. (the "High Grade Fund") and the Bear Stearns High Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd. (the "Enhanced Leverage Fund") (collectively, the "Funds"). BSAM served as investment manager for both of the Funds, which were organized such that

there were U.S. and Cayman Islands "feeder funds" that invested substantially all their assets, directly or indirectly, in the Funds. The Funds are in liquidation.

There are currently four civil actions pending in the United States District Court for the Southern District of New York relating to the Funds. Two of these actions involve derivative lawsuits brought on behalf of purchasers of partnership interests in the two U.S. feeder funds, alleging that the Bear Stearns defendants mismanaged the Funds and made material misrepresentations to and/or withheld information from investors in the feeder funds. These actions seek, among other things, unspecified compensatory damages based on alleged investor losses. The third action, brought by the Joint Voluntary Liquidators of the Cayman Islands feeder funds, makes allegations similar to those asserted in the derivative lawsuits related to the U.S. feeder funds, and seeks compensatory and punitive damages. Motions to dismiss in these three cases have been granted in part and denied in part. An agreement in principle has been reached, pursuant to which BSAM would pay a maximum of approximately $19 million to settle the one derivative action relating to the feeder fund to the High Grade Fund. BSAM has reserved the right not to proceed with this settlement if plaintiff is unable to secure the participation of investors whose net contributions meet a prescribed percentage of the aggregate net contributions to the High Grade Fund. The agreement in principle remains subject to documentation and approval by the Court. Discovery in the other two actions is ongoing.

The fourth action was brought by Bank of America and Banc of America Securities LLC (together "BofA") alleging breach of contract and fraud in connection with a May 2007 $4 billion securitization, known as a "CDO-squared," for which BSAM served as collateral manager. This securitization was composed of certain collateralized debt obligation ("CDO") holdings that were purchased by BofA from the Funds. Bank of America seeks in excess of $3 billion in damages. Defendants' motion to dismiss in this action was largely denied, an amended complaint was filed and discovery is ongoing.

*Bear Stearns Shareholder Litigation and Related Matters.* Various shareholders of Bear Stearns have commenced purported class actions against Bear Stearns and certain of its former officers and/or directors on behalf of all persons who purchased or otherwise acquired common stock of Bear Stearns between December 14, 2006, and March 14, 2008 (the "Class Period"). During the Class Period Bear Stearns had between 115 and 120 million common shares outstanding, and the price of those securities declined from a high of $172.61 to a low of $30 at the end of the period. The actions, originally commenced in several federal courts, allege that the defendants issued materially false and misleading statements regarding Bear Stearns' business and financial results and that, as a result of those false statements, Bear Stearns' common stock traded at artificially inflated prices during the Class Period. Separately, several individual shareholders of Bear Stearns have commenced or threatened to commence arbitration proceedings and lawsuits asserting claims similar to those in the putative class actions. In addition, Bear Stearns and certain of its former officers and/or directors have also been named as defendants in a number of purported class actions commenced in the United States District Court for the Southern District of New York seeking to represent the interests of participants in the Bear Stearns Employee Stock Ownership Plan ("ESOP") during the time period of December 2006 to March 2008. These actions, brought under the Employee Retirement Income Security Act ("ERISA"), allege that defendants breached their fiduciary duties to plaintiffs and to the other participants and beneficiaries of the ESOP by (a) failing to manage prudently the ESOP's investment in Bear Stearns securities; (b) failing to communicate fully and accurately about the risks of the ESOP's investment in Bear Stearns stock; (c) failing to avoid or address alleged conflicts of interest; and (d) failing to monitor those who managed and administered the ESOP.

Bear Stearns, former members of Bear Stearns' Board of Directors and certain of Bear Stearns' former executive officers have also been named as defendants in two purported shareholder derivative suits, subsequently consolidated into one action, pending in the United States District Court for the Southern District of New York. Plaintiffs are asserting claims for breach of fiduciary duty, violations of federal securities laws, waste of corporate assets and gross mismanagement, unjust enrichment, abuse of control and indemnification and contribution in connection with the losses sustained by Bear Stearns as a result of its purchases of subprime loans and certain repurchases of its own common stock. Certain individual defendants are also alleged to have sold their holdings of Bear Stearns common stock while in possession of material nonpublic information. Plaintiffs seek compensatory damages in an unspecified amount. Plaintiffs later filed a second amended complaint asserting, for the first time, purported class action claims, as well as new allegations concerning events that took place in March 2008.

All of the above-described actions filed in federal courts were ordered transferred and joined for pre-trial purposes before the United States District Court for the Southern District of New York. Defendants moved to dismiss the purported securities class action, the shareholders' derivative action and the ERISA action. In January 2011, the District Court granted the motions to dismiss the derivative and ERISA actions, and denied the motion as to the securities action. Plaintiffs in the derivative action have filed a motion for reconsideration of the dismissal. Discovery will now commence in the securities action.

*City of Milan Litigation and Criminal Investigation.* In January 2009, the City of Milan, Italy (the "City") issued civil proceedings against (among others) JPMorgan Chase Bank, N.A. and J.P. Morgan Securities Ltd. in the District Court of Milan. The proceedings relate to (a) a bond issue by the City in June 2005 (the "Bond") and (b) an associated swap transaction, which was subsequently restructured on a number of occasions between 2005 and 2007 (the "Swap"). The City seeks damages and/or other remedies against JPMorgan Chase (among others) on the grounds of alleged "fraudulent and deceitful acts" and alleged breach of advisory obligations by JPMorgan Chase (among others) in connection with the Swap and the Bond, together with related swap transactions with other counterparties. The civil proceedings continue and there

will be an initial hearing on March 9, 2011. JPMorgan Chase Bank, N.A. will seek an adjournment on the grounds that it has filed a challenge to the Italian Supreme Court's jurisdiction over JPMorgan Chase Bank, N.A., which has yet to be decided. The judge directed four current and former JPMorgan Chase personnel and JPMorgan Chase Bank, N.A. (as well as other individuals and three other banks) to go forward to a full trial that started in May 2010. Although JPMorgan Chase is not charged with any crime and does not face criminal liability, if one or more of its employees were found guilty, JPMorgan Chase could be subject to administrative sanctions, including restrictions on its ability to conduct business in Italy and monetary penalties. In the initial hearings, the City successfully applied to join some of the claims in the civil proceedings against the individuals and JPMorgan Chase Bank, N.A. to the criminal proceedings. In addition, a consumer association has also been given leave to join the criminal proceedings to seek damages from the defendant banks.

*Enron Litigation.* JPMorgan Chase and certain of its officers and directors are involved in several lawsuits that together seek substantial damages arising out of JPMorgan Chase's banking relationships with Enron Corp. and its subsidiaries ("Enron"). A number of actions and other proceedings against JPMorgan Chase previously were resolved, including a class action lawsuit captioned Newby v. Enron Corp. and adversary proceedings brought by Enron's bankruptcy estate. The remaining Enron-related actions include individual actions by Enron investors, an action by an Enron counterparty, and a purported class action filed on behalf of JPMorgan Chase employees who participated in JPMorgan Chase's 401(k) plan asserting claims under the ERISA for alleged breaches of fiduciary duties by JPMorgan Chase, its directors and named officers. That action has been dismissed, and is on appeal to the United States Court of Appeals for the Second Circuit.

*Interchange Litigation.* A group of merchants has filed a series of putative class action complaints in several federal courts. The complaints allege that VISA and MasterCard, as well as certain other banks and their respective bank holding companies, conspired to set the price of credit and debit card interchange fees, enacted respective association rules in violation of anti-trust laws, and engaged in tying/bundling and exclusive dealing. The complaint seeks unspecified damages and injunctive relief based on the theory that interchange would be lower or eliminated but for the challenged conduct. Based on publicly available estimates, Visa and MasterCard branded payment cards generated approximately $40 billion of interchange fees industry-wide in 2009. All cases have been consolidated in the United States District Court for the Eastern District of New York for pretrial proceedings. The Court has dismissed all claims relating to periods prior to January 2004. The Court has not yet ruled on motions relating to the remainder of the case. Fact and expert discovery in the case have closed. The plaintiffs have filed a motion seeking class certification, and the defendants have opposed that motion. The Court has not yet ruled on the class certification motion.

In addition to the consolidated class action complaint, plaintiffs filed supplemental complaints challenging the initial public offerings ("IPOs") of MasterCard and Visa (the "IPO Complaints"). With respect to the MasterCard IPO, plaintiffs allege that the offering violated Section 7 of the Clayton Act and Section 1 of the Sherman Act and that the offering was a fraudulent conveyance. With respect to the Visa IPO, plaintiffs are challenging the Visa IPO on antitrust theories parallel to those articulated in the MasterCard IPO pleading. Defendants have filed motions to dismiss the IPO Complaints. The Court has not yet ruled on those motions.

*Investment Management Litigation.* Four cases have been filed claiming that investment portfolios managed by JPMorgan Investment Management Inc. ("JPMorgan Investment Management") were inappropriately invested in securities backed by subprime residential real estate collateral. Plaintiffs claim that JPMorgan Investment Management and related defendants are liable for losses of more than $1 billion in market value of these securities. The first case was filed by NM Homes One, Inc. in federal District Court in New York, and the Court granted JPMorgan Chase Bank, N.A.'s motion to dismiss nine of plaintiff's ten causes of action, leaving a breach of contract claim. The Court thereafter granted the plaintiff's motion for reconsideration and reinstated the common law non-fraud claims for breach of fiduciary duty, negligence, and gross negligence. The plaintiff withdrew its claim for negligent misrepresentation. JPMorgan Chase Bank, N.A. has filed a renewed motion to dismiss the common law non-fraud claims and a motion for judgment on the pleadings as to the breach of contract claim. In the second case, which was filed by Assured Guaranty (U.K.) in New York state court, the New York State Appellate Division allowed plaintiff to proceed with its claims for breach of fiduciary duty and gross negligence, and for breach of contract based on alleged violations of the Delaware Insurance Code. JPMorgan Chase Bank, N.A. sought and has obtained leave to appeal to the New York State Court of Appeals the decision by the Appellate Division to allow the breach of fiduciary duty and gross negligence claims to proceed. In the third case, filed by Ambac Assurance UK Limited in New York state court, the lower court granted JPMorgan Investment Management's motion to dismiss, and plaintiff has filed a notice of appeal. The fourth case was filed by CMMF LLP in New York state court; the lower court granted JPMorgan Investment Management's motion to dismiss the claims, other than claims for breach of contract and negligent misrepresentation. The Appellate Division affirmed the lower court's decision. Plaintiff has since filed an amended complaint seeking to assert claims under New York law for breach of fiduciary duty, gross negligence, breach of contract and negligent misrepresentation.

*Lehman Brothers Bankruptcy Proceedings.* In March 2010, the Examiner appointed by the Bankruptcy Court presiding over the Chapter 11 bankruptcy proceedings of Lehman Brothers Holdings Inc ("LBHI") and several of its subsidiaries (collectively, "Lehman") released a report as to his investigation into Lehman's failure and related matters. The Examiner concluded that one common law claim potentially could be asserted against JPMorgan Chase for contributing to Lehman's failure, though he characterized the claim as "not strong." The Examiner also opined that certain cash and securities collateral provided by LBHI to JPMorgan Chase in the

weeks and days preceding LBHI's demise potentially could be challenged under the Bankruptcy Code's fraudulent conveyance or preference provisions, though JPMorgan Chase is of the view that its right to such collateral is protected by the Bankruptcy Code's safe harbor provisions. In May 2010, LBHI and its Official Committee of Unsecured Creditors filed an adversary proceeding against JPMorgan Chase Bank, N.A. in the United States Bankruptcy Court for the Southern District of New York. The complaint asserts both federal bankruptcy law and state common law claims, and seeks, among other relief, to recover $8.6 billion in collateral that was transferred to JPMorgan Chase Bank, N.A. in the week preceding LBHI's bankruptcy. The complaint also seeks unspecified damages on the grounds that JPMorgan Chase Bank, N.A.'s collateral requests hastened LBHI's demise. JPMorgan Chase Bank, N.A. has moved to dismiss plaintiffs' amended complaint in its entirety. JPMorgan Chase Bank, N.A. also filed counterclaims against LBHI alleging that LBHI fraudulently induced JPMorgan Chase Bank, N.A. to make large clearing advances to Lehman against inappropriate collateral, which left JPMorgan Chase Bank, N.A. with more than $25 billion in claims against the estate of Lehman's broker-dealer, which could be unpaid if JPMorgan Chase Bank, N.A. is required to return any collateral to Lehman. The case is in the early stages, with a trial scheduled for 2012. In addition, JPMorgan Chase Bank, N.A. may also face claims in the liquidation proceeding pending before the same Bankruptcy Court under the Securities Investor Protection Act ("SIPA") for LBHI's U.S. broker-dealer subsidiary, Lehman Brothers Inc. ("LBI"). The SIPA Trustee has advised JPMorgan Chase Bank, N.A. that certain of the securities and cash pledged as collateral for JPMorgan Chase Bank, N.A.'s claims against LBI may be customer property free from any security interest in favor of JPMorgan Chase Bank, N.A. JPMorgan Chase Bank, N.A. has also responded to various regulatory inquiries regarding the Lehman matter.

*Madoff Litigation.* JPMorgan Chase & Co., JPMorgan Chase Bank, N.A., JPMorgan Securities LLC, and JPMorgan Securities Ltd. have been named as defendants in a lawsuit brought by the trustee for the liquidation of Bernard L. Madoff Investment Securities LLC (the "Trustee"). The Trustee asserts 28 causes of action against JPMorgan Chase, 16 of which seek to avoid certain transfers (direct or indirect) made to JPMorgan Chase that are alleged to have been preferential or fraudulent under the federal Bankruptcy Code and the New York Debtor and Creditor Law. The remaining causes of action are for, among other things, aiding and abetting fraud, aiding and abetting breach of fiduciary duty, conversion and unjust enrichment. The complaint generally alleges that JPMorgan Chase, as Madoff's long-time bank, facilitated the maintenance of Madoff's Ponzi scheme and overlooked signs of wrongdoing in order to obtain profits and fees. The complaint purports to seek approximately $6 billion in damages from JPMorgan Chase, and to recover approximately $425 million in transfers that JPMorgan Chase allegedly received directly or indirectly from Bernard Madoff's brokerage firm. JPMorgan Chase has filed a motion to return the case from the Bankruptcy Court to the District Court, and intends to seek the dismissal of all or most of the Trustee's claims once that motion is decided.

Separately, J.P. Morgan Trust Company (Cayman) Limited, JPMorgan (Suisse) SA, and J.P. Morgan Securities Ltd. have been named as defendants in several suits in Bankruptcy Court and state and federal courts in New York arising out of the liquidation proceedings of Fairfield Sentry Limited and Fairfield Sigma Limited (together, "Fairfield"), so-called Madoff feeder funds. These actions advance theories of mistake and restitution and seek to recover payments previously made to defendants by the funds totaling approximately $140 million.

*Mortgage-Backed Securities Litigation and Regulatory Investigations.* JPMorgan Chase and affiliates, Bear Stearns and affiliates and Washington Mutual and affiliates have been named as defendants in a number of cases in their various roles as issuer and/or underwriter in mortgage-backed securities ("MBS") offerings. These cases include purported class action suits, actions by individual purchasers of securities and actions by insurance companies that guaranteed payments of principal and interest for particular tranches. Although the allegations vary by lawsuit, these cases generally allege that the offering documents for more than $100 billion of securities issued by dozens of securitization trusts contained material misrepresentations and omissions, including statements regarding the underwriting standards pursuant to which the underlying mortgage loans were issued.

In the actions against JPMorgan Chase as an MBS issuer (and, in some cases, also as an underwriter of its own MBS offerings), three purported class actions are pending against JPMorgan Chase and Bear Stearns, and/or certain of their affiliates and current and former employees, in the United States District Courts for the Eastern and Southern Districts of New York. Defendants have moved to dismiss these actions. In addition, Washington Mutual affiliates, WaMu Asset Acceptance Corp. and WaMu Capital Corp., are defendants, along with certain former officers or directors of WaMu Asset Acceptance Corp., have been named as defendants in three now-consolidated purported class action cases pending in the Western District of Washington. Defendants' motion to dismiss was granted in part to dismiss all claims relating to MBS offerings in which a named plaintiff was not a purchaser. Discovery is ongoing.

In other actions brought against JPMorgan Chase as an MBS issuer (and, in some cases, also as an underwriter) certain JPMorgan Chase entities, several Bear Stearns entities, and certain Washington Mutual affiliates are defendants in nine separate individual actions commenced by the Federal Home Loan Banks of Pittsburgh, Seattle, San Francisco, Chicago, Indianapolis and Atlanta in various state courts around the country; and certain JPMorgan Chase, Bear Stearns and Washington Mutual entities are also among the defendants named in separate individual actions commenced by Cambridge Place Investment Management Inc. in Massachusetts state court, by The Charles Schwab Corporation in state court in California and by Allstate in state court in New York.

EMC Mortgage Corporation ("EMC"), a subsidiary of JPMorgan Chase & Co., is a defendant in four pending actions commenced by bond insurers that guaranteed payments of principal and interest on approximately $3.6 billion of certain classes of seven different MBS offerings sponsored by EMC. Three of those actions, com-

menced by Assured Guaranty Corp., Ambac Assurance Corporation and Syncora Guarantee, Inc., respectively, are pending in the United States District Court for the Southern District of New York. The fourth action, commenced by CIFG Assurance North America, Inc., is pending in state court in Texas. In each action, plaintiff claims that the underlying mortgage loans had origination defects that purportedly violate certain representations and warranties given by EMC to plaintiffs, and that EMC has breached the relevant agreements between the parties by failing to repurchase allegedly defective mortgage loans. Each action seeks unspecified damages and an order compelling EMC to repurchase those loans.

In the actions against JPMorgan Chase solely as an underwriter of other issuers' MBS offerings, JPMorgan Chase has contractual rights to indemnification from the issuers, but those indemnity rights may prove effectively unenforceable where the issuers are now defunct, such as affiliates of IndyMac Bancorp ("IndyMac Trusts") and Thornburg Mortgage ("Thornburg"). With respect to the IndyMac Trusts, JPMorgan Securities, along with numerous other underwriters and individuals, is named as a defendant, both in its own capacity and as successor to Bear Stearns in a purported class action pending in the United States District Court for the Southern District of New York brought on behalf of purchasers of securities in various IndyMac Trust MBS offerings. The Court in that action has dismissed claims as to certain such securitizations, including all offerings in which no named plaintiff purchased securities, and allowed claims as to other offerings to proceed. Plaintiffs' motion to certify a class of investors in certain offerings is pending, and discovery is ongoing. In addition, JPMorgan Securities and JPMorgan Chase are named as defendants in an individual action filed by the Federal Home Loan Bank of Pittsburgh in connection with a single offering by an affiliate of IndyMac Bancorp. Discovery in that action is ongoing. Separately, JPMorgan Securities, as successor to Bear, Stearns & Co. Inc., along with other underwriters and certain individuals, are defendants in an action pending in state court in California brought by MBIA Insurance Corp. ("MBIA"). The action relates to certain securities issued by IndyMac trusts in offerings in which Bear Stearns was an underwriter, and as to which MBIA provided guaranty insurance policies. MBIA purports to be subrogated to the rights of the MBS holders, and seeks recovery of sums it has paid and will pay pursuant to those policies. Discovery is ongoing. With respect to Thornburg, a Bear Stearns subsidiary is a named defendant in a purported class action pending in the United States District Court for the District of New Mexico along with a number of other financial institutions that served as depositors and/or underwriters for three Thornburg MBS offerings.

In addition to the above-described litigation, JPMorgan Chase has also received, and responded to, a number of subpoenas and informal requests for information from federal authorities concerning mortgage-related matters, including inquiries concerning a number of transactions involving JPMorgan Chase's underwriting and issuance of MBS and its participation in offerings of certain collateralized debt obligations.

In addition to the above mortgage-related matters, JPMorgan Chase is now a defendant in an action commenced by Deutsche Bank, described in more detail below with respect to the Washington Mutual Litigations.

*Mortgage Foreclosure Investigations and Litigation.* Multiple state and federal officials have announced investigations into the procedures followed by mortgage servicing companies and banks, including JPMorgan Chase & Co. and its affiliates, relating to foreclosure and loss mitigation processes. JPMorgan Chase is cooperating with these investigations, and these investigations could result in material fines, penalties, equitable remedies (including requiring default servicing or other process changes), or other enforcement actions, as well as significant legal costs in responding to governmental investigations and additional litigation. Three purported class action lawsuits have also been filed against JPMorgan Chase relating to its mortgage foreclosure procedures.

These investigations and actions follow JPMorgan Chase's decision in late September 2010 to commence a temporary suspension of obtaining mortgage foreclosure judgments in the states and territories that require a judicial foreclosure process. Subsequently, JPMorgan Chase extended this temporary suspension to foreclosure sales in those states and territories that require a judicial foreclosure process, and to foreclosures and foreclosure sales in the majority of remaining states where a judicial process is not required, but where affidavits signed by JPMorgan Chase personnel may have been used as part of the foreclosure process. In mid-October, JPMorgan Chase also temporarily suspended evictions in the states and territories in which it had suspended foreclosures and foreclosure sales, as well as in certain additional states in which an affidavit signed by JPMorgan Chase personnel may have been used in connection with eviction proceedings.

JPMorgan Chase's temporary suspension arose out of certain questions about affidavits of indebtedness prepared by local foreclosure counsel, signed by JPMorgan Chase employees and filed or used in mortgage foreclosure proceedings in certain states. Although JPMorgan Chase believes, based on its work to date, that the statements in those affidavits of indebtedness regarding the fact of default and amount of indebtedness were materially accurate, in certain instances, the underlying review and verification of this information was performed by JPMorgan Chase personnel other than the affiants, or the affidavits may not have been properly notarized.

As of January 2011, JPMorgan Chase has resumed initiation of new foreclosure proceedings in nearly all states in which it had previously suspended such proceedings, utilizing revised procedures in connection with the execution of affidavits and other documents used by JPMorgan Chase employees in the foreclosure process. JPMorgan Chase is also in the process of reviewing pending foreclosure matters in these states to determine whether remediation of specific documentation is necessary, and intends to resume pending foreclosures as the review, and if necessary, remediation, of each pending matter is completed. JPMorgan Chase intends to begin taking these same actions in all remaining states in the near future.

*Municipal Derivatives Investigations and Litigation.* The Department of Justice (in conjunction with the Internal Revenue Service), the Securities and Exchange Commission ("SEC"), a group of state

attorneys general and the Office of the Comptroller of the Currency ("OCC") have been investigating JPMorgan Chase and Bear Stearns for possible antitrust, securities and tax-related violations in connection with the bidding or sale of guaranteed investment contracts and derivatives to municipal issuers. The Philadelphia Office of the SEC provided notice to JPMorgan Securities that it intends to recommend that the SEC bring civil charges in connection with its investigation. JPMorgan Securities has responded to that notice, as well as to a separate notice that the Philadelphia Office of the SEC provided to Bear, Stearns & Co. Inc. JPMorgan Chase has been cooperating with all of these investigations, and is seeking to resolve them on a negotiated basis.

Purported class action lawsuits and individual actions (the "Municipal Derivatives Actions") have been filed against JPMorgan Chase and Bear Stearns, as well as numerous other providers and brokers, alleging antitrust violations in the reportedly $100 billion to $300 billion annual market for financial instruments related to municipal bond offerings referred to collectively as "municipal derivatives." The Municipal Derivatives Actions have been consolidated in the United States District Court for the Southern District of New York. The Court denied in part and granted in part defendants' motions to dismiss the purported class and individual actions, permitting certain claims to proceed against JPMorgan Chase and others under federal and California state antitrust laws and under the California false claims act. Subsequently, a number of additional individual actions asserting substantially similar claims, including claims under New York and West Virginia state antitrust statutes, were filed against JPMorgan Chase, Bear Stearns and numerous other defendants. Most of these cases have been coordinated for pretrial purposes in the United States District Court for the Southern District of New York. JPMorgan Chase is seeking to have the balance of these cases coordinated before the same court. Discovery is ongoing.

Following JPMorgan Securities' settlement with the SEC in connection with certain Jefferson County, Alabama (the "County") warrant underwritings and swap transactions, the County filed a complaint against JPMorgan Chase and several other defendants in the Circuit Court of Jefferson County, Alabama. The suit alleges that JPMorgan Chase made payments to certain third parties in exchange for being chosen to underwrite more than $3 billion in warrants issued by the County and chosen as the counterparty for certain swaps executed by the County. In its complaint, Jefferson County alleges that JPMorgan Chase concealed these third-party payments and that, but for this concealment, the County would not have entered into the transactions. The County further alleges that the transactions increased the risks of its capital structure and that, following the downgrade of certain insurers that insured the warrants, the County's interest obligations increased and the principal due on a portion of its outstanding warrants was accelerated. The Court denied JPMorgan Chase's motion to dismiss the complaint. JPMorgan Chase filed a mandamus petition with the Alabama Supreme Court, seeking immediate appellate review of this decision. The petition is now fully briefed and all proceedings have been stayed pending adjudication of the petition.

A putative class action was filed on behalf of sewer ratepayers against JPMorgan Chase and Bear Stearns and numerous other defendants, based on substantially the same alleged conduct described above. JPMorgan Chase's motion to dismiss the complaint for lack of standing was denied in January 2011.

Two insurance companies that guaranteed the payment of principal and interest on warrants issued by Jefferson County have filed separate actions against JPMorgan Chase (and one of the insurers has also named Jefferson County) in New York state court asserting that defendants fraudulently misled them into issuing the insurance coverage, based upon substantially the same alleged conduct described above and other alleged non-disclosures. One insurer claims that it insured an aggregate principal amount of nearly $1.2 billion in warrants, and seeks unspecified damages in excess of $400 million, as well as unspecified punitive damages. The other insurer claims that it insured an aggregate principal amount of more than $378 million and seeks recovery of $4 million that it alleges it paid under the policies to date as well as any payments it will make in the future and unspecified punitive damages. In December 2010, the court denied JPMorgan Chase's motions to dismiss each of the complaints and the parties are currently engaged in discovery.

The Alabama Public Schools and College Authority ("APSCA") brought a declaratory judgment action in the United States District Court for the Northern District of Alabama claiming that certain interest rate swaption transactions entered into with JPMorgan Chase Bank, N.A. are void on the grounds that the APSCA purportedly did not have the authority to enter into the transactions or, alternatively, are voidable at the APSCA's option because of its alleged inability to issue refunding bonds in relation to the swaption. The action was settled in December 2010 for a payment by APSCA to JPMorgan Chase and, pursuant to the settlement, the court dismissed the action by order dated December 27, 2010.

*Overdraft Fee/Debit Posting Order Litigation.* JPMorgan Chase Bank, N.A. has been named as a defendant in several purported class actions relating to its practices in posting debit card transactions to customers' deposit accounts. Plaintiffs allege that JPMorgan Chase improperly re-ordered debit card transactions from the highest amount to lowest amount before processing these transactions in order to generate unwarranted overdraft fees. Plaintiffs contend that JPMorgan Chase should have processed such transactions in the chronological order they were authorized. Plaintiffs seek the disgorgement of all overdraft fees paid to JPMorgan Chase by plaintiffs, since approximately 2003, as a result of the re-ordering of debit card transactions. The claims against JPMorgan Chase have been consolidated with numerous complaints against other national banks in Multi-District Litigation pending in the United States District Court for the Southern District of Florida. JPMorgan Chase's motion to compel arbitration of certain plaintiffs' claims was denied by the District Court. That ruling is currently on appeal. Discovery is proceeding in the District Court. Plaintiffs' motion for class certification is due to be filed in April 2011.

*Petters Bankruptcy and Related Matters.* JPMorgan Chase and certain of its affiliates, including One Equity Partners, LLC ("OEP"), have been named as defendants in several actions filed in connection with the receivership and bankruptcy proceedings pertaining to Thomas J. Petters and certain entities affiliated with Petters (collectively, "Petters") and the Polaroid Corporation. The principal actions against JPMorgan Chase and its affiliates have been brought by the receiver and bankruptcy trustee for Petters and generally seek to avoid, on fraudulent transfer and preference grounds, certain purported transfers in connection with (i) the 2005 acquisition of Polaroid by Petters, which at the time was majority-owned by OEP; (ii) two credit facilities that JPMorgan Chase and other financial institutions entered into with Polaroid; and (iii) a credit line and investment accounts held by Petters. The actions collectively seek recovery of approximately $450 million.

*Securities Lending Litigation.* JPMorgan Chase Bank, N.A. has been named as a defendant in four putative class actions asserting ERISA and other claims pending in the United States District Court for the Southern District of New York brought by participants in JPMorgan Chase's securities lending business. A fifth lawsuit was filed in New York state court by an individual participant in the program. Three of the purported class actions, which have been consolidated, relate to investments of approximately $500 million in medium-term notes of Sigma Finance Inc. ("Sigma"). In August 2010, the Court certified a plaintiff class consisting of all securities lending participants that held Sigma medium-term notes on September 30, 2008, including those that held the notes by virtue of participation in the investment of cash collateral through a collective fund, as well as those that held the notes by virtue of the investment of cash collateral through individual accounts. All discovery has been completed. The Court has set a schedule for filing summary judgment briefs, pursuant to which JPMorgan Chase's motion is to be fully briefed by April 2011.

The fourth putative class action concerns investments of approximately $500 million in Lehman Brothers medium-term notes. JPMorgan Chase has moved to dismiss the amended complaint and is awaiting a decision. The Magistrate Judge ordered discovery to proceed while the motion is pending, but this ruling is on appeal to the District Judge and also is awaiting a decision. The New York state court action, which is not a class action, concerns the plaintiff's alleged loss of money in both Sigma and Lehman Brothers medium-term notes. JPMorgan Chase has answered the complaint. The Court denied JPMorgan Chase's motion to stay this action pending resolution of the proceedings in federal court, and discovery has commenced.

*Service Members Civil Relief Act and Housing and Economic Recovery Act Investigations and Litigation.* Multiple government officials have announced their intent to commence, or have commenced, inquiries into JPMorgan Chase's procedures related to the Service Members Civil Relief Act ("SCRA") and the Housing and Economic Recovery Act of 2008 ("HERA"). These inquiries have been prompted by JPMorgan Chase's public statements about its SCRA and HERA compliance and actions to remedy certain instances in which JPMorgan Chase mistakenly charged active or recently-active military personnel mortgage interest and fees in excess of that permitted by SCRA and HERA, and in a number of instances, foreclosed on borrowers protected by SCRA and HERA. JPMorgan Chase has implemented a number of procedural enhancements and controls to strengthen its SCRA and HERA compliance and is still reviewing the circumstances under which these issues arose. In addition, an individual borrower has filed a purported nationwide class action in United States District Court for South Carolina against JPMorgan Chase alleging violations of the SCRA.

*Washington Mutual Litigations.* Subsequent to JPMorgan Chase Bank, N.A.'s acquisition from the Federal Deposit Insurance Corporation ("FDIC") of substantially all of the assets and certain specified liabilities of Washington Mutual Bank, Henderson Nevada ("Washington Mutual Bank"), in September 2008, Washington Mutual Bank's parent holding company, Washington Mutual, Inc. ("WMI") and its wholly-owned subsidiary, WMI Investment Corp. (together, the "Debtors"), both commenced voluntary cases under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Case"). In the Bankruptcy Case, the Debtors have asserted rights and interests in certain assets. The assets in dispute include principally the following: (a) approximately $4 billion in trust securities contributed by WMI to Washington Mutual Bank (the "Trust Securities"); (b) the right to tax refunds arising from overpayments attributable to operations of Washington Mutual Bank and its subsidiaries; (c) ownership of and other rights in approximately $4 billion that WMI contends are deposit accounts at Washington Mutual Bank and one of its subsidiaries; and (d) ownership of and rights in various other contracts and other assets (collectively, the "Disputed Assets").

WMI, JPMorgan Chase and the FDIC have since been involved in litigations over these and other claims pending in the Bankruptcy Court and the United States District Court for the District of Columbia.

In May 2010, WMI, JPMorgan Chase and the FDIC announced a global settlement agreement among themselves and significant creditor groups (the "Global Settlement Agreement"). The Global Settlement Agreement is incorporated into WMI's proposed Chapter 11 plan ("the Plan") that has been submitted to the Bankruptcy Court. If approved by the Bankruptcy Court, the Global Settlement would resolve numerous disputes among WMI, JPMorgan Chase, the FDIC in its capacity as receiver for Washington Mutual Bank and the FDIC in its corporate capacity, as well as those of significant creditor groups, including disputes relating to the Disputed Assets.

Other proceedings related to Washington Mutual's failure are also pending before the Bankruptcy Court. Among other actions, in July 2010, certain holders of the Trust Securities commenced an adversary proceeding in the Bankruptcy Court against JPMorgan Chase, WMI, and other entities seeking, among other relief, a declaratory judgment that WMI and JPMorgan Chase do not have any right, title or interest in the Trust Securities. In early January 2011, the Bankruptcy Court granted summary judgment to JPMorgan Chase and denied summary judgment to the plaintiffs in the Trust Securities adversary proceeding.

The Bankruptcy Court considered confirmation of the Plan, including the Global Settlement Agreement, in hearings in early December 2010. In early January 2011, the Bankruptcy Court issued an opinion in which it concluded that the Global Settlement Agreement is fair and reasonable, but that the Plan cannot be confirmed until the parties correct certain deficiencies, which include the scope of releases. None of these deficiencies relate to the Disputed Assets. The Equity Committee, which represents shareholders of WMI, has filed a petition seeking a direct appeal to the United States Court of Appeals for the Third Circuit from so much of the Bankruptcy Court's ruling that found the settlement to be fair and reasonable. A revised Plan was filed with the Bankruptcy Court in February 2011, and the Bankruptcy Court has scheduled a hearing for May 2, 2011. If the Global Settlement is effected and the Plan is confirmed, JPMorgan Chase currently estimates it will not incur additional obligations beyond those already reflected in its liabilities for the numerous disputes covered by the Global Settlement.

Other proceedings related to Washington Mutual's failure are pending before the United States District Court for the District of Columbia, including a lawsuit brought by Deutsche Bank National Trust Company, initially against the FDIC, asserting an estimated $6 billion to $10 billion in damages based upon alleged breach of various mortgage securitization agreements and alleged violation of certain representations and warranties given by certain WMI subsidiaries in connection with those securitization agreements. Deutsche Bank filed an amended complaint in August 2010, adding JPMorgan Chase Bank, N.A. as a party. The amended complaint includes assertions that JPMorgan Chase may have assumed liabilities relating to the mortgage securitization agreements. In November 2010, JPMorgan Chase and the FDIC moved to dismiss the complaint. JPMorgan Chase also moved for a partial summary judgment holding that the FDIC retained liability for Deutsche Bank's claims.

In addition, JPMorgan Chase was sued in an action originally filed in State District Court in Texas (the "Texas Action") by certain holders of WMI common stock and debt of WMI and Washington Mutual Bank who seek unspecified damages alleging that JPMorgan Chase acquired substantially all of the assets of Washington Mutual Bank from the FDIC at an allegedly too-low price. The Texas Action was transferred to the United States District Court for the District of Columbia, which ultimately granted JPMorgan Chase's and the FDIC's motions to dismiss the complaint. Plaintiffs have appealed this dismissal to the United States Court of Appeals for the District of Columbia Circuit. Oral argument is currently scheduled for April 5, 2011.

* * *

In addition to the various legal proceedings discussed above, JPMorgan Chase Bank, N.A. and its subsidiaries are named as defendants or otherwise involved in a substantial number of other legal proceedings. JPMorgan Chase Bank, N.A. believes it has meritorious defenses to the claims asserted against it in its currently outstanding legal proceedings and it intends to defend itself vigorously in all such matters. Additional legal proceedings may be initiated from time to time in the future.

JPMorgan Chase Bank, N.A. has established reserves for several hundred of its currently outstanding legal proceedings. JPMorgan Chase Bank, N.A. accrues for potential liability arising from such proceedings when it is probable that such liability has been incurred and the amount of the loss can be reasonably estimated. JPMorgan Chase Bank, N.A. evaluates its outstanding legal proceedings each quarter to assess its litigation reserves, and makes adjustments in such reserves, upwards or downwards, as appropriate, based on management's best judgment after consultation with counsel. During the years ended December 31, 2010, 2009 and 2008, JPMorgan Chase Bank, N.A. incurred $6.2 billion, $57 million and $251 million, respectively, of litigation expense. There is no assurance that JPMorgan Chase Bank, N.A.'s litigation reserves will not need to be adjusted in the future.

In view of the inherent difficulty of predicting the outcome of legal proceedings, particularly where the claimants seek very large or indeterminate damages, or where the matters present novel legal theories, involve a large number of parties or are in early stages of discovery, JPMorgan Chase Bank, N.A. cannot state with confidence what the eventual outcome of the currently pending matters will be, what the timing of the ultimate resolution of these pending matters will be or what the eventual loss, fines, penalties or impact related to each currently pending matter may be. JPMorgan Chase Bank, N.A. believes, based upon its current knowledge, after consultation with counsel and after taking into account its current litigation reserves, that the legal proceedings currently pending against it should not have a material adverse effect on JPMorgan Chase Bank, N.A.'s consolidated financial condition. JPMorgan Chase Bank, N.A. notes, however, that in light of the uncertainties involved in such proceedings, there is no assurance the ultimate resolution of these matters will not significantly exceed the reserves it has currently accrued; as a result, the outcome of a particular matter may be material to JPMorgan Chase Bank, N.A.'s operating results for a particular period, depending on, among other factors, the size of the loss or liability imposed and the level of JPMorgan Chase Bank, N.A.'s income for that period.

## Note 31 – International operations

Financial information regarding international operations is accumulated, managed and discussed at the JPMorgan Chase level and not at the subsidiary level (i.e., JPMorgan Chase Bank, N.A.). For financial reporting purposes, JPMorgan Chase Bank, N.A. is viewed by JPMorgan Chase as a legal entity only; financial information for international operations is not used to manage JPMorgan Chase Bank, N.A.

## Note 32 – Business segments

U.S. GAAP for segments of an enterprise and related information defines the criteria by which management determines the number and nature of its "operating segments" (i.e., business segments) and sets forth the financial information that is required to be disclosed about these business segments. This information is accumulated, managed and discussed at the JPMorgan Chase level and not at the subsidiary level (i.e., JPMorgan Chase Bank, N.A.). For financial reporting purposes, JPMorgan Chase Bank, N.A. is viewed by JPMorgan Chase as a legal entity only; business segment financial information is not prepared for JPMorgan Chase Bank, N.A.

JPMorgan Chase Bank, National Association
(a wholly owned subsidiary of JPMorgan Chase & Co.)

## Selected quarterly financial data (unaudited)

| (in millions, except ratio data) | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| As of or for the period ended | 4th | 3rd | 2nd | 1st | 4th | 3rd | 2nd | 1st |
| **Selected income statement data** | | | | | | | | |
| Noninterest revenue | **$ 10,207** | $ 7,920 | $ 10,331 | $ 10,205 | $ 8,097 | $ 10,110 | $ 9,434 | $ 10,756 |
| Net interest income | **8,638** | 8,982 | 8,887 | 9,424 | 9,570 | 9,714 | 9,844 | 10,463 |
| **Total net revenue** | **18,845** | 16,902 | 19,218 | 19,629 | 17,667 | 19,824 | 19,278 | 21,219 |
| Provision for credit losses | **2,742** | 1,941 | 1,292 | 3,431 | 5,626 | 5,209 | 5,799 | 6,078 |
| Total noninterest expense | **12,947** | 11,655 | 12,150 | 12,679 | 9,687 | 10,934 | 11,379 | 11,391 |
| **Income before income tax expense and extraordinary gain** | **3,156** | 3,306 | 5,776 | 3,519 | 2,354 | 3,681 | 2,100 | 3,750 |
| Income tax expense | **570** | 751 | 1,825 | 785 | 475 | 1,173 | 644 | 1,247 |
| **Income before extraordinary gain** | **2,586** | 2,555 | 3,951 | 2,734 | 1,879 | 2,508 | 1,456 | 2,503 |
| Extraordinary gain[a] | **—** | — | — | — | — | 76 | — | — |
| **Net income** | **$ 2,586** | $ 2,555 | $ 3,951 | $ 2,734 | $ 1,879 | $ 2,584 | $ 1,456 | $ 2,503 |
| **Selected ratios** | | | | | | | | |
| Tier 1 capital[b] | **9.5%** | 10.2% | 10.5% | 10.0% | 9.5% | 9.1% | 9.3% | 9.0% |
| Total capital | **13.5** | 14.3 | 14.6 | 14.1 | 13.5 | 12.9 | 13.1 | 12.8 |
| Tier 1 leverage | **5.7** | 6.3 | 6.1 | 6.0 | 6.0 | 5.9 | 6.2 | 6.1 |
| Tier 1 common capital[c] | **9.4** | 10.2 | 10.4 | 9.9 | 9.4 | 9.0 | 9.2 | 8.9 |
| **Selected balance sheet data (period-end)** | | | | | | | | |
| Trading assets | **$ 358,150** | $ 355,575 | $ 293,927 | $ 325,713 | $ 302,589 | $ 314,434 | $ 276,837 | $ 299,428 |
| Securities | **310,762** | 334,447 | 307,380 | 339,922 | 347,873 | 359,903 | 334,618 | 323,980 |
| Loans | **553,004** | 559,220 | 559,219 | 566,013 | 558,424 | 576,908 | 596,605 | 628,358 |
| Allowance for credit losses | **(23,126)** | (23,147) | (23,363) | (24,473) | (24,701) | (23,621) | (22,740) | (20,977) |
| Total assets | **1,631,621** | 1,642,691 | 1,568,093 | 1,674,523 | 1,627,684 | 1,669,868 | 1,663,998 | 1,688,164 |
| Deposits | **1,019,993** | 984,210 | 969,042 | 1,020,582 | 1,024,036 | 962,505 | 974,480 | 979,696 |
| Long-term debt | **63,300** | 65,259 | 65,643 | 68,649 | 68,679 | 66,734 | 68,267 | 66,374 |
| Total stockholder's equity | **123,217** | 132,170 | 130,905 | 127,370 | 127,294 | 128,046 | 131,130 | 130,548 |

(a) On September 25, 2008, JPMorgan Chase Bank, N.A. acquired the banking operations of Washington Mutual Bank. The Washington Mutual acquisition resulted in negative goodwill, and accordingly, JPMorgan Chase Bank, N.A. recorded an extraordinary gain. For additional information on this transaction, see Note 3 on pages 9–12 of these Consolidated Financial Statements.

(b) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted new guidance that amended the accounting for the consolidation of VIEs, which resulted in a decrease in the Tier 1 capital ratio of 28 basis points. See Note 17 on pages 82–97 of these Consolidated Financial Statements for further information.

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

# Supplementary information

JPMorgan Chase Bank, National Association
(a wholly owned subsidiary of JPMorgan Chase & Co.)

## Selected annual financial data (unaudited)

(in millions, except ratio data)

| As of or for the year ended December 31, | 2010 | 2009 | 2008[c] | 2007 | 2006 |
|---|---|---|---|---|---|
| **Selected income statement data** | | | | | |
| Noninterest revenue | **$ 38,663** | **$ 38,397** | $ 33,229 | $ 31,630 | $ 29,191 |
| Net interest income | **35,931** | **39,591** | 31,517 | 23,137 | 18,135 |
| **Total net revenue** | **74,594** | **77,988** | 64,746 | 54,767 | 47,326 |
| Provision for credit losses | **9,406** | **22,712** | 14,704 | 4,672 | 1,809 |
| Provision for credit losses – accounting conformity[a] | **—** | **—** | 1,534 | — | — |
| Total noninterest expense | **49,431** | **43,391** | 37,284 | 33,998 | 31,909 |
| **Income from continuing operations before income tax expense** | **15,757** | **11,885** | 11,224 | 16,097 | 13,608 |
| Income tax expense | **3,931** | **3,539** | 2,711 | 5,365 | 4,487 |
| **Income from continuing operations** | **11,826** | **8,346** | 8,513 | 10,732 | 9,121 |
| Income from discontinued operations[b] | **—** | **—** | — | — | 798 |
| Income before extraordinary gain | **11,826** | **8,346** | 8,513 | 10,732 | 9,919 |
| Extraordinary gain[c] | **—** | **76** | 1,906 | — | — |
| **Net income** | **$ 11,826** | **$ 8,422** | $ 10,419 | $ 10,732 | $ 9,919 |
| **Selected ratios** | | | | | |
| Tier 1 capital[d] | **9.5%** | **9.5%** | 8.7% | 8.3% | 8.2% |
| Total capital | **13.5** | **13.5** | 12.5 | 11.8 | 11.4 |
| Tier 1 leverage | **5.7** | **6.0** | 5.9 | 6.2 | 5.9 |
| Tier 1 common capital[e] | **9.4** | **9.4** | 8.6 | 8.1 | 8.1 |
| **Selected balance sheet data (period-end)** | | | | | |
| Trading assets | **$ 358,150** | **$ 302,589** | $ 365,365 | $ 390,459 | $ 284,282 |
| Securities | **310,762** | **347,873** | 199,744 | 82,511 | 88,487 |
| Loans | **553,004** | **558,424** | 662,312 | 461,662 | 421,833 |
| Allowance for credit losses | **(23,126)** | **(24,701)** | (17,809) | (7,864) | (5,693) |
| Total assets | **1,631,621** | **1,627,684** | 1,746,242 | 1,318,888 | 1,179,390 |
| Deposits | **1,019,993** | **1,024,036** | 1,055,765 | 772,087 | 640,466 |
| Long-term debt | **63,300** | **68,679** | 72,462 | 88,175 | 71,869 |
| Total stockholder's equity | **123,217** | **127,294** | 128,767 | 106,346 | 96,010 |

(a) Results for 2008 included an accounting conformity credit loss reserve provision related to the acquisition of Washington Mutual's banking operations.

(b) On October 1, 2006, JPMorgan Chase & Co. completed the exchange of selected corporate trust businesses for the consumer, business banking and middle-market banking businesses of The Bank of New York Company Inc. The financial performance of these corporate trust businesses are reported as discontinued operations for each of the periods presented.

(c) On September 25, 2008, JPMorgan Chase Bank, N.A. acquired the banking operations of Washington Mutual Bank. The Washington Mutual acquisition resulted in negative goodwill, and accordingly, JPMorgan Chase Bank, N.A. recorded an extraordinary gain. For additional information on this transaction, see Note 3 on pages 9–12 of these Consolidated Financial Statements.

(d) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted new guidance that amended the accounting for the consolidation of VIEs, which resulted in a decrease in the Tier 1 capital ratio of 28 basis points. See Note 17 on pages 82–97 of these Consolidated Financial Statements for further information.

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

# Glossary of Terms

JPMorgan Chase Bank, National Association
(a wholly owned subsidiary of JPMorgan Chase & Co.)

**Advised lines of credit:** An authorization which specifies the maximum amount of a credit facility JPMorgan Chase Bank, N.A. has made available to an obligor on a revolving but non-binding basis. The borrower receives written or oral advice of this facility. JPMorgan Chase Bank, N.A. may cancel this facility at any time.

**Bear Stearns merger:** Effective May 30, 2008, JPMorgan Chase merged with The Bear Stearns Companies Inc. ("Bear Stearns"), and Bear Stearns became a wholly-owned subsidiary of JPMorgan Chase. The final total purchase price to complete the merger was $1.5 billion. For additional information, see Note 2 on pages 166–170 of this Annual Report.

**Beneficial interest issued by consolidated VIEs:** Represents the interest of third-party holders of debt/equity securities, or other obligations, issued by VIEs that JPMorgan Chase Bank, N.A. consolidates. The underlying obligations of the VIEs consist of short-term borrowings, commercial paper and long-term debt. The related assets consist of trading assets, available-for-sale securities, loans and other assets.

**Benefit obligation:** Refers to the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for OPEB plans.

**Credit derivatives:** Contractual agreements that provide protection against a credit event on one or more referenced credits. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency or failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of a credit event.

**Discontinued operations:** A component of an entity that is classified as held-for-sale or that has been disposed of from ongoing operations in its entirety or piecemeal, and for which the entity will not have any significant, continuing involvement. A discontinued operation may be a separate major business segment, a component of a major business segment or a geographical area of operations of the entity that can be separately distinguished operationally and for financial reporting purposes.

**FASB:** Financial Accounting Standards Board.

**FDIC:** Federal Deposit Insurance Corporation.

**FICO:** Fair Isaac Corporation.

**Forward points:** Represents the interest rate differential between two currencies, which is either added to or subtracted from the current exchange rate (i.e., "spot rate") to determine the forward exchange rate.

**Interchange income:** A fee that is paid to a credit card issuer in the clearing and settlement of a sales or cash advance transaction.

**Investment-grade:** An indication of credit quality based on JPMorgan Chase Bank, N.A.'s internal risk assessment system. "Investment grade" generally represents a risk profile similar to a rating of a "BBB-"/ "Baa3" or better, as defined by independent rating agencies.

**LLC:** Limited liability company

**Loan-to-value ("LTV") ratio:** For residential real estate loans, the relationship expressed as a percent, between the principal amount of a loan and the appraised value of the collateral (i.e., residential real estate) securing the loan.

*Origination date LTV ratio*
The LTV ratio at the origination date of the loan. Origination date LTV ratios are calculated based on the actual appraised values of collateral (i.e., loan-level data) at the origination date.

*Current estimated LTV ratio*
An estimate of the LTV as of a certain date. The current estimated LTV ratios are calculated using estimated collateral values derived from a nationally recognized home price index measured at the MSA level. These MSA-level home price indices are comprised of actual data to the extent available and forecasted data where actual data is not available. As a result, the estimated collateral values used to calculate these ratios do not represent actual appraised loan-level collateral values; as such, the resulting LTV ratios are necessarily imprecise and should therefore be viewed as estimates.

*Combined LTV ratio*
The LTV ratio considering all lien positions related to the property. Combined LTV ratios are used for junior lien home equity products.

**Mark-to-market exposure:** A measure, at a point in time, of the value of a derivative or foreign exchange contract in the open market. When the MTM value is positive, it indicates the counterparty owes JPMorgan Chase Bank, N.A. and, therefore, creates credit risk for JPMorgan Chase Bank, N.A. When the MTM value is negative, JPMorgan Chase Bank, N.A. owes the counterparty; in this situation, JPMorgan Chase Bank, N.A. has liquidity risk.

**Master netting agreement:** An agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract.

**Merger costs:** Reflects costs associated with the Bear Stearns merger and the Washington Mutual transaction in 2008.

**Mortgage product types:**

*Alt-A*
Alt-A loans are generally higher in credit quality than subprime loans but have characteristics that would disqualify the borrower from a traditional prime loan. Alt-A lending characteristics may include one or more of the following: (i) limited documentation; (ii) high combined-loan-to-value ("CLTV") ratio; (iii) loans secured by non-owner occupied properties; or (iv) debt-to-income ratio above normal limits. Perhaps the most important characteristic is limited documentation. A substantial proportion of traditional Alt-A loans are those where a borrower does not provide complete documentation of his or her assets or the amount or source of his or her income.

*Option ARMs*
The option ARM real estate loan product is an adjustable-rate mortgage loan that provides the borrower with the option each month to make a fully amortizing, interest-only, or minimum payment. The minimum payment on an option ARM loan is based on the interest rate charged during the introductory period. This introductory rate is

usually significantly below the fully indexed rate. The fully indexed rate is calculated using an index rate plus a margin. Once the introductory period ends, the contractual interest rate charged on the loan increases to the fully indexed rate and adjusts monthly to reflect movements in the index. The minimum payment is typically insufficient to cover interest accrued in the prior month, and any unpaid interest is deferred and added to the principal balance of the loan. Option ARM loans are subject to payment recast, which converts the loan to a variable-rate fully amortizing loan upon meeting specified loan balance and anniversary date triggers.

*Prime*
Prime mortgage loans generally have low default risk and are made to borrowers with good credit records and a monthly income that is at least three to four times greater than their monthly housing expense (mortgage payments plus taxes and other debt payments). These borrowers provide full documentation and generally have reliable payment histories.

*Subprime*
Subprime loans are designed for customers with one or more high risk characteristics, including but not limited to: (i) unreliable or poor payment histories; (ii) a high LTV ratio of greater than 80% (without borrower-paid mortgage insurance); (iii) a high debt-to-income ratio; (iv) an occupancy type for the loan is other than the borrower's primary residence; or (v) a history of delinquencies or late payments on the loan.

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

**NA:** Data is not applicable or available for the period presented.

**Net charge-off ratio:** Represents net charge-offs (annualized) divided by average retained loans for the reporting period.

**Nonconforming mortgage loans:** Mortgage loans that do not meet the requirements for sale to U.S. government agencies and U.S. government sponsored enterprises. These requirements include limits on loan-to-value ratios, loan terms, loan amounts, down payments, borrower creditworthiness and other requirements.

**OPEB:** Other postretirement employee benefits.

**Principal transactions:** Realized and unrealized gains and losses from trading activities (including physical commodities inventories that are accounted for at the lower of cost or fair value) and changes in fair value associated with financial instruments held predominantly by the investment banking business for which the fair value option was elected.

**Purchased credit-impaired ("PCI") loans:** Acquired loans deemed to be credit-impaired under the FASB guidance for PCI loans. The guidance allows purchasers to aggregate credit-impaired loans acquired in the same fiscal quarter into one or more pools, provided that the loans have common risk characteristics (e.g., FICO score, geographic location). A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Wholesale loans are determined to be credit-impaired if they meet the definition of an impaired loan under U.S. GAAP at the acquisition date. Consumer loans are determined to be credit-impaired based on specific risk characteristics of the loan, including product type, LTV ratios, FICO scores, and past due status.

**Real estate investment trust ("REIT"):** A special purpose investment vehicle that provides investors with the ability to participate directly in the ownership or financing of real-estate related assets by pooling their capital to purchase and manage income property (i.e., equity REIT) and/or mortgage loans (i.e., mortgage REIT). REITs can be publicly- or privately-held and they also qualify for certain favorable tax considerations.

**Retained loans:** Loans that are held-for-investment excluding loans held-for-sale and loans carried at fair value.

**Troubled debt restructuring ("TDR"):** Occurs when JPMorgan Chase Bank, N.A. modifies the original terms of a loan agreement by granting a concession to a borrower that is experiencing financial difficulty.

**Unaudited:** Financial statements and information that have not been subjected to auditing procedures sufficient to permit an independent certified public accountant to express an opinion.

**U.S. GAAP:** Accounting principles generally accepted in the United States of America.

**U.S. government and federal agency obligations:** Obligations of the U.S. government or an instrumentality of the U.S. government whose obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

**U.S. government-sponsored enterprise obligations:** Obligations of agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

**Washington Mutual transaction:** On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank ("Washington Mutual") from the FDIC for $1.9 billion. The final allocation of the purchase price resulted in the recognition of negative goodwill and an extraordinary gain of $2.0 billion. For additional information, see Note 3 on pages 9–12 of these Consolidated Financial Statements.