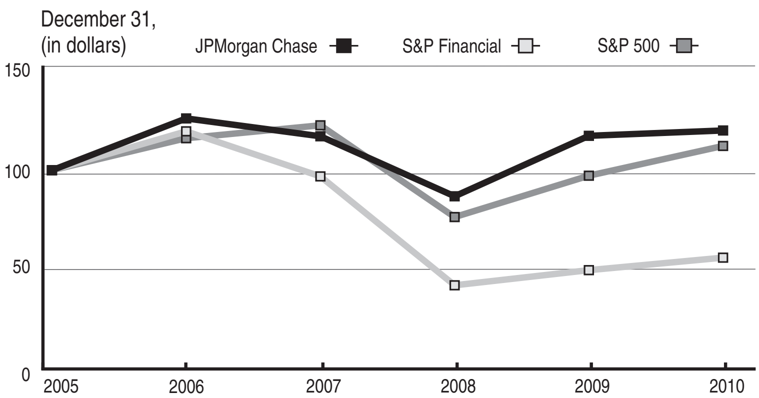
FIVE-YEAR STOCK PERFORMANCE

The following table and graph compare the five-year cumulative total return for JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm") common stock with the cumulative return of the S&P 500 Stock Index and the S&P Financial Index. The S&P 500 Index is a commonly referenced U.S. equity benchmark consisting of leading companies from different economic sectors. The S&P Financial Index is an index of 81 financial companies, all of which are within the S&P 500. The Firm is a component of both industry indices.

The following table and graph assume simultaneous investments of $100 on December 31, 2005, in JPMorgan Chase common stock and in each of the above S&P indices. The comparison assumes that all dividends are reinvested.

December 31, (in dollars)	2005	2006	2007	2008	2009	2010
JPMorgan Chase	$ 100.00	$ 125.55	$ 116.75	$ 87.19	$ 116.98	$ 119.61
S&P Financial Index	100.00	119.19	96.99	43.34	50.80	56.96
S&P 500 Index	100.00	115.79	122.16	76.96	97.33	111.99



This section of JPMorgan Chase's Annual Report for the year ended December 31, 2010 ("Annual Report") provides management's discussion and analysis ("MD&A") of the financial condition and results of operations of JPMorgan Chase. See the Glossary of terms on pages 300–303 for definitions of terms used throughout this Annual Report. The MD&A included in this Annual Report contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based on the current beliefs and expectations of JPMorgan Chase's management and are subject to significant risks and uncertainties. These risks and uncertainties could cause the Firm's actual results to differ materially from those set forth in such forward-looking statements. Certain of such risks and uncertainties are described herein (see Forward-looking Statements on page 157 of this Annual Report) and in the JPMorgan Chase Annual Report on Form 10-K for the year ended December 31, 2010 ("2010 Form 10-K"), in Part I, Item 1A: Risk factors, to which reference is hereby made.

INTRODUCTION

JPMorgan Chase & Co., a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States of America ("U.S."), with $2.1 trillion in assets, $176.1 billion in stockholders' equity and operations in more than 60 countries as of December 31, 2010. The Firm is a leader in investment banking, financial services for consumers, small business and commercial banking, financial transaction processing, asset management and private equity. Under the J.P. Morgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world's most prominent corporate, institutional and government clients.

JPMorgan Chase's principal bank subsidiaries are JPMorgan Chase Bank, National Association ("JPMorgan Chase Bank, N.A."), a national bank with branches in 23 states in the U.S.; and Chase Bank USA, National Association ("Chase Bank USA, N.A."), a national bank that is the Firm's credit card issuing bank. JPMorgan Chase's principal nonbank subsidiary is J.P. Morgan Securities LLC ("JPMorgan Securities"; formerly J.P. Morgan Securities Inc.), the Firm's U.S. investment banking firm.

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

Investment Bank

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

Retail Financial Services

Retail Financial Services ("RFS") serves consumers and businesses through personal service at bank branches and through ATMs, online banking and telephone banking, as well as through auto dealerships and school financial-aid offices. Customers can use more than 5,200 bank branches (third-largest nationally) and 16,100 ATMs (second-largest nationally), as well as online and mobile banking around the clock. More than 28,900 branch salespeople assist customers with checking and savings accounts, mortgages, home equity and business loans, and investments across the 23-state footprint from New York and Florida to California. Consumers also can obtain loans through more than 16,200 auto dealerships and 2,200 schools and universities nationwide.

Card Services

Card Services ("CS") is one of the nation's largest credit card issuers, with over $137 billion in loans and over 90 million open accounts. Customers used Chase cards to meet $313 billion of their spending needs in 2010. Through its merchant acquiring business, Chase Paymentech Solutions, CS is a global leader in payment processing and merchant acquiring.

Commercial Banking

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

Treasury & Securities Services

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

Asset Management

Asset Management ("AM"), with assets under supervision of $1.8 trillion, is a global leader in investment and wealth management. AM clients include institutions, retail investors and high-net-worth individuals in every major market throughout the world. AM offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity products, including money-market instruments and bank deposits. AM also provides trust and estate, banking and brokerage services to high-net-worth clients, and retirement services for corporations and individuals. The majority of AM's client assets are in actively managed portfolios.

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

Economic environment

The business environment in 2010 continued to improve, as signs of growth and stability returned to both the global capital markets and the U.S. economy. The year began with a continuation of the trends seen at the end of 2009: although unemployment had reached 10%, its highest level since 1983, signs were emerging that deterioration in the labor markets was abating and economic activity was beginning to expand. The housing sector also showed some signs of improvement, which was helped by a new round of home-buyer credits. Overall, during 2010, the business environment continued to improve and the U.S. economy grew, though the pace of growth was not sufficient to meaningfully affect unemployment which, at year-end 2010, stood at 9.4%. Consumer spending expanded at a moderate rate early in the year and accelerated as the year progressed, as households continued to reduce debt and increase savings. Businesses began to spend aggressively, with outlays for equipment and software expanding at a double-digit pace over the course of the year. Additionally, businesses cautiously added to payrolls in every month of the year.

Low inflation allowed the Federal Reserve to maintain its accommodative stance throughout 2010, in order to help promote the U.S. economic recovery. The Federal Reserve maintained the target range for the federal funds rate at zero to one-quarter percent and continued to indicate that economic conditions were likely to warrant a low federal funds rate for an extended period.

The U.S. and global economic recovery paused briefly during the second quarter of 2010 as concerns arose that European countries would have to take measures to address their worsening fiscal positions. Equity markets fell sharply, and bond yields tumbled. Concerns about the developed economies, particularly in Europe, persisted throughout 2010 and have continued into 2011. However, fears that the U.S. recovery was faltering proved unfounded, and the U.S. economy continued to grow over the second half of the year. At the same time, growth in the emerging economies remained robust. During the fourth quarter, the Federal Reserve announced a program to purchase longer-term Treasury securities through 2011 in order to restrain interest rates and boost the economy. These developments, combined with record U.S. corporate profit margins and rapid international growth, continued to support stock markets as financial market conditions improved and risk spreads continued to narrow.

Financial performance of JPMorgan Chase

Year ended December 31, (in millions, except per share data and ratios)	2010	2009	Change
Selected income statement data			
Total net revenue	**$102,694**	$ 100,434	2%
Total noninterest expense	**61,196**	52,352	17
Pre-provision profit	**41,498**	48,082	(14)
Provision for credit losses	**16,639**	32,015	(48)
Income before extraordinary gain	**17,370**	11,652	49
Extraordinary gain	**—**	76	NM
Net income	**17,370**	11,728	48
Diluted earnings per share			
Income before extraordinary gain	**$ 3.96**	$ 2.24	77
Net income	**3.96**	2.26	75
Return on common equity			
Income before extraordinary gain	**10%**	6%	
Net income	**10**	6	
Capital ratios			
Tier 1 capital	**12.1**	11.1	
Tier 1 common capital	**9.8**	8.8	

Business overview

Against the backdrop of the improvement in the business environment during the year, JPMorgan Chase reported full-year 2010 record net income of $17.4 billion, or $3.96 per share, on net revenue of $102.7 billion. Net income was up 48% compared with net income of $11.7 billion, or $2.26 per share, in 2009. Return on common equity was 10% for the year, compared with 6% for the prior year.

The increase in net income for 2010 was driven by a lower provision for credit losses and higher net revenue, partially offset by higher noninterest expense. The lower provision for credit losses reflected improvements in both the consumer and wholesale provisions. The increase in net revenue was due predominantly to higher securities gains in the Corporate/Private Equity segment, increased other income and increased principal transactions revenue, partially offset by lower credit card income. The increase in noninterest expense was largely due to higher litigation expense.

JPMorgan Chase benefited from an improvement in the credit environment during 2010. Compared with 2009, delinquency trends were more favorable and estimated losses were lower in the consumer businesses, although they remained at elevated levels. The credit quality of the commercial and industrial loan portfolio across the Firm's wholesale businesses improved. In addition, for the year, net charge-offs were lower across all businesses, though the level of net charge-offs in the Firm's mortgage portfolio remained very high and continued to be a significant drag on returns. These positive credit trends resulted in reductions in the allowance for credit losses in Card Services, the loan portfolio in Retail Financial Services (excluding purchased credit-impaired loans), and in the Investment Bank and Commercial Banking. Nevertheless, the allowance for loan losses associated with the Washington Mutual purchased credit-impaired loan portfolio in

Retail Financial Services increased, reflecting an increase in estimated future credit losses largely related to home equity, and, to a lesser extent, option ARM loans. Total firmwide credit reserves at December 31, 2010, were $33.0 billion, resulting in a firmwide loan loss coverage ratio of 4.5% of total loans.

Strong client relationships and continued investments for growth resulted in good results across most of the Firm's businesses, including record revenue and net income in Commercial Banking, record revenue in Asset Management and solid results across most other businesses. For the year, the Investment Bank ranked #1 for Global Investment Banking Fees; Retail Financial Services added more than 150 new branches and 5,000 salespeople, and opened more than 1.5 million net new checking accounts; Card Services rolled out new products and opened 11.3 million new accounts; Treasury & Securities Services grew assets under custody to $16.1 trillion; and Asset Management reported record long-term AUM net inflows of $69 billion.

The Firm also continued to strengthen its balance sheet during 2010, ending the year with a Tier 1 Common ratio of 9.8% and a Tier 1 Capital ratio of 12.1%. Total stockholders' equity at December 31, 2010, was $176.1 billion.

Throughout 2010, JPMorgan Chase continued to support the economic recovery by providing capital, financing and liquidity to its clients in the U.S. and around the world. During the year, the Firm loaned or raised capital of more than $1.4 trillion for its clients, which included more than $10 billion of credit provided to more than 250,000 small businesses in the U.S., an increase of more than 50% over 2009. JPMorgan Chase also made substantial investments in the future of its businesses, including hiring more than 8,000 people in the U.S. alone. The Firm remains committed to helping homeowners and preventing foreclosures. Since the beginning of 2009, the Firm has offered 1,038,000 trial modifications to struggling homeowners. Of the 285,000 modifications that the Firm has completed, more than half were modified under Chase programs, and the remainder were offered under government-sponsored or agency programs.

Although the Firm continues to face challenges, there are signs of stability and growth returning to both the global capital markets and the U.S. economy. The Firm intends to continue to innovate and invest in the products that support and serve its clients and the communities where it does business.

The discussion that follows highlights the performance of each business segment compared with the prior year and presents results on a managed basis. Managed basis starts with the reported U.S. GAAP results and, for each line of business and the Firm as a whole, includes certain reclassifications to present total net revenue on a tax-equivalent basis. Effective January 1, 2010, the Firm adopted accounting guidance that required it to consolidate its Firm-sponsored credit card securitization trusts; as a result, reported and managed basis relating to credit card securitizations are equivalent for periods beginning after January 1, 2010. Prior to the adoption of this accounting guidance, in 2009 and all other prior periods, U.S. GAAP results for CS and the Firm were also adjusted for certain reclassifications that assumed credit card loans that had been securitized and sold by CS remained on the Consolidated Balance Sheets. These adjustments ("managed basis") had no impact on net income as reported by the Firm as a whole or by the lines of business. For more information about managed basis, as well as other non-GAAP financial measures used by management to evaluate the performance of each line of business, see pages 64–66 of this Annual Report.

Investment Bank net income decreased from the prior year, reflecting lower net revenue and higher noninterest expense, partially offset by a benefit from the provision for credit losses and gains of $509 million from the widening of the Firm's credit spread on certain structured and derivative liabilities (compared with losses of $2.3 billion on the tightening of the spread on those liabilities in the prior year). The decrease in net revenue was driven by a decline in Fixed Income Markets revenue as well as lower investment banking fees. The provision for credit losses was a benefit in 2010, compared with an expense in 2009, and reflected a reduction in the allowance for loan losses, largely related to net repayments and loan sales. Noninterest expense increased, driven by higher noncompensation expense, including increased litigation reserves, as well as higher compensation expense, including the impact of the U.K. Bank Payroll Tax.

Retail Financial Services net income increased significantly from the prior year, driven by a lower provision for credit losses, partially offset by increased noninterest expense and lower net revenue. Net revenue decreased, driven by lower deposit-related fees (including the impact of the legislative changes related to non-sufficient funds and overdraft fees), and lower loan balances. These decreases were partially offset by a shift to wider-spread deposit products, and growth in debit card income and auto operating lease income. The provision for credit losses decreased from the 2009 level, reflecting improved delinquency trends and reduced net charge-offs. The provision also reflected an increase in the allowance for loan losses for the purchased credit-impaired portfolio, partially offset by a reduction in the allowance for loan losses, predominantly for the mortgage loan portfolios. Noninterest expense increased from the prior year, driven by higher default-related expense for mortgage loans serviced, and sales force increases in Business Banking and bank branches.

Card Services reported net income compared with a net loss in the prior year, as a lower provision for credit losses was partially offset by lower net revenue. The decrease in net revenue was driven by a decline in net interest income, reflecting lower average loan balances, the impact of legislative changes and a decreased level of fees. These decreases were partially offset by a decrease in revenue reversals associated with lower net charge-offs. The provision for credit losses decreased from the prior year, reflecting lower net charge-offs and a reduction in the allowance for loan losses due to lower estimated losses. The prior-year provision included an increase to the allowance for loan losses. Noninterest expense increased due to higher marketing expense.

Commercial Banking reported record net income, driven by a reduction in the provision for credit losses and record net revenue. The increase in net revenue was driven by growth in liability balances, wider loan spreads, higher net gains from asset sales, higher lending-related fees, an improvement in the market conditions impacting the value of investments held at fair value, and higher investment banking fees; these were largely offset by spread compression on liability products and lower loan balances. Results also included the impact of the purchase of a $3.5 billion loan portfolio during the third quarter of 2010. The provision for credit losses decreased from 2009 and reflected a reduction in the allowance for credit losses, primarily due to stabilization in the credit quality of the loan portfolio and refinements to credit loss estimates. Noninterest expense increased slightly, reflecting higher headcount-related expense.

Treasury and Securities Services net income decreased from the prior year, driven by higher noninterest expense, partially offset by a benefit from the provision for credit losses and higher net revenue. Worldwide Securities Services net revenue was relatively flat, as higher market levels and net inflows of assets under custody were offset by lower spreads in securities lending, lower volatility on foreign exchange, and lower balances on liability products. Treasury Services net revenue was relatively flat, as lower spreads on liability products were offset by higher trade loan and card product volumes. Assets under custody grew to $16.1 trillion during 2010, an 8% increase. Noninterest expense for TSS increased, driven by continued investment in new product platforms, primarily related to international expansion, and higher performance-based compensation expense.

Asset Management net income increased from the prior year on record revenue, largely offset by higher noninterest expense. The growth in net revenue was driven by the effect of higher market levels, net inflows to products with higher margins, higher loan originations, higher deposit and loan balances, and higher performance fees, partially offset by narrower deposit spreads. Assets under supervision increased 8% during 2010 driven by the effect of higher market valuations, record net inflows of $69 billion to long-term products, and inflows in custody and brokerage products, offset partially by net outflows from liquidity products. Noninterest expense increased due to higher headcount and performance-based compensation.

Corporate/Private Equity net income decreased from the prior year, driven by higher noninterest expense partially offset by higher net revenue. The increase in net revenue reflected higher securities gains, primarily associated with actions taken to reposition the Corporate investment securities portfolio in connection with managing the Firm's structural interest rate risk, and higher private equity gains. These gains were partially offset by lower net interest income from the investment portfolio. The increase in noninterest expense was due to an increase in litigation reserves, including those for mortgage-related matters, partially offset by the absence of a $675 million FDIC special assessment in 2009.

2011 Business outlook

The following forward-looking statements are based on the current beliefs and expectations of JPMorgan Chase's management and are subject to significant risks and uncertainties. As noted above, these risks and uncertainties could cause the Firm's actual results to differ materially from those set forth in such forward-looking statements. See Forward-Looking Statements on page 157 and Risk Factors on pages 5–12 of this Annual Report.

JPMorgan Chase's outlook for 2011 should be viewed against the backdrop of the global and U.S. economies, financial markets activity, the geopolitical environment, the competitive environment, client activity levels, and regulatory and legislative developments in the U.S. and other countries where the Firm does business. Each of these linked factors will affect the performance of the Firm and its lines of business. Economic and macroeconomic factors, such as market and credit trends, customer behavior, client business strategies and competition, are all expected to affect the Firm's businesses. The outlook for RFS and CS, in particular, reflects the expected effect of current economic trends in the U.S relating to high unemployment levels and the continuing stress and uncertainty in the housing markets. The Firm's wholesale businesses will be affected by market levels and volumes, which are volatile and quickly subject to change.

In the Mortgage Banking, Auto & Other Consumer Lending business within RFS, management expects mortgage fees and related income to be $1 billion or less for the first quarter of 2011, given the levels of mortgage interest rates and production volumes experienced year-to-date. If mortgage interest rates remain at current levels or rise in the future, loan production and margins could continue to be negatively affected resulting in lower revenue for the full year 2011. In addition, revenue could continue to be negatively affected by continued elevated levels of repurchases of mortgages previously sold, predominantly to U.S. government-sponsored entities ("GSEs"). Management estimates that realized repurchase losses could total approximately $1.2 billion in 2011. In addition, the Firm is dedicating significant resources to address, correct and enhance its mortgage loan foreclosure procedures and is cooperating with various state and federal investigations into its procedures. As a result, the Firm expects to incur additional costs and expenses in resolving these issues.

In the Real Estate Portfolios business within RFS, management believes that, based on the current outlook for delinquencies and loss severity, it is possible that total quarterly net charge-offs could be approximately $1.2 billion during 2011. Given current origination and production levels, combined with management's current estimate of portfolio runoff levels, the residential real estate portfolio is expected to decline by approximately 10% to 15% annually for the foreseeable future. The annual reductions in the residential real estate portfolio are expected to reduce net interest income in each period, including a reduction of approximately $700 million in 2011 from the 2010 level; however, over time the reduction in net interest income is expected to be more than offset by an improvement in credit costs and lower expenses. As the portfolio continues to run off, management anticipates that approximately $1.0 billion of capital may become available for redeployment each year, subject to the capital requirements associated with the remaining portfolio.

Also, in RFS, management expects noninterest expense in 2011 to remain modestly above 2010 levels, reflecting investments in new branch builds and sales force hires, as well as continued elevated servicing-, default- and foreclosed asset-related costs.

In CS, management expects end-of-period outstandings for the Chase portfolio (excluding the Washington Mutual portfolio) to continue to decline in 2011. This decline may be as much as $10 billion in the first quarter, reflecting both continued portfolio run-off and seasonal activity. The decline in the Chase portfolio is expected to bottom out in the third quarter of 2011, and by the end of 2011, outstandings in the portfolio are anticipated to be approximately $120 billion and reflect a better mix of customers. The Washington Mutual portfolio declined to approximately $14 billion at the end of 2010, from $20 billion at the end of 2009. Management estimates that the Washington Mutual portfolio could decline to $10 billion by the end of 2011. The effect of such reductions in the Chase and Washington Mutual portfolios is expected to reduce 2011 net interest income in CS by approximately $1.4 billion from the 2010 level.

The net charge-off rates for both the Chase and Washington Mutual credit card portfolios are anticipated to continue to improve. If current delinquency trends continue, the net charge-off rate for the Chase portfolio (excluding the Washington Mutual portfolio) could be below 6.5% in the first quarter of 2011.

Despite these positive economic trends, results for RFS and CS will depend on the economic environment. Although the positive economic data seen in 2010 seemed to imply that the U.S. economy was not falling back into recession, high unemployment rates and the difficult housing market have been persistent. Even as consumer lending net charge-offs and delinquencies have improved, the consumer credit portfolio remains under stress. Further declines in U.S. housing prices and increases in the unemployment rate remain possible; if this were to occur, results for both RFS and CS could be adversely affected.

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

In Private Equity (within the Corporate/Private Equity segment), earnings will likely continue to be volatile and be influenced by capital markets activity, market levels, the performance of the broader economy and investment-specific issues. Corporate's net interest income levels will generally trend with the size and duration of the investment securities portfolio. Corporate net income (excluding Private Equity, and excluding merger-related items, material litigation expenses and significant nonrecurring items, if any) is anticipated to trend toward a level of approximately $300 million per quarter.

Furthermore, continued repositioning of the investment securities portfolio in Corporate could result in modest downward pressure on the Firm's net interest margin in the first quarter of 2011.

Regarding regulatory reform, JPMorgan Chase intends to continue to work with the Firm's regulators as they proceed with the extensive rulemaking required to implement financial reform. The Firm will continue to devote substantial resources to achieving implementation of regulatory reforms in a way that preserves the value the Firm delivers to its clients.

Management and the Firm's Board of Directors continually evaluate ways to deploy the Firm's strong capital base in order to enhance shareholder value. Such alternatives could include the repurchase of common stock, increasing the common stock dividend and pursuing alternative investment opportunities. Management and the Board will continue to assess and make decisions regarding these alternatives, as appropriate, over the course of the year.

CONSOLIDATED RESULTS OF OPERATIONS

This following section provides a comparative discussion of JPMorgan Chase's Consolidated Results of Operations on a reported basis for the three-year period ended December 31, 2010. Factors that related primarily to a single business segment are discussed in more detail within that business segment. For a discussion of the Critical Accounting Estimates used by the Firm that affect the Consolidated Results of Operations, see pages 149–154 of this Annual Report.

Revenue

Year ended December 31, (in millions)	2010	2009	2008
Investment banking fees	**$ 6,190**	$ 7,087	$ 5,526
Principal transactions	**10,894**	9,796	(10,699)
Lending- and deposit-related fees	**6,340**	7,045	5,088
Asset management, administration and commissions	**13,499**	12,540	13,943
Securities gains	**2,965**	1,110	1,560
Mortgage fees and related income	**3,870**	3,678	3,467
Credit card income	**5,891**	7,110	7,419
Other income	**2,044**	916	2,169
Noninterest revenue	**51,693**	49,282	28,473
Net interest income	**51,001**	51,152	38,779
Total net revenue	**$102,694**	$100,434	$ 67,252

2010 compared with 2009

Total net revenue for 2010 was $102.7 billion, up by $2.3 billion, or 2%, from 2009. Results for 2010 were driven by a higher level of securities gains and private equity gains in Corporate/Private Equity, higher asset management fees in AM and administration fees in TSS, and higher other income in several businesses, partially offset by lower credit card income.

Investment banking fees decreased from 2009 due to lower equity underwriting and advisory fees, partially offset by higher debt underwriting fees. Competitive markets combined with flat industry-wide equity underwriting and completed M&A volumes, resulted in lower equity underwriting and advisory fees; while strong industry-wide loan syndication and high-yield bond volumes drove record debt underwriting fees in IB. For additional information on investment banking fees, which are primarily recorded in IB, see IB segment results on pages 69–71 of this Annual Report.

Principal transactions revenue, which consists of revenue from the Firm's trading and private equity investing activities, increased compared with 2009. This was driven by the Private Equity business, which had significant private equity gains in 2010, compared with a small loss in 2009, reflecting improvements in market conditions. Trading revenue decreased, reflecting lower results in Corporate, offset by higher revenue in IB primarily reflecting gains from the widening of the Firm's credit spread on certain structured and derivative liabilities. For additional information on principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 69–71 and 89–90, respectively, and Note 7 on pages 199–200 of this Annual Report.

Lending- and deposit-related fees decreased in 2010 from 2009 levels, reflecting lower deposit-related fees in RFS associated, in part, with newly-enacted legislation related to non-sufficient funds and overdraft fees; this was partially offset by higher lending-related service fees in IB, primarily from growth in business volume, and in CB, primarily from higher commitment and letter-of-credit fees. For additional information on lending- and deposit-related fees, which are mostly recorded in IB, RFS, CB and TSS, see segment results for IB on pages 69–71, RFS on pages 72–78, CB on pages 82–83 and TSS on pages 84–85 of this Annual Report.

Asset management, administration and commissions revenue increased from 2009. The increase largely reflected higher asset management fees in AM, driven by the effect of higher market levels, net inflows to products with higher margins and higher performance fees; and higher administration fees in TSS, reflecting the effects of higher market levels and net inflows of assets under custody. This increase was partially offset by lower brokerage commissions in IB, as a result of lower market volumes. For additional information on these fees and commissions, see the segment discussions for AM on pages 86–88 and TSS on pages 84–85 of this Annual Report.

Securities gains were significantly higher in 2010 compared with 2009, resulting primarily from the repositioning of the portfolio in response to changes in the interest rate environment and to rebalance exposure. For additional information on securities gains, which are mostly recorded in the Firm's Corporate segment, see the Corporate/Private Equity segment discussion on pages 89–90 of this Annual Report.

Mortgage fees and related income increased in 2010 compared with 2009, driven by higher mortgage production revenue, reflecting increased mortgage origination volumes in RFS and AM, and wider margins, particularly in RFS. This increase was largely offset by higher repurchase losses in RFS (recorded as contra-revenue), which were attributable to higher estimated losses related to repurchase demands, predominantly from GSEs. For additional information on mortgage fees and related income, which is recorded primarily in RFS, see RFS's Mortgage Banking, Auto & Other Consumer Lending discussion on pages 74–77 of this Annual Report. For additional information on repurchase losses, see the repurchase liability discussion on pages 98–101 and Note 30 on pages 275–280 of this Annual Report.

Credit card income decreased during 2010, predominantly due to the impact of the accounting guidance related to VIEs, effective January 1, 2010, that required the Firm to consolidate the assets and liabilities of its Firm-sponsored credit card securitization trusts. Adoption of the new guidance resulted in the elimination of all servicing fees received from Firm-sponsored credit card securitization trusts (which was offset by related increases in net interest income and the provision for credit losses, and the elimination of securitization income/(losses) in other income). Lower income from other fee-based products also contributed to the decrease in credit card income. Excluding the impact of the adoption of the new accounting guidance, credit card income increased in 2010, reflecting higher customer charge volume on credit and debit cards. For a more detailed discussion of the impact of the adoption of the new accounting guidance on the Consolidated Statements of Income, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 64–66 of this Annual Report. For additional information on credit card income, see the CS and RFS segment results on pages 79–81, and pages 72–78, respectively, of this Annual Report.

Other income increased in 2010, largely due to the write-down of securitization interests during 2009 and higher auto operating lease income in RFS.

Net interest income was relatively flat in 2010 compared with 2009. The effect of lower loan balances was predominantly offset by the effect of the adoption of the new accounting guidance related to VIEs (which increased net interest income by approximately $5.8 billion in 2010). Excluding the impact of the adoption of the new accounting guidance, net interest income decreased, driven by lower average loan balances, primarily in CS, RFS and IB, reflecting the continued runoff of the credit card balances and residential real estate loans, and net repayments and loan sales; lower yields and fees on credit card receivables, reflecting the impact of legislative changes; and lower yields on securities in Corporate resulting from investment portfolio repositioning. The Firm's average interest-earning assets were $1.7 trillion in 2010, and the net yield on those assets, on a FTE basis, was 3.06%, a decrease of 6 basis points from 2009. For a more detailed discussion of the impact of the adoption of the new accounting guidance related to VIEs on the Consolidated Statements of Income, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 64–66 of this Annual Report. For further information on the impact of the legislative changes on the Consolidated Statements of Income, see CS discussion on Credit Card Legislation on page 79 of this Annual Report.

2009 compared with 2008

Total net revenue was $100.4 billion, up by $33.2 billion, or 49%, from the prior year. The increase was driven by higher principal transactions revenue, primarily related to improved performance across most fixed income and equity products, and the absence of net markdowns on legacy leveraged lending and mortgage positions in IB, as well as higher levels of trading gains and investment securities income in Corporate/Private Equity. Results also benefited from the impact of the Washington Mutual transaction, which contributed to increases in net interest income, lending- and deposit-related fees, and mortgage fees and related income. Lastly, higher investment banking fees also contributed to revenue growth. These increases in revenue were offset partially by reduced fees and commissions from the effect of lower market levels on assets under management and custody, and the absence of proceeds from the sale of Visa shares in its initial public offering in the first quarter of 2008.

Investment banking fees increased from the prior year, due to higher equity and debt underwriting fees. For a further discussion of investment banking fees, which are primarily recorded in IB, see IB segment results on pages 69–71 of this Annual Report.

Principal transactions revenue, which consists of revenue from trading and private equity investing activities, was significantly higher compared with the prior year. Trading revenue increased, driven by improved performance across most fixed income and equity products; modest net gains on legacy leveraged lending and mortgage-related positions, compared with net markdowns of $10.6 billion in the prior year; and gains on trading positions in Corporate/Private Equity, compared with losses in the prior year of $1.1 billion on markdowns of Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") preferred securities. These increases in revenue were offset partially by an aggregate loss of $2.3 billion from the tightening of the Firm's credit spread on certain structured liabilities and derivatives, compared with gains of $2.0 billion in the prior year from widening spreads on these liabilities and derivatives. The Firm's private equity investments produced a slight net loss in 2009, a significant improvement from a larger net loss in 2008. For a further discussion of principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 69–71 and 89–90, respectively, and Note 7 on pages 199–200 of this Annual Report.

Lending- and deposit-related fees rose from the prior year, predominantly reflecting the impact of the Washington Mutual transaction and organic growth in both lending- and deposit-related fees in RFS, CB, IB and TSS. For a further discussion of lending- and deposit-related fees, which are mostly recorded in RFS, TSS and CB, see the RFS segment results on pages 72–78, the TSS segment results on pages 84–85, and the CB segment results on pages 82–83 of this Annual Report.

The decline in asset management, administration and commissions revenue compared with the prior year was largely due to lower asset management fees in AM from the effect of lower market levels. Also contributing to the decrease were lower administration fees in TSS, driven by the effect of market depreciation on certain custody assets and lower securities lending balances; and lower brokerage commissions revenue in IB, predominantly related to lower transaction volume. For additional information on these fees and commissions, see the segment discussions for TSS and AM on pages 84–85 and pages 86–88, respectively, of this Annual Report.

Securities gains were lower in 2009 and included credit losses related to other-than-temporary impairment and lower gains on the sale of MasterCard shares totaling $241 million in 2009, compared with $668 million in 2008. These decreases were offset partially by higher gains from repositioning the Corporate investment securities portfolio in connection with managing the Firm's structural interest rate risk. For a further discussion of securities gains, which are mostly recorded in Corporate/Private Equity, see the Corporate/Private Equity segment discussion on pages 89–90 of this Annual Report.

Mortgage fees and related income increased slightly from the prior year, as higher net mortgage servicing revenue was largely offset by lower production revenue. The increase in net mortgage servicing revenue was driven by growth in average third-party loans serviced as a result of the Washington Mutual transaction. Mortgage production revenue declined from the prior year, reflecting an increase in estimated losses from the repurchase of previously-sold loans, offset partially by wider margins on new originations. For a discussion of mortgage fees and related income, which is recorded primarily in RFS, see RFS's Mortgage Banking, Auto & Other Consumer Lending discussion on pages 74–77 of this Annual Report.

Credit card income, which includes the impact of the Washington Mutual transaction, decreased slightly compared with the prior year, due to lower servicing fees earned in connection with CS securitization activities, largely as a result of higher credit losses. The decrease was partially offset by wider loan margins on securitized credit card loans; higher merchant servicing revenue related to the dissolution of the Chase Paymentech Solutions joint venture; and higher interchange income. For a further discussion of credit card income, see the CS segment results on pages 79–81 of this Annual Report.

Other income decreased from the prior year, due predominantly to the absence of $1.5 billion in proceeds from the sale of Visa shares as part of its initial public offering in the first quarter of 2008; a $1.0 billion gain on the dissolution of the Chase Paymentech Solutions joint venture in the fourth quarter of 2008; and lower net securitization income in CS. These items were partially offset by a $464 million charge recognized in 2008 related to the repurchase of auction-rate securities at par; the absence of a $423 million loss incurred in the second quarter of 2008, reflecting the Firm's 49.4% share of Bear Stearns's losses from April 8 to May 30, 2008; and higher valuations on certain investments, including seed capital in AM.

Net interest income increased from the prior year, driven by the Washington Mutual transaction, which contributed to higher average loans and deposits. The Firm's interest-earning assets were $1.7 trillion, and the net yield on those assets, on a fully taxable-equivalent ("FTE") basis, was 3.12%, an increase of 25 basis points from 2008. Excluding the impact of the Washington Mutual transaction, the increase in net interest income in 2009 was driven by a higher level of investment securities, as well as a wider net interest margin, which reflected the overall decline in market interest rates during the year. Declining interest rates had a positive effect on the net interest margin, as rates paid on the Firm's interest-bearing liabilities decreased faster relative to the decline in rates earned on interest-earning assets. These increases in net interest income were offset partially by lower loan balances, which included the effect of lower customer demand, repayments and charge-offs.

Provision for credit losses

Year ended December 31, (in millions)	2010	2009	2008
Wholesale	**$ (850)**	$ 3,974	$ 3,327
Consumer, excluding credit card[(a)]	**9,452**	16,022	10,610
Credit card[(a)]	**8,037**	12,019	7,042
Total provision for credit losses	**$16,639**	$ 32,015	$ 20,979

(a) Includes adjustments to the provision for credit losses recognized in the Corporate/Private Equity segment related to the Washington Mutual transaction in 2008.

2010 compared with 2009

The provision for credit losses declined by $15.4 billion compared with 2009, due to decreases in both the consumer and wholesale provisions. The decreases in the consumer provisions reflected reductions in the allowance for credit losses for mortgages and credit cards as a result of improved delinquency trends and lower estimated losses. This was partially offset by an increase in the allowance for credit losses associated with the Washington Mutual purchased credit-impaired loans portfolio, resulting from increased estimated future credit losses. The decrease in the wholesale provision in 2010 reflected a reduction in the allowance for credit losses, predominantly as a result of continued improvement in the credit quality of the commercial and industrial loan portfolio, reduced net charge-offs, and net repayments and loan sales. For a more detailed discussion of the loan portfolio and the allowance for credit losses, see the segment discussions for RFS on pages 72–78, CS on pages 79–81, IB on pages 69–71 and CB on pages 82–83, and the Allowance for Credit Losses section on pages 139–141 of this Annual Report.

2009 compared with 2008

The provision for credit losses in 2009 rose by $11.0 billion compared with the prior year, predominantly due to a significant increase in the consumer provision. The prior year included a $1.5 billion charge to conform Washington Mutual's allowance for loan losses, which affected both the consumer and wholesale portfolios. For the purpose of the following analysis, this charge is excluded. The consumer provision reflected additions to the allowance for loan losses for the home equity, mortgage and credit card portfolios, as weak economic conditions, housing price declines and higher unemployment rates continued to drive higher estimated losses for these portfolios. Included in the 2009 addition to the allowance for loan losses was a $1.6 billion provision related to estimated deterioration in the Washington Mutual purchased credit-impaired portfolio. The wholesale provision increased from the prior year, reflecting continued weakness in the credit environment in 2009 compared with the prior year. For a more detailed discussion of the loan portfolio and the allowance for loan losses, see the segment discussions for RFS on pages 72–78, CS on pages 79–81, IB on pages 69–71 and CB on pages 82–83, and the Allowance for Credit Losses section on pages 139–141 of this Annual Report.

Noninterest expense

Year ended December 31, (in millions)	2010	2009	2008
Compensation expense[(a)]	**$ 28,124**	$ 26,928	$ 22,746
Noncompensation expense:			
Occupancy expense	**3,681**	3,666	3,038
Technology, communications and equipment	**4,684**	4,624	4,315
Professional and outside services	**6,767**	6,232	6,053
Marketing	**2,446**	1,777	1,913
Other expense[(b)(c)(d)]	**14,558**	7,594	3,740
Amortization of intangibles	**936**	1,050	1,263
Total noncompensation expense	**33,072**	24,943	20,322
Merger costs	**—**	481	432
Total noninterest expense	**$ 61,196**	$ 52,352	$ 43,500

(a) Expense for 2010 included a payroll tax expense related to the U.K. Bank Payroll Tax on certain compensation awarded from December 9, 2009, to April 5, 2010, to relevant banking employees.
(b) In 2010, 2009 and 2008, included litigation expense of $7.4 billion, $161 million and a net benefit of $781 million, respectively.
(c) In 2010, 2009 and 2008, included foreclosed property expense of $1.0 billion, $1.4 billion and $213 million, respectively. For additional information regarding foreclosed property, see Note 11 on page 213 of this Annual Report.
(d) Expense for 2009 included a $675 million FDIC special assessment.

2010 compared with 2009

Total noninterest expense for 2010 was $61.2 billion, up by $8.8 billion, or 17%, from 2009. The increase was driven by higher noncompensation expense, largely due to higher litigation expense, and the effect of investments in the businesses.

Compensation expense increased from the prior year, predominantly due to higher salary expense related to investments in the businesses, including additional sales staff in RFS and client advisors in AM, and the impact of the U.K. Bank Payroll Tax.

In addition to the aforementioned higher litigation expense, which was largely for mortgage-related matters in Corporate and IB, the increase in noncompensation expense was driven by higher marketing expense in CS; higher professional services expense, due to continued investments in new product platforms in the businesses, including those related to international expansion; higher default-related expense, including costs associated with foreclosure affidavit-related suspensions (recorded in other expense), for the serviced portfolio in RFS; and higher brokerage, clearing and exchange transaction processing expense in IB. Partially offsetting these increases was the absence of a $675 million FDIC special assessment recognized in 2009. For a further discussion of litigation expense, see the Litigation reserve discussion in Note 32 pages 282–289 of this Annual Report. For a discussion of amortization of intangibles, refer to Note 17 on pages 260–263 of this Annual Report.

There were no merger costs recorded in 2010, compared with merger costs of $481 million in 2009. For additional information on merger costs, refer to Note 11 on page 213 of this Annual Report.

2009 compared with 2008

Total noninterest expense was $52.4 billion, up by $8.9 billion, or 20%, from the prior year. The increase was driven by the impact of the Washington Mutual transaction, higher performance-based compensation expense, higher FDIC-related costs, and increased mortgage servicing and default-related expense. These items were offset partially by lower headcount-related expense, including salary and benefits but excluding performance-based incentives, and other noncompensation costs related to employees.

Compensation expense increased in 2009 compared with the prior year, reflecting higher performance-based incentives, as well as the impact of the Washington Mutual transaction. Excluding these two items, compensation expense decreased as a result of a reduction in headcount, particularly in the wholesale businesses and in Corporate.

Noncompensation expense increased from the prior year, due predominantly to the following: the impact of the Washington Mutual transaction; higher ongoing FDIC insurance premiums and an FDIC special assessment of $675 million recognized in the second quarter of 2009; higher mortgage servicing and default-related expense, which included an increase in foreclosed property expense of $1.2 billion; higher litigation costs; and the effect of the dissolution of the Chase Paymentech Solutions joint venture. These increases were partially offset by lower headcount-related expense, particularly in IB, TSS and AM; a decrease in amortization of intangibles, predominantly related to purchased credit card relationships; lower mortgage reinsurance losses; and a decrease in credit card marketing expense. For a discussion of amortization of intangibles, refer to Note 17 on pages 260–263 of this Annual Report.

For information on merger costs, refer to Note 11 on page 213 of this Annual Report.

Income tax expense

Year ended December 31, (in millions, except rate)	**2010**	2009	2008
Income before income tax expense/ (benefit) and extraordinary gain	**$ 24,859**	$ 16,067	$ 2,773
Income tax expense/(benefit)	**7,489**	4,415	(926)
Effective tax rate	**30.1%**	27.5%	(33.4)%

2010 compared with 2009

The increase in the effective tax rate compared with the prior year was primarily the result of higher reported pretax book income, as well as changes in the proportion of income subject to U.S. federal and state and local taxes. These increases were partially offset by increased benefits associated with the undistributed earnings of certain non-U.S. subsidiaries that were deemed to be reinvested indefinitely, as well as tax benefits recognized upon the resolution of tax audits in 2010. For additional information on income taxes, see Critical Accounting Estimates Used by the Firm on pages 149–154 and Note 27 on pages 271–273 of this Annual Report.

2009 compared with 2008

The change in the effective tax rate compared with the prior year was primarily the result of higher reported pretax income and changes in the proportion of income subject to U.S. federal, state and local taxes. Benefits related to tax-exempt income, business tax credits and tax audit settlements increased in 2009 relative to 2008; however, the impact of these items on the effective tax rate was reduced by the significantly higher level of pretax income in 2009. In addition, 2008 reflected the realization of benefits of $1.1 billion from the release of deferred tax liabilities associated with the undistributed earnings of certain non-U.S. subsidiaries that were deemed to be reinvested indefinitely.

Extraordinary gain

On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual. This transaction was accounted for under the purchase method of accounting for business combinations. The adjusted net asset value of the banking operations after purchase accounting adjustments was higher than the consideration paid by JPMorgan Chase, resulting in an extraordinary gain. The preliminary gain recognized in 2008 was $1.9 billion. In the third quarter of 2009, the Firm recognized an additional $76 million extraordinary gain associated with the final purchase accounting adjustments for the acquisition. For a further discussion of the Washington Mutual transaction, see Note 2 on pages 166–170 of the Firm's 2009 Annual Report.

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

The Firm prepares its consolidated financial statements using accounting principles generally accepted in the U.S. ("U.S. GAAP"); these financial statements appear on pages 160–163 of this Annual Report. That presentation, which is referred to as "reported basis," provides the reader with an understanding of the Firm's results that can be tracked consistently from year to year and enables a comparison of the Firm's performance with other companies' U.S. GAAP financial statements.

In addition to analyzing the Firm's results on a reported basis, management reviews the Firm's results and the results of the lines of business on a "managed" basis, which is a non-GAAP financial measure. The Firm's definition of managed basis starts with the reported U.S. GAAP results and includes certain reclassifications to present total net revenue for the Firm (and each of the business segments) on a FTE basis. Accordingly, revenue from tax-exempt securities and investments that receive tax credits is presented in the managed results on a basis comparable to taxable securities and investments. This non-GAAP financial measure allows management to assess the comparability of revenue arising from both taxable and tax-exempt sources. The corresponding income tax impact related to these items is recorded within income tax expense. These adjustments have no impact on net income as reported by the Firm as a whole or by the lines of business.

Prior to January 1, 2010, the Firm's managed-basis presentation also included certain reclassification adjustments that assumed credit card loans securitized by CS remained on the balance sheet. Effective January 1, 2010, the Firm adopted accounting guidance that required the Firm to consolidate its Firm-sponsored credit card securitization trusts. The income, expense and credit costs associated with these securitization activities are now recorded in the 2010 Consolidated Statements of Income in the same classifications that were previously used to report such items on a managed basis. As a result of the consolidation of the credit card securitization trusts, reported and managed basis relating to credit card securitizations are equivalent for periods beginning after January 1, 2010. For additional information on the accounting guidance, see Note 16 on pages 244–259 of this Annual Report.

The presentation in 2009 and 2008 of CS results on a managed basis assumed that credit card loans that had been securitized and sold in accordance with U.S. GAAP remained on the Consolidated Balance

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

(Table continues on next page)

Year ended December 31, (in millions, except per share and ratio data)	2010 Reported results	2010 Credit card(c)	2010 Fully tax-equivalent adjustments	2010 Managed basis	2009 Reported results	2009 Credit card(c)	2009 Fully tax-equivalent adjustments	2009 Managed basis
Revenue								
Investment banking fees	**$ 6,190**	**NA**	**$ —**	**$ 6,190**	$ 7,087	$ —	$ —	$ 7,087
Principal transactions	**10,894**	**NA**	**—**	**10,894**	9,796	—	—	9,796
Lending- and deposit-related fees	**6,340**	**NA**	**—**	**6,340**	7,045	—	—	7,045
Asset management, administration and commissions	**13,499**	**NA**	**—**	**13,499**	12,540	—	—	12,540
Securities gains	**2,965**	**NA**	**—**	**2,965**	1,110	—	—	1,110
Mortgage fees and related income	**3,870**	**NA**	**—**	**3,870**	3,678	—	—	3,678
Credit card income	**5,891**	**NA**	**—**	**5,891**	7,110	(1,494)	—	5,616
Other income	**2,044**	**NA**	**1,745**	**3,789**	916	—	1,440	2,356
Noninterest revenue	**51,693**	**NA**	**1,745**	**53,438**	49,282	(1,494)	1,440	49,228
Net interest income	**51,001**	**NA**	**403**	**51,404**	51,152	7,937	330	59,419
Total net revenue	**102,694**	**NA**	**2,148**	**104,842**	100,434	6,443	1,770	108,647
Noninterest expense	**61,196**	**NA**	**—**	**61,196**	52,352	—	—	52,352
Pre-provision profit	**41,498**	**NA**	**2,148**	**43,646**	48,082	6,443	1,770	56,295
Provision for credit losses	**16,639**	**NA**	**—**	**16,639**	32,015	6,443	—	38,458
Provision for credit losses – accounting conformity(a)	**—**	**NA**	**—**	**—**	—	—	—	—
Income before income tax expense/ (benefit) and extraordinary gain	**24,859**	**NA**	**2,148**	**27,007**	16,067	—	1,770	17,837
Income tax expense/(benefit)	**7,489**	**NA**	**2,148**	**9,637**	4,415	—	1,770	6,185
Income before extraordinary gain	**17,370**	**NA**	**—**	**17,370**	11,652	—	—	11,652
Extraordinary gain	**—**	**NA**	**—**	**—**	76	—	—	76
Net income	**$ 17,370**	**NA**	**$ —**	**$ 17,370**	$ 11,728	$ —	$ —	$ 11,728
Diluted earnings per share(b)	**$ 3.96**	**NA**	**$ —**	**$ 3.96**	$ 2.24	$ —	$ —	$ 2.24
Return on assets(b)	**0.85%**	**NA**	**NM**	**0.85%**	0.58%	NM	NM	0.55%
Overhead ratio	**60**	**NA**	**NM**	**58**	52	NM	NM	48
Loans – period-end	**$ 692,927**	**NA**	**$ —**	**$ 692,927**	$ 633,458	$ 84,626	$ —	$ 718,084
Total assets – average	**2,053,251**	**NA**	**—**	**2,053,251**	2,024,201	82,233	—	2,106,434

(a) 2008 included an accounting conformity loan loss reserve provision related to the acquisition of Washington Mutual's banking operations.
(b) Based on income before extraordinary gain.
(c) See pages 79–81 of this Annual Report for a discussion of the effect of credit card securitizations on CS results.

NA: Not applicable

Sheets, and that the earnings on the securitized loans were classified in the same manner as the earnings on retained loans recorded on the Consolidated Balance Sheets. JPMorgan Chase had used this managed-basis information to evaluate the credit performance and overall financial performance of the entire managed credit card portfolio. Operations were funded and decisions were made about allocating resources, such as employees and capital, based on managed financial information. In addition, the same underwriting standards and ongoing risk monitoring are used for both loans on the Consolidated Balance Sheets and securitized loans. Although securitizations result in the sale of credit card receivables to a trust, JPMorgan Chase retains the ongoing customer relationships, as the customers may continue to use their credit cards; accordingly, the customer's credit performance affects both the securitized loans and the loans retained on the Consolidated Balance Sheets. JPMorgan Chase believed that this managed-basis information was useful to investors, as it enabled them to understand both the credit risks associated with the loans reported on the Consolidated Balance Sheets and the Firm's retained interests in securitized loans. For a reconciliation of 2009 and 2008 reported to managed basis results for CS, see CS segment results on pages 79–81 of this Annual Report. For information regarding the securitization process, and loans and residual interests sold and securitized, see Note 16 on pages 244–259 of this Annual Report.

Tangible common equity ("TCE") represents common stockholders' equity (i.e., total stockholders' equity less preferred stock) less identifiable intangible assets (other than mortgage servicing rights ("MSRs")) and goodwill, net of related deferred tax liabilities. ROTCE, a non-GAAP financial ratio, measures the Firm's earnings as a percentage of TCE and is, in management's view, a meaningful measure to assess the Firm's use of equity.

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

(Table continued from previous page)

2008			
Reported results	Credit card(c)	Fully tax-equivalent adjustments	Managed basis
$ 5,526	$ —	$ —	$ 5,526
(10,699)	—	—	(10,699)
5,088	—	—	5,088
13,943	—	—	13,943
1,560	—	—	1,560
3,467	—	—	3,467
7,419	(3,333)	—	4,086
2,169	—	1,329	3,498
28,473	(3,333)	1,329	26,469
38,779	6,945	579	46,303
67,252	3,612	1,908	72,772
43,500	—	—	43,500
23,752	3,612	1,908	29,272
19,445	3,612	—	23,057
1,534	—	—	1,534
2,773	—	1,908	4,681
(926)	—	1,908	982
3,699	—	—	3,699
1,906	—	—	1,906
$ 5,605	$ —	$ —	$ 5,605
$ 0.81	$ —	$ —	$ 0.81
0.21%	NM	NM	0.20%
65	NM	NM	60
$ 744,898	$ 85,571	$ —	$ 830,469
1,791,617	76,904	—	1,868,521

Calculation of certain U.S. GAAP and non-GAAP metrics

The table below reflects the formulas used to calculate both the following U.S. GAAP and non-GAAP measures.

Return on common equity
Net income* / Average common stockholders' equity

Return on tangible common equity(d)
Net income* / Average tangible common equity

Return on assets
Reported net income / Total average assets
Managed net income / Total average managed assets(e)
(including average securitized credit card receivables)

Overhead ratio
Total noninterest expense / Total net revenue

* Represents net income applicable to common equity

(d) The Firm uses ROTCE, a non-GAAP financial measure, to evaluate its use of equity and to facilitate comparisons with competitors. Refer to the following page for the calculation of average tangible common equity.
(e) The Firm uses return on managed assets, a non-GAAP financial measure, to evaluate the overall performance of the managed credit card portfolio, including securitized credit card loans.

Average tangible common equity

Year ended December 31, (in millions)	**2010**	2009	2008
Common stockholders' equity	**$ 161,520**	$ 145,903	$ 129,116
Less: Goodwill	**48,618**	48,254	46,068
Less: Certain identifiable intangible assets	**4,178**	5,095	5,779
Add: Deferred tax liabilities[(a)]	**2,587**	2,547	2,369
Tangible Common Equity	**$ 111,311**	$ 95,101	$ 79,638

(a) Represents deferred tax liabilities related to tax-deductible goodwill and to identifiable intangibles created in non-taxable transactions, which are netted against goodwill and other intangibles when calculating TCE.

Impact of TARP preferred stock issued to the U.S. Treasury

The calculation of 2009 net income applicable to common equity included a one-time, noncash reduction of $1.1 billion resulting from the repayment of TARP preferred capital. Excluding this reduction, ROE would have been 7% for 2009. The Firm views adjusted ROE, a non-GAAP financial measure, as meaningful because it enables the comparability to prior periods.

Year ended December 31, 2009 (in millions, except ratios)	As reported	Excluding the TARP redemption
Return on equity		
Net income	$ 11,728	$ 11,728
Less: Preferred stock dividends	1,327	1,327
Less: Accelerated amortization from redemption of preferred stock issued to the U.S. Treasury	1,112	—
Net income applicable to common equity	9,289	10,401
Average common stockholders' equity	$145,903	$ 145,903
ROE	6%	7%

In addition, the calculated net income applicable to common equity for the year ended December 31, 2009, was also affected by the TARP repayment. The following table presents the effect on net income applicable to common stockholders and the $0.27 reduction to diluted earnings per share ("EPS") for the year ended December 31, 2009.

Year ended December 31, 2009 (in millions, except per share)	As reported	Effect of TARP redemption
Diluted earnings per share		
Net income	$ 11,728	$ —
Less: Preferred stock dividends	1,327	—
Less: Accelerated amortization from redemption of preferred stock issued to the U.S. Treasury	1,112	1,112
Net income applicable to common equity	9,289	(1,112)
Less: Dividends and undistributed earnings allocated to participating securities	515	(62)
Net income applicable to common stockholders	8,774	(1,050)
Total weighted average diluted shares outstanding	3,879.7	3,879.7
Net income per share	$ 2.26	$ (0.27)

Other financial measures

The Firm also discloses the allowance for loan losses to total retained loans, excluding home lending purchased credit-impaired loans and loans held by the Washington Mutual Master Trust ("WMMT"). For a further discussion of this credit metric, see Allowance for Credit Losses on pages 139–141 of this Annual Report.

BUSINESS SEGMENT RESULTS

The Firm is managed on a line of business basis. The business segment financial results presented reflect the current organization of JPMorgan Chase. There are six major reportable business segments: Investment Bank, Retail Financial Services, Card Services, Commercial Banking, Treasury & Securities Services and Asset Management, as well as a Corporate/Private Equity segment.

The business segments are determined based on the products and services provided, or the type of customer served, and reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on a managed basis.

JPMorgan Chase

Investment Bank	**Retail Financial Services**	**Card Services**	**Commercial Banking**	**Treasury & Securities Services**	**Asset Management**
Businesses: • Investment Banking - Advisory - Debt and equity underwriting • Market-making and trading - Fixed income - Equities • Corporate lending • Prime Services • Research	**Businesses:** • Retail Banking - Consumer and Business Banking (including Business Banking loans) • Mortgage Banking, Auto & Other Consumer Lending: - Mortgage production and servicing - Auto, student and other loan originations and balances • Real Estate Portfolios: - Residential mortgage loans - Home equity loans and originations	**Businesses:** • Credit Card • Merchant Acquiring	**Businesses:** • Middle Market Banking • Commercial Term Lending • Mid-Corporate Banking • Real Estate Banking	**Businesses:** • Treasury Services • Worldwide Securities Services	**Businesses:** • Private Banking • Investment Management: - Institutional - Retail • Highbridge

Description of business segment reporting methodology

Results of the business segments are intended to reflect each segment as if it were essentially a stand-alone business. The management reporting process that derives business segment results allocates income and expense using market-based methodologies. Business segment reporting methodologies used by the Firm are discussed below. The Firm continues to assess the assumptions, methodologies and reporting classifications used for segment reporting, and further refinements may be implemented in future periods.

Revenue sharing

When business segments join efforts to sell products and services to the Firm's clients, the participating business segments agree to share revenue from those transactions. The segment results reflect these revenue-sharing agreements.

Funds transfer pricing

Funds transfer pricing is used to allocate interest income and expense to each business and transfer the primary interest rate risk exposures to the Treasury group within the Corporate/Private Equity business segment. The allocation process is unique to each business segment and considers the interest rate risk, liquidity risk and regulatory requirements of that segment's stand-alone peers. This process is overseen by senior management and reviewed by the Firm's Asset-Liability Committee ("ALCO"). Business segments may be permitted to retain certain interest rate exposures subject to management approval.

Capital allocation

Each business segment is allocated capital by taking into consideration stand-alone peer comparisons, economic risk measures and regulatory capital requirements. The amount of capital assigned to each business is referred to as equity. Effective January 1, 2010, the Firm enhanced its line-of-business equity framework to better align equity assigned to each line of business as a result of the changes anticipated to occur in the business, and in the competitive and regulatory landscape. The lines of business are now capitalized based on the Tier 1 common standard, rather than the Tier 1 capital standard. For a further discussion of the changes, see Capital Management – Line of business equity on page 105 of this Annual Report.

Expense allocation

Where business segments use services provided by support units within the Firm, the costs of those support units are allocated to the business segments. The expense is allocated based on their actual cost or the lower of actual cost or market, as well as upon usage of the services provided. In contrast, certain other expense related to certain corporate functions, or to certain technology and operations, are not allocated to the business segments and are retained in Corporate. Retained expense includes: parent company costs that would not be incurred if the segments were stand-alone businesses; adjustments to align certain corporate staff, technology and operations allocations with market prices; and other one-time items not aligned with a particular business segment.

Segment results – Managed basis[(a)]

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

Year ended December 31,	Total net revenue			Noninterest expense		
(in millions)	**2010**	2009	2008	**2010**	2009	2008
Investment Bank[(b)]	**$ 26,217**	$ 28,109	$ 12,335	**$ 17,265**	$ 15,401	$ 13,844
Retail Financial Services	**31,756**	32,692	23,520	**17,864**	16,748	12,077
Card Services	**17,163**	20,304	16,474	**5,797**	5,381	5,140
Commercial Banking	**6,040**	5,720	4,777	**2,199**	2,176	1,946
Treasury & Securities Services	**7,381**	7,344	8,134	**5,604**	5,278	5,223
Asset Management	**8,984**	7,965	7,584	**6,112**	5,473	5,298
Corporate/Private Equity[(b)]	**7,301**	6,513	(52)	**6,355**	1,895	(28)
Total	**$104,842**	$ 108,647	$ 72,772	**$ 61,196**	$ 52,352	$ 43,500

Year ended December 31,	Pre-provision profit[(d)]			Provision for credit losses		
(in millions)	**2010**	2009	2008	**2010**	2009	2008
Investment Bank[(b)]	**$ 8,952**	$ 12,708	$ (1,509)	**$ (1,200)**	$ 2,279	$ 2,015
Retail Financial Services	**13,892**	15,944	11,443	**9,452**	15,940	9,905
Card Services	**11,366**	14,923	11,334	**8,037**	18,462	10,059
Commercial Banking	**3,841**	3,544	2,831	**297**	1,454	464
Treasury & Securities Services	**1,777**	2,066	2,911	**(47)**	55	82
Asset Management	**2,872**	2,492	2,286	**86**	188	85
Corporate/Private Equity[(b)]	**946**	4,618	(24)	**14**	80	1,981
Total	**$ 43,646**	$ 56,295	$ 29,272	**$ 16,639**	$ 38,458	$ 24,591

Year ended December 31,	Net income/(loss)			Return on equity		
(in millions)	**2010**	2009	2008	**2010**	2009	2008
Investment Bank[(b)]	**$ 6,639**	$ 6,899	$ (1,175)	**17%**	21%	(5)%
Retail Financial Services	**2,526**	97	880	**9**	—	5
Card Services	**2,074**	(2,225)	780	**14**	(15)	5
Commercial Banking	**2,084**	1,271	1,439	**26**	16	20
Treasury & Securities Services	**1,079**	1,226	1,767	**17**	25	47
Asset Management	**1,710**	1,430	1,357	**26**	20	24
Corporate/Private Equity[(b)(c)]	**1,258**	3,030	557	**NM**	NM	NM
Total	**$ 17,370**	$ 11,728	$ 5,605	**10%**	6%	4%

(a) Represents reported results on a tax-equivalent basis. The managed basis also assumes that credit card loans in Firm-sponsored credit card securitization trusts remained on the balance sheet for 2009 and 2008. Firm-sponsored credit card securitizations were consolidated at their carrying values on January 1, 2010, under the accounting guidance related to VIEs.

(b) IB reports its credit reimbursement from TSS as a component of its total net revenue, whereas TSS reports its credit reimbursement to IB as a separate line item on its income statement (not part of total net revenue). Corporate/Private Equity includes an adjustment to offset IB's inclusion of the credit reimbursement in total net revenue.

(c) Net income included an extraordinary gain of $76 million and $1.9 billion related to the Washington Mutual transaction for 2009 and 2008, respectively.

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

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

Selected income statement data

Year ended December 31, (in millions, except ratios)	2010	2009	2008[e]
Revenue			
Investment banking fees	**$ 6,186**	$ 7,169	$ 5,907
Principal transactions[a]	**8,454**	8,154	(7,042)
Lending- and deposit-related fees	**819**	664	463
Asset management, administration and commissions	**2,413**	2,650	3,064
All other income[b]	**381**	(115)	(341)
Noninterest revenue	**18,253**	18,522	2,051
Net interest income	**7,964**	9,587	10,284
Total net revenue[c]	**26,217**	28,109	12,335
Provision for credit losses	**(1,200)**	2,279	2,015
Noninterest expense			
Compensation expense	**9,727**	9,334	7,701
Noncompensation expense	**7,538**	6,067	6,143
Total noninterest expense	**17,265**	15,401	13,844
Income/(loss) before income tax expense/(benefit)	**10,152**	10,429	(3,524)
Income tax expense/(benefit)[d]	**3,513**	3,530	(2,349)
Net income/(loss)	**$ 6,639**	$ 6,899	$ (1,175)
Financial ratios			
ROE	**17%**	21%	(5)%
ROA	**0.91**	0.99	(0.14)
Overhead ratio	**66**	55	112
Compensation expense as % of total net revenue[f]	**37**	33	62

(a) The 2009 results reflect modest net gains on legacy leveraged lending and mortgage-related positions, compared with net markdowns of $10.6 billion in 2008.
(b) TSS was charged a credit reimbursement related to certain exposures managed within IB's credit portfolio on behalf of clients shared with TSS. IB recognizes this credit reimbursement in its credit portfolio business in all other income.
(c) Total net revenue included tax-equivalent adjustments, predominantly due to income tax credits related to affordable housing and alternative energy investments as well as tax-exempt income from municipal bond investments of $1.7 billion, $1.4 billion and $1.7 billion for 2010, 2009 and 2008, respectively.
(d) The income tax benefit in 2008 includes the result of reduced deferred tax liabilities on overseas earnings.
(e) Results for 2008 include seven months of the combined Firm's (JPMorgan Chase & Co.'s and Bear Stearns') results and five months of heritage JPMorgan Chase results.
(f) The compensation expense as a percentage of total net revenue ratio includes the impact of the U.K. Bank Payroll Tax on certain compensation awarded from December 9, 2009 to April 5, 2010 to relevant banking employees. For comparability to prior periods, IB excludes the impact of the U.K. Bank Payroll Tax expense, which results in a compensation expense as a percentage of total net revenue for 2010 of 35%, which is a non-GAAP financial measure.

The following table provides IB's total net revenue by business segment.

Year ended December 31, (in millions)	2010	2009	2008[e]
Revenue by business			
Investment banking fees:			
Advisory	**$ 1,469**	$ 1,867	$ 2,008
Equity underwriting	**1,589**	2,641	1,749
Debt underwriting	**3,128**	2,661	2,150
Total investment banking fees	**6,186**	7,169	5,907
Fixed income markets[a]	**15,025**	17,564	1,957
Equity markets[b]	**4,763**	4,393	3,611
Credit portfolio[c][d]	**243**	(1,017)	860
Total net revenue	**$ 26,217**	$ 28,109	$12,335
Revenue by region[d]			
Americas	**$ 15,189**	$ 15,156	$ 2,610
Europe/Middle East/Africa	**7,405**	9,790	7,710
Asia/Pacific	**3,623**	3,163	2,015
Total net revenue	**$ 26,217**	$ 28,109	$12,335

(a) Fixed income markets primarily include revenue related to market-making across global fixed income markets, including foreign exchange, interest rate, credit and commodities markets.
(b) Equities markets primarily include revenue related to market-making across global equity products, including cash instruments, derivatives, convertibles and prime services.
(c) Credit portfolio revenue includes net interest income, fees and loan sale activity, as well as gains or losses on securities received as part of a loan restructuring, for IB's credit portfolio. Credit portfolio revenue also includes the results of risk management related to the Firm's lending and derivative activities. See pages 116–118 of the Credit Risk Management section of this Annual Report for further discussion.
(d) TSS was charged a credit reimbursement related to certain exposures managed within IB's credit portfolio on behalf of clients shared with TSS. IB recognizes this credit reimbursement in its credit portfolio business in all other income.
(e) Results for 2008 include seven months of the combined Firm's (JPMorgan Chase & Co.'s and Bear Stearns') results and five months of heritage JPMorgan Chase & Co. results.

2010 compared with 2009

Net income was $6.6 billion, down 4% compared with the prior year. These results primarily reflected lower net revenue as well as higher noninterest expense, largely offset by a benefit from the provision for credit losses, compared with an expense in the prior year.

Net revenue was $26.2 billion, compared with $28.1 billion in the prior year. Investment banking fees were $6.2 billion, down 14% from the prior year; these consisted of record debt underwriting fees of $3.1 billion (up 18%), equity underwriting fees of $1.6 billion (down 40%), and advisory fees of $1.5 billion (down 21%). Fixed Income Markets revenue was $15.0 billion, compared with $17.6 billion in the prior year. The decrease from the prior year largely reflected lower results in rates and credit markets, partially offset by gains of $287 million from the widening of the Firm's credit spread on certain structured liabilities, compared with losses of $1.1 billion in the prior year. Equity Markets revenue was $4.8 billion, compared with $4.4 billion in the prior year, reflecting solid client revenue, as well as gains of $181 million from the widening of the Firm's credit spread on certain structured liabilities, compared with losses of $596 million in the prior year. Credit Portfolio revenue was $243 million, primarily reflecting net interest income and fees on loans, partially offset by the negative impact of credit spreads on derivative assets and mark-to-market losses on hedges of retained loans.

The provision for credit losses was a benefit of $1.2 billion, compared with an expense of $2.3 billion in the prior year. The current-year provision reflected a reduction in the allowance for loan losses, largely related to net repayments and loan sales. Net charge-offs were $735 million, compared with $1.9 billion in the prior year.

Noninterest expense was $17.3 billion, up $1.9 billion from the prior year, driven by higher noncompensation expense, which included increased litigation reserves, and higher compensation expense which included the impact of the U.K. Bank Payroll Tax.

Return on Equity was 17% on $40.0 billion of average allocated capital.

2009 compared with 2008

Net income was $6.9 billion, compared with a net loss of $1.2 billion in the prior year. These results reflected significantly higher total net revenue, partially offset by higher noninterest expense and a higher provision for credit losses.

Total net revenue was $28.1 billion, compared with $12.3 billion in the prior year. Investment banking fees were up 21% to $7.2 billion, consisting of debt underwriting fees of $2.7 billion (up 24%), equity underwriting fees of $2.6 billion (up 51%), and advisory fees of $1.9 billion (down 7%). Fixed Income Markets revenue was $17.6 billion, compared with $2.0 billion in the prior year, reflecting improved performance across most products and modest net gains on legacy leveraged lending and mortgage-related positions, compared with net markdowns of $10.6 billion in the prior year. Equity Markets revenue was $4.4 billion, up 22% from the prior year, driven by strong client revenue across products, particularly prime services, and improved trading results. Fixed Income and Equity Markets results also included losses of $1.7 billion from the tightening of the Firm's credit spread on certain structured liabilities, compared with gains of $1.2 billion in the prior year. Credit Portfolio revenue was a loss of $1.0 billion versus a gain of $860 million in the prior year, driven by mark-to-market losses on hedges of retained loans compared with gains in the prior year, partially offset by the positive net impact of credit spreads on derivative assets and liabilities.

The provision for credit losses was $2.3 billion, compared with $2.0 billion in the prior year, reflecting continued weakness in the credit environment. The allowance for loan losses to end-of-period loans retained was 8.25%, compared with 4.83% in the prior year. Net charge-offs were $1.9 billion, compared with $105 million in the prior year. Total nonperforming assets were $4.2 billion, compared with $2.5 billion in the prior year.

Noninterest expense was $15.4 billion, up $1.6 billion, or 11%, from the prior year, driven by higher performance-based compensation expense, partially offset by lower headcount-related expense.

Return on Equity was 21% on $33.0 billion of average allocated capital, compared with negative 5% on $26.1 billion of average allocated capital in the prior year.

Selected metrics

As of or for the year ended December 31, (in millions, except headcount)	**2010**	2009	2008
Selected balance sheet data (period-end)			
Loans:(a)			
Loans retained(b)	**$ 53,145**	$ 45,544	$ 71,357
Loans held-for-sale and loans at fair value	**3,746**	3,567	13,660
Total loans	**56,891**	49,111	85,017
Equity	**40,000**	33,000	33,000
Selected balance sheet data (average)			
Total assets	**$ 731,801**	$ 699,039	$ 832,729
Trading assets – debt and equity instruments	**307,061**	273,624	350,812
Trading assets – derivative receivables	**70,289**	96,042	112,337
Loans: (a)			
Loans retained(b)	**54,402**	62,722	73,108
Loans held-for-sale and loans at fair value	**3,215**	7,589	18,502
Total loans	**57,617**	70,311	91,610
Adjusted assets(c)	**540,449**	538,724	679,780
Equity	**40,000**	33,000	26,098
Headcount	**26,314**	24,654	27,938

(a) Effective January 1, 2010, the Firm adopted accounting guidance related to VIEs. Upon adoption of the guidance, the Firm consolidated its Firm-administered multi-seller conduits. As a result, $15.1 billion of related loans were recorded in loans on the Consolidated Balance Sheets.
(b) Loans retained included credit portfolio loans, leveraged leases and other accrual loans, and excluded loans held-for-sale and loans at fair value.
(c) Adjusted assets, a non-GAAP financial measure, equals total assets minus (1) securities purchased under resale agreements and securities borrowed less securities sold, not yet purchased; (2) assets of variable interest entities ("VIEs"); (3) cash and securities segregated and on deposit for regulatory and other purposes; (4) goodwill and intangibles; (5) securities received as collateral; and (6) investments purchased under the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility ("AML Facility"). The amount of adjusted assets is presented to assist the reader in comparing IB's asset and capital levels to other investment banks in the securities industry. Asset-to-equity leverage ratios are commonly used as one measure to assess a company's capital adequacy. IB believes an adjusted asset amount that excludes the assets discussed above, which were considered to have a low risk profile, provides a more meaningful measure of balance sheet leverage in the securities industry.

Selected metrics

As of or for the year ended December 31, (in millions, except ratios)	2010	2009	2008
Credit data and quality statistics			
Net charge-offs	**$ 735**	$ 1,904	$ 105
Nonperforming assets:			
Nonaccrual loans:			
Nonaccrual loans retained[(a)(b)]	**3,159**	3,196	1,143
Nonaccrual loans held-for-sale and loans at fair value	**460**	308	32
Total nonperforming loans	**3,619**	3,504	1,175
Derivative receivables	**34**	529	1,079
Assets acquired in loan satisfactions	**117**	203	247
Total nonperforming assets	**3,770**	4,236	2,501
Allowance for credit losses:			
Allowance for loan losses	**1,863**	3,756	3,444
Allowance for lending-related commitments	**447**	485	360
Total allowance for credit losses	**2,310**	4,241	3,804
Net charge-off rate[(a)(c)]	**1.35%**	3.04%	0.14%
Allowance for loan losses to period-end loans retained[(a)(c)]	**3.51**	8.25	4.83
Allowance for loan losses to average loans retained[(a)(c)(d)]	**3.42**	5.99	4.71[(i)]
Allowance for loan losses to nonaccrual loans retained[(a)(b)(c)]	**59**	118	301
Nonaccrual loans to total period-end loans	**6.36**	7.13	1.38
Nonaccrual loans to average loans	**6.28**	4.98	1.28
Market risk–average trading and credit portfolio VaR – 95% confidence level[(e)]			
Trading activities:			
Fixed income	**$ 65**	$ 160	$ 162
Foreign exchange	**11**	18	23
Equities	**22**	47	47
Commodities and other	**16**	20	23
Diversification[(f)]	**(43)**	(91)	(88)
Total trading VaR[(g)]	**71**	154	167
Credit portfolio VaR[(h)]	**26**	52	45
Diversification[(f)]	**(10)**	(42)	(36)
Total trading and credit portfolio VaR	**$ 87**	$ 164	$ 176

(a) Loans retained included credit portfolio loans, leveraged leases and other accrual loans, and excluded loans held-for-sale and loans accounted for at fair value.
(b) Allowance for loan losses of $1.1 billion, $1.3 billion and $430 million were held against these nonaccural loans at December 31, 2010, 2009 and 2008, respectively.
(c) Loans held-for-sale and loans at fair value were excluded when calculating the allowance coverage ratio and net charge-off rate.
(d) Results for 2008 include seven months of the combined Firm's (JPMorgan Chase & Co.'s and Bear Stearns') results and five months of heritage JPMorgan Chase & Co.'s results only.
(e) For 2008, 95% VaR reflects data only for the last six months of the year as the Firm began to calculate VaR using a 95% confidence level effective in the third quarter of 2008, rather than the prior 99% confidence level.
(f) Average value-at-risk ("VaR") was less than the sum of the VaR of the components described above, which is due to portfolio diversification. The diversification effect reflects the fact that the risks were not perfectly correlated. The risk of a portfolio of positions is therefore usually less than the sum of the risks of the positions themselves.
(g) Trading VaR includes predominantly all trading activities in IB, as well as syndicated lending facilities that the Firm intends to distribute; however, particular risk parameters of certain products are not fully captured, for example, correlation risk. Trading VaR does not include the debit valuation adjustments ("DVA") taken on derivative and structured liabilities to reflect the credit quality of the Firm. See VaR discussion on pages 142–146 and the DVA Sensitivity table on page 144 of this Annual Report for further details. Trading VaR includes the estimated credit spread sensitivity of certain mortgage products.
(h) Credit portfolio VaR includes the derivative credit valuation adjustments ("CVA"), hedges of the CVA and mark-to-market ("MTM") hedges of the retained loan portfolio, which were all reported in principal transactions revenue. This VaR does not include the retained loan portfolio.
(i) Excluding the impact of a loan originated in March 2008 to Bear Stearns, the adjusted ratio would be 4.84% for 2008. The average balance of the loan extended to Bear Stearns was $1.9 billion for 2008.

Market shares and rankings[(a)]

Year ended December 31,	2010 Market share	2010 Rankings	2009 Market share	2009 Rankings	2008 Market share	2008 Rankings
Global investment banking fees [(b)]	**8%**	**#1**	9%	#1	9%	#2
Debt, equity and equity-related						
Global	**7**	**1**	9	1	8	2
U.S.	**11**	**2**	15	1	14	2
Syndicated loans						
Global	**9**	**1**	8	1	9	1
U.S.	**19**	**2**	22	1	22	1
Long-term debt [(c)]						
Global	**7**	**2**	8	1	8	3
U.S.	**11**	**2**	14	1	14	2
Equity and equity-related						
Global[(d)]	**7**	**3**	12	1	12	2
U.S.	**13**	**2**	16	2	16	2
Announced M&A[(e)]						
Global	**16**	**4**	24	3	25	1
U.S.	**23**	**3**	36	2	31	2

(a) Source: Dealogic. Global Investment Banking fees reflects ranking of fees and market share. Remainder of rankings reflects transaction volume rank and market share. Results for 2008 are pro forma for the Bear Stearns merger.
(b) Global IB fees exclude money market, short-term debt and shelf deals.
(c) Long-term debt tables include investment-grade, high-yield, supranationals, sovereigns, agencies, covered bonds, asset-backed securities and mortgage-backed securities; and exclude money market, short-term debt, and U.S. municipal securities.
(d) Equity and equity-related rankings include rights offerings and Chinese A-Shares.
(e) Global announced M&A is based on transaction value at announcement; all other rankings are based on transaction proceeds, with full credit to each book manager/equal if joint. Because of joint assignments, market share of all participants will add up to more than 100%. M&A for 2010, 2009 and 2008, reflects the removal of any withdrawn transactions. U.S. announced M&A represents any U.S. involvement ranking.

According to Dealogic, the Firm was ranked #1 in Global Investment Banking Fees generated during 2010, based on revenue; #1 in Global Debt, Equity and Equity-related; #1 in Global Syndicated Loans; #2 in Global Long-Term Debt; #3 in Global Equity and Equity-related; and #4 in Global Announced M&A, based on volume.

RETAIL FINANCIAL SERVICES

Retail Financial Services ("RFS") serves consumers and businesses through personal service at bank branches and through ATMs, online banking and telephone banking, as well as through auto dealerships and school financial-aid offices. Customers can use more than 5,200 bank branches (third-largest nationally) and 16,100 ATMs (second-largest nationally), as well as online and mobile banking around the clock. More than 28,900 branch salespeople assist customers with checking and savings accounts, mortgages, home equity and business loans, and investments across the 23-state footprint from New York and Florida to California. Consumers also can obtain loans through more than 16,200 auto dealerships and 2,200 schools and universities nationwide.

Prior to January 1, 2010, RFS was reported as: Retail Banking and Consumer Lending. Commencing in 2010, Consumer Lending is presented as: (1) Mortgage Banking, Auto & Other Consumer Lending, and (2) Real Estate Portfolios. Mortgage Banking, Auto & Other Consumer Lending comprises mortgage production and servicing, auto finance, and student and other lending activities. Real Estate Portfolios comprises residential mortgages and home equity loans, including the purchased credit-impaired portfolio acquired in the Washington Mutual transaction. These reporting revisions were intended to provide further clarity around the Real Estate Portfolios. Retail Banking, which includes branch banking and business banking activities, was not affected by these reporting revisions.

Selected income statement data

Year ended December 31, (in millions, except ratios)	2010	2009	2008
Revenue			
Lending- and deposit-related fees	**$ 3,117**	$ 3,969	$ 2,546
Asset management, administration and commissions	**1,784**	1,674	1,510
Mortgage fees and related income	**3,855**	3,794	3,621
Credit card income	**1,956**	1,635	939
Other income	**1,516**	1,128	739
Noninterest revenue	**12,228**	12,200	9,355
Net interest income	**19,528**	20,492	14,165
Total net revenue(a)	**31,756**	32,692	23,520
Provision for credit losses	**9,452**	15,940	9,905
Noninterest expense			
Compensation expense	**7,432**	6,712	5,068
Noncompensation expense	**10,155**	9,706	6,612
Amortization of intangibles	**277**	330	397
Total noninterest expense	**17,864**	16,748	12,077
Income before income tax expense/(benefit)	**4,440**	4	1,538
Income tax expense/(benefit)	**1,914**	(93)	658
Net income	**$ 2,526**	$ 97	$ 880
Financial ratios			
ROE	**9%**	—%	5%
Overhead ratio	**56**	51	51
Overhead ratio excluding core deposit intangibles(b)	**55**	50	50

(a) Total net revenue included tax-equivalent adjustments associated with tax-exempt loans to municipalities and other qualified entities of $15 million, $22 million and $23 million for the years ended December 31, 2010, 2009 and 2008, respectively.

(b) RFS uses the overhead ratio (excluding the amortization of core deposit intangibles ("CDI")), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation would result in a higher overhead ratio in the earlier years and a lower overhead ratio in later years. This method would therefore result in an improving overhead ratio over time, all things remaining equal. The non-GAAP ratio excludes Retail Banking's CDI amortization expense related to prior business combination transactions of $276 million, $328 million and $394 million for the years ended December 31, 2010, 2009 and 2008, respectively.

2010 compared with 2009

Net income was $2.5 billion, compared with $97 million in the prior year.

Net revenue was $31.8 billion, a decrease of $936 million, or 3%, compared with the prior year. Net interest income was $19.5 billion, down by $964 million, or 5%, reflecting the impact of lower loan and deposit balances and narrower loan spreads, partially offset by a shift to wider-spread deposit products. Noninterest revenue was $12.2 billion, flat to the prior year, as lower deposit-related fees were largely offset by higher debit card income and auto operating lease income.

The provision for credit losses was $9.5 billion, compared with $15.9 billion in the prior year. The current-year provision reflected an addition to the allowance for loan losses of $3.4 billion for the purchased credit-impaired ("PCI") portfolio and a reduction in the allowance for loan losses of $1.8 billion, predominantly for the mortgage loan portfolios. In comparison, the prior-year provision reflected an addition to the allowance for loan losses of $5.8 billion, predominantly for the home equity and mortgage portfolios, but which also included an addition of $1.6 billion for the PCI portfolio. While delinquency trends and net charge-offs improved compared with the prior year, the provision continued to reflect elevated losses for the mortgage and home equity portfolios. See page 130 of this Annual Report for the net charge-off amounts and rates. To date, no charge-offs have been recorded on PCI loans.

Noninterest expense was $17.9 billion, an increase of $1.1 billion, or 7%, from the prior year, reflecting higher default-related expense.

2009 compared with 2008

The following discussion of RFS's financial results reflects the acquisition of Washington Mutual's retail bank network and mortgage banking activities as a result of the Washington Mutual transaction on September 25, 2008. See Note 2 on pages 166–170 of this Annual Report for more information concerning this transaction.

Net income was $97 million, a decrease of $783 million from the prior year, as the increase in provision for credit losses more than offset the positive impact of the Washington Mutual transaction.

Net revenue was $32.7 billion, an increase of $9.2 billion, or 39%, from the prior year. Net interest income was $20.5 billion, up by $6.3 billion, or 45%, reflecting the impact of the Washington Mutual transaction, and wider loan and deposit spreads.

Noninterest revenue was $12.2 billion, up by $2.8 billion, or 30%, driven by the impact of the Washington Mutual transaction, wider margins on mortgage originations and higher net mortgage servicing revenue, partially offset by $1.6 billion in estimated losses related to the repurchase of previously sold loans.

The provision for credit losses was $15.9 billion, an increase of $6.0 billion from the prior year. Weak economic conditions and housing price declines continued to drive higher estimated losses for the home equity and mortgage loan portfolios. The provision included an addition of $5.8 billion to the allowance for loan losses, compared with an addition of $5.0 billion in the prior year. Included in the 2009 addition to the allowance for loan losses was a $1.6 billion increase related to estimated deterioration in the Washington Mutual PCI portfolio. See page 130 of this Annual Report for the net charge-off amounts and rates. To date, no charge-offs have been recorded on PCI loans.

Noninterest expense was $16.7 billion, an increase of $4.7 billion, or 39%. The increase reflected the impact of the Washington Mutual transaction and higher servicing and default-related expense.

Selected metrics

As of or for the year ended December 31, (in millions, except headcount and ratios)	2010	2009	2008
Selected balance sheet data (period-end)			
Assets	**$ 366,841**	$ 387,269	$ 419,831
Loans:			
Loans retained	**316,725**	340,332	368,786
Loans held-for-sale and loans at fair value[(a)]	**14,863**	14,612	9,996
Total loans	**331,588**	354,944	378,782
Deposits	**370,819**	357,463	360,451
Equity	**28,000**	25,000	25,000
Selected balance sheet data (average)			
Assets	**$ 381,337**	$ 407,497	$ 304,442
Loans:			
Loans retained	**331,330**	354,789	257,083
Loans held-for-sale and loans at fair value[(a)]	**16,515**	18,072	17,056
Total loans	**347,845**	372,861	274,139
Deposits	**362,386**	367,696	258,362
Equity	**28,000**	25,000	19,011
Headcount	**121,876**	108,971	102,007

As of or for the year ended December 31, (in millions, except headcount and ratios)	2010	2009	2008
Credit data and quality statistics			
Net charge-offs	**$ 7,906**	$ 10,113	$ 4,877
Nonaccrual loans:			
Nonaccrual loans retained	**8,768**	10,611	6,548
Nonaccrual loans held-for-sale and loans at fair value	**145**	234	236
Total nonaccrual loans[(b)(c)(d)]	**8,913**	10,845	6,784
Nonperforming assets[(b)(c)(d)]	**10,266**	12,098	9,077
Allowance for loan losses	**16,453**	14,776	8,918
Net charge-off rate[(e)]	**2.39%**	2.85%	1.90%
Net charge-off rate excluding PCI loans[(e)(f)]	**3.11**	3.75	2.08
Allowance for loan losses to ending loans retained[(e)]	**5.19**	4.34	2.42
Allowance for loan losses to ending loans excluding PCI loans[(e)(f)]	**4.72**	5.09	3.19
Allowance for loan losses to nonaccrual loans retained[(b)(e)(f)]	**131**	124	136
Nonaccrual loans to total loans	**2.69**	3.06	1.79
Nonaccrual loans to total loans excluding PCI loans[(b)]	**3.44**	3.96	2.34

(a) Loans at fair value consist of prime mortgages originated with the intent to sell that are accounted for at fair value and classified as trading assets on the Consolidated Balance Sheets. These loans totaled $14.7 billion, $12.5 billion and $8.0 billion at December 31, 2010, 2009 and 2008, respectively. Average balances of these loans totaled $15.2 billion, $15.8 billion and $14.2 billion for the years ended December 31, 2010, 2009 and 2008, respectively.

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

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

(d) At December 31, 2010, 2009 and 2008, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $10.5 billion, $9.0 billion and $3.0 billion, respectively, that are 90 days past due and accruing at the guaranteed reimbursement rate; (2) real estate owned insured by U.S. government agencies of $1.9 billion, $579 million and $364 million, respectively; and (3) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program ("FFELP"), of $625 million, $542 million and $437 million, respectively. These amounts are excluded as reimbursement of insured amounts is proceeding normally.

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

(f) Excludes the impact of PCI loans that were acquired as part of the Washington Mutual transaction. These loans were accounted for at fair value on the acquisition date, which incorporated management's estimate, as of that date, of credit losses over the remaining life of the portfolio. An allowance for loan losses of $4.9 billion and $1.6 billion was recorded for these loans at December 31, 2010 and 2009, respectively, which has also been excluded from the applicable ratios. No allowance for loan losses was recorded for these loans at December 31, 2008. To date, no charge-offs have been recorded for these loans.

Retail Banking

Selected income statement data

Year ended December 31, (in millions, except ratios)	2010	2009	2008
Noninterest revenue	$ 6,792	$ 7,169	$ 4,951
Net interest income	10,785	10,781	7,659
Total net revenue	17,577	17,950	12,610
Provision for credit losses	607	1,142	449
Noninterest expense	10,657	10,357	7,232
Income before income tax expense	6,313	6,451	4,929
Net income	$ 3,614	$ 3,903	$ 2,982
Overhead ratio	61%	58%	57%
Overhead ratio excluding core deposit intangibles(a)	59	56	54

(a) Retail Banking uses the overhead ratio (excluding the amortization of CDI), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation would result in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this method would therefore result in an improving overhead ratio over time, all things remaining equal. The non-GAAP ratio excludes Retail Banking's CDI amortization expense related to prior business combination transactions of $276 million, $328 million and $394 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Selected metrics

As of or for the year ended December 31, (in billions, except ratios and where otherwise noted)	2010	2009	2008
Business metrics			
Business banking origination volume (in millions)	$ 4,688	$ 2,299	$ 5,531
End-of-period loans owned	16.8	17.0	18.4
End-of-period deposits:			
Checking	$ 131.7	$ 121.9	$ 109.2
Savings	166.6	153.4	144.0
Time and other	45.9	58.0	89.1
Total end-of-period deposits	344.2	333.3	342.3
Average loans owned	$ 16.7	$ 17.8	$ 16.7
Average deposits:			
Checking	$ 123.4	$ 113.5	$ 77.1
Savings	162.1	150.9	114.3
Time and other	51.0	76.4	53.2
Total average deposits	336.5	340.8	244.6
Deposit margin	3.03%	2.96 %	2.89%
Average assets	$ 28.3	$ 28.9	$ 26.3
Credit data and quality statistics (in millions, except ratios)			
Net charge-offs	$ 707	$ 842	$ 346
Net charge-off rate	4.23%	4.73 %	2.07%
Nonperforming assets	$ 846	$ 839	$ 424

Retail branch business metrics

Year ended December 31,	2010	2009	2008
Investment sales volume (in millions)	$ 23,579	$ 21,784	$17,640
Number of:			
Branches	5,268	5,154	5,474
ATMs	16,145	15,406	14,568
Personal bankers	21,715	17,991	15,825
Sales specialists	7,196	5,912	5,661
Active online customers (in thousands)	17,744	15,424	11,710
Checking accounts (in thousands)	27,252	25,712	24,499

2010 compared with 2009

Retail Banking reported net income of $3.6 billion, a decrease of $289 million, or 7%, compared with the prior year. Total net revenue was $17.6 billion, down 2% compared with the prior year. The decrease was driven by lower deposit-related fees, largely offset by higher debit card income and a shift to wider-spread deposit products. The provision for credit losses was $607 million, down $535 million compared with the prior year. The current-year provision reflected lower net charge-offs and a reduction of $100 million to the allowance for loan losses due to lower estimated losses, compared with a $300 million addition to the allowance for loan losses in the prior year. Retail Banking net charge-offs were $707 million, compared with $842 million in the prior year. Noninterest expense was $10.7 billion, up 3% compared with the prior year, resulting from sales force increases in Business Banking and bank branches.

2009 compared with 2008

Retail Banking reported net income of $3.9 billion, up by $921 million, or 31%, from the prior year. Total net revenue was $18.0 billion, up by $5.3 billion, or 42%, from the prior year. The increase reflected the impact of the Washington Mutual transaction, wider deposit spreads, higher average deposit balances and higher debit card income. The provision for credit losses was $1.1 billion, compared with $449 million in the prior year, reflecting higher estimated losses in the Business Banking portfolio. Noninterest expense was $10.4 billion, up by $3.1 billion, or 43%. The increase reflected the impact of the Washington Mutual transaction, higher FDIC insurance premiums and higher headcount-related expense.

Mortgage Banking, Auto & Other Consumer Lending

Selected income statement data

Year ended December 31, (in millions, except ratios)	2010	2009	2008
Noninterest revenue	$ 5,321	$ 5,057	$ 4,689
Net interest income	3,311	3,165	2,279
Total net revenue	8,632	8,222	6,968
Provision for credit losses	614	1,235	895
Noninterest expense	5,580	4,544	3,956
Income before income tax expense	2,438	2,443	2,117
Net income	$ 1,405	$ 1,643	$ 1,286
Overhead ratio	65%	55%	57%

2010 compared with 2009

Mortgage Banking, Auto & Other Consumer Lending reported net income of $1.4 billion, a decrease of $238 million, or 14%, from the prior year.

Net revenue was $8.6 billion, up by $410 million, or 5%, from the prior year. Mortgage Banking net revenue was $5.2 billion, flat to the prior year. Other Consumer Lending net revenue, comprising Auto and Student Lending, was $3.5 billion, up by $447 million, predominantly as a result of higher auto loan and lease balances.

Mortgage Banking net revenue included $904 million of net interest income, $3.9 billion of mortgage fees and related income, and $413 million of other noninterest revenue. Mortgage fees and related revenue comprised $528 million of net production revenue, $2.2 billion of servicing operating revenue and $1.1 billion of MSR risk management revenue. Production revenue, excluding repurchase losses, was $3.4 billion, an increase of $1.3 billion, reflecting wider mortgage margins and higher origination volumes. Total production revenue was reduced by $2.9 billion of repurchase losses, compared with $1.6 billion in the prior year, and included a $1.6 billion increase in the repurchase reserve during the current year, reflecting higher estimated future repurchase demands. Servicing operating revenue was $2.2 billion, an increase of $528 million, reflecting an improvement in other changes in the MSR asset fair value driven by lower runoff of the MSR asset due to time decay, partially offset by lower loan servicing revenue as a result of lower third-party loans serviced. MSR risk management revenue was $1.1 billion, a decrease of $492 million.

The provision for credit losses, predominantly related to the student and auto loan portfolios, was $614 million, compared with $1.2 billion in the prior year. The current-year provision reflected lower net charge-offs and a reduction of $135 million to the allowance for loan losses due to lower estimated losses, compared with a $307 million addition to the allowance for loan losses in the prior year. See page 130 of this Annual Report for the net charge-off amounts and rates.

Noninterest expense was $5.6 billion, up by $1.0 billion, or 23%, from the prior year, driven by an increase in default-related expense for the serviced portfolio, including costs associated with foreclosure affidavit-related suspensions.

2009 compared with 2008

Mortgage Banking, Auto & Other Consumer Lending reported net income of $1.6 billion, an increase of $357 million, or 28%, from the prior year.

Net revenue was $8.2 billion, up by $1.3 billion, or 18%, from the prior year. Mortgage Banking net revenue was $5.2 billion, up by $701 million. Other Consumer Lending net revenue, comprising Auto and Student Lending, was $3.0 billion, up by $553 million, largely as a result of wider loan spreads.

Mortgage Banking net revenue included $973 million of net interest income, $3.8 billion of mortgage fees and related income, and $442 million of other noninterest revenue. Mortgage fees and related income comprised $503 million of net production revenue, $1.7 billion of servicing operating revenue and $1.6 billion of MSR risk management revenue. Production revenue, excluding repurchase losses, was $2.1 billion, an increase of $965 million, reflecting wider margins on new originations. Total production revenue was reduced by $1.6 billion of repurchase losses, compared with repurchase losses of $252 million in the prior year. Servicing operating revenue was $1.7 billion, an increase of $457 million, reflecting growth in average third-party loans serviced as a result of the Washington Mutual transaction. MSR risk management revenue was $1.6 billion, an increase of $111 million, reflecting the positive impact of a decrease in estimated future prepayments during 2009.

The provision for credit losses, predominantly related to the student and auto loan portfolios, was $1.2 billion, compared with $895 million in the prior year. The current- and prior-year provision reflected an increase in the allowance for loan losses for student and auto loans. See page 130 of this Annual Report for the net charge-off amounts and rates.

Noninterest expense was $4.5 billion, up by $588 million, or 15%, from the prior year, driven by higher servicing and default-related expense and the impact of the Washington Mutual transaction.

Selected metrics

As of or for the year ended December 31, (in billions, except ratios and where otherwise noted)	2010	2009	2008
Business metrics			
End-of-period loans owned:			
Auto	**$ 48.4**	$ 46.0	$ 42.6
Mortgage[(a)]	**14.2**	11.9	6.5
Student and other	**14.4**	15.8	16.3
Total end-of-period loans owned	**$ 77.0**	$ 73.7	$ 65.4
Average loans owned:			
Auto	**$ 47.6**	$ 43.6	$ 43.8
Mortgage[(a)]	**13.4**	8.8	4.3
Student and other	**16.2**	16.3	13.8
Total average loans owned[(b)]	**$ 77.2**	$ 68.7	$ 61.9
Credit data and quality statistics (in millions)			
Net charge-offs:			
Auto	**$ 298**	$ 627	$ 568
Mortgage	**41**	14	5
Student and other	**410**	287	64
Total net charge-offs	**$ 749**	$ 928	$ 637
Net charge-off rate:			
Auto	**0.63%**	1.44%	1.30%
Mortgage	**0.31**	0.17	0.13
Student and other	**2.72**	1.98	0.57
Total net charge-off rate[(b)]	**0.99**	1.40	1.08
30+ day delinquency rate[(c)(d)]	**1.69**	1.75	1.91
Nonperforming assets (in millions)[(e)]	**$ 996**	$ 912	$ 866
Origination volume:			
Mortgage origination volume by channel:			
Retail	**$ 68.8**	$ 53.9	$ 41.1
Wholesale[(f)]	**1.3**	3.6	26.7
Correspondent[(f)]	**75.3**	81.0	58.2
CNT (negotiated transactions)	**10.2**	12.2	43.0
Total mortgage origination volume	**$155.6**	$ 150.7	$169.0
Student	**1.9**	4.2	6.9
Auto	**23.0**	23.7	19.4

Selected metrics As of or for the year ended December 31, (in billions, except ratios)	**2010**	2009	2008
Application volume:			
Mortgage application volume by channel:			
Retail	**$ 115.1**	$ 90.9	$ 89.1
Wholesale[f]	**2.4**	4.9	58.6
Correspondent[f]	**97.3**	110.8	86.9
Total mortgage application volume	**$ 214.8**	$ 206.6	$ 234.6
Average mortgage loans held-for-sale and loans at fair value[g]	**$ 15.4**	$ 16.2	$ 14.6
Average assets	**126.0**	115.0	98.8
Repurchase reserve (ending)	**3.0**	1.4	1.0
Third-party mortgage loans serviced (ending)	**967.5**	1,082.1	1,172.6
Third-party mortgage loans serviced (average)	**1,037.6**	1,119.1	774.9
MSR net carrying value (ending)	**13.6**	15.5	9.3
Ratio of MSR net carrying value (ending) to third-party mortgage loans serviced (ending)	**1.41%**	1.43%	0.79%
Ratio of annualized loan servicing revenue to third-party mortgage loans serviced (average)	**0.44**	0.44	0.42
MSR revenue multiple[h]	**3.20x**	3.25x	1.88x

Supplemental mortgage fees and related income details As of or for the year ended December 31, (in millions)	**2010**	2009	2008
Net production revenue:			
Production revenue	**$ 3,440**	$ 2,115	$ 1,150
Repurchase losses	**(2,912)**	(1,612)	(252)
Net production revenue	**528**	503	898
Net mortgage servicing revenue:			
Operating revenue:			
Loan servicing revenue	**4,575**	4,942	3,258
Other changes in MSR asset fair value	**(2,384)**	(3,279)	(2,052)
Total operating revenue	**2,191**	1,663	1,206
Risk management:			
Changes in MSR asset fair value due to inputs or assumptions in model	**(2,268)**	5,804	(6,849)
Derivative valuation adjustments and other	**3,404**	(4,176)	8,366
Total risk management	**1,136**	1,628	1,517
Total net mortgage servicing revenue	**3,327**	3,291	2,723
Mortgage fees and related income	**$ 3,855**	$ 3,794	$ 3,621

(a) Predominantly represents prime loans repurchased from Government National Mortgage Association ("Ginnie Mae") pools, which are insured by U.S. government agencies. See further discussion of loans repurchased from Ginnie Mae pools in Repurchase liability on pages 98–101 of this Annual Report.
(b) Total average loans owned includes loans held-for-sale of $1.3 billion, $2.2 billion and $2.8 billion for the years ended December 31, 2010, 2009 and 2008, respectively. These amounts are excluded when calculating the net charge-off rate.
(c) Excludes mortgage loans that are insured by U.S. government agencies of $11.4 billion, $9.7 billion and $3.5 billion at December 31, 2010, 2009 and 2008, respectively. These amounts are excluded as reimbursement of insured amounts is proceeding normally.
(d) Excludes loans that are 30 days past due and still accruing, which are insured by U.S. government agencies under the FFELP, of $1.1 billion, $942 million and $824 million at December 31, 2010, 2009 and 2008, respectively. These amounts are excluded as reimbursement of insured amounts is proceeding normally.
(e) At December 31, 2010, 2009 and 2008, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $10.5 billion, $9.0 billion and $3.0 billion, respectively, that are 90 days past due and accruing at the guaranteed reimbursement rate; (2) real estate owned insured by U.S. government agencies of $1.9 billion, $579 million and $364 million, respectively; and (3) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the FFELP, of $625 million, $542 million and $437 million, respectively. These amounts are excluded as reimbursement of insured amounts is proceeding normally.
(f) Includes rural housing loans sourced through brokers and correspondents, which are underwritten under U.S. Department of Agriculture guidelines. Prior period amounts have been revised to conform with the current period presentation.
(g) Loans at fair value consist of prime mortgages originated with the intent to sell that are accounted for at fair value and classified as trading assets on the Consolidated Balance Sheets. Average balances of these loans totaled $15.2 billion, $15.8 billion and $14.2 billion for the years ended December 31, 2010, 2009 and 2008, respectively.
(h) Represents the ratio of MSR net carrying value (ending) to third-party mortgage loans serviced (ending) divided by the ratio of annualized loan servicing revenue to third-party mortgage loans serviced (average).

Mortgage origination channels comprise the following:

Retail – Borrowers who are buying or refinancing a home through direct contact with a mortgage banker employed by the Firm using a branch office, the Internet or by phone. Borrowers are frequently referred to a mortgage banker by a banker in a Chase branch, real estate brokers, home builders or other third parties.

Wholesale – A third-party mortgage broker refers loan applications to a mortgage banker at the Firm. Brokers are independent loan originators that specialize in finding and counseling borrowers but do not provide funding for loans. The Firm exited the broker channel during 2008.

Correspondent – Banks, thrifts, other mortgage banks and other financial institutions that sell closed loans to the Firm.

Correspondent negotiated transactions ("CNTs") – These transactions occur when mid- to large-sized mortgage lenders, banks and bank-owned mortgage companies sell servicing to the Firm, on an as-originated basis, and exclude purchased bulk servicing transactions. These transactions supplement traditional production channels and provide growth opportunities in the servicing portfolio in stable and periods of rising interest rates.

Net production revenue – Includes net gains or losses on originations and sales of prime and subprime mortgage loans, other production-related fees and losses related to the repurchase of previously-sold loans.

Net mortgage servicing revenue includes the following components:

(a) Operating revenue comprises:
   – all gross income earned from servicing third-party mortgage loans including stated service fees, excess service fees, late fees and other ancillary fees; and
   – modeled servicing portfolio runoff (or time decay).

(b) Risk management comprises:
   – changes in MSR asset fair value due to market-based inputs such as interest rates and volatility, as well as updates to assumptions used in the MSR valuation model.
   – derivative valuation adjustments and other, which represents changes in the fair value of derivative instruments used to offset the impact of changes in the market-based inputs to the MSR valuation model.

Real Estate Portfolios

Selected income statement data

Year ended December 31, (in millions, except ratios)	2010	2009	2008
Noninterest revenue	$ 115	$ (26)	$ (285)
Net interest income	5,432	6,546	4,227
Total net revenue	**5,547**	6,520	3,942
Provision for credit losses	**8,231**	13,563	8,561
Noninterest expense	**1,627**	1,847	889
Income/(loss) before income tax expense/(benefit)	**(4,311)**	(8,890)	(5,508)
Net income/(loss)	**$ (2,493)**	$ (5,449)	$ (3,388)
Overhead ratio	**29%**	28%	23%

2010 compared with 2009

Real Estate Portfolios reported a net loss of $2.5 billion, compared with a net loss of $5.4 billion in the prior year. The improvement was driven by a lower provision for credit losses, partially offset by lower net interest income.

Net revenue was $5.5 billion, down by $973 million, or 15%, from the prior year. The decrease was driven by a decline in net interest income as a result of lower loan balances, reflecting net portfolio runoff.

The provision for credit losses was $8.2 billion, compared with $13.6 billion in the prior year. The current-year provision reflected a $1.9 billion reduction in net charge-offs and a $1.6 billion reduction in the allowance for the mortgage loan portfolios. This reduction in the allowance for loan losses included the effect of $632 million of charge-offs related to an adjustment of the estimated net realizable value of the collateral underlying delinquent residential home loans. For additional information, refer to Portfolio analysis on page 131 of this Annual Report. The remaining reduction of the allowance of approximately $950 million was a result of an improvement in delinquencies and lower estimated losses, compared with prior year additions of $3.6 billion for the home equity and mortgage portfolios. Additionally, the current-year provision reflected an addition to the allowance for loan losses of $3.4 billion for the PCI portfolio, compared with a prior year addition of $1.6 billion for this portfolio. (For further detail, see the RFS discussion of the provision for credit losses on page 72 of this Annual Report.)

Noninterest expense was $1.6 billion, down by $220 million, or 12%, from the prior year, reflecting lower default-related expense.

2009 compared with 2008

Real Estate Portfolios reported a net loss of $5.4 billion, compared with a net loss of $3.4 billion in the prior year.

Net revenue was $6.5 billion, up by $2.6 billion, or 65%, from the prior year. The increase was driven by the impact of the Washington Mutual transaction and wider loan spreads, partially offset by lower heritage Chase loan balances.

The provision for credit losses was $13.6 billion, compared with $8.6 billion in the prior year. The provision reflected weakness in the home equity and mortgage portfolios. (For further detail, see the RFS discussion of the provision for credit losses for further detail) on pages 72–73 of this Annual Report.

Noninterest expense was $1.8 billion, compared with $889 million in the prior year, reflecting higher default-related expense.

Included within Real Estate Portfolios are PCI loans that the Firm acquired in the Washington Mutual transaction. For PCI loans, the excess of the undiscounted gross cash flows expected to be collected over the carrying value of the loans ("the accretable yield") is accreted into interest income at a level rate of return over the expected life of the loans.

The net spread between the PCI loans and the related liabilities are expected to be relatively constant over time, except for any basis risk or other residual interest rate risk that remains and for certain changes in the accretable yield percentage (e.g. from extended loan liquidation periods and from prepayments). As of December 31, 2010, the remaining weighted-average life of the PCI loan portfolio is expected to be 7.0 years. For further information, see Note 14, PCI loans, on pages 233–236 of this Annual Report. The loan balances are expected to decline more rapidly in the earlier years as the most troubled loans are liquidated, and more slowly thereafter as the remaining troubled borrowers have limited refinancing opportunities. Similarly, default and servicing expense are expected to be higher in the earlier years and decline over time as liquidations slow down.

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

Selected metrics

As of or for the year ended December 31, (in billions)	2010	2009	2008
Loans excluding PCI loans[(a)]			
End-of-period loans owned:			
Home equity	**$ 88.4**	$ 101.4	$ 114.3
Prime mortgage	**41.7**	47.5	58.7
Subprime mortgage	**11.3**	12.5	15.3
Option ARMs	**8.1**	8.5	9.0
Other	**0.8**	0.7	0.9
Total end-of-period loans owned	**$ 150.3**	$ 170.6	$ 198.2
Average loans owned:			
Home equity	**$ 94.8**	$ 108.3	$ 99.9
Prime mortgage	**44.9**	53.4	40.7
Subprime mortgage	**12.7**	13.9	15.3
Option ARMs	**8.5**	8.9	2.3
Other	**1.0**	0.8	0.9
Total average loans owned	**$ 161.9**	$ 185.3	$ 159.1
PCI loans[(a)]			
End-of-period loans owned:			
Home equity	**$ 24.5**	$ 26.5	$ 28.6
Prime mortgage	**17.3**	19.7	21.8
Subprime mortgage	**5.4**	6.0	6.8
Option ARMs	**25.6**	29.0	31.6
Total end-of-period loans owned	**$ 72.8**	$ 81.2	$ 88.8
Average loans owned:			
Home equity	**$ 25.5**	$ 27.6	$ 7.1
Prime mortgage	**18.5**	20.8	5.4
Subprime mortgage	**5.7**	6.3	1.7
Option ARMs	**27.2**	30.5	8.0
Total average loans owned	**$ 76.9**	$ 85.2	$ 22.2
Total Real Estate Portfolios			
End-of-period loans owned:			
Home equity	**$ 112.9**	$ 127.9	$ 142.9
Prime mortgage	**59.0**	67.2	80.5
Subprime mortgage	**16.7**	18.5	22.1
Option ARMs	**33.7**	37.5	40.6
Other	**0.8**	0.7	0.9
Total end-of-period loans owned	**$ 223.1**	$ 251.8	$ 287.0
Average loans owned:			
Home equity	**$ 120.3**	$ 135.9	$ 107.0
Prime mortgage	**63.4**	74.2	46.1
Subprime mortgage	**18.4**	20.2	17.0
Option ARMs	**35.7**	39.4	10.3
Other	**1.0**	0.8	0.9
Total average loans owned	**$ 238.8**	$ 270.5	$ 181.3
Average assets	**$ 227.0**	$ 263.6	$ 179.3
Home equity origination volume	**1.2**	2.4	16.3

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

Credit data and quality statistics

As of or for the year ended December 31, (in millions, except ratios)	2010	2009	2008
Net charge-offs excluding PCI loans[(a)]:			
Home equity	**$ 3,444**	$ 4,682	$ 2,391
Prime mortgage	**1,475**	1,872	521
Subprime mortgage	**1,374**	1,648	933
Option ARMs	**98**	63	—
Other	**59**	78	49
Total net charge-offs	**$ 6,450**	$ 8,343	$ 3,894
Net charge-off rate excluding PCI loans[(a)]:			
Home equity	**3.63%**	4.32%	2.39%
Prime mortgage	**3.29**	3.51	1.28
Subprime mortgage	**10.82**	11.86	6.10
Option ARMs	**1.15**	0.71	—
Other	**5.90**	9.75	5.44
Total net charge-off rate excluding PCI loans	**3.98**	4.50	2.45
Net charge-off rate – reported:			
Home equity	**2.86%**	3.45%	2.23%
Prime mortgage	**2.33**	2.52	1.13
Subprime mortgage	**7.47**	8.16	5.49
Option ARMs	**0.27**	0.16	—
Other	**5.90**	9.75	5.44
Total net charge-off rate – reported	**2.70**	3.08	2.15
30+ day delinquency rate excluding PCI loans[(b)]	**6.45%**	7.73%	4.97%
Allowance for loan losses	**$14,659**	$ 12,752	$ 7,510
Nonperforming assets[(c)]	**8,424**	10,347	7,787
Allowance for loan losses to ending loans retained	**6.57%**	5.06%	2.62%
Allowance for loan losses to ending loans retained excluding PCI loans[(a)]	**6.47**	6.55	3.79

(a) Excludes the impact of PCI loans that were acquired as part of the Washington Mutual transaction. These loans were accounted for at fair value on the acquisition date, which incorporated management's estimate, as of that date, of credit losses over the remaining life of the portfolio. An allowance for loan losses of $4.9 billion and $1.6 billion was recorded for these loans at December 31, 2010 and 2009, respectively, which has also been excluded from the applicable ratios. No allowance for loan losses was recorded for these loans at December 31, 2008. To date, no charge-offs have been recorded for these loans.

(b) The delinquency rate for PCI loans was 28.20%, 27.62% and 17.89% at December 31, 2010, 2009 and 2008, respectively.

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

Card Services is one of the nation's largest credit card issuers, with over $137 billion in loans and over 90 million open accounts. Customers used Chase cards to meet $313 billion of their spending needs in 2010.

Chase continues to innovate, despite a very difficult business environment, offering products and services such as Blueprint, Chase Freedom, Ultimate Rewards, Chase Sapphire and Ink from Chase, and earning a market leadership position in building loyalty and rewards programs. Through its merchant acquiring business, Chase Paymentech Solutions, CS is a global leader in payment processing and merchant acquiring.

Selected income statement data – managed basis[a]

Year ended December 31, (in millions, except ratios)	2010	2009	2008
Revenue			
Credit card income	**$ 3,513**	$ 3,612	$ 2,768
All other income[b]	**(236)**	(692)	(49)
Noninterest revenue	**3,277**	2,920	2,719
Net interest income	**13,886**	17,384	13,755
Total net revenue	**17,163**	20,304	16,474
Provision for credit losses	**8,037**	18,462	10,059
Noninterest expense			
Compensation expense	**1,291**	1,376	1,127
Noncompensation expense	**4,040**	3,490	3,356
Amortization of intangibles	**466**	515	657
Total noninterest expense	**5,797**	5,381	5,140
Income/(loss) before income tax expense/(benefit)	**3,329**	(3,539)	1,275
Income tax expense/(benefit)	**1,255**	(1,314)	495
Net income/(loss)	**$ 2,074**	$ (2,225)	$ 780
Memo: Net securitization income/(loss)	**NA**	$ (474)	$ (183)
Financial ratios			
ROE	**14%**	(15)%	5%
Overhead ratio	**34**	27	31

(a) Effective January 1, 2010, the Firm adopted accounting guidance related to VIEs. As a result of the consolidation of the securitization trusts, reported and managed basis are equivalent for periods beginning after January 1, 2010. See Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 64–66 of this Annual Report for additional information. Also, for further details regarding the Firm's application and impact of the VIE guidance, see Note 16 on pages 244–259 of this Annual Report.
(b) Includes the impact of revenue sharing agreements with other JPMorgan Chase business segments. For periods prior to January 1, 2010, net securitization income/(loss) is also included.
NA: Not applicable

2010 compared with 2009

Net income was $2.1 billion, compared with a net loss of $2.2 billion in the prior year. The improved results were driven by a lower provision for credit losses, partially offset by lower net revenue.

End-of-period loans were $137.7 billion, a decrease of $25.7 billion, or 16%, from the prior year. Average loans were $144.4 billion, a decrease of $28.0 billion, or 16%, from the prior year. The declines in both end-of-period and average loans were due to a decline in lower-yielding promotional balances and the Washington Mutual portfolio runoff.

Net revenue was $17.2 billion, a decrease of $3.1 billion, or 15%, from the prior year. Net interest income was $13.9 billion, down by $3.5 billion, or 20%. The decrease in net interest income was driven by lower average loan balances, the impact of legislative changes, and a decreased level of fees. These decreases were offset partially by lower revenue reversals associated with lower charge-offs. Noninterest revenue was $3.3 billion, an increase of $357 million, or 12%, driven by the prior-year write-down of securitization interests, offset partially by lower revenue from fee-based products.

The provision for credit losses was $8.0 billion, compared with $18.5 billion in the prior year. The current-year provision reflected lower net charge-offs and a reduction of $6.0 billion to the allowance for loan losses due to lower estimated losses. The prior-year provision included an addition of $2.4 billion to the allowance for loan losses. Including the Washington Mutual portfolio, the net charge-off rate was 9.72%, including loans held-for-sale, up from 9.33% in the prior year; and the 30-day delinquency rate was 4.07%, down from 6.28% in the prior year. Excluding the Washington Mutual portfolio, the net charge-off rate was 8.72%, including loans held-for-sale, up from 8.45% in the prior year; and the 30-day delinquency rate was 3.66%, down from 5.52% in the prior year.

Noninterest expense was $5.8 billion, an increase of $416 million, or 8%, due to higher marketing expense.

Credit Card Legislation

In May 2009, the CARD Act was enacted. Management estimates that the total reduction in net income resulting from the CARD Act is approximately $750 million annually. The run-rate impact of this reduction in net income is reflected in results as of the end of the fourth quarter of 2010. The full year impact on 2010 net income was approximately $300 million.

The most significant effects of the CARD Act include: (a) the inability to change the pricing of existing balances; (b) the allocation of customer payments above the minimum payment to the existing balance with the highest annual percentage rate ("APR"); (c) the requirement that customers opt-in in order to receive, for a fee, overlimit protection that permits an authorized transaction over their credit limit; (d) the requirement that statements must be mailed or delivered not later than 21 days before the payment due date; (e) the limiting of the amount of penalty fees that can be assessed; and (f) the requirement to review customer accounts for potential interest rate reductions in certain circumstances.

As a result of the CARD Act, CS has implemented certain changes to its business practices to manage its inability to price loans to customers at rates that are commensurate with their risk over time. These changes include: (a) selectively increasing pricing; (b) reducing the volume and duration of low-rate promotional pricing offered to customers; and (c) reducing the amount of credit that is granted to certain new and existing customers.

2009 compared with 2008

The following discussion of CS's financial results reflects the acquisition of Washington Mutual's credit cards operations as a result of the Washington Mutual transaction on September 25, 2008, and the dissolution of the Chase Paymentech Solutions joint venture on November 1, 2008. See Note 2 on pages 166–170 of this Annual Report for more information concerning these transactions.

Card Services reported a net loss of $2.2 billion, compared with net income of $780 million in the prior year. The decrease was driven by a higher provision for credit losses, partially offset by higher total net revenue.

End-of-period managed loans were $163.4 billion, a decrease of $26.9 billion, or 14%, from the prior year, reflecting lower charge volume and a higher level of charge-offs. Average managed loans were $172.4 billion, an increase of $9.5 billion, or 6%, from the prior year, primarily due to the impact of the Washington Mutual transaction. Excluding the impact of the Washington Mutual transaction, end-of-period and average managed loans for 2009 were $143.8 billion and $148.8 billion, respectively.

Managed total net revenue was $20.3 billion, an increase of $3.8 billion, or 23%, from the prior year. Net interest income was $17.4 billion, up by $3.6 billion, or 26%, from the prior year, driven by wider loan spreads and the impact of the Washington Mutual transaction. These benefits were offset partially by higher revenue reversals associated with higher charge-offs, a decreased level of fees, lower average managed loan balances, and the impact of legislative changes. Noninterest revenue was $2.9 billion, an increase of $201 million, or 7%, from the prior year. The increase was driven by higher merchant servicing revenue related to the dissolution of the Chase Paymentech Solutions joint venture and the impact of the Washington Mutual transaction, partially offset by a larger write-down of securitization interests.

The managed provision for credit losses was $18.5 billion, an increase of $8.4 billion from the prior year, reflecting a higher level of charge-offs and an addition of $2.4 billion to the allowance for loan losses, reflecting continued weakness in the credit environment. The managed net charge-off rate was 9.33%, up from 5.01% in the prior year. The 30-day managed delinquency rate was 6.28%, up from 4.97% in the prior year. Excluding the impact of the Washington Mutual transaction, the managed net charge-off rate was 8.45%, and the 30-day managed delinquency rate was 5.52%.

Noninterest expense was $5.4 billion, an increase of $241 million, or 5%, from the prior year, due to the dissolution of the Chase Paymentech Solutions joint venture and the impact of the Washington Mutual transaction, partially offset by lower marketing expense.

Selected metrics As of or for the year ended December 31, (in millions, except headcount, ratios and where otherwise noted)	**2010**	2009	2008
Financial ratios[(a)]			
Percentage of average outstandings:			
Net interest income	**9.62%**	10.08%	8.45%
Provision for credit losses	**5.57**	10.71	6.18
Noninterest revenue	**2.27**	1.69	1.67
Risk adjusted margin[(b)]	**6.32**	1.07	3.94
Noninterest expense	**4.02**	3.12	3.16
Pretax income/(loss) (ROO)[(c)]	**2.31**	(2.05)	0.78
Net income/(loss)	**1.44**	(1.29)	0.48
Business metrics			
Sales volume (in billions)	**$ 313.0**	$ 294.1	$ 298.5
New accounts opened	**11.3**	10.2	14.9
Open accounts	**90.7**	93.3	109.5
Merchant acquiring business[(d)]			
Bank card volume (in billions)	**$ 469.3**	$ 409.7	$ 713.9
Total transactions (in billions)	**20.5**	18.0	21.4
Selected balance sheet data (period-end)			
Loans:			
Loans on balance sheets	**$ 137,676**	$ 78,786	$ 104,746
Securitized loans[(a)]	**NA**	84,626	85,571
Total loans	**137,676**	163,412	190,317
Equity	**15,000**	15,000	15,000
Selected balance sheet data (average)			
Managed assets	**$ 145,750**	$ 192,749	$ 173,711
Loans:			
Loans on balance sheets	**144,367**	87,029	83,293
Securitized loans[(a)]	**NA**	85,378	79,566
Total average loans	**144,367**	172,407	162,859
Equity	**$ 15,000**	$ 15,000	$ 14,326
Headcount	**20,739**	22,676	24,025
Credit quality statistics[(a)]			
Net charge-offs	**$ 14,037**	$ 16,077	$ 8,159
Net charge-off rate[(e)(f)]	**9.73%**	9.33%	5.01%
Delinquency rates[(a)(e)]			
30+ day	**4.07**	6.28	4.97
90+ day	**2.22**	3.59	2.34
Allowance for loan losses[(a)(g)]	**$ 11,034**	$ 9,672	$ 7,692
Allowance for loan losses to period-end loans[(a)(g)(h)(i)]	**8.14%**	12.28%	7.34%
Key stats – Washington Mutual only[(j)]			
Loans	**$ 13,733**	$ 19,653	$ 28,250
Average loans	**16,055**	23,642	6,964
Net interest income[(k)]	**15.66%**	17.11%	14.87%
Risk adjusted margin[(b)(k)]	**10.42**	(0.93)	4.18
Net charge-off rate[(l)]	**18.73**	18.79	12.09
30+ day delinquency rate[(l)]	**7.74**	12.72	9.14
90+ day delinquency rate[(l)]	**4.40**	7.76	4.39
Key stats – excluding Washington Mutual			
Loans	**$ 123,943**	$ 143,759	$ 162,067
Average loans	**128,312**	148,765	155,895
Net interest income[(k)]	**8.86%**	8.97%	8.16%
Risk adjusted margin[(b)(k)]	**5.81**	1.39	3.93
Net charge-off rate	**8.72**	8.45	4.92
30+ day delinquency rate	**3.66**	5.52	4.36
90+ day delinquency rate	**1.98**	3.13	2.09

(a) Effective January 1, 2010, the Firm adopted accounting guidance related to VIEs. As a result of the consolidation of the credit card securitization trusts, reported and managed basis relating to credit card securitizations are equivalent for periods beginning after January 1, 2010. For further details regarding the Firm's application and impact of the guidance, see Note 16 on pages 244–259 of this Annual Report.
(b) Represents total net revenue less provision for credit losses.

(c) Pretax return on average managed outstandings.
(d) The Chase Paymentech Solutions joint venture was dissolved effective November 1, 2008. JPMorgan Chase retained approximately 51% of the business and operates the business under the name Chase Paymentech Solutions. For the period January 1 through October 31, 2008, the data presented represents activity for the Chase Paymentech Solutions joint venture, and for the period November 1, 2008, through December 31, 2010, the data presented represents activity for Chase Paymentech Solutions.
(e) Results reflect the impact of purchase accounting adjustments related to the Washington Mutual transaction and the consolidation of the WMMT in the second quarter of 2009. The delinquency rates as of December 31, 2010, were not affected.
(f) Total average loans includes loans held-for-sale of $148 million for full year 2010. These amounts are excluded when calculating the net charge-off rate. The net charge-off rate including loans held-for-sale, which is a non-GAAP financial measure, would have been 9.72% for the full year 2010.
(g) Based on loans on the Consolidated Balance Sheets.
(h) Includes $1.0 billion of loans at December 31, 2009, held by the WMMT, which were consolidated onto the Card Services balance sheet at fair value during the second quarter of 2009. No allowance for loan losses was recorded for these loans as of December 31, 2009. Excluding these loans, the allowance for loan losses to period-end loans would have been 12.43% as of December 31, 2009.
(i) Total period-end loans includes loans held-for-sale of $2.2 billion at December 31, 2010. No allowance for loan losses was recorded for these loans as of December 31, 2010. The loans held-for-sale are excluded when calculating the allowance for loan losses to period-end loans.
(j) Statistics are only presented for periods after September 25, 2008, the date of the Washington Mutual transaction.
(k) As a percentage of average managed outstandings.
(l) Excludes the impact of purchase accounting adjustments related to the Washington Mutual transaction and the consolidation of the WMMT in the second quarter of 2009.
NA: Not applicable

Reconciliation from reported basis to managed basis

The financial information presented in the following table reconciles reported basis and managed basis to disclose the effect of securitizations reported in 2009 and 2008. Effective January 1, 2010, the Firm adopted accounting guidance related to VIEs. As a result of the consolidation of the credit card securitization trusts, reported and managed basis relating to credit card securitizations are equivalent for periods beginning after January 1, 2010. For further details regarding the Firm's application and impact of the guidance, see Note 16 on pages 244–259 of this Annual Report.

Year ended December 31, (in millions, except ratios)	2010	2009	2008
Income statement data			
Credit card income			
Reported	**$ 3,513**	$ 5,106	$ 6,082
Securitization adjustments	**NA**	(1,494)	(3,314)
Managed credit card income	**$ 3,513**	$ 3,612	$ 2,768
Net interest income			
Reported	**$ 13,886**	$ 9,447	$ 6,838
Securitization adjustments	**NA**	7,937	6,917
Managed net interest income	**$ 13,886**	$ 17,384	$ 13,755
Total net revenue			
Reported	**$ 17,163**	$ 13,861	$ 12,871
Securitization adjustments	**NA**	6,443	3,603
Managed total net revenue	**$ 17,163**	$ 20,304	$ 16,474
Provision for credit losses			
Reported	**$ 8,037**	$ 12,019	$ 6,456
Securitization adjustments	**NA**	6,443	3,603
Managed provision for credit losses	**$ 8,037**	$ 18,462	$ 10,059
Balance sheet – average balances			
Total average assets			
Reported	**$145,750**	$ 110,516	$ 96,807
Securitization adjustments	**NA**	82,233	76,904
Managed average assets	**$145,750**	$ 192,749	$ 173,711
Credit quality statistics			
Net charge-offs			
Reported	**$ 14,037**	$ 9,634	$ 4,556
Securitization adjustments	**NA**	6,443	3,603
Managed net charge-offs	**$ 14,037**	$ 16,077	$ 8,159
Net charge-off rates			
Reported	**9.73%**	11.07%	5.47%
Securitized	**NA**	7.55	4.53
Managed net charge-off rate	**9.73**	9.33	5.01

NA: Not applicable

The following are brief descriptions of selected business metrics within Card Services.

- **Sales volume** – Dollar amount of cardmember purchases, net of returns.
- **Open accounts** – Cardmember accounts with charging privileges.
- **Merchant acquiring business** – A business that processes bank card transactions for merchants.
- **Bank card volume** – Dollar amount of transactions processed for merchants.
- **Total transactions** – Number of transactions and authorizations processed for merchants.

COMMERCIAL BANKING

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

Commercial Banking is divided into four primary client segments: Middle Market Banking, Commercial Term Lending, Mid-Corporate Banking, and Real Estate Banking. Middle Market Banking covers corporate, municipal, financial institution and not-for-profit clients, with annual revenue generally ranging between $10 million and $500 million. Mid-Corporate Banking covers clients with annual revenue generally ranging between $500 million and $2 billion and focuses on clients that have broader investment banking needs. Commercial Term Lending primarily provides term financing to real estate investors/owners for multi-family properties as well as financing office, retail and industrial properties. Real Estate Banking provides full-service banking to investors and developers of institutional-grade real estate properties.

Selected income statement data

Year ended December 31, (in millions)	**2010**	2009	2008
Revenue			
Lending- and deposit-related fees	**$ 1,099**	$ 1,081	$ 854
Asset management, administration and commissions	**144**	140	113
All other income[(a)]	**957**	596	514
Noninterest revenue	**2,200**	1,817	1,481
Net interest income	**3,840**	3,903	3,296
Total net revenue[(b)]	**6,040**	5,720	4,777
Provision for credit losses	**297**	1,454	464
Noninterest expense			
Compensation expense	**820**	776	692
Noncompensation expense	**1,344**	1,359	1,206
Amortization of intangibles	**35**	41	48
Total noninterest expense	**2,199**	2,176	1,946
Income before income tax expense	**3,544**	2,090	2,367
Income tax expense	**1,460**	819	928
Net income	**$ 2,084**	$ 1,271	$1,439
Revenue by product:			
Lending	**$ 2,749**	$ 2,663	$1,743
Treasury services	**2,632**	2,642	2,648
Investment banking	**466**	394	334
Other[(c)]	**193**	21	52
Total Commercial Banking revenue	**$ 6,040**	$ 5,720	$4,777

Selected income statement data

Year ended December 31, (in millions, except ratios)	**2010**	2009	2008
IB revenue, gross[(d)]	**$ 1,335**	$ 1,163	$ 966
Revenue by client segment:			
Middle Market Banking	**$ 3,060**	$ 3,055	$ 2,939
Commercial Term Lending[(e)]	**1,023**	875	243
Mid-Corporate Banking	**1,154**	1,102	921
Real Estate Banking[(e)]	**460**	461	413
Other[(e)(f)]	**343**	227	261
Total Commercial Banking revenue	**$ 6,040**	$ 5,720	$ 4,777
Financial ratios			
ROE	**26%**	16%	20%
Overhead ratio	**36**	38	41

(a) CB client revenue from investment banking products and commercial card transactions is included in all other income.
(b) Total net revenue included tax-equivalent adjustments from income tax credits related to equity investments in designated community development entities that provide loans to qualified businesses in low-income communities as well as tax-exempt income from municipal bond activity of $238 million, $170 million and $125 million for the years ended December 31, 2010, 2009 and 2008, respectively.
(c) Other product revenue primarily includes tax-equivalent adjustments generated from Community Development Banking segment activity and certain income derived from principal transactions.
(d) Represents the total revenue related to investment banking products sold to CB clients.
(e) 2008 results reflect the partial year impact of the Washington Mutual transaction.
(f) Other primarily includes revenue related to the Community Development Banking and Chase Capital segments.

2010 compared with 2009

Record net income was $2.1 billion, an increase of $813 million, or 64%, from the prior year. The increase was driven by a reduction in the provision for credit losses and higher net revenue.

Net revenue was a record $6.0 billion, up by $320 million, or 6%, compared with the prior year. Net interest income was $3.8 billion, down by $63 million, or 2%, driven by spread compression on liability products and lower loan balances, predominantly offset by growth in liability balances and wider loan spreads. Noninterest revenue was $2.2 billion, an increase of $383 million, or 21%, from the prior year, reflecting higher net gains from asset sales, higher lending-related fees, an improvement in the market conditions impacting the value of investments held at fair value, higher investment banking fees and increased community development investment-related revenue.

On a client segment basis, revenue from Middle Market Banking was $3.1 billion, flat compared with the prior year. Revenue from Commercial Term Lending was $1.0 billion, an increase of $148 million, or 17%, and includes the impact of the purchase of a $3.5 billion loan portfolio during the third quarter of 2010 and higher net gains from asset sales. Mid-Corporate Banking revenue was $1.2 billion, an increase of $52 million, or 5%, compared with the prior year due to wider loan spreads, higher lending-related fees and higher investment banking fees offset partially by reduced loan balances. Real Estate Banking revenue was $460 million, flat compared with the prior year.

The provision for credit losses was $297 million, compared with $1.5 billion in the prior year. The decline was mainly due to stabilization in the credit quality of the loan portfolio and refinements to credit loss estimates. Net charge-offs were $909 million (0.94% net charge-off rate), compared with $1.1 billion (1.02% net charge-off rate) in the prior year. The allowance for loan losses to period-end loans retained was 2.61%, down from 3.12% in the prior year. Nonaccrual loans were $2.0 billion, a decrease of $801 million, or 29%, from the prior year.

Noninterest expense was $2.2 billion, an increase of $23 million, or 1%, compared with the prior year reflecting higher headcount-related expense partially offset by lower volume-related expense.

2009 compared with 2008

The following discussion of CB's results reflects the September 25, 2008 acquisition of the commercial banking operations of Washington Mutual from the FDIC. The Washington Mutual transaction added approximately $44.5 billion in loans to the Commercial Term Lending, Real Estate Banking, and Other client segments in Commercial Banking.

Net income was $1.3 billion, a decrease of $168 million, or 12%, from the prior year, as higher provision for credit losses and noninterest expense was partially offset by higher net revenue, reflecting the impact of the Washington Mutual transaction.

Record net revenue of $5.7 billion increased $943 million, or 20%, from the prior year. Net interest income of $3.9 billion increased $607 million, or 18%, driven by the impact of the Washington Mutual transaction. Noninterest revenue was $1.8 billion, an increase of $336 million, or 23%, from the prior year, reflecting higher lending- and deposit-related fees and higher investment banking fees and other income.

On a client segment basis, revenue from Middle Market Banking was $3.1 billion, an increase of $116 million, or 4%, from the prior year due to higher liability balances, a shift to higher-spread liability products, wider loan spreads, higher lending- and deposit-related fees, and higher other income, partially offset by a narrowing of spreads on liability products and reduced loan balances. Revenue from Commercial Term Lending (a new client segment acquired in the Washington Mutual transaction encompassing multi-family and commercial mortgage loans) was $875 million, an increase of $632 million. Mid-Corporate Banking revenue was $1.1 billion, an increase of $181 million, or 20%, driven by higher investment banking fees, increased loan spreads, and higher lending- and deposit-related fees. Real Estate Banking revenue was $461 million, an increase of $48 million, or 12%, due to the impact of the Washington Mutual transaction.

The provision for credit losses was $1.5 billion, compared with $464 million in the prior year, reflecting continued weakness in the credit environment, predominantly in real estate-related segments. Net charge-offs were $1.1 billion (1.02% net charge-off rate), compared with $288 million (0.35% net charge-off rate) in the prior year. The allowance for loan losses to end-of-period loans retained was 3.12%, up from 2.45% in the prior year. Nonperforming loans were $2.8 billion, an increase of $1.8 billion from the prior year.

Noninterest expense was $2.2 billion, an increase of $230 million, or 12%, from the prior year, due to the impact of the Washington Mutual transaction and higher FDIC insurance premiums.

Selected metrics

Year ended December 31, (in millions, except headcount and ratio data)	**2010**	2009	2008
Selected balance sheet data (period-end):			
Loans:			
Loans retained	**$ 97,900**	$ 97,108	$ 115,130
Loans held-for-sale and loans at fair value	**1,018**	324	295
Total loans	**$ 98,918**	$ 97,432	$ 115,425
Equity	**8,000**	8,000	8,000
Selected balance sheet data (average):			
Total assets	**$ 133,654**	$ 135,408	$ 114,299
Loans:			
Loans retained	**$ 96,584**	$ 106,421	$ 81,931
Loans held-for-sale and loans at fair value	**422**	317	406
Total loans	**$ 97,006**	$ 106,738	$ 82,337
Liability balances[(a)]	**138,862**	113,152	103,121
Equity	**8,000**	8,000	7,251
Average loans by client segment:			
Middle Market Banking	**$ 35,059**	$ 37,459	$ 42,193
Commercial Term Lending[(b)]	**36,978**	36,806	9,310
Mid-Corporate Banking	**11,926**	15,951	16,297
Real Estate Banking[(b)]	**9,344**	12,066	9,008
Other[(b)(c)]	**3,699**	4,456	5,529
Total Commercial Banking loans	**$ 97,006**	$ 106,738	$ 82,337
Headcount	**4,881**	4,151	5,206
Credit data and quality statistics:			
Net charge-offs	**$ 909**	$ 1,089	$ 288
Nonaccrual loans:			
Nonaccrual loans retained[(d)]	**1,964**	2,764	1,026
Nonaccrual loans held-for-sale and loans held at fair value	**36**	37	—
Total nonaccrual loans	**2,000**	2,801	1,026
Assets acquired in loan satisfactions	**197**	188	116
Total nonperforming assets	**2,197**	2,989	1,142
Allowance for credit losses:			
Allowance for loan losses	**2,552**	3,025	2,826
Allowance for lending-related commitments	**209**	349	206
Total allowance for credit losses	**2,761**	3,374	3,032
Net charge-off rate	**0.94%**	1.02%	0.35%
Allowance for loan losses to period-end loans retained	**2.61**	3.12	2.45
Allowance for loan losses to average loans retained	**2.64**	2.84	3.04[(e)]
Allowance for loan losses to nonaccrual loans retained	**130**	109	275
Nonaccrual loans to total period-end loans	**2.02**	2.87	0.89
Nonaccrual loans to total average loans	**2.06**	2.62	1.10[(e)]

(a) Liability balances include deposits, as well as deposits that are swept to on–balance sheet liabilities (e.g., commercial paper, federal funds purchased, time deposits and securities loaned or sold under repurchase agreements) as part of customer cash management programs.

(b) 2008 results reflect the partial year impact of the Washington Mutual transaction.

(c) Other primarily includes lending activity within the Community Development Banking and Chase Capital segments.

(d) Allowance for loan losses of $340 million, $581 million and $208 million were held against nonaccrual loans retained for the periods ended December 31, 2010, 2009, and 2008, respectively.

(e) Average loans in the calculation of this ratio were adjusted to include $44.5 billion of loans acquired in the Washington Mutual transaction as if the transaction occurred on July 1, 2008. Excluding this adjustment, the unadjusted allowance for loan losses to average loans retained and nonaccrual loans to total average loans ratios would have been 3.45% and 1.25%, respectively, for the period ended December 31, 2008.

TREASURY & SECURITIES SERVICES

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

Selected income statement data

Year ended December 31, (in millions, except ratio data)	2010	2009	2008
Revenue			
Lending- and deposit-related fees	**$ 1,256**	$ 1,285	$ 1,146
Asset management, administration and commissions	**2,697**	2,631	3,133
All other income	**804**	831	917
Noninterest revenue	**4,757**	4,747	5,196
Net interest income	**2,624**	2,597	2,938
Total net revenue	**7,381**	7,344	8,134
Provision for credit losses	**(47)**	55	82
Credit reimbursement to IB[(a)]	**(121)**	(121)	(121)
Noninterest expense			
Compensation expense	**2,734**	2,544	2,602
Noncompensation expense	**2,790**	2,658	2,556
Amortization of intangibles	**80**	76	65
Total noninterest expense	**5,604**	5,278	5,223
Income before income tax expense	**1,703**	1,890	2,708
Income tax expense	**624**	664	941
Net income	**$ 1,079**	$ 1,226	$ 1,767
Revenue by business			
Treasury Services	**$ 3,698**	$ 3,702	$ 3,779
Worldwide Securities Services	**3,683**	3,642	4,355
Total net revenue	**$ 7,381**	$ 7,344	$ 8,134
Financial ratios			
ROE	**17%**	25%	47%
Overhead ratio	**76**	72	64
Pretax margin ratio	**23**	26	33

As of or for the year ended December 31, (in millions, except headcount)	2010	2009	2008
Selected balance sheet data (period-end)			
Loans[(b)]	**$ 27,168**	$ 18,972	$ 24,508
Equity	**6,500**	5,000	4,500
Selected balance sheet data (average)			
Total assets	**$ 42,494**	$ 35,963	$ 54,563
Loans[(b)]	**23,271**	18,397	26,226
Liability balances	**248,451**	248,095	279,833
Equity	**6,500**	5,000	3,751
Headcount	**29,073**	26,609	27,070

(a) IB credit portfolio group manages certain exposures on behalf of clients shared with TSS. TSS reimburses IB for a portion of the total cost of managing the credit portfolio. IB recognizes this credit reimbursement as a component of noninterest revenue.

(b) Loan balances include wholesale overdrafts, commercial card and trade finance loans.

2010 compared with 2009

Net income was $1.1 billion, a decrease of $147 million, or 12%, from the prior year. These results reflected higher noninterest expense partially offset by the benefit from the provision for credit losses and higher net revenue.

Net revenue was $7.4 billion, an increase of $37 million, or 1%, from the prior year. Treasury Services net revenue was $3.7 billion, relatively flat compared with the prior year as lower spreads on liability products were offset by higher trade loan and card product volumes. Worldwide Securities Services net revenue was $3.7 billion, relatively flat compared with the prior year as higher market levels and net inflows of assets under custody were offset by lower spreads in securities lending, lower volatility on foreign exchange, and lower balances on liability products.

TSS generated firmwide net revenue of $10.3 billion, including $6.6 billion by Treasury Services; of that amount, $3.7 billion was recorded in Treasury Services, $2.6 billion in Commercial Banking and $247 million in other lines of business. The remaining $3.7 billion of firmwide net revenue was recorded in Worldwide Securities Services.

The provision for credit losses was a benefit of $47 million, compared with an expense of $55 million in the prior year. The decrease in the provision expense was primarily due to an improvement in credit quality.

Noninterest expense was $5.6 billion, up $326 million, or 6%, from the prior year. The increase was driven by continued investment in new product platforms, primarily related to international expansion and higher performance-based compensation.

2009 compared with 2008

Net income was $1.2 billion, a decrease of $541 million, or 31%, from the prior year, driven by lower net revenue.

Net revenue was $7.3 billion, a decrease of $790 million, or 10%, from the prior year. Worldwide Securities Services net revenue was $3.6 billion, a decrease of $713 million, or 16%. The decrease was driven by lower securities lending balances, primarily as a result of declines in asset valuations and demand, lower balances and spreads on liability products, and the effect of market depreciation on certain custody assets. Treasury Services net revenue was $3.7 billion, a decrease of $77 million, or 2%, reflecting spread compression on deposit products, offset by higher trade revenue driven by wider spreads and growth across cash management and card product volumes.

TSS generated firmwide net revenue of $10.2 billion, including $6.6 billion of net revenue in Treasury Services; of that amount, $3.7 billion was recorded in the Treasury Services business, $2.6 billion was recorded in the Commercial Banking business, and $245 million was recorded in other lines of business. The remaining $3.6 billion of net revenue was recorded in Worldwide Securities Services.

The provision for credit losses was $55 million, a decrease of $27 million from the prior year.

Noninterest expense was $5.3 billion, an increase of $55 million from the prior year. The increase was driven by higher FDIC insurance premiums, predominantly offset by lower headcount-related expense.

Selected metrics

Year ended December 31, (in millions, except ratio data)	**2010**	2009	2008
TSS firmwide disclosures			
Treasury Services revenue – reported	**$ 3,698**	$ 3,702	$ 3,779
Treasury Services revenue reported in CB	**2,632**	2,642	2,648
Treasury Services revenue reported in other lines of business	**247**	245	299
Treasury Services firmwide revenue[a]	**6,577**	6,589	6,726
Worldwide Securities Services revenue	**3,683**	3,642	4,355
Treasury & Securities Services firmwide revenue[a]	**$ 10,260**	$ 10,231	$ 11,081
Treasury Services firmwide liability balances (average)[b]	**$ 308,028**	$ 274,472	$ 264,195
Treasury & Securities Services firmwide liability balances (average)[b]	**387,313**	361,247	382,947
TSS firmwide financial ratios			
Treasury Services firmwide overhead ratio[c]	**55%**	53%	50%
Treasury & Securities Services firmwide overhead ratio[c]	**65**	62	57

Selected metrics

As of or for the year ended December 31, (in millions, except ratio data and where otherwise noted)	**2010**	2009	2008
Firmwide business metrics			
Assets under custody (in billions)	**$ 16,120**	$ 14,885	$ 13,205
Number of:			
U.S.$ ACH transactions originated	**3,892**	3,896	4,000
Total U.S.$ clearing volume (in thousands)	**122,123**	113,476	115,742
International electronic funds transfer volume (in thousands)[d]	**232,453**	193,348	171,036
Wholesale check volume	**2,060**	2,184	2,408
Wholesale cards issued (in thousands)[e]	**29,785**	27,138	22,784
Credit data and quality statistics			
Net charge-offs/(recoveries)	**$ 1**	$ 19	$ (2)
Nonaccrual loans	**12**	14	30
Allowance for credit losses:			
Allowance for loan losses	**65**	88	74
Allowance for lending-related commitments	**51**	84	63
Total allowance for credit losses	**116**	172	137
Net charge-off/(recovery) rate	**—%**	0.10%	(0.01)%
Allowance for loan losses to period-end loans	**0.24**	0.46	0.30
Allowance for loan losses to average loans	**0.28**	0.48	0.28
Allowance for loan losses to nonaccrual loans	**NM**	NM	247
Nonaccrual loans to period-end loans	**0.04**	0.07	0.12
Nonaccrual loans to average loans	**0.05**	0.08	0.11

(a) TSS firmwide revenue includes foreign exchange ("FX") revenue recorded in TSS and FX revenue associated with TSS customers who are FX customers of IB. However, some of the FX revenue associated with TSS customers who are FX customers of IB is not included in TS and TSS firmwide revenue. The total FX revenue generated was $636 million, $661 million and $880 million, for the years ended December 31, 2010, 2009 and 2008, respectively.

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

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

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

(e) Wholesale cards issued and outstanding include U.S. domestic commercial, stored value, prepaid and government electronic benefit card products.

ASSET MANAGEMENT

Asset Management, with assets under supervision of $1.8 trillion, is a global leader in investment and wealth management. AM clients include institutions, retail investors and high-net-worth individuals in every major market throughout the world. AM offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity, including money market instruments and bank deposits. AM also provides trust and estate, banking and brokerage services to high-net-worth clients, and retirement services for corporations and individuals. The majority of AM's client assets are in actively managed portfolios.

Selected income statement data

Year ended December 31, (in millions, except ratios)	2010	2009	2008
Revenue			
Asset management, administration and commissions	**$ 6,374**	$ 5,621	$ 6,004
All other income	**1,111**	751	62
Noninterest revenue	**7,485**	6,372	6,066
Net interest income	**1,499**	1,593	1,518
Total net revenue	**8,984**	7,965	7,584
Provision for credit losses	**86**	188	85
Noninterest expense			
Compensation expense	**3,763**	3,375	3,216
Noncompensation expense	**2,277**	2,021	2,000
Amortization of intangibles	**72**	77	82
Total noninterest expense	**6,112**	5,473	5,298
Income before income tax expense	**2,786**	2,304	2,201
Income tax expense	**1,076**	874	844
Net income	**$ 1,710**	$ 1,430	$ 1,357
Revenue by client segment			
Private Banking[(a)]	**$ 4,860**	$ 4,320	$ 4,189
Institutional	**2,180**	2,065	1,775
Retail	**1,944**	1,580	1,620
Total net revenue	**$ 8,984**	$ 7,965	$ 7,584
Financial ratios			
ROE	**26%**	20%	24%
Overhead ratio	**68**	69	70
Pretax margin ratio	**31**	29	29

(a) Private Banking is a combination of the previously disclosed client segments: Private Bank, Private Wealth Management and JPMorgan Securities.

2010 compared with 2009

Net income was $1.7 billion, an increase of $280 million, or 20%, from the prior year, due to higher net revenue and a lower provision for credit losses, largely offset by higher noninterest expense.

Net revenue was a record $9.0 billion, an increase of $1.0 billion, or 13%, from the prior year. Noninterest revenue was $7.5 billion, an increase of $1.1 billion, or 17%, due to the effect of higher market levels, net inflows to products with higher margins, higher loan originations, and higher performance fees. Net interest income was $1.5 billion, down by $94 million, or 6%, from the prior year, due to narrower deposit spreads, largely offset by higher deposit and loan balances.

Revenue from Private Banking was $4.9 billion, up 13% from the prior year due to higher loan originations, higher deposit and loan balances, the effect of higher market levels and net inflows to products with higher margins, partially offset by narrower deposit spreads. Revenue from Institutional was $2.2 billion, up 6% due to the effect of higher market levels, partially offset by liquidity outflows. Revenue from Retail was $1.9 billion, up 23% due to the effect of higher market levels and net inflows to products with higher margins, partially offset by lower valuations of seed capital investments.

The provision for credit losses was $86 million, compared with $188 million in the prior year, reflecting an improving credit environment.

Noninterest expense was $6.1 billion, an increase of $639 million, or 12%, from the prior year, resulting from increased headcount and higher performance-based compensation.

2009 compared with 2008

Net income was $1.4 billion, an increase of $73 million, or 5%, from the prior year, due to higher total net revenue, offset largely by higher noninterest expense and provision for credit losses.

Total net revenue was $8.0 billion, an increase of $381 million, or 5%, from the prior year. Noninterest revenue was $6.4 billion, an increase of $306 million, or 5%, due to higher valuations of seed capital investments and net inflows, offset largely by lower market levels. Net interest income was $1.6 billion, up by $75 million, or 5%, from the prior year, due to wider loan spreads and higher deposit balances, offset partially by narrower deposit spreads.

Revenue from Private Banking was $4.3 billion, up 3% from the prior year due to wider loan spreads and higher deposit balances, offset largely by the effect of lower market levels. Revenue from Institutional was $2.1 billion, up 16% due to higher valuations of seed capital investments and net inflows, offset partially by the effect of lower market levels. Revenue from Retail was $1.6 billion, down 2% due to the effect of lower market levels, offset largely by higher valuations of seed capital investments.

The provision for credit losses was $188 million, an increase of $103 million from the prior year, reflecting continued weakness in the credit environment.

Noninterest expense was $5.5 billion, an increase of $175 million, or 3%, from the prior year due to the effect of the Bear Stearns merger, higher performance-based compensation and higher FDIC insurance premiums, offset largely by lower headcount-related expense.

Selected metrics

As of or for the year ended December 31, (in millions, except headcount, ranking data, and where otherwise noted)	2010	2009	2008
Business metrics			
Number of:			
Client advisors	**2,245**	1,934	1,840
Retirement planning services participants (in thousands)	**1,580**	1,628	1,531
JPMorgan Securities brokers(a)	**415**	376	324
% of customer assets in 4 & 5 Star Funds(b)	**49%**	42%	42%
% of AUM in 1st and 2nd quartiles:(c)			
1 year	**67%**	57%	54%
3 years	**72%**	62%	65%
5 years	**80%**	74%	76%
Selected balance sheet data (period-end)			
Loans	**$ 44,084**	$ 37,755	$ 36,188
Equity	**6,500**	7,000	7,000
Selected balance sheet data (average)			
Total assets	**$ 65,056**	$ 60,249	$ 65,550
Loans	**38,948**	34,963	38,124
Deposits	**86,096**	77,005	70,179
Equity	**6,500**	7,000	5,645
Headcount	**16,918**	15,136	15,339
Credit data and quality statistics			
Net charge-offs	**$ 76**	$ 117	$ 11
Nonaccrual loans	**375**	580	147
Allowance for credit losses:			
Allowance for loan losses	**267**	269	191
Allowance for lending-related commitments	**4**	9	5
Total allowance for credit losses	**$ 271**	$ 278	$ 196
Net charge-off rate	**0.20%**	0.33%	0.03%
Allowance for loan losses to period-end loans	**0.61**	0.71	0.53
Allowance for loan losses to average loans	**0.69**	0.77	0.50
Allowance for loan losses to nonaccrual loans	**71**	46	130
Nonaccrual loans to period-end loans	**0.85**	1.54	0.41
Nonaccrual loans to average loans	**0.96**	1.66	0.39

(a) JPMorgan Securities was formerly known as Bear Stearns Private Client Services prior to January 1, 2010.
(b) Derived from Morningstar for the U.S., the U.K., Luxembourg, France, Hong Kong and Taiwan; and Nomura for Japan.
(c) Quartile ranking sourced from: Lipper for the U.S. and Taiwan; Morningstar for the U.K., Luxembourg, France and Hong Kong; and Nomura for Japan.

AM's client segments comprise the following:

Private Banking offers investment advice and wealth management services to high- and ultra-high-net-worth individuals, families, money managers, business owners and small corporations worldwide, including investment management, capital markets and risk management, tax and estate planning, banking, capital raising and specialty-wealth advisory services.

Institutional brings comprehensive global investment services – including asset management, pension analytics, asset-liability management and active risk-budgeting strategies – to corporate and public institutions, endowments, foundations, not-for-profit organizations and governments worldwide.

Retail provides worldwide investment management services and retirement planning and administration, through third-party and direct distribution of a full range of investment vehicles.

J.P. Morgan Asset Management has two high-level measures of its overall fund performance.

- Percentage of assets under management in funds rated 4 and 5 stars (three year). Mutual fund rating services rank funds based on their risk-adjusted performance over various periods. A 5 star rating is the best and represents the top 10% of industry wide ranked funds. A 4 star rating represents the next 22% of industry wide ranked funds. The worst rating is a 1 star rating.
- Percentage of assets under management in first- or second-quartile funds (one, three and five years). Mutual fund rating services rank funds according to a peer-based performance system, which measures returns according to specific time and fund classification (small-, mid-, multi- and large-cap).

Assets under supervision

2010 compared with 2009

Assets under supervision were $1.8 trillion at December 31, 2010, an increase of $139 billion, or 8%, from the prior year. Assets under management were $1.3 trillion, an increase of $49 billion, or 4%, due to the effect of higher market levels and net inflows in long-term products, largely offset by net outflows in liquidity products. Custody, brokerage, administration and deposit balances were $542 billion, up by $90 billion, or 20%, due to custody and brokerage inflows and the effect of higher market levels. The Firm also has a 41% interest in American Century Companies, Inc., whose AUM totaled $103 billion and $86 billion at December 31, 2010 and 2009, respectively; these are excluded from the AUM above.

2009 compared with 2008

Assets under supervision were $1.7 trillion at December 31, 2009, an increase of $205 billion, or 14%, from the prior year. Assets under management were $1.2 trillion, an increase of $116 billion, or 10%, from the prior year. The increases were due to the effect of higher market valuations and inflows in fixed income and equity products offset partially by outflows in cash products. Custody, brokerage, administration and deposit balances were $452 billion, up by $89 billion, due to the effect of higher market levels on custody and brokerage balances, and brokerage inflows in Private Banking. The Firm also had a 42% interest in American Century Companies, Inc. at December 31, 2009, whose AUM totaled $86 billion and $70 billion at December 31, 2009 and 2008, respectively; these are excluded from the AUM above.

Assets under supervision[(a)]

As of or for the year ended December 31, (in billions)	2010	2009	2008
Assets by asset class			
Liquidity	**$ 497**	$ 591	$ 613
Fixed income	**289**	226	180
Equities and multi-asset	**404**	339	240
Alternatives	**108**	93	100
Total assets under management	**1,298**	1,249	1,133
Custody/brokerage/administration/ deposits	**542**	452	363
Total assets under supervision	**$ 1,840**	$ 1,701	$ 1,496
Assets by client segment			
Private Banking[(b)]	**$ 284**	$ 270	$ 258
Institutional	**686**	709	681
Retail	**328**	270	194
Total assets under management	**$ 1,298**	$ 1,249	$ 1,133
Private Banking[(b)]	**$ 731**	$ 636	$ 552
Institutional	**687**	710	682
Retail	**422**	355	262
Total assets under supervision	**$ 1,840**	$ 1,701	$ 1,496

Assets by geographic region December 31, (in billions)	2010	2009	2008
U.S./Canada	**$ 862**	$ 837	$ 798
International	**436**	412	335
Total assets under management	**$ 1,298**	$ 1,249	$ 1,133
U.S./Canada	**$ 1,271**	$ 1,182	$ 1,084
International	**569**	519	412
Total assets under supervision	**$ 1,840**	$ 1,701	$ 1,496
Mutual fund assets by asset class			
Liquidity	**$ 446**	$ 539	$ 553
Fixed income	**92**	67	41
Equities and multi-asset	**169**	143	92
Alternatives	**7**	9	7
Total mutual fund assets	**$ 714**	$ 758	$ 693

Assets under management rollforward Year ended December 31, (in billions)	2010	2009	2008
Beginning balance, January 1	**$ 1,249**	$ 1,133	$ 1,193
Net asset flows:			
Liquidity	**(89)**	(23)	210
Fixed income	**50**	34	(12)
Equities, multi-asset and alternatives	**19**	17	(47)
Market/performance/other impacts[(c)]	**69**	88	(211)
Ending balance, December 31	**$ 1,298**	$ 1,249	$ 1,133
Assets under supervision rollforward			
Beginning balance, January 1	**$ 1,701**	$ 1,496	$ 1,572
Net asset flows	**28**	50	181
Market/performance/other impacts[(c)]	**111**	155	(257)
Ending balance, December 31	**$ 1,840**	$ 1,701	$ 1,496

(a) Excludes assets under management of American Century Companies, Inc., in which the Firm had a 41%, 42% and 43% ownership at December 31, 2010, 2009 and 2008, respectively.
(b) Private Banking is a combination of the previously disclosed client segments: Private Bank, Private Wealth Management and JPMorgan Securities.
(c) Includes $15 billion for assets under management and $68 billion for assets under supervision, which were acquired in the Bear Stearns merger in the second quarter of 2008.

The Corporate/Private Equity sector comprises Private Equity, Treasury, the Chief Investment Office, corporate staff units and expense that is centrally managed. Treasury and the Chief Investment Office manage capital, liquidity and structural risks of the Firm. The corporate staff units include Central Technology and Operations, Internal Audit, Executive Office, Finance, Human Resources, Marketing & Communications, Legal & Compliance, Corporate Real Estate and General Services, Risk Management, Corporate Responsibility and Strategy & Development. Other centrally managed expense includes the Firm's occupancy and pension-related expense, net of allocations to the business.

Selected income statement data

Year ended December 31, (in millions, except headcount)	2010	2009	2008
Revenue			
Principal transactions[a]	**$ 2,208**	$ 1,574	$ (3,588)
Securities gains[b]	**2,898**	1,139	1,637
All other income[c]	**253**	58	1,673
Noninterest revenue	**5,359**	2,771	(278)
Net interest income	**2,063**	3,863	347
Total net revenue[d]	**7,422**	6,634	69
Provision for credit losses	**14**	80	447[j]
Provision for credit losses – accounting conformity[e]	**—**	—	1,534
Noninterest expense			
Compensation expense	**2,357**	2,811	2,340
Noncompensation expense[f]	**8,788**	3,597	1,841
Merger costs	**—**	481	432
Subtotal	**11,145**	6,889	4,613
Net expense allocated to other businesses	**(4,790)**	(4,994)	(4,641)
Total noninterest expense	**6,355**	1,895	(28)
Income/(loss) before income tax expense/(benefit) and extraordinary gain	**1,053**	4,659	(1,884)
Income tax expense/(benefit)[g]	**(205)**	1,705	(535)
Income/(loss) before extraordinary gain	**1,258**	2,954	(1,349)
Extraordinary gain[h]	**—**	76	1,906
Net income	**$ 1,258**	$ 3,030	$ 557
Total net revenue			
Private equity	**$ 1,239**	$ 18	$ (963)
Corporate	**6,183**	6,616	1,032
Total net revenue	**$ 7,422**	$ 6,634	$ 69
Net income/(loss)			
Private equity	**$ 588**	$ (78)	$ (690)
Corporate[i]	**670**	3,108	1,247
Total net income	**$ 1,258**	$ 3,030	$ 557
Headcount	**20,030**	20,119	23,376

(a) Included losses on preferred equity interests in Fannie Mae and Freddie Mac in 2008.
(b) Included gain on sale of MasterCard shares in 2008.
(c) Included a gain from the dissolution of the Chase Paymentech Solutions joint venture and proceeds from the sale of Visa shares in its initial public offering in 2008.
(d) Total net revenue included tax-equivalent adjustments, predominantly due to tax-exempt income from municipal bond investments of $226 million, $151 million and $57 million for 2010, 2009 and 2008, respectively.
(e) Represents an accounting conformity credit loss reserve provision related to the acquisition of Washington Mutual Bank's banking operations.
(f) Includes litigation expense of $5.7 billion for 2010, compared with net benefits of $0.3 billion and $1.0 billion for 2009 and 2008, respectively. Included in the net benefits were a release of credit card litigation reserves in 2008 and insurance recoveries related to settlement of the Enron and WorldCom class action litigations. Also included a $675 million FDIC special assessment during 2009.
(g) Includes tax benefits recognized upon the resolution of tax audits.
(h) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank. The acquisition resulted in negative goodwill, and accordingly, the Firm recognized an extraordinary gain. A preliminary gain of $1.9 billion was recognized at December 31, 2008. The final total extraordinary gain that resulted from the Washington Mutual transaction was $2.0 billion.
(i) 2009 and 2008 included merger costs and the extraordinary gain related to the Washington Mutual transaction, as well as items related to the Bear Stearns merger, including merger costs, asset management liquidation costs and JPMorgan Securities broker retention expense.
(j) In November 2008, the Firm transferred $5.8 billion of higher quality credit card loans from the legacy Chase portfolio to a securitization trust previously established by Washington Mutual ("the Trust"). As a result of converting higher credit quality Chase-originated on-book receivables to the Trust's seller's interest which had a higher overall loss rate reflective of the total assets within the Trust, approximately $400 million of incremental provision expense was recorded during the fourth quarter of 2008. This incremental provision expense was recorded in the Corporate segment as the action related to the acquisition of Washington Mutual's banking operations. For further discussion of credit card securitizations, see Note 16 on pages 244–259 of this Annual Report.

2010 compared with 2009

Net income was $1.3 billion compared with $3.0 billion in the prior year. The decrease was driven by higher litigation expense, partially offset by higher net revenue.

Net income for Private Equity was $588 million, compared with a net loss of $78 million in the prior year, reflecting the impact of improved market conditions on certain investments in the portfolio. Net revenue was $1.2 billion compared with $18 million in the prior year, reflecting private equity gains of $1.3 billion compared with losses of $54 million. Noninterest expense was $323 million, an increase of $182 million, driven by higher compensation expense.

Net income for Corporate was $670 million, compared with $3.1 billion in the prior year. Current year results reflect after-tax litigation expense of $3.5 billion, lower net interest income and trading gains, partially offset by a higher level of securities gains, primarily driven by repositioning of the portfolio in response to changes in the interest rate environment and to rebalance exposure. The prior year included merger-related net loss of $635 million and a $419 million FDIC assessment.

2009 compared with 2008

Net income was $3.0 billion compared with $557 million in the prior year. The increase was driven by higher net revenue, partially offset by higher litigation expense.

Net loss for Private Equity was $78 million compared with a net loss of $690 million in the prior year. Net revenue was $18 million, an increase of $981 million, reflecting private equity losses of $54 million compared with losses of $894 million. Noninterest expense was $141 million, an increase of $21 million.

Net income for Corporate, including merger-related items, was $3.1 billion, compared with $1.2 billion in the prior year. Results in 2009 reflected higher levels of trading gains, net interest income and an after-tax gain of $150 million from the sale of MasterCard shares, partially offset by $635 million merger-related losses, a $419 million FDIC special assessment, lower securities gains and the absence of the $1.9 billion extraordinary gain related to the Washington Mutual merger in 2008. Trading gains and net interest income increased due to the Chief Investment Office's ("CIO") significant purchases of mortgage-backed securities guaranteed by U.S. government agencies, corporate debt securities, U.S. Treasury and government agency securities and other asset-backed securities. These investments were generally associated with the management of interest rate risk and investment of cash resulting from the excess funding the Firm continued to experience during 2009. The increase in securities was partially offset by sales of higher-coupon instruments (part of repositioning the investment portfolio) as well as prepayments and maturities.

After-tax results in 2008 included $955 million in proceeds from the sale of Visa shares in its initial public offering and $627 million from the dissolution of the Chase Paymentech Solutions joint venture. These items were partially offset by losses of $642 million on preferred securities of Fannie Mae and Freddie Mac, a $248 million charge related to the offer to repurchase auction-rate securities and $211 million net merger costs.

Treasury and CIO

Selected income statement and balance sheet data

As of or for the year ended December 31, (in millions)	2010	2009	2008
Securities gains[a]	**$ 2,897**	$ 1,147	$ 1,652
Investment securities portfolio (average)	**323,673**	324,037	113,010
Investment securities portfolio (ending)	**310,801**	340,163	192,564
Mortgage loans (average)	**9,004**	7,427	7,059
Mortgage loans (ending)	**10,739**	8,023	7,292

(a) Results for 2008 included a gain on the sale of MasterCard shares. All periods reflect repositioning of the Corporate investment securities portfolio.

For further information on the investment securities portfolio, see Note 3 and Note 12 on pages 170–187 and 214–218, respectively, of this Annual Report. For further information on CIO VaR and the Firm's earnings-at-risk, see the Market Risk Management section on pages 142–146 of this Annual Report.

Private Equity Portfolio

Selected income statement and balance sheet data

As of or for the year ended December 31, (in millions)	2010	2009	2008
Private equity gains/(losses)			
Realized gains	**$ 1,409**	$ 109	$ 1,717
Unrealized gains/(losses)[a]	**(302)**	(81)	(2,480)
Total direct investments	**1,107**	28	(763)
Third-party fund investments	**241**	(82)	(131)
Total private equity gains/(losses)[b]	**$ 1,348**	$ (54)	$ (894)
Private equity portfolio information[c]			
Direct investments			
Publicly held securities			
Carrying value	**$ 875**	$ 762	$ 483
Cost	**732**	743	792
Quoted public value	**935**	791	543
Privately held direct securities			
Carrying value	**5,882**	5,104	5,564
Cost	**6,887**	5,959	6,296
Third-party fund investments[d]			
Carrying value	**1,980**	1,459	805
Cost	**2,404**	2,079	1,169
Total private equity portfolio			
Carrying value	**$ 8,737**	$ 7,325	$ 6,852
Cost	**$10,023**	$ 8,781	$ 8,257

(a) Unrealized gains/(losses) contain reversals of unrealized gains and losses that were recognized in prior periods and have now been realized.
(b) Included in principal transactions revenue in the Consolidated Statements of Income.
(c) For more information on the Firm's policies regarding the valuation of the private equity portfolio, see Note 3 on pages 170–187 of this Annual Report.
(d) Unfunded commitments to third-party equity funds were $1.0 billion, $1.5 billion and $1.4 billion at December 31, 2010, 2009 and 2008, respectively.

2010 compared with 2009

The carrying value of the private equity portfolio at December 31, 2010, was $8.7 billion, up from $7.3 billion at December 31, 2009. The portfolio increase was primarily due to incremental follow-on investments. The portfolio represented 6.9% of the Firm's stockholders' equity less goodwill at December 31, 2010, up from 6.3% at December 31, 2009.

2009 compared with 2008

The carrying value of the private equity portfolio at December 31, 2009, was $7.3 billion, up from $6.9 billion at December 31, 2008. The portfolio increase was primarily driven by additional follow-on investments and net unrealized gains on the existing portfolio, partially offset by sales during 2009. The portfolio represented 6.3% of the Firm's stockholders' equity less goodwill at December 31, 2009, up from 5.8% at December 31, 2008.

INTERNATIONAL OPERATIONS

In 2010, the Firm reported approximately $22.2 billion of revenue involving clients, customers and counterparties residing outside of the United States. Of that amount, approximately 64% was derived from Europe/Middle East/Africa ("EMEA"), approximately 26% from Asia Pacific, approximately 8% from Latin America/Caribbean, and the balance from other geographies outside the United States.

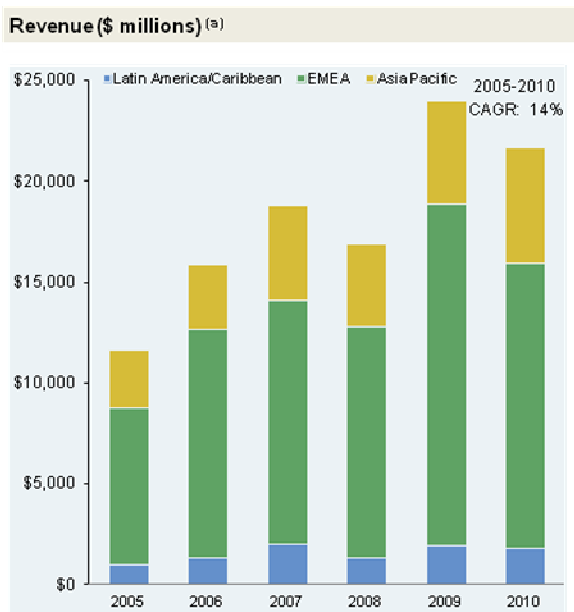
The Firm is committed to further expanding its wholesale businesses (IB, AM and TSS) outside the United States and intends to add additional client-serving bankers, as well as product and sales support personnel, to address the needs of the Firm's clients located in these regions. With a comprehensive and coordinated international business strategy and growth plan, efforts and investments for growth will be accelerated and prioritized.

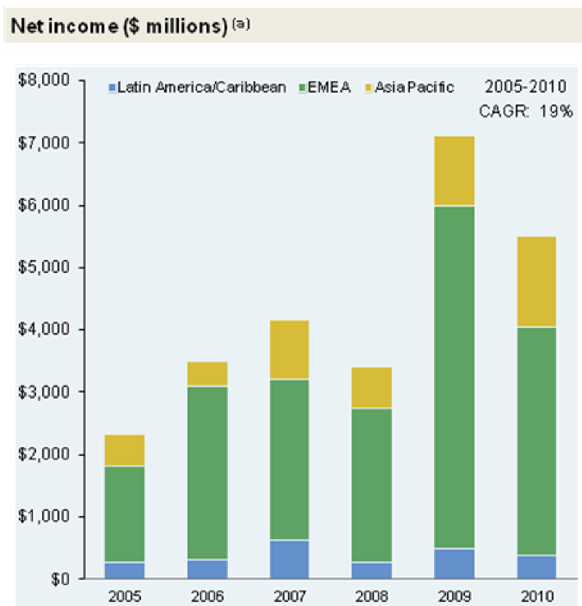
Set forth below are certain key metrics related to the Firm's wholesale international operations including, for each of EMEA, Latin America/Caribbean and Asia Pacific, the number of countries in each such region in which it operates, front office headcount, number of clients and selected revenue and balance sheet data. For additional information regarding international operations, see Note 33 on page 290 of this Annual Report.

Asia Pacific	Latin America/ Caribbean	EMEA
• 2010 revenue of $5.8 billion • 2005 – 2010 CAGR: 15% • Operating in 16 countries in the region • 6 new offices opened in 2010 • Headcount of 15,419[(a)] • 4,366 front office • 450+ significant clients[(b)] • $49.1 billion in deposits[(c)] • $20.6 billion in loans outstanding[(d)] • $118 billion in AUM	• 2010 revenue of $1.8 billion • 2005 – 2010 CAGR: 13% • Operating in 8 countries in the region • 2 new offices opened in 2010 • Headcount of 1,770[(a)] • 1,024 front office • 160+ significant clients[(b)] • $1.7 billion in deposits[(c)] • $16.5 billion in loans outstanding[(d)] • $32 billion in AUM	• 2010 revenue of $14.1 billion • 2005 – 2010 CAGR: 13% • Operating in 33 countries in the region • 5 new offices opened in 2010 • Headcount of 16,312[(a)] • 6,192 front office • 940+ significant clients[(b)] • $135.8 billion in deposits[(c)] • $27.9 billion in loans outstanding[(d)] • $281 billion in AUM

(a) Total headcount includes employees and, in certain cases, contractors whose functions are considered integral to the operations of the business. Employees in offshore service centers supporting line of business operations in each region are also included.
(b) Significant clients defined as a company with over $1 million in international revenue in the region (excludes private banking clients).
(c) Deposits reflect average balances and are based on booking location.
(d) Loans outstanding reflect period-end balances, are based on client domicile, and exclude loans held-for-sale and loans carried at fair value.

The following graphs provide the wholesale international revenue and net income for the periods indicated.





(a) Based on wholesale international operations (RFS and CS are excluded from this analysis).

BALANCE SHEET ANALYSIS

Selected Consolidated Balance Sheets data

December 31, (in millions)	2010	2009
Assets		
Cash and due from banks	$ 27,567	$ 26,206
Deposits with banks	21,673	63,230
Federal funds sold and securities purchased under resale agreements	222,554	195,404
Securities borrowed	123,587	119,630
Trading assets:		
Debt and equity instruments	409,411	330,918
Derivative receivables	80,481	80,210
Securities	316,336	360,390
Loans	692,927	633,458
Allowance for loan losses	(32,266)	(31,602)
Loans, net of allowance for loan losses	660,661	601,856
Accrued interest and accounts receivable	70,147	67,427
Premises and equipment	13,355	11,118
Goodwill	48,854	48,357
Mortgage servicing rights	13,649	15,531
Other intangible assets	4,039	4,621
Other assets	105,291	107,091
Total assets	$ 2,117,605	$ 2,031,989
Liabilities		
Deposits	$ 930,369	$ 938,367
Federal funds purchased and securities loaned or sold under repurchase agreements	276,644	261,413
Commercial paper	35,363	41,794
Other borrowed funds	57,309	55,740
Trading liabilities:		
Debt and equity instruments	76,947	64,946
Derivative payables	69,219	60,125
Accounts payable and other liabilities	170,330	162,696
Beneficial interests issued by consolidated VIEs	77,649	15,225
Long-term debt	247,669	266,318
Total liabilities	1,941,499	1,866,624
Stockholders' equity	176,106	165,365
Total liabilities and stockholders' equity	$ 2,117,605	$ 2,031,989

Consolidated Balance Sheets overview

Total assets were $2.1 trillion, up by $85.6 billion from December 31, 2009. The increase was primarily a result of higher trading assets – debt and equity instruments, principally due to improved market activity; higher loans, largely due to the January 1, 2010, adoption of accounting guidance related to VIEs; and higher federal funds sold and securities purchased under resale agreements, predominantly due to higher financing volume in IB. These increases were partially offset by a reduction in deposits with banks, as market stress eased from the end of 2009.

Total liabilities were $1.9 trillion, up by $74.9 billion. The increase was predominantly a result of higher beneficial interests issued by consolidated VIEs, due to the adoption of the accounting guidance related to VIEs.

Stockholders' equity was $176.1 billion, up by $10.7 billion. The increase was driven predominantly by net income, partially offset by the cumulative effect of changes in accounting principles as a result of the adoption of the accounting guidance related to the consolidation of VIEs.

The following is a discussion of the significant changes in the specific line captions of the Consolidated Balance Sheets from December 31, 2009.

Deposits with banks; federal funds sold and securities purchased under resale agreements; and securities borrowed

The Firm uses these instruments as part of its liquidity management activities; to manage its cash positions and risk-based capital requirements; and to support its trading and risk management activities. In particular, securities purchased under resale agreements and securities borrowed are used to provide funding or liquidity to clients by purchasing and borrowing their securities for the short term. The decrease in deposits with banks was largely due to lower deposits with the Federal Reserve Banks and lower interbank lending, as market stress eased from the end of 2009. Securities purchased under resale agreements increased, predominantly due to higher financing volume in IB. For additional information on the Firm's Liquidity Risk Management, see pages 110–115 of this Annual Report.

Trading assets and liabilities – debt and equity instruments

Debt and equity trading instruments are used primarily for market-making activity. These instruments consist predominantly of fixed-income securities, including government and corporate debt; equity securities, including convertible securities; loans, including prime mortgage and other loans warehoused by RFS and IB for sale or securitization purposes and accounted for at fair value; and physical commodities inventories carried at the lower of cost or fair value. Trading assets – debt and equity instruments increased, principally due to improved market activity, primarily in equity securities, foreign debt and physical commodities. Trading liabilities – debt and equity instruments increased, largely due to higher levels of positions to facilitate customer trading. For additional information, refer to Note 3 on pages 170–187 of this Annual Report.

Trading assets and liabilities – derivative receivables and payables

The Firm uses derivative instruments predominantly for market-making activity. Derivatives enable customers and the Firm to manage their exposures to fluctuations in interest rates, currencies and other markets. The Firm also uses derivative instruments to manage its credit exposure. Derivative receivables were flat compared with the prior year. Derivative payables increased, reflecting tighter credit spreads, appreciation of the U.S. dollar and higher commodity derivatives balances (driven by increasing commodity prices and the RBS Sempra acquisition). For additional information, refer to Derivative contracts on pages 125–128, and Note 3 and Note 6 on pages 170–187 and 191–199, respectively, of this Annual Report.

Securities

Substantially all of the securities portfolio is classified as available-for-sale ("AFS") and used primarily to manage the Firm's exposure to interest rate movements and to invest cash resulting from excess funding positions. Securities decreased, largely due to repositioning of the portfolio in Corporate, in response to changes in the interest rate environment and to rebalance exposures. The repositioning reduced U.S. government agency securities and increased non-U.S. mortgage-backed securities. The adoption of the new accounting guidance related to VIEs, which resulted in the elimination of retained AFS securities issued by Firm-sponsored credit card securitization trusts, also contributed to the decrease. For information related to securities, refer to the Corporate/Private Equity segment on pages 89–90, and Note 3 and Note 12 on pages 170–187 and 214–218, respectively, of this Annual Report.

Loans and allowance for loan losses

The Firm provides loans to a variety of customers, from large corporate and institutional clients to individual consumers. Loans and the allowance for loan losses increased as a result of the Firm's adoption of accounting guidance related to VIEs at January 1, 2010. Excluding the impact of the adoption of the new accounting guidance, loans decreased due to the continued runoff of the residential real estate loans and credit card balances. The decrease was partially offset by an increase in wholesale loans, mainly in TSS and AM.

The allowance for loan losses, excluding the impact of this adoption, decreased primarily due to a decline in the credit card and wholesale allowance. The decrease was offset partially by an increase in the consumer (excluding credit card) allowance.

For a more detailed discussion of the loan portfolio and the allowance for loan losses, refer to Credit Risk Management on pages 116–141, and Notes 3, 4, 14 and 15 on pages 170–187, 187–189, 220–238 and 239–243, respectively, of this Annual Report.

Accrued interest and accounts receivable

This line caption consists of accrued interest receivables from interest-earning assets; receivables from customers (primarily from activities related to IB's Prime Services business); receivables from brokers, dealers and clearing organizations; and receivables from failed securities sales. Accrued interest and accounts receivable increased, reflecting higher customer receivables in IB's Prime Services business due to increased client activity. The increase was offset partially by the elimination of retained securitization interests upon the adoption of the new accounting guidance that resulted in the consolidation of Firm-sponsored credit card securitization trusts. For a more detailed discussion of the adoption, see Note 1 and Note 16 on pages 164–165 and 244–259, respectively, of this Annual Report.

Premises and equipment

The Firm's premises and equipment consist of land, buildings, leasehold improvements, furniture and fixtures, hardware and software, and other equipment. The increase in premises and equipment was primarily due to the purchase of two buildings, one in New York and one in London; investments in hardware, software and other equipment also contributed to the increase. The increase was partially offset by the related depreciation and amortization of these assets.

Goodwill

Goodwill arises from business combinations and represents the excess of the purchase price of an acquired entity or business over the fair values assigned to assets acquired and liabilities assumed. The increase in goodwill was largely due to the acquisition of RBS Sempra Commodities' global oil, global metal, and European power and gas businesses by IB; and the purchase of a majority interest in Gávea Investimentos, a leading alternative asset management company in Brazil, by AM. For additional information on goodwill, see Note 17 on pages 260–263 of this Annual Report.

Mortgage servicing rights

MSRs represent the fair value of future cash flows for performing specified mortgage-servicing activities (predominantly related to residential mortgages) for others. MSRs are either purchased from third parties or retained upon the sale or securitization of mortgage loans. Servicing activities include collecting principal, interest and escrow payments from borrowers; making tax and insurance payments on behalf of borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to the related investors of the mortgage-backed securities. MSRs decreased, predominantly due to a significant decline in market interest rates during 2010, as well as from servicing portfolio runoff and dispositions of MSRs. These decreases were partially offset by increases related to sales in RFS of originated loans for which servicing rights were retained. For additional information on MSRs, see Note 3 and Note 17 on pages 170–187 and 260–263, respectively, of this Annual Report

Other intangible assets

Other intangible assets consist of purchased credit card relationships, other credit card–related intangibles, core deposit intangibles and other intangibles. The decrease in other intangible assets was predominately due to amortization, partially offset by an increase resulting from the aforementioned Gávea Investimentos transaction. For additional information on other intangible assets, see Note 17 on pages 260–263 of this Annual Report.

Other assets

Other assets consist of private equity and other investments, cash collateral pledged, corporate and bank-owned life insurance policies, assets acquired in loan satisfactions (including real estate owned) and all other assets. At December 31, 2010, other assets were relatively flat compared with December 31, 2009.

Deposits
Deposits represent a liability to customers, both retail and wholesale, related to non-brokerage funds held on their behalf. Deposits are classified by location (U.S. and non-U.S.), whether they are interest- or noninterest-bearing, and by type (i.e., demand, money-market, savings, time or negotiable order of withdrawal accounts). Deposits provide a stable and consistent source of funding for the Firm. Deposits decreased, reflecting a decline in wholesale funding due to the Firm's lower funding needs, and lower deposit levels in TSS**.** These factors were offset partially by net inflows from existing customers and new business in CB, RFS and AM. For more information on deposits, refer to the RFS and AM segment discussions on pages 72–78 and 86–88, respectively; the Liquidity Risk Management discussion on pages 110–115; and Note 3 and Note 19 on pages 170–187 and 263–264, respectively, of this Annual Report. For more information on wholesale liability balances, which includes deposits, refer to the CB and TSS segment discussions on pages 82–83 and 84–85, respectively, of this Annual Report.

Federal funds purchased and securities loaned or sold under repurchase agreements
The Firm uses these instruments as part of its liquidity management activities and to support its trading and risk management activities. In particular, federal funds purchased and securities loaned or sold under repurchase agreements are used as short-term funding sources and to make securities available to clients for their short-term liquidity purposes. Securities sold under repurchase agreements increased, largely due to increased levels of activity in IB, partially offset by a decrease in CIO repositioning activities. For additional information on the Firm's Liquidity Risk Management, see pages 110–115 of this Annual Report.

Commercial paper and other borrowed funds
The Firm uses commercial paper and other borrowed funds in its liquidity management activities to meet short-term funding needs, and in connection with a TSS liquidity management product, whereby excess client funds are transferred into commercial paper overnight sweep accounts. Commercial paper and other borrowed funds, which includes advances from Federal Home Loan Banks ("FHLBs"), decreased due to lower funding requirements. For additional information on the Firm's Liquidity Risk Management and other borrowed funds, see pages 110–115, and Note 20 on page 264 of this Annual Report.

Accounts payable and other liabilities
Accounts payable and other liabilities consist of payables to customers (primarily from activities related to IB's Prime Services business); payables to brokers, dealers and clearing organizations; payables from failed securities purchases; accrued expense, including interest-bearing liabilities; and all other liabilities, including litigation reserves and obligations to return securities received as collateral. Accounts payable and other liabilities increased due to additional litigation reserves, largely for mortgage-related matters.

Beneficial interests issued by consolidated VIEs
Beneficial interests issued by consolidated VIEs represent interest-bearing beneficial-interest liabilities, which increased, predominantly due to the Firm's adoption of accounting guidance related to VIEs, partially offset by maturities of $24.9 billion related to Firm-sponsored credit card securitization trusts. For additional information on Firm-sponsored VIEs and loan securitization trusts, see Off–Balance Sheet Arrangements and Contractual Cash Obligations below, and Note 16 and Note 22 on pages 244–259 and 265–266, respectively, of this Annual Report.

Long-term debt
The Firm uses long-term debt (including trust-preferred capital debt securities) to provide cost-effective and diversified sources of funds and as critical components of the Firm's liquidity and capital management activities. Long-term debt decreased, due to lower funding requirements. Maturities and redemptions totaled $53.4 billion during 2010 and were partially offset by new issuances of $36.0 billion. For additional information on the Firm's long-term debt activities, see the Liquidity Risk Management discussion on pages 110–115, and Note 22 on pages 265–266 of this Annual Report.

Stockholders' equity
Total stockholders' equity increased, predominantly due to net income, and net issuances and commitments to issue under the Firm's employee stock-based compensation plans. The increase was partially offset by the impact of the adoption of the new accounting guidance related to VIEs, which resulted in a reduction of $4.5 billion, driven by the establishment of an allowance for loan losses of $7.5 billion (pretax) related to receivables predominantly held in credit card securitization trusts that were consolidated at the adoption date. Also partially offsetting the increase were stock repurchases; the purchase of the remaining interest in a consolidated subsidiary from noncontrolling shareholders; and the declaration of cash dividends on common and preferred stock. For a more detailed discussion of the adoption of new consolidated guidance related to VIEs, see Notes 1 and 16 on pages 164–165 and 244–259, respectively, of this Annual Report.

JPMorgan Chase is involved with several types of off–balance sheet arrangements, including through unconsolidated special-purpose entities ("SPEs"), which are a type of VIE, and through lending-related financial instruments (e.g., commitments and guarantees).

Special-purpose entities

SPEs are the most common type of VIE, used in securitization transactions to isolate certain assets and distribute related cash flows to investors. The basic SPE structure involves a company selling assets to the SPE. The SPE funds the purchase of those assets by issuing securities to investors in the form of commercial paper, short-term asset-backed notes, medium-term notes and other forms of interest. SPEs are generally structured to insulate investors from claims on the SPE's assets by creditors of other entities, including the creditors of the seller of the assets.

As a result of new accounting guidance, certain VIEs were consolidated on the Firm's Consolidated Balance Sheets effective January 1, 2010. Nevertheless, SPEs continue to be an important part of the financial markets, as they provide market liquidity by facilitating investors' access to specific portfolios of assets and risks. These arrangements are integral to the markets for mortgage-backed securities, commercial paper and other asset-backed securities.

JPMorgan Chase uses SPEs as a source of liquidity for itself and its clients by securitizing financial assets, and by creating investment products for clients. The Firm is involved with SPEs through multi-seller conduits, investor intermediation activities, and loan securitizations. See Note 16 on pages 244–259 for further information on these types of SPEs.

The Firm holds capital, as deemed appropriate, against all SPE-related transactions and related exposures, such as derivative transactions and lending-related commitments and guarantees.

The Firm has no commitments to issue its own stock to support any SPE transaction, and its policies require that transactions with SPEs be conducted at arm's length and reflect market pricing. Consistent with this policy, no JPMorgan Chase employee is permitted to invest in SPEs with which the Firm is involved where such investment would violate the Firm's Code of Conduct. These rules prohibit employees from self-dealing and acting on behalf of the Firm in transactions with which they or their family have any significant financial interest.

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

For certain liquidity commitments to SPEs, the Firm could be required to provide funding if the short-term credit rating of JPMorgan Chase Bank, N.A., were downgraded below specific levels, primarily "P-1", "A-1" and "F1" for Moody's, Standard & Poor's and Fitch, respectively. The aggregate amount of these liquidity commitments, to both consolidated and nonconsolidated SPEs, were $34.2 billion at both December 31, 2010 and 2009. Alternatively, if JPMorgan Chase Bank, N.A., were downgraded, the Firm could be replaced by another liquidity provider in lieu of providing funding under the liquidity commitment or, in certain circumstances, the Firm could facilitate the sale or refinancing of the assets in the SPE in order to provide liquidity.

Special-purpose entities revenue

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

Revenue from VIEs and Securitization Entities[(a)]

Year ended December 31, (in millions)	**2010**	2009	2008
Multi-seller conduits	**$ 240**	$ 460	$ 314
Investor intermediation	**49**	34	22
Other securitization entities[(b)]	**2,005**	2,510	1,742
Total	**$ 2,294**	$ 3,004	$ 2,078

(a) Includes revenue associated with both consolidated VIEs and significant nonconsolidated VIEs.
(b) Excludes servicing revenue from loans sold to and securitized by third parties.

Loan modifications

The Firm modifies certain loans that it services, and that were sold to off-balance sheet SPEs, pursuant to the U.S. Treasury's Making Home Affordable ("MHA") programs and the Firm's other loss mitigation programs. See Consumer Credit Portfolio on pages 129–138 of this Annual Report for more details on these loan modifications.

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

JPMorgan Chase uses lending-related financial instruments (e.g., commitments and guarantees) to meet the financing needs of its customers. The contractual amount of these financial instruments represents the Firm's maximum possible credit risk should the counterparty draw upon the commitment or the Firm be required to fulfill its obligation under the guarantee, and should the counterparty subsequently fail to perform according to the terms of the contract. Most of these commitments and guarantees expire without being drawn or a default occurring. As a result, the total contractual amount of these instruments is not, in the Firm's view, representative of its actual future credit exposure or funding requirements. For further discussion of lending-related commitments and guarantees and the Firm's accounting for them, see Lending-related commitments on page 128 and Note 30 on pages 275–280 of this Annual Report.

The accompanying table presents, as of December 31, 2010, the amounts by contractual maturity of off–balance sheet lending-related financial instruments and other guarantees. The amounts in the table for credit card and home equity lending-related commitments represent the total available credit for these products.

The Firm has not experienced, and does not anticipate, that all available lines of credit for these products would be utilized at the same time. The Firm can reduce or cancel credit card lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law. The Firm may reduce or close home equity lines of credit when there are significant decreases in the value of the underlying property or when there has been a demonstrable decline in the creditworthiness of the borrower. The accompanying table excludes certain guarantees that do not have a contractual maturity date (e.g., loan sale and securitization-related indemnification obligations). For further discussion, see discussion of Loan sale and securitization-related indemnification obligations in Note 30 on pages 275–280 of this Annual Report.

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

By remaining maturity at December 31, (in millions)	2010 2011	2012-2013	2014-2015	After 2015	Total	2009 Total
Lending-related						
Consumer, excluding credit card:						
Home equity — senior lien	**$ 617**	**$ 3,100**	**$ 5,936**	**$ 6,407**	**$ 16,060**	$ 19,246
Home equity — junior lien	**1,125**	**7,169**	**10,742**	**9,645**	**28,681**	37,231
Prime mortgage	**1,266**	**—**	**—**	**—**	**1,266**	1,654
Subprime mortgage	**—**	**—**	**—**	**—**	**—**	—
Auto	**5,095**	**144**	**6**	**1**	**5,246**	5,467
Business banking	**9,116**	**264**	**85**	**237**	**9,702**	9,040
Student and other	**76**	**6**	**—**	**497**	**579**	2,189
Total consumer, excluding credit card	**17,295**	**10,683**	**16,769**	**16,787**	**61,534**	74,827
Credit card	**547,227**	**—**	**—**	**—**	**547,227**	569,113
Total consumer	**564,522**	**10,683**	**16,769**	**16,787**	**608,761**	643,940
Wholesale:						
Other unfunded commitments to extend credit(a)(b)(c)	**62,786**	**99,698**	**32,177**	**5,198**	**199,859**	192,145
Asset purchase agreements(b)	**—**	**—**	**—**	**—**	**—**	22,685
Standby letters of credit and other financial guarantees(a)(c)(d)(e)	**25,346**	**48,408**	**16,729**	**4,354**	**94,837**	91,485
Unused advised lines of credit	**34,354**	**9,154**	**373**	**839**	**44,720**	35,673
Other letters of credit(a)(e)	**3,903**	**2,304**	**456**	**—**	**6,663**	5,167
Total wholesale	**126,389**	**159,564**	**49,735**	**10,391**	**346,079**	347,155
Total lending-related	**$ 690,911**	**$ 170,247**	**$ 66,504**	**$ 27,178**	**$ 954,840**	$ 991,095
Other guarantees						
Securities lending indemnifications(f)	**$ 181,717**	**$ —**	**$ —**	**$ —**	**$ 181,717**	$ 170,777
Derivatives qualifying as guarantees(g)	**3,140**	**585**	**48,308**	**35,735**	**87,768**	98,052(i)
Other guarantees and commitments(h)	**90**	**226**	**288**	**3,162**	**3,766**	3,671

(a) At December 31, 2010 and 2009, represents the contractual amount net of risk participations totaling $542 million and $643 million, respectively, for other unfunded commitments to extend credit; $22.4 billion and $24.6 billion, respectively, for standby letters of credit and other financial guarantees; and $1.1 billion and $690 million, respectively, for other letters of credit. In regulatory filings with the Federal Reserve these commitments are shown gross of risk participations.

(b) Upon the adoption of the accounting guidance related to VIEs, $24.2 billion of lending-related commitments between the Firm and Firm-administered multi-seller conduits were eliminated upon consolidation. The decrease in lending-related commitments was partially offset by the addition of $6.5 billion of unfunded commitments directly between the multi-seller conduits and clients; these unfunded commitments of the consolidated conduits are now included as off–balance sheet lending-related commitments of the Firm.

(c) Includes credit enhancements and bond and commercial paper liquidity commitments to U.S. states and municipalities, hospitals and other not-for-profit entities of $43.4 billion and $44.1 billion, at December 31, 2010 and 2009, respectively.

(d) At December 31, 2010 and 2009, includes unissued standby letters of credit commitments of $41.6 billion and $38.4 billion, respectively.

(e) At December 31, 2010 and 2009, JPMorgan Chase held collateral relating to $37.8 billion and $31.5 billion, respectively, of standby letters of credit; and $2.1 billion and $1.3 billion, respectively, of other letters of credit.

(f) At December 31, 2010 and 2009, collateral held by the Firm in support of securities lending indemnification agreements totaled $185.0 billion and $173.2 billion, respectively. Securities lending collateral comprises primarily cash, and securities issued by governments that are members of the Organisation for Economic Co-operation and Development ("OECD") and U.S. government agencies.

(g) Represents the notional amounts of derivative contracts qualifying as guarantees. For further discussion of guarantees, see Note 6 on pages 191–199 and Note 30 on pages 275–280 of this Annual Report.

(h) Amounts include letters of credit hedged by derivative transactions and managed on a market risk basis.

(i) The prior period has been revised to conform with current presentation.

Contractual cash obligations

In the normal course of business, the Firm enters into various contractual obligations that may require future cash payments. On-balance sheet obligations include deposits; secured and unsecured borrowings (both short- and long-term); beneficial interests issued by consolidated VIEs; current income taxes payable; accrued interest payments and certain employee benefit-related obligations. In addition, JPMorgan Chase has certain off-balance-sheet contractual obligations that may require future cash payments; these include unsettled reverse repurchase and securities borrowing agreements, future interest payments, noncancelable operating leases, capital expenditures related to real estate (including building purchase commitments) and equipment; equity investment commitments; and contracts to purchase future services.

The accompanying table summarizes, by remaining maturity, JPMorgan Chase's significant contractual cash obligations at December 31, 2010. The contractual cash obligations included in the table below reflect the minimum contractual obligation under legally enforceable contracts with terms that are both fixed and determinable. The carrying amount of on-balance sheet obligations on the Consolidated Balance Sheets may differ from the amounts of the obligations reported below. Excluded are contingent payments associated with certain acquisitions, and loan repurchase liabilities. For a discussion of loan repurchase liabilities, see Repurchase liability on pages 98–101 of this Annual Report. For further discussion of other obligations, see the Notes to Consolidated Financial Statements in this Annual Report.

Contractual cash obligations

	2010					2009
By remaining maturity at December 31, (in millions)	2011	2012-2013	2014-2015	After 2015	**Total**	**Total**
On-balance sheet obligations						
Deposits[a]	**$ 910,802**	**$ 12,084**	**$ 4,139**	**$ 657**	**$ 927,682**	$ 935,265
Federal funds purchased and securities loaned or sold under repurchase agreements	**272,602**	**2,167**	**1,059**	**816**	**276,644**	261,413
Commercial paper	**35,363**	**—**	**—**	**—**	**35,363**	41,794
Other borrowed funds[a]	**33,758**	**8,833**	**4,030**	**915**	**47,536**	50,398
Beneficial interests issued by consolidated VIEs	**38,989**	**24,310**	**4,708**	**9,642**	**77,649**	15,225
Long-term debt[a]	**41,290**	**64,544**	**38,272**	**82,403**	**226,509**	242,465
Current income taxes payable[b]	**—**	**—**	**—**	**—**	**—**	457
Other[c]	**2,450**	**1,141**	**961**	**2,777**	**7,329**	7,438
Total on-balance sheet obligations	**1,335,254**	**113,079**	**53,169**	**97,210**	**1,598,712**	1,554,455
Off-balance sheet obligations						
Unsettled reverse repurchase and securities borrowing agreements[d]	**39,927**	**—**	**—**	**—**	**39,927**	48,187
Contractual interest payments[e]	**12,887**	**13,089**	**9,297**	**43,181**	**78,454**	77,015
Operating leases[f]	**1,884**	**3,478**	**2,860**	**7,778**	**16,000**	15,952
Building purchase commitments[g]	**258**	**—**	**—**	**—**	**258**	670
Equity investment commitments[h]	**1,296**	**9**	**23**	**1,140**	**2,468**	2,374
Contractual purchases and capital expenditures	**1,384**	**701**	**335**	**402**	**2,822**	3,104
Obligations under affinity and co-brand programs	**990**	**2,002**	**1,475**	**1,334**	**5,801**	6,898
Other	**142**	**120**	**32**	**15**	**309**	15
Total off-balance sheet obligations	**58,768**	**19,399**	**14,022**	**53,850**	**146,039**	154,215
Total contractual cash obligations	**$ 1,394,022**	**$ 132,478**	**$ 67,191**	**$ 151,060**	**$ 1,744,751**	$ 1,708,670

(a) Excludes structured notes where the Firm is not obligated to return a stated amount of principal at the maturity of the notes, but is obligated to return an amount based on the performance of the structured notes.

(b) 2011 excludes the expected benefit of net prepayments of income taxes as of December 31, 2010.

(c) Primarily includes deferred annuity contracts, pension and postretirement obligations and insurance liabilities.

(d) For further information, refer to Unsettled reverse repurchase and securities borrowing agreements in Note 30 on page 278 of this Annual Report.

(e) Includes accrued interest and future contractual interest obligations. Excludes interest related to structured notes where the Firm's payment obligation is based on the performance of certain benchmarks.

(f) Includes noncancelable operating leases for premises and equipment used primarily for banking purposes and for energy-related tolling service agreements. Excludes the benefit of noncancelable sublease rentals of $1.8 billion at both December 31, 2010 and 2009.

(g) For further information, refer to Building purchase commitments in Note 30 on page 278 of this Annual Report.

(h) At December 31, 2010 and 2009, includes unfunded commitments of $1.0 billion and $1.5 billion, respectively, to third-party private equity funds that are generally fair valued at net asset value as discussed in Note 3 on pages 170–187 of this Annual Report; and $1.4 billion and $897 million, respectively, to other equity investments.

Repurchase liability

In connection with the Firm's loan sale and securitization activities with Fannie Mae and Freddie Mac (the "GSEs") and other loan sale and private-label securitization transactions, the Firm has made representations and warranties that the loans sold meet certain requirements. For transactions with the GSEs, these representations relate to type of collateral, underwriting standards, validity of certain borrower representations in connection with the loan, primary mortgage insurance being in force for any mortgage loan with a loan-to-value ratio ("LTV") greater than 80%, and the use of the GSEs' standard legal documentation. The Firm may be, and has been, required to repurchase loans and/or indemnify the GSEs and other investors for losses due to material breaches of these representations and warranties; however, predominantly all of the repurchase demands received by the Firm and the Firm's losses realized to date are related to loans sold to the GSEs.

To date, the repurchase demands the Firm has received from the GSEs primarily relate to loans originated from 2005 to 2008. Demands against the pre-2005 and post-2008 vintages have not been significant; the Firm attributes this to the comparatively favorable credit performance of these vintages and to the enhanced underwriting and loan qualification standards implemented progressively during 2007 and 2008. From 2005 to 2008, excluding Washington Mutual, loans sold to the GSEs subject to representations and warranties for which the Firm may be liable were approximately $380 billion; this amount represents the principal amount of loans sold throughout 2005 to 2008 and has not been adjusted for subsequent activity, such as borrower repayments of principal or repurchases completed to date. See the discussion below for information concerning the process the Firm uses to evaluate repurchase demands for breaches of representations and warranties, and the Firm's estimate of probable losses related to such exposure.

From 2005 to 2008, Washington Mutual sold approximately $150 billion of loans to the GSEs subject to certain representations and warranties. Subsequent to the Firm's acquisition of certain assets and liabilities of Washington Mutual from the FDIC in September 2008, the Firm resolved and/or limited certain current and future repurchase demands for loans sold to the GSEs by Washington Mutual, although it remains the Firm's position that such obligations remain with the FDIC receivership. Nevertheless, certain payments have been made with respect to certain of the then current and future repurchase demands, and the Firm will continue to evaluate and may pay certain future repurchase demands related to individual loans. In addition to the payments already made, the Firm estimates it has a remaining repurchase liability of approximately $190 million as of December 31, 2010, relating to unresolved and future demands on loans sold to the GSEs by Washington Mutual. After consideration of this repurchase liability, the Firm believes that the remaining GSE repurchase exposure related to Washington Mutual presents minimal future risk to the Firm's financial results.

The Firm also sells loans in securitization transactions with Ginnie Mae; these loans are typically insured by the Federal Housing Administration ("FHA") or the Rural Housing Administration ("RHA") and/or guaranteed by the U.S. Department of Veterans Affairs ("VA"). The Firm, in its role as servicer, may elect to repurchase delinquent loans securitized by Ginnie Mae in accordance with guidelines prescribed by Ginnie Mae, FHA, RHA and VA. Amounts due under the terms of these loans continue to be insured and the reimbursement of insured amounts is proceeding normally. Accordingly, the Firm has not recorded any repurchase liability related to these loans.

From 2005 to 2008, the Firm and certain acquired entities sold or deposited approximately $450 billion of residential mortgage loans to securitization trusts in private-label securitizations they sponsored. In connection therewith certain representations and warranties were made related to these loans. With respect to the $165 billion of private-label securitizations originated by Washington Mutual, it is the Firm's position that repurchase obligations remain with the FDIC receivership.

While the terms of the securitization transactions vary, they generally differ from loan sales to GSEs in that, among other things: (i) in order to direct the trustee to investigate loan files, the security holders must make a formal request for the trustee to do so, and typically, this requires agreement of the holders of a specified percentage of the outstanding securities; (ii) generally, the mortgage loans are not required to meet all GSE eligibility criteria; and (iii) in many cases, the party demanding repurchase is required to demonstrate that a loan-level breach of a representation or warranty has materially and adversely affected the value of the loan. Of the $450 billion originally sold or deposited (including $165 billion by Washington Mutual, as to which the Firm maintains the repurchase obligations remain with the FDIC receivership), approximately $180 billion of principal has been repaid. Approximately $80 billion of loans have been liquidated, with an average loss severity of 57%. The remaining outstanding principal balance of these loans as of December 31, 2010, was approximately $190 billion.

To date, loan-level repurchase demands in private-label securitizations have been limited. As a result, the Firm's repurchase reserve primarily relates to loan sales to the GSEs and is predominantly derived from repurchase activity with the GSEs. While it is possible that the volume of repurchase demands in private-label securitizations will increase in the future, the Firm cannot offer a reasonable estimate of those future demands based on historical experience to date. Thus far, claims related to private-label securitizations (including from insurers that have guaranteed certain obligations of the securitization trusts) have generally manifested themselves through securities-related litigation. The Firm separately evaluates its exposure to such litigation in establishing its litigation reserves. For additional information regarding litigation, see Note 32 on pages 282–289 of this Annual Report.

Repurchase Demand Process

The Firm first becomes aware that a GSE is evaluating a particular loan for repurchase when the Firm receives a request from the GSE to review the underlying loan file ("file request"). Upon completing its review, the GSE may submit a repurchase demand to the Firm; historically, most file requests have not resulted in repurchase demands.

The primary reasons for repurchase demands from the GSEs relate to alleged misrepresentations primarily arising from: (i) credit quality and/or undisclosed debt of the borrower; (ii) income level and/or employment status of the borrower; and (iii) appraised value of collateral. Ineligibility of the borrower for the particular product, mortgage insurance rescissions and missing documentation are other reasons for repurchase demands. Beginning in 2009, mortgage insurers more frequently rescinded mortgage insurance coverage. The successful rescission of mortgage insurance typically results in a violation of representations and warranties made to the GSEs and, therefore, has been a significant cause of repurchase demands from the GSEs. The Firm actively reviews all rescission notices from mortgage insurers and contests them when appropriate.

As soon as practicable after receiving a repurchase demand from a GSE, the Firm evaluates the request and takes appropriate actions based on the nature of the repurchase demand. Loan-level appeals with the GSEs are typical and the Firm seeks to provide a final response to a repurchase demand within three to four months of the date of receipt. In many cases, the Firm ultimately is not required to repurchase a loan because it is able to resolve the purported defect. Although repurchase demands may be made for as long as the loan is outstanding, most repurchase demands from the GSEs historically have related to loans that became delinquent in the first 24 months following origination.

When the Firm accepts a repurchase demand from one of the GSEs, the Firm may either a) repurchase the loan or the underlying collateral from the GSE at the unpaid principal balance of the loan plus accrued interest, or b) reimburse the GSE for its realized loss on a liquidated property (a "make-whole" payment).

Estimated Repurchase Liability

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

(i) the level of current unresolved repurchase demands and mortgage insurance rescission notices,
(ii) estimated probable future repurchase demands considering historical experience,
(iii) the potential ability of the Firm to cure the defects identified in the repurchase demands ("cure rate"),
(iv) the estimated severity of loss upon repurchase of the loan or collateral, make-whole settlement, or indemnification,
(v) the Firm's potential ability to recover its losses from third-party originators, and
(vi) the terms of agreements with certain mortgage insurers and other parties.

Based on these factors, the Firm has recognized a repurchase liability of $3.3 billion and $1.7 billion, including the Washington Mutual liability described above, as of December 31, 2010, and 2009, respectively.

The following table provides information about outstanding repurchase demands and mortgage insurance rescission notices, excluding those related to Washington Mutual, at each of the five most recent quarter-end dates. Due to the rate at which developments have occurred in this area, management does not believe that it would be useful or meaningful to report quarterly information for periods prior to the quarter ended December 31, 2009; the most meaningful trends are those which are more recent.

Outstanding repurchase demands and mortgage insurance rescission notices by counterparty type

(in millions)	**December 31, 2010**	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
GSEs and other	**$ 1,071**	$ 1,063	$ 1,331	$ 1,358	$ 1,339
Mortgage insurers	**624**	556	998	1,090	865
Overlapping population(a)	**(63)**	(69)	(220)	(232)	(169)
Total	**$ 1,632**	$ 1,550	$ 2,109	$ 2,216	$ 2,035

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

Probable future repurchase demands are generally estimated based on loans that are or ever have been 90 days past due. The Firm estimates probable future repurchase demands by considering the unpaid principal balance of these delinquent loans and expected repurchase demand rates based on historical experience and data, including the age of the loan when it first became delinquent. Through the first three quarters of 2010, the Firm experienced a sustained trend of increased file requests and repurchase demands from the GSEs across most vintages, including the 2005-2008 vintages, in spite of improved delinquency statistics and the aging of the 2005-2008 vintages. File requests from the GSEs, excluding those related to Washington Mutual, and private investors decreased by 29% between the second and third quarters of 2009 and remained relatively stable through the fourth quarter of 2009. After this period of decline and relative stability, file requests from the GSEs and private investors then experienced quarter over quarter increases of 5%, 18% and 15% in the first, second and third quarters of 2010, respectively. The number of file requests received from the GSEs and private investors decreased in the fourth quarter of 2010, but the level of file requests continues to be elevated and volatile.

The Firm expects that the change in GSE behavior that it began to observe earlier in 2010 will alter the historical relationship between delinquencies and repurchase demands. In response to these changing trends, in the third quarter of 2010, the Firm refined its estimate of probable future repurchase demands by separately forecasting near-term repurchase demands (using outstanding file requests) and longer-term repurchase demands (considering delinquent loans for which no file request has been received). The Firm believes that this refined estimation process produces a better estimate of probable future repurchase demands since it directly incorporates the Firm's recent file request experience. The Firm also believes that the refined estimation process will better reflect emerging trends in file requests as well as the relationship between file requests and ultimate repurchase demands. This refinement in the Firm's estimation process resulted in a higher estimated amount of probable future demands from the GSEs, and this revised future repurchase demand assumption, along with an overall increase in repurchase demands from the GSEs during 2010, were the primary drivers of the $1.6 billion increase in the Firm's repurchase liability during 2010.

The following tables show the trend in repurchase demands and mortgage insurance rescission notices received by loan origination vintage, excluding those related to Washington Mutual, for the five most recent quarters. Due to the rate at which developments have occurred in this area, management does not believe that it would be useful or meaningful to report quarterly information for periods prior to the quarter ended December 31, 2009; the most meaningful trends are those which are more recent.

Quarterly repurchase demands received by loan origination vintage

(in millions)	**December 31, 2010**	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
Pre-2005	**$ 38**	$ 31	$ 35	$ 16	$ 12
2005	**72**	67	94	50	40
2006	**195**	185	234	189	166
2007	**537**	498	521	403	425
2008	**254**	191	186	98	157
Post-2008	**65**	46	53	20	26
Total repurchase demands received	**$1,161**	$ 1,018	$ 1,123	$ 776	$ 826

Quarterly mortgage insurance rescission notices received by loan origination vintage

(in millions)	**December 31, 2010**	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
Pre-2005	**$ 3**	$ 4	$ 4	$ 2	$ 3
2005	**7**	5	7	18	22
2006	**40**	39	39	57	50
2007	**113**	105	155	203	221
2008	**49**	44	52	60	69
Post-2008	**1**	—	—	—	—
Total mortgage insurance rescissions received(a)	**$ 213**	$ 197	$ 257	$ 340	$ 365

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

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

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

When a loan was originated by a third-party correspondent, the Firm typically has the right to seek a recovery of related repurchase losses from the correspondent originator. Correspondent-originated loans comprise approximately 40 percent of loans underlying outstanding repurchase demands, excluding those related to Washington Mutual. The Firm experienced a decrease in third-party recoveries from late 2009 into 2010. However, the actual third-party recovery rate may vary from quarter to quarter based upon the underlying mix of correspondents (e.g., active, inactive, out-of-business) from which recoveries are being sought.

The Firm is engaged in discussions with various mortgage insurers on their rights and practices of rescinding mortgage insurance coverage. The Firm has entered into agreements with two mortgage insurers to resolve their claims on certain portfolios for which the Firm is a servicer. The impact of these agreements is reflected in the repurchase liability and the disclosed outstanding mortgage insurance rescission notices as of December 31, 2010.

Substantially all of the estimates and assumptions underlying the Firm's methodology for computing its recorded repurchase liability—including factors such as the amount of probable future demands from purchasers (which is in part based on historical experience), the ability of the Firm to cure identified defects, the severity of loss upon repurchase or foreclosure and recoveries from third parties—require application of a significant level of management judgment. Estimating the repurchase liability is further complicated by limited and rapidly changing historical data and uncertainty surrounding numerous external factors, including: (i) economic factors (e.g., further declines in home prices and changes in borrower behavior may lead to increases in the number of defaults, the severity of losses, or both), and (ii) the level of future demands, which is dependent, in part, on actions taken by third parties, such as the GSEs and mortgage insurers. While the Firm uses the best information available to it in estimating its repurchase liability, the estimation process is inherently uncertain, imprecise and potentially volatile as additional information is obtained and external factors continue to evolve.

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

Summary of changes in repurchase liability

Year ended December 31, (in millions)	**2010**	2009	2008
Repurchase liability at beginning of period	**$ 1,705**	$ 1,093	$ 15
Realized losses[(a)]	**(1,423)**	(1,253)[(c)]	(155)
Provision for repurchase losses	**3,003**	1,865	1,233[(d)]
Repurchase liability at end of period	**$ 3,285**[(b)]	$ 1,705	$ 1,093

(a) Includes principal losses and accrued interest on repurchased loans, "make-whole" settlements, settlements with claimants, and certain related expense. For the years ended December 31, 2010, 2009 and 2008, make-whole settlements were $632 million, $277 million and $34 million, respectively.
(b) Includes $190 million at December 31, 2010, related to future demands on loans sold by Washington Mutual to the GSEs.
(c) Includes the Firm's resolution of certain current and future repurchase demands for certain loans sold by Washington Mutual. The unpaid principal balance of loans related to this resolution is not included in the table below, which summarizes the unpaid principal balance of repurchased loans.
(d) Includes a repurchase liability assumed for certain loans sold by Washington Mutual; this assumed liability was reported as a reduction of the extraordinary gain rather than as a charge to the provision for repurchase losses.

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

Unpaid principal balance of loan repurchases[(a)]

Year ended December 31, (in millions)	**2010**	2009	2008
Ginnie Mae[(b)]	**$ 8,717**	$ 6,966	$ 4,452
GSEs and other[(c)(d)]	**1,790**	1,019	587
Total	**$10,507**	$ 7,985	$ 5,039

(a) Excludes mortgage insurers. While the rescission of mortgage insurance may ultimately trigger a repurchase demand, the mortgage insurers themselves do not present repurchase demands to the Firm.
(b) In substantially all cases, these repurchases represent the Firm's voluntary repurchase of certain delinquent loans from loan pools or packages as permitted by Ginnie Mae guidelines (i.e., they do not result from repurchase demands due to breaches of representations and warranties). In certain cases, the Firm repurchases these delinquent loans as it continues to service them and/or manage the foreclosure process in accordance with applicable requirements of Ginnie Mae, the FHA, RHA and/or the VA.
(c) Predominantly all of the repurchases related to the GSEs.
(d) Nonaccrual loans held-for-investment included $354 million and $218 million at December 31, 2010 and 2009, respectively, of loans repurchased as a result of breaches of representations and warranties.

CAPITAL MANAGEMENT

A strong capital position is essential to the Firm's business strategy and competitive position. The Firm's capital strategy focuses on long-term stability, which enables it to build and invest in market-leading businesses, even in a highly stressed environment. Senior management considers the implications on the Firm's capital strength prior to making any decision on future business activities. Capital and earnings are inextricably linked, as earnings directly affect capital generation for the Firm. In addition to considering the Firm's earnings outlook, senior management evaluates all sources and uses of capital and makes decisions to vary sources or uses to preserve the Firm's capital strength.

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

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

To meet these objectives, the Firm maintains a robust and disciplined capital adequacy assessment process, which is performed quarterly, and which is intended to enable the Firm to remain well-capitalized and fund ongoing operations under adverse conditions. The process assesses the potential impact of alternative economic and business scenarios on earnings and capital for the Firm's businesses individually and in the aggregate over a rolling three-year period. Economic scenarios, and the parameters underlying those scenarios, are defined centrally and applied uniformly across the businesses. These scenarios are articulated in terms of macroeconomic factors, which are key drivers of business results; global market shocks, which generate short-term but severe trading losses; and operational risk events, which generate significant one-time losses. However, even when defining a broad range of scenarios, realized events can always be worse. Accordingly, management considers additional stresses outside these scenarios as necessary. The Firm utilized this capital adequacy process in completing the Federal Reserve Comprehensive Capital Plan. The assessment of capital adequacy is also evaluated together with the Firm's Liquidity Risk Management processes. For further information on the Firm's liquidity risk management, see pages 110–115 of this Annual Report.

The quality and composition of capital are key factors in senior management's evaluation of the Firm's capital adequacy. Accordingly, the Firm holds a significant amount of its capital in the form of common equity. The Firm uses three capital disciplines:

- *Regulatory capital* – The capital required according to standards stipulated by U.S. bank regulatory agencies.
- *Economic risk capital* – A bottom-up assessment of the underlying risks of the Firm's business activities, utilizing internal risk-assessment methodologies.
- *Line of business equity* – The amount of equity the Firm believes each business segment would require if it were operating independently, which incorporates sufficient capital to address economic risk measures, regulatory capital requirements and capital levels for similarly rated peers.

Regulatory capital

The Federal Reserve establishes capital requirements, including well-capitalized standards, for the consolidated financial holding company. The Office of the Comptroller of the Currency ("OCC") establishes similar capital requirements and standards for the Firm's national banks, including JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A.

In connection with the U.S. Government's Supervisory Capital Assessment Program in 2009, U.S. banking regulators developed a new measure of capital, Tier 1 common, which is defined as Tier 1 capital less elements of Tier 1 capital not in the form of common equity – such as perpetual preferred stock, noncontrolling interests in subsidiaries and trust preferred capital debt securities. Tier 1 common, a non-GAAP financial measure, is used by banking regulators, investors and analysts to assess and compare the quality and composition of the Firm's capital with the capital of other financial services companies. The Firm uses Tier 1 common along with the other capital measures to assess and monitor its capital position.

At December 31, 2010 and 2009, JPMorgan Chase maintained Tier 1 and Total capital ratios in excess of the well-capitalized standards established by the Federal Reserve, as indicated in the tables below. In addition, the Firm's Tier 1 common ratio was significantly above the 4% well-capitalized standard established at the time of the Supervisory Capital Assessment Program. For more information, see Note 29 on pages 273–274 of this Annual Report.

Risk-based capital ratios

December 31,	2010	2009
Tier 1 capital[(a)]	**12.1%**	11.1%
Total capital	**15.5**	14.8
Tier 1 leverage	**7.0**	6.9
Tier 1 common	**9.8**	8.8

(a) On January 1, 2010, the Firm adopted accounting standards which required the consolidation of the Firm's credit card securitization trusts, Firm-administered multi-seller conduits, and certain mortgage and other consumer securitization entities. Refer to Note 16 on pages 244–259 of this Annual Report for additional information about the impact to the Firm of the new guidance.

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

Risk-based capital components and assets

December 31, (in millions)	2010	2009
Tier 1 capital		
Tier 1 common:		
Total stockholders' equity	**$ 176,106**	$ 165,365
Less: Preferred stock	**7,800**	8,152
Common stockholders' equity	**168,306**	157,213
Effect of certain items in accumulated other comprehensive income/(loss) excluded from Tier 1 common equity	**(748)**	75
Less: Goodwill[(a)]	**46,915**	46,630
Fair value DVA on derivative and structured note liabilities related to the Firm's credit quality	**1,261**	912
Investments in certain subsidiaries and other	**1,032**	802
Other intangible assets[(a)]	**3,587**	3,660
Tier 1 common	**114,763**	105,284
Preferred stock	**7,800**	8,152
Qualifying hybrid securities and noncontrolling interests[(b)]	**19,887**	19,535
Total Tier 1 capital	**142,450**	132,971
Tier 2 capital		
Long-term debt and other instruments qualifying as Tier 2	**25,018**	28,977
Qualifying allowance for credit losses	**14,959**	15,296
Adjustment for investments in certain subsidiaries and other	**(211)**	(171)
Total Tier 2 capital	**39,766**	44,102
Total qualifying capital	**$ 182,216**	$ 177,073
Risk-weighted assets[(c)(d)]	**$ 1,174,978**	$1,198,006
Total adjusted average assets[(e)]	**$ 2,024,515**	$1,933,767

(a) Goodwill and other intangible assets are net of any associated deferred tax liabilities.
(b) Primarily includes trust preferred capital debt securities of certain business trusts.
(c) Risk-weighted assets consist of on– and off–balance sheet assets that are assigned to one of several broad risk categories and weighted by factors representing their risk and potential for default. On–balance sheet assets are risk-weighted based on the perceived credit risk associated with the obligor or counterparty, the nature of any collateral, and the guarantor, if any. Off–balance sheet assets – such as lending-related commitments, guarantees, derivatives and other applicable off–balance sheet positions – are risk-weighted by multiplying the contractual amount by the appropriate credit conversion factor to determine the on–balance sheet credit-equivalent amount, which is then risk-weighted based on the same factors used for on–balance sheet assets. Risk-weighted assets also incorporate a measure for the market risk related to applicable trading assets–debt and equity instruments, and foreign exchange and commodity derivatives. The resulting risk-weighted values for each of the risk categories are then aggregated to determine total risk-weighted assets.
(d) Includes off–balance sheet risk-weighted assets at December 31, 2010 and 2009, of $282.9 billion and $367.4 billion, respectively. Risk-weighted assets are calculated in accordance with U.S. federal regulatory capital standards.
(e) Adjusted average assets, for purposes of calculating the leverage ratio, include total average assets adjusted for unrealized gains/(losses) on securities, less deductions for disallowed goodwill and other intangible assets, investments in certain subsidiaries, and the total adjusted carrying value of nonfinancial equity investments that are subject to deductions from Tier 1 capital.

The Firm's Tier 1 common capital was $114.8 billion at December 31, 2010, compared with $105.3 billion at December 31, 2009, an increase of $9.5 billion. The increase was predominantly due to net income (adjusted for DVA) of $17.0 billion and net issuances and commitments to issue common stock under the Firm's employee stock-based compensation plans of $2.8 billion. The increase was partially offset by $4.4 billion of cumulative effect adjustments to retained earnings that predominantly resulted from the adoption of new accounting guidance related to VIEs; $3.0 billion of common stock repurchases; $1.5 billion of dividends on common and preferred stock; and a $1.3 billion reduction related to the purchase of the remaining interest in a consolidated subsidiary from noncontrolling shareholders. The Firm's Tier 1 capital was $142.5 billion at December 31, 2010, compared with $133.0 billion at December 31, 2009, an increase of $9.5 billion. The increase in Tier 1 capital reflected the increase in Tier 1 common and a net issuance of trust preferred capital debt securities, offset by the redemption of preferred stock.

For additional information regarding federal regulatory capital requirements and capital ratios of the Firm and the Firm's significant banking subsidiaries at December 31, 2010 and 2009, see Note 29 on pages 273–274 of this Annual Report.

Basel II

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

Prior to full implementation of the new Basel II Framework, JPMorgan Chase is required to complete a qualification period of four consecutive quarters during which it needs to demonstrate that it meets the requirements of the rule to the satisfaction of its primary U.S. banking regulators. The U.S. implementation timetable consists of the qualification period, starting no later than April 1, 2010, followed by a minimum transition period of three years. During the transition period, Basel II risk-based capital requirements cannot fall below certain floors based on current Basel l regulations. JPMorgan Chase is currently in the qualification period and expects to be in compliance with all relevant Basel II rules within the established timelines. In addition, the Firm has adopted, and will continue to adopt, based on various established timelines, Basel II rules in certain non-U.S. jurisdictions, as required.

Basel III

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

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

The Firm fully expects to be in compliance with the higher Basel III capital standards when they become effective on January 1, 2019, as well as additional Dodd-Frank Act capital requirements when they are implemented. The Firm estimates that its Tier 1 common ratio under Basel III rules (including the changes for calculating capital on trading assets and securitizations) would be 7% as of December 31, 2010. This estimate reflects the Firm's current understanding of the Basel III rules and their application to its businesses as currently conducted; accordingly, this estimate will evolve over time as the Firm's businesses change and as a result of further rule-making on Basel III implementation from U.S. federal banking agencies. The Firm also believes it may need to modify the current liquidity profile of its assets and liabilities in response to the short-term liquidity coverage and term funding standards contained in Basel III. The Basel III revisions governing liquidity and capital requirements are subject to prolonged observation and transition periods. The observation period for the liquidity coverage ratio and term funding standards begins in 2011, with implementation in 2015 and 2018, respectively. The transition period for banks to meet the revised common equity requirement will begin in 2013, with implementation on January 1, 2019. The Firm will continue to monitor the ongoing rule-making process to assess both the timing and the impact of Basel III on its businesses and financial condition.

Broker-dealer regulatory capital

JPMorgan Chase's principal U.S. broker-dealer subsidiaries are J.P. Morgan Securities LLC ("JPMorgan Securities"; formerly J.P. Morgan Securities Inc.), and J.P. Morgan Clearing Corp. ("JPMorgan Clearing"). JPMorgan Securities became a limited liability company on September 1, 2010. JPMorgan Clearing is a subsidiary of JPMorgan Securities and provides clearing and settlement services. JPMorgan Securities and JPMorgan Clearing are each subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (the "Net Capital Rule"). JPMorgan Securities and JPMorgan Clearing are also registered as futures commission merchants and subject to Rule 1.17 of the Commodity Futures Trading Commission ("CFTC").

JPMorgan Securities and JPMorgan Clearing have elected to compute their minimum net capital requirements in accordance with the "Alternative Net Capital Requirements" of the Net Capital Rule. At December 31, 2010, JPMorgan Securities' net capital, as defined by the Net Capital Rule, was $6.9 billion, exceeding the minimum requirement by $6.3 billion, and JPMorgan Clearing's net capital was $5.7 billion, exceeding the minimum requirement by $3.9 billion.

In addition to its minimum net capital requirement, JPMorgan Securities is required to hold tentative net capital in excess of $1.0 billion and is also required to notify the Securities and Exchange Commission ("SEC") in the event that tentative net capital is less than $5.0 billion, in accordance with the market and credit risk standards of Appendix E of the Net Capital Rule. As of December 31, 2010, JPMorgan Securities had tentative net capital in excess of the minimum and notification requirements.

Economic risk capital

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

Economic risk capital	Yearly Average	
Year ended December 31, (in billions)	**2010**	2009
Credit risk	**$ 49.7**	$ 51.3
Market risk	**15.1**	15.4
Operational risk	**7.4**	8.5
Private equity risk	**6.2**	4.7
Economic risk capital	**78.4**	79.9
Goodwill	**48.6**	48.3
Other[(a)]	**34.5**	17.7
Total common stockholders' equity	**$ 161.5**	$ 145.9

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

Credit risk capital

Credit risk capital is estimated separately for the wholesale businesses (IB, CB, TSS and AM) and consumer businesses (RFS and CS).

Credit risk capital for the overall wholesale credit portfolio is defined in terms of unexpected credit losses, both from defaults and from declines in the portfolio value due to credit deterioration measured over a one-year period at a confidence level consistent with an "AA" credit rating standard. Unexpected losses are losses in excess of those for which allowances for credit losses are maintained. The capital methodology is based on several principal drivers of credit risk: exposure at default (or loan-equivalent amount), default likelihood, credit spreads, loss severity and portfolio correlation.

Credit risk capital for the consumer portfolio is based on product and other relevant risk segmentation. Actual segment-level default and severity experience are used to estimate unexpected losses for a one-year horizon at a confidence level consistent with an "AA" credit rating standard. See Credit Risk Management on pages 116–118 of this Annual Report for more information about these credit risk measures.

Market risk capital

The Firm calculates market risk capital guided by the principle that capital should reflect the risk of loss in the value of portfolios and financial instruments caused by adverse movements in market variables, such as interest and foreign exchange rates, credit spreads, and securities and commodities prices, taking into account the liquidity of the financial instruments. Results from daily VaR, biweekly stress-tests, issuer credit spreads and default risk calculations, as well as other factors, are used to determine appropriate capital levels. Market risk capital is allocated to each business segment based on its risk assessment. See Market Risk Management on pages 142–146 of this Annual Report for more information about these market risk measures.

Operational risk capital

Capital is allocated to the lines of business for operational risk using a risk-based capital allocation methodology which estimates operational risk on a bottom-up basis. The operational risk capital model is based on actual losses and potential scenario-based stress losses, with adjustments to the capital calculation to reflect changes in the quality of the control environment or the use of risk-transfer products. The Firm believes its model is consistent with the Basel II Framework. See Operational Risk Management on pages 147–148 of this Annual Report for more information about operational risk.

Private equity risk capital

Capital is allocated to privately- and publicly-held securities, third-party fund investments, and commitments in the private equity portfolio to cover the potential loss associated with a decline in equity markets and related asset devaluations. In addition to negative market fluctuations, potential losses in private equity investment portfolios can be magnified by liquidity risk. Capital allocation for the private equity portfolio is based on measurement of the loss experience suffered by the Firm and other market participants over a prolonged period of adverse equity market conditions.

Line of business equity

The Firm's framework for allocating capital is based on the following objectives:

- Integrate firmwide capital management activities with capital management activities within each of the lines of business;
- Measure performance consistently across all lines of business; and
- Provide comparability with peer firms for each of the lines of business

Equity for a line of business represents the amount the Firm believes the business would require if it were operating independently, incorporating sufficient capital to address economic risk measures, regulatory capital requirements and capital levels for similarly rated peers. Capital is also allocated to each line of business for, among other things, goodwill and other intangibles associated with acquisitions effected by the line of business. Return on common equity is measured and internal targets for expected returns are established as key measures of a business segment's performance.

Line of business equity		
December 31, (in billions)	**2010**	2009
Investment Bank	**$ 40.0**	$ 33.0
Retail Financial Services	**28.0**	25.0
Card Services	**15.0**	15.0
Commercial Banking	**8.0**	8.0
Treasury & Securities Services	**6.5**	5.0
Asset Management	**6.5**	7.0
Corporate/Private Equity	**64.3**	64.2
Total common stockholders' equity	**$ 168.3**	$ 157.2

Line of business equity		Yearly Average	
(in billions)	**2010**	200	2008
Investment Bank	**$ 40.0**	$ 33.0	$ 26.1
Retail Financial Services	**28.0**	25.0	19.0
Card Services	**15.0**	15.0	14.3
Commercial Banking	**8.0**	8.0	7.3
Treasury & Securities Services	**6.5**	5.0	3.8
Asset Management	**6.5**	7.0	5.6
Corporate/Private Equity	**57.5**	52.9	53.0
Total common stockholders' equity	**$ 161.5**	$ 145.9	$ 129.1

Effective January 1, 2010, the Firm enhanced its line of business equity framework to better align equity assigned to the lines of business with changes anticipated to occur in each line of business, and to reflect the competitive and regulatory landscape. The lines of business are now capitalized based on the Tier 1 common standard, rather than the Tier 1 capital standard. In 2011, the Firm will further evaluate its line-of-business equity framework as appropriate to reflect future Basel III Tier 1 common capital requirements.

Capital actions

Dividends

On February 23, 2009, the Board of Directors reduced the Firm's quarterly common stock dividend from $0.38 to $0.05 per share, effective with the dividend paid on April 30, 2009, to shareholders of record on April 6, 2009. The action enabled the Firm to retain approximately $5.5 billion in common equity in each of 2010 and 2009, and was taken to ensure the Firm had sufficient capital strength in the event the very weak economic conditions that existed at the beginning of 2009 deteriorated further. JPMorgan Chase declared quarterly cash dividends on its common stock in the amount of $0.05 per share for each quarter of 2010 and 2009.

For information regarding dividend restrictions, see Note 23 and Note 28 on pages 267–268 and 273, respectively, of this Annual Report.

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

Year ended December 31,	**2010**	2009	2008
Common dividend payout ratio	**5%**	9%	114%

Issuance

On June 5, 2009, the Firm issued $5.8 billion, or 163 million shares, of common stock at $35.25 per share. On September 30, 2008, the Firm issued $11.5 billion, or 284 million shares, of common stock at $40.50 per share. The proceeds from these issuances were used for general corporate purposes. For additional information regarding common stock, see Note 24 on page 268 of this Annual Report.

Capital Purchase Program

Pursuant to the U.S. Treasury's Capital Purchase Program, on October 28, 2008, the Firm issued to the U.S. Treasury, for total proceeds of $25.0 billion, (i) 2.5 million shares of Series K Preferred Stock, and (ii) a Warrant to purchase up to 88,401,697 shares of the Firm's common stock, at an exercise price of $42.42 per share, subject to certain antidilution and other adjustments. On June 17, 2009, the Firm redeemed all of the outstanding shares of Series K Preferred Stock and repaid the full $25.0 billion principal amount together with accrued dividends. The U.S. Treasury exchanged the Warrant for 88,401,697 warrants, each of which is a warrant to purchase a share of the Firm's common stock at an exercise price of $42.42 per share, and, on December 11, 2009, sold the warrants in a secondary public offering for $950 million. The Firm did not purchase any of the warrants sold by the U.S. Treasury.

Stock repurchases

Under the stock repurchase program authorized by the Firm's Board of Directors, the Firm is authorized to repurchase up to $10.0 billion of the Firm's common stock plus the 88 million warrants sold by the U.S. Treasury in 2009. During 2009, the Firm did not repurchase any shares of its common stock or warrants. In the second quarter of 2010, the Firm resumed common stock repurchases, and during the year repurchased an aggregate of 78 million shares for $3.0 billion at an average price per share of $38.49. The Firm's share repurchase activities in 2010 were intended to offset sharecount increases resulting from employee stock-based incentive awards and were consistent with the Firm's goal of maintaining an appropriate sharecount. The Firm did not repurchase any of the warrants during 2010. As of December 31, 2010, $3.2 billion of authorized repurchase capacity remained with respect to the common stock, and all of the authorized repurchase capacity remained with respect to the warrants.

The Firm may, from time to time, enter into written trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate the repurchase of common stock and warrants in accordance with the repurchase program. A Rule 10b5-1 repurchase plan allows the Firm to repurchase its equity during periods when it would not otherwise be repurchasing common stock – for example, during internal trading "black-out periods." All purchases under a Rule 10b5-1 plan must be made according to a predefined plan established when the Firm is not aware of material nonpublic information.

The authorization to repurchase common stock and warrants will be utilized at management's discretion, and the timing of purchases and the exact number of shares and warrants purchased is subject to various factors, including market conditions; legal considerations affecting the amount and timing of repurchase activity; the Firm's capital position (taking into account goodwill and intangibles); internal capital generation; and alternative potential investment opportunities. The repurchase program does not include specific price targets or timetables; may be executed through open market purchases or privately negotiated transactions, including through the use of Rule 10b5-1 programs; and may be suspended at any time.

For additional information regarding repurchases of the Firm's equity securities, see Part II, Item 5, Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities, on pages 13–14 of JPMorgan Chase's 2010 Form 10-K.

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

The Firm's overall risk appetite is established in the context of the Firm's capital, earnings power, and diversified business model. The Firm employs a formal risk appetite framework to clearly link risk appetite and return targets, controls and capital management. The Firm's CEO is responsible for setting the overall risk appetite of the Firm and the LOB CEOs are responsible for setting the risk appetite for their respective lines of business. The Risk Policy Committee of the Firm's Board of Directors approves the risk appetite policy on behalf of the entire Board of Directors.

Risk governance

The Firm's risk governance structure is based on the principle that each line of business is responsible for managing the risk inherent in its business, albeit with appropriate Corporate oversight. Each line of business risk committee is responsible for decisions regarding the business' risk strategy, policies and controls.

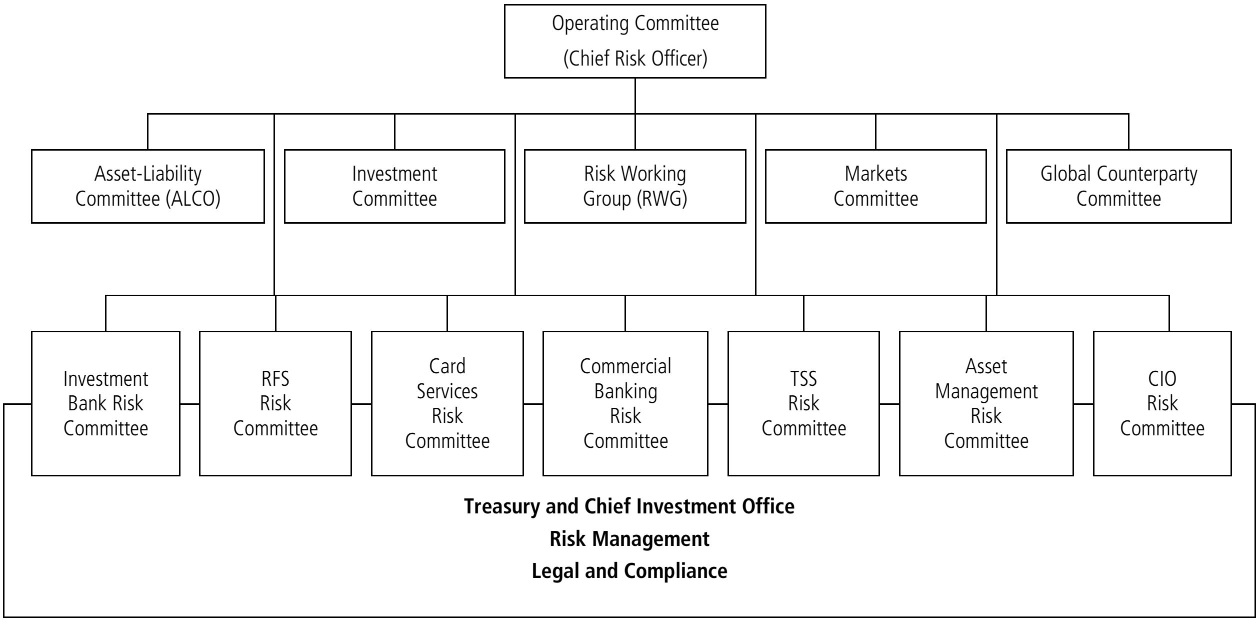
Overlaying line of business risk management are four corporate functions with risk management–related responsibilities: Risk Management, the Chief Investment Office, Corporate Treasury, and Legal and Compliance.

Risk Management operates independently to provide oversight of firmwide risk management and controls, and is viewed as a partner in achieving appropriate business objectives. Risk Management coordinates and communicates with each line of business through the line of business risk committees and chief risk officers to manage risk. The Risk Management function is headed by the Firm's Chief Risk Officer, who is a member of the Firm's Operating Committee and who reports to the Chief Executive Officer and the Board of Directors, primarily through the Board's Risk Policy Committee. The Chief Risk Officer is also a member of the line of business risk committees. Within the Firm's Risk Management function are units responsible for credit risk, market risk, operational risk and private equity risk, as well as risk reporting, risk policy and risk technology and operations. Risk technology and operations is responsible for building the information technology infrastructure used to monitor and manage risk.

The Chief Investment Office and Corporate Treasury are responsible for measuring, monitoring, reporting and managing the Firm's liquidity, interest rate and foreign exchange risk, and other structural risks.

Legal and Compliance has oversight for legal and fiduciary risk.

In addition to the risk committees of the lines of business and the above-referenced risk management functions, the Firm also has an Investment Committee, an Asset-Liability Committee and three other risk-related committees – the Risk Working Group, the Global Counterparty Committee and the Markets Committee. All of these committees are accountable to the Operating Committee. The membership of these committees are composed of senior management of the Firm, including representatives of lines of business, Risk Management, Finance and other senior executives. The committees meet frequently to discuss a broad range of topics including, for example, current market conditions and other external events, risk exposures, and risk concentrations to ensure that the impact of risk factors are considered broadly across the Firm's businesses.



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

The Investment Committee, chaired by the Firm's Chief Financial Officer, oversees global merger and acquisition activities undertaken by JPMorgan Chase for its own account that fall outside the scope of the Firm's private equity and other principal finance activities.

The Risk Working Group, chaired by the Firm's Chief Risk Officer, meets monthly to review issues that cross lines of business such as risk policy, risk methodology, risk concentrations, regulatory capital and other regulatory issues, and such other topics referred to it by line of business risk committees.

The Markets Committee, chaired by the Firm's Chief Risk Officer, meets weekly to review, monitor and discuss significant risk matters, which may include credit, market and operational risk issues; market moving events; large transactions; hedging strategies; reputation risk; conflicts of interest; and other issues.

The Global Counterparty Committee, chaired by the Firm's Chief Risk Officer, reviews exposures to counterparties when such exposure levels are above portfolio-established thresholds. The Committee meets quarterly to review total exposures with these counterparties, with particular focus on counterparty trading exposures to ensure that such exposures are deemed appropriate to support the Firm's trading activities, and to direct changes in exposure levels as needed.

The Board of Directors exercises its oversight of risk management, principally through the Board's Risk Policy Committee and Audit Committee. The Risk Policy Committee oversees senior management risk-related responsibilities, including reviewing management policies and performance against these policies and related benchmarks. The Audit Committee is responsible for oversight of guidelines and policies that govern the process by which risk assessment and management is undertaken. In addition, the Audit Committee reviews with management the system of internal controls that is relied upon to provide reasonable assurance of compliance with the Firm's operational risk management processes.

Risk monitoring and control

The Firm's ability to properly identify, measure, monitor and report risk is critical to both its soundness and profitability.

- Risk identification: The Firm's exposure to risk through its daily business dealings, including lending and capital markets activities, is identified and aggregated through the Firm's risk management infrastructure. In addition, individuals who manage risk positions, particularly those that are complex, are responsible for identifying and estimating potential losses that could arise from specific or unusual events that may not be captured in other models, and for communicating those risks to senior management.
- Risk measurement: The Firm measures risk using a variety of methodologies, including calculating probable loss, unexpected loss and value-at-risk, and by conducting stress tests and making comparisons to external benchmarks. Measurement models and related assumptions are routinely subject to internal model review, empirical validation and benchmarking with the goal of ensuring that the Firm's risk estimates are reasonable and reflective of the risk of the underlying positions.
- Risk monitoring/control: The Firm's risk management policies and procedures incorporate risk mitigation strategies and include approval limits by customer, product, industry, country and business. These limits are monitored on a daily, weekly and monthly basis, as appropriate.
- Risk reporting: The Firm reports risk exposures on both a line of business and a consolidated basis. This information is reported to management on a daily, weekly and monthly basis, as appropriate. There are eight major risk types identified in the business activities of the Firm: liquidity risk, credit risk, market risk, interest rate risk, private equity risk, operational risk, legal and fiduciary risk, and reputation risk.

LIQUIDITY RISK MANAGEMENT

The ability to maintain surplus levels of liquidity through economic cycles is crucial to financial services companies, particularly during periods of adverse conditions. The Firm's funding strategy is intended to ensure liquidity and diversity of funding sources to meet actual and contingent liabilities through both normal and stress periods.

JPMorgan Chase's primary sources of liquidity include a diversified deposit base, which was $930.4 billion at December 31, 2010, and access to the equity capital markets and long-term unsecured and secured funding sources, including asset securitizations and borrowings from FHLBs. Additionally, JPMorgan Chase maintains large pools of highly-liquid unencumbered assets. The Firm actively monitors the availability of funding in the wholesale markets across various geographic regions and in various currencies. The Firm's ability to generate funding from a broad range of sources in a variety of geographic locations and in a range of tenors is intended to enhance financial flexibility and limit funding concentration risk.

Management considers the Firm's liquidity position to be strong, based on its liquidity metrics as of December 31, 2010, and believes that the Firm's unsecured and secured funding capacity is sufficient to meet its on– and off–balance sheet obligations. The Firm was able to access the funding markets as needed during 2010 and throughout the recent financial crisis.

Governance

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

Liquidity monitoring

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

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

The idiosyncratic stress scenario employed by the Firm is a JPMorgan Chase-specific event that evaluates the Firm's net funding gap after a short-term ratings downgrade from the current level of A-1+/P-1 to A-2/P-2. The systemic market stress scenario evaluates the Firm's net funding gap during a period of severe market stress similar to market conditions in 2008 and assumes the Firm is not uniquely stressed versus its peers. The Firm's liquidity position is strong under the Firm-defined stress scenarios outlined above.

Parent holding company

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

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

Global Liquidity Reserve

In addition to the parent holding company, the Firm maintains a significant amount of liquidity – primarily at its bank subsidiaries, but also at its nonbank subsidiaries. The Global Liquidity Reserve represents consolidated sources of available liquidity to the Firm, including cash on deposit at central banks, and cash proceeds reasonably expected to be received in secured financings of highly liquid, unencumbered securities – such as government-issued debt, government- and FDIC-guaranteed corporate debt, U.S. government agency debt and agency mortgage-backed securities ("MBS"). The liquidity amount anticipated to be realized from secured financings is based on management's current judgment and assessment of the Firm's ability to quickly raise secured financings. The Global Liquidity Reserve also includes the Firm's borrowing capacity at various FHLBs, the Federal Reserve Bank discount window and various other central banks from collateral pledged by the Firm to such banks. Although considered as a source of available liquidity, the Firm does not view borrowing capacity at the Federal Reserve Bank discount window and various other central banks as a primary source of funding. As of December 31, 2010, the Global Liquidity Reserve was approximately $262 billion.

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

Basel III

On December 16, 2010, the Basel Committee published the final Basel III rules pertaining to capital and liquidity requirements, including minimum standards for short-term liquidity coverage – the liquidity coverage ratio (the "LCR") – and term funding – the net stable funding ratio (the "NSFR"). These minimum standards will be phased in over time. The observation period for both the LCR and the NSFR commences in 2011, with implementation in 2015 and 2018, respectively. For more information, see the discussion on Basel III on page 104 of this Annual Report.

Funding

Sources of funds

A key strength of the Firm is its diversified deposit franchise, through the RFS, CB, TSS and AM lines of business, which provides a stable source of funding and decreases reliance on the wholesale markets. As of December 31, 2010, total deposits for the Firm were $930.4 billion, compared with $938.4 billion at December 31, 2009. Average total deposits for the Firm were $881.1 billion during 2010, compared with $882.0 billion during 2009. The Firm typically experiences higher deposit balances at period ends driven by higher seasonal customer deposit inflows. A significant portion of the Firm's deposits are retail deposits (40% and 38% at December 31, 2010 and 2009, respectively), which are considered particularly stable as they are less sensitive to interest rate changes or market volatility. A significant portion of the Firm's wholesale deposits are also considered stable sources of funding due to the nature of the relationships from which they are generated, particularly customers' operating service relationships with the Firm. As of December 31, 2010, the Firm's deposits-to-loans ratio was 134%, compared with 148% at December 31, 2009. The decline in the Firm's deposits-to-loans ratio was predominately due to an increase in loans resulting from the January 1, 2010, implementation of new accounting guidance related to VIEs. The impact of the new accounting guidance on the deposits-to-loans ratio was partially offset by continued attrition of the heritage Washington Mutual residential loan and credit card loan portfolios. For further discussions of deposit and liability balance trends, see the discussion of the results for the Firm's business segments and the Balance Sheet Analysis on pages 69–88 and 92–94, respectively, of this Annual Report. For a more detailed discussion of the adoption of the new accounting guidance, see Note 1 on pages 164–165 of this Annual Report.

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

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

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

Short-term funding

The Firm's reliance on short-term unsecured funding sources such as federal funds and Eurodollars purchased, certificates of deposit, time deposits, commercial paper and bank notes is limited.

Total commercial paper liabilities for the Firm were $35.4 billion as of December 31, 2010, compared with $41.8 billion as of December 31, 2009. However, of those totals, $29.2 billion and $28.7 billion as of December 31, 2010 and 2009, respectively, originated from deposits that customers chose to sweep into commercial paper liabilities as a cash management product offered by the Firm. Therefore, commercial paper liabilities sourced from wholesale funding markets were $6.2 billion as of December 31, 2010, compared with $13.1 billion as of December 31, 2009. There were no material differences between the average and year-end balances of commercial paper outstanding for the year ended and as of December 31, 2010.

Securities loaned or sold under agreements to repurchase are secured predominantly by high quality securities collateral, including government-issued debt, agency debt and agency MBS. The balances of securities loaned or sold under agreements to repurchase, which constitute a significant portion of the federal funds purchased and securities loaned or sold under repurchase agreements, was $273.3 billion as of December 31, 2010, compared with $253.5 billion as of December 31, 2009. There were no material differences between the average and year-end balances of securities loaned or sold under agreements to repurchase for the year ended and as of December 31, 2010. The balances associated with securities loaned or sold under agreements to repurchase fluctuate over time due to customers' investment and financing activities; the Firm's demand for financing; the Firm's matched book activity; the ongoing management of the mix of the Firm's liabilities, including its secured and unsecured financing (for both the investment and trading portfolios); and other market and portfolio factors. For additional information, see the Balance Sheet Analysis on pages 92–94, Note 13 on page 219 and Note 20 on page 264 of this Annual Report.

The short-term portion of total other borrowed funds for the Firm was $34.3 billion as of December 31, 2010, compared with $32.9 billion as of December 31, 2009. There were no material differences between the average and year-end balances of other borrowed funds for the year ended and as of December 31, 2010.

For additional information, see the table for Short-term and other borrowed funds on page 299 of this Annual Report.

Long-term funding and issuance

During 2010, the Firm issued $36.1 billion of long-term debt, including $17.1 billion of senior notes issued in the U.S. market, $2.9 billion of senior notes issued in the non-U.S. markets, $1.5 billion of trust preferred capital debt securities, and $14.6 billion of IB structured notes. In addition, in January 2011, the Firm issued $4.3 billion of long-term debt, including $3.5 billion of senior notes in the U.S. market and $800 million of senior notes issued in non-U.S. markets. During 2009, the Firm issued $19.7 billion of FDIC-guaranteed long-term debt under the Temporary Liquidity Guarantee Program. During 2009, the Firm also issued non-FDIC-guaranteed debt of $16.1 billion (including $11.0 billion of senior notes and $2.5 billion of trust preferred capital debt securities issued in the U.S. market, and $2.6 billion of senior notes issued in non-U.S. markets) and $15.5 billion of IB structured notes. During 2010, $53.4 billion of long-term debt matured or were redeemed, including $907 million of trust preferred capital debt securities redeemed on December 28, 2010, through a tender offer, and $22.8 billion of IB structured notes. During 2009, $55.7 billion of long-term debt (including trust preferred capital debt securities) matured or were redeemed, including $27.2 billion of IB structured notes.

In addition to the unsecured long-term funding and issuances discussed above, the Firm securitizes consumer credit card loans, residential mortgages, auto loans and student loans for funding purposes. Loans securitized by the Firm's wholesale businesses are related to client-driven transactions and are not considered to be a source of funding for the Firm. Effective January 1, 2010, certain Firm-sponsored credit card loan, student loan and auto loan securitization trusts were consolidated as a result of the accounting guidance related to VIEs. As a result of consolidating these securitization trusts, the maturities or redemptions of the beneficial interests issued by the securitization trusts are reported as a component of the Firm's cash flows from financing activities. During 2010, the Firm did not securitize any credit card loans, residential mortgage loans, auto loans or student loans through consolidated or nonconsolidated securitization trusts. During 2009, the Firm securitized $26.5 billion of credit card loans via nonconsolidated securitization trusts. During 2010, $25.8 billion of loan securitizations matured or were redeemed, including $24.9 billion of credit card loan securitizations, $210 million of auto loan securitizations, $294 million of residential mortgage loan securitizations and $326 million of student loan securitizations. For further discussion of loan securitizations, see Note 16 on pages 244–259 in this Annual Report.

During 2010, the Firm borrowed $18.7 billion of new long-term advances from the FHLBs, which were offset by $18.6 billion of maturities. During 2009, the Firm did not access the FHLBs for any new long-term advances and maturities were $9.5 billion during the period.

Termination of replacement capital covenants

In connection with the issuance of certain of its trust preferred capital debt securities and its noncumulative perpetual preferred stock, the Firm had entered into Replacement Capital Covenants ("RCCs"). These RCCs granted certain rights to the holders of "covered debt," as defined in the RCCs, that prohibited the repayment, redemption or purchase of such trust preferred capital debt securities and noncumulative perpetual preferred stock except, with limited exceptions, to the extent that JPMorgan Chase had received, in each such case, specified amounts of proceeds from the sale of certain qualifying securities. On December 10, 2010, the Firm received consents from the holders of a majority in liquidation amount of the covered debt to the termination of the RCCs, and the Firm terminated the RCCs pursuant to their terms.

Cash flows

For the years ended December 31, 2010, 2009 and 2008, cash and due from banks increased $1.4 billion, and decreased $689 million and $13.2 billion, respectively. The following discussion highlights the major activities and transactions that affected JPMorgan Chase's cash flows during 2010, 2009 and 2008.

Cash flows from operating activities

JPMorgan Chase's operating assets and liabilities support the Firm's capital markets and lending activities, including the origination or purchase of loans initially designated as held-for-sale. Operating assets and liabilities can vary significantly in the normal course of business due to the amount and timing of cash flows, which are affected by client-driven activities, market conditions and trading strategies. Management believes cash flows from operations, available cash balances and the Firm's ability to generate cash through short- and long-term borrowings are sufficient to fund the Firm's operating liquidity needs.

For the year ended December 31, 2010, net cash used by operating activities was $3.8 billion, mainly driven by an increase primarily in trading assets—debt and equity instruments; principally due to improved market activity primarily in equity securities, foreign debt and physical commodities, partially offset by an increase in trading liabilities due to higher levels of positions taken to facilitate customer driven trading. Net cash was provided by net income and from adjustments for non-cash items such as the provision for credit losses, depreciation and amortization and stock-based compensation. Additionally, proceeds from sales and paydowns of loans originated or purchased with an initial intent to sell were higher than cash used to acquire such loans.

For the years ended December 31, 2009 and 2008, net cash provided by operating activities was $122.8 billion and $23.9 billion, respectively. In 2009, the net decline in trading assets and liabilities was affected by the impact of the challenging capital markets environment that existed in 2008, and continued into the first half of 2009. In 2009 and 2008, net cash generated from operating activities was higher than net income, largely as a result of adjustments for non-cash items such as the provision for credit losses. In addition, for 2009 and 2008 proceeds from sales, securitizations and paydowns of loans originated or purchased with an initial intent to sell were higher than cash used to acquire such loans, but the cash flows from these loan activities remained at reduced levels as a result of the lower activity in these markets.

Cash flows from investing activities

The Firm's investing activities predominantly include loans originated to be held for investment, the AFS securities portfolio and other short-term interest-earning assets. For the year ended December 31, 2010, net cash of $54.0 billion was provided by investing activities. This resulted from a decrease in deposits with banks largely due to a decline in deposits placed with the Federal Reserve Bank and lower interbank lending as market stress eased since the end of 2009; net sales and maturities of AFS securities used in the Firm's interest rate risk management activities largely due to repositioning of the portfolio in Corporate, in response to changes in the interest rate environment and to rebalance exposures; and a net decrease in the loan portfolio, driven by the expected runoff of the Washington Mutual credit card portfolio, a decline in lower-yielding promotional credit card balances, continued runoff of the residential real estate portfolios, and repayments and loan sales in IB and CB; the decrease was partially offset by higher originations across the wholesale and consumer businesses. Partially offsetting these cash proceeds was an increase in securities purchased under resale agreements, predominantly due to higher financing volume in IB; and cash used for business acquisitions, primarily RBS Sempra.

For the year ended December 31, 2009, net cash of $29.4 billion was provided by investing activities, primarily from a decrease in deposits with banks reflecting lower demand for inter-bank lending and lower deposits with the Federal Reserve Bank relative to the elevated levels at the end of 2008; a net decrease in the loan portfolio across most businesses, driven by continued lower customer demand and loan sales in the wholesale businesses, lower charge volume on credit cards, slightly higher credit card securitizations, and paydowns; and the maturity of all asset-backed commercial paper issued by money market mutual funds in connection with the AML facility of the Federal Reserve Bank of Boston. Largely offsetting these cash proceeds were net purchases of AFS securities associated with the Firm's management of interest rate risk and investment of cash resulting from an excess funding position.

For the year ended December 31, 2008, net cash of $283.7 billion was used in investing activities, primarily for: increased deposits with banks as the result of the availability of excess cash for short-term investment opportunities through interbank lending, and reserve balances held by the Federal Reserve (which became an investing activity in 2008, reflecting a policy change of the Federal Reserve to pay interest to depository institutions on reserve balances); net purchases of investment securities in the AFS portfolio to manage the Firm's exposure to interest rate movements; net additions to the wholesale loan portfolio from organic growth in CB; additions to the consumer prime mortgage portfolio as a result of the decision to retain, rather than sell, new originations of nonconforming prime mortgage loans; an increase in securities purchased under resale agreements reflecting growth in demand from clients for liquidity; and net purchases of asset-backed commercial paper from money market mutual funds in connection with the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility ("AML facility") of the Federal Reserve Bank of Boston. Partially offsetting these uses of cash were proceeds from loan sales and securitization activities as well as net cash received from acquisitions and the sale of an investment. Additionally, in June 2008, in connection with the Bear Stearns merger, the Firm sold assets acquired from Bear Stearns to the FRBNY and received cash proceeds of $28.85 billion.

Cash flows from financing activities

The Firm's financing activities primarily reflect cash flows related to raising customer deposits, and issuing long-term debt (including trust preferred capital debt securities) as well as preferred and common stock. In 2010, net cash used in financing activities was $49.2 billion. This resulted from net payments of long-term borrowings and trust preferred capital debt securities as new issuances were more than offset by payments primarily reflecting a decline in beneficial interests issued by consolidated VIEs due to maturities related to Firm-sponsored credit card securitization trusts; a decline in deposits associated with wholesale funding activities due to the Firm's lower funding needs; lower deposit levels in TSS, offset partially by net inflows from existing customers and new business in AM, CB and RFS; a decline in commercial paper and other borrowed funds due to lower funding requirements; payments of cash dividends; and repurchases of common stock. Cash was generated as a result of an increase in securities sold under repurchase agreements largely as a result of an increase in activity levels in IB partially offset by a decrease in CIO reflecting repositioning activities.

In 2009, net cash used in financing activities was $153.1 billion; this reflected a decline in wholesale deposits, predominantly in TSS, driven by the continued normalization of wholesale deposit levels resulting from the mitigation of credit concerns, compared with the heightened market volatility and credit concerns in the latter part of 2008; a decline in other borrowings, due to the absence of borrowings from the Federal Reserve under the Term Auction Facility program; net repayments of short-term advances from FHLBs and the maturity of the nonrecourse advances under the Federal Reserve Bank of Boston AML Facility; the June 17, 2009, repayment in full of the $25.0 billion principal amount of Series K Preferred Stock issued to the U.S. Treasury; and the payment of cash dividends on common and preferred stock. Cash was also used for the net payment of long-term borrowings and trust preferred capital debt securities, as issuances of FDIC-guaranteed debt and non-FDIC guaranteed debt in both the U.S. and European markets were more than offset by repayments including long-term advances from FHLBs. Cash proceeds resulted from an increase in securities loaned or sold under repurchase agreements, partly attributable to favorable pricing and to financing the increased size of the Firm's AFS securities portfolio; and the issuance of $5.8 billion of common stock. There were no repurchases in the open market of common stock or the warrants during 2009.

In 2008, net cash provided by financing activities was $247.0 billion due to growth in wholesale deposits, in particular, interest- and noninterest-bearing deposits in TSS (driven by both new and existing clients, and due to the deposit inflows related to the heightened volatility and credit concerns affecting the global markets that began in the third quarter of 2008), as well as increases in AM and CB (due to organic growth); proceeds of $25.0 billion from the issuance of preferred stock and the Warrant to the U.S. Treasury under the Capital Purchase Program; additional issuances of common stock and preferred stock used for general corporate purposes; an increase in other borrowings due to nonrecourse secured advances under the Federal Reserve Bank of Boston AML Facility to fund the purchase of asset-backed commercial paper from money market mutual funds; increases in federal funds purchased and securities loaned or sold under repurchase agreements in connection with higher client demand for liquidity and to finance growth in the Firm's AFS securities portfolio; and a net increase in long-term borrowings due to a combination of non-FDIC guaranteed debt and trust preferred capital debt securities issued prior to December 4, 2008, and the issuance of $20.8 billion of FDIC-guaranteed long-term debt issued during the fourth quarter of 2008. The fourth-quarter FDIC-guaranteed debt issuance was offset partially by maturities of non-FDIC guaranteed long-term debt during the same period. The increase in long-term borrowings and trust preferred capital debt securities was used primarily to fund certain illiquid assets held by the parent holding company and to build liquidity. Cash was also used to pay dividends on common and preferred stock. The Firm did not repurchase any shares of its common stock during 2008.

Credit ratings

The cost and availability of financing are influenced by credit ratings. Reductions in these ratings could have an adverse effect on the Firm's access to liquidity sources, increase the cost of funds, trigger additional collateral or funding requirements and decrease the number of investors and counterparties willing to lend to the Firm. Additionally, the Firm's funding requirements for VIEs and other third-party commitments may be adversely affected by a decline in credit ratings. For additional information on the impact of a credit ratings downgrade on the funding requirements for VIEs, and on derivatives and collateral agreements, see Special-purpose entities on page 95 and Ratings profile of derivative receivables MTM on page 124, and Note 6 on pages 191–199, respectively, of this Annual Report.

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

The credit ratings of the parent holding company and each of the Firm's significant banking subsidiaries as of December 31, 2010, were as follows.

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

The senior unsecured ratings from Moody's, S&P and Fitch on JPMorgan Chase and its principal bank subsidiaries remained unchanged at December 31, 2010, from December 31, 2009. At December 31, 2010, Moody's and S&P's outlook remained negative, while Fitch's outlook remained stable.

Following the Firm's earnings release on January 14, 2011, S&P and Moody's announced that their ratings on the Firm remained unchanged.

If the Firm's senior long-term debt ratings were downgraded by one notch, the Firm believes the incremental cost of funds or loss of funding would be manageable, within the context of current market conditions and the Firm's liquidity resources. JPMorgan Chase's unsecured debt does not contain requirements that would call for an acceleration of payments, maturities or changes in the structure of the existing debt, provide any limitations on future borrowings or require additional collateral, based on unfavorable changes in the Firm's credit ratings, financial ratios, earnings, or stock price.

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

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss from obligor or counterparty default. The Firm provides credit (for example, through loans, lending-related commitments, guarantees and derivatives) to a variety of customers, from large corporate and institutional clients to the individual consumer. Loans originated or acquired by the Firm's wholesale businesses are generally retained on the balance sheet. Credit risk management actively monitors the wholesale portfolio to ensure that it is well diversified across industry, geography, risk rating, maturity and individual client categories. Portfolio management for wholesale loans includes, for the Firm's syndicated loan business, distributing originations into the market place, targeting exposure held in the retained wholesale portfolio at less than 10% of the customer facility. With regard to the consumer credit market, the Firm focuses on creating a portfolio that is diversified from a product, industry and geographic perspective. Loss mitigation strategies are being employed for all home lending portfolios. These strategies include rate reductions, forbearance and other actions intended to minimize economic loss and avoid foreclosure. In the mortgage business, originated loans are either retained in the mortgage portfolio or securitized and sold to U.S. government agencies and U.S. government-sponsored enterprises.

Credit risk organization

Credit risk management is overseen by the Chief Risk Officer and implemented within the lines of business. The Firm's credit risk management governance consists of the following functions:

- Establishing a comprehensive credit risk policy framework
- Monitoring and managing credit risk across all portfolio segments, including transaction and line approval
- Assigning and managing credit authorities in connection with the approval of all credit exposure
- Managing criticized exposures and delinquent loans
- Determining the allowance for credit losses and ensuring appropriate credit risk-based capital management

Risk identification

The Firm is exposed to credit risk through lending and capital markets activities. Credit Risk Management works in partnership with the business segments in identifying and aggregating exposures across all lines of business.

Risk measurement

To measure credit risk, the Firm employs several methodologies for estimating the likelihood of obligor or counterparty default. Methodologies for measuring credit risk vary depending on several factors, including type of asset (e.g., consumer versus wholesale), risk measurement parameters (e.g., delinquency status and borrower's credit score versus wholesale risk-rating) and risk management and collection processes (e.g., retail collection center versus centrally managed workout groups). Credit risk measurement is based on the amount of exposure should the obligor or the counterparty default, the probability of default and the loss severity given a default event. Based on these factors and related market-based inputs, the Firm estimates both probable and unexpected losses for the wholesale and consumer portfolios as follows:

- Probable losses are based primarily upon statistical estimates of credit losses as a result of obligor or counterparty default. However, probable losses are not the sole indicators of risk.
- Unexpected losses, reflected in the allocation of credit risk capital, represent the potential volatility of actual losses relative to the probable level of losses.

Risk measurement for the wholesale portfolio is assessed primarily on a risk-rated basis; for the consumer portfolio, it is assessed primarily on a credit-scored basis.

Risk-rated exposure

Risk ratings are assigned to differentiate risk within the portfolio and are reviewed on an ongoing basis by Credit Risk Management and revised, if needed, to reflect the borrowers' current financial positions, risk profiles and the related collateral. For portfolios that are risk-rated, probable and unexpected loss calculations are based on estimates of probability of default and loss severity given a default. These risk-rated portfolios are generally held in IB, CB, TSS and AM; they also include approximately $18 billion of certain business banking and auto loans in RFS that are risk-rated because they have characteristics similar to commercial loans. Probability of default is the likelihood that a loan will not be repaid and will default. Probability of default is calculated for each client who has a risk-rated loan (wholesale and certain risk-rated consumer loans). Loss given default is an estimate of losses given a default event and takes into consideration collateral and structural support for each credit facility. Calculations and assumptions are based on management information systems and methodologies which are under continual review.

Credit-scored exposure
For credit-scored portfolios (generally held in RFS and CS), probable loss is based on a statistical analysis of inherent losses expected to emerge over discrete periods of time for each portfolio. The credit-scored portfolio includes mortgage, home equity, certain business banking and auto loans, student loans, as well as credit card loans. Probable losses inherent in the portfolio are estimated using sophisticated portfolio modeling, credit scoring and decision-support tools, which take into account factors such as delinquency, geography, LTV ratios and credit scores. These analyses are applied to the Firm's current portfolios in order to estimate the severity of losses, which determines the amount of probable losses. Other risk characteristics utilized to evaluate probable losses include recent loss experience in the portfolios, changes in origination sources, portfolio seasoning, potential borrower behavior and the macroeconomic environment. These factors and analyses are updated at least on a quarterly basis or more frequently as market conditions dictate.

Risk monitoring and control
The Firm has developed policies and practices that are designed to preserve the independence and integrity of the approval and decision-making process of extending credit and to ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels. The policy framework establishes credit approval authorities, concentration limits, risk-rating methodologies, portfolio review parameters and guidelines for management of distressed exposure.

For consumer credit risk, delinquency and other trends, including any concentrations at the portfolio level, are monitored for potential problems, as certain of these trends can be ameliorated through changes in underwriting policies and portfolio guidelines. Consumer Credit Risk Management evaluates delinquency and other trends against business expectations, current and forecasted economic conditions, and industry benchmarks. All of these historical and forecasted trends are incorporated into the modeling of estimated consumer credit losses and are part of the monitoring of the credit risk profile of the portfolio.

Wholesale credit risk is monitored regularly at an aggregate portfolio, industry and individual counterparty basis with established concentration limits that are reviewed and revised, as deemed appropriate by management, on an annual basis. Industry and counterparty limits, as measured in terms of exposure and economic credit risk capital, are subject to stress-based loss constraints for the aggregate portfolio.

Management of the Firm's wholesale exposure is accomplished through a number of means including:

- Loan syndication and participations
- Loan sales and securitizations
- Credit derivatives
- Use of master netting agreements
- Collateral and other risk-reduction techniques

In addition to Risk Management, the Firm's Audit department provides periodic reviews, as well as continuous monitoring, where appropriate, of the Firm's consumer and wholesale portfolios.

In the Firm's wholesale and certain risk-rated consumer credit portfolios, a credit review group within the Audit department is responsible for:

- Independently assessing and validating the changing risk grades assigned to exposures; and
- Evaluating the effectiveness of business units' risk rating, including the accuracy and consistency of risk grades, the timeliness of risk grade changes and the justification of risk grades in credit memoranda

In the Firm's consumer credit portfolio, the Audit department periodically tests the internal controls around the modeling process including the integrity of the data utilized. In addition, the risk inherent in the Firm's consumer based loans is evaluated using models whose construction, assumptions and on-going performance relative to expectations are reviewed by an independent risk management group that is separate from the lines of business. For further discussion on consumer loans, see Note 14 on pages 220–238 of this Annual Report.

Risk reporting
To enable monitoring of credit risk and decision-making, aggregate credit exposure, credit quality forecasts, concentration levels and risk profile changes are reported regularly to senior Credit Risk Management. Detailed portfolio reporting of industry, customer, product and geographic concentrations occurs monthly, and the appropriateness of the allowance for credit losses is reviewed by senior management at least on a quarterly basis. Through the risk reporting and governance structure, credit risk trends and limit exceptions are provided regularly to, and discussed with, senior management. For further discussion of risk monitoring and control, see page 109 of this Annual Report.

2010 Credit risk overview

During 2010, the credit environment improved compared with 2009, resulting in decreased downgrade, default and charge-off activity and improved delinquency trends. Despite challenging macroeconomic conditions, particularly in the first half of 2010, the Firm continued to actively manage its underperforming and nonaccrual loans and reduce such exposures through repayments, loan sales and workouts. These efforts resulted in an improvement in the credit quality of the portfolio compared with 2009 and contributed to the Firm's reduction in the allowance for credit losses, particularly in CS and IB. During the year and particularly in the second half of 2010, customer demand for credit improved, loan origination activity and market liquidity improved and credit spreads tightened from 2009.

In the wholesale portfolio, criticized assets, nonperforming assets and charge-offs decreased from peak loss levels experienced in 2009, reflecting general improvement in the portfolio, partially offset by continued weakness in commercial real estate ("CRE"). Toward the end of 2010, CRE exposure showed some positive signs of stabilization as property values improved somewhat from the declines witnessed over the prior two years. The wholesale portfolio continues to be actively managed, in part by conducting ongoing, in-depth reviews of credit quality and of industry, product and client concentrations. Underwriting guidelines across all areas of lending have remained in focus, consistent with evolving market conditions and the Firm's risk management activities. Reflecting the improvement in credit quality of the wholesale portfolio throughout the year, the wholesale allowance for loan loss coverage ratio was 2.14%, compared with 3.57% at the end of 2009. For further discussion of the wholesale credit environment and wholesale loans, see Wholesale Credit Portfolio on pages 120–129 and Note 14 on pages 220–238 of this Annual Report.

The consumer portfolio credit performance improved from 2009 with lower delinquent loans, nonperforming assets and charge-offs. However, credit performance continued to be negatively affected by the economic environment. High unemployment and weak overall economic conditions continued to have a negative impact in the number of loans charged off, while continued weak housing prices have resulted in an elevated severity of loss recognized on defaulted real estate loans. The Firm has taken proactive action to assist homeowners most in need of financial assistance throughout the economic downturn. The Firm is participating in the U.S. Treasury's MHA programs and continuing its other loss-mitigation efforts for financially distressed borrowers who do not qualify for the U.S. Treasury's programs. In addition, over the past several years, the Firm has taken actions to reduce risk exposure to consumer loans by tightening both underwriting and loan qualification standards, as well as eliminating certain products and loan origination channels. For further discussion of the consumer credit environment and consumer loans, see Consumer Credit Portfolio on pages 129–138 and Note 14 on pages 220–238 of this Annual Report.

CREDIT PORTFOLIO

The following table presents JPMorgan Chase's credit portfolio as of December 31, 2010 and 2009. Total credit exposure of $1.8 trillion at December 31, 2010, decreased by $46.9 billion from December 31, 2009, reflecting a decrease of $83.8 billion in the consumer portfolio, partly offset by an increase of $36.9 billion in the wholesale portfolio. During 2010, lending-related commitments decreased by $36.3 billion, loans decreased by $25.2 billion and receivables from customers increased by $16.8 billion. The overall decrease in total loans was primarily related to repayments, low customer demand and loan sales, partially offset by the adoption of the accounting guidance related to VIEs, predominantly in the wholesale portfolio.

While overall portfolio exposure declined, the Firm provided and raised nearly $1.4 trillion in new and renewed credit and capital for consumers, corporations, small businesses, municipalities and not-for-profit organizations during 2010.

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

Total credit portfolio

As of or for the year ended December 31, (in millions, except ratios)	Credit exposure 2010	Credit exposure 2009	Nonperforming[h][i] 2010	Nonperforming[h][i] 2009	Net charge-offs 2010	Net charge-offs 2009	Average annual net charge-off ratio[j][k] 2010	Average annual net charge-off ratio[j][k] 2009
Total credit portfolio								
Loans retained[a]	**$ 685,498**	$ 627,218	**$ 14,345**	$ 17,219	**$ 23,673**	$ 22,965	**3.39%**	3.42%
Loans held-for-sale	**5,453**	4,876	**341**	234	**—**	—	**—**	—
Loans at fair value	**1,976**	1,364	**155**	111	**—**	—	**—**	—
Loans – reported[a]	**692,927**	633,458	**14,841**	17,564	**23,673**	22,965	**3.39**	3.42
Loans – securitized[a][b]	**NA**	84,626	**NA**	—	**NA**	6,443	**NA**	7.55
Total loans[a]	**692,927**	718,084	**14,841**	17,564	**23,673**	29,408	**3.39**	3.88
Derivative receivables	**80,481**	80,210	**34**	529	**NA**	NA	**NA**	NA
Receivables from customers[c]	**32,541**	15,745	**—**	—	**—**	—	**—**	—
Interests in purchased receivables[a][d]	**391**	2,927	**—**	—	**—**	—	**—**	—
Total credit-related assets[a]	**806,340**	816,966	**14,875**	18,093	**23,673**	29,408	**3.39**	3.88
Lending-related commitments[a][e]	**954,840**	991,095	**1,005**	1,577	**—**	—	**—**	—
Assets acquired in loan satisfactions								
Real estate owned	**NA**	NA	**1,610**	1,548	**NA**	NA	**NA**	NA
Other	**NA**	NA	**72**	100	**NA**	NA	**NA**	NA
Total assets acquired in loan satisfactions	**NA**	NA	**1,682**	1,648	**NA**	NA	**NA**	NA
Total credit portfolio	**$ 1,761,180**	$ 1,808,061	**$ 17,562**	$ 21,318	**$ 23,673**	$ 29,408	**3.39%**	3.88%
Net credit derivative hedges notional[f]	**$ (23,108)**	$ (48,376)	**$ (55)**	$ (139)	**NA**	NA	**NA**	NA
Liquid securities and other cash collateral held against derivatives[g]	**(16,486)**	(15,519)	**NA**	NA	**NA**	NA	**NA**	NA

(a) Effective January 1, 2010, the Firm adopted accounting guidance related to VIEs. Upon the adoption of the guidance, the Firm consolidated its Firm-sponsored credit card securitization trusts, its Firm-administered multi-seller conduits and certain other consumer loan securitization entities, primarily mortgage-related. As a result, related assets are now primarily recorded in loans or other assets on the Consolidated Balance Sheet. As a result of the consolidation of the credit card securitization trusts, reported and managed basis are equivalent for periods beginning after January 1, 2010. For further discussion, see Note 16 on pages 244–259 of this Annual Report.

(b) Loans securitized are defined as loans that were sold to nonconsolidated securitization trusts and were not included in reported loans. For further discussion of credit card securitizations, see Note 16 on pages 244–259 of this Annual Report.

(c) Represents primarily margin loans to prime and retail brokerage customers, which are included in accrued interest and accounts receivable on the Consolidated Balance Sheets.

(d) Represents an ownership interest in cash flows of a pool of receivables transferred by a third-party seller into a bankruptcy-remote entity, generally a trust.

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

(f) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage both performing and non-performing credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. For additional information, see Credit derivatives on pages 126–128 and Note 6 on pages 191–199 of this Annual Report.

(g) Represents other liquid securities collateral and other cash collateral held by the Firm.

(h) At December 31, 2010 and 2009, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $10.5 billion and $9.0 billion, respectively, that are 90 days past due and accruing at the guaranteed reimbursement rate; (2) real estate owned insured by U.S. government agencies of $1.9 billion and $579 million, respectively; and (3) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the FFELP, of $625 million and $542 million, respectively. These amounts are excluded as reimbursement of insured amounts is proceeding normally. In addition, the Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance issued by the Federal Financial Institutions Examination Council ("FFIEC"). Credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.

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

(j) For the year ended December 31, 2010, net charge-off ratios were calculated using average retained loans of $698.2 billion; and for the year ended December 31, 2009, average retained loans of $672.3 billion and average securitized loans of $85.4 billion.

(k) For the years ended December 31, 2010 and 2009, firmwide net charge-off ratios were calculated including average PCI loans of $77.0 billion and $85.4 billion, respectively. Excluding the impact of PCI loans, the total Firm's managed net charge-off rate would have been 3.81% and 4.37% respectively.

WHOLESALE CREDIT PORTFOLIO

As of December 31, 2010, wholesale exposure (IB, CB, TSS and AM) increased by $36.9 billion from December 31, 2009. The overall increase was primarily driven by increases of $23.5 billion in loans and $16.8 billion of receivables from customers, partially offset by decreases in interests in purchase receivables and lending-related commitments of $2.5 billion and $1.1 billion, respectively. The decrease in lending-related commitments and the increase in loans were primarily related to the January 1, 2010, adoption of the accounting guidance related to VIEs, which resulted in the elimination of a net $17.7 billion of lending-related commitments between the Firm and its administrated multi-seller conduits upon consolidation. Assets of the consolidated conduits included $15.1 billion of wholesale loans at January 1, 2010. Excluding the effect of the accounting guidance, lending-related commitments and loans would have increased by $16.6 billion and $8.4 billion, respectively, mainly related to increased client activity. The increase in loans also included the purchase of a $3.5 billion loan portfolio in CB during the third quarter of 2010. The increase of $16.8 billion in receivables from customers was due to increased client activity, predominantly in Prime Services.

Wholesale

December 31, (in millions)	Credit exposure 2010	Credit exposure 2009	Nonperforming[f] 2010	Nonperforming[f] 2009
Loans retained	**$ 222,510**	$ 200,077	**$ 5,510**	$ 6,559
Loans held-for-sale	**3,147**	2,734	**341**	234
Loans at fair value	**1,976**	1,364	**155**	111
Loans – reported	**227,633**	204,175	**6,006**	6,904
Derivative receivables	**80,481**	80,210	**34**	529
Receivables from customers[a]	**32,541**	15,745	**—**	—
Interests in purchased receivables[b]	**391**	2,927	**—**	—
Total wholesale credit-related assets	**341,046**	303,057	**6,040**	7,433
Lending-related commitments[c]	**346,079**	347,155	**1,005**	1,577
Total wholesale credit exposure	**$ 687,125**	$ 650,212	**$ 7,045**	$ 9,010
Net credit derivative hedges notional[d]	**$ (23,108)**	$ (48,376)	**$ (55)**	$ (139)
Liquid securities and other cash collateral held against derivatives[e]	**(16,486)**	(15,519)	**NA**	NA

(a) Represents primarily margin loans to prime and retail brokerage customers, which are included in accrued interest and accounts receivable on the Consolidated Balance Sheets.
(b) Represents an ownership interest in cash flows of a pool of receivables transferred by a third-party seller into a bankruptcy-remote entity, generally a trust.
(c) The amounts in nonperforming represent unfunded commitments that are risk rated as nonaccrual.
(d) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage both performing and nonperforming credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. For additional information, see Credit derivatives on pages 126–128, and Note 6 on pages 191–199 of this Annual Report.
(e) Represents other liquid securities collateral and other cash collateral held by the Firm.
(f) Excludes assets acquired in loan satisfactions.

The following table presents summaries of the maturity and ratings profiles of the wholesale portfolio as of December 31, 2010 and 2009. The ratings scale is based on the Firm's internal risk ratings, which generally correspond to the ratings as defined by S&P and Moody's. Also included in this table is the notional value of net credit derivative hedges; the counterparties to these hedges are predominantly investment grade banks and finance companies.

Wholesale credit exposure – maturity and ratings profile

December 31, 2010 (in millions, except ratios)	Maturity profile[e] Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total	Ratings profile Investment-grade ("IG") AAA/Aaa to BBB-/Baa3	Noninvestment-grade BB+/Ba1 & below	Total	Total % of IG
Loans	**$ 78,017**	**$ 85,987**	**$ 58,506**	**$ 222,510**	**$ 146,047**	**$ 76,463**	**$ 222,510**	**66%**
Derivative receivables[(a)]				**80,481**			**80,481**	
Less: Liquid securities and other cash collateral held against derivatives				**(16,486)**			**(16,486)**	
Total derivative receivables, net of all collateral	**11,499**	**24,415**	**28,081**	**63,995**	**47,557**	**16,438**	**63,995**	**74**
Lending-related commitments	**126,389**	**209,299**	**10,391**	**346,079**	**276,298**	**69,781**	**346,079**	**80**
Subtotal	**215,905**	**319,701**	**96,978**	**632,584**	**469,902**	**162,682**	**632,584**	**74**
Loans held-for-sale and loans at fair value[(b)(c)]				**5,123**			**5,123**	
Receivables from customers[(c)]				**32,541**			**32,541**	
Interests in purchased receivables[(c)]				**391**			**391**	
Total exposure – excluding liquid securities and other cash collateral held against derivatives				**$ 670,639**			**$ 670,639**	
Net credit derivative hedges notional[(d)]	**$ (1,228)**	**$ (16,415)**	**$ (5,465)**	**$ (23,108)**	**$ (23,159)**	**$ 51**	**$ (23,108)**	**100%**

December 31, 2009 (in millions, except ratios)	Maturity profile[e] Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total	Ratings profile Investment-grade ("IG") AAA/Aaa to BBB-/Baa3	Noninvestment-grade BB+/Ba1 & below	Total	Total % of IG
Loans	$ 57,381	$ 79,636	$ 63,060	$ 200,077	$ 118,531	$ 81,546	$ 200,077	59%
Derivative receivables[(a)]				80,210			80,210	
Less: Liquid securities and other cash collateral held against derivatives				(15,519)			(15,519)	
Total derivative receivables, net of all collateral	7,535	27,123	30,033	64,691	47,305	17,386	64,691	73
Lending-related commitments	141,621	198,215	7,319	347,155	280,811	66,344	347,155	81
Subtotal	206,537	304,974	100,412	611,923	446,647	165,276	611,923	73
Loans held-for-sale and loans at fair value[(b)(c)]				4,098			4,098	
Receivables from customers[(c)]				15,745			15,745	
Interests in purchased receivables[(c)]				2,927			2,927	
Total exposure – excluding liquid securities and other cash collateral held against derivatives				$ 634,693			$ 634,693	
Net credit derivative hedges notional[(d)]	$ (23,568)	$ (20,322)	$ (4,486)	$ (48,376)	$ (48,110)	$ (266)	$ (48,376)	99%

(a) Represents the fair value of derivative receivables as reported on the Consolidated Balance Sheets.
(b) Loans held-for-sale and loans at fair value relate primarily to syndicated loans and loans transferred from the retained portfolio.
(c) From a credit risk perspective maturity and ratings profiles are not meaningful.
(d) Represents the net notional amounts of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP.
(e) The maturity profile of loans and lending-related commitments is based on the remaining contractual maturity. The maturity profile of derivative receivables is based on the maturity profile of average exposure. For further discussion of average exposure, see Derivative receivables marked to market on pages 125–126 of this Annual Report.

Customer receivables representing primarily margin loans to prime and retail brokerage clients of $32.5 billion and $15.7 billion at December 31, 2010 and 2009, respectively, are included in the table. These margin loans are generally over-collateralized through a pledge of assets maintained in clients' brokerage accounts and are subject to daily minimum collateral requirements. In the event that the collateral value decreases, a maintenance margin call is made to the client to provide additional collateral into the account. If additional collateral is not provided by the client, the client's positions may be liquidated by the Firm to meet the minimum collateral requirements.

Wholesale credit exposure – selected industry exposures

The Firm focuses on the management and diversification of its industry exposures, with particular attention paid to industries with actual or potential credit concerns. Exposures deemed criticized generally represent a ratings profile similar to a rating of "CCC+"/"Caa1" and lower, as defined by S&P and Moody's. The total criticized component of the portfolio, excluding loans held-for-sale and loans at fair value, decreased to $22.4 billion at December 31, 2010, from $33.2 billion at year-end 2009. The decrease was primarily related to net repayments and loan sales.

Below are summaries of the top 25 industry exposures as of December 31, 2010 and 2009. For additional information on industry concentrations, see Note 5 on pages 189–190 of this Annual Report.

Wholesale credit exposure – selected industry exposures

As of or for the year ended **December 31, 2010** (in millions)	Credit exposure[c]	Investment grade	Noninvestment grade: Noncriticized	Noninvestment grade: Criticized performing	Noninvestment grade: Criticized nonperforming	30 days or more past due and accruing loans	Year-to-date net charge-offs/ (recoveries)	Credit derivative hedges[d]	Liquid securities and other cash collateral held against derivative receivables
Top 25 industries[a]									
Banks and finance companies	**$ 65,867**	**$ 54,839**	**$ 10,428**	**$ 467**	**$ 133**	**$ 26**	**$ 69**	**$ (3,456)**	**$ (9,216)**
Real estate	**64,351**	**34,440**	**20,569**	**6,404**	**2,938**	**399**	**862**	**(76)**	**(57)**
Healthcare	**41,093**	**33,752**	**7,019**	**291**	**31**	**85**	**4**	**(768)**	**(161)**
State and municipal governments	**35,808**	**34,641**	**912**	**231**	**24**	**34**	**3**	**(186)**	**(233)**
Asset managers	**29,364**	**25,533**	**3,401**	**427**	**3**	**7**	**—**	**—**	**(2,948)**
Consumer products	**27,508**	**16,747**	**10,379**	**371**	**11**	**217**	**1**	**(752)**	**(2)**
Oil and gas	**26,459**	**18,465**	**7,850**	**143**	**1**	**24**	**—**	**(87)**	**(50)**
Utilities	**25,911**	**20,951**	**4,101**	**498**	**361**	**3**	**49**	**(355)**	**(230)**
Retail and consumer services	**20,882**	**12,021**	**8,316**	**338**	**207**	**8**	**23**	**(623)**	**(3)**
Technology	**14,348**	**9,355**	**4,534**	**399**	**60**	**47**	**50**	**(158)**	**—**
Machinery and equipment manufacturing	**13,311**	**7,690**	**5,372**	**244**	**5**	**8**	**2**	**(74)**	**(2)**
Building materials/construction	**12,808**	**6,557**	**5,065**	**1,129**	**57**	**9**	**6**	**(308)**	**—**
Chemicals/plastics	**12,312**	**8,375**	**3,656**	**274**	**7**	**—**	**2**	**(70)**	**—**
Metals/mining	**11,426**	**5,260**	**5,748**	**362**	**56**	**7**	**35**	**(296)**	**—**
Business services	**11,247**	**6,351**	**4,735**	**115**	**46**	**11**	**15**	**(5)**	**—**
Central government	**11,173**	**10,677**	**496**	**—**	**—**	**—**	**—**	**(6,897)**	**(42)**
Media	**10,967**	**5,808**	**3,945**	**672**	**542**	**2**	**92**	**(212)**	**(3)**
Insurance	**10,918**	**7,908**	**2,690**	**320**	**—**	**—**	**(1)**	**(805)**	**(567)**
Telecom services	**10,709**	**7,582**	**2,295**	**821**	**11**	**3**	**(8)**	**(820)**	**—**
Holding companies	**10,504**	**8,375**	**2,091**	**38**	**—**	**33**	**5**	**—**	**(362)**
Transportation	**9,652**	**6,630**	**2,739**	**245**	**38**	**—**	**(16)**	**(132)**	**—**
Securities firms and exchanges	**9,415**	**7,678**	**1,700**	**37**	**—**	**—**	**5**	**(38)**	**(2,358)**
Automotive	**9,011**	**3,915**	**4,822**	**269**	**5**	**—**	**52**	**(758)**	**—**
Agriculture/paper manufacturing	**7,368**	**4,510**	**2,614**	**242**	**2**	**8**	**7**	**(44)**	**(2)**
Aerospace	**5,732**	**4,903**	**732**	**97**	**—**	**—**	**—**	**(321)**	**—**
All other[b]	**140,926**	**122,594**	**14,924**	**2,402**	**1,006**	**921**	**470**	**(5,867)**	**(250)**
Subtotal	**649,070**	**485,557**	**141,133**	**16,836**	**5,544**	**1,852**	**1,727**	**(23,108)**	**(16,486)**
Loans held-for-sale and loans at fair value	**5,123**								
Receivables from customers	**32,541**								
Interest in purchased receivables	**391**								
Total	**$ 687,125**	**$ 485,557**	**$ 141,133**	**$ 16,836**	**$ 5,544**	**$ 1,852**	**$ 1,727**	**$ (23,108)**	**$ (16,486)**

Presented below is a discussion of several industries to which the Firm has significant exposure, as well as industries the Firm continues to monitor because of actual or potential credit concerns. For additional information, refer to the tables above and on the preceding page.

- **Banks and finance companies:** Exposure to this industry increased by 22% or $11.8 billion, and criticized exposure decreased 71%, compared with 2009. This portfolio experienced improvement in credit quality as a result of growth in investment-grade lending, as well as upgrades in risk ratings to financial counterparties.

- **Real estate:** Real estate loans decreased by 6% or $3.6 billion from 2009, including a 19% decline in the criticized portion of the portfolio, mainly as a result of repayments and loans sales. While this sector continued to be challenged throughout 2010, the portfolio experienced stabilization toward the end of the year. The ratio of nonaccrual loans to total loans increased due to a downgrade of a loan to nonaccrual in the fourth quarter of 2010. Excluding this downgrade, the ratio would have improved in line with the broader real estate portfolio. For further discussion on commercial real estate loans, see Note 14 on pages 220–238 of this Annual Report.

- **State and municipal governments:** Exposure to this segment increased by $1.1 billion or 3% in 2010 to $35.8 billion. Lending-related commitments comprise approximately 70% of exposure to this sector, mainly bond liquidity and standby letter of credit commitments. Credit quality of the portfolio remains high as 97% of the portfolio was rated investment grade, up from 93% in 2009. Criticized exposure was less than 1% of this industry's exposure. The Firm continues to actively monitor and manage this exposure in light of the challenging environment faced by state and municipal governments. For further discussion of commitments for bond liquidity and standby letters of credit, see Note 30 on pages 275–280 of this Annual Report.

As of or for the year ended December 31, 2009 (in millions)	Credit exposure[c]	Investment grade	Noninvestment grade Noncriticized	Criticized performing	Criticized nonperforming	30 days or more past due and accruing loans	Year-to-date net charge-offs/ (recoveries)	Credit derivative hedges[d]	Liquid securities and other cash collateral held against derivative receivables
Top 25 industries[a]									
Banks and finance companies	$ 54,053	$ 43,576	$ 8,424	$ 1,559	$ 494	$ 43	$ 719	$ (3,718)	$ (8,353)
Real estate	68,509	37,724	18,810	8,872	3,103	937	688	(1,168)	(35)
Healthcare	35,605	29,576	5,700	310	19	30	10	(2,545)	(125)
State and municipal governments	34,726	32,410	1,850	400	66	15	—	(204)	(193)
Asset managers	24,920	20,498	3,742	442	238	28	7	(40)	(2,105)
Consumer products	27,004	17,384	9,105	479	36	13	35	(3,638)	(4)
Oil and gas	23,322	17,082	5,854	378	8	28	16	(2,567)	(6)
Utilities	27,178	22,063	3,877	1,236	2	3	182	(3,486)	(360)
Retail and consumer services	20,673	12,024	7,867	687	95	10	35	(3,073)	—
Technology	14,169	8,877	4,004	1,125	163	5	28	(1,730)	(130)
Machinery and equipment manufacturing	12,759	7,287	5,122	329	21	13	12	(1,327)	(1)
Building materials/construction	10,448	4,512	4,537	1,309	90	19	98	(1,141)	—
Chemicals/plastics	9,870	6,633	2,626	600	11	5	22	(1,357)	—
Metals/mining	12,547	7,002	4,906	547	92	4	24	(1,963)	—
Business services	10,667	6,464	3,859	241	103	7	8	(107)	—
Central government	9,557	9,480	77	—	—	—	—	(4,814)	(30)
Media	12,379	6,789	3,898	1,056	636	57	464	(1,606)	—
Insurance	13,421	9,221	3,601	581	18	—	7	(2,735)	(793)
Telecom services	11,265	7,741	3,273	191	60	—	31	(3,455)	(62)
Holding companies	16,018	13,801	2,107	42	68	44	275	(421)	(320)
Transportation	9,749	6,416	2,745	553	35	41	61	(870)	(242)
Securities firms and exchanges	10,832	8,220	2,467	36	109	2	—	(289)	(2,139)
Automotive	9,357	3,865	4,252	1,195	45	2	52	(1,541)	—
Agriculture/paper manufacturing	5,801	2,169	3,132	331	169	36	10	(897)	—
Aerospace	5,254	4,442	743	69	—	13	—	(963)	—
All other[b]	137,359	115,446	16,979	3,527	1,407	671	348	(2,721)	(621)
Subtotal	627,442	460,702	133,557	26,095	7,088	2,026	3,132	(48,376)	(15,519)
Loans held-for-sale and loans at fair value	4,098								
Receivables from customers	15,745								
Interest in purchased receivables	2,927								
Total	$ 650,212	$ 460,702	$ 133,557	$ 26,095	$ 7,088	$ 2,026	$ 3,132	$ (48,376)	$ (15,519)

(a) All industry rankings are based on exposure at December 31, 2010. The industry rankings presented in the 2009 table are based on the industry rankings of the corresponding exposures at December 31, 2010, not actual rankings of such exposures at December 31, 2009.
(b) For more information on exposures to SPEs included in all other, see Note 16 on pages 244–259 of this Annual Report.
(c) Credit exposure is net of risk participations and excludes the benefit of credit derivative hedges and collateral held against derivative receivables or loans.
(d) Represents the net notional amounts of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP.

- **Media:** Exposure to this industry decreased by 11% in 2010 to $11.0 billion. Credit quality in this portfolio stabilized somewhat in 2010 as a result of repayments and loan sales. Criticized exposure also decreased by 28% from 2009 to $1.2 billion, but remains elevated relative to total industry exposure due to continued pressure on the traditional media business model from expanding digital and online technology.

- **All other:** All other at December 31, 2010 (excluding loans held-for-sale and loans at fair value), included $140.9 billion of credit exposure to eight industry segments. Exposures related to: (1) Individuals, Private Education & Civic Organizations were 47% and (2) SPEs were 39% of this category. SPEs provide secured financing (generally backed by receivables, loans or bonds with a diverse group of obligors). For further discussion of SPEs, see Note 1 on pages 164–165 of this Annual Report. The remaining all other exposure is well-diversified across industries and none comprise more than 6% of total exposure.

The following table presents the geographic distribution of wholesale credit, nonperforming assets and past due loans as of December 31, 2010 and 2009. The geographic distribution of the wholesale portfolio is determined based predominantly on the domicile of the borrower.

	Credit exposure				Nonperforming					
December 31, 2010 (in millions)	Loans	Lending-related commitments	Derivative receivables	Total credit exposure	Loans[a]	Derivatives	Lending-related commitments	Total nonperforming[b]	Assets acquired in loan satisfactions	30 days or more past due and accruing loans
Europe/Middle East and Africa	**$ 27,934**	**$ 58,418**	**$ 35,196**	**$ 121,548**	**$ 153**	**$ 1**	**$ 23**	**$ 177**	**$ —**	**$ 127**
Asia and Pacific	**20,552**	**15,002**	**10,991**	**46,545**	**579**	**21**	**—**	**600**	**—**	**74**
Latin America and the Caribbean	**16,480**	**12,170**	**5,634**	**34,284**	**649**	**—**	**13**	**662**	**1**	**131**
Other	**1,185**	**6,149**	**2,039**	**9,373**	**6**	**—**	**5**	**11**	**—**	**—**
Total non-U.S.	**66,151**	**91,739**	**53,860**	**211,750**	**1,387**	**22**	**41**	**1,450**	**1**	**332**
Total U.S.	**156,359**	**254,340**	**26,621**	**437,320**	**4,123**	**12**	**964**	**5,099**	**320**	**1,520**
Loans held-for-sale and loans at fair value	**5,123**	**—**	**—**	**5,123**	**496**	**NA**	**—**	**496**	**NA**	**—**
Receivables from customers	**—**	**—**	**—**	**32,541**	**NA**	**NA**	**NA**	**NA**	**NA**	**—**
Interests in purchased receivables	**—**	**—**	**—**	**391**	**NA**	**NA**	**NA**	**NA**	**NA**	**—**
Total	**$ 227,633**	**$ 346,079**	**$ 80,481**	**$ 687,125**	**$ 6,006**	**$ 34**	**$ 1,005**	**$ 7,045**	**$ 321**	**$ 1,852**

	Credit exposure				Nonperforming					
December 31, 2009 (in millions)	Loans	Lending-related commitments	Derivative receivables	Total credit exposure	Loans[a]	Derivatives	Lending-related commitments	Total nonperforming[b]	Assets acquired in loan satisfactions	30 days or more past due and accruing loans
Europe/Middle East and Africa	$ 26,688	$ 56,106	$ 37,411	$ 120,205	$ 269	$ —	$ 22	$ 291	$ —	$ 103
Asia and Pacific	11,612	13,450	8,784	33,846	357	2	1	360	—	—
Latin America and the Caribbean	13,350	10,249	6,948	30,547	272	3	6	281	52	134
Other	1,967	5,895	1,467	9,329	81	—	—	81	—	54
Total non-U.S.	53,617	85,700	54,610	193,927	979	5	29	1,013	52	291
Total U.S.	146,460	261,455	25,600	433,515	5,580	524	1,548	7,652	341	1,735
Loans held-for-sale and loans at fair value	4,098	—	—	4,098	345	NA	—	345	NA	—
Receivables from customers	—	—	—	15,745	NA	NA	NA	NA	NA	—
Interests in purchased receivables	—	—	—	2,927	NA	NA	NA	NA	NA	—
Total	$ 204,175	$ 347,155	$ 80,210	$ 650,212	$ 6,904	$ 529	$ 1,577	$ 9,010	$ 393	$ 2,026

(a) The Firm held allowance for loan losses of $1.6 billion and $2.0 billion related to nonaccrual retained loans resulting in allowance coverage ratios of 29% and 31% at December 31, 2010 and 2009, respectively. Wholesale nonaccrual loans represent 2.64% and 3.38% of total wholesale loans at December 31, 2010 and 2009, respectively.

(b) Total nonperforming include nonaccrual loans, nonperforming derivatives and nonperforming lending-related commitments.

Loans

In the normal course of business, the Firm provides loans to a variety of wholesale customers, from large corporate and institutional clients to high-net-worth individuals. For further discussion on loans, including information on credit quality indicators, see Note 14 on pages 220–238 of this Annual Report.

Retained wholesale loans were $222.5 billion at December 31, 2010, compared with $200.1 billion at December 31, 2009. The $22.4 billion increase was primarily related to the January 1, 2010, adoption of accounting guidance related to VIEs. Excluding the effect of the adoption of the accounting guidance, loans increased by $7.4 billion. Loans held-for-sale and loans at fair value relate primarily to syndicated loans and loans transferred from the retained portfolio.

The Firm actively manages wholesale credit exposure through sales of loans and lending-related commitments. During 2010 the Firm sold $7.7 billion of loans and commitments, recognizing revenue gains of $98.9 million. In 2009, the Firm sold $3.9 billion of loans and commitments, recognizing net losses of $38 million. These results included gains or losses on sales of nonaccrual loans, if any, as discussed below. These activities are not related to the Firm's securitization activities. For further discussion of securitization activity, see Liquidity Risk Management and Note 16 on pages 110–115 and 244–259 respectively, of this Annual Report.

The following table presents the change in the nonaccrual loan portfolio for the years ended December 31, 2010 and 2009.

Wholesale nonaccrual loan activity[(a)]

Year ended December 31, (in millions)	2010	2009
Beginning balance	$ 6,904	$ 2,382
Additions	9,249	13,591
Reductions:		
Paydowns and other	5,540	4,964
Gross charge-offs	1,854	2,974
Returned to performing	364	341
Sales	2,389	790
Total reductions	**10,147**	9,069
Net additions/(reductions)	**(898)**	4,522
Ending balance	**$ 6,006**	$ 6,904

(a) This table includes total wholesale loans – reported.

Nonaccrual wholesale loans decreased by $898 million from December 31, 2009, reflecting primarily net repayments and loan sales.

The following table presents net charge-offs, which are defined as gross charge-offs less recoveries, for the years ended December 31, 2010 and 2009. The amounts in the table below do not include revenue gains from sales of nonaccrual loans.

Wholesale net charge-offs

Year ended December 31, (in millions, except ratios)	2010	2009
Loans – reported		
Average loans retained	$ 213,609	$ 223,047
Net charge-offs	1,727	3,132
Average annual net charge-off ratio	0.81%	1.40%

Derivative contracts

In the normal course of business, the Firm uses derivative instruments predominantly for market-making activity. Derivatives enable customers and the Firm to manage exposures to fluctuations in interest rates, currencies and other markets. The Firm also uses derivative instruments to manage its credit exposure. For further discussion of derivative contracts, see Note 5 and Note 6 on pages 189–190 and 191–199, respectively, of this Annual Report.

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

Derivative receivables MTM

December 31, (in millions)	Derivative receivables MTM 2010	2009
Interest rate[(a)]	$ 32,555	$ 33,733
Credit derivatives[(a)]	7,725	11,859
Foreign exchange	25,858	21,984
Equity	4,204	6,635
Commodity	10,139	5,999
Total, net of cash collateral	**80,481**	80,210
Liquid securities and other cash collateral held against derivative receivables	(16,486)	(15,519)
Total, net of all collateral	**$ 63,995**	$ 64,691

(a) In 2010, the reporting of cash collateral netting was enhanced to reflect a refined allocation by product. Prior periods have been revised to conform to the current presentation. The refinement resulted in an increase to interest rate derivative receivables, and an offsetting decrease to credit derivative receivables, of $7.0 billion as of December 31, 2009.

Derivative receivables reported on the Consolidated Balance Sheets were $80.5 billion and $80.2 billion at December 31, 2010 and 2009, respectively. These represent the fair value (e.g. MTM) of the derivative contracts after giving effect to legally enforceable master netting agreements, cash collateral held by the Firm and the credit valuation adjustment ("CVA"). These amounts reported on the Consolidated Balance Sheets represent the cost to the Firm to replace the contracts at current market rates should the counterparty default. However, in management's view, the appropriate measure of current credit risk should also reflect additional liquid securities and other cash collateral held by the Firm of $16.5 billion and $15.5 billion at December 31, 2010 and 2009, respectively, resulting in total exposure, net of all collateral, of $64.0 billion and $64.7 billion at December 31, 2010 and 2009, respectively.

The Firm also holds additional collateral delivered by clients at the initiation of transactions, as well as collateral related to contracts that have a non-daily call frequency and collateral that the Firm has agreed to return but has not yet settled as of the reporting date. Though this collateral does not reduce the balances noted in the table above, it is available as security against potential exposure that could arise should the MTM of the client's derivative transactions move in the Firm's favor. As of December 31, 2010 and 2009, the Firm held $18.0 billion and $16.9 billion, respectively, of this additional collateral. The derivative receivables MTM, net of all collateral, also do not include other credit enhancements, such as letters of credit.

While useful as a current view of credit exposure, the net MTM value of the derivative receivables does not capture the potential future variability of that credit exposure. To capture the potential future variability of credit exposure, the Firm calculates, on a client-by-client basis, three measures of potential derivatives-related credit loss: Peak, Derivative Risk Equivalent ("DRE"), and Average exposure ("AVG"). These measures all incorporate netting and collateral benefits, where applicable.

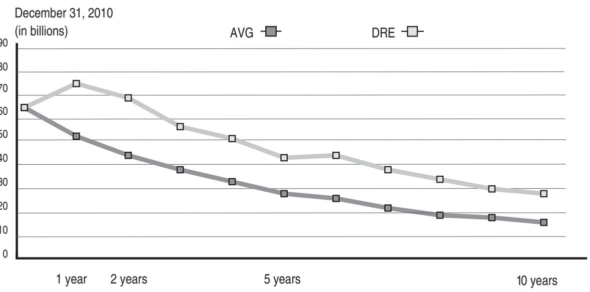
Peak exposure to a counterparty is an extreme measure of exposure calculated at a 97.5% confidence level. DRE exposure is a measure that expresses the risk of derivative exposure on a basis intended to be equivalent to the risk of loan exposures. The measurement is done by equating the unexpected loss in a derivative counterparty exposure (which takes into consideration both the loss volatility and the credit rating of the counterparty) with the unexpected loss in a loan exposure (which takes into consideration only the credit rating of the counterparty). DRE is a less extreme measure of potential credit loss than Peak and is the primary measure used by the Firm for credit approval of derivative transactions.

Finally, AVG is a measure of the expected MTM value of the Firm's derivative receivables at future time periods, including the benefit of collateral. AVG exposure over the total life of the derivative contract is used as the primary metric for pricing purposes and is used to calculate credit capital and the CVA, as further described below. AVG exposure was $45.3 billion and $49.0 billion at December 31, 2010 and 2009, respectively, compared with derivative receivables MTM, net of all collateral, of $64.0 billion and $64.7 billion at December 31, 2010 and 2009, respectively.

The MTM value of the Firm's derivative receivables incorporates an adjustment, the CVA, to reflect the credit quality of counterparties. The CVA is based on the Firm's AVG to a counterparty and the counterparty's credit spread in the credit derivatives market. The primary components of changes in CVA are credit spreads, new deal activity or unwinds, and changes in the underlying market environment. The Firm believes that active risk management is essential to controlling the dynamic credit risk in the derivatives portfolio. In addition, the Firm's credit approval process takes into consideration the potential for correlation between the Firm's AVG to a counterparty and the counterparty's credit quality. The Firm risk manages exposure to changes in CVA by entering into credit derivative transactions, as well as interest rate, foreign exchange, equity and commodity derivative transactions.

The accompanying graph shows exposure profiles to derivatives over the next 10 years as calculated by the DRE and AVG metrics. The two measures generally show declining exposure after the first year, if no new trades were added to the portfolio.

Exposure profile of derivatives measures



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

Ratings profile of derivative receivables MTM

Rating equivalent	**2010**		2009	
December 31, (in millions, except ratios)	Exposure net of of all collateral	% of exposure net of all collateral	Exposure net of of all collateral	% of exposure net of all collateral
AAA/Aaa to AA-/Aa3	**$ 23,342**	**36%**	$ 25,530	40%
A+/A1 to A-/A3	**15,812**	**25**	12,432	19
BBB+/Baa1 to BBB-/Baa3	**8,403**	**13**	9,343	14
BB+/Ba1 to B-/B3	**13,716**	**22**	14,571	23
CCC+/Caa1 and below	**2,722**	**4**	2,815	4
Total	**$ 63,995**	**100%**	$ 64,691	100%

As noted above, the Firm uses collateral agreements to mitigate counterparty credit risk in derivatives. The percentage of the Firm's derivatives transactions subject to collateral agreements – excluding foreign exchange spot trades, which are not typically covered by collateral agreements due to their short maturity – was 88% as of December 31, 2010, largely unchanged from 89% at December 31, 2009. The Firm posted $58.3 billion and $56.7 billion of collateral at December 31, 2010 and 2009, respectively.

Credit derivatives

For risk management purposes, the Firm is primarily a purchaser of credit protection. As a purchaser of credit protection, the Firm has risk that the counterparty providing the credit protection will default. As a seller of credit protection, the Firm has risk that the underlying instrument referenced in the contract will be subject to a credit event.

The Firm uses credit derivatives for two primary purposes: first, in its capacity as a market-maker in the dealer/client business to meet the needs of customers; and second, in order to mitigate the Firm's own credit risk associated with its overall derivative receivables and traditional commercial credit lending exposures (loans and unfunded commitments).

Of the Firm's $80.5 billion of total derivative receivables MTM at December 31, 2010, $7.7 billion, or 10%, was associated with credit derivatives, before the benefit of liquid securities collateral.

One type of credit derivatives the Firm enters into with counterparties are credit default swaps ("CDS"). The large majority of CDS are subject to collateral arrangements to protect the Firm from counterparty credit risk. The use of collateral to settle against defaulting counterparties generally performed as designed in significantly mitigating the Firm's exposure to these counterparties. In 2010, the frequency and size of defaults related to the underlying debt referenced in credit derivatives was lower than 2009. For further discussion of derivatives, see Note 6 on pages 191–199 of this Annual Report.

The following table presents the Firm's notional amounts of credit derivatives protection purchased and sold as of December 31, 2010 and 2009, distinguishing between dealer/client activity and credit portfolio activity.

	2010					2009				
	Dealer/client		Credit portfolio			Dealer/client		Credit portfolio		
December 31, (in millions)	Protection purchased[b]	Protection sold	Protection purchased[c]	Protection sold	Total	Protection purchased[b]	Protection sold	Protection purchased[c]	Protection sold	Total
Credit default swaps	**$ 2,661,657**	**$ 2,658,825**	**$ 23,523**	**$ 415**	**$ 5,344,420**	$ 2,957,277	$ 2,936,987	$ 48,831	$ 455	$ 5,943,550
Other credit derivatives[a]	**34,250**	**93,776**	**—**	**—**	**128,026**	39,763	10,575	—	—	50,338
Total	**$ 2,695,907**	**$ 2,752,601**	**$ 23,523**	**$ 415**	**$ 5,472,446**	$ 2,997,040	$ 2,947,562	$ 48,831	$ 455	$ 5,993,888

(a) Primarily consists of total return swaps and credit default swap options.
(b) Included $2,662 billion and $2,987 billion at December 31, 2010 and 2009, respectively, of notional exposure where the Firm has sold protection on the identical underlying reference instruments.
(c) Included zero and $19.7 billion at December 31, 2010 and 2009, respectively, that represented the notional amount for structured portfolio protection; the Firm retains the first risk of loss on this portfolio.

Dealer/client business

Within the dealer/client business, the Firm actively manages credit derivatives by buying and selling credit protection, predominantly on corporate debt obligations, according to client demand. For further information, see Note 6 on pages 191–199 of this Annual Report.

At December 31, 2010, the total notional amount of protection purchased and sold decreased by $496.1 billion from year-end 2009. The decrease was primarily due to the impact of industry efforts to reduce offsetting trade activity.

Credit portfolio activities

Management of the Firm's wholesale exposure is accomplished through a number of means including loan syndication and participations, loan sales, securitizations, credit derivatives, use of master netting agreements, and collateral and other risk-reduction techniques. The Firm also manages its wholesale credit exposure by purchasing protection through single-name and portfolio credit derivatives to manage the credit risk associated with loans, lending-related commitments and derivative receivables. Changes in credit risk on the credit derivatives are expected to offset changes in credit risk on the loans, lending-related commitments or derivative receivables. This activity does not reduce the reported level of assets on the balance sheet or the level of reported off–balance sheet commitments, although it does provide the Firm with credit risk protection. The Firm also diversifies its exposures by selling credit protection, which increases exposure to industries or clients where the Firm has little or no client-related exposure; however, this activity is not material to the Firm's overall credit exposure.

Use of single-name and portfolio credit derivatives

December 31, (in millions)	Notional amount of protection purchased and sold **2010**	2009
Credit derivatives used to manage		
Loans and lending-related commitments	**$ 6,698**	$ 36,873
Derivative receivables	**16,825**	11,958
Total protection purchased[a]	**23,523**	48,831
Total protection sold	**415**	455
Credit derivatives hedges notional, net	**$23,108**	$ 48,376

(a) Included zero and $19.7 billion at December 31, 2010 and 2009, respectively, that represented the notional amount for structured portfolio protection; the Firm retains the first risk of loss on this portfolio.

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

Year ended December 31, (in millions)	2010	2009	2008
Hedges of lending-related commitments[a]	**$ (279)**	$ (3,258)	$ 2,216
CVA and hedges of CVA[a]	**(403)**	1,920	(2,359)
Net gains/(losses)	**$ (682)**	$ (1,338)	$ (143)

(a) These hedges do not qualify for hedge accounting under U.S. GAAP.

Lending-related commitments

JPMorgan Chase uses lending-related financial instruments, such as commitments and guarantees, to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparties draw down on these commitments or the Firm fulfills its obligation under these guarantees, and should the counterparties subsequently fail to perform according to the terms of these contracts.

Wholesale lending-related commitments were $346.1 billion at December 31, 2010, compared with $347.2 billion at December 31, 2009. The decrease reflected the January 1, 2010, adoption of accounting guidance related to VIEs. Excluding the effect of the accounting guidance, lending-related commitments would have increased by $16.6 billion.

In the Firm's view, the total contractual amount of these wholesale lending-related commitments is not representative of the Firm's actual credit risk exposure or funding requirements. In determining the amount of credit risk exposure the Firm has to wholesale lending-related commitments, which is used as the basis for allocating credit risk capital to these commitments, the Firm has established a "loan-equivalent" amount for each commitment; this amount represents the portion of the unused commitment or other contingent exposure that is expected, based on average portfolio historical experience, to become drawn upon in an event of a default by an obligor. The loan-equivalent amounts of the Firm's lending-related commitments were $189.9 billion and $179.8 billion as of December 31, 2010 and 2009, respectively.

Country exposure

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

Country exposure under the Firm's internal risk management approach is reported based on the country where the assets of the obligor, counterparty or guarantor are located. Exposure amounts, including resale agreements, are adjusted for collateral and for credit enhancements (e.g., guarantees and letters of credit) provided by third parties; outstandings supported by a guarantor located outside the country or backed by collateral held outside the country are assigned to the country of the enhancement provider. In addition, the effect of credit derivative hedges and other short credit or equity trading positions are taken into consideration. Total exposure measures include activity with both government and private-sector entities in a country.

The Firm also reports country exposure for regulatory purposes following FFIEC guidelines, which are different from the Firm's internal risk management approach for measuring country exposure. For additional information on the FFIEC exposures, see Cross-border outstandings on page 314 of this Annual Report.

Several European countries, including Greece, Portugal, Spain, Italy and Ireland, have been subject to credit deterioration due to weaknesses in their economic and fiscal situations. The Firm is closely monitoring its exposures to these five countries. Aggregate net exposures to these five countries as measured under the Firm's internal approach was less than $15.0 billion at December 31, 2010, with no country representing a majority of the exposure. Sovereign exposure in all five countries represented less than half the aggregate net exposure. The Firm currently believes its exposure to these five countries is modest relative to the Firm's overall risk exposures and is manageable given the size and types of exposures to each of the countries and the diversification of the aggregate exposure. The Firm continues to conduct business and support client activity in these countries and, therefore, the Firm's aggregate net exposures may vary over time. In addition, the net exposures may be impacted by changes in market conditions, and the effects of interest rates and credit spreads on market valuations.

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

Top 10 emerging markets country exposure

At December 31, 2010	Cross-border					**Total**
(in billions)	Lending(a)	Trading(b)	Other(c)	Total	Local(d)	**exposure**
Brazil	**$ 3.0**	**$ 1.8**	**$ 1.1**	**$ 5.9**	**$ 3.9**	**$ 9.8**
South Korea	**3.0**	**1.4**	**1.5**	**5.9**	**3.1**	**9.0**
India	**4.2**	**2.1**	**1.4**	**7.7**	**1.1**	**8.8**
China	**3.6**	**1.1**	**1.0**	**5.7**	**1.2**	**6.9**
Hong Kong	**2.5**	**1.5**	**1.2**	**5.2**	**—**	**5.2**
Mexico	**2.1**	**2.3**	**0.5**	**4.9**	**—**	**4.9**
Malaysia	**0.6**	**2.0**	**0.3**	**2.9**	**0.4**	**3.3**
Taiwan	**0.3**	**0.6**	**0.4**	**1.3**	**1.9**	**3.2**
Thailand	**0.3**	**1.1**	**0.4**	**1.8**	**0.9**	**2.7**
Russia	**1.2**	**1.0**	**0.3**	**2.5**	**—**	**2.5**

At December 31, 2009	Cross-border					**Total**
(in billions)	Lending(a)	Trading(b)	Other(c)	Total	Local(d)	**exposure**
South Korea	$ 2.7	$ 1.7	$ 1.3	$ 5.7	$ 3.3	$ 9.0
India	1.5	2.7	1.1	5.3	0.3	5.6
Brazil	1.8	(0.5)	1.0	2.3	2.2	4.5
China	1.8	0.4	0.8	3.0	—	3.0
Taiwan	0.1	0.8	0.3	1.2	1.8	3.0
Hong Kong	1.1	0.2	1.3	2.6	—	2.6
Mexico	1.2	0.8	0.4	2.4	—	2.4
Chile	0.8	0.6	0.5	1.9	—	1.9
Malaysia	0.1	1.3	0.3	1.7	0.2	1.9
South Africa	0.4	0.8	0.5	1.7	—	1.7

(a) Lending includes loans and accrued interest receivable, interest-earning deposits with banks, acceptances, other monetary assets, issued letters of credit net of participations, and undrawn commitments to extend credit.
(b) Trading includes: (1) issuer exposure on cross-border debt and equity instruments, held both in trading and investment accounts and adjusted for the impact of issuer hedges, including credit derivatives; and (2) counterparty exposure on derivative and foreign exchange contracts as well as securities financing trades (resale agreements and securities borrowed).
(c) Other represents mainly local exposure funded cross-border, including capital investments in local entities.
(d) Local exposure is defined as exposure to a country denominated in local currency and booked locally. Any exposure not meeting these criteria is defined as cross-border exposure.

CONSUMER CREDIT PORTFOLIO

JPMorgan Chase's consumer portfolio consists primarily of residential mortgages, home equity loans, credit cards, auto loans, student loans and business banking loans**.** The Firm's primary focus is on serving the prime consumer credit market. For further information on the consumer loans, see Note 14 on pages 220–238 of this Annual Report.

A substantial portion of the consumer loans acquired in the Washington Mutual transaction were identified as purchased credit-impaired based on an analysis of high-risk characteristics, including product type, LTV ratios, FICO scores and delinquency status. These PCI loans are accounted for on a pool basis, and the pools are considered to be performing. See pages 132–134 of this Annual Report for further information on the purchased credit-impaired loans.

The credit performance of the consumer portfolio across the entire product spectrum has stabilized but high unemployment and weak overall economic conditions continue to put pressure on the number of loans charged off, and weak housing prices continue to negatively affect the severity of loss recognized on real estate loans that default. Delinquencies and nonaccrual loans remain elevated but have improved. The delinquency trend exhibited improvement in the first half of 2010; early-stage delinquencies (30–89 days delinquent) then flattened across most RFS products early in the second half of the year, before once again showing improvement at the end of the year. Late-stage residential real estate delinquencies (150+ days delinquent) remain elevated. The elevated level of these credit quality metrics is due, in part, to loss-mitigation activities currently being undertaken and elongated foreclosure processing timelines. Losses related to these loans continued to be recognized in accordance with the Firm's standard charge-off practices, but some delinquent loans that would have otherwise been foreclosed upon remain in the mortgage and home equity loan portfolios.

Since mid-2007, the Firm has taken actions to reduce risk exposure to consumer loans by tightening both underwriting and loan qualification standards, as well as eliminating certain products and loan origination channels for residential real estate lending. The tightening of underwriting criteria for auto loans has resulted in the reduction of both extended-term and high LTV financing. In addition, new originations of private student loans are limited to school-certified loans, the majority of which include a qualified co-borrower.

As a further action to reduce risk associated with lending-related commitments, the Firm has reduced or canceled certain lines of credit as permitted by law. For example, the Firm may reduce or close home equity lines of credit when there are significant decreases in the value of the underlying property or when there has been a demonstrable decline in the creditworthiness of the borrower. Also, the Firm typically closes credit card lines when the borrower is 60 days or more past due. Finally, certain inactive credit card lines have been closed, and a number of active credit card lines have been reduced.

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

Consumer

As of or for the year ended December 31, (in millions, except ratios)	Credit exposure 2010	Credit exposure 2009	Nonaccrual loans[k][l] 2010	Nonaccrual loans[k][l] 2009	Net charge-offs 2010	Net charge-offs 2009	Net charge-off rate[m][n] 2010	Net charge-off rate[m][n] 2009
Consumer, excluding credit card								
Loans, excluding PCI loans and loans held-for-sale								
Home equity – senior lien[a]	**$ 24,376**	$ 27,376	**$ 479**	$ 477	**$ 262**	$ 234	**1.00%**	0.80%
Home equity – junior lien[b]	**64,009**	74,049	**784**	1,188	**3,182**	4,448	**4.63**	5.62
Prime mortgage, including option ARMs[c]	**74,539**	75,428	**4,320**	4,667	**1,627**	1,957	**2.15**	2.51
Subprime mortgage[c]	**11,287**	12,526	**2,210**	3,248	**1,374**	1,648	**10.82**	11.86
Auto[c][d]	**48,367**	46,031	**141**	177	**298**	627	**0.63**	1.44
Business banking	**16,812**	16,974	**832**	826	**707**	842	**4.23**	4.73
Student and other[c]	**15,311**	14,726	**67**	74	**459**	443	**2.85**	2.90
Total loans, excluding PCI loans and loans held-for-sale	**254,701**	267,110	**8,833**	10,657	**7,909**	10,199	**3.00**	3.68
Loans – PCI[e]								
Home equity	**24,459**	26,520	**NA**	NA	**NA**	NA	**NA**	NA
Prime mortgage	**17,322**	19,693	**NA**	NA	**NA**	NA	**NA**	NA
Subprime mortgage	**5,398**	5,993	**NA**	NA	**NA**	NA	**NA**	NA
Option ARMs	**25,584**	29,039	**NA**	NA	**NA**	NA	**NA**	NA
Total loans – PCI	**72,763**	81,245	**NA**	NA	**NA**	NA	**NA**	NA
Total loans – retained	**327,464**	348,355	**8,833**	10,657	**7,909**	10,199	**2.32**	2.82
Loans held-for-sale[f]	**154**	2,142	—	—	—	—	—	—
Total loans – reported	**327,618**	350,497	**8,833**	10,657	**7,909**	10,199	**2.32**	2.82
Lending-related commitments								
Home equity – senior lien[a][g]	**16,060**	19,246						
Home equity – junior lien[b][g]	**28,681**	37,231						
Prime mortgage	**1,266**	1,654						
Subprime mortgage	—	—						
Auto	**5,246**	5,467						
Business banking	**9,702**	9,040						
Student and other	**579**	2,189						
Total lending-related commitments	**61,534**	74,827						
Total consumer exposure, excluding credit card	**389,152**	425,324						
Credit Card								
Loans retained[c][h][i]	**135,524**	78,786	**2**	3	**14,037**	9,634	**9.73**	11.07
Loans held-for-sale	**2,152**	—	—	—	—	—	—	—
Total loans – reported	**137,676**	78,786	**2**	3	**14,037**	9,634	**9.73**	11.07
Securitized[c][j]	**NA**	84,626	**NA**	—	**NA**	6,443	**NA**	7.55
Total loans – managed[c]	**137,676**	163,412	**2**	3	**14,037**	16,077	**9.73**	9.33
Lending-related commitments[g]	**547,227**	569,113						
Total credit card exposure	**684,903**	732,525						
Total consumer credit portfolio – reported	**1,074,055**	1,073,223	**8,835**	10,660	**21,946**	19,833	**4.53**	4.41
Total consumer credit portfolio – managed[c]	**$ 1,074,055**	$ 1,157,849	**$ 8,835**	$10,660	**$ 21,946**	$ 26,276	**4.53%**	4.91%

(a) Represents loans where JPMorgan Chase holds the first security interest on the property.
(b) Represents loans where JPMorgan Chase holds a security interest that is subordinate in rank to other liens.
(c) Effective January 1, 2010, the Firm adopted accounting guidance related to VIEs. Upon the adoption of the guidance, the Firm consolidated its Firm-sponsored credit card securitization trusts and certain other consumer loan securitization entities, primarily mortgage-related. As a result, related receivables are now recorded as loans on the Consolidated Balance Sheet. As a result of the consolidation of the securitization trusts, reported and managed basis are equivalent for periods beginning after January 1, 2010. For further discussion, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 64–66 of this Form 10-K.
(d) Excluded operating lease–related assets of $3.7 billion and $2.9 billion at December 31, 2010 and 2009, respectively.
(e) Charge-offs are not recorded on PCI loans until actual losses exceed estimated losses that were recorded as purchase accounting adjustments at the time of acquisition. To date, no charge-offs have been recorded for these loans.
(f) At December 31, 2010 and 2009, loans held-for-sale included prime mortgages of $154 million and $450 million, respectively, and student loans of zero and $1.7 billion, respectively.
(g) The credit card and home equity lending-related commitments represent the total available lines of credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit would be used at the same time. For credit card commitments and home equity commitments (if certain conditions are met), the Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.

(h) Included $1.0 billion of loans at December 31, 2009, held by the WMMT, which were consolidated onto the Firm's Consolidated Balance Sheets at fair value in 2009. Such loans had been fully repaid or charged off as of December 31, 2010. See Note 16 on pages 244–259 this Annual Report.
(i) Included billed finance charges and fees net of an allowance for uncollectible amounts.
(j) Loans securitized are defined as loans that were sold to nonconsolidated securitization trusts and not included in reported loans. For a further discussion of credit card securitizations, see CS on pages 79–81 of this Annual Report.
(k) At December 31, 2010 and 2009, nonaccrual loans excluded: (1) mortgage loans insured by U.S. government agencies of $10.5 billion and $9.0 billion, respectively, that are 90 days past due and accruing at the guaranteed reimbursement rate; and (2) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the FFELP, of $625 million and $542 million, respectively. These amounts are excluded as reimbursement of insured amounts is proceeding normally. In addition, the Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance. Under guidance issued by the FFIEC, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.
(l) Excludes PCI loans that were acquired as part of the Washington Mutual transaction, which are accounted for on a pool basis. Since each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, the past-due status of the pools, or that of individual loans within the pools, is not meaningful. Because the Firm is recognizing interest income on each pool of loans, they are all considered to be performing.
(m) Average consumer loans held-for-sale and loans at fair value were $1.5 billion and $2.2 billion for the years ended December 31, 2010 and 2009, respectively. These amounts were excluded when calculating net charge-off rates.
(n) As further discussed below, net charge-off rates for 2010 reflect the impact of an aggregate $632 million adjustment related to the Firm's estimate of the net realizable value of the collateral underlying the loans at the charge-off date. Absent this adjustment, net charge-off rates would have been 0.92%, 4.57%, 1.73% and 8.87% for home equity – senior lien; home equity – junior lien; prime mortgage (including option ARMs); and subprime mortgage, respectively. Total consumer, excluding credit card and PCI loans, and total consumer, excluding credit card net charge-off rates would have been 2.76% and 2.14%, respectively, excluding this adjustment.

Effective January 1, 2010, the Firm adopted accounting guidance related to VIEs. Upon adoption of this guidance, the Firm consolidated its Firm-sponsored credit card securitization trusts and certain other consumer loan securitization entities. The following table summarizes the impact on consumer loans at adoption.

Reported loans
January 1, 2010 (in millions)

Consumer, excluding credit card	
Prime mortgage, including option ARMs	$ 1,858
Subprime mortgage	1,758
Auto	218
Student	1,008
Total consumer, excluding credit card	4,842
Credit card	84,663
Total increase in consumer loans	$ 89,505

Consumer, excluding credit card

Portfolio analysis

The following discussion relates to the specific loan and lending-related categories. Purchased credit-impaired loans are excluded from individual loan product discussions and are addressed separately below. For further information about the Firm's consumer portfolio, related delinquency information and other credit quality indicators, see Note 14 on pages 220–238 of this Annual Report.

It is the Firm's policy to charge down residential real estate loans to net realizable value at no later than 180 days past due. During the fourth quarter of 2010, the Firm recorded an aggregate adjustment of $632 million to increase net charge-offs related to the estimated net realizable value of the collateral underlying delinquent residential home loans. Because these losses were previously recognized in the provision and allowance for loan losses, this adjustment had no impact on the Firm's net income. The impact of this aggregate adjustment on reported net charge-off rates is provided in footnote (n) above.

Home equity: Home equity loans at December 31, 2010, were $88.4 billion, compared with $101.4 billion at December 31, 2009. The decrease in this portfolio primarily reflected loan paydowns and charge-offs. Junior lien net charge-offs declined from the prior year but remained high. Senior lien nonaccrual loans remained relatively flat, while junior lien nonaccrual loans decreased from prior year-end as a result of improvement in early-stage delinquencies. Improvements in delinquencies and charge-offs slowed during the second half of the year and stabilized at these elevated levels. In addition to delinquent accounts, the Firm monitors current junior lien loans where the borrower has a first mortgage loan which is either delinquent or has been modified, as such junior lien loans are considered to be at higher risk of delinquency. The portfolio contained an estimated $4 billion of such junior lien loans. The risk associated with these junior lien loans was considered in establishing the allowance for loan losses at December 31, 2010.

Mortgage: Mortgage loans at December 31, 2010, including prime and subprime mortgages and mortgage loans held-for-sale, were $86.0 billion, compared with $88.4 billion at December 31, 2009. The decrease was primarily due to portfolio runoff, partially offset by the addition of loans to the balance sheet as a result of the adoption of the accounting guidance related to VIEs. Net charge-offs decreased from the prior year but remained elevated.

Prime mortgages at December 31, 2010, including option ARMs, were $74.7 billion, compared with $75.9 billion at December 31, 2009. The decrease in loans was due to paydowns and charge-offs on delinquent loans, partially offset by the addition of loans as a result of the adoption of the accounting guidance related to VIEs. Early-stage delinquencies showed improvement during the year but remained at elevated levels. Late-stage delinquencies increased during the first half of the year, then trended lower for several months before flattening toward the end of 2010. Nonaccrual loans showed improvement, but also remained elevated as a result of ongoing modification activity and foreclosure processing delays. Charge-offs declined year over year but remained high.

Option ARM loans, which are included in the prime mortgage portfolio, were $8.1 billion at December 31, 2010, and represented 11% of the prime mortgage portfolio. These are primarily loans with low LTV ratios and high borrower FICOs. Accordingly, the Firm expects substantially lower losses on this portfolio when compared with the PCI option ARM pool. As of December 31, 2010, approximately 8% of the option ARM borrowers were delinquent, 4% were making interest-only or negatively amortizing payments, and 88% were making amortizing payments. Substantially all borrowers within the portfolio are subject to risk of payment shock due to future payment recast as a limited number of these loans have been modified. The cumulative amount of unpaid interest added to the unpaid principal balance due to negative amortization of option ARMs was $24 million and $78 million at December 31, 2010 and 2009, respectively. The Firm estimates the following balances of option ARM loans will experience a recast that results in a payment increase: $72 million in 2011, $241 million in 2012 and $784 million in 2013. The Firm did not originate option ARMs and new originations of option ARMs were discontinued by Washington Mutual prior to the date of JPMorgan Chase's acquisition of its banking operations.

Subprime mortgages at December 31, 2010 were $11.3 billion, compared with $12.5 billion at December 31, 2009. The decrease was due to paydowns and charge-offs on delinquent loans, partially offset by the addition of loans as a result of the adoption of the accounting guidance related to VIEs. Late-stage delinquencies remained elevated but continued to improve, albeit at a slower rate during the second half of the year, while early-stage delinquencies stabilized at an elevated level during this period. Nonaccrual loans improved largely as a result of the improvement in late-stage delinquencies. Charge-offs reflected modest improvement.

Auto: Auto loans at December 31, 2010, were $48.4 billion, compared with $46.0 billion at December 31, 2009. Delinquent and nonaccrual loans have decreased. In addition, net charge-offs have declined 52% from the prior year. Provision expense decreased due to favorable loss severity as a result of a strong used-car market nationwide and reduced loss frequency due to the tightening of underwriting criteria in earlier periods. The auto loan portfolio reflected a high concentration of prime quality credits.

Business banking: Business banking loans at December 31, 2010, were $16.8 billion, compared with $17.0 billion at December 31, 2009. The decrease was primarily a result of run-off of the Washington Mutual portfolio and charge-offs on delinquent loans. These loans primarily include loans which are highly collateralized, often with personal loan guarantees. Nonaccrual loans continued to remain elevated. After having increased during the first half of 2010, nonaccrual loans as of December 31, 2010, declined to year-end 2009 levels.

Student and other: Student and other loans at December 31, 2010, including loans held-for-sale, were $15.3 billion, compared with $16.4 billion at December 31, 2009. Other loans primarily include other secured and unsecured consumer loans. Delinquencies reflected some stabilization in the second half of 2010, but remained elevated. Charge-offs during 2010 remained relatively flat with 2009 levels reflecting the impact of elevated unemployment levels.

Purchased credit-impaired loans: PCI loans at December 31, 2010, were $72.8 billion compared with $81.2 billion at December 31, 2009. This portfolio represents loans acquired in the Washington Mutual transaction that were recorded at fair value at the time of acquisition. That fair value included an estimate of credit losses expected to be realized over the remaining lives of the loans, and therefore no allowance for loan losses was recorded for these loans as of the acquisition date.

The Firm regularly updates the amount of principal and interest cash flows expected to be collected for these loans. Probable decreases in expected loan principal cash flows would trigger the recognition of impairment through the provision for loan losses. Probable and significant increases in expected cash flows (e.g., decreased principal credit losses, the net benefit of modifications) would first reverse any previously recorded allowance for loan losses, with any remaining increase in the expected cash flows recognized prospectively in interest income over the remaining estimated lives of the underlying loans.

During 2010, management concluded as part of the Firm's regular assessment of the PCI pools that it was probable that higher expected principal credit losses would result in a decrease in expected cash flows. Accordingly, the Firm recognized an aggregate $3.4 billion impairment related to the home equity, prime mortgage, option ARM and subprime mortgage PCI portfolios. As a result of this impairment, the Firm's allowance for loan losses for the home equity, prime mortgage, option ARM and subprime mortgage PCI portfolios was $1.6 billion, $1.8 billion, $1.5 billion and $98 million, respectively, at December 31, 2010, compared with an allowance for loan losses of $1.1 billion and $491 million for the prime mortgage and option ARM PCI portfolios, respectively, at December 31, 2009.

Approximately 39% of the option ARM borrowers were delinquent, 5% were making interest-only or negatively amortizing payments, and 56% were making amortizing payments. Approximately 50% of current borrowers are subject to risk of payment shock due to future payment recast; substantially all of the remaining loans have been modified to a fixed rate fully amortizing loan. The cumulative amount of unpaid interest added to the unpaid principal balance of the option ARM PCI pool was $1.4 billion and $1.9 billion at December 31, 2010 and 2009, respectively. The Firm estimates the following balances of option ARM PCI loans will experience a recast that results in a payment increase: $1.2 billion in 2011, $2.7 billion in 2012 and $508 million in 2013.

The following table provides a summary of lifetime loss estimates included in both the nonaccretable difference and the allowance for loan losses. Principal charge-offs will not be recorded on these pools until the nonaccretable difference has been fully depleted.

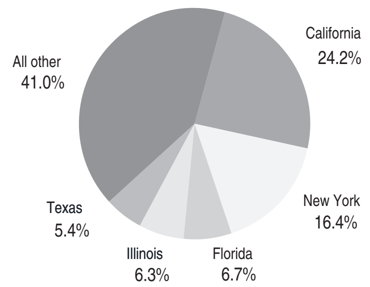
	Lifetime loss estimates[(a)]		LTD liquidation losses[(b)]	
December 31, (in millions)	**2010**	2009	**2010**	2009
Option ARMs	**$ 11,588**	$ 10,650	**$ 4,860**	$ 1,744
Home equity	**14,698**	13,138	**8,810**	6,060
Prime mortgage	**4,870**	4,240	**1,495**	794
Subprime mortgage	**3,732**	3,842	**1,250**	796
Total	**$ 34,888**	$ 31,870	**$ 16,415**	$ 9,394

(a) Includes the original nonaccretable difference established in purchase accounting of $30.5 billion for principal losses only. The remaining nonaccretable difference for principal losses only was $14.1 billion and $21.1 billion at December 31, 2010 and 2009, respectively. All probable increases in principal losses and foregone interest subsequent to the purchase date are reflected in the allowance for loan losses.

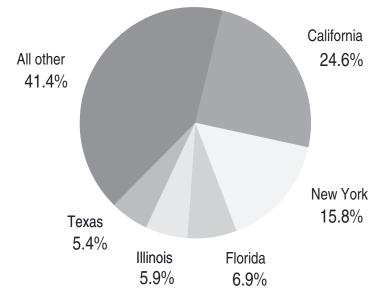
(b) Life-to-date ("LTD") liquidation losses represent realization of loss upon loan resolution.

Geographic composition and current estimated LTVs of residential real estate loans

Top 5 States - Residential Real Estate (a)
(at December 31, 2010)



Top 5 States - Residential Real Estate (a)
(at December 31, 2009)



(a) Represents residential real estate loans retained, excluding purchased credit-impaired loans acquired in the Washington Mutual transaction and loans insured by U.S. government agencies.

The consumer credit portfolio is geographically diverse. The greatest concentration of residential real estate loans is in California. Excluding mortgage loans insured by U.S. government agencies and PCI loans, California-based loans retained represented 24% of total residential real estate loans retained at December 31, 2010, compared with 25% at December 31, 2009. Of the total residential real estate loan portfolio retained, excluding mortgage loans insured by U.S. government agencies and PCI loans, $86.4 billion, or 54%, were concentrated in California, New York, Arizona, Florida and Michigan at December 31, 2010, compared with $95.9 billion, or 54%, at December 31, 2009.

The current estimated average LTV ratio for residential real estate loans retained, excluding mortgage loans insured by U.S. government agencies and PCI loans, was 83% at December 31, 2010, compared with 81% at December 31, 2009. Excluding mortgage loans insured by U.S. government agencies and PCI loans, 24% of the retained portfolio had a current estimated LTV ratio greater than 100%, and 10% of the retained portfolio had a current estimated LTV ratio greater than 125% at December 31, 2010, compared with 22% with a current estimated LTV ratio greater than 100%, and 9% with a current estimated LTV ratio greater than 125%, at December 31, 2009. The decline in home prices had a significant impact on the collateral value underlying the Firm's residential real estate loan portfolio. In general, the delinquency rate for loans with high LTV ratios is greater than the delinquency rate for loans in which the borrower has equity in the collateral. While a large portion of the loans with current estimated LTV ratios greater than 100% continue to pay and are current, the continued willingness and ability of these borrowers to pay remains uncertain.

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

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

December 31, 2010 (in millions, except ratios)	Unpaid principal balance(a)	Current estimated LTV ratio(b)	Carrying value(d)	Ratio of carrying value to current estimated collateral value(e)
Home equity	**$ 28,312**	**117%(c)**	**$ 24,459**	**95 %**
Prime mortgage	**18,928**	**109**	**17,322**	**90**
Subprime mortgage	**8,042**	**113**	**5,398**	**74**
Option ARMs	**30,791**	**111**	**25,584**	**87**

December 31, 2009 (in millions, except ratios)	Unpaid principal balance(a)	Current estimated LTV ratio(b)	Carrying value(d)	Ratio of carrying value to current estimated collateral value(e)
Home equity	$ 32,958	113%(c)	$ 26,520	91 %
Prime mortgage	21,972	103	19,693	87
Subprime mortgage	9,021	107	5,993	71
Option ARMs	37,379	111	29,039	85

(a) Represents the contractual amount of principal owed at December 31, 2010 and 2009.

(b) Represents the aggregate unpaid principal balance of loans divided by the estimated current property value. Current property values are estimated based on home valuation models utilizing nationally recognized home price index valuation estimates. Prior period amounts have been revised to conform to the current period presentation.
(c) Represents current estimated combined LTV, which considers all available lien positions related to the property. All other products are presented without consideration of subordinate liens on the property.
(d) Carrying value includes the effect of fair value adjustments that were applied to the consumer PCI portfolio at the date of acquisition.
(e) At December 31, 2010, and 2009, the ratios of carrying value to current estimated collateral value are net of the allowance for loan losses of $1.6 billion and zero for home equity, respectively, $1.8 billion and $1.1 billion for prime mortgage, respectively, $98 million and zero for subprime mortgage, respectively, and $1.5 billion and $491 million for option ARMs, respectively.

PCI loans in the states of California and Florida represented 53% and 10%, respectively, of total PCI loans at December 31, 2010, compared with 54% and 11%, respectively, at December 31, 2009. The current estimated average LTV ratios were 118% and 135% for California and Florida loans, respectively, at December 31, 2010, compared with 114% and 131%, respectively, at December 31, 2009. Continued pressure on housing prices in California and Florida have contributed negatively to both the current estimated average LTV ratio and the ratio of carrying value to current collateral value for loans in the PCI portfolio. For the PCI portfolio, 63% had a current estimated LTV ratio greater than 100%, and 31% of the PCI portfolio had a current estimated LTV ratio greater than 125% at December 31, 2010; this compared with 59% of the PCI portfolio with a current estimated LTV ratio greater than 100%, and 28% with a current estimated LTV ratio greater than 125%, at December 31, 2009.

The carrying value of PCI loans is below the current estimated collateral value of the loans and, accordingly, the ultimate performance of this portfolio is highly dependent on borrowers' behavior and ongoing ability and willingness to continue to make payments on homes with negative equity, as well as on the cost of alternative housing. For further information on the geographic composition and current estimated LTVs of residential real estate – non PCI and PCI loans, see Note 14 on pages 220–238 of this Annual Report.

Loan modification activities
For additional information about consumer loan modification activities, including consumer loan modifications accounted for as troubled debt restructurings, see Note 14 on pages 220–238 of this Annual Report.

Residential real estate loans: For both the Firm's on-balance sheet loans and loans serviced for others, more than 1,038,000 mortgage modifications have been offered to borrowers and approximately 318,000 have been approved since the beginning of 2009. Of these, approximately 285,000 have achieved permanent modification as of December 31, 2010. Of the remaining 720,000 modifications, 34% are in a trial period or still being reviewed for a modification, while 66% have dropped out of the modification program or otherwise were not eligible for final modification.

The Firm is participating in the U.S. Treasury's MHA programs and is continuing to expand its other loss-mitigation efforts for financially distressed borrowers who do not qualify for the U.S. Treasury's programs. The MHA programs include the Home Affordable Modification Program ("HAMP") and the Second Lien Modification Program ("2MP"); these programs mandate standard modification terms across the industry and provide incentives to borrowers, servicers and investors who participate. The Firm completed its first permanent modifications under HAMP in September 2009. Under 2MP, which the Firm implemented in May 2010, homeowners are offered a way to modify their second mortgage to make it more affordable when their first mortgage has been modified under HAMP.

The Firm's other loss-mitigation programs for troubled borrowers who do not qualify for HAMP include the traditional modification programs offered by the GSE's and Ginnie Mae, as well as the Firm's proprietary modification programs, which include similar concessions to those offered under HAMP but with expanded eligibility criteria. In addition, the Firm has offered modification programs targeted specifically to borrowers with higher-risk mortgage products.

MHA, as well as the Firm's other loss-mitigation programs, generally provide various concessions to financially troubled borrowers, including, but not limited to, interest rate reductions, term or payment extensions, and deferral of principal payments that would have otherwise been required under the terms of the original agreement. For the 54,500 on–balance sheet loans modified under HAMP and the Firm's other loss-mitigation programs since July 1, 2009, 55% of permanent loan modifications have included interest rate reductions, 49% have included term or payment extensions, 9% have included principal deferment and 22% have included principal forgiveness. Principal forgiveness has been limited to a specific modification program for option ARMs. The sum of the percentages of the types of loan modifications exceeds 100% because, in some cases, the modification of an individual loan includes more than one type of concession.

Generally, borrowers must make at least three payments under the revised contractual terms during a trial modification and be successfully re-underwritten with income verification before a mortgage or home equity loan can be permanently modified. When the Firm modifies home equity lines of credit, future lending commitments related to the modified loans are canceled as part of the terms of the modification.

The ultimate success of these modification programs and their impact on reducing credit losses remains uncertain given the short period of time since modification. The primary indicator used by management to monitor the success of these programs is the rate at which the modified loans redefault. Modification redefault rates are affected by a number of factors, including the type of loan modified, the borrower's overall ability and willingness to repay the modified loan and other macroeconomic factors. Reduction in payment size for a borrower has shown to be the most significant driver in improving redefault rates. Modifications completed after July 1, 2009, whether under HAMP or under the Firm's other modification programs, differ from modifications completed under prior programs in that they are generally fully underwritten after a successful trial payment period of at least three months. Approximately 87% of on–balance sheet modifications completed since July 1, 2009, were completed in 2010, with approximately 10% completed as recently as the fourth quarter of 2010. Performance metrics to date for modifications seasoned more than six months show weighted average redefault rates of 25% and 28% for HAMP and the Firm's other modification programs, respectively. While these rates compare favorably to equivalent metrics for modifications completed under prior programs, ultimate redefault rates will remain uncertain until modified loans have seasoned.

The following table presents information as of December 31, 2010 and 2009, relating to restructured on–balance sheet residential real estate loans for which concessions have been granted to borrowers experiencing financial difficulty. Modifications of PCI loans continue to be accounted for and reported as PCI loans, and the impact of the modification is incorporated into the Firm's quarterly assessment of estimated future cash flows. Modifications of consumer loans other than PCI loans are generally accounted for and reported as troubled debt restructurings ("TDRs").

Restructured residential real estate loans

December 31, (in millions)	**2010** On–balance sheet loans	**2010** Nonaccrual on–balance sheet loans[d]	2009 On–balance sheet loans	2009 Nonaccrual on–balance sheet loans[d]
Restructured residential real estate loans – excluding PCI loans[a][b]				
Home equity – senior lien	**$ 226**	**$ 38**	$ 168	$ 30
Home equity – junior lien	**283**	**63**	222	43
Prime mortgage, including option ARMs	**2,084**	**534**	642	249
Subprime mortgage	**2,751**	**632**	1,998	598
Total restructured residential real estate loans – excluding PCI loans	**$ 5,344**	**$ 1,267**	$ 3,030	$ 920
Restructured PCI loans[c]				
Home equity	**$ 492**	**NA**	$ 453	NA
Prime mortgage	**3,018**	**NA**	1,526	NA
Subprime mortgage	**3,329**	**NA**	1,954	NA
Option ARMs	**9,396**	**NA**	2,972	NA
Total restructured PCI loans	**$ 16,235**	**NA**	$ 6,905	NA

(a) Amounts represent the carrying value of restructured residential real estate loans.
(b) At December 31, 2010 and 2009, $3.0 billion and $296 million, respectively, of loans modified subsequent to repurchase from Ginnie Mae were excluded from loans accounted for as TDRs. When such loans perform subsequent to modification they are generally sold back into Ginnie Mae loan pools. Modified loans that do not reperform become subject to foreclosure. Substantially all amounts due under the terms of these loans continue to be insured and, where applicable, reimbursement of insured amounts is proceeding normally.
(c) Amounts represent the unpaid principal balance of restructured PCI loans.
(d) Nonaccrual loans modified in a TDR may be returned to accrual status when repayment is reasonably assured and the borrower has made a minimum of six payments under the new terms. As of December 31, 2010 and 2009, nonaccrual loans of $580 million and $256 million, respectively, are TDRs for which the borrowers have not yet made six payments under their modified terms.

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

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

Foreclosure process issues

The foreclosure process is governed by laws and regulations established on a state-by-state basis. In some states, the foreclosure process involves a judicial process requiring filing documents with a court. In other states, the process is mostly non-judicial, involving various processes, some of which require filing documents with governmental agencies. During the third quarter of 2010, the Firm became aware that certain documents executed by Firm personnel in connection with the foreclosure process may not have complied with all applicable procedural requirements. For example, in certain instances, the underlying loan file review and verification of information for inclusion in an affidavit was performed by Firm personnel other than the affiant, or the affidavit may not have been properly notarized. The Firm instructed its outside foreclosure counsel to temporarily suspend foreclosures, foreclosure sales and evictions in 43 states so that it could review its processes. These matters are the subject of investigation by federal and state officials. For further discussion, see "Mortgage Foreclosure Investigations and Litigation" in Note 32 on pages 282–289 of this Annual Report.

As a result of these foreclosure process issues, the Firm has undertaken remedial actions to ensure that it satisfies all procedural requirements relating to mortgage foreclosures. These actions include:

- A complete review of the foreclosure document execution policies and procedures;
- The creation of model affidavits that will comply with all local law requirements and be used in every case;
- Implementation of enhanced procedures designed to ensure that employees who execute affidavits personally verify their contents and that the affidavits are executed only in the physical presence of a licensed notary;
- Extensive training for all personnel who will have responsibility for document execution going forward and certification of those personnel by outside counsel;
- Implementation of a rigorous quality control double-check review of affidavits completed by the Firm's employees; and
- Review and verification of our revised procedures by outside experts.

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

The following table presents information as of December 31, 2010 and 2009, about the Firm's nonperforming consumer assets, excluding credit card.

Nonperforming assets[(a)]

December 31, (in millions)	2010	2009
Nonaccrual loans[(b)]		
Home equity – senior lien	**$ 479**	$ 477
Home equity – junior lien	**784**	1,188
Prime mortgage, including option ARMs	**4,320**	4,667
Subprime mortgage	**2,210**	3,248
Auto	**141**	177
Business banking	**832**	826
Student and other	**67**	74
Total nonaccrual loans	**8,833**	10,657
Assets acquired in loan satisfactions		
Real estate owned	**1,294**	1,156
Other	**67**	99
Total assets acquired in loan satisfactions	**1,361**	1,255
Total nonperforming assets	**$10,194**	$ 11,912

(a) At December 31, 2010 and 2009, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $10.5 billion and $9.0 billion, respectively, that are 90 days past due and accruing at the guaranteed reimbursement rate; (2) real estate owned insured by U.S. government agencies of $1.9 billion and $579 million, respectively; and (3) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the FFELP, of $625 million and $542 million, respectively. These amounts are excluded as reimbursement of insured amounts is proceeding normally.

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

Nonaccrual loans: Total consumer nonaccrual loans, excluding credit card, were $8.8 billion, compared with $10.7 billion at December 31, 2009. Nonaccrual loans have stabilized, but remained at elevated levels. The increase in loan modification activities is expected to continue to result in elevated levels of nonaccrual loans in the residential real estate portfolios as a result of both redefault of modified loans as well as the Firm's policy that modified loans remain in nonaccrual status until repayment is reasonably assured and the borrower has made a minimum of six payments under the new terms. Nonaccrual loans in the residential real estate portfolio totaled $7.8 billion at December 31, 2010, of which 71% were greater than 150 days past due; this compared with nonaccrual residential real estate loans of $9.6 billion at December 31, 2009, of which 64% were greater than 150 days past due. Modified residential real estate loans of $1.3 billion and $920 million at December 31, 2010 and 2009, respectively, were classified as nonaccrual loans. Of these modified residential real estate loans, $580 million and $256 million had yet to make six payments under their modified terms at December 31, 2010 and 2009, respectively, with the remaining nonaccrual modified loans having redefaulted. In the aggregate, the unpaid principal balance of residential real estate loans greater than 150 days past due was charged down by approximately 46% and 36% to estimated collateral value at December 31, 2010 and 2009, respectively.

Real estate owned ("REO"): As part of the residential real estate foreclosure process, loans are written down to the fair value of the underlying real estate asset, less costs to sell, at acquisition. Typically, any further gains or losses on REO assets are recorded as part of other income. In those instances where the Firm gains ownership and possession of individual properties at the completion of the foreclosure process, these REO assets are managed for prompt sale and disposition at the best possible economic value. Operating expense, such as real estate taxes and maintenance, are charged to other expense. REO assets, excluding those insured by U.S. government agencies, increased by $138 million from December 31, 2009 to $1.3 billion, primarily related to foreclosures of non-PCI loans. It is anticipated that REO assets will continue to increase over the next several quarters, as loans moving through the foreclosure process are expected to increase.

Credit Card

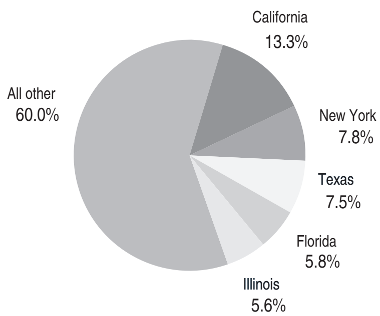
Credit card receivables (which include receivables in Firm-sponsored credit card securitization trusts that were not reported on the Consolidated Balance Sheets prior to January 1, 2010) were $137.7 billion at December 31, 2010, a decrease of $25.7 billion from December 31, 2009, due to the decline in lower-yielding promotional balances and runoff of the Washington Mutual portfolio.

The 30-day delinquency rate decreased to 4.07% at December 31, 2010, from 6.28% at December 31, 2009, while the net charge-off rate increased to 9.73% for 2010, from 9.33% in 2009 due primarily to the decline in outstanding loans. The delinquency trend is showing improvement, especially within early stage delinquencies. Charge-offs were elevated in 2010 but showed improvement in the second half of the year as a result of lower delinquent loans and higher repayment rates. The credit card portfolio continues to reflect a well-seasoned, largely rewards-based portfolio that has good U.S. geographic diversification. The greatest geographic concentration of credit card loans is in California which represented 13% of total loans at December 2010, compared with 14% at December 2009. Loan concentration for the top five states of California, New York, Texas, Florida and Illinois consisted of $55.1 billion in receivables, or 40% of the portfolio, at December 2010, compared with $65.9 billion, or 40%, at December 2009.

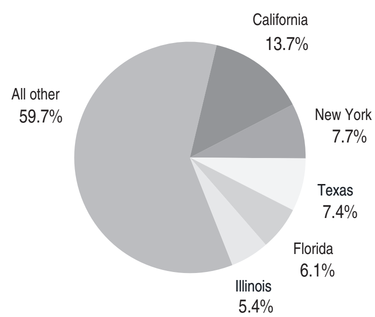
Credit card receivables, excluding the Washington Mutual portfolio, were $123.9 billion at December 31, 2010, compared with $143.8 billion at December 31, 2009. The 30-day delinquency rate, excluding the Washington Mutual portfolio, was 3.66% at December 31, 2010, down from 5.52% at December 31, 2009, while the net charge-off rate increased to 8.72% in 2010 from 8.45% in 2009 due largely to the decrease in outstanding loans.

Credit card receivables in the Washington Mutual portfolio were $13.7 billion at December 31, 2010, compared with $19.7 billion at December 31, 2009. The Washington Mutual portfolio's 30-day delinquency rate was 7.74% at December 31, 2010, down from 12.72% at December 31, 2009; the 2009 delinquency rate excludes the impact of the consolidation of the Washington Mutual Master Trust ("WMMT") in the second quarter of 2009. The net charge-off rate in 2010 was 18.73%, compared with 18.79% in 2009, excluding the impact of the purchase accounting adjustments related to the consolidation of the WMMT in the second quarter of 2009.

Top 5 States Credit Card - Managed
(at December 31, 2010)



Top 5 States Credit Card - Managed
(at December 31, 2009)



Modifications of credit card loans

For additional information about credit card loan modification activities, including credit card loan modifications accounted for as troubled debt restructurings, see Note 14 on pages 220–238 of this Annual Report.

JPMorgan Chase may offer one of a number of loan modification programs to borrowers who are experiencing financial difficulty. The Firm has short-term programs for borrowers who may be in need of temporary relief, and long-term programs for borrowers who are experiencing a more fundamental level of financial difficulties. Most of the Firm's modified credit card loans have been modified under the Firm's long-term programs. Modifications under the Firm's long-term programs involve placing the customer on a fixed payment plan not exceeding 60 months. Modifications under all of these programs typically include reducing the interest rate on the card. Also, in all cases, the Firm cancels the customer's available line of credit on the credit card. Substantially all of these modifications, both short-term and long-term, are considered to be TDRs. Based on the Firm's historical experience, the Firm expects that a significant portion of the borrowers will not ultimately comply with the modified payment terms.

If the cardholder does not comply with the modified payment terms, then the credit card loan agreement generally reverts back to its pre-modification payment rate terms. Assuming that those borrowers do not begin to perform in accordance with those payment terms, the loans continue to age and will ultimately be charged off in accordance with the Firm's standard charge-off policy. In addition, if a borrower successfully completes a short-term modification program, then the loan reverts back to its pre-modification payment terms. However, in most cases the Firm does not reinstate the borrower's line of credit.

At December 31, 2010 and 2009, the Firm had $10.0 billion and $6.2 billion, respectively, of on–balance sheet credit card loans outstanding that have been modified in troubled debt restructurings. These balances include both credit card loans with modified payment terms and credit card loans that have reverted back to their pre-modification payment terms. The increase in modified credit card loans outstanding from December 31, 2009, to December 31, 2010, is primarily attributable to previously-modified loans held in Firm-sponsored credit card securitization trusts being consolidated as a result of adopting the new accounting guidance regarding consolidation of VIEs.

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

COMMUNITY REINVESTMENT ACT EXPOSURE

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

At December 31, 2010 and 2009, the Firm's CRA loan portfolio was approximately $16 billion and $18 billion, respectively. Of the CRA portfolio 65% were residential mortgage loans and 15% were business banking loans at both December 31, 2010 and 2009, respectively; 9% and 8%, respectively, were commercial real estate loans; and 11% and 12%, respectively, were other loans. The CRA nonaccrual loans were 6% of the Firm's nonaccrual loans at both December 31, 2010 and 2009. Net charge-offs in the CRA portfolio were 3% of the Firm's net charge-offs in both 2010 and 2009.

ALLOWANCE FOR CREDIT LOSSES

JPMorgan Chase's allowance for loan losses covers the wholesale (risk-rated), and consumer (primarily scored) portfolios. The allowance represents management's estimate of probable credit losses inherent in the Firm's loan portfolio. Management also determines an allowance for wholesale and consumer (excluding credit card) lending-related commitments using a methodology similar to that used for the wholesale loans. During 2010, the Firm did not make any significant changes to the methodologies or policies used to establish its allowance for credit losses.

For a further discussion of the components of the allowance for credit losses, see Critical Accounting Estimates Used by the Firm on pages 149–154 and Note 15 on pages 239–243 of this Annual Report.

At least quarterly, the allowance for credit losses is reviewed by the Chief Risk Officer, the Chief Financial Officer and the Controller of the Firm and discussed with the Risk Policy and Audit Committees of the Board of Directors of the Firm. As of December 31, 2010, JPMorgan Chase deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb losses inherent in the portfolio, including those not yet identifiable).

The allowance for credit losses was $33.0 billion at December 31, 2010, an increase of $442 million from $32.5 billion at December 31, 2009. The increase was primarily due to the Firm's adoption of accounting guidance related to VIEs. As a result of the consolidation of certain securitization entities, the Firm established an allowance for loan losses of $7.5 billion at January 1, 2010, primarily related to the receivables that had been held in credit card securitization trusts. Excluding the $7.5 billion transition adjustment at adoption, the allowance decreased by $6.8 billion in the consumer and wholesale portfolios, generally reflecting an improvement in credit quality.

The consumer (excluding credit card) allowance for loan losses increased $1.6 billion largely due to a $3.4 billion increase related to further estimated deterioration in the Washington Mutual PCI pools, partially offset by a $1.8 billion reduction predominantly in non-credit-impaired residential real estate reserves reflecting improved loss outlook as a result of the resumption of favorable delinquency trends at the end of 2010, as well as a $632 million adjustment related to the estimated net realizable value of the collateral underlying delinquent residential home loans. For additional information, refer to page 131 of this Annual Report.

The credit card allowance for loan losses increased $1.4 billion from December 31, 2009, largely due to the impact of the adoption of the accounting guidance related to VIEs. Excluding the effect of the transition adjustment at adoption, the credit card allowance decreased by $6.0 billion from December 31, 2009, reflecting lower estimated losses primarily related to improved delinquency trends as well as lower levels of outstandings.

The wholesale allowance for loan losses decreased by $2.4 billion from December 31, 2009, primarily due to repayments and loan sales, as well as continued improvement in the credit quality of the commercial and industrial loan portfolio.

The allowance for lending-related commitments for both wholesale and consumer (excluding credit card), which is reported in other liabilities, was $717 million and $939 million at December 31, 2010 and 2009, respectively. The decrease primarily reflected the continued improvement in the credit quality of the wholesale commercial and industrial loan portfolio.

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

Summary of changes in the allowance for credit losses

Year ended December 31, (in millions, except ratios)	2010 Wholesale	2010 Consumer, excluding credit card	2010 Credit Card	2010 Total	2009 Wholesale	2009 Consumer, excluding credit card	2009 Credit Card	2009 Total
Allowance for loan losses								
Beginning balance at January 1,	**$ 7,145**	**$ 14,785**	**$ 9,672**	**$ 31,602**	$ 6,545	$ 8,927	$ 7,692	$ 23,164
Cumulative effect of change in accounting principles[(a)]	**14**	**127**	**7,353**	**7,494**	—	—	—	—
Gross charge-offs[(a)]	**1,989**	**8,383**	**15,410**	**25,782**	3,226	10,421	10,371	24,018
Gross (recoveries)[(a)]	**(262)**	**(474)**	**(1,373)**	**(2,109)**	(94)	(222)	(737)	(1,053)
Net charge-offs[(a)]	**1,727**	**7,909**	**14,037**	**23,673**	3,132	10,199	9,634	22,965
Provision for loan losses[(a)]	**(673)**	**9,458**	**8,037**	**16,822**	3,684	16,032	12,019	31,735
Other[(b)]	**2**	**10**	**9**	**21**	48	25	(405)	(332)
Ending balance	**$ 4,761**	**$ 16,471**	**$ 11,034**	**$ 32,266**	$ 7,145	$ 14,785	$ 9,672	$ 31,602
Impairment methodology								
Asset-specific[(c)(d)(e)]	**$ 1,574**	**$ 1,075**	**$ 4,069**	**$ 6,718**	$ 2,046	$ 896	$ 3,117	$ 6,059
Formula-based[(a)(e)]	**3,187**	**10,455**	**6,965**	**20,607**	5,099	12,308	6,555	23,962
PCI	**—**	**4,941**	**—**	**4,941**	—	1,581	—	1,581
Total allowance for loan losses	**$ 4,761**	**$ 16,471**	**$ 11,034**	**$ 32,266**	$ 7,145	$ 14,785	$ 9,672	$ 31,602
Allowance for lending-related commitments								
Beginning balance at January 1,	**$ 927**	**$ 12**	**$ —**	**$ 939**	$ 634	$ 25	$ —	$ 659
Cumulative effect of change in accounting principles[(a)]	**(18)**	**—**	**—**	**(18)**	—	—	—	—
Provision for lending-related commitments[(a)]	**(177)**	**(6)**	**—**	**(183)**	290	(10)	—	280
Other	**(21)**	**—**	**—**	**(21)**	3	(3)	—	—
Ending balance	**$ 711**	**$ 6**	**$ —**	**$ 717**	$ 927	$ 12	$ —	$ 939
Impairment methodology								
Asset-specific	**$ 180**	**$ —**	**$ —**	**$ 180**	$ 297	$ —	$ —	$ 297
Formula-based	**531**	**6**	**—**	**537**	630	12	—	642
Total allowance for lending-related commitments	**$ 711**	**$ 6**	**$ —**	**$ 717**	$ 927	$ 12	$ —	$ 939
Total allowance for credit losses	**$ 5,472**	**$ 16,477**	**$ 11,034**	**$ 32,983**	$ 8,072	$ 14,797	$ 9,672	$ 32,541
Memo:								
Retained loans, end of period	**$ 222,510**	**$ 327,464**	**$ 135,524**	**$ 685,498**	$ 200,077	$ 348,355	$ 78,786	$ 627,218
Retained loans, average	**213,609**	**340,334**	**144,219**	**698,162**	223,047	362,216	87,029	672,292
Credit ratios								
Allowance for loan losses to retained loans	**2.14%**	**5.03%**	**8.14%**	**4.71%**	3.57%	4.24%	12.28%	5.04%
Allowance for loan losses to retained nonaccrual loans[(f)]	**86**	**186**	**NM**	**225**	109	139	NM	184
Allowance for loan losses to retained nonaccrual loans excluding credit card	**86**	**186**	**NM**	**148**	109	139	NM	127
Net charge-off rates[(g)]	**0.81**	**2.32**	**9.73**	**3.39**	1.40	2.82	11.07	3.42
Credit ratios excluding home lending PCI loans and loans held by the WMMT								
Allowance for loan losses to retained loans[(h)]	**2.14**	**4.53**	**8.14**	**4.46**	3.57	4.94	12.43	5.51
Allowance for loan losses to retained nonaccrual loans[(f)(h)]	**86**	**131**	**NM**	**190**	109	124	NM	174
Allowance for loan losses to retained nonaccrual loans excluding credit card[(f)(h)]	**86**	**131**	**NM**	**114**	109	124	NM	118

(a) Effective January 1, 2010, the Firm adopted accounting guidance related to VIEs. Upon the adoption of the guidance, the Firm consolidated its Firm-sponsored credit card securitization trusts, its Firm-administered multi-seller conduits and certain other consumer loan securitization entities, primarily mortgage-related. As a result $7.4 billion, $14 million and $127 million, respectively, of allowance for loan losses were recorded on-balance sheet associated with the consolidation of these entities. For further discussion, see Note 16 on pages 244–259 of this Annual Report.

(b) Other predominantly includes a reclassification in 2009 related to the issuance and retention of securities from the Chase Issuance Trust.

(c) Includes risk-rated loans that have been placed on nonaccrual status and loans that have been modified in a TDR.

(d) The asset-specific consumer (excluding credit card) allowance for loan losses includes TDR reserves of $985 million and $754 million at December 31, 2010 and 2009, respectively. Prior-period amounts have been reclassified from formula-based to conform with the current period presentation.

(e) At December 31, 2010, the Firm's allowance for loan losses on credit card loans for which the Firm has modified the terms of the loans for borrowers who are experiencing financial difficulty was reclassified to the asset-specific allowance. Prior periods have been revised to reflect the current presentation.

(f) The Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance. Under the guidance issued by the FFIEC, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.
(g) Charge-offs are not recorded on PCI loans until actual losses exceed estimated losses recorded as purchase accounting adjustments at the time of acquisition.
(h) Excludes the impact of PCI loans acquired as part of the Washington Mutual transaction. The allowance for loan losses on PCI loans was $4.9 billion and $1.6 billion as of December 31, 2010 and 2009, respectively.

The following table presents a credit ratio excluding: home lending PCI loans acquired in the Washington Mutual transaction; and credit card loans held by the Washington Mutual Master Trust which were consolidated onto the Firm's balance sheet at fair value during the second quarter of 2009. The PCI loans were accounted for at fair value on the acquisition date, which incorporated management's estimate, as of that date, of credit losses over the remaining life of the portfolio. Accordingly, no allowance for loan losses was recorded for these loans as of the acquisition date. Subsequent evaluations of estimated credit deterioration in this portfolio resulted in the recording of an allowance for loan losses of $4.9 billion and $1.6 billion at December 31, 2010 and 2009, respectively. For more information on home lending PCI loans, see pages 132–134 of this Annual Report. For more information on the consolidation of assets from the Washington Mutual Master Trust, see Note 16 on pages 244–259 of this Annual Report.

The calculation of the allowance for loan losses to total retained loans, excluding PCI loans and loans held by the WMMT, is presented below.

December 31, (in millions, except ratios)	**2010**	2009
Allowance for loan losses	**$ 32,266**	$ 31,602
Less: Allowance for PCI loans	**4,941**	1,581
Adjusted allowance for loan losses	**$ 27,325**	$ 30,021
Total loans retained	**$ 685,498**	$ 627,218
Less: Firmwide PCI loans	**72,807**	81,380
Loans held by the WMMT	**—**	1,002
Adjusted loans	**$ 612,691**	$ 544,836
Allowance for loan losses to ending loans excluding PCI loans and loans held by the WMMT	**4.46%**	5.51%

Provision for credit losses

The provision for credit losses was $16.6 billion for the year ended December 31, 2010, down by $21.8 billion, or 57%, from the prior-year provision. The total consumer provision (excluding credit card) for credit losses was $9.5 billion, reflecting an addition to the allowance for loan losses of $1.6 billion (primarily related to the increase in allowance for the PCI portfolio of $3.4 billion), partially offset by a $1.8 billion reduction in allowance predominantly for non-credit-impaired residential real estate loans. The prior year provision was $16.0 billion reflecting additions of $5.8 billion predominantly for the home equity and mortgage portfolios, including $1.6 billion for the PCI portfolio. The total credit card provision for credit losses was $8.0 billion, primarily reflecting a reduction in the allowance for credit losses of $6.0 billion as a result of improved delinquency trends and reduced net charge-offs. The prior year managed provision was $18.5 billion reflecting additions to the allowance of $2.4 billion. The wholesale provision for credit losses was a benefit of $850 million, compared with expense of $4.0 billion, reflecting a reduction in the allowance for credit losses predominantly as a result of continued improvement in the credit quality of the commercial and industrial portfolio, reduced net charge-offs and repayments.

Year ended December 31,	Provision for loan losses			Provision for lending-related commitments			Total provision for credit losses		
(in millions)	**2010**	2009	2008	**2010**	2009	2008	**2010**	2009	2008
Wholesale	**$ (673)**	$ 3,684	$ 3,536	**$ (177)**	$ 290	$ (209)	**$ (850)**	$ 3,974	$ 3,327
Consumer, excluding credit card[(a)]	**9,458**	16,032	10,659	**(6)**	(10)	(49)	**452**	16,022	10,610
Credit card– reported[(a)(b)]	**8,037**	12,019	7,042	**—**	—	—	**8,037**	12,019	7,042
Total provision for credit losses – reported	**16,822**	31,735	21,237	**(183)**	280	(258)	**16,639**	32,015	20,979
Credit card – securitized[(b)(c)]	**NA**	6,443	3,612	**NA**	—	—	**NA**	6,443	3,612
Total provision for credit losses – managed	**$16,822**	$ 38,178	$ 24,849	**$ (183)**	$ 280	$ (258)	**$16,639**	$ 38,458	$ 24,591

(a) Includes adjustments to the provision for credit losses recognized in the Corporate/Private Equity segment related to the Washington Mutual transaction in 2008.
(b) Effective January 1, 2010, the Firm adopted accounting guidance related to VIEs. As a result of the consolidation of the credit card securitization trusts, reported and managed basis relating to credit card securitizations are equivalent for periods beginning after January 1, 2010. For further discussion regarding the Firm's application and the impact of the new guidance, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 64–65 of this Annual Report.
(c) Loans securitized are defined as loans that were sold to unconsolidated securitization trusts and were not included in reported loans. For further discussion of credit card securitizations, see Note 16 on pages 244–259 of this Annual Report.

MARKET RISK MANAGEMENT

Market risk is the exposure to an adverse change in the market value of portfolios and financial instruments caused by a change in market prices or rates.

Market risk management

Market Risk is an independent risk management function that works in close partnership with the business segments to identify and monitor market risks throughout the Firm and to define market risk policies and procedures. The risk management function is headed by the Firm's Chief Risk Officer.

Market Risk seeks to facilitate efficient risk/return decisions, reduce volatility in operating performance and provide transparency into the Firm's market risk profile for senior management, the Board of Directors and regulators. Market Risk is responsible for the following functions:

- establishing a market risk policy framework
- independent measurement, monitoring and control of line-of-business market risk
- definition, approval and monitoring of limits
- performance of stress testing and qualitative risk assessments

Risk identification and classification

Each line of business is responsible for the comprehensive identification and verification of market risks within its units. The Firm's market risks arise primarily from the activities in IB, Mortgage Banking, and CIO in Corporate/Private Equity.

IB makes markets and trades its products across the fixed income, foreign exchange, equities and commodities markets. This trading activity may lead to a potential decline in net income due to adverse changes in market rates. In addition to these trading risks, there are risks in IB's credit portfolio from retained loans and commitments, derivative credit valuation adjustments, hedges of the credit valuation adjustments and mark-to-market hedges of the retained loan portfolio. Additional risk positions result from the debit valuation adjustments taken on certain structured liabilities and derivatives to reflect the credit quality of the Firm.

The Firm's Mortgage Banking business includes the Firm's mortgage pipeline and warehouse loans, MSRs and all related hedges. These activities give rise to complex interest rate risks, as well as option and basis risk. Option risk arises primarily from prepayment options embedded in mortgages and changes in the probability of newly originated mortgage commitments actually closing. Basis risk results from differences in the relative movements of the rate indices underlying mortgage exposure and other interest rates.

CIO is primarily concerned with managing structural risks which arise out of the various business activities of the Firm. Market Risk measures and monitors the gross structural exposures as well as the net exposures related to these activities.

Risk measurement

Tools used to measure risk

Because no single measure can reflect all aspects of market risk, the Firm uses various metrics, both statistical and nonstatistical, including:

- Value-at-risk ("VaR")
- Economic-value stress testing
- Nonstatistical risk measures
- Loss advisories
- Revenue drawdowns
- Risk identification for large exposures ("RIFLEs")
- Earnings-at-risk stress testing

Value-at-risk

JPMorgan Chase utilizes VaR, a statistical risk measure, to estimate the potential loss from adverse market moves. Each business day, as part of its risk management activities, the Firm undertakes a comprehensive VaR calculation that includes the majority of its material market risks. VaR provides a consistent cross-business measure of risk profiles and levels of diversification and is used for comparing risks across businesses and monitoring limits. These VaR results are reported to senior management and regulators, and they feed regulatory capital calculations.

The Firm calculates VaR to estimate possible economic outcomes for current positions using historical data from the previous twelve months. This approach assumes that historical changes in market values are representative of current risk; this assumption may not always be valid. VaR is calculated using a one-day time horizon and an expected tail-loss methodology, which approximates a 95% confidence level. This means the Firm would expect to incur losses greater than that predicted by VaR estimates five times in every 100 trading days, or about 12 to 13 times a year.

The table below shows the results of the Firm's VaR measure using a 95% confidence level.

95% Confidence-Level VaR

Total IB trading VaR by risk type, credit portfolio VaR and other VaR

As of or for the year ended December 31, (in millions)	2010 Average	2010 Minimum	2010 Maximum	2009 Average	2009 Minimum	2009 Maximum	At December 31, 2010	At December 31, 2009
IB VaR by risk type								
Fixed income	**$ 65**	**$ 33**	**$ 95**	$ 160	$ 80	$ 216	**$ 52**	$ 80
Foreign exchange	**11**	**6**	**20**	18	7	39	**16**	10
Equities	**22**	**10**	**52**	47	8	156	**30**	43
Commodities and other	**16**	**11**	**32**	20	11	35	**13**	14
Diversification benefit to IB trading VaR	**(43)**(a)	**NM**(b)	**NM**(b)	(91)(a)	NM(b)	NM(b)	**(34)**(a)	(54)(a)
IB trading VaR	**$ 71**	**$ 40**	**$ 107**	$ 154	$ 77	$ 236	**$ 77**	$ 93
Credit portfolio VaR	**26**	**15**	**40**	52	18	106	**27**	21
Diversification benefit to IB trading and credit portfolio VaR	**(10)**(a)	**NM**(b)	**NM**(b)	(42)(a)	NM(b)	NM(b)	**(5)**(a)	(9)(a)
Total IB trading and credit portfolio VaR	**$ 87**	**$ 50**	**$ 128**	$ 164	$ 93	$ 256	**$ 99**	$ 105
Mortgage Banking VaR	**$ 23**	**$ 8**	**$ 47**	$ 57	$ 19	$ 151	**$ 9**	$ 28
Chief Investment Office ("CIO") VaR	**61**	**44**	**80**	103	71	126	**56**	76
Diversification benefit to total other VaR	**(13)**(a)	**NM**(b)	**NM**(b)	(36)(a)	NM(b)	NM(b)	**(10)**(a)	(13)(a)
Total other VaR	**$ 71**	**$ 48**	**$ 100**	$ 124	$ 79	$ 202	**$ 55**	$ 91
Diversification benefit to total IB and other VaR	**(59)**(a)	**NM**(b)	**NM**(b)	(82)(a)	NM(b)	NM(b)	**(65)**(a)	(73)(a)
Total IB and other VaR	**$ 99**	**$ 66**	**$ 142**	$ 206	$ 111	$ 328	**$ 89**	$ 123

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

(b) Designated as not meaningful ("NM"), because the minimum and maximum may occur on different days for different risk components, and hence it is not meaningful to compute a portfolio-diversification effect.

VaR measurement

IB trading and credit portfolio VaR includes substantially all trading activities in IB, including the credit spread sensitivities of certain mortgage products and syndicated lending facilities that the Firm intends to distribute. The Firm uses proxies to estimate the VaR for these products since daily time series are largely not available. It is likely that using an actual price-based time series for these products, if available, would affect the VaR results presented. In addition, for certain products included in IB trading and credit portfolio VaR, particular risk parameters are not fully captured – for example, correlation risk.

Total other VaR includes certain positions employed as part of the Firm's risk management function within CIO and in the Mortgage Banking business. CIO VaR includes positions, primarily in debt securities and credit products, used to manage structural and other risks including interest rate, credit and mortgage risks arising from the Firm's ongoing business activities. The Mortgage Banking VaR includes the Firm's mortgage pipeline and warehouse loans, MSRs and all related hedges.

In the Firm's view, including IB trading and credit portfolio VaR within total other VaR produces a more complete and transparent perspective of the Firm's market risk profile.

IB and other VaR does not include the retained credit portfolio, which is not marked to market; however, it does include hedges of those positions. It also does not include debit valuation adjustments ("DVA") taken on derivative and structured liabilities to reflect the credit quality of the Firm, principal investments (mezzanine financing, tax-oriented investments, etc.), and certain securities and investments held by the Corporate/Private Equity line of business, including private equity investments, capital management positions and longer-term investments managed by CIO. These longer-term positions are managed through the Firm's earnings at risk and other cash flow monitoring processes, rather than by using a VaR measure. Principal investing activities and Private Equity positions are managed using stress and scenario analyses. See the DVA Sensitivity table on page 144 of this Annual Report for further details. For a discussion of Corporate/Private Equity, see pages 89–90 of this Annual Report.

2010 and 2009 VaR results

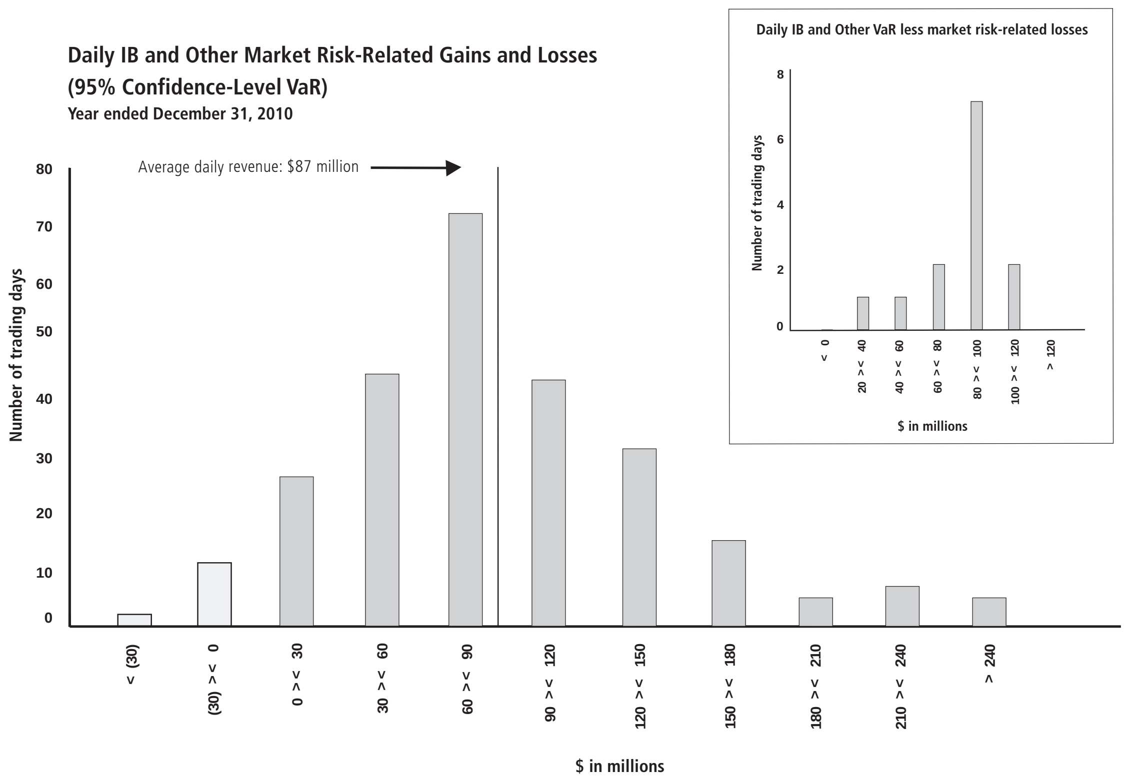
As presented in the table, average total IB and other VaR totaled $99 million for 2010, compared with $206 million for 2009. The decrease in average VaR in 2010 was driven by a decline in market volatility in early 2009, as well as a reduction in exposures, primarily in CIO and IB. Average total IB trading and credit portfolio VaR for 2010 was $87 million, compared with $164 million for 2009. The decrease in IB trading and credit portfolio VaR for 2010 was also driven by the decline in market volatility, as well as a reduction in exposure, primarily in the fixed income risk component. CIO VaR averaged $61 million for 2010, compared with $103 million for 2009. Mortgage Banking VaR averaged $23 million for 2010, compared with $57 million for 2009. Decreases in CIO and Mortgage Banking VaR for 2010 were again driven by the decline in market volatility and position changes. The decline in Mortgage Banking VaR at December 31, 2010, reflects management's decision to reduce risk given market volatility at the time.

The Firm's average IB and other VaR diversification benefit was $59 million or 37% of the sum for 2010, compared with $82 million or 28% of the sum for 2009. The Firm experienced an increase in the diversification benefit in 2010 as positions changed and correlations decreased. In general, over the course of the year, VaR exposure can vary significantly as positions change, market volatility fluctuates and diversification benefits change.

VaR back-testing

The Firm conducts daily back-testing of VaR against its market risk-related revenue, which is defined as the change in value of: principal transactions revenue for IB and CIO (less Private Equity gains/losses and revenue from longer-term CIO investments); trading-related net interest income for IB, CIO and Mortgage Banking; IB brokerage commissions, underwriting fees or other revenue; revenue from syndicated lending facilities that the Firm intends to distribute; and mortgage fees and related income for the Firm's mortgage pipeline and warehouse loans, MSRs, and all related hedges. Daily firmwide market risk–related revenue excludes gains and losses from DVA.

The following histogram illustrates the daily market risk–related gains and losses for IB, CIO and Mortgage Banking positions for 2010. The chart shows that the Firm posted market risk–related gains on 248 out of 261 days in this period, with 12 days exceeding $210 million. The inset graph looks at those days on which the Firm experienced losses and depicts the amount by which the 95% confidence-level VaR exceeded the actual loss on each of those days. During 2010, losses were sustained on 13 days, none of which exceeded the VaR measure.



The following table provides information about the gross sensitivity of DVA to a one-basis-point increase in JPMorgan Chase's credit spreads. This sensitivity represents the impact from a one-basis-point parallel shift in JPMorgan Chase's entire credit curve. As credit curves do not typically move in a parallel fashion, the sensitivity multiplied by the change in spreads at a single maturity point may not be representative of the actual revenue recognized.

Debit valuation adjustment sensitivity

December 31, (in millions)	1 Basis point increase in JPMorgan Chase's credit spread
2010	**$ 35**
2009	39

Economic value stress testing

While VaR reflects the risk of loss due to adverse changes in markets using recent historical market behavior as an indicator of losses, stress testing captures the Firm's exposure to unlikely but plausible events in abnormal markets using multiple scenarios that assume significant changes in credit spreads, equity prices, interest rates, currency rates or commodity prices. Scenarios are updated dynamically and may be redefined on an ongoing basis to reflect current market conditions. Along with VaR, stress testing is important in measuring and controlling risk; it enhances understanding of the Firm's risk profile and loss potential, as stress losses are monitored against limits. Stress testing is also employed in cross-business risk management. Stress-test results, trends and explanations based on current market risk positions are reported to the Firm's senior management and to the lines of business to allow them to better understand event risk–sensitive positions and manage risks with more transparency.

Nonstatistical risk measures

Nonstatistical risk measures as well as stress testing include sensitivities to variables used to value positions, such as credit spread sensitivities, interest rate basis point values and market values. These measures provide granular information on the Firm's market risk exposure. They are aggregated by line-of-business and by risk type, and are used for tactical control and monitoring limits.

Loss advisories and revenue drawdowns

Loss advisories and net revenue drawdowns are tools used to highlight trading losses above certain levels of risk tolerance. Net revenue drawdown is defined as the decline in net revenue since the year-to-date peak revenue level.

Risk identification for large exposures

Individuals who manage risk positions in IB are responsible for identifying potential losses that could arise from specific, unusual events, such as a potential change in tax legislation, or a particular combination of unusual market moves. This information is aggregated centrally for IB. Trading businesses are responsible for RIFLEs, thereby permitting the Firm to monitor further earnings vulnerability not adequately covered by standard risk measures.

Earnings-at-risk stress testing

The VaR and stress-test measures described above illustrate the total economic sensitivity of the Firm's Consolidated Balance Sheets to changes in market variables. The effect of interest rate exposure on reported net income is also important. Interest rate risk exposure in the Firm's core nontrading business activities (i.e., asset/liability management positions, including accrual loans within IB and CIO) results from on– and off–balance sheet positions. ALCO establishes the Firm's interest rate risk policies, sets risk guidelines and limits and reviews the risk profile of the Firm. Treasury, working in partnership with the lines of business, calculates the Firm's interest rate risk profile weekly and reports to senior management.

Interest rate risk for nontrading activities can occur due to a variety of factors, including:

- Differences in the timing among the maturity or repricing of assets, liabilities and off–balance sheet instruments. For example, if liabilities reprice more quickly than assets and funding interest rates are declining, earnings will increase initially.
- Differences in the amounts of assets, liabilities and off–balance sheet instruments that are repricing at the same time. For example, if more deposit liabilities are repricing than assets when general interest rates are declining, earnings will increase initially.
- Differences in the amounts by which short-term and long-term market interest rates change (for example, changes in the slope of the yield curve) because the Firm has the ability to lend at long-term fixed rates and borrow at variable or short-term fixed rates. Based on these scenarios, the Firm's earnings would be affected negatively by a sudden and unanticipated increase in short-term rates paid on its liabilities (e.g., deposits) without a corresponding increase in long-term rates received on its assets (e.g., loans). Conversely, higher long-term rates received on assets generally are beneficial to earnings, particularly when the increase is not accompanied by rising short-term rates paid on liabilities.
- The impact of changes in the maturity of various assets, liabilities or off–balance sheet instruments as interest rates change. For example, if more borrowers than forecasted pay down higher-rate loan balances when general interest rates are declining, earnings may decrease initially.

The Firm manages interest rate exposure related to its assets and liabilities on a consolidated, corporate-wide basis. Business units transfer their interest rate risk to Treasury through a transfer-pricing system, which takes into account the elements of interest rate exposure that can be risk-managed in financial markets. These elements include asset and liability balances and contractual rates of interest, contractual principal payment schedules, expected prepayment experience, interest rate reset dates and maturities, rate indices used for repricing, and any interest rate ceilings or floors for adjustable rate products. All transfer-pricing assumptions are dynamically reviewed.

The Firm conducts simulations of changes in net interest income from its nontrading activities under a variety of interest rate scenarios. Earnings-at-risk tests measure the potential change in the Firm's net interest income, and the corresponding impact to the Firm's pretax earnings, over the following 12 months. These tests highlight exposures to various rate-sensitive factors, such as the rates themselves (e.g., the prime lending rate), pricing strategies on deposits, optionality and changes in product mix. The tests include forecasted balance sheet changes, such as asset sales and securitizations, as well as prepayment and reinvestment behavior. Mortgage prepayment assumptions are based on current interest rates compared with underlying contractual rates, the time since origination, and other factors which are updated periodically based on historical experience and forward market expectations. The balance and pricing assumptions of deposits that have no stated maturity are based on historical performance, the competitive environment, customer behavior, and product mix.

Immediate changes in interest rates present a limited view of risk, and so a number of alternative scenarios are also reviewed. These scenarios include the implied forward curve, nonparallel rate shifts and severe interest rate shocks on selected key rates. These scenarios are intended to provide a comprehensive view of JPMorgan Chase's earnings at risk over a wide range of outcomes.

JPMorgan Chase's 12-month pretax earnings sensitivity profiles as of December 31, 2010 and 2009, were as follows.

	Immediate change in rates			
December 31, (in millions)	+200bp	+100bp	-100bp	-200bp
2010	**$ 2,465**	**$ 1,483**	**NM**(a)(b)	**NM**(a)(b)
2009	(1,594)	(554)	NM(a)	NM(a)

(a) Downward 100- and 200-basis-point parallel shocks result in a Fed Funds target rate of zero, and negative three- and six-month Treasury rates. The earnings-at-risk results of such a low-probability scenario are not meaningful.
(b) Excludes economic value stress losses.

The change in earnings at risk from December 31, 2009, resulted from investment portfolio repositioning, assumed higher levels of deposit balances and reduced levels of fixed-rate loans. The Firm's risk to rising rates was largely the result of widening deposit margins, which are currently compressed due to very low short-term interest rates.

Additionally, another interest rate scenario conducted by the Firm – involving a steeper yield curve with long-term rates rising by 100 basis points and short-term rates staying at current levels – results in a 12-month pretax earnings benefit of $770 million. The increase in earnings under this scenario is due to reinvestment of maturing assets at the higher long-term rates, with funding costs remaining unchanged.

Risk monitoring and control

Limits

Market risk is controlled primarily through a series of limits. Limits reflect the Firm's risk appetite in the context of the market environment and business strategy. In setting limits, the Firm takes into consideration factors such as senior management risk appetite, market volatility, product liquidity, accommodation of client business and management experience.

Market risk management regularly reviews and updates risk limits. Senior management, including the Firm's Chief Executive Officer and Chief Risk Officer, is responsible for reviewing and approving cetain risk limits on an ongoing basis.

The Firm maintains different levels of limits. Corporate-level limits include VaR and stress limits. Similarly, line-of-business limits include VaR and stress limits and may be supplemented by loss advisories, nonstatistical measurements and profit and loss drawdowns. Businesses are responsible for adhering to established limits, against which exposures are monitored and reported. Limit breaches are reported in a timely manner to senior management, and the affected line-of-business is required to reduce trading positions or consult with senior management on the appropriate action.

Model review

Some of the Firm's financial instruments cannot be valued based on quoted market prices but are instead valued using pricing models. These pricing models and VaR models are used for management of risk positions, such as reporting against limits, as well as for valuation. The Model Risk Group, which is independent of the businesses and market risk management, reviews the models the Firm uses and assesses model appropriateness and consistency. The model reviews consider a number of factors about the model's suitability for valuation and risk management of a particular product. These factors include whether the model accurately reflects the characteristics of the transaction and its significant risks, the suitability and convergence properties of numerical algorithms, reliability of data sources, consistency of the treatment with models for similar products, and sensitivity to input parameters and assumptions that cannot be priced from the market.

Reviews are conducted of new or changed models, as well as previously accepted models, to assess whether there have been any changes in the product or market that may affect the model's validity and whether there are theoretical or competitive developments that may require reassessment of the model's adequacy. For a summary of valuations based on models, see Critical Accounting Estimates Used by the Firm on pages 149–154 of this Annual Report.

Risk reporting

Nonstatistical risk measures, VaR, loss advisories and limit excesses are reported daily to the lines of business and to senior management. Market risk exposure trends, VaR trends, profit-and-loss changes and portfolio concentrations are reported weekly. Stress-test results are also reported weekly to the lines of business and to senior management.

PRIVATE EQUITY RISK MANAGEMENT

The Firm makes principal investments in private equity. The illiquid nature and long-term holding periods associated with these investments differentiates private equity risk from the risk of positions held in the trading portfolios. The Firm's approach to managing private equity risk is consistent with the Firm's general risk governance structure. Controls are in place establishing expected levels for total and annual investment in order to control the overall size of the portfolios. Industry and geographic concentration limits are in place and intended to ensure diversification of the portfolios. All investments are approved by investment committees that include executives who are not part of the investing businesses. An independent valuation function is responsible for reviewing the appropriateness of the carrying values of private equity investments in accordance with relevant accounting policies. At December 31, 2010 and 2009, the carrying value of the Private Equity portfolio was $8.7 billion and $7.3 billion, respectively, of which $875 million and $762 million, respectively, represented publicly-traded positions. For further information on the Private Equity portfolio, see page 90 of this Annual Report.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events.

Overview

Operational risk is inherent in each of the Firm's businesses and support activities. Operational risk can manifest itself in various ways, including errors, fraudulent acts, business interruptions, inappropriate behavior of employees, or vendors that do not perform in accordance with their arrangements. These events could result in financial losses and other damage to the Firm, including reputational harm.

To monitor and control operational risk, the Firm maintains a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment. The goal is to keep operational risk at appropriate levels, in light of the Firm's financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment to which it is subject. Notwithstanding these control measures, the Firm incurs operational losses.

The Firm's approach to operational risk management is intended to mitigate such losses by supplementing traditional control-based approaches to operational risk with risk measures, tools and disciplines that are risk-specific, consistently applied and utilized firmwide. Key themes are transparency of information, escalation of key issues and accountability for issue resolution.

One of the ways operational risk is mitigated is through insurance maintained by the Firm. The Firm purchases insurance to be in compliance with local laws and regulations, as well as to serve other needs of the Firm. Insurance may also be required by third parties with whom the Firm does business. The insurance purchased is reviewed and approved by senior management.

The Firm's operational risk framework is supported by Phoenix, an internally designed operational risk software tool. Phoenix integrates the individual components of the operational risk management framework into a unified, web-based tool. Phoenix enhances the capture, reporting and analysis of operational risk data by enabling risk identification, measurement, monitoring, reporting and analysis to be done in an integrated manner, thereby enabling efficiencies in the Firm's monitoring and management of its operational risk.

For purposes of identification, monitoring, reporting and analysis, the Firm categorizes operational risk events as follows:

- Client service and selection
- Business practices
- Fraud, theft and malice
- Execution, delivery and process management
- Employee disputes
- Disasters and public safety
- Technology and infrastructure failures

Risk identification

Risk identification is the recognition of the operational risk events that management believes may give rise to operational losses. All businesses utilize the Firm's standard self-assessment process and supporting architecture as a dynamic risk management tool. The goal of the self-assessment process is for each business to identify the key operational risks specific to its environment and assess the degree to which it maintains appropriate controls. Action plans are developed for control issues that are identified, and businesses are held accountable for tracking and resolving these issues on a timely basis.

Risk measurement

Operational risk is measured for each business on the basis of historical loss experience using a statistically based loss-distribution approach. The current business environment, potential stress scenarios and measures of the control environment are then factored into the statistical measure in determining firmwide operational risk capital. This methodology is designed to comply with the advanced measurement rules under the Basel II Framework.

Risk monitoring

The Firm has a process for monitoring operational risk-event data, permitting analysis of errors and losses as well as trends. Such analysis, performed both at a line-of-business level and by risk-event type, enables identification of the causes associated with risk events faced by the businesses. Where available, the internal data can be supplemented with external data for comparative analysis with industry patterns. The data reported enables the Firm to back-test against self-assessment results. The Firm is a founding member of the Operational Riskdata eXchange Association, a not-for-profit industry association formed for the purpose of collecting operational loss data, sharing data in an anonymous form and benchmarking results back to members. Such information supplements the Firm's ongoing operational risk measurement and analysis.

Risk reporting and analysis
Operational risk management reports provide timely and accurate information, including information about actual operational loss levels and self-assessment results, to the lines of business and senior management. The purpose of these reports is to enable management to maintain operational risk at appropriate levels within each line of business, to escalate issues and to provide consistent data aggregation across the Firm's businesses and support areas.

Audit alignment
Internal Audit utilizes a risk-based program of audit coverage to provide an independent assessment of the design and effectiveness of key controls over the Firm's operations, regulatory compliance and reporting. This includes reviewing the operational risk framework, the effectiveness of the business self-assessment process, and the loss data-collection and reporting activities.

REPUTATION AND FIDUCIARY RISK MANAGEMENT

The Firm's success depends not only on its prudent management of the liquidity, credit, market and operational risks that are part of its business risk, but equally on the maintenance among its many constituents—customers and clients, investors, regulators, as well as the general public—of a reputation for business practices of the highest quality. Attention to reputation has always been a key aspect of the Firm's practices, and maintenance of the Firm's reputation is the responsibility of each individual employee at the Firm. JPMorgan Chase bolsters this individual responsibility in many ways, including through the Firm's Code of Conduct, which is based on the Firm's fundamental belief that no one should ever sacrifice integrity—or give the impression that he or she has—even if one thinks it would help the Firm's business. The Code requires prompt reporting of any known or suspected violation of the Code, any internal Firm policy, or any law or regulation applicable to the Firm's business. It also requires the reporting of any illegal conduct, or conduct that violates the underlying principles of the Code, by any of our customers, suppliers, contract workers, business partners or agents. Concerns may be reported anonymously and the Firm prohibits retaliation against employees for the good faith reporting of any actual or suspected violations of the Code.

In addition to training of employees with regard to the principles and requirements of the Code, and requiring annual affirmation by each employee of compliance with the Code, the Firm has established policies and procedures, and has in place various oversight functions, intended to promote the Firm's culture of "doing the right thing". These include a Conflicts Office which examines wholesale transactions with the potential to create conflicts of interest for the Firm. In addition, each line of business has a risk committee which includes in its mandate oversight of the reputational risks in its business that may produce significant losses or reputational damage. In IB, there is a separate Reputation Risk Office and several regional reputation risk committees, members of which are senior representatives of businesses and control functions, that focus on transactions that raise reputational issues. Such transactions may include, for example, complex derivatives and structured finance transactions. The Firm also established this year a Consumer Reputational Risk Committee, comprised of senior management from the Firm's Operating Committee, including the heads of its primary consumer facing businesses, RFS and CS, that helps to ensure that the Firm has a consistent, disciplined focus on the review of the impact on consumers of Chase products and practices, including any that could raise reputational issues.

Fiduciary Risk Management
The Fiduciary Risk Management function works with relevant line of business risk committees, with the goal of ensuring that businesses providing investment or risk management products or services that give rise to fiduciary duties to clients perform at the appropriate standard relative to their fiduciary relationship with a client. Of particular focus are the policies and practices that address a business' responsibilities to a client, including performance and service requirements and expectations; client suitability determinations; and disclosure obligations and communications. In this way, the relevant line of business risk committees, together with the Fiduciary Risk Management function, provide oversight of the Firm's efforts to monitor, measure and control the performance and risks that may arise in the delivery of products or services to clients that give rise to such fiduciary duties, as well as those stemming from any of the Firm's fiduciary responsibilities under the Firm's various employee benefit plans.

JPMorgan Chase's accounting policies and use of estimates are integral to understanding its reported results. The Firm's most complex accounting estimates require management's judgment to ascertain the value of assets and liabilities. The Firm has established detailed policies and control procedures intended to ensure that valuation methods, including any judgments made as part of such methods, are well-controlled, independently reviewed and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The Firm believes its estimates for determining the value of its assets and liabilities are appropriate. The following is a brief description of the Firm's critical accounting estimates involving significant valuation judgments.

Allowance for credit losses

JPMorgan Chase's allowance for credit losses covers the retained wholesale and consumer loan portfolios, as well as the Firm's wholesale and consumer lending-related commitments. The allowance for loan losses is intended to adjust the value of the Firm's loan assets to reflect probable credit losses inherent in the portfolio as of the balance sheet date. The allowance for lending-related commitments is established to cover probable losses in the lending-related commitments portfolio. For a further discussion of the methodologies used in establishing the Firm's allowance for credit losses, see Note 15 on pages 239–243 of this Annual Report.

Wholesale loans and lending-related commitments

The methodology for calculating the allowance for loan losses and the allowance for lending-related commitments involves significant judgment. First and foremost, it involves the early identification of credits that are deteriorating. Second, it involves judgment in establishing the inputs used to estimate the allowances. Third, it involves management judgment to evaluate certain macroeconomic factors, underwriting standards, and other relevant internal and external factors affecting the credit quality of the current portfolio, and to refine loss factors to better reflect these conditions.

The Firm uses a risk-rating system to determine the credit quality of its wholesale loans. Wholesale loans are reviewed for information affecting the obligor's ability to fulfill its obligations. In assessing the risk rating of a particular loan, among the factors considered are the obligor's debt capacity and financial flexibility, the level of the obligor's earnings, the amount and sources for repayment, the level and nature of contingencies, management strength, and the industry and geography in which the obligor operates. These factors are based on an evaluation of historical and current information and involve subjective assessment and interpretation. Emphasizing one factor over another or considering additional factors could affect the risk rating assigned by the Firm to that loan.

The Firm applies its judgment to establish loss factors used in calculating the allowances. Wherever possible, the Firm uses independent, verifiable data or the Firm's own historical loss experience in its models for estimating the allowances. Many factors can affect estimates of loss, including volatility of loss given default, probability of default and rating migrations. Consideration is given as to whether the loss estimates should be calculated as an average over the entire credit cycle or at a particular point in the credit cycle, as well as to which external data should be used and when they should be used. Choosing data that are not reflective of the Firm's specific loan portfolio characteristics could also affect loss estimates. The application of different inputs would change the amount of the allowance for credit losses determined appropriate by the Firm.

Management also applies its judgment to adjust the loss factors derived, taking into consideration model imprecision, external factors and economic events that have occurred but are not yet reflected in the loss factors. Historical experience of both loss given default and probability of default are considered when estimating these adjustments. Factors related to concentrated and deteriorating industries also are incorporated where relevant. These estimates are based on management's view of uncertainties that relate to current macroeconomic and political conditions, quality of underwriting standards and other relevant internal and external factors affecting the credit quality of the current portfolio.

As noted above, the Firm's wholesale allowance is sensitive to the risk rating assigned to a loan. As of December 31, 2010, assuming a one-notch downgrade in the Firm's internal risk ratings for its entire wholesale portfolio, the allowance for loan losses for the wholesale portfolio would increase by approximately $1.3 billion. This sensitivity analysis is hypothetical. In the Firm's view, the likelihood of a one-notch downgrade for all wholesale loans within a short timeframe is remote. The purpose of this analysis is to provide an indication of the impact of risk ratings on the estimate of the allowance for loan losses for wholesale loans. It is not intended to imply management's expectation of future deterioration in risk ratings. Given the process the Firm follows in determining the risk ratings of its loans, management believes the risk ratings currently assigned to wholesale loans are appropriate.

Consumer loans and lending-related commitments

The allowance for credit losses for the consumer portfolio, including credit card, is sensitive to changes in the economic environment, delinquency status, the realizable value of collateral, FICO scores, borrower behavior and other risk factors, and is intended to represent management's best estimate of probable losses inherent in the portfolio as of the balance sheet date. The credit performance of the consumer portfolio across the entire consumer credit product spectrum has stabilized but high unemployment and weak overall economic conditions continue to result in an elevated level of charge-offs, while weak housing prices continue to negatively affect the severity of losses realized on residential real estate loans that default. Significant judgment is required to estimate the duration and severity of the current economic downturn, as well as its potential impact on housing prices and the labor market. While the allowance for credit losses is highly sensitive to both home prices and unemployment rates, in the current market it is difficult to estimate how potential changes in one or both of these factors might affect the allowance for credit losses. For example, while both factors are important determinants of overall allowance levels, changes in one factor or the other may not occur at the same rate, or changes may be directionally inconsistent such that improvement in one factor may offset deterioration in the other. In addition, changes in these factors would not necessarily be consistent across all geographies or product types. Finally, it is difficult to predict the extent to which changes in both or either of these factors would ultimately affect the frequency of losses, the severity of losses or both; overall loss rates are a function of both the frequency and severity of individual loan losses.

The consumer allowance is calculated by applying statistical loss factors and other risk indicators to pools of loans with similar risk characteristics to arrive at an estimate of incurred losses in the portfolio. Management applies judgment to the statistical loss estimates for each loan portfolio category, using delinquency trends and other risk characteristics to estimate probable losses inherent in the portfolio. Management uses additional statistical methods and considers portfolio and collateral valuation trends to review the appropriateness of the primary statistical loss estimate. The statistical calculation is then adjusted to take into consideration model imprecision, external factors and current economic events that have occurred but are not yet reflected in the factors used to derive the statistical calculation; this adjustment is accomplished in part by analyzing the historical loss experience for each major product segment. In the current economic environment, it is difficult to predict whether historical loss experience is indicative of future loss levels. Management applies judgment in making this adjustment, taking into account uncertainties associated with current macroeconomic and political conditions, quality of underwriting standards, borrower behavior and other relevant internal and external factors affecting the credit quality of the portfolio. For junior lien products, management considers the delinquency and/or modification status of any senior liens in determining the adjustment. The application of different inputs into the statistical calculation, and the assumptions used by management to adjust the statistical calculation, are subject to management judgment, and emphasizing one input or assumption over another, or considering other inputs or assumptions, could affect the estimate of the allowance for loan losses for the consumer credit portfolio.

Fair value of financial instruments, MSRs and commodities inventories

JPMorgan Chase carries a portion of its assets and liabilities at fair value. The majority of such assets and liabilities are carried at fair value on a recurring basis. Certain assets and liabilities are measured at fair value on a nonrecurring basis, including loans accounted for at the lower of cost or fair value that are only subject to fair value adjustments under certain circumstances.

Under U.S. GAAP there is a three-level valuation hierarchy for disclosure of fair value measurements. An instrument's categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Therefore, for instruments classified in levels 1 and 2 of the hierarchy, where inputs are principally based on observable market data, there is less judgment applied in arriving at a fair value measurement. For instruments classified within level 3 of the hierarchy, judgments are more significant. The Firm reviews and updates the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next related to the observability of inputs to a fair value measurement may result in a reclassification between hierarchy levels.

Assets measured at fair value

The following table includes the Firm's assets measured at fair value and the portion of such assets that are classified within level 3 of the valuation hierarchy.

December 31,	**2010**		2009	
(in billions, except ratio data)	Total at fair value	Level 3 total	Total at fair value	Level 3 total
Trading debt and equity instruments[(a)]	**$ 409.4**	**$ 33.9**	$ 330.9	$ 35.2
Derivative receivables – gross	**1,529.4**	**35.3**	1,565.5	46.7
Netting adjustment	**(1,448.9)**	**—**	(1,485.3)	—
Derivative receivables – net	**80.5**	**35.3**[(d)]	80.2	46.7[(d)]
AFS securities	**316.3**	**14.3**	360.4	13.2
Loans	**2.0**	**1.5**	1.4	1.0
MSRs	**13.6**	**13.6**	15.5	15.5
Private equity investments	**8.7**	**7.9**	7.3	6.6
Other[(b)]	**43.8**	**4.1**	44.4	9.5
Total assets measured at fair value on a recurring basis	**874.3**	**110.6**	840.1	127.7
Total assets measured at fair value on a nonrecurring basis[(c)]	**10.1**	**4.2**	8.2	2.7
Total assets measured at fair value	**$ 884.4**	**$ 114.8**[(e)]	$ 848.3	$ 130.4[(e)]
Total Firm assets	**$ 2,117.6**		$ 2,032.0	
Level 3 assets as a percentage of total Firm assets		**5%**		6%
Level 3 assets as a percentage of total Firm assets at fair value		**13**		15

(a) Includes physical commodities generally carried at the lower of cost or fair value.

(b) Includes certain securities purchased under resale agreements, securities borrowed, accrued interest receivable and other investments.

(c) Predominantly includes mortgage, home equity and other loans, where the carrying value is based on the fair value of the underlying collateral, and on credit card and leveraged lending loans carried on the Consolidated Balance Sheets at the lower of cost or fair value.

(d) Derivative receivable and derivative payable balances, and the related cash collateral received and paid, are presented net on the Consolidated Balance Sheets where there is a legally enforceable master netting agreement in place with counterparties. For purposes of the table above, the Firm does not reduce level 3 derivative receivable balances for netting adjustments, as such an adjustment is not relevant to a presentation that is based on the transparency of inputs to the valuation. Therefore, the derivative balances reported in the fair value hierarchy levels are gross of any counterparty netting adjustments. However, if the Firm were to net such balances within level 3, the reduction in the level 3 derivative receivable and payable balances would be $12.7 billion and $16.0 billion at December 31, 2010 and 2009, respectively, exclusive of the netting benefit associated with cash collateral, which would further reduce the level 3 balances.

(e) At December 31, 2010 and 2009, included $66.0 billion and $80.0 billion, respectively, of level 3 assets, consisting of recurring and nonrecurring assets carried by IB.

Valuation
The Firm has an established and well-documented process for determining fair value. Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on internally developed models that primarily use as inputs market-based or independently sourced market parameters. The Firm's process is intended to ensure that all applicable inputs are appropriately calibrated to market data, including but not limited to yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. In addition to market information, models also incorporate transaction details, such as maturity. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, the Firm's creditworthiness, constraints on liquidity and unobservable parameters that are applied consistently over time.

For instruments classified within level 3 of the hierarchy, judgments used to estimate fair value may be significant. In arriving at an estimate of fair value for an instrument within level 3, management must first determine the appropriate model to use. Second, due to the lack of observability of significant inputs, management must assess all relevant empirical data in deriving valuation inputs – including, but not limited to, yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. In addition to market information, models also incorporate transaction details, such as maturity. Finally, management judgment must be applied to assess the appropriate level of valuation adjustments to reflect counterparty credit quality, the Firm's creditworthiness, constraints on liquidity and unobservable parameters, where relevant. The judgments made are typically affected by the type of product and its specific contractual terms, and the level of liquidity for the product or within the market as a whole. The Firm has numerous controls in place to ensure that its valuations are appropriate. An independent model review group reviews the Firm's valuation models and approves them for use for specific products. All valuation models of the Firm are subject to this review process. A price verification group, independent from the risk-taking functions, ensures observable market prices and market-based parameters are used for valuation whenever possible. For those products with material parameter risk for which observable market levels do not exist, an independent review of the assumptions made on pricing is performed. Additional review includes deconstruction of the model valuations for certain structured instruments into their components; benchmarking valuations, where possible, to similar products; validating valuation estimates through actual cash settlement; and detailed review and explanation of recorded gains and losses, which are analyzed daily and over time. Valuation adjustments, which are also determined by the independent price verification group, are based on established policies and applied consistently over time. Any changes to the valuation methodology are reviewed by management to confirm the changes are justified. As markets and products develop and the pricing for certain products becomes more transparent, the Firm continues to refine its valuation methodologies. During 2010, no changes were made to the Firm's valuation models that had, or are expected to have, a material impact on the Firm's Consolidated Balance Sheets or results of operations.

Imprecision in estimating unobservable market inputs can affect the amount of revenue or loss recorded for a particular position. Furthermore, while the Firm believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. For a detailed discussion of the determination of fair value for individual financial instruments, see Note 3 on pages 170–187 of this Annual Report.

Purchased credit-impaired loans
In connection with the Washington Mutual transaction, JPMorgan Chase acquired certain loans with evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that the Firm would be unable to collect all contractually required payments receivable. These loans are considered to be purchased credit-impaired ("PCI") loans and are accounted for as described in Note 14 on pages 220–238 of this Annual Report. The application of the accounting guidance for PCI loans requires a number of significant estimates and judgment, such as determining: (i) which loans are within the scope of PCI accounting guidance, (ii) the fair value of the PCI loans at acquisition, (iii) how loans are aggregated to apply the guidance on accounting for pools of loans, and (iv) estimates of cash flows to be collected over the term of the loans.

Determining which loans are in the scope of PCI accounting guidance is highly subjective and requires significant judgment. In the Washington Mutual transaction, consumer loans with certain attributes (e.g., higher loan-to-value ratios, borrowers with lower FICO scores, delinquencies) were determined to be credit-impaired, provided that those attributes arose subsequent to the loans' origination dates. A wholesale loan was determined to be credit-impaired if it was risk-rated such that it would otherwise have required an asset-specific allowance for loan losses.

At the acquisition date, the Firm recorded its PCI loans at fair value, which included an estimate of losses that were then expected to be incurred over the estimated remaining lives of the loans. The Firm estimated the fair value of its PCI loans at the acquisition date by discounting the cash flows expected to be collected at a market-observable discount rate, when available, adjusted for factors that a market participant would consider in determining fair value. The initial estimate of cash flows to be collected was derived from assumptions such as default rates, loss severities and the amount and timing of prepayments.

The PCI accounting guidance states that investors may aggregate loans into pools that have common risk characteristics and thereby use a composite interest rate and estimate of cash flows expected to be collected for the pools. The pools then become the unit of accounting and are considered one loan for purposes of accounting for these loans at and subsequent to acquisition. Once a pool is assembled, the integrity of the pool must be maintained. The Firm has aggregated substantially all of the PCI loans identified in the Washington Mutual transaction (i.e., the residential real estate loans) into pools with common risk characteristics. Significant judgment is required to determine whether individual loans have common risk characteristics for purposes of establishing pools of loans.

The Firm's estimate of cash flows expected to be collected must be updated each reporting period based on updated assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that are reflective of current and expected future market conditions. These estimates are dependent on assumptions regarding the level of future home price declines, and the duration and severity of the current economic downturn, among other factors. These estimates and assumptions require significant management judgment and certain assumptions are highly subjective. These estimates of cash flows expected to be collected may have a significant impact on the recognition of impairment losses and/or interest income. As of December 31, 2010, a 1% decrease in expected future principal cash payments for the entire portfolio of purchased credit-impaired loans would result in the recognition of an allowance for loan losses for these loans of approximately $670 million.

Goodwill impairment

Under U.S. GAAP, goodwill must be allocated to reporting units and tested for impairment at least annually. The Firm's process and methodology used to conduct goodwill impairment testing is described in Note 17 on pages 260–263 of this Annual Report.

Management applies significant judgment when estimating the fair value of its reporting units. Estimates of fair value are dependent upon estimates of (a) the future earnings potential of the Firm's reporting units, including the estimated effects of regulatory and legislative changes, such as the Dodd-Frank Act, the CARD Act, and limitations on non-sufficient funds and overdraft fees and (b) the relevant cost of equity and long-term growth rates. Imprecision in estimating these factors can affect the estimated fair value of the reporting units. The fair values of a significant majority of the Firm's reporting units exceeded their carrying values by substantial amounts (fair value as a percent of carrying value ranged from 120% to 380%) and did not indicate a significant risk of goodwill impairment based on current projections and valuations.

However, the fair value of the Firm's consumer lending businesses in RFS and CS each exceeded their carrying values by approximately 25% and 7%, respectively, and the associated goodwill remains at an elevated risk of impairment due to their exposure to U.S. consumer credit risk and the effects of regulatory and legislative changes. The assumptions used in the valuation of these businesses include (a) estimates of future cash flows (which are dependent on portfolio outstanding balances, net interest margin, operating expense, credit losses, and the amount of capital necessary given the risk of business activities to meet regulatory capital requirements), (b) the cost of equity used to discount those cash flows to a present value. Each of these factors requires significant judgment and the assumptions used are based on management's best and most current projections, including those derived from the Firm's business forecasting process reviewed with senior management. These projections are consistent with the short-term assumptions discussed in Business Outlook on pages 57–58 of this Form 10-K and, in the longer term, incorporate a set of macroeconomic assumptions (for example, allowing for relatively high but gradually declining unemployment rates for the next few years) and the Firm's best estimates of long-term growth and returns of its businesses. Where possible, the Firm uses third-party and peer data to benchmark its assumptions and estimates. The cost of equity used in the discounted cash flow model reflected the estimated risk and uncertainty in these businesses and was evaluated in comparison with relevant market peers.

The Firm did not recognize goodwill impairment as of December 31, 2010, or at anytime during 2010, based on management's best estimates. However, deterioration in economic market conditions, increased estimates of the effects of recent regulatory or legislative changes, or additional regulatory or legislative changes may result in declines in projected business performance beyond management's current expectations. For example, in CS such declines could result from deterioration in economic conditions, such as: increased unemployment claims or bankruptcy filings that result in increased credit losses, changes in customer behavior that cause decreased account activity or receivables balances, or unanticipated effects of regulatory or legislative changes. In RFS, such declines could result from deterioration in economic conditions that result in increased credit losses, including decreases in home prices beyond management's current expectations; or loan repurchase costs that significantly exceed management's current expectations. Such declines in business performance, or increases in the estimated cost of equity, could cause the estimated fair values of the Firm's reporting units or their associated goodwill to decline, which could result in a material impairment charge to earnings in a future period related to some portion of the associated goodwill.

Income taxes

JPMorgan Chase is subject to the income tax laws of the various jurisdictions in which it operates, including U.S. federal, state and local and non-U.S. jurisdictions. These laws are often complex and may be subject to different interpretations. To determine the financial statement impact of accounting for income taxes, including the provision for income tax expense and unrecognized tax benefits, JPMorgan Chase must make assumptions and judgments about how to interpret and apply these complex tax laws to numerous transactions and business events, as well as make judgments regarding the timing of when certain items may affect taxable income in the U.S. and non-U.S. tax jurisdictions.

JPMorgan Chase's interpretations of tax laws around the world are subject to review and examination by the various taxing authorities in the jurisdictions where the Firm operates, and disputes may occur regarding its view on a tax position. These disputes over interpretations with the various taxing authorities may be settled by audit, administrative appeals or adjudication in the court systems of the tax jurisdictions in which the Firm operates. JPMorgan Chase regularly reviews whether it may be assessed additional income taxes as a result of the resolution of these matters, and the Firm records additional reserves as appropriate. In addition, the Firm may revise its estimate of income taxes due to changes in income tax laws, legal interpretations and tax planning strategies. It is possible that revisions in the Firm's estimate of income taxes may materially affect the Firm's results of operations in any reporting period.

The Firm's provision for income taxes is composed of current and deferred taxes. Deferred taxes arise from differences between assets and liabilities measured for financial reporting versus income tax return purposes. Deferred tax assets are recognized if, in management's judgment, their realizability is determined to be more likely than not. The Firm has also recognized deferred tax assets in connection with certain net operating losses. The Firm performs regular reviews to ascertain whether deferred tax assets are realizable. These reviews include management's estimates and assumptions regarding future taxable income, which also incorporates various tax planning strategies, including strategies that may be available to utilize net operating losses before they expire. In connection with these reviews, if it is determined that a deferred tax asset is not realizable, a valuation allowance is established. The valuation allowance may be reversed in a subsequent reporting period if the Firm determines that, based on revised estimates of future taxable income or changes in tax planning strategies, it is more likely than not that all or part of the deferred tax asset will become realizable. As of December 31, 2010, management has determined it is more likely than not that the Firm will realize its deferred tax assets, net of the existing valuation allowance.

The Firm adjusts its unrecognized tax benefits as necessary when additional information becomes available. Uncertain tax positions that meet the more-likely-than-not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit that management believes is more likely than not to be realized upon settlement. It is possible that the reassessment of JPMorgan Chase's unrecognized tax benefits may have a material impact on its effective tax rate in the period in which the reassessment occurs.

For additional information on income taxes, see Note 27 on pages 271-273 of this Annual Report.

Accounting for transfers of financial assets and consolidation of variable interest entities
Effective January 1, 2010, the Firm implemented new accounting guidance that amends the accounting for the transfers of financial assets and the consolidation of VIEs. Upon adoption of the new guidance, the Firm consolidated its Firm-sponsored credit card securitization trusts, Firm-administered multi-seller conduits, and certain mortgage and other consumer loan securitization entities. The Financial Accounting Standards Board ("FASB") deferred the requirements of the new accounting guidance for VIEs for certain investment funds, including mutual funds, private equity funds and hedge funds, until the FASB reconsiders the appropriate accounting guidance for these funds. For additional information about the impact of the adoption of the new accounting guidance on January 1, 2010, see Note 16 on pages 244–259 of this Annual Report.

Fair value measurements and disclosures
In January 2010, the FASB issued guidance that requires new disclosures, and clarifies existing disclosure requirements, about fair value measurements. The clarifications and the requirement to separately disclose transfers of instruments between level 1 and level 2 of the fair value hierarchy are effective for interim reporting periods beginning after December 15, 2009; the Firm adopted this guidance in the first quarter of 2010. For additional information about the impact of the adoption of the new fair value measurements guidance, see Note 3 on pages 170–187 of this Annual Report. In addition, a new requirement to provide purchases, sales, issuances and settlements in the level 3 rollforward on a gross basis is effective for fiscal years beginning after December 15, 2010.

Subsequent events
In May 2009, the FASB issued guidance that established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The guidance was effective for interim or annual financial periods ending after June 15, 2009. In February 2010, the FASB amended the guidance by eliminating the requirement for SEC filers to disclose the date through which it evaluated subsequent events. The Firm adopted the amended guidance in the first quarter of 2010. The application of the guidance had no effect on the Firm's Consolidated Balance Sheets or results of operations.

Accounting for certain embedded credit derivatives
In March 2010, the FASB issued guidance clarifying the circumstances in which a credit derivative embedded in beneficial interests in securitized financial assets is required to be separately accounted for as a derivative instrument. The guidance is effective for the first fiscal quarter beginning after June 15, 2010, with early adoption permitted. Upon adoption, the new guidance permits the election of the fair value option for beneficial interests in securitized financial assets. The Firm adopted the new guidance prospectively, effective July 1, 2010. The adoption of the guidance did not have a material impact on the Firm's Consolidated Balance Sheets or results of operations. For additional information about the impact of the adoption of the new guidance, see Note 6 on pages 191–199 of this Annual Report.

Accounting for troubled debt restructurings of purchased credit-impaired loans that are part of a pool
In April 2010, the FASB issued guidance that amends the accounting for troubled debt restructurings ("TDRs") of PCI loans accounted for within a pool. The guidance clarifies that modified PCI loans should not be removed from a pool even if the modification would otherwise be considered a TDR. Additionally, the guidance clarifies that the impact of modifications should be included in evaluating whether a pool of loans is impaired. The guidance was effective for the Firm beginning in the third quarter of 2010, and is to be applied prospectively. The guidance is consistent with the Firm's previously existing accounting practice and, therefore, had no impact on the Firm's Consolidated Balance Sheets or results of operations.

Disclosures about the credit quality of financing receivables and the allowance for credit losses
In July 2010, the FASB issued guidance that requires enhanced disclosures surrounding the credit characteristics of the Firm's loan portfolio. Under the new guidance, the Firm is required to disclose its accounting policies, the methods it uses to determine the components of the allowance for credit losses, and qualitative and quantitative information about the credit risk inherent in the loan portfolio, including additional information on certain types of loan modifications. For the Firm, the new disclosures became effective for the 2010 Annual Report. For additional information, see Notes 14 and 15 on pages 220–243 of this Annual Report. The adoption of this guidance only affects JPMorgan Chase's disclosures of financing receivables and not its Consolidated Balance Sheets or results of operations. In January 2011, the FASB issued guidance that deferred the effective date of certain disclosures in this guidance regarding TDRs, pending resolution on the FASB's project to amend the scope of TDR guidance.

NONEXCHANGE-TRADED COMMODITY DERIVATIVE CONTRACTS AT FAIR VALUE

In the normal course of business, JPMorgan Chase trades nonexchange-traded commodity derivative contracts. To determine the fair value of these contracts, the Firm uses various fair value estimation techniques, primarily based on internal models with significant observable market parameters. The Firm's nonexchange-traded commodity derivative contracts are primarily energy-related.

The following table summarizes the changes in fair value for nonexchange-traded commodity derivative contracts for the year ended December 31, 2010.

For the year ended December 31, 2010 (in millions)	Asset position	Liability position
Net fair value of contracts outstanding at January 1, 2010	$ 5,027	$ 1,737
Effect of legally enforceable master netting agreements	25,282	26,490
Gross fair value of contracts outstanding at January 1, 2010	30,309	28,227
Contracts realized or otherwise settled	(18,309)	(17,232)
Fair value of new contracts	24,294	23,194
Changes in fair values attributable to changes in valuation techniques and assumptions	—	—
Other changes in fair value	13,156	14,914
Gross fair value of contracts outstanding at December 31, 2010	49,450	49,103
Effect of legally enforceable master netting agreements	(41,284)	(41,919)
Net fair value of contracts outstanding at December 31, 2010	$ 8,166	$ 7,184

The following table indicates the maturities of nonexchange-traded commodity derivative contracts at December 31, 2010.

December 31, 2010 (in millions)	Asset position	Liability position
Maturity less than 1 year	$ 22,713	$ 19,402
Maturity 1–3 years	16,689	16,074
Maturity 4–5 years	8,500	7,840
Maturity in excess of 5 years	1,548	5,787
Gross fair value of contracts outstanding at December 31, 2010	49,450	49,103
Effect of legally enforceable master netting agreements	(41,284)	(41,919)
Net fair value of contracts outstanding at December 31, 2010	$ 8,166	$ 7,184

FORWARD-LOOKING STATEMENTS

From time to time, the Firm has made and will make forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as "anticipate," "target," "expect," "estimate," "intend," "plan," "goal," "believe," or other words of similar meaning. Forward-looking statements provide JPMorgan Chase's current expectations or forecasts of future events, circumstances, results or aspirations. JPMorgan Chase's disclosures in this Annual Report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Firm also may make forward-looking statements in its other documents filed or furnished with the Securities and Exchange Commission. In addition, the Firm's senior management may make forward-looking statements orally to analysts, investors, representatives of the media and others.

All forward-looking statements are, by their nature, subject to risks and uncertainties, many of which are beyond the Firm's control. JPMorgan Chase's actual future results may differ materially from those set forth in its forward-looking statements. While there is no assurance that any list of risks and uncertainties or risk factors is complete, below are certain factors which could cause actual results to differ from those in the forward-looking statements:

- local, regional and international business, economic and political conditions and geopolitical events;
- changes in laws and regulatory requirements, including as a result of the newly-enacted financial services legislation;
- changes in trade, monetary and fiscal policies and laws;
- securities and capital markets behavior, including changes in market liquidity and volatility;
- changes in investor sentiment or consumer spending or savings behavior;
- ability of the Firm to manage effectively its liquidity;
- changes in credit ratings assigned to the Firm or its subsidiaries;
- damage to the Firm's reputation;
- ability of the Firm to deal effectively with an economic slowdown or other economic or market disruption;
- technology changes instituted by the Firm, its counterparties or competitors;
- mergers and acquisitions, including the Firm's ability to integrate acquisitions;
- ability of the Firm to develop new products and services, and the extent to which products or services previously sold by the Firm require the Firm to incur liabilities or absorb losses not contemplated at their initiation or origination;
- acceptance of the Firm's new and existing products and services by the marketplace and the ability of the Firm to increase market share;
- ability of the Firm to attract and retain employees;
- ability of the Firm to control expense;
- competitive pressures;
- changes in the credit quality of the Firm's customers and counterparties;
- adequacy of the Firm's risk management framework;
- adverse judicial or regulatory proceedings;
- changes in applicable accounting policies;
- ability of the Firm to determine accurate values of certain assets and liabilities;
- occurrence of natural or man-made disasters or calamities or conflicts, including any effect of any such disasters, calamities or conflicts on the Firm's power generation facilities and the Firm's other commodity-related activities;
- the other risks and uncertainties detailed in Part 1, Item 1A: Risk Factors in the Firm's Annual Report on Form 10-K for the year ended December 31, 2010.

Any forward-looking statements made by or on behalf of the Firm speak only as of the date they are made, and JPMorgan Chase does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements were made. The reader should, however, consult any further disclosures of a forward-looking nature the Firm may make in any subsequent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, or Current Reports on Form 8-K.