Dear Fellow Shareholders,

Your company earned a record $19.0 billion in 2011, up 9% from the record earnings of $17.4 billion in 2010.

Our return on tangible equity for 2011 was 15% — the same as last year. Relative to our competitors and given the prevailing economic environment, this is a good result. On an absolute and static basis, we believe that our earnings should be $23 billion–$24 billion. The main reason for the difference between what we *are* earning and what we *should* be earning continues to be high costs and losses in mortgage and mortgage-related issues. While these losses are increasingly less severe, they will still persist at elevated levels for a while longer. Looking ahead, we believe our earnings power should grow over time, though we always expect volatility in our earnings — it is the nature of the various businesses we operate.

2011 was another year of challenges for JPMorgan Chase, the financial services industry and the economies of many countries around the world. In addition to the ongoing global economic uncertainty, other traumatic events — such as the earthquake and tsunami in Japan, the debt ceiling fiasco in the United States, revolutions in the Middle East and the European debt crisis — have impeded recovery. In the face of these tragic events and unfortunate setbacks, the frustration with — and hostility toward — our industry continues. We acknowledge it and respect people's right to express themselves. However, we all have an interest in getting the economy and job creation growing again.

In the face of many difficult challenges, JPMorgan Chase is trying to do its part. We have not retrenched. Just the opposite — we have stepped up.

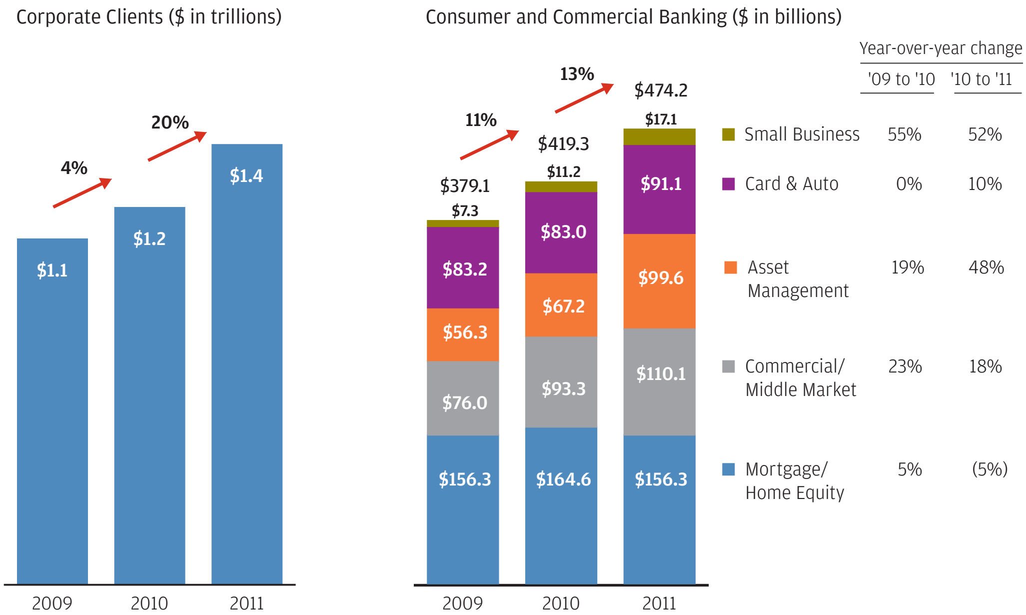
Over the past year, our people demonstrated once again that the work we do matters. We positively impact the lives of millions of people and the communities in which they live. Our duty is to serve them by stepping into the arena each day and putting our resources and our voices to work on their behalf. For us, standing on the sidelines simply is not an option.

Jamie Dimon,
Chairman and
Chief Executive Officer

During 2011, the firm raised capital and provided credit of over $1.8 trillion for our commercial and consumer clients, up 18% from the prior year. We provided more than $17 billion of credit to U.S. small businesses, up 52% over last year. We raised capital or provided credit of $68 billion for more than 1,200 not-for-profit and government entities, including states, municipalities, hospitals and universities. We also issued new credit cards to 8.5 million people and originated more than 765,000 mortgages. To help struggling homeowners, we have offered over 1.2 million mortgage modifications since 2009 and completed more than 450,000.

We also bought back $9 billion of stock and recently received permission to buy back an additional $15 billion of stock during the remainder of 2012 and the first quarter of 2013. We reinstated our annual dividend to $1.00 a share in April 2011 and recently announced that we are increasing it to $1.20 a share in April 2012. And we continued to build our business by heavily investing in infrastructure, systems, technology and new products and by adding bankers and branches around the world.

New and Renewed Capital and Credit for Our Clients



The best way to build shareholder value is to build a great company, with exemplary products and services, excellent systems, quality accounting and reporting, effective controls and outstanding people. If you continually build a great company, the stock price will follow. Normally, we don't comment on the stock price. However, we make an exception in Section VIII of this letter because we are buying back a substantial amount of stock and because there are many concerns about investing in bank stocks.

We believe you own an exceptional company. Each of our businesses is among the best in the world, and record earnings were matched by increased market share in most of our businesses. Most importantly, we have outstanding people working at every level in every business across the economic spectrum and around the world. This is no accident - we work hard to bring people with character, integrity and intelligence into this company.

There is always room for improvement, but the strengths that are embedded in this company — our people, client relationships, product capabilities, technology, global presence and fortress balance sheet — provide us with a foundation that is rock solid and an ability to thrive regardless of what the future brings.

In this letter, I will focus my comments on the important issues affecting your company, including some of the regulatory and political issues facing us.

The main sections of the letter are as follows:

I. Our mission and how we operate to fulfill our role in society

II. A brief update on our major initiatives

III. The new One Chase — strengthening the customer experience

IV. An intense focus in 2012 on adapting our businesses successfully to the new regulatory framework

V. Comments on global financial reform

VI. The mortgage business — the good, the bad and the ugly

VII. Comments on the future of investment banking and the critical role of market making

VIII. Why would you want to own the stock?

IX. Closing

I. OUR MISSION AND HOW WE OPERATE TO FULFILL OUR ROLE IN SOCIETY

We are constantly asked the question of what comes first in your company – customers, employees, shareholder value or being a good corporate citizen – which implies a need to favor one over the other. We disagree with this view. We must serve them all well. If we fail at any one, the whole enterprise suffers.

Our customers, employees, shareholder value and communities *all* come first

Many people seem to think that shareholder value means profit and that a company earns more profit by giving customers or employees less. This has not been our experience. Our job is to build a healthy and vibrant company that satisfies clients, invests in its people – through training, opportunity and compensation – and rewards its shareholders. When this is done well, everyone benefits. At the same time, a company needs to be successful financially because if it isn't, it ultimately will fail. And when a company fails, everyone loses.

How we view our customers — we wouldn't be here without them

There would be no company but for our customers. Without our consumer or corporate clients – and satisfied ones at that – there would be no profits, no bankers, no staff and no CEO.

At JPMorgan Chase, we believe that customers should be treated like we would want to be treated ourselves. Customers usually don't mind paying a fair price for a product or service they need, particularly if it is delivered well and accompanied with a smile. We are constantly looking for better ways to provide, combine and deliver products that meet or exceed our customers' expectations. And we try to listen closely to our customers – even when they complain – because they are doing us a service by telling us how we could do better. It means a lot to a customer when we respond not only by listening but also by actually changing.

How we view our employees — they do it all

Doing a great job starts with great employees. We look for high-quality people with the capability to do a great job and grow with the firm. Then we train and empower them to do the right thing as best they can; to understand and anticipate their customers' needs; and, in effect, to be their advocate. To do this, each employee needs help from the rest of the company.

There are many employees who work behind the scenes that the customers do not see – such as programmers, assistants, network engineers, operations clerks and others. But these are the professionals we depend upon to help us seamlessly deliver integrated and complex products.

And all of our employees drive innovation. They have the knowledge and the deep understanding to find ways – large and small – to improve a system, streamline a process, and save time and money by making things work better for everybody.

How we view our communities — they are our hosts, our customers and our future

Doing the right thing for shareholders also means being a good corporate citizen.

If you owned a small business (e.g., the corner grocery store in a small town), more likely than not, you would be a good citizen by keeping the snow and ice off the sidewalk in front of your store or by contributing to a local Little League team, school or community center. You would participate in the community, and everyone would be better off because of your contributions. As a large company that operates in 2,000 communities around the world, we should act no differently. We participate at the local level by providing corporate support and by asking our associates to get involved in the towns where they live. We also participate in large-scale, country-wide and sometimes global projects, but the intent is the same – to improve the world in which we live.

In 2011, JPMorgan Chase contributed more than $200 million directly to community organizations and local not-for-profits. Our employees also provided nearly 375,000 hours of volunteer service through our Good Works program in local communities.

However, our efforts go well beyond philanthropic works. We finance and advise cities, states, municipalities, hospitals and universities – not just about financial affairs but also in related areas of governance, growth and sustainability. In 2011, we launched The Brookings JPMorgan Chase Global Cities Initiative with a $10 million commitment to help the 100 largest U.S. metropolitan areas become more competitive in the global economy.

Our business also provides dedicated expertise and financing for economically challenged areas of the world. For example, we partner with multiple global institutions, such as the U.S. Agency for International Development and the Bill & Melinda Gates Foundation, to help launch and support businesses that directly benefit small and rural farmers in Africa. Additionally, we are able to bring private capital to bear on scale solutions to global health problems such as tuberculosis and malaria. And we have just launched a philanthropic program focusing on entrepreneurship in South Africa.

I would like to mention one initiative of which we are particularly proud. After making some embarrassing mistakes with active military personnel, we redoubled our efforts to help military personnel and veterans – men and women to whom we owe a tremendous debt of gratitude for the sacrifices they have made – get jobs and transition out of active service to civilian life. Our efforts are working – over the past 12 months we have hired more than 3,000 veterans.

In short, we are part of our communities in every way possible – from the largest countries to the smallest towns.

It's a big responsibility to be a bank — and communities are better off if we do it well

If the financial crisis has taught us anything, it has taught us that being a strong bank in good times and, more important, in bad times is critical to the customers, communities and countries we serve around the world. Every day, our customers need us to deliver cash of $600 million and to reliably and quickly move $10 trillion around the world, where and when it is needed. Our customers trust us to safeguard $17 trillion of their assets under custody, manage $1.9 trillion of assets under supervision and protect $1.1 trillion of their deposits.

We provide our consumer and business customers with more than $700 billion outstanding of loans. We also are prepared to lend them an ***additional*** $975 billion, under committed lines, if they need it. Customers count on us to be there for them. And if we fail to do our job, they may fail as well. Money and credit are like oxygen for the economy. And like the oxygen you breathe, you really notice it when it is not there.

Unfortunately, sometimes we have to decline a customer request. Extending credit is important, but avoiding making bad loans – as we all learned again in this crisis – also is important. It is hard to turn down a customer's request and then try to explain why: We may think the loan represents too much risk, not only for us but also for the customer. We don't always make friends doing this – but it is the right thing to do.

Conversely, we cannot be a fair-weather friend. Clients, communities and countries want to know that we are going to be there ***particularly*** when times are tough. And when times are tough, we focus more on helping clients survive than on generating profits. That is in their – and our – long-term interest.

Europe is one ongoing example where we currently are applying this philosophy. When Greece, Ireland, Italy, Portugal and Spain got into trouble, we decided to stay the course. Our exposures, as reported last year, to those countries (primarily Italy and Spain) were maintained at approximately $15 billion. And we estimated that, in a bad outcome, we could lose $3 billion, after-tax. (Under really terrible circumstances; i.e., large countries exiting the euro – where the currency at settlement is uncertain for the assets, liabilities and contracts at issue – those losses could be even larger.) These exposures are primarily loans to businesses and sovereign nations, as well as some market making. Even if the worst outcome occurs, we believe that we still made the right decision by being there for our clients. We hope to be doing business in these countries for decades to come.

We focus on *"quality"* profits — not quarterly profits

If we wanted to increase this quarter's or next quarter's profits, we could – and we could do it easily. How? By cutting marketing expenses by $500 million or eliminating another $500 million of investments in technology, training or systems upgrades. We also could add another $1 billion to our profits by increasing our interest rate exposure or credit risk. But this is not the way to build a healthy and vibrant company for the future or to produce what we would call "quality profits." In actuality, our profits reflect decisions made over many years. The breadth and depth of our client relationships today have been built over decades. Our people have been hired and trained over decades. Our branches – whether retail or wholesale – have been serving our clients for decades. Our investments in technology and product innovation typically are multiyear in nature. Our institutional knowledge and experience have been passed along generationally for more than 200 years. And the JPMorgan Chase reputation – that we, and our predecessors, have worked hard to earn – every day – has endured for more than two centuries.

All revenue isn't good; all expenses aren't bad

It always surprises me when people assume that all revenue is good and that all expenses are bad. Low-quality revenue is easy to produce, particularly in financial services. Poorly underwritten loans represent income today and losses tomorrow. And an efficiently run company is not the result of indiscriminate cost cutting. All expenses are not equal, which is why I always refer to waste cutting and not expense cutting. Many expenses actually are "good expenses." If you are reading this letter on an airplane, you easily can understand my meaning – a good expense would focus on properly maintaining that airplane. In the same way, you want to see your company continuing to invest in innovation and technology, marketing new products, hiring employees and opening branches. Our ability to distinguish between good and bad expenses should lead to higher profits in the future.

The reason we generally have been able to avoid major expense-cutting initiatives is because we continuously try to avoid wasteful spending. And much of our efficient cost structure comes from ongoing investment in technology and operations and from rigorous attention to detail. We strive to become an increasingly efficient company. Efficiency is a virtuous cycle – we can continuously invest more, save more, give our clients more – and still have healthy margins.

We build our operating company at a detailed level

While JPMorgan Chase has six lines of business that we report publicly, we essentially operate 60-70 businesses within and across the six lines of business. Each of these businesses is expected to attract great management, deliver best-in-class products and services, and earn a good margin – while making proper investments in its future.

We want each of these businesses to build quality assets (i.e., well-underwritten loans and books that are properly marked) and to account properly for all liabilities. We believe appropriately conservative accounting at a granular level leads to quality earnings and helps prepare each of our businesses to withstand tough challenges and to be there in tough times for our clients.

JPMorgan Chase builds its business on the credo "first-class business in a first-class way," and we stick to that credo even when it means forgoing fees or declining a deal that we do not think is in the best interest of our client. And rigorous client selection – ensuring a high-quality clientele – is the foundation of a strong bank.

If we keep doing what I have described above, you will not only be proud of this company, but, we hope, happy with your investment.

IT'S NOT SMALL BUSINESS VS. BIG BUSINESS — THEY ARE SYMBIOTIC AND THE ENGINE OF AMERICA'S GROWTH

In our vibrant, extremely powerful and complex economic ecosystem, there are 27 million U.S. businesses. Some facts:

- All but 17,000 of the 27 million are small businesses; i.e., they have under 500 employees.
- Twenty-one million have only one employee — they are sole proprietorships.
- Five million have fewer than 20 employees.
- Over half a million have between 20 and 500 employees.

These "small businesses" account for 56 million jobs, or 49% of U.S. payroll employment. The remaining 17,000 firms with more than 500 employees account for the other 51% of private sector jobs — and the largest 1,000 companies alone employ over 31 million people. (Outside the private sector, another 21 million work for the government, 85% for state and municipal governments — jobs that include our teachers, postal workers, police officers and firefighters.)

There are huge misunderstandings about job creation in the United States — and these misunderstandings frequently lead to misguided policy. We often talk about the net change in employment (clearly an important number); that is, the number of net new jobs created. But it masks the fact that the numbers change enormously underneath. On average, over 20 million jobs are "lost" every year as companies adjust payroll or people quit or move. Fortunately, more jobs than that are created most years. In our economy, businesses continuously morph and change; they outsource or insource jobs; some grow, some shrink and some merge. New companies — big and small — are created, and, unfortunately, some of those companies — big and small — fail.

Even Fortune 500 companies fail or are bought out or merged with another. Small companies sometimes morph into big ones — just think of Apple, Google and Facebook. This is part of a healthy, constantly changing economic dynamic. Failures are caused by recessions, lack of innovation and bad management, among other things. The alternative to this "creative destruction" would be a stultifying lack of change, inability to adopt new technologies, inflexibility and, ultimately, lower growth.

We often read that small business is the primary driver of new jobs — this is both incorrect and overly simplistic. Sometimes those net new jobs appear in small businesses, and sometimes they appear in large businesses. In fact, recent studies show that large companies generally are more stable over time and that their employment goes down less during recessions.

One thing we know for sure is that capital expenditures and R&D spending drive productivity and innovation, which, ultimately, drive job creation across the entire economy. In the United States, the 17,000 large firms account for 80% of the $280 billion business R&D spending — and the top 1,000 firms alone account for 50% of this amount. U.S. companies also spend more than $1.4 trillion annually on capital expenditures, and the top 1,000 firms account for 50% of that amount. Big businesses are capable of making huge investments. A typical semiconductor plant costs $1 billion, and a typical heavy manufacturing plant costs $1 billion. These types of investments create lots of jobs. Many studies have shown that for every 1,000 workers employed by a big business' new plant, 5,000 jobs are generated outside the plant — from high-tech to low-tech positions (all to support the plant and its employees); most of these jobs appear in small businesses.

It is worth noting that both large and small businesses often have benefited from strong collaboration with the government in making certain types of investments. The American people started and paid for the Hoover Dam, the interstate highway system and the landing on the moon. But the Hoover Dam was built by a consortium of six American businesses, the interstate highway system was built by American construction companies spanning the nation and the Apollo spacecraft was built by American aerospace companies — and all of these projects were supported by small business.

So when you read that small business and big business are pitted against each other or are not good for each other, don't believe it. They are huge customers of each other, they help drive each other's growth and they are completely symbiotic. Business, taken as a whole, is where almost all of the job creation will come from. And without the huge capital investments made by big business, job creation would be a lot less.

Small businesses of all types are essential, dynamic and innovative, and they are a uniquely entrepreneurial part of our U.S. economy. We wouldn't be the same without them.

But that does not diminish what big businesses do. Large companies are very stable, and they make huge investments for the future. On average, they pay their people more, and they provide health insurance and benefits for their employees and their families. Big businesses are an essential part of a country's success. Many American big businesses are the envy of the rest of the world. Show me a successful country, and I will show you its successful big businesses. Like small businesses, big businesses are philanthropic, patriotic and community minded. We are lucky to have them both.

The opportunities for JPMorgan Chase over the next 20 years will equal – or maybe even surpass – those of the last 20 years.

In last year's letter, we discussed several specific initiatives we're undertaking in addition to the "normal" growth opportunities that we pursue every day. Each one of these initiatives involves a sustained, full-fledged effort of investment in people, branches and systems over a long period of time. And while we know that these efforts may not turn a profit in the first year, we expect each one to add $500 million or more in profits annually by the fifth to seventh year.

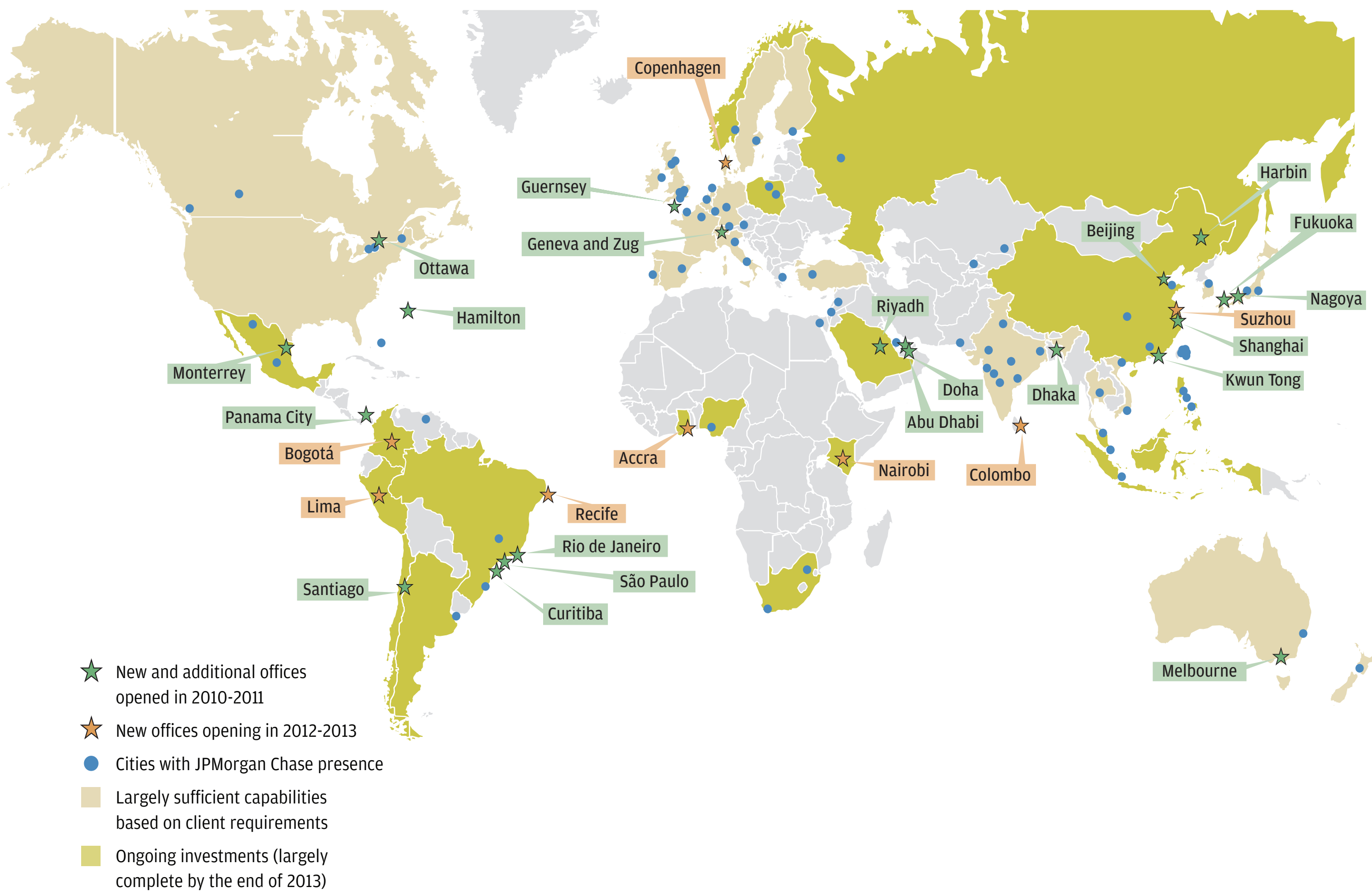
The following segments provide an update on how each of these initiatives is progressing.

The expansion of our international wholesale businesses, including progress in our Global Corporate Bank

Last year, we described our international expansion plan in detail. It involves building out our global presence across our wholesale businesses (Asset Management, the Investment Bank and Treasury & Securities Services) in the rapidly expanding markets of Asia, Latin America, Africa and the Middle East, as well as in emerging and even "frontier" markets.

As our clients – multinational corporations, sovereign wealth funds, public or quasi-public entities – expand globally, we intend to follow them around the world.

We Are Expanding Our Global Platform



We have made good progress:

- Five years ago, we served approximately 200 clients in Brazil, China and India combined. Today, that number has grown to approximately 800 clients. Five years from now, we expect to serve 2,000 clients – including locally headquartered companies (about 50%) and foreign subsidiaries of international companies (about 50%).
- In 2011, we opened offices in the following new locations: Harbin, China; Panama City, Panama; and Doha, Qatar. That's in addition to the offices we opened in 2010 in Bangladesh, Bermuda, Guernsey, Saudi Arabia and the United Arab Emirates. A quick glance at the map on the previous page shows the offices opened over the past two years in new and existing locations and the cities around the world where we plan to add locations in 2012-2013.
- When we started the Global Corporate Bank (GCB), we had 98 bankers. By the end of 2011, we had more than 250 bankers in 35 countries. We plan to have approximately 320 bankers in 40 countries by the end of 2013, who will provide approximately 3,500 multinational corporations with cash management, global custody, foreign exchange, trade finance and other services.
- This strategy has led to a 73% rise in our trade finance loans, a total of $37 billion in 2011. We also increased other business with these same multinational corporations, including rates, foreign exchange and commodities, by 30%.

Commodities

In 2011, we completed the integration of assets acquired from Sempra. We now are one of the top three firms in commodities – i.e., global sales and trading, as well as advisory services and market making in metals, oil, natural gas, power and others. Our global franchise includes approximately 600 employees and 10 main office locations around the world. Over the course of last year, we grew our client franchise by more than 10% to serve over 2,200 active clients. And we increased the selling of commodities products to already existing clients so that hundreds of clients now come to us for multiple products across different commodity asset classes.

Small business growth

In 2011, we provided more than $17 billion of new credit to U.S. small businesses in 2011, up 52% from 2010. We are the #1 Small Business Administration (SBA) lender nationwide – for the second year in a row. In 2011, we also became the #1 SBA lender to women-owned and minority-owned businesses.

Since 2009, we have added 1,200 new relationship managers and business bankers, and that includes adding 600 business bankers in the heritage Washington Mutual (WaMu) states of California and Florida. And we plan to continue aggressively hiring bankers who are meeting the needs of small businesses.

Commercial Banking expansion — particularly in WaMu states

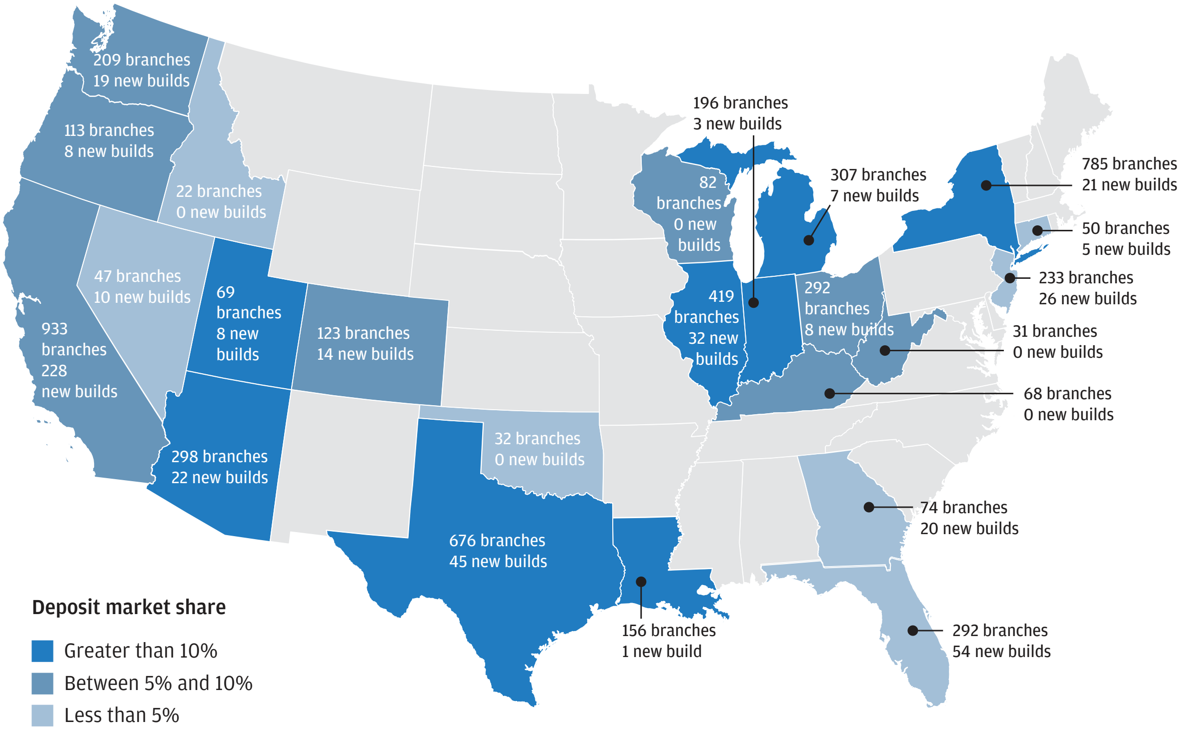
Our Commercial Banking business has performed well in the recession, earning returns of more than 20% during the past two years and over 15% in the most difficult years. We continue to invest in additional bankers and offices to support growth. In 2011, Commercial Banking added 60 new bankers, placing 21 of them in states where WaMu had a presence. Our expansion efforts have made great progress – in California and Florida alone, deposits increased to $1.8 billion and loans to $2.0 billion by the end of 2011. Since the WaMu acquisition, our Commercial Banking business has continued to add 200+ new clients a year in the WaMu states.

Commercial Banking's International Banking business unit also has experienced significant growth. In the six years since the unit was

Small Business Growth

	2009	2010	2011	Year-over-year change '09 to '10	Year-over-year change '10 to '11
New small business loans ($ in millions)	$ 7,251	$11,219	**$17,060**	55%	52%
Total small business bankers	1,953	2,420	**2,886**	24%	19%

Our Branch Network Provides Continued Opportunity to Grow



Branches as of December 31, 2011
New builds added from 2009 to 2011

launched, International Banking has increased the number of U.S. Commercial Banking clients using our international treasury and foreign exchange products – to 2,500 clients – at a rate of approximately 20% per year, and we expect this trend to continue.

As we strive to better and more fully meet the needs of our Commercial Banking clients, we are increasing their access to a broader range of products. Today, our average Commercial Banking client uses more than eight of our products and services, and this number continues to increase.

The growth of our branch network

For years, some have predicted the demise of the physical branch as more customers choose to transact banking business online and on their mobile devices. However, our experience shows that instead of choosing between a branch and a website, customers actively use both. More than 17 million of our customers are paying bills online. But when it's time to take out a mortgage, apply for a credit card or seek personal financial advice, customers often prefer to meet face to face with a banker. These activities will take place in physical branch locations for the foreseeable future. Our small business and middle market customers also are more comfortable discussing business needs such as cash management in person rather than online. In fact, our middle market business ***wouldn't*** exist without the branch network. Our branch presence also is a competitive advantage for many of our other businesses:

- For example, when we open a Chase branch, it provides our Card Services and Mortgage Banking businesses with the opportunity to offer more credit cards and retail mortgages. Today, about 45% of our Chase-branded credit cards and about 50% of our retail mortgages are sold through our branches.
- Today, our consumer banking household uses, on average, seven Chase products and services. Increasingly, our customers require and appreciate having the option to transact their business with us virtually and personally. Our network of branches gives consumers that choice.

The map on the preceding page shows our current branch footprint. Since 2009, we have built more than 525 new branches. In 2011, we opened 260 new branches and added more than 3,800 salespeople in the branches. We expect we will add approximately 150-200 branches a year for the next five years, which is fewer than we previously had planned. We are taking a more measured approach because regulatory changes have affected our ability to profitably operate some of our branches.

That said, and despite slight reductions in profit due to an abnormal interest rate environment, our average retail branch still earns approximately $1 million a year. And the right type of branch in the proper location is profitable not only on its own but is enormously beneficial to the rest of the company. We believe interest rates and spreads will return to normal levels, and we are building our branches accordingly. The map shows we are building branches where we already currently reside. It always has been more valuable to increase your market share in an existing market than it is to go to a new market.

Chase Private Client business continued growth

In 2011, we opened approximately 250 Chase Private Client (CPC) locations – branches dedicated to serving our affluent clients' investment needs – and we plan to open another 750 CPC locations in 2012. Chase Private Client is quickly making an impact in deepening our relationships with the 2 million affluent clients that already bank with Chase. Today, more than 500 Chase Private Client bankers and advisors serve private clients, and we plan to add more than 1,200 private client bankers and advisors in 2012. Since we launched the first phase of CPC expansion in July of 2011, the number of CPC households we serve has nearly quadrupled, and each of those households has grown deposit and investment balances by $80,000 on average.

WHEN YOU HIRE JPMORGAN CHASE, YOU GET ALL OF US — ONE GREAT EXAMPLE OF OUR BROAD, ORCHESTRATED EFFORTS WITH ONE GREAT CLIENT

At JPMorgan Chase, we are privileged to work with Caterpillar across our markets and services — from community banking in Caterpillar's hometown in central Illinois to strategic advice on Caterpillar's largest-ever acquisition. The relationship spans decades and multiple continents, with constant dialogue at many levels of our respective companies. We helped Caterpillar:

- Efficiently manage its cash through our Treasury Services team.
- Serve its current and future retirees by investing more than $2 billion of the company's 401(k) and defined benefit plan assets.
- Evaluate and execute strategic acquisitions by working closely with the company's strategic investments team.
- Provide interest rate, foreign currency and commodity risk management services through Caterpillar's work with our exposure management teams.
- Fund the manufacturing and finance company operations by underwriting some of their bonds and other forms of financing.
- Support the sale of Caterpillar's products into developed and emerging markets by providing critical trade finance around the world.
- Fund a portion of Caterpillar's global supply chain's working capital requirements in more than 10 countries.
- Finance several of Caterpillar's independently owned dealers who sell and service its products around the world.

More than 100 JPMorgan Chase banking professionals around the world touch Caterpillar directly at many levels. This is a great relationship for all parties involved.

III. THE NEW ONE CHASE – STRENGTHENING THE CUSTOMER EXPERIENCE

The Chase consumer businesses – Retail Banking, Credit Card, Auto Finance and Mortgage – historically ran as independent companies. Now we are coming together to run all of these companies as one consumer business and one brand – to focus, first and foremost, on serving our customers in the ways they want and with the products they choose. This includes developing common strategies, delivering a consistent customer experience, designing a seamlessly integrated product offering and continually innovating for our customers. We call this effort One Chase.

Doing a better job serving our consumer and small business customers

What does One Chase mean for our customers? It means being known and appreciated for all the business they do with us – across all product lines – and feeling as if they are dealing with one company. It means customers will be treated with consistently great service every time, any way and anywhere they connect with us. It means when customers call Chase, they will get an answer from the Chase representative answering the phone – whether the question is about their mortgage, credit card fees or banking account. It means customers can have more needs met at the Chase branch – including not only being able to get a credit card, mortgage or checking account but also being able to talk with branch professionals about any problems they may be having with any of our products.

Here are some of the things we're doing to serve our consumer and small business customers better:

Making our communications clear and simple

Our customers have told us that the "fine print" on our disclosures was confusing and wordy. Of course, that was not our intent. When we speak, email or send a letter to a customer, we aim to foster confidence, not confusion. So we have undertaken a number of initiatives designed to simplify the way we communicate with our customers.

At the end of last year, we unveiled a revised summary guide for Chase Total Checking that makes its terms and conditions easier to understand. We developed a simple disclosure form that uses everyday words in a consumer-friendly format. Instead of saying "transaction posting order," our new disclosure now says "how deposits and withdrawals work," using words that customers understand. Consumers now can more plainly see a description of fees and services and learn how to avoid certain fees, determine when deposits are available, and track when withdrawals and deposits are processed – on three pages (instead of 40).

In addition to streamlining and clarifying our written disclosures, we also are proactively reaching out to customers with an email or a phone call when we think they should know something about their account. For example, if there are suddenly several unusual transactions in a customer's account that could indicate fraud, we immediately send an email alert or make a phone call to let them know.

Focusing more on customer complaints

Every week, and sometimes every morning, the senior managers in our consumer businesses listen to or read customer complaints to get to the root of problems and to identify options to solve them. These issues are discussed, and the follow-up and feedback are shared with the broader customer support teams.

We know every company makes mistakes. But if you don't acknowledge mistakes, it's unlikely you can fix them. No one should be afraid to make a change because it might imply that something we did in the past was wrong. Instead, every employee at the firm –

including me – should take responsibility for mistakes and take the initiative to fix them and prevent them from occurring in the future. We must continually make changes that make us better.

Empowering our employees to own customer issues

When customers contact Chase, they expect – and deserve – to have us understand and assist them with their entire relationship, regardless of which line of business is involved. To ensure this happens, we increasingly have empowered our front-line employees to better handle customer requests and issues.

For example, we have authorized branch managers to use their judgment in waiving fees for customers they know personally in order to get them a quicker response or expedite a transaction. We are providing real-time information to our bankers and advisors, eliminating the need to transfer many customer calls. These initiatives have helped drive customer complaints down 25% over the last six months.

One Chase means one customer. So when making decisions, we consider the entire relationship our customers have with us. For example, when making a decision about a credit card application, we now more fully consider what type of customer the applicant has been and how long that person has been a customer.

Learning from our bus trips and other feedback

Following a terrific bus trip last summer along the West Coast, we hopped on a bus again in February 2012 and took a week-long, 550-mile journey through the Sunshine State. We visited branches and operations centers throughout Florida, many of which are in off-the-beaten-path locations, like our credit card operations center in Lake Mary. We met face to face with approximately 5,000 employees and hundreds of clients across all our lines of business – from consumer customers to Fortune 500 CEOs. We also met with elected officials and community leaders to talk about how much we're expanding, lending and adding jobs in Florida.

It was an incredible trip that gave us the opportunity to see firsthand how vibrant our business in Florida is: We have become the #1 SBA lender, and our branch count, which was 261 when we bought the WaMu business in 2008, is nearly 300 today – we expect it to grow to 500 in three to five years. Five years ago, we had 6,700 employees in Florida, and, including the 4,500 people we hired last year, we now have 17,550.

One of the most rewarding parts of the trip for us was riding the bus with some of our front-line employees – tellers, branch managers, personal bankers and others. Their perspective and advice on how ***we*** could do a better job were invaluable. And, boy, did we get a lot of advice – 160 specific recommendations, which we are in the process of implementing as we speak.

We want to make this drive toward continuous improvement a part of the fiber of every person at our firm.

A new internal tool called "What Do You Think?" is giving our employees throughout the firm a chance to evaluate the products we offer customers, as well as the services we provide internally, from accounts payable to our online benefit enrollment and internal travel services. Some of us predicted these internal services were going to receive the worst ratings – we weren't wrong. But we know that while we won't always like what we learn – in fact, sometimes it is embarrassing – it will help us become better. Providing best-in-class services internally is just as important as providing them to our customers because better services make our colleagues' lives easier so they can spend more time with customers in helping to solve ***their*** problems.

Continually innovating for our customers

A culture of speed and innovation is imperative. Sometimes people come up with great ideas on their own, but, more often, it happens through informal networking and brainstorming. Also, small improvements, over time, cumulatively may lead to major breakthroughs.

The financial services industry has been highly innovative over the past 20 years, from ATMs to online bill payment and a variety of mobile banking applications. Chase mobile customers increased 57% over the past year to more than 8 million active users at the end of 2011. These customers transact online by paying their bills, checking their balances and transferring money between accounts. Some of our new consumer innovations include:

- Chase QuickDeposit℠, part of the Chase Mobile® applications that allow customers to make deposits from their smartphones (by taking a picture of the check). Our customers have deposited 10 million checks in 2011. Over the past year, our total deposit volume increased to $2.6 billion – with $481 million deposited by QuickDeposit in January 2012 alone.
- We added "pay with points" functionality to our Amazon.com Rewards Visa® card, allowing customers to use their rewards instantly as cash.
- We pioneered Jot℠, a new mobile application for organizing and tracking expenses, which currently ranks in the top 5% of all financial applications (Apple App Store℠ ranking) and works exclusively for our Ink℠ from Chase small business cards.
- We continued to partner with some of the world's best brands, launching new cards with The Ritz-Carlton Hotel Company and United Airlines®.
- Chase QuickPay℠, our person-to-person payment service that allows our checking customers to use a phone or computer to send or receive money using an email address (money is either taken out or deposited into checking or savings accounts), increased by more than 200% to 2.6 million users in 2011.
- We introduced Chase Sapphire℠ for the affluent market in late 2009 and generated more than 1.8 million accounts in about two years. In 2011, we launched Chase Sapphire Preferred℠, an enhanced affluent-oriented product that rewards customers with two points for every dollar spent on dining and travel.

We continue to roll out new products. Soon after this letter goes to press, we will be launching an exciting new banking product that will have innovative features and broad appeal. I believe this could be a breakthrough product for consumers in terms of pricing transparency, convenience and simplicity – and we hope you agree when you see it. The management team doesn't want me to get too excited in case it doesn't work. I told them that even if it's a flop, I will be proud of their innovative spirit. You can't succeed if you don't try.

IV. AN INTENSE FOCUS IN 2012 ON ADAPTING OUR BUSINESSES SUCCESSFULLY TO THE NEW REGULATORY FRAMEWORK

The extensive requirements of regulatory reform – which we must meet – demand enormous resources. While we are going to continue the initiatives in all of our businesses in 2012, it is unlikely that we will undertake significant acquisitions due to these regulatory demands and other regulatory constraints. We need to meet these regulatory demands properly while ensuring that our clients are not adversely affected and that we are not creating excessive, stifling bureaucracy. We are totally focused on what is in front of us. It is a new world, and we are going to adjust to it very quickly – whether or not we like it or think it is all needed.

Meeting new regulatory requirements will be a large, costly and complex endeavor – and we must get it right. Therefore, we need to devote enormous attention and resources to it

It has been estimated that there are 14,000 new regulatory requirements that will be implemented over the next few years. Three hundred out of the 400 Dodd-Frank rules still need to be completed. We need to meet the new Basel II, Basel 2.5 and Basel III requirements. We need to meet the new liquidity requirements, the new global systemically important banks (G-SIB) rules, the new requirements due to Resolution Authority and living wills, and any new requirements from two new regulators, the Consumer Financial Protection Bureau and the Office of Financial Research. We need to meet the new derivatives, clearinghouse and Volcker trading rules. We also must complete periodic Comprehensive Capital Analysis and Review (CCAR) stress testing for the Federal Reserve. And, finally, we have major new rules and requirements from Brussels, London and other global jurisdictions.

These new rules will affect virtually every legal entity, system (we have 8,000 of these), banker and client around the world. It will take an enormous amount of resources across all of our disciplines – people, systems, technology and control functions (finance, risk, legal, audit and compliance) to get it done right. Over the next few years, we estimate that tens of thousands of our people will work on these changes, of whom 3,000 will be devoted full time to the effort, at a cost of close to $3 billion.

We must not let regulatory reform and requirements create excessive bureaucracy and unnecessary permanent costs

There are so many new rules that they inevitably create more opportunities to build unnecessary bureaucracy within the company. It is incumbent upon us to make sure that we do it right – for the regulators, our clients and our own efficient internal functioning. So we are trying to build streamlined systems to meet the needs of all the regulators in an efficient way. For example, different regulators have asked for different reports on some very complex issues such as global liquidity. We are going to try to build one report that meets all their needs and ours, too – as opposed to preparing three completely different liquidity reports every day or every month. Three reports lead to more mistakes, less understanding and more work.

We must do this in a way that minimizes cost and disruption to our clients

Most clients hope they will not see much change as a result of these new regulations. But for certain clients and certain products, the change will be significant. For example, the cost of credit, in general, will go up modestly, essentially due to the banks' higher capital and liquidity requirements. The cost of credit for some likely will go up substantially – for example, we expect larger increases in trade finance; consumer credit (particularly for consumers with FICO scores below 660); and backup lines of credit that support commercial paper issuance. Because of the Durbin Amendment, the cost of banking services will go up modestly, but this will likely affect certain clients far more than others – e.g., customers with low account balances.

We also are trying to get ahead of the change and be proactive. We have canceled products and services and will continue to do so when we believe we no longer can adequately provide them, given the new regulatory requirements. We also are exiting products that we think create too much reputational risk for the firm. For example, we no longer bank certain types of clients, we no longer offer tax refund anticipation loans, we essentially have exited the subprime lending business and we no longer offer certain types of complex derivatives. We also have modified our overdraft procedures to be more consumer friendly and are trying to be very responsive to complaints about product disclosures, as we have mentioned previously. We will adjust to all of the new rules very quickly.

We have extensive processes in place to try to do business the right way

We have extensive processes to protect the company and conduct business the right way. We have strong audit, compliance and legal staffs (these groups total more than 3,600 employees). Some of these employees sit in specialized units that cut across the company focusing on the requirements of the Anti-Money Laundering, Bank Secrecy and Privacy acts, and other requirements (these units, which also include dedicated line of business employees, total approximately 1,400 employees). We know we won't always be perfect, but it won't be for lack of trying. Listed below are examples of how each business tries to properly conduct its affairs:

- Our Risk Committees provide general oversight into any and all risk in the business and set overall risk limits from credit extensions to any market-making activities. Risk limits are set by product, by counterparty and by type of specific risk (for example, liquidity risk, interest rate risk, credit risk, country risk, market risk, private equity risk, and legal and fiduciary risk, etc.).
- New Product Committees vet all new products to make sure that we can handle them operationally and, more important, that they meet our ethical standards for conducting business.
- The Capital and Credit Committees review all extensions of credit and uses of capital in the company to make sure we have the right limits, the right structures, the right clients and adequate returns.
- The Commitment Committees review underwritings of stocks, bonds, loans, etc., to ensure that each is properly structured, that we want to do business with the client, that we can meet our commitments and that due diligence is properly done, etc.
- The Operational Risk Committees review the potential errors in processing, legal agreements and others that can lead to any form of operational risk to the company from settlement to clearance, including litigation and processing errors.
- The Reputational Risk Committees review new types of business and out-of-the-ordinary transactions that entail risks relating to the environment, taxes, accounting, disclosures and know-your-customer rules to try to ensure that business is being done appropriately.

We operate in a complex business with high and increasing regulatory demands and risk. Whether or not we agree with all the new rules and business processes, we want you to know that we will strive to meet or exceed every regulatory requirement around the world. This simply is the way we run our business.

V. COMMENTS ON GLOBAL FINANCIAL REFORM

We have written extensively about the crisis and the need for financial reform in previous letters. Many of the issues we have discussed have not changed. It is very important, however, that we get this right so I will comment in this section on some of the more critical and recent developments.

We always have acknowledged the need for reform – and we agree with most, but not all, of it. And we all have a huge vested interest in having a strong financial system

Most banks and bankers have acknowledged the need for strong reform. JPMorgan Chase has consistently supported higher capital standards, more liquidity in the system, a Resolution Authority to better manage and unwind large financial firms, better regulation of the mortgage business, the clearing of standardized derivatives through well-structured clearinghouses and even stronger consumer protection (however, we thought this should have been a strengthened department inside the bank regulator). We also supported most of the principles of compensation reform – though you should know that our company, for the most part, had already practiced them.

In addition, we supported the ideas behind the creation of the Financial Stability Oversight Council (FSOC), recognizing that one of the flaws of our financial system was that we did not have strong oversight of the whole system or adequate coordination among many different regulators. We actually believe the FSOC should have even ***more*** authority than it has been given so that it can ***force*** coordination among the 11 regulatory authorities of the FSOC, adjudicate where necessary, and properly assign responsibility and authority.

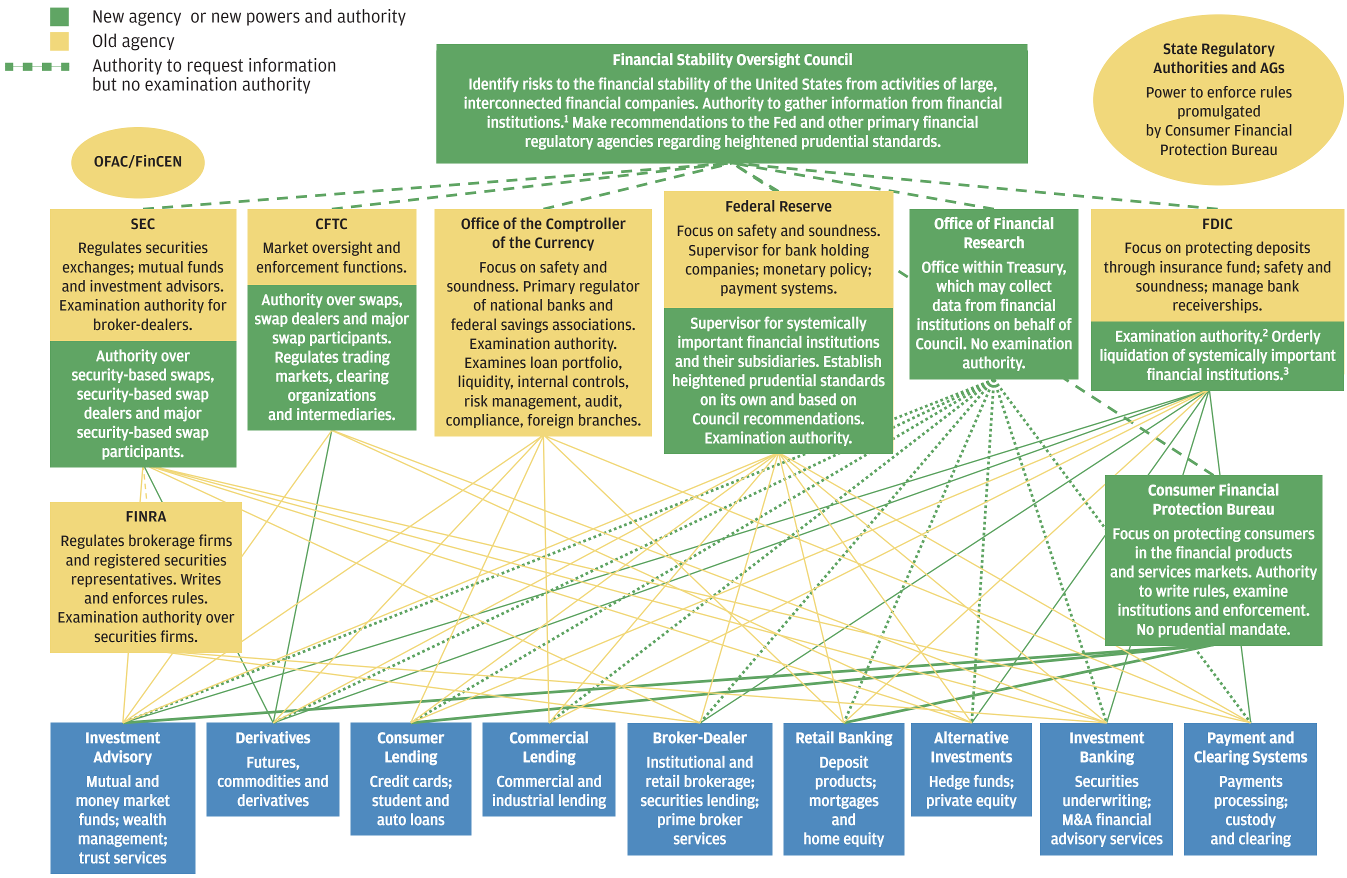
While we agree with much of the reform that has been put in place, we do not agree with all of it. Specifically, we disagree with the Durbin Amendment – which had nothing to do with the crisis and was the adjudication of a dispute between retailers and banks – when the banks were unable to effectively respond. (It essentially is price fixing by the government that will have the unfortunate consequence of leaving millions of Americans unbanked.) Three other specific rules with which we do not completely agree include the G-SIB restrictions and surcharge, the Volcker Rule and some of the derivatives rules. You may be surprised to know that we don't actually disagree with the stated ***intent*** of these rules. We, however, do disagree with some of the proposed specifics because we think they could have huge negative unintended consequences for American competitiveness and economic growth. As Albert Einstein said, "In theory, theory and practice are the same. In practice, they are not."

The United States has the best financial system on the planet. We have the deepest, widest, most transparent and most innovative capital markets. These markets have helped fuel the great American economic machine – from small businesses to large. And while we need reform, we must be very careful not to throw the baby out with the bathwater. Clear, fair and consistent rules need to be put in place as soon as possible so that our economy, once again, can grow and meet its potential.

But the result of financial reform has not been intelligent design — simplicity, clarity and speed would be better for the system ***and*** better for the economy

A robust financial system needs coordinated and consistent regulation that is strong, simple and transparent. The regulators should have clear authority and responsibility. Just one look at the chart on the next page shows that this is not what we now have. Complexity and confusion should have been alleviated, not compounded.

As a result of Dodd-Frank, we now have multiple regulatory agencies with overlapping rules and oversight responsibilities. Although the FSOC was created, it is proving to be too



Note: Green lines from SEC and CFTC represent enhanced authority over existing relationships

weak to effectively manage the overlap and complexity. We have hundreds of rules, many of which are uncoordinated and inconsistent with each other. While legislation obviously is political, we now have allowed regulation to become politicized, which we believe will likely lead to some bad outcomes.

And we have been very slow in finishing rules that are critical to the health of the system. The rules under which mortgages can be underwritten and securitized still have not been completed – three and a half years after the crisis began. This is unnecessarily keeping the cost of mortgages higher than they otherwise would be, slowing down the recovery. Basel III created additional "capital confusion" as banks did not know what the specific capital rules would be going forward – the banks still don't know exactly how much capital they will be required to hold, when the regulators would like the banks to get there and how they will be able to use their excess capital when they do get there. The Commodity Futures Trading Commission (CFTC) and the U.S. Securities and Exchange Commission (SEC), responsible for different parts of the swaps business, have not yet come up with common rules. And the several agencies claiming jurisdiction over the Volcker Rule have proposed regulations of mind-numbing complexity. Even senior regulators now recognize that the current proposed rules are unworkable and will be impossible to implement.

The rules also will create unintended consequences. Nearly 40% of all Americans have FICO scores below 660. Many of the new capital rules make it prohibitively more expensive to lend to this segment (if you are a bank). And the Federal Deposit Insurance Corporation (FDIC) now charges us approximately 10 basis points on all assets (not just the deposits it insures – we now are paying the FDIC approximately $1.5 billion a year), making all lending more expensive and, in particular, distorting the short-term money markets that lend large sums of money over short periods of time at low interest rates.

The chart above assumes these activities are conducted in a systemically important bank holding company (BHC)

1 The Council, through the Office of Financial Research, may request reports from systemically important BHCs

2 The FDIC may conduct exams of systemically important BHCs for purposes of implementing its authority for orderly liquidations but may not examine those in generally sound condition

3 The Dodd-Frank Act expanded the FDIC's authority when liquidating a financial institution to include the bank holding company, not just entities that house FDIC-insured deposits

No one has considered the cumulative effect of all these changes taking place all at once. And there is little question in my mind that credit contracted globally (particularly in Europe) as a response. Some analysts estimate that even after the European Central Bank's special three-year lending facility to banks, European banks will need to shed another $3 trillion in assets in the next few years, and that's assuming that banks don't try to meet their new Basel III guidelines ahead of time. This can't possibly help the recovery of an already weakened Europe. With all the new rules, it is unlikely that credit availability will be replaced by new lenders. Even small banks that are exempt from many of the new rules are complaining that these rules will have a substantially negative effect on their businesses – again, not the intended but the ***unintended*** consequence. And certainly the new regulatory burdens for large and small banks have become enormous, but it will be a disproportionate burden on smaller banks.

Recently, we have begun to achieve modest economic growth around the globe, somewhat held back by certain natural disasters such as the tsunami in Japan. But I have no doubt that our own actions – from the debt ceiling fiasco to bad and uncoordinated policy, including the somewhat dramatic restraining of bank leverage in the United States and Europe at precisely the wrong time – made the recovery worse than it otherwise would have been. You cannot prove this in real time, but when economists 20 years from now write the book on the recovery, it may well be entitled, *It Could Have Been Much Better.*

CIVIC ENGAGEMENT AND LOBBYING

You read constantly that banks are lobbying regulators and elected officials as if this is inappropriate. We don't look at it that way. We view it as our responsibility to stay actively engaged in policy debates that will affect our company, our communities and the global economy.

Not only is petitioning the government a ***constitutional right***, we have a responsibility as part of our firm's mission to be actively engaged in the political process in the communities and countries where we operate.

Governments are debating issues critical to the financial markets, our company, our shareholders and our customers. It is vital for officials and regulators to have input from people within our businesses who understand the intricacies of how financial markets operate and the consequences of certain policy decisions. Contrary to what you might hear, our input, as often as not, is at the request of government officials who want to draw upon the expertise of our executives who work in the markets every day.

Engagement with government officials and regulators is not only the responsibility of our Government Relations and Regulatory Policy teams, it also has become an important part of the fabric of our entire company. Employees across our company spend time meeting with and briefing government officials and regulators – from Washington to Brussels to Beijing to Sacramento to Albany – about what they are seeing in their local markets, as well as global markets, and how policymaking affects the financial and economic issues of the day.

Our engagement with public officials includes:

- Executives and employees from around the world who visit federal, state and local capitals to provide lawmakers with perspectives on economic conditions in their communities and countries.
- Market participants who respond to requests from policymakers to provide our views on how new regulations or legislation will affect businesses, markets and consumers.
- Small business lenders who offer perspectives on the lending needs of small businesses across the country.
- Analysts and economists who share information on specific industries and economic performance around the world.
- Our Military and Veterans team, which provides policymakers with real-world information on practices that work to employ more veterans and support their financial needs.

Finally, we should recognize that thousands of groups – including unions, veterans, teachers, municipal workers and others – are reasonably engaged in exercising their constitutional rights. We will continue to do so as well.

The United States needs more conversation, collaboration, coordination and confidence

More collaboration would be a good thing. Why should anyone be surprised that financial reform, which is so important to our country, is being rethought and refought (through the courts and otherwise) – since it was passed in a partisan way without sufficient collaboration and without adequate input from experts in the field?

Even with many of the rules and reforms that we support, the details (which are critical) are far from perfect. We're left with hundreds of rules and thousands of pages, that even the regulators are now struggling to make sense of. These are very complex systems that need to be carefully thought through and analyzed, particularly by people who know the subjects best – both academics and practitioners.

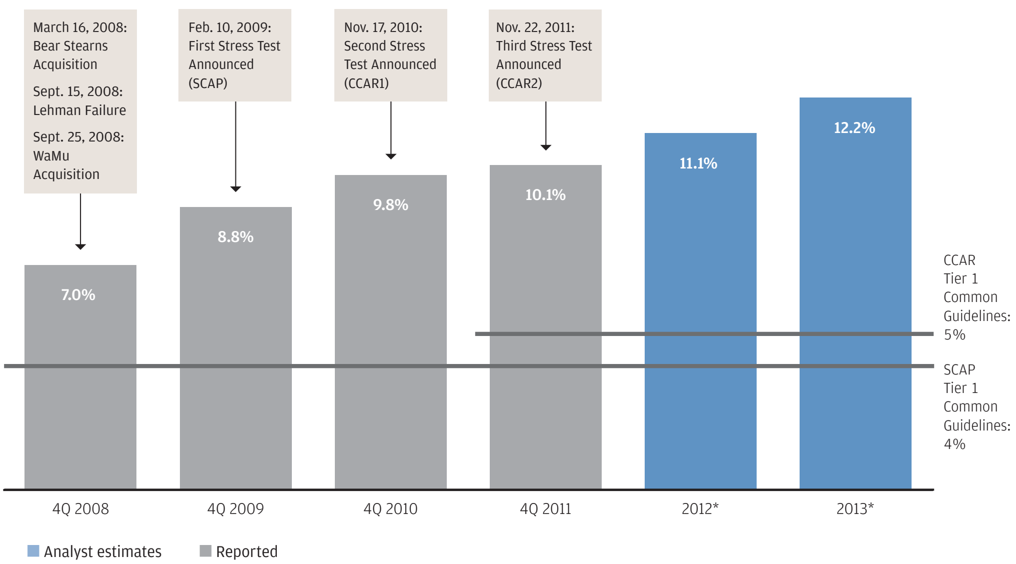
These issues are not Democratic or Republican, and the solution is not political. Many bankers would have loved to support proper reform. But it is hard to support something when you were not involved in the process in a meaningful way. In fact, at a bankers' meeting with 100 bank CEOs in the room, 70%-80% said they were afraid to speak up because of potential retribution from the regulators and examiners. This is not a healthy process for policymaking.

I am struck that so many of our leaders in the United States forget how strong our country can be. The United States of America has the world's best military, and it will have for decades. It has the world's best universities and the best rule of law. We are known for having some of the hardest working, most entrepreneurial and innovative workforces anywhere. The United States has the widest, deepest and most transparent capital markets in the world – and the best businesses on the planet – small to large. These businesses are an essential part of America's strength – they are the engine of the economy. They create the wealth that we have today to enable all of the things we do as a nation. If it weren't for the capital investment, innovation and productivity of American business, we all still would be living in tents and hunting buffalo.

The need for honest dialogue and collaboration goes way beyond the financial system. We need it in fiscal reform, health policy, energy policy, immigration, education and infrastructure. If we don't start working together, we won't get it right. It is critical that we get it right to ensure America has the best possible future.

As Benjamin Franklin said, "We must, indeed, all hang together, or assuredly we shall all hang separately."

JPMorgan Chase Capital Levels (Basel I Tier 1 Common Ratio)



* Assumes analyst estimates for net income and dividends; share repurchases are assumed at the same level as employee issuance to neutralize capital impact

We firmly believe in strong capital requirements, but the G-SIB surcharge goes too far – as proved by the recently completed Federal Reserve stress test

The Federal Reserve recently completed its CCAR stress test. The stress case makes some pretty severe assumptions for the next two years:

- Unemployment goes to 13%.
- Gross domestic product drops 8% (in the real recent recession it dropped only 5%).
- Home prices drop 20% from today's levels (they already are reduced 34% from peak 2006 levels).
- Trading, capital and credit markets perform even worse than they did in the last crisis.

The Federal Reserve requires all banks to show that throughout this high-stress environment, they can maintain Basel I capital of over 5% (at all times), while it also assumes banks should continue their capital, dividend and repurchase plans as if there were no crisis (there virtually is no way we would continue to buy back a substantial amount of stock if this stress scenario began to unfold).

The chart on the previous page shows what our capital ratios were over the last several years and what analysts are forecasting they will be over the next two years. Recent stress test results conclude that we can increase the dividend, buy back $12 billion of stock and still have capital in the worst quarter (the Fed's stress test assumes that a huge amount of losses all happen in the ***same*** quarter) of no less than 5%. We believe that even if the Fed's severe stress scenario actually happens, our capital ratios will drop only modestly since we will very actively manage our risk exposures, expenses and capital. Keep in mind that during the ***real*** stress test after the collapse of Lehman Brothers, our capital levels ***never went down***, even after buying $500 billion of assets through the acquisitions of Bear Stearns and WaMu.

We deeply believe in stress testing, and we even think that a severe stress test like this, properly calibrated, is appropriate. But we also know – as the real stress test after Lehman's collapse and the recent severe Fed stress test make eminently clear – we have plenty of capital.

There also should be recognition that the whole system is stronger. Accounting and disclosure are better, most off-balance sheet vehicles are gone, underwriting standards are higher, there is much less leverage in the system, many of the bad actors are gone and, last but not least, each remaining bank is individually stronger.

The G-SIB is contrived, artificial and duplicative and doesn't recognize that while some companies were "too big to fail" during the financial crisis, some also were ports in the storm

Once again, very complex regulations are being overlaid on already complex regulations. Under the new Basel III rules, all banks will be required to have 7% Basel III common equity (this translates to approximately 10% Basel I). The new G-SIB requirements mandate for a company our size approximately 2.5% more capital, totaling 9.5% Tier 1 common equity (this equates to approximately 13% Basel I). This is capital that we simply don't need. The G-SIB calculations focus only on the negatives of size and don't recognize the positives of size – diversification of earnings and capital strength – which kept several large companies safe during the storm. In fact, diversification of earnings and even high market shares, which often is a sign of a company's strength, are treated as negatives in these calculations.

The G-SIB rule has 12 metrics to determine how much extra capital a bank needs. I won't bore you with all 12, but I will describe a few to show how arbitrary and contrived the rule is:

- Many of the measures simply look at gross numbers – assets, gross derivatives exposure, cross-border lending, etc. – without any regard for the risk of the credit, whether the risk is collateralized or whatever the tenor of the loan.

- One category is substitutability – an assessment of how easily clients can replace the important services provided by the bank. One of these measures looks at market share in debt and equity underwriting. We believe this is a flawed measure since any given debt or equity transaction usually involves multiple underwriters – so replacement usually isn't even necessary. And if it were, it could be done easily.
- Another measure looks at "risky" wholesale funding. This clearly is a legitimate risk measure for banks, but the G-SIB calculation treats any funding other than retail deposits as equally risky. Your company, which effectively has no wholesale money market funding, is viewed to be just as risky as a company that mostly is wholesale funded in the notoriously fickle money markets. And no credit is given for deposits from companies (most of which are rather sticky), secure funding sources or long-term funding.
- Another factor in the G-SIB calculation is whether a bank holds assets under custody. This is a business where the assets are completely separated from the rest of the company; i.e., already fully safeguarded. We do not understand why the custody business is in the calculation at all.

We could go on and on – the rule penalizes diversification, it treats liquid securities as being worse than loans, it gives no credit to the newly established Resolution Authority to dismantle a big bank and it is inconsistent with parts of Basel III, particularly around the value of operational deposits.

We don't disagree with all of the intent of the G-SIB – it includes some logical approaches to reducing the complexity of the financial markets and the interconnectedness between financial companies. But the way some of these measures are calculated is contrived and artificial. They are duplicative and completely violate the principles of risk-weighting assets. We believe that while the G-SIB rule will cause bigger banks to hold more capital and give them some incentive to shrink, it will not end up working the way regulators envisioned.

We believe banks will be forced to increase their capital levels in order to "cluster around" their major competitors. Even if a bank could run at 7% capital, it probably will have to run at the higher number to be perceived as strong competitively. Additionally, the rule will create unintended, anti-competitive market-distorting arbitrage. Big banks that have a lot of capital will more easily win certain types of business, such as processing, from smaller competitors. Big banks that need to hold 9.5% capital against mortgages simply will syndicate them out to smaller banks that need to hold only 7% capital against the same specific assets.

Regardless of how we feel about the G-SIB surcharge, we, of course, will meet all the requirements – and currently believe we can do so and still earn adequate returns for our shareholders. We just don't think it is the right way to regulate banks – or operate a financial system.

Resolution Authority — essentially bankruptcy — needs to be made real. We must eliminate "too big to fail"

One of the most important provisions of the Dodd-Frank legislative reforms is the creation of a robust Resolution Authority, which empowers the FDIC to take over a failing systemically important financial institution, including us, and resolve its operations and businesses in an orderly manner, without causing systemic risks to the financial system or excessive risks to the economy as a whole. Shareholders and creditors would bear all the losses (in a predictable and consistent way), with no exposure to taxpayers or damage to innocent bystanders. The management responsible for the failure would be replaced, and prior compensation to directors and senior officers would be clawed back. Ideally, the name of the failed institution also would be buried, memorialized only in the hall of shame of failed institutions.

The FDIC would manage this process, including providing operational liquidity if necessary, so that resolution would occur without a lengthy period of government intervention. Properly executed, there would be minimum value destruction and contagion effects inherent in fire sales or disorderly liquidations (this also would preserve as much value as possible for unsecured debt holders – just as in an ordinary bankruptcy proceeding). Those responsible for causing the problem would bear the losses. If losses exceeded the amount of shareholder equity and debt, the banking industry, as a whole, would pay for the losses. This essentially is the way the FDIC has operated since its creation in 1933. There would be no cost to taxpayers, and there would be no bailout by the government.

As a result, critical operations that are important to the economy and the functioning of the financial markets would continue uninterrupted. Credit card processing, ATM networks, checking accounts and debit cards would continue to function, but under the control of new owners and management. Similarly, custody services of client assets, payments processing, asset management, and securities and derivatives clearing would continue without economy-damaging interruption.

Although Dodd-Frank calls this process "orderly liquidation," it really is comparable with a bankruptcy. Implementing this process for financial institutions operating in many jurisdictions around the world brings added complexity. We are working closely with regulators to clearly identify how critical operations in local jurisdictions would continue under a resolution process. Close cooperation is required by multiple regulators. We believe this can best be achieved by actively working together well before any such event occurs and carefully (perhaps legislatively) agreeing on how such an orderly liquidation would be pursued across international borders.

We certainly hope that a large systemically important financial institution never has to go through this process. Certainly, higher capital and liquidity standards, better loan quality and more disciplined underwriting make such a failure significantly less likely. However, the availability of this controlled "bankruptcy" process is critically important for forcing managements and creditors of such institutions to understand that they are NOT too big to fail – and to understand that they are NOT so important that the taxpayers will bail them out and that they are NOT immune to the consequences of excessive risk taking. This type of "bankruptcy" for failed financial institutions is essential for management to maintain market discipline and for risk taking of financial firms.

We need to ensure that America's large global banks can effectively compete

Many of the new rules potentially affect U.S. global banks more significantly than they affect non-U.S. banks. This is not to say that other countries (for example, the United Kingdom and Switzerland) aren't doing things to make it harder for their banks to compete. But we need to ensure that the rules, which affect only American banks, don't hurt – in their ***cumulative effect*** – American banks' ability to compete. Following is a list of regulations that are unique to American banks. (Many of these rules did not emanate from Basel but from the U.S. legislative and regulatory process.)

- The Volcker Rule – and we don't know its final effect yet – will affect only U.S. companies, including, possibly, American banks' activities outside the United States.
- The derivatives rules – still not complete – may require American banks to follow U.S. regulations outside the United States and effectively could eliminate our ability to offer derivatives to our corporate clients.
- The Collins Amendment eliminates tax-efficient Tier 1 capital, effectively increasing the cost of capital.
- Concentration limits restrict the ability of U.S. banks to acquire institutions outside the United States with no similar limitations on our foreign competitors.
- High Mortgage Servicing Rights capital charges (a uniquely U.S. asset) increase our cost of doing business.
- Proposed accounting changes are more punitive for U.S. banks when they hold marketable debt securities. Foreign banks will be able to hold many of these securities at cost, but American banks will have to deduct any unrealized losses from capital.
- U.S.-specific liquid asset classes are given less credit or excluded. Amazingly, covered bonds in Europe count as 100% liquid assets, but U.S. government-guaranteed mortgage-backed securities count only as 85%.
- The G-SIB capital charge gives no credit for U.S. Resolution Authority in Dodd-Frank.

- U.S. companies that have earned high market shares over time in the investment banking and custody businesses (usually a sign of having a strong business) are specifically penalized with higher capital charges.

Ironically, while the U.S. banking system is far less consolidated than ***all*** other developed nations (currently only six of the 50 largest financial firms in the world, by market capitalization, are American – they were 44 of the 50 in 1989 – this should give U.S. policymakers pause), the G-SIB charges and some of the other rules penalize American banks more than non-U.S. banks.

Suffice it to say, the negatives are adding up and bear close watching. While we strongly prefer to have common global rules for everyone, it may not be turning out that way. It is incumbent upon American policymakers to make sure that the final outcome is fair to American banks and that they are ***fully free*** to compete in the face of increasingly tough global competition.

Basel III, procyclicality, group think and the role of judgment

Quantitative easing may be good policy to help the economy recover, but it does artificially increase the value of government and government-guaranteed securities. The new Liquidity Coverage Ratio gives government and government-guaranteed securities credit only for being liquid – no other assets, including gold, equities or corporate bonds have ***any*** liquidity value. This also creates higher demand and, therefore, a higher artificial value for government securities. The Volcker Rule, as it currently is written, also allows unimpeded trading and liquidity for government securities and a lot less liquidity for everything else. Pension accounting is forcing pensions to hedge their liabilities by buying fixed-rate securities at precisely the wrong time. Banks hold large available-for-sale securities portfolios to manage their assets and liability risk management. And if rates ever go up (and they will) and there are losses in these portfolios, the losses will have to be deducted in capital – even though the liabilities that they are hedging are not being marked-to-market. All the items we just mentioned could be looked at as one large "crowded trade." If things ever start to go wrong, everyone could head to the exit door at the same time. Your company has positioned itself to be protected against rapidly rising rates – in fact, the company would benefit if either short-term or long-term rates went up.

Markets already are naturally procyclical, and Basel III makes it worse. In a crisis, Basel III demands that even more capital be held against risky assets. We estimate that the swing in Tier 1 common capital from benign times to crisis times could be as much as a 20% difference in the capital ratio. We should try to make Basel III countercyclical – but certainly not more procyclical.

Finally, the ultimate goal, with which we mostly agree, is to have Basel III applied fairly and evenly around the world. But this leads to another potential set of issues. Everyone will start to have an increasingly more common view of the risk of a certain type of asset. This is what happened in the United States when everyone thought mortgages were completely safe. Models eventually will replace judgment – and this is a terrible idea. Models always are backward looking and don't capture true underlying shifts and changes that affect credit or markets; e.g., increasing or reducing liquidity, structural changes in industries that dramatically change the riskiness of an industry (think of what the Internet did to newspapers) or real quality underwriting vs. lax underwriting. And models have a hard time capturing concentration and correlation of risks (think of oil and real estate in oil regions). Many years ago in the United States, there were approximately eight large banks in Texas. Within five years after the oil crisis, only one survived as an independent bank. The others were either sold under duress or went bankrupt – not because of their oil exposure but because of their real estate exposure. Models cannot replace judgment, and judgment helps to balance and diversify the global financial system.

VI. THE MORTGAGE BUSINESS – THE GOOD, THE BAD AND THE UGLY

Many of the financial crises of the past hundred years around the world were related to real estate. Real estate was not the only culprit in the recent crisis, but it certainly was at the eye of the storm. I suspect that the mortgage crisis will be the worst financial catastrophe of our lifetime. What the world experienced was almost a collective brain freeze – traditional mortgage underwriting loosened over time (actively supported by the U.S. government) such that we got Alt-A mortgages, subprime mortgages and option-adjustable rate mortgages (option-ARM). These mortgages were packaged into securities (sometimes guaranteed by government entities and insurance companies), and home ownership was going up – it all seemed to be working. But as the process unfolded, unscrupulous mortgage officers were mis-selling mortgages, some borrowers were lying on mortgage documents and speculation was rampant. It was a disaster hidden by rising home prices and false expectations, and once that price bubble burst, we all were in trouble.

We need to write a letter to the next generation that says, "Never forget: 80% loan to value and verify appropriate income."

Clearly, it was not our finest hour

We were one of the better actors in this situation – but not good enough; we made too many mistakes. We generally were a better underwriter. We did not originate option-ARMs. Many of our problems were inherited from Bear Stearns and WaMu. Even our subprime mortgages outperformed most other subprime mortgages. Early in the crisis, we also stopped dealing with mortgage brokers, some of whom underwrote the worst of the mortgages and probably mis-sold mortgages more than most.

But we did participate in this disaster by originating mortgages that wouldn't have been given a decade earlier (and won't be given a decade later). And when delinquencies and foreclosures grew dramatically, we were ill-prepared operationally to deal with the extraordinary volume of troubled mortgages and upset borrowers. Our servicing operations left a lot to be desired: There were too many paperwork errors, including affidavits that were improperly signed because the signers did not have personal knowledge about what was in the affidavits but, instead, relied on the company's processes. However, the information in the affidavits was largely accurate – i.e., the borrower, in fact, was in default, we did have the mortgage and so on.

Gearing up to deal with this problem meant overcoming the multiple and poor systems we inherited from our acquisitions of Bear Stearns and WaMu. In addition, there were numerous government modification and refinancing programs and multiple changes to these programs to contend with, some of which involved extensive and hard-to-complete paperwork. We now have 23,000 people servicing delinquent loans or dealing with foreclosures – up from 6,800 people in 2008.

These problems, as one might expect, led to a myriad of lawsuits from various U.S. government agencies, attorneys general from the 50 states and private investors.

We have settled with the U.S. government and state attorneys general and implemented strong new policies – for the good of all. In February 2012, JPMorgan Chase and four other top mortgage servicers agreed to a global settlement with the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, the Consumer Financial Protection Bureau and the state attorneys general. The settlement relates to the servicing and origination problems mentioned above.

For us, the settlement will consist of the following:

- Making cash payments of approximately $1.1 billion (a portion of which will be set aside for payments to borrowers) to 50 states.
- Offering approximately $500 million of refinancing relief to certain "underwater" borrowers whose loans are owned by the firm.
- Providing approximately $3.7 billion of additional relief for certain borrowers, including reductions of principal on first and second liens, payments to assist with short sales, deficiency balance waivers on past foreclosures and short sales, and forbearance assistance for unemployed homeowners.
- Agreeing, along with the other banks, to a new set of enhanced nationwide standards for mortgage servicing, including requirements around single point of contact, staffing levels and training, communication with borrowers and document execution in foreclosure cases. The standards also will require banks to offer modifications and other foreclosure alternatives for borrowers before pursuing foreclosure – a practice in which we have and will continue to be actively engaged. We support these new standards – they will help establish a higher level of transparency and clarity for servicer activities and, ultimately, will strengthen the stability of the industry as a whole. (I will talk later in more detail about all the things we are doing, in addition to the things mentioned above, to help homeowners.)

The global settlement releases JPMorgan Chase from further claims related to servicing activities, including foreclosures and loss mitigation activities, certain origination activities and certain bankruptcy activities. Not included in the settlement are claims from investors in private label securities who are making claims both on representations and warranties (i.e., that the underwriting wasn't done according to the standards in the securities contracts), as well as lawsuits claiming there were misstatements in the underwriting of the securities.

We have substantial reserves for mortgage litigation. One of the challenges our firm continues to face following the economic crisis is litigation relating to mortgage-backed securities issued by JPMorgan Chase, Bear Stearns and WaMu. Investors have brought securities litigation, trustees have demanded loan repurchases and regulators continue to scrutinize these transactions. As I always have said, we will honor our obligations. However, we also will defend against demands that are not reasonable. Securities claims brought by sophisticated investors who understood and accepted the risks associated with their investments – which, in some cases, are current and still paying – face substantial legal hurdles. Likewise, we are going to fight repurchase claims that pretend the steep decline in home prices and unprecedented market conditions had no impact on loan performance or that seek to impose liabilities on us that we believe reside with third-party originators (or, in the case of WaMu securitizations, with the FDIC). These plaintiffs face a long and difficult road, and, as a result, litigation over these issues could take many years. Nonetheless, we have set aside significant reserves to handle these exposures.

How we are trying to properly and fairly deal with delinquencies, modifications and foreclosures

First, some facts: Of 76 million owned homes in America, 24 million do not have a mortgage. Of the remaining 52 million homes with mortgages, approximately 4.7 million have a delinquent mortgage. And approximately half of those that are delinquent are on homes where the value of the home is worth less than the mortgage. Another 10+ million homeowners are current on their mortgages, but their houses are worth less than their mortgages. (We estimate that approximately 25% of these mortgages ultimately will go into default – homeowners for the rest will continue to pay and, it is hoped, will recover the value of their homes.)

Here is where we stand and how we are trying to deal with the situation:

- **If we treated a homeowner improperly, we should make it right.** Anyone who was mis-sold a loan or was foreclosed on improperly deserves redress. Mis-selling a loan is where the borrower was misled about significant loan terms or fees or interest rates that were higher than they should have been. An improper foreclosure is one in which the homeowner did not owe the money or was not in default. If it comes to our attention that we participated in any of these situations, we will fix them immediately. That said, however, many loans were taken out by unscrupulous borrowers, individuals who either lied about their income or lied about their intention to live in the home – they clearly were speculating that they could "flip" the real estate for a profit on rising home prices. These individuals should not receive help for any reason.

- **If a homeowner can afford to pay the mortgage – whether or not the home is underwater – the mortgage should be paid.** A mortgage is a loan collateralized by the house. It is not a loan that one should feel free to walk away from if the house goes down in value. Most of the people in this situation can, and do, pay their mortgages. Some attempt a "strategic" default – even if they can afford to pay, they just walk away. Even though they still owe the difference, it is hard for the lender to collect. It is hoped, as the housing market recovers, these "underwater" homeowners will get equity back in their homes.

- **If a homeowner cannot afford the mortgage but can afford a reduced payment, we try to modify the loan.** When a mortgage becomes delinquent, we make a very concerted effort to contact the person. We start reaching out as early as 15 days after a loan becomes delinquent and, for some homeowners, make a hundred or more attempts before foreclosure. We are sympathetic with these borrowers because most of them are unable to make their payments for legitimate reasons – someone lost a job, someone got sick or a person's income level dropped precipitously. In these cases, we try to modify the mortgage – both under a government initiative called Home Affordable Modification Program (HAMP), which has strict requirements, and through our Chase Home Affordable Modification Program (CHAMP), where we can be more flexible. We often can reduce the interest rate to as low as 2% and, in some cases, reduce the principal. Since 2009, we have offered over 1.2 million modifications and completed more than 450,000. We have reduced payments to borrowers by a current run rate of $1 billion annually. Ultimately, we expect to reduce payments over the years by more than $10 billion. For loans owned by JPMorgan Chase, we already have deferred principal of $1.5 billion, forgiven over $2.1 billion in principal and reduced interest payments by $1.2 billion. And by the end of the process, we expect to have forgiven principal of approximately $4.5 billion and reduced interest payments by a total of $3.5 billion.

  We treat loans to investors (i.e., loans in private label securities) the same way we treat loans that we own. It is important to note that all modifications are done according to specific contracts. These contracts stipulate that you can modify a mortgage only when it is better for the lender than foreclosing, all things considered (i.e., the net present value of a modified loan is worth more than going through a foreclosure process, with all its expense, and ultimately selling the home at a very distressed price).

- **If a homeowner cannot afford the home, even with the modification, we still try to avoid foreclosure.** If someone can't afford a mortgage at 2%, even using a reduced valuation on the house, foreclosure is the last option. Since 2009, we have prevented approximately 750,000 foreclosures through our various programs, including modifications – twice as many as have been foreclosed.

Programs designed to prevent foreclosures include short sales or deeds-in-lieu situations in which the homeowner agrees to sell the house or lets us sell the house. In some cases, we pay homeowners to sell their homes, and we waive deficient loan balances (waiving deficient loan balances represents debt forgiveness to these borrowers). These foreclosure programs have cost us $6 billion so far, including direct payments of $150 million and balance waivers of $5.8 billion. When these programs conclude, we expect to have paid a total of $650 million in direct payments and more than $12 billion in balance waivers.

- **Foreclosure.** While foreclosure is a terrible option, it sometimes is the only option. While it is awful for the homeowner, it does allow an individual to get a fresh start and more affordable housing – and relief from a crushing debt burden. Foreclosure is the worst option for the bank, too, because the house usually is left in poor condition and sold for substantially less than the outstanding balance on the loan, resulting in a loss. (We even, from time to time, make payments to people to help them leave the home in good condition and be able to afford to relocate.) By the time we actually foreclose on someone, we generally have not received a payment for 17+ months; and in 54% of the cases, the house was either vacant or occupied by someone other than the owner. The loss to the bank, in effect, becomes loan forgiveness to the individual – but this "forgiveness," it is hoped, is going only to people who really need it: people who truly are unable to pay and really need the debt relief. Since 2007, JPMorgan Chase has recognized losses on first mortgages of more than $21 billion due to foreclosures and charge-offs. Ultimately, we will have recognized more than $27 billion in foreclosures and charge-offs.
- **Home equity loans generally are modified if we modify the mortgage loan and almost always are written off if there is a short sale or foreclosure.** We treat home equity loans that we own exactly the same whether we own the first mortgage or service it for someone else. When the first mortgage is modified, the home equity loan generally is modified, and the modification terms typically are at least as generous to the borrower as the terms of the first mortgage. The home equity loan essentially will pay off only if the first mortgage ultimately pays off. Importantly, if the first mortgage is ever foreclosed on or written down due to a short sale, the second mortgage almost always is written off. Since 2007, we have recognized losses of more than $16 billion in home equity loans and expect as much as another $5 billion over the next few years.

This is a miserable situation all around, but we want our shareholders to know that we are trying to treat every borrower fairly and properly based on the individual's situation and circumstances.

But it also will be the best of JPMorgan Chase

We have brought enormous resources to bear on fixing our mortgage business. Many of our top executives volunteered to help – and we now have some of our best people from finance, risk, technology and operations devoted to this effort. As a result, we are responding rapidly and are improving across the board. For example:

- **In early 2009, Chase opened the first Chase Homeownership Center to help customers under financial stress stay in their homes.** We now have 82 brick-and-mortar centers located in 28 states and the District of Columbia, regions hardest hit by the housing crisis. Six of the 82 are near military bases, and the mortgage counselors at these centers receive special training to understand general military issues, special military programs and the Servicemembers Civil Relief Act. Over the past two years, our Borrower Assistance employees have met with more than 273,000 customers who are behind in their payments or are likely to be, and Chase has held 1,800 outreach events for homeowners who need assistance.
- **On October 4, 2011, our mortgage servicing platform, which, in fact, was three legacy technology systems from Chase, Bear Stearns and WaMu, was consolidated.** This was a huge 13-month effort that resulted in one Chase system, one way to serve customers, and a better and more consistent customer experience.

- **Our customer satisfaction scores in both external and internal surveys have improved considerably.** In the 2011 J.D. Power Mortgage Origination survey, Chase jumped to #5 from #12 in customer satisfaction among lenders nationwide – the largest improvement of any company. (We're still not satisfied with being #5.) At the same time, customer complaints have declined more than 60% from a high point in May 2011.

The mortgage business is important – that's why we are going to stay in it

Providing a mortgage – helping our customers own and stay in their homes – is one of the most important and emotional connections we have with our customers. It also is a product that has the potential to deepen our relationship with customers. Our Retail branch franchise and brand give us an enormous competitive advantage in the mortgage business. There are 5.7 million customers who have an existing Chase mortgage. But with a base of 50 million customers, we think we could double the number of mortgage customers.

Once we finish fixing it, the mortgage business will be a great one for JPMorgan Chase. The winners in the business will be those who have good customer relationships and are good at large-scale servicing and processing – right up our alley. Normalized earnings for this business should be about $2 billion, with a through-the-cycle return on equity (ROE) of about 15%. We continue to invest in this business by growing our sales force and introducing technology applications to improve the customer experience. Over the past year, we added 700 loan officers – bringing our total to 3,800 – and we are serving more customers as a result. Plus we plan to hire an additional 1,000 loan officers in 2012.

Housing is getting better – there, I said it

There has been a tremendous focus on the fact that housing prices remain depressed and, in fact, are still going down some. The large "shadow inventory" of homes in delinquency or foreclosure that has not yet hit the sale market adds to the fears that this will continue for a long time. New home construction still is very depressed – so, to most, the future looks bleak. However, if one looks at the leading indicators, all signs are flashing green – the turn is coming if it is not here already. We don't want to be blindly optimistic, but the facts are the facts:

- America has never stopped growing. The United States has added 3 million people a year since the crisis began four years ago. We will add 30 million people in the next 10 years.
- This population growth normally would create a need for 1.2 million additional housing units each year. Household formation has been half of that for the past four years. Our economists believe that there is huge pent-up demand and that household formation will return to 1.2 million a year as job conditions improve.
- Job conditions have been improving, albeit slowly. In the last 24 months, 3.45 million jobs have been created.
- On average, only 845,000 new U.S. housing units were built annually over the last four years – and the destruction of homes from demolition, disaster and dilapidation has averaged 250,000 a year. The growth of new households, even at a reduced rate, has been able to absorb all of this new supply, and more.
- The total inventory of single-family homes and condos for sale currently is 2.7 million units, down from a peak of 4.4 million units in May 2007. It now would take only six months to sell all of the houses for sale at existing sales rates, down from 12 months two years ago. (This low of an inventory number normally would be considered a positive sign for future housing prices.)
- While the shadow inventory mentioned above still is significant, it has shown a visible declining trend since peaking at the end of 2009, when the number of loans delinquent 90+ days or in foreclosure was 5.1 million homes. It now totals 3.9 million, and we estimate it could be 3 million in 12 months. The shadow inventory also may

move more quickly as mortgage servicers get better at packaged sales and short sales and as real money investors start to buy foreclosed homes and rent them out for a good profit. Home prices still are going down a little bit, and they will stay depressed for a while. Distressed sales (short sales, foreclosure sales, real estate-owned sales) still are 25% of all sales, and these sales typically are priced 30% lower than non-distressed sales. As the percentage of distressed sales comes down over the next 12-24 months, their negative effect on housing prices will start to diminish.

- Housing is at an all-time high level of affordability due to both low home prices and low mortgage rates.
- It now is cheaper to buy than to rent in half of the markets in America – this has not been true for more than 15 years. Relatively high rental prices can be a precursor to increasing home prices.
- At the same time, American consumers are finding more solid financial footing relative to their debt. The household debt service ratio, which is the ratio of mortgage plus consumer debt payments to disposable personal income, stands at its lowest level since 1994. This is a result of rapid consumer deleveraging – household mortgage debt now is down $1 trillion from its 2008 peak. (Reported U.S. mortgage data do not remove mortgage debt from an individual's debt obligations until there is an actual foreclosure. It is estimated that $600 billion of the $9 trillion in currently outstanding mortgage debt is not paying interest today and effectively could be removed now from these numbers.)
- Recent senior loan officer surveys by the Federal Reserve show that, while there are not yet clear signs of credit loosening for new mortgages, at least the rush to tighten mortgage lending standards has abated.
- Over the last two years, $2 trillion of mortgages have been refinanced, substantially aiding homeowner burdens. We expect another $2 trillion to refinance over the next two years, with approximately 10% coming from recently announced government programs, and, at that point, we estimate that only 15%-20% of Americans will be paying interest rates over 6%.

More jobs, more households, more Americans, good value – it's just a matter of time.

VII. COMMENTS ON THE FUTURE OF INVESTMENT BANKING AND THE CRITICAL ROLE OF MARKET MAKING

We believe that investment banks provide a critical role in facilitating the flow of capital to meet client needs and that those needs will grow dramatically in the next 10 years

It is important to look at any business from the point of view of the client. Our 5,000 issuer clients and 16,000 investor clients will have large and growing needs in the future.

Corporate clients' need for equity and debt issuance, M&A and other advice, and balance sheet management is projected to almost double over the next 10 years. Global infrastructure investment will more than double over a two-decade period – it is projected to reach $3.7 trillion by 2030.[a] Total global financial assets of consumers and businesses, which now total $198 trillion, are projected to nearly double to $371 trillion by 2020.[b] Clearly, these huge capital and investing needs of clients will drive real underlying growth of the investment banking business. And JPMorgan Chase is in the sweet spot because much of the growth will be with our clients – large, often multinational companies, government-related entities and large global investors. And our role as an issuer of securities and as a market maker places us right in the center of key money flows.

Of course, these business volumes, while they will grow over time, frequently have volatile swings within months, quarters and years. Not only can volumes easily move 50% by quarter or year, but spreads and fees also can move dramatically, affecting our revenue. The facts above convince us that the large slowdown we saw in the second half of last year was cyclical, not secular. And volatility does not make the business bad – it simply means you have to manage the business, knowing that it can happen at any time. In 2011, a tough time for many investment banks, your J.P. Morgan Investment Bank earned a 17% ROE.

(a) According to McKinsey Global Institute Study, *Farewell to cheap capital? The implications of long-term shifts in global investment and saving*, December 2010

(b) According to McKinsey Global Institute Study, *The emerging equity gap: Growth and stability in the new investor landscape*, December 2011

Demystifying market making (trading) — why it is so important

While most people understand corporate finance fees are earned for stock or bond issuance or advice, market making is a mystery to most people – it remains a black box. We need to do a better job of describing the important role of market making and explaining how it can be done safely. Before I talk about our market-making business, it is important to recognize that market making is a normal function of any economy. While we make markets in general in financial instruments, others make markets in just about everything, everywhere – farmers markets, all types of food and commodities markets, lumber, paper, ink, advertising, steel, etc. Markets are simply where buyers and sellers meet to exchange products and services, and market makers facilitate the process.

Sixteen thousand investor clients use our market-making services. These clients include mutual funds, corporations, pension plans, states, municipalities, hospitals, universities, etc. The services we provide are research, advice and execution. Clients come to us when they want to buy or sell securities (in this section, when I refer to securities, I mean stocks, bonds and loans of companies, bonds of government entities, mortgage securities of all types, commodities of all types, currencies of all types and derivatives on all of the aforementioned securities, including swaps, options, etc.).

It takes substantial resources to provide these services properly. We have more than 800 professionals carrying out research on 4,300 companies, 1,000 government entities (states, municipalities, etc.) and 80 countries – at a cost of approximately $600 million a year. We analyze securities, markets and economies around the world. Our job is to educate our investors and issuers and help them accomplish their global financial objectives.

To execute trades, J.P. Morgan has more than 110 trading desks around the world – 2,000 traders – making markets and executing trades in securities, broadly defined. And 2,500 salespeople call on our 16,000 investor clients, offering ideas and advice. Supporting our research, sales and trading are approximately 13,000 technology and operations specialists and 4,000 control, finance and risk management professionals across the Investment Bank. In addition, we hold an average of $400 billion in inventory (securities, broadly defined), which we turn over constantly, and we provide, on average, more than $250 billion of securities financing for clients. Our market-making operations also help our issuer clients sell or raise approximately $430 billion of capital a year.

We trade over a trillion dollars of securities, broadly defined, every day – for example, approximately 90,000 separate trades a day in our fixed income business alone. While we do business with 16,000 clients, the top 1,000 clients account for a large portion of the business. These investors are smart and sophisticated – we want their repeat business, but we have to earn it. Presumably, they keep coming back to us because they value the services we provide; but if we did not give them great value and great prices, we probably would not get their business – they have lots of other options – and there is a lot of competition for their business.

Our aim is simple – to provide our clients with sound investment ideas and value-added, world-class execution at increasingly lower cost.

The cost of these services to clients has been coming down dramatically over time – benefiting both investors and corporate issuers. Thirty years ago, it cost, on average, 15 cents to trade a share of stock, 1% (100 basis points) to buy or sell a corporate single-A bond and $100,000 to do a $100,000,000 interest rate swap. Today, it costs, on average, 1.5 cents to trade a share of stock, 10 basis points to buy a corporate single-A bond and $4,000 to do a $100,000,000 interest rate swap. Market making creates great liquidity in the market, giving investors confidence that they can buy and sell securities – often at a moment's notice. Market making also is being done at an increasingly lower cost of execution, which is a benefit to investors and issuers, buyers and sellers. Reducing spreads, or the cost to do a trade, means that the buyer gets to buy at a better price, ***and*** the seller gets to sell at a better price. This is no different from Wal-Mart Stores, Inc. offering you great products at lower prices. Innovation in products, systems and markets has driven down these costs, and the investor and issuer are the beneficiaries.

Profitability is driven by serving many clients well at a low cost to them – we take on risk, which we manage carefully, to serve our clients. A few examples will suffice. We have huge volumes of business, allowing us to offer good prices. For example, in North America Cash Equities, we buy and sell approximately 160 million shares a day at 1.5 cents per share. In foreign exchange trading, we do approximately 80,000 spot/forward trades a day, netting only $70 a trade (75% is done electronically). In credit trading, we do 4,000 trades a day (mostly bonds), making $1,500 per trade. We also trade, on average, approximately 500 interest rate swaps a day. Certain products have higher fees associated with them, but fees generally are consistent with the risk and cost we need to take to execute the trade. In all of these examples, revenue obviously is offset by the cost of operating the business, including the cost of hedging. And when volumes drop or spreads tighten, the business clearly becomes less profitable.

The revenue on 98% of our trades averages $50,000 or less – per trade. But on a handful of trades, we do make much larger fees because we serve our clients by taking on substantially more risk. Two examples will help explain. In one instance, we executed a multibillion dollar interest rate swap for a leading real estate company. In another trade, we executed a multiyear, half-billion dollar oil hedging program for a leading transportation firm. On some of these large trades, we can make revenue of millions of dollars, but to do so, we take on large risks, which we prudently try to hedge – an undertaking that frequently cannot be completed immediately. On occasion, after all is said and done, we may not make any revenue at all. However, our clients are happy – they have paid us to take on risks that they don't want. And when we assume the risk, it is our job to manage it so that we are paid fairly, on average, for the risk we took.

In the market-making business, we actively try to hedge our positions to protect the firm from violent price swings. But all hedges are not perfect, and some things simply cannot be hedged. So we do take risk by holding inventory, but that is the cost of doing business – a cost not much different from the inventory a retailer or wholesaler holds in stores to serve their customers. (When they lose money on their inventory, it's called markdowns or sales.) Holding inventory at appropriate levels is a cost of doing business – it is not speculating.

Many clients have a large need for derivatives to manage their exposures. Even more misunderstood than market making in stocks and bonds is derivatives. Ninety percent of the global Fortune 500 companies actively use derivatives. They don't use them because we want them to do so. They use them to manage their own exposures. Ninety percent of what they do, and what we do, is pretty basic – they use interest rate or foreign exchange (FX) derivatives to manage interest rate or FX exposures. In addition, clients use derivatives to manage commodity exposures, credit exposures and other risk exposures. Many companies have huge exposures that they need to hedge so that they are not badly hurt or even bankrupted by violent moves in prices. Farmers have been doing hedging for a long time, and, in the modern world, it also applies to airlines, banks, investors and others who have exposures to oil, interest rates, foreign exchange rates, etc.

We tightly manage our risk in derivatives by limiting our risk to each counterparty, by limiting the type of risk we take within each counterparty and by taking substantial collateral against existing credit exposures. Today, our net credit exposure to all counterparties, net of collateral – in essence, what we are owed by our various counterparties – is approximately $70 billion. Most of our unsecured exposure is to government entities or corporate clients where we deliberately don't ask for collateral, which essentially is a way to extend credit to them. With all of our major global market counterparties – think of all the other major financial institutions – we don't leave any material unsecured derivatives exposure at all – we post collateral to each other every day.

One other great fear about derivatives is their "lack of transparency." If by "transparency" people mean transparent prices, derivatives actually are very transparent. Computer screens provide immediate pricing and very accurate spread information on the majority of derivatives, and many dealers can respond with actual bids, in size and with very tight spreads, to anyone who calls. If by "lack of transparency" people mean that the regulators cannot access the information they need to evaluate the risks, then that is incorrect – they can and do see everything we can see. Finally, if by "transparency" they mean that investors (our shareholders and debtholders) can't see or understand the risks – that's kind of true even though we make extensive disclosures. But you can look at any large company's public disclosures, and there will be some, not deliberate, lack of transparency. For example, it's not transparent what newspaper companies pay for print or paper or how various companies have their inventory marked or what insurance companies' true exposures are. We try to be as transparent as we can meaningfully be, without overwhelming our investors. We welcome any suggestions on how we can get even better at this.

A liquid secondary market is critical to the primary market – where corporate and government-related entities issue securities. Because America has such deep secondary markets, corporate and government-related entities can issue large quantities of securities quickly and at a low cost. When a corporate bond issuer comes to market with a multibillion dollar issue, the world already has been educated on the company, the bonds usually are traded actively and the issue usually can be placed fairly quickly at low cost to the issuer.

This would not be possible if we did not have a high level of efficiency, activity and liquidity in the secondary markets where existing issues constantly are bought and sold. If secondary markets were traded with less frequency, then spreads – or costs –

would increase, thereby making it far more expensive for entities – public and private – to raise capital by issuing new securities. America has the widest, deepest and most transparent capital markets in the world at the lowest prices for both issuer and investor. While we clearly had some issues with parts of these markets and believe reform is needed – let's not destroy the world's best capital markets.

We do not disagree with the *intent* of the Volcker Rule. If the intent of the Volcker Rule was to eliminate pure proprietary trading and to ensure that market making is done in a way that won't jeopardize a financial institution, we agree. And we believe there are many ways to accomplish this: by holding proper capital, by insisting on proper liquidity, by proper marking of positions, by proper reporting of risk, by constantly turning over the risk in inventory positions as appropriate for the type of security – trading in illiquid securities will have less turnover than trading in government securities – and by making sure that most trading is customer driven – much of the trading the Street does with itself is effectively to syndicate out unwanted risk, which is no different from loan syndication. But by its nature, market making requires that traders, in order to facilitate client business, take positions in inventory that they hope to sell later.

The reader should understand that loans, a traditional bank function, are proprietary, illiquid and risky by their nature – but that doesn't make them bad. And most banks that have gone bankrupt did so by making bad loans – not by trading. Loans and market making both serve a critical function: financing the American business machine.

The Volcker Rule and derivatives rules need to be formulated in such a way as not to severely inhibit American banks' ability to compete and serve clients. If the Volcker Rule or the derivatives rules are written in a way that constrains our ability to actively make markets or to competitively provide derivatives to our clients, our future will not be as bright as it could be. For both rules, one of the key questions is how they will apply to business conducted outside the United States. We cannot and should not be in a position where the rule affects U.S. banks outside the United States but not our foreign competition. Not only would we be unable to compete effectively in Europe, Asia and Latin America, but much of the business that we currently do in America (with investors or corporations) likely will move to foreign jurisdictions because our competitors will be able to offer a better deal. No matter how much our clients may like us, they will (and should) move their business if they get better pricing elsewhere.

In any case, we are well-positioned to be a winner in the investment banking business. While we do believe that there will be some large-scale changes affecting the business – driven by both regulation and innovation – J.P. Morgan has the breadth – we are one of the top players in almost all of the markets that we deal in – and necessary economies of scale to emerge as a winner.

VIII. WHY WOULD YOU WANT TO OWN THE STOCK?

With record earnings, top three positions in each of our major businesses and clear paths to growth, why hasn't the stock done better?

There are many issues that are causing investors concern, creating legitimate reasons for why bank values are depressed. Our stock closed the year at $33.25, lower than it was five years earlier. Over that time period, we underperformed the Standard & Poor's Index by 22% although we outperformed the Bank Index* by 41%. (As of March 15, 2012, at the time I am writing this letter, the stock has recovered to $45 a share, and these two numbers would be a 7% underperformance and a 60% outperformance, respectively).

In the beginning of this letter, I mentioned that we are buying back a substantial amount of stock despite all the issues facing our company. Given these issues, we feel we owe you an explanation about why we are doing this and how we view the stock.

There are significant issues affecting the stock valuation — but they will resolve over time

Banks do face a plethora of difficult and potentially damaging issues. Since the crisis, we have met with many bank investors who have said, "Bank stocks are uninvestible," and they cite the following reasons:

- High economic uncertainty, a weak recovery in the United States and large potential problems in Europe
- A low interest rate environment causing reduced margins
- The continued poor housing market in the United States
- Ongoing litigation around mortgage securities
- The large amount of regulation, including much higher capital and liquidity standards and the fear that given so much capital and regulatory constraints, we won't be able to earn an adequate return on our capital
- Ongoing anger at banks, which can lead to even more regulation and litigation
- Increasing global competition from large banks and from less regulated shadow banks

These issues are real and substantial. Regarding the first three issues, we have an abiding faith that the United States will recover, interest rates will normalize and housing will get better. We're already starting to see some hopeful signs. We also believe we are reserved substantially for mortgage litigation (as we've already described).

Much of the uncertainty around regulation will be resolved over the next 12-24 months. In my opinion, only two regulations materially can hurt our competitive ability (the Volcker Rule and the derivatives rules, which I spoke about in the last section). We believe they both will be properly resolved in a way that will allow us to compete fairly. We also believe there will be a lot of unintended consequences as a result of the complexity and interplay of all the regulations. And – while I have expressed my concerns on behalf of the consumer, the industry and the country – my sense is that JPMorgan Chase could benefit from as many unintended consequences as we will be hurt by them. This, however, may not be true for some of our competitors.

Finally, it is possible that we may be required to hold more capital than our main competitors, but we still believe we will find ways to manage both our capital and our businesses such that we earn adequate returns.

As all of these issues are resolved, we will be left with a stronger and more competitive company, our earnings will be higher, our industry will be growing and our future will be bright.

* Excluding JPMorgan Chase

Why we bought back the stock and how we look at stock value

Our tangible book value per share is a good, very conservative measure of shareholder value. If your assets and liabilities are properly valued, if your accounting is appropriately conservative, if you have real earnings without taking excessive risk and if you have strong franchises with defensible margins, tangible book value should be a very conservative measure of value.

And we have substantial, valuable intangibles. Our brand, our clients, our people, our systems and our capabilities are not replicable – even if I gave you hundreds of billions of dollars to do it. We have many businesses that earn extraordinary returns on equity because there is very little equity involved; e.g., much of our asset management business, our advisory business, parts of our payments businesses and others.

Many of our assets would sell at a substantial premium to what currently is on the books; e.g., credit card loans, consumer branches and others. To be honest, some also would sell at a discount vs. what they're on the books for – though many of these assets or loans will give us the cash flow return we expect and which normally are attached to a client where we earn a lot of non-loan-related, highly profitable revenue (i.e., cash management, etc.). The loan itself might sell at a discount, but the whole relationship would not. And, certainly, most of our businesses, if we sold them whole, would sell at a substantial premium to tangible book value.

Our best and highest use of capital (after the dividend) is always to build our business organically – particularly where we have significant competitive advantages and good returns. We already have described many of those opportunities in this letter, and I won't repeat them here. The second-highest use would be great acquisitions, but, as I also have indicated, it is unlikely that we will do one that requires substantial amounts of capital.

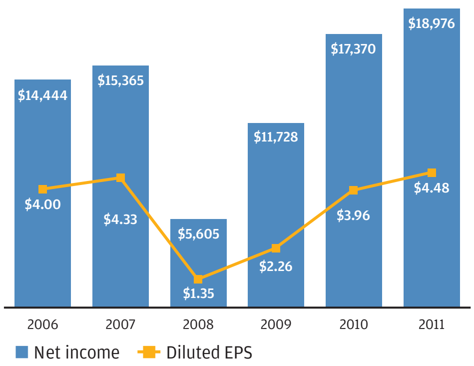
We have huge capital generation. When you look out many years into the future, JPMorgan Chase should generate huge amounts of capital, and much of it will be hard to deploy. Unfortunately, the CCAR test restricts our ability to buy back stock because it looks at just two years of capital generation. So while we have less capital than the 9.5% that we currently believe we will need under Basel III, once we get there, we will be generating extreme amounts of excess capital. And our organic growth and acquisitions unlikely will be able to use it all.

So buying back stock is a great option – you can do the math yourself. Haircut our earnings numbers that analysts project and forecast buying back, say, $10 billion a year for three years at tangible book value. With these assumptions, after four years, not only would earnings per share be 20% higher than they otherwise would have been, but tangible book value per share would be 15% higher than it otherwise would have been. If you like our businesses, buying back stock at tangible book value is a very good deal. So you can assume that we are a buyer in size around tangible book value. Unfortunately, we were restricted from buying back more stock when it was cheap – below tangible book value – and we did not get permission to buy back stock until it was selling at $45 a share.

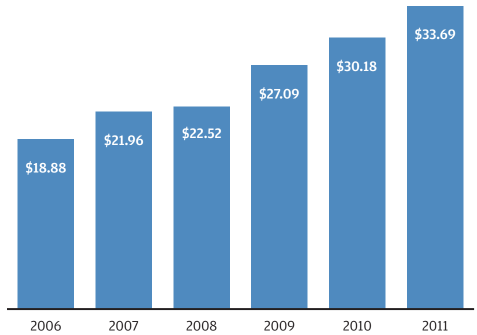
Our appetite for buying back stock is not as great (of course) at higher prices. If you run the same numbers as above, but at $45 per share, buybacks would be accretive to earnings and approximately break even to tangible book value – still attractive but far less so. Currently, above $45 a share, we plan to continue to buy back the amount of stock that we issue every year for employee compensation – we think this is just good discipline. As for the excess capital, we will either find good investments to make or simply use it to more quickly achieve our new Basel III targets. Rest assured, the Board will continuously reevaluate our capital plans and make changes as appropriate but will authorize a buyback of stock only when we think it is a great deal for you, our shareholders.

Earnings and Diluted Earnings per Share 2006-2011

($ in millions, except diluted EPS)



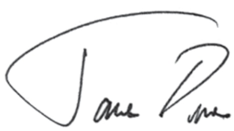
Tangible Book Value per Share 2006-2011



The tables above show our earnings per share and tangible book value per share over the last six years. I'd like to make one last comment about our stock and your company. I view it as a great sign of strength that, in the worst financial markets since the Great Depression, your company could earn money, grow tangible book value, buy Bear Stearns and WaMu and expand our franchise.

CLOSING

Let me close by thanking our 260,000 employees. Day in and day out, they are the people who serve our clients, communities and shareholders with distinction and dedication. They make me very proud, and I am honored to be their partner.



Jamie Dimon
Chairman and Chief Executive Officer

March 30, 2012